

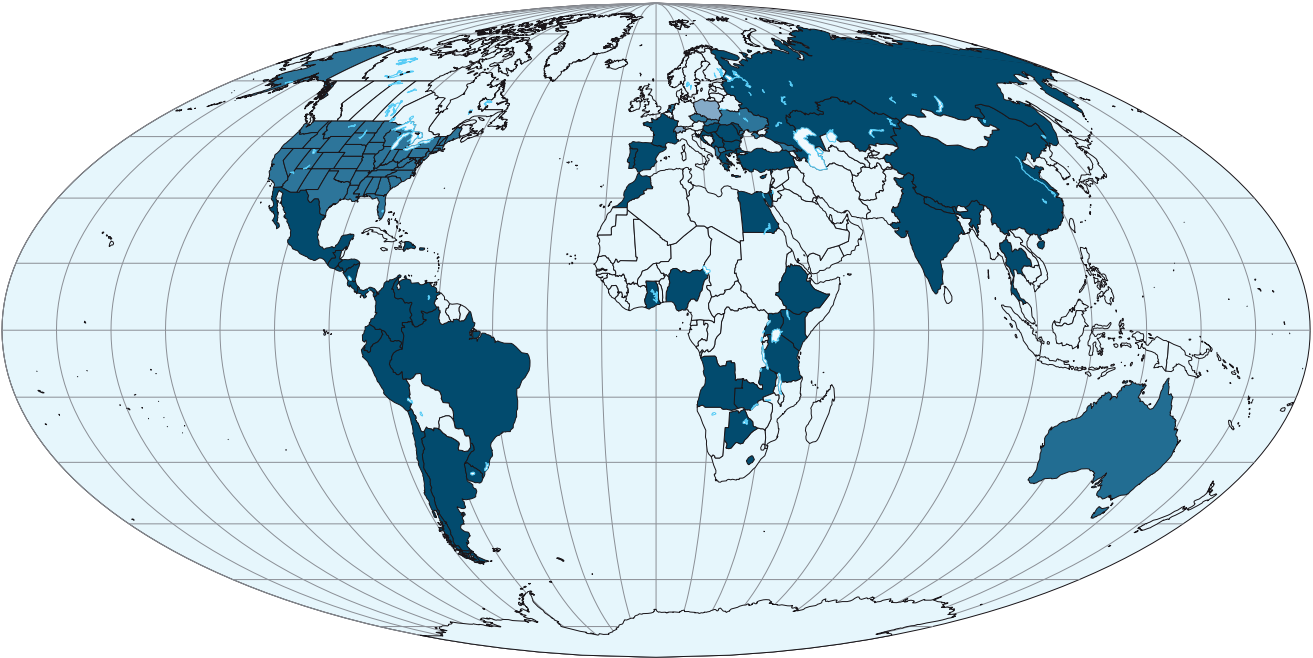
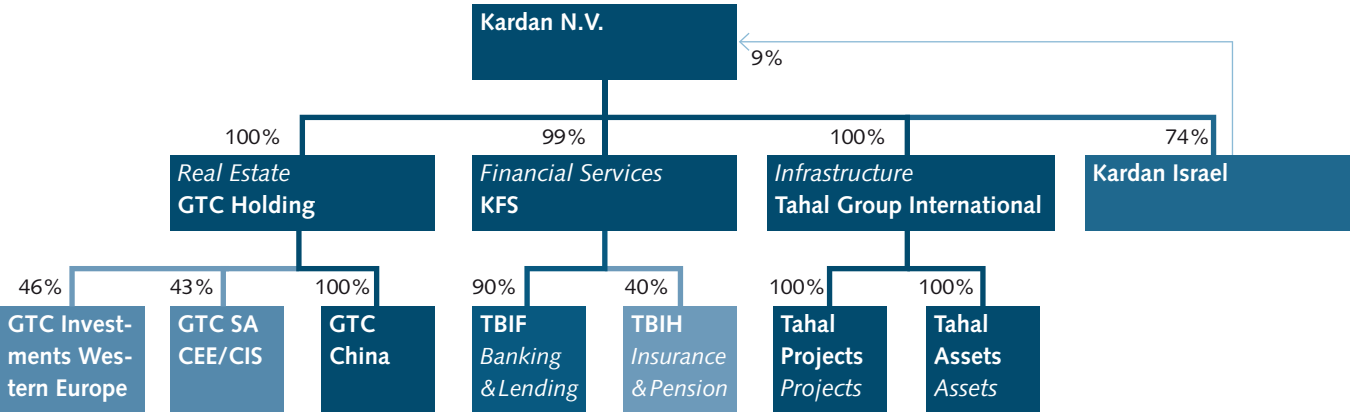
2009

# Annual Report



KARDAN N.V.

Organogram Kardan N.V. (April 2010)



# 2009 Annual Report



KARDAN N.V.



# 2009 Annual Report

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# Foreword by the Chairman of the Management Board

Although the world managed to avoid a depression, it still experienced one of the sharpest economic declines in modern time, entering into a deep recession.

However, the past year was characterized by gradual stabilization and the beginning of the recovery of the global economy. The ongoing recovery is the result of coordinated and extreme action taken by governments and central banks worldwide. The intervention consisted of strong stimulus measures and extensive monetary relaxation in the form of interest rate cuts and liquidity injections into the banking systems. As these stimulus measures took effect during the year, global growth projections began to rise.

However, major parts of the international financial system are still weakly capitalized, and there are major imbalances between important countries' economies. Further, the growth measures create greater risk of inflation. The policies pursued to date have been successful; now it is important that the support measures are not removed until the private sector is able to 'stand on its own feet' from the increase in investments, consumer spending and exports. Furthermore, it is important that banks restart lending and thus fuel economic recovery. Only then governments should withdraw in a sensible and orderly fashion. Overall, as banks held back lending, the markets we are active in have suffered from a lack of liquidity in 2009. However, since the start of 2010, we have seen indications of an improving environment.

Last year, we wrote that we had prepared for a difficult economy in 2009. Operating throughout the recession, Kardan management adopted the strategic position of 'Watch and Hold'. Watch very closely the important developments in our markets. Hold our liquidity, ensuring that we have the proper liquidity levels for our debt-servicing ability in order to meet all of our commitments. This also allows us to support Group Companies according to current requirements. We postponed several new investments until the depth

and length of the crisis will become more predictable. As a result, in 2009 we managed to realize positive cash flows from operations. Due to using some of our cash for opportunities, the consolidated cash and cash equivalents decreased by EUR 66 million to EUR 474 million as of December 31, 2009. This strategy has enabled us to protect our platforms, which, once out of this crisis, will make us much stronger by enabling us to react quickly to new opportunities and their benefits.

Kardan believes that operating through local platforms remains a key element for realizing our long-term strategy to create value in emerging markets. Therefore, we are keen to ensure that our current local platforms will be retained and positioned for further growth. These local platforms have helped us manage the financial crisis efficiently, and will be able to help us anticipate the turnaround at an early stage and react to it smoothly, thus creating value for shareholders.

On the back of the global financial crisis, in 2009 Kardan suffered a loss attributable to shareholder's of EUR 92 million. This loss is mainly due to fair value adjustments of land and property of our Real Estate division and provisions taken on the loan portfolio of our Financial Services activity.

GTC Group, Kardan's Real Estate division, realized strong top-line growth of almost 50%. This positively reflects the quality of GTC Group'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, enabling 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 in



Alon Shlank, Walter van Damme, Alain Ickovics, Jan Slootweg and Einat Oz-Gabber



investment yields led to significant negative revaluations of investment properties.

In KFS Group, Kardan's Financial Services division, we managed to improve the liquidity position of our banks in Russia and the Ukraine compared to 2008. In Russia, our operations have returned to profitability already in the second half of 2009, while in the Ukraine, our activities suffered strongly from the crisis. Western investors withdrew from the Ukraine and exports declined. Consequently, unemployment rose and the creditworthiness of borrowers significantly decreased resulting in losses and a sharp reduction in 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 the Ukraine will return on the back of a recovery of the global economy. In fact, 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 a turnaround.

In Tahal Group, 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 in. In January 2010, Tahal Group's excellent reputation enabled us to reach the next phase of a turnkey project for the Angolan government. This is expected to generate revenues of EUR 143 million throughout the project. Due to the substantial amounts of capital required to benefit from the many available opportunities, Kardan Group 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.

Because we deem transparency very important, Kardan Group has made significant improvements in this

respect towards the investor community through various restructurings and the implementation of stronger corporate governance over the last few years. In addition, Kardan Group aims to further improve transparency, quality and the organization of the local operations and products. In this respect, we are satisfied that in 2009 our Ukrainian banking operation was awarded 'Most Transparent Bank in the Ukraine'. Also our Real Estate and (Water) Infrastructure activities have been awarded. GTC SA Group received the CEE Developer of the Year 2009 award. In China our (Water) Infrastructure activity was awarded as one of the top 10 Low Carbon Contribution International Enterprises.

Thanks to management's 'Watch and Hold' strategy of last year, and despite seeing many challenges ahead, Kardan Group should emerge from the current economic cycle as a well-positioned group in the markets in which it is active.

Alain Ickovics,  
Chairman of the Management Board



# Vision Mission Strategy

## Vision

Kardan's vision is that the global economic and political landscape will change significantly over the coming years as ongoing global developments occur. Emerging markets' share in the global economy and their power will grow substantially faster than in the rest of the world.

Emerging markets should grow due to the globalization of the world economy, as they are rich in natural resources and important commodities, and they can avail themselves of large pools of educated labor at relatively low cost, which should improve productivity dramatically. Such growth will result in a strong increase in the middle-class economic power, thus creating greater demand for housing, financial services, and water.

## Mission

It is Kardan's strong belief that stability in the emerging markets is an important prerequisite for achieving sustainable growth, and of utmost importance to world governments. Thus, it is in the interest of governments to encourage emerging countries in organizing their economy to increase wealth and spread it throughout the population. Kardan's mission is to use its extensive expertise, network of strategic partnerships, entrepreneurial local and international management, and commercial strengths to cater to the basic needs of the middle class and create long-term value for shareholders.

## Strategy

The best way to match supply and demand is to act professionally, swiftly and locally. Kardan's lean management structure, together with the creation of local platforms with international and local professionals, allow for quick decision-making processes. This enables us to benefit from opportunities, while also allowing for proper risk management. The same holds for the creation of

long-term value: local organizations managed by local management and, if necessary, run together with partners, all supported by Kardan management, are the key to our success.

To achieve this goal, Kardan pursues the following strategy:

- Develop local 'platforms' in almost each of the countries Kardan is active, by combining local and international expertise.
- Achieve growth organically or by acquisitions.
- While maintaining control, liaise with local partners with knowledge of the local environment to develop business.
- Appoint management with relevant expertise to ascertain delivery of products and services according to demand.
- Incentivize management to align interest properly.
- Enabling the benefit of synergies throughout the divisions of Kardan Group when it comes to:
  - Understanding the environment, the opportunities, and the risk, based on a 15-year track record in emerging markets.
  - Establishing local partnerships (committed parties that are interested in joining an international group with access to capital), as required.
  - Strengthening the finances of group companies using the Group's relationship and assets within the regions it is active in.

# Shareholder Information

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

## Distribution of shares

As of December 31, 2009 a total of 111,824,638 ordinary shares have been issued and are outstanding.

The following table presents shareholdings of more than 5% and of related parties as of March 26, 2010:

	Number of shares held (ordinary shares of € 0.20 each)	Holding rate		Holding rate in full dilution	
		In capital	In voting	In capital	In voting
Y. Grunfeld (1)(9)	22,487,267	20.11%	22.19%	19.92%	21.97%
A. Schnur (2)(9)	19,818,465	17.72%	19.56%	17.56%	19.36%
E. Rechter (3)(9)	4,098,719	3.67%	4.05%	3.63%	4.00%
A. Ickovics (4)	3,312,975	2.96%	3.27%	3.09%	3.41%
J. Pomrenze (5)	150,052	0.13%	0.15%	0.13%	0.15%
A. Shlank (6)	40,676	0.04%	0.04%	0.19%	0.21%
W. van Damme (7)	–	–	–	0.13%	0.15%
E. Oz-Gabber (8)	3,290	–	–	0.14%	0.15%
J. Slootweg (10)	–	–	–	0.16%	0.17%
Kardan Israel Ltd (11)	10,506,110	9.40%	–	9.31%	–
IDB Group (12)	5,570,263	4.98%	5.50%	4.93%	5.44%

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

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

(3) The shares are held through Shamait Ltd., a company wholly owned by Mr. Rechter.

(4) Mr. Ickovics is a member of the Management Board of Kardan. Mr. Ickovics holds 179,232 options to shares of Kardan.

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

(6) Mr. Shlank is a member of the Management Board of Kardan. Mr. Shlank holds 179,232 options to shares of Kardan.

(7) Mr. Van Damme is a member of the Management Board of Kardan. Mr. Van Damme holds 150,000 options to shares of Kardan.

(8) Mrs. Oz-Gabber is a member of the Management Board of Kardan. Mrs. Oz-Gabber holds 149,360 options to shares of Kardan.

(9) Mr. Grunfeld, Mr. Schnur and Mr. Rechter have a voting agreement which represents approximately 46%.

(10) Mr. Slootweg is a member of the Management Board of Kardan. Mr. Slootweg holds 175,000 options to shares of Kardan.

(11) Kardan Israel is a 73.85% owned subsidiary of Kardan N.V.

(12) Combined holdings of several companies related to IDB Holdings Ltd.

## Key financial figures per share

€ per share	2009	2008	2007
Basic earnings (loss)	(0.91)	0.63	1.11
Diluted earnings (loss)	(0.92)	0.28	1.10
Total consolidated equity	8.8	10.0	13.3
Equity net of minority interest	2.6	3.3	4.2

## Share prices in 2009

	Euronext (EUR)	Tel Aviv (NIS)
Highest share price	5.5	30.30
Lowest share price	1.5	7.82
Year-end	4.1	22.59

## Liquidity provider

Amsterdams Effectenkantoor B.V. (AEK) acts as a liquidity provider for the Kardan shares listed on Euronext Amsterdam.

## Financial calendar

General Meeting of Shareholders – May 26, 2010  
Q1 2010 results – May 28, 2010  
Q2 2010 results – August 31, 2010  
Q3 2010 results – November 30, 2010

## Dividend policy

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

## Additional information

Additional information can be obtained from:  
Kardan N.V.  
Claude Debussylaan 30  
Viñoly Building, 13th floor  
1082 MD AMSTERDAM  
The Netherlands  
Telephone +31 (0) 20 305 0010

Other publications and information: [www.kardan.nl](http://www.kardan.nl)

# Composition of the Boards

## Management Board

Below is a profile of the Management Board as of the date of the report. All members of the Management Board are appointed for a period of three years and may be immediately reappointed.

### Mr. Alain Ickovics (1959)

*Position:* Managing Director (Chairman)

*Nationality:* Israeli and Belgian

*Appointed:* June 14, 2006

*Reappointed:* May 20, 2009

*Current term:* AGM 2012

Mr. Ickovics holds an MBA in Finance from Columbia University and a BSc in Industrial Engineering from the Technion - Israel Institute of Technology. In 1994, Mr. Ickovics joined the Kardan Group and held the position of Chairman of the Management Board of Globe Trade Centre S.A. From 2001 to 2006, Mr. Ickovics served as the Director of International Operations of Kardan N.V. and as the Managing Director of GTC International S.A. and as a Director of several of its operational subsidiaries. Currently, he also serves as a Managing Director and Supervisory Director in various other companies within the Kardan Group, including Globe Trade Centre S.A.

### Mr. Alon Y. Shlank (1959)

*Position:* Managing Director

*Nationality:* Israeli

*Appointed:* May 18, 2004

*Reappointed:* June 13, 2007

*Current term:* AGM 2010

Mr. Shlank holds a degree (LLB) in law from Tel Aviv University (Israel). Until 1994, Mr. Shlank was a partner in a law firm in Israel, specializing in securities, mergers and acquisitions, investments, and corporate law. Between 1994 and 2001, Mr. Shlank served as CEO of Alrig S3R Ltd. and as a Director of several companies within the Alrig Group. Mr. Shlank joined the Kardan Group in 2001. Currently he also serves as a Managing Director and Supervisory Director in various other companies within the Kardan Group, including Globe Trade Centre S.A.

### Mrs. Einat Oz-Gabber (1971)

*Position:* Managing Director (CFO)

*Nationality:* Israeli and Dutch

*Appointed:* May 19, 2005

*Reappointed:* June 19, 2008

*Current term:* AGM 2011

Mrs. Oz-Gabber is a Certified Public Accountant (Israel) and holds a BA in Economics and Accounting from Tel Aviv University (Israel). Mrs. Oz-Gabber has been working as an accountant and auditor from 1997 to 2001 in Israel with Luboshitz Kasierer (Arthur Andersen). Between 2001 and 2003, Mrs. Oz-Gabber worked for Deloitte & Touche Accountants (formerly Arthur Andersen) in the Netherlands. Mrs. Oz-Gabber has been working as Controller of the Kardan Group since mid-2003, and since May 2005 as the Chief Financial Officer (CFO) of Kardan N.V. Mrs. Oz-Gabber has knowledge of and experience with IFRS, Dutch GAAP, and Israeli GAAP. Currently, she also serves as a Managing Director and Supervisory Director in various other companies within the Kardan Group.

### Mr. Walter van Damme (1972)

*Position:* Managing Director

*Nationality:* Dutch

*Appointed:* June 13, 2007

*Current term:* AGM 2010

Mr. Van Damme holds a law degree from the University of Amsterdam. Mr. Van Damme started his career as a lawyer at different law firms. From 2000 until the end of 2006, Mr. Van Damme served as one of the founding partners of First Dutch Capital. Mr. Van Damme joined the Kardan Group in January 2007. He also serves as a Managing Director and Supervisory Director in various other companies within the Kardan Group, including Globe Trade Centre S.A.

**Mr. Jan Slootweg (1957)**

*Position:* Managing Director

*Nationality:* Dutch

*Appointed:* June 19, 2008

*Current term:* AGM 2011

Mr. Slootweg completed his education at NIVRA (CPA) in Amsterdam and is an RA (Registered Auditor).

Mr. Slootweg started his career at Deloitte & Touche in 1975. Between 1992 and 2001, Mr. Slootweg worked for Athlon Groep N.V. as Concern Controller, and between 2001 and 2006 he was a member of the Executive Board of Athlon Holding N.V., a company listed on the AEX at that time, where he was responsible for finance, controlling, and IT. After Athlon was delisted from the AEX, Mr. Slootweg became a member of the Management Board of Athlon Car Lease International B.V., where he was responsible for control, risk, tax, HR, and legal. Mr. Slootweg joined Kardan N.V. in June 2008. He also serves as a Managing Director and Supervisory Director in various other companies within the Kardan Group, including Globe Trade Centre S.A.

**(Re)appointment Scheme Management Board Kardan N.V.****Introduction**

The members of the Management Board shall be appointed for a period of three years and may be immediately reappointed.

**Scheme**

Name	Date of initial appointment	Date of (last) reappointment	End of current term
Einat Oz-Gabber	May 19, 2005	June 19, 2008	AGM 2011
Alain Ickovics	June 14, 2006	May 20, 2009	AGM 2012
Alon Shlank	May 18, 2004	June 13, 2007	AGM 2010
Walter van Damme	June 13, 2007		AGM 2010
Jan Slootweg	June 19, 2008		AGM 2011

## Supervisory Board

Below is a profile of the Supervisory Board as of the date of the report. All members of the Supervisory Board are appointed for a period of four years and may be reappointed no more than two times.

### Mr. Joseph Krant (1948)

*Position:* Chairman of the Supervisory Board, member of the Audit Committee and member of the Remuneration, Appointment and Selection Committee.

*Nationality:* Dutch

*Appointed:* July 9, 2003

*Reappointed:* June 13, 2007

*Current term:* AGM 2011

Mr. Krant is Managing Director of Catalyst Advisors B.V. Since 1973, he occupied various positions, including Managing Director and Chief Executive Officer of Kempen & Co and CEO of Dexia Bank Nederland.

*Other positions:*

- Chairman of the Supervisory Board of Wereldhave N.V.
- Member of the Supervisory Board of AFC Ajax N.V.
- Member of the Supervisory Board of Cyrté Investments B.V.
- Chairman of the Board of the Jewish Historical Museum, Amsterdam

### Mrs. Karnina Rechter (1953)

*Position:* Supervisory Director and member of the Audit Committee

*Nationality:* Israeli

*Appointed:* May 2, 2003

*Reappointed:* June 13, 2007

*Current term:* AGM 2011

Mrs. Rechter holds a BA in Social Work from the Bar Ilan University, and a BA and law degree from London University. Mrs. Rechter is a partner in the Israeli law firm Bash-Rechter, Advocates, working as an advocate and a mediator.

### Mr. Avner A. Schnur (1948)

*Position:* Supervisory Director

*Nationality:* Israeli and Belgian

*Appointed:* July 9, 2003

*Reappointed:* June 13, 2007

*Current term:* AGM 2011

As of 1986, Mr. Schnur has served as President of Astra Diamonds Manufacturers Ltd. He has also served as a director in various other Israeli companies that are either subsidiaries of, or related to, the Kardan Group.

### Mr. Israel Fink (1946)

*Position:* Supervisory Director

*Nationality:* Belgian

*Appointed:* May 2, 2003

*Reappointed:* June 13, 2007

*Current term:* AGM 2011

Mr. Fink holds a degree in Civil Engineering from Brussels University. Mr. Fink serves as Sales and Marketing Manager and Co-director of Fancy Diamonds International BVBA, a company incorporated in Belgium. Since 1970, he has occupied various positions in the construction management and diamond industries.

### Mr. Jay L. Pomrenze (1949)

*Position:* Supervisory Director and member of the Remuneration, Appointment and Selection Committee

*Nationality:* American

*Appointed:* May 18, 2004

*Reappointed:* June 19, 2008

*Current term:* AGM 2012

Mr. Pomrenze holds a BA in Chemistry from Yeshiva University, New York, an MA in Philosophy from Yeshiva University, New York, an Ordination as Rabbi of Yeshiva University, New York, and an MBA in Finance & Economics from New York University. Mr. Pomrenze currently serves as Director in Poalim Capital Markets Ltd. and KCPS & Company



**Mr. Max I. Groen (1946)**

*Position:* Supervisory Director and Chairman of the Audit Committee

*Nationality:* Dutch

*Appointed:* July 1, 2005

*Reappointed:* 20 May, 2009

*Current term:* AGM 2013

Mr. Groen holds an MA in Economics and Accounting from the University of Amsterdam. Mr. Groen worked as partner of KPMG Business Advisory Services/KPMG Accountants, Amsterdam, for more than 30 years. He holds a degree in Economics (MA) and a postgraduate degree in Accountancy (CPA). He is a member of the Netherlands Institute of Certified Public Accountants. Mr. Groen currently is a board member of the Netherlands Synagogue Community and a member of the Appeals Committee of the Foundation Collectieve Maror-gelden Nederland.

**Mr. Hendrik Benjamins (1943)**

*Position:* Supervisory Director and Chairman of the Remuneration, Appointment and Selection Committee.

*Nationality:* Dutch

*Appointed:* November 1, 2006

*Current term:* AGM 2010

In May 2005, Mr. Benjamins retired as CEO from Koninklijke Frans Maas Groep after 15 successful years in various positions. Between 1986 and 1991, Mr. Benjamins worked for Akzo Nobel as Transport Manager. At present, he also is a member of the Executive Board of VNO/NCW.

### (Re)appointment scheme Supervisory Board Kardan N.V.

**Introduction**

The members of the Supervisory Board shall be appointed for a period of four years and may be reappointed for a maximum of two more terms.

The members of the Supervisory Board will step down in accordance with a retirement scheme, drafted by the Supervisory Board. Members of the Supervisory Board who have to step down in accordance with the retirement scheme will do so as of the end of the Annual General Meeting of Shareholders of the relevant financial year. If a member of the Supervisory is appointed to fill a premature vacancy, he will assume the position in the retirement scheme of the Supervisory Board member whom he replaces.

**Scheme**

	Date of initial appointment	Date of (last) reappointment	End of current term	End of ultimate term
Israel Fink	May 2, 2003	June 13, 2007	AGM 2011	AGM 2015
Karina Rechter	May 2, 2003	June 13, 2007	AGM 2011	AGM 2015
Avner A. Schnur	July 9, 2003	June 13, 2007	AGM 2011	AGM 2015
Joseph Krant	July 9, 2003	June 13, 2007	AGM 2011	AGM 2015
Jay L. Pomrenze	May 18, 2004	June 19, 2008	AGM 2012	AGM 2016
Max I. Groen	July 1, 2005	May 20, 2009	AGM 2013	AGM 2017
Henk Benjamins	November 1, 2006		AGM 2010	AGM 2018

# Corporate Governance

## Introduction

Since its incorporation, Kardan N.V. has been enhancing and improving its compliance with corporate governance standards, as set out in the applicable laws and regulations. Most notable is the Dutch Corporate Governance Code adopted on December 9, 2003, which became effective under the Dutch Civil Code in December 2004. In December 2008, the Dutch Corporate Governance Code (the Code) was amended on the recommendations of the Dutch Corporate Governance Code Monitoring Committee. The amendments came into force on January 1, 2009. This chapter describes the general corporate governance structure of Kardan N.V., the deviations from the Code and covers the items of the corporate governance statement (the Corporate Governance Statement) introduced by the ministerial decree as published in Staatsblad 2009-154. The Management Board and the Supervisory Board of Kardan N.V. acknowledge their responsibility for Kardan N.V.'s corporate governance and for compliance with the Code. Kardan N.V. applies the Code's principles and best practice provisions, except for the following principles and best practice provisions that are not fully applied:

Best practice provision II.1.2 d) – approval of corporate social responsibility issues by the Supervisory Board: during 2009, Kardan N.V.'s Management Board started to intensify efforts towards further attention to sustainability aspects of Kardan's business and to communicate them towards its stakeholders. Reference is made to the chapter on sustainability included on page 85 of this report. In this process, and once a clearer stance will be taken, the Supervisory Board of Kardan N.V. will be involved and, in as far as it concerns matters regarding the operational and financial objectives of Kardan N.V. and the strategy designed to achieve these objectives, approval of the Supervisory Board will be sought. On matters that lie within the managing authority of the Management Board, such as operational and/or investor relations matters, the Management Board may decide on an

approach without the prior approval of the Supervisory Board;

*Best practice provisions relating to principle II.2 – remuneration and composition of the remuneration:* Kardan N.V. is not yet fully compliant with the best practice provisions relating to the remuneration of the members of its Management Board, especially with regard to the Stock Option Plan currently in force e.g. as granting thereunder is not subject to certain performance criteria (for more information in this respect, reference is made to the paragraph 'Remuneration and shareholdings of the Management Board' on page (21) of this chapter). In addition, the General Meeting of Shareholders (instead of the Supervisory Board) determines the remuneration amount and other remuneration components of the members of the Management Board, but this is done on a proposal of the Supervisory Board (refer to Article 20.2 of Kardan N.V.'s Articles of Association). After establishment of the Remuneration, Appointment and Selection Committee on June 19, 2008, a Remuneration Policy was adopted by the General Meeting of Shareholders during the latest Annual General Meeting of Shareholders, held on May 20, 2009. The Management Board and Supervisory Board of Kardan N.V. share the view that the Remuneration Policy follows the principles of the Code. Following the adoption of the Remuneration Policy, the Remuneration, Appointment and Selection Committee started working on introducing collective and individual targets for the members of the Management Board, determining any entitlement to long- and/or short-term variable remuneration. These targets were adopted by the Supervisory Board during 2009 and were, in summary and to the extent allowed due to their sensitive nature, published on Kardan N.V.'s website. It is envisaged that long-term variable remuneration will be awarded in shares, for which purpose a share plan has been developed that in due course will replace the Stock Option Plan and which share plan will be submitted for approval during Kardan N.V.'s AGM to be held on May 26, 2010. The Management Board and Supervisory Board of Kardan

N.V. have drawn up the share plan in accordance with the Code, provided that it contains one deviation in respect of the retention of shares. In respect of the first possible grant of shares (three years after the adoption of the targets) a retention period of two years will apply, so that this in essence complies with best practice provision II.2.5 of the Code. However, for further grants of shares, which will only be granted once every three years upon the collective long-term targets having been met, no retention period will apply if at the time of grant the member of the Management Board has been in office for a period of at least five years. The Supervisory Board takes the view that with this measure the long-term character of the share remuneration and retention of management are sufficiently met. The share plan and the related amendment to the Remuneration Policy will be submitted for approval by the shareholders during the AGM to be held on May 26, 2010. For more information in this respect, reference is made to the Remuneration Report, page 33 and to the paragraph 'Remuneration and shareholdings of the Management Board' on page 21 of this chapter;

- *Best practice provision III.2.1* – independency of the Supervisory Board members: five members of the Supervisory Board of Kardan N.V. can be regarded as independent under the criteria laid down in the Code. These are Mr. Krant, Mr. Fink, Mr. Pomrenze, Mr. Groen and Mr. Benjamins. The other members, being Mr. Schnur and Mrs. Rechter, are not independent under these criteria. Mr. Schnur is holding more than ten percent of the issued share capital of Kardan N.V. and Mrs. Rechter is related by marriage to Mr. Rechter, who receives a remuneration in his position of Managing Director of Kardan Israel Ltd. Kardan N.V. will not follow best practice provision III.2.1 because it regards a long-term alliance with these persons as vitally important to all the stakeholders involved in Kardan. Given the extensive provisions on conflicts of interest in its Articles of Association and the Supervisory Board Regulations, Kardan N.V. feels that there are – without jeopardizing the corporate

governance system – good grounds for not following this provision;

- *Best practice provision III.3.3* – introductions and education or training program: Kardan N.V. does not consider it necessary to make an introduction program mandatory for each newly appointed Supervisory Board member. If a newly appointed Supervisory Board member considers it necessary or desirable, he or she may follow an introduction program that covers general financial and legal matters, financial reporting by Kardan, any specific aspects that are unique to Kardan and its business activities, and the responsibilities of a Supervisory Board member;
- *Best practice provision III.3.4* – limitation of number of supervisory board positions; although in practice Kardan N.V. currently complies with this best practice provision as none of the Supervisory Board members serves in more than five Supervisory Boards of listed companies, it does not comply with the Code in a strict sense, as no numerical maximum is set. However, the Supervisory Board Regulations prescribe that the Supervisory Board shall decide on a case-by-case basis whether the acceptance of another position would conflict with the ability of the Supervisory Board member to properly perform its role within Kardan N.V., in which case the relevant member is requested to resign in the event of acceptance of the conflicting position. Kardan N.V. believes that a case-by-case assessment better serves the principle behind this provision of the Code than applying absolute numerical criteria;
- *Best practice provision III.4.1(f) and III.4.4* – the election of a vice chairman by the Supervisory Board: the Supervisory Board of Kardan N.V. has not appointed a vice chairman in deviation from best practice provisions III.4.1 (f) and III.4.4 as it does not consider it necessary for a proper functioning of the Supervisory Board to have a vice chairman;
- *Best practice provision III.4.2* – the chairman of the Supervisory Board shall not be a former member of the Management Board: although the current chairman, Mr. Krant, is not a former member of the

Management Board, Kardan N.V. does not consider it appropriate to exclude such a situation for the future, taking into account the specific knowledge and experience that rest with its senior management and from which a Supervisory Board may well benefit when performing its tasks;

- *Best practice provision III.5.6* – the chairman of the Audit Committee shall not be a former member of the Management Board: although Kardan N.V. is currently in compliance with the Code, as Mr. Groen, the current chairman of the Audit Committee, is not a former member of the Management Board, it considers it in the interest of Kardan not to exclude this situation for the future and has therefore enforced this vision in the Terms of Reference of the Audit Committee;
- *Best practice provision III.5.11* – the chairman of the Remuneration, Appointment and Selection Committee shall not be a former member of the Management Board: although Kardan N.V. is currently in compliance with the Code, as Mr. Benjamins, the current chairman of the Remuneration, Appointment and Selection Committee, is not a former member of the Management Board, it considers it in the interest of Kardan not to exclude this situation for the future;
- *Best practice provision III.6.4* – transactions between Kardan N.V. and legal or natural persons holding at least ten percent of the shares in the capital of Kardan N.V.: although Kardan N.V. does not regulate these transactions as provided for in this best practice provision, it takes the view that the provisions on conflicts of interest as provided for in its Articles of Association, the Management Board Regulations and the Supervisory Board Regulations in combination with the provisions on transactions with Holders of Control (as defined in the Articles of Association and as further described in the paragraph 'Related Party Transactions' on page 24 of this chapter), provide sufficient protection in this respect;
- *Best practice provision IV.1.1* – the adoption of a resolution to cancel the binding nature of a nomination for the appointment of a member of the

Management Board or the Supervisory Board and/or a resolution to dismiss a member of the

Management Board or the Supervisory Board:

Kardan N.V. considers it in its own interest that the Supervisory Board's right of nomination shall be binding, unless the General Meeting of Shareholders deprives the binding character by a resolution passed with a two-thirds majority vote, representing more than half of Kardan N.V.'s issued capital;

- *Best practice provision IV.3.1* – meetings with analysts, presentations to analysts and presentations to investors shall be announced in advance on the company's website and by means of press releases, and provision shall be made for all shareholders to follow these meetings and presentations in real time: while generally complying with the rules and regulations on fair and non-selective disclosure and equal treatment of shareholders, in view of the number of meetings and the sensitivity nature of the identity of (some of) the investors, not all of these meetings are announced or can be followed in accordance with this best practice provision. In the event presentations held contain relevant information, these are posted on Kardan's website afterwards in accordance with the applicable rules;
- *Best practice provision IV.3.4* – analyst meetings, presentations to investors and direct discussions with investors: Kardan N.V. has adopted a policy on bilateral contacts in accordance with best practice provision IV.3.13, which policy has been published on its website. Kardan N.V.'s contacts with investors will at all times be conducted with due regard to the applicable rules and regulations, in particular those concerning price-sensitive information. However, Kardan N.V. does not fully comply with best practice provision IV.3.4 as it cannot exclude that discussions with investors will take place during a closed period before the publication of regular financial information, as Kardan N.V. deems it important to be in regular contact with its investors' base, and contacts with potential new investors may be deemed necessary at any given time when opportunities arise. In addition, in Israel, where

Kardan N.V. also has a listing, there is no such restriction in place.

Each important change to Kardan N.V.'s Corporate Governance structure and any alterations in the compliance to the Code will be submitted to the Annual General Meeting of Shareholders for discussion as a separate agenda item. At the latest Annual General Meeting of Shareholders held on May 20, 2009, 'Corporate Governance' was a separate agenda item under which the Remuneration Policy was adopted and, in more general terms, the shareholders were invited to discuss Kardan N.V.'s chosen approach towards the implementation of the Code.

Further details on the extent and manner of implementation of the Code and the information to be included in the Corporate Governance Statement are found in (i) of this chapter and in the risk management chapter (page 79 of this Annual Report), and (ii) in Kardan's Articles of Association, the Supervisory Board Regulations (including profile, Audit Committee Terms of Reference and the rules governing the Remuneration, Appointment and Selection Committee) and the Management Board Regulations which have all been posted on Kardan's website ([www.kardan.nl](http://www.kardan.nl)).

## Structure

Kardan N.V. has a two-tier structure with a Management Board and a Supervisory Board. The members of the Management Board are all executive directors and the members of the Supervisory Board are non-executive directors.

Kardan N.V.'s management is entrusted to the Management Board, which means, among other things, that the Management Board is responsible for the development and implementation of Kardan's objectives, strategy and policies. Under Dutch law, the members of the Management Board hold their duties and responsibilities collectively. The Management Board is accountable to the Supervisory Board and to the General Meeting of Shareholders. In performing its

duties and responsibilities, the Management Board is guided by Kardan's corporate interests and its affiliated enterprises, while taking all stakeholders' interests into consideration. The Management Board is subject to the Management Board Regulations.

The Supervisory Board acts separately from and independently of the Management Board. The Supervisory Board manages and advises on the actions and policies of the Management Board and determines the general course of Kardan's business activities. The supervision of the Management Board by the Supervisory Board includes the following: (i) achievement of Kardan's objectives, (ii) corporate strategy and the risks inherent in the business activities, (iii) the design and effectiveness of the internal risk management and control systems, (iv) the financial reporting process, (v) compliance with primary and secondary regulations, (vi) the company-shareholder relationship and (vii), in as far as deemed necessary by the Management Board, corporate social responsibility issues. In its supervisory capacity, the Supervisory Board assists and advises the Management Board in the performance of its managerial duties. In performing their duties, the members of the Supervisory Board shall act in accordance with the interests of Kardan and the business connected with it, and shall take into account the relevant interests of Kardan N.V.'s stakeholders. The Supervisory Board is responsible for the quality of its own performance. The Supervisory Board is subject to the Supervisory Board Regulations.

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

## Appointment and composition of the Management Board

The Supervisory Board has the right to make binding nominations for candidates for the Management Board that are subsequently appointed by the General Meeting of Shareholders. Each member of the Management Board is appointed for a period of three years, but may be reappointed following the expiration of his/her term of office. At present, there are five Management Board members; their profiles and an appointment scheme can be found on pages 12 and 13 of this Annual Report.

A member of the Management Board may not be a supervisory director of more than two listed companies. Currently, no member of the Management Board serves as a member of a supervisory board of another listed company outside the Kardan Group of Companies. Moreover, a member of the Management Board may not be the chairman of the supervisory board of a listed company. Membership on the supervisory board of another company within the Kardan Group of Companies does not count for this purpose. The acceptance by a member of the Management Board of membership on the supervisory board of a listed company outside the Kardan Group of Companies requires the approval of the Supervisory Board. Other important positions held by a member of the Management Board shall be reported to the Supervisory Board.

The Supervisory Board may elect one of the members of the Management Board as chairman of the Management Board. In the event that no chairman has been elected by the Supervisory Board, the meeting of the Management Board will itself designate a chairman for each separate meeting. The Management Board meets regularly. It also meets whenever the chairman or two other members of the Management Board or the Supervisory Board consider a meeting necessary.

Resolutions of the Management Board are adopted if an absolute majority of the votes cast are in favor.

## Internal regulations and conflicts of interest in the Management Board

Kardan considers it important that employees are able to report in an adequate and safe manner any suspicions they may have of irregularities of a general, operational or financial nature. Since proper procedural provisions play an important part in reporting such concerns, the Management Board decided to adopt a Whistleblower Policy which has been posted on Kardan's website ([www.kardan.nl](http://www.kardan.nl)). In addition, Kardan has adopted a Code of Conduct, designated to provide its employees with guidelines for the behavior and activities of the employees and for compliance with laws, regulations and ethical standards that govern the business of Kardan, which can also be found on Kardan's website.

The Articles of Association of Kardan N.V. include extensive provisions on conflicts of interest between Kardan N.V. and Holders of Control (as defined in the Articles of Association), which are also applicable if these Holders of Control hold a position on the Management Board (for a further description of these provisions, reference is made to the paragraph 'Related Party Transactions' in this chapter). In addition, Kardan N.V. endorses the principles and provisions of the Code that address conflicts of interest between Kardan N.V. and one or more members of the Management Board. To this effect, provisions have also been included in the Management Board Regulations covering best practice provisions II.3.1 through II.3.4 of the Code.

## Remuneration and shareholdings of the Management Board

During the Annual General Meeting of Shareholders held on May 20, 2009, the General Meeting of Shareholders adopted the Kardan N.V. Remuneration Policy. Following the adoption hereof, the Remuneration, Appointment and Selection Committee started working on the introducing of collective and individual targets for the members of the Management



Board, determining any entitlement to long- and/or short-term variable remuneration. These targets were adopted by the Supervisory Board during 2009 and were, in summary and to the extent allowed due to their sensitive nature, published on Kardan N.V.'s website. It is envisaged that long-term variable remuneration will be awarded in shares, for which purpose a share plan is under development that in due course will replace the Stock Option Plan. For more details on the Remuneration Policy, the targets for the members of the Management Board and the envisaged share plan, reference is made to the Remuneration Report, page 31.

In addition, the General Meeting of Shareholders (instead of the Supervisory Board) determines the remuneration amount and other remuneration components of the members of the Management Board, but this is done on a proposal of the Supervisory Board (refer to Article 20.2 of Kardan N.V.'s Articles of Association).

Detailed information about the remuneration of the members of the Management Board can be found in the notes to the financial statements on page 268 of this Annual Report.

Currently, no member of the Management Board has been granted a loan, guarantee or the like and no member of the Management Board has been granted shares in the capital of Kardan N.V. by way of remuneration.

The members of the Management Board who hold shares in the capital of Kardan N.V. are Mr. A. Ickovics, who currently holds 3,312,975 shares in the capital of Kardan N.V., Mr. A. Shlank, who currently holds 40,676 shares in the capital of Kardan N.V., and Mrs. E. Oz-Gabber, who currently holds 3,290 shares in the capital of Kardan N.V. Furthermore, the only member of the Management Board holding shares in Kardan Group Companies is Mr. A. Ickovics, holding 146,038 shares in Kardan Israel Ltd., an Israeli

company listed on the Tel Aviv Stock Exchange, and 225 shares in GTC Investments B.V.

Kardan N.V. granted the following number of options on shares in Kardan N.V. to the following members of the Management Board under the terms and conditions as laid down in the Stock Option Plan and the individual award agreements for which approval was granted by the General Meeting of Shareholders during the Extraordinary General Meeting of Shareholders of Kardan N.V. held on October 26, 2006 (for the grants to Mr. A. Ickovics, Mr. A. Shlank and Mrs. E. Oz-Gabber) and by the General Meeting of Shareholders during the Annual General Meeting of shareholders held on June 19, 2008 (Mr. W. van Damme and Mr. J. Slootweg):

- 179,232 options to Mr. A. Ickovics;
- 179,232 options to Mr. A. Shlank;
- 149,360 options to Ms. E. Gabber;
- 150,000 options to Mr. W. van Damme; and
- 175,000 options to Mr. J. Slootweg.

Kardan believes that its senior management team is a major asset. In order to minimize the risk of management changes, Kardan considers it to be in the best interest of Kardan that incentive-based policies be applied throughout the Kardan Group. A key element of these policies is the granting of share options or shares.

Grants under the Stock Option Plan are not subject to fulfillment of certain performance criteria. This is a deviation from the Code. The allocation to the members of the Management Board is based on their current achievements, the need for further continuation, and the built-in incentive to focus on further value creation for Kardan. Furthermore, the allocation to the members of the Management Board under the Stock Option Plan is not considered best practice under the Code as the options will vest in three equal annual installments, commencing on the first anniversary of the date of grant, and the exercise price of options can be set lower than the closing share price at the date of grant. Kardan believes that it is not

necessary to completely adhere to these provisions of the Code for the reasons as mentioned above and because (i) the same Stock Option Plan rules apply to the other employees and, therefore, for the sake of unity, clarity and ease of administration, no differences are applied between the members of the Management Board and the other employees, (ii) annual vesting of options is appropriate and market practice in an international environment, and (iii) the discounted exercise price reflects the depreciating effect of the fact that the participant can neither sell nor exercise the options during the vesting period.

Until now, none of the aforementioned options that were granted to the members of the Management Board have been exercised.

The members of the Management Board are subject to the insider trading policy of Kardan N.V. which, among other stipulations, contains rules of conduct to prevent trading in Kardan N.V.'s securities when holding inside information. In addition, the members of the Management Board are subject to a policy on the ownership of and transactions in securities other than Kardan N.V.'s financial instruments. Both policies are published on the website.

## Appointment and composition of the Supervisory Board

The Supervisory Board itself has the right to make binding nominations for the candidates for the position of supervisory director, which are subsequently appointed by the General Meeting of Shareholders. Each member of the Supervisory Board is appointed for a period of four years and may be reappointed for a maximum of two more terms. The Supervisory Board itself determines the number of supervisory directors, but there must always be at least three members. At present, the Supervisory Board consists of seven members; their profiles and an appointment scheme can be found on pages 14 and 15 of this Annual Report. Furthermore, the Supervisory Board

Regulations include a profile of the Supervisory Board's size and composition.

Each supervisory director must be capable of assessing the broad outline of Kardan's overall policy and must have the specific expertise required for the fulfillment of the duties assigned to the role designated to the supervisory director in the Supervisory Board profile. It is considered desirable for the Supervisory Board to represent, if possible, a wide range of expertise so that it has relevant knowledge of and experience in business management, financial administration and accounting for listed companies and other large legal entities.

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

The Supervisory Board can elect a chairman from its members. The chairman of the Supervisory Board sets the agenda, chairs the Supervisory Board meetings, monitors the proper functioning of the Supervisory Board, the Audit Committee, the Remuneration, Appointment and Selection Committee, and ensures the adequate provision of information to the supervisory directors. Furthermore, the chairman ensures that there is sufficient time for decision-making, and acts on behalf of the Supervisory Board as the main point of contact for the Management Board. The chairman of the Supervisory Board is also the chairman of the General Meeting of Shareholders. The chairman of the Supervisory Board may arrange for the Supervisory Board to discuss its own functioning and that of its individual members, and the conclusions which can be drawn. The desired profile, composition and competence of the Supervisory Board may also be discussed.

Adoption of resolutions by the Supervisory Board requires an absolute majority of the votes cast. Supervisory directors, who are frequently absent from the meetings, may be asked by the Supervisory Board to account for their absence.



## Conflict of Interest and remuneration of the Supervisory Board

The Articles of Association of Kardan N.V. include extensive provisions on conflicts of interest between Kardan N.V. and Holders of Control (as defined in the Articles of Association), which are also applicable if these Holders of Control hold a position in the Supervisory Board (for a further description of these provisions, reference is made to the paragraph 'Related Party Transactions' in this chapter). In addition, Kardan N.V. endorses the principles and provisions of the Code that address conflicts of interest between Kardan and one or more members of the Supervisory Board. To this effect, provisions have been included in the Supervisory Board Regulations covering best practice provisions III.6.1 through III.6.3 of the Code.

The General Meeting of Shareholders determines the remuneration of each supervisory director. The remuneration of a supervisory director is currently not dependent on the results of Kardan. Shares and rights to shares are currently not granted to supervisory directors as remuneration. Kardan has not granted personal loans, guarantees or the like to supervisory directors and the same is prohibited by the Supervisory Board Regulations, unless Supervisory Board approval has been granted. Detailed information on the remuneration of the members of the Supervisory Board can be found in the notes to the financial statements on page 268 of this Annual Report.

There are three members of the Supervisory Board who hold shares in the capital of Kardan. Mr. A. Schnur currently holds 19,818,466 shares in Kardan N.V., Mr. J. Pomrenze currently holds 150,052 shares and, in addition, Mrs. K. Rechter can be said to hold 4,098,719 shares via Shamait Ltd, a private company incorporated in Israel, and fully owned by Mr. E. Rechter and his wife, Mrs. K. Rechter.

The members of the Supervisory Board are subject to the insider trading policy of Kardan N.V. which, among others, contains rules of conduct in preventing trade in

Kardan N.V.'s securities when holding inside information. In addition, the members of the Supervisory Board are subject to a policy on the ownership of and transactions in securities other than Kardan N.V.'s financial instruments. Both policies are published on the website.

## Audit Committee

The Supervisory Board has elected three of its members to form an Audit Committee, without in any way derogating from its primary responsibilities. The Audit Committee is subject to the Terms of Reference which form part of the Supervisory Board Regulations.

The Audit Committee has the general task of evaluating and advising the Supervisory Board on matters concerning financial administrative control, financial reporting and internal and external auditing. The Audit Committee shall act as the principal contact for the external auditor, should the auditor discover irregularities in the content of the financial reports. The Audit Committee is authorized to request advice from outside experts if it considers such necessary. If possible, the Audit Committee should comprise at least one financial expert. The chairman of the Supervisory Board does not chair the Audit Committee. If and to the extent practically feasible, a maximum of one member may be not independent.

For the work and focus of the Audit Committee during the financial year 2009, reference is made to the Supervisory Board Report as included in this Annual Report.

## Remuneration, Appointment and Selection Committee

The Supervisory Board has elected three persons from among its members to form a Remuneration, Appointment and Selection Committee, without in any way derogating from its primary responsibilities. The Remuneration, Appointment and Selection Committee

is subject to the rules governing the Remuneration, Appointment and Selection Committee.

The tasks of this Committee include, among others, (i) preparing a remuneration policy, for adoption by the General Meeting of Shareholders, (ii) preparing the Supervisory Board's remuneration report for inclusion in Kardan N.V.'s Annual Report, (iii) preparing the selection criteria and appointment procedures for members of the Supervisory Board and the Management Board, (iv) periodically evaluating the scope and composition of the Management Board and Supervisory Board and (v) periodically evaluating the functioning of individual members of the Management Board and Supervisory Board.

For the work and focus of the Remuneration, Appointment and Selection Committee during the financial year 2009, reference is made to the Supervisory Board Report as included in this Annual Report.

## Related Party Transactions

Articles 7, 8 and 9 of the Articles of Association of Kardan N.V. contain rules on the corporate resolution process in the case of dealings between Kardan N.V. and one or more Holders of Control, as defined in the Articles of Association. Holders of Control are deemed to be any Person (as defined in the Articles of Association) who holds twenty-five percent or more of the voting rights in the General Meeting of Shareholders, if there is no other Person holding more than fifty percent of the voting rights. Certain transactions, as described in Kardan N.V.'s Articles of Association, between Kardan N.V. and a Holder of Control require special approval, as follows: (i) Management Board approval, (ii) Supervisory Board approval with an absolute majority of the votes cast, including the affirmative vote of at least one Independent Supervisory Director (as defined in Kardan N.V.'s Articles of Association) and (iii) approval of the General Meeting of Shareholders with an absolute majority of the votes cast, providing that

either (a) such a majority includes the affirmative votes of at least one third of all the votes of such shareholders who are present at the meeting and who do not have a Personal Interest (as defined in Kardan N.V.'s Articles of Association), or (b) the opposition votes of those shareholders who are present at the meeting and who do not have a Personal Interest, do not constitute more than one percent of the total number of votes that can be cast in a General Meeting of Shareholders.

During the financial year 2009, no resolutions needed to be adopted taking into account above provisions, except for the decision to enter into a new Directors & Officers liability insurance policy, which required the approvals as indicated under (i) and (ii) above on the basis of Article 8.1.h. of Kardan N.V.'s Articles of Association.

Kardan N.V. believes that the provisions on conflicts of interest, as laid down in the Management Board Regulations and Supervisory Board Regulations, together with the provisions regarding Related Party Transactions as described above, provide sufficient protection regarding these types of transactions, as envisaged by the Code in best practice provision III.6.4.

## General Meeting of Shareholders and shareholders' rights

The General Meeting of Shareholders is the forum in which the Management Board and the Supervisory Board give their account with regard to the manner in which they have performed their duties. Kardan N.V. considers it to be in its own interest that the majority of shareholders take part as much as possible in the decision-making process in the General Meeting of Shareholders.

Each shareholder has the right to attend General Meetings of Shareholders, either in person or represented by proxy, to address the General Meeting of Shareholders and to exercise voting rights, subject

to the provisions of the Articles of Association of Kardan N.V. If and to the extent practically feasible, investors in Israel may participate in General Meetings of Shareholders by means of a conference call or a video conference.

Each share carries one vote. Kardan N.V. has only one class of shares, being ordinary shares with a nominal value of EUR 0.20 each. Kardan N.V. may set a record date for the exercise of the voting rights and the rights relating to General Meetings of Shareholders. Unless otherwise required by its Articles of Association or Dutch law, resolutions of the General Meeting of Shareholders require the approval of an absolute majority of the votes validly cast. Unless provided otherwise by Dutch law or Kardan N.V.'s Articles of Association, there are no quorum requirements. The General Meeting of Shareholders can decide to amend Kardan N.V.'s Articles of Association with an absolute majority of the votes cast without a quorum requirement being applicable.

General Meetings of Shareholders are held at least once a year in order to, among other things, discuss the report by the Management Board and the report by the Supervisory Board, to adopt the statutory financial statements, to appoint the external auditor, to adopt any proposal concerning dividends, to, if applicable, appoint members of the Supervisory Board and of the Management Board, and to consider any other matters proposed by the Supervisory Board, the Management Board or the shareholders in accordance with the Articles of Association of Kardan N.V. and Dutch law. Pursuant to both Dutch law and Kardan N.V.'s Articles of Association, the General Meeting of Shareholders discusses and passes, under a separate agenda item, resolutions discharging the members of the Management Board and the Supervisory Board from their responsibilities for the performance of their respective duties in the preceding financial year. This discharge only covers the matters that are known to Kardan N.V. and the shareholders at the time the resolution is adopted.

Other General Meetings of Shareholders may be held as often as the Management Board or the Supervisory Board deem necessary. Such a meeting must be held if requested in writing by one or more shareholders holding shares representing at least 10% of Kardan N.V.'s issued share capital. The request must be made to the Management Board or the Supervisory Board and must specify in detail the business to be dealt with. If the Management Board or the Supervisory Board fail to convene and hold a meeting within four weeks of receipt of this request, the requesting shareholder(s) may call the meeting.

One or more shareholders holding shares representing at least 1% of Kardan N.V.'s issued share capital or representing a value of EUR 50 million according to the Official Price List of Euronext Amsterdam has/have the right to request the Management Board or the Supervisory Board to place items on the agenda of a General Meeting of Shareholders. The Management Board or the Supervisory Board shall add the item to the agenda of the meeting, provided that Kardan N.V. does not have a serious interest in not adding it to the agenda, and that the request is received by the Management Board or Supervisory Board in writing at least fourteen days before the notice of the meeting will be given. Notice of a General Meeting of Shareholders shall be given no later than on the fifteenth day prior to the date of the meeting.

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

Shareholders' rights, such as dividend rights, liquidation rights, and rights in respect of amendments of the Articles of Association, and reduction and increase in share capital are all described in the articles of association of Kardan N.V. which have been posted on Kardan's website.

Kardan does not have anti-takeover measures in place, in the sense that such measures exclusively or almost exclusively have the purpose of frustrating an actual or attempted hostile takeover.

## Information on the European Takeover Directive

In accordance with Article 10 of the European Takeover Directive, companies with securities that are admitted to trading on a regulated market are obligated to disclose certain information in their annual report. This obligation has been implemented in Dutch law through Article 10, Takeover Directive Decree. Kardan N.V. must disclose certain information that might be relevant to companies considering making a public offer with respect to Kardan N.V. In addition to the information described in the previous paragraph of this chapter, the following information is provided in connection with Article 10, Takeover Directive Decree:

- a. An overview of Kardan N.V.'s capital structure is included on pages 180 and 181 of this Annual Report.
- b. Shares in the capital of Kardan N.V. are freely transferable.
- c. Substantial shareholdings within Kardan N.V. are included on page 10 of this Annual Report.
- d. There are no special control rights attached to the Kardan N.V. shares.
- e. A stock option plan for members of the Management Board of Kardan N.V. and other Kardan key employees has been approved by the shareholders during the Extraordinary General Meeting of Shareholders held on October 26, 2006. The options can only be granted in accordance with the underlying Stock Option Plan rules and with the approval of the Supervisory Board and – in respect of the Management Board – with the approval of the General Meeting of Shareholders. Further information regarding the options granted under the Stock Option Plan can be found on pages 182 and 183 of this Annual Report.
- f. There are no limitations to voting rights on the shares in the capital of Kardan N.V.
- g. Kardan N.V. is unaware of any agreements that might result in a limitation of the transferability of

or the voting rights on shares in the capital of Kardan N.V.

- h. The provisions regarding the appointment and dismissal of members of the Management Board and the Supervisory Board, and the provisions regarding amendments of the Articles of Association are described in Kardan N.V.'s Articles of Association which can be viewed on Kardan's website ([www.kardan.nl](http://www.kardan.nl)).
- i. The General Meeting of Shareholders may authorize the Management Board (i) to purchase shares by Kardan N.V. in its own capital, and (ii) to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares. Further information can be found in the Articles of Association of Kardan N.V. and the minutes of the relevant General Meetings of Shareholders of Kardan N.V. in respect of the authorizations that have been granted to the Management Board. Authorization for Kardan N.V.'s purchase of its own shares has been granted for a period of eighteen months during the General Meeting of Shareholders of May 20, 2009. At the same General Meeting of Shareholders held on May 20, 2009, the authorization to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares was granted for a period of five years, taking into account the limits provided by the law and the Articles of Association and provided that no more than 10% of the issued share capital can be issued annually.
- j. There are no important agreements to which Kardan N.V. is a party and that will come into force, be amended or be terminated under the condition of a change of control over Kardan N.V. as a result of a public offer.
- k. There are no agreements of Kardan N.V. with members of the Management Board or with other employees that entitle them to any compensation rights upon termination of their employment after completion of a public offer on Kardan N.V. shares.

# Supervisory Board Report

The Supervisory Board is pleased to present the 2009 Annual Report, including the 2009 financial statements. The 2009 financial statements have been audited by Ernst & Young Accountants LLP. The auditors' report is included on pages 285 and 286 of this Annual Report.

The Annual Report for the year 2009 and the 2009 financial statements have been presented to the Supervisory Board. The 2009 financial statements and the auditors' report were discussed by the Audit Committee with the Management Board and the external auditor. On the basis of these discussions, the Supervisory Board is convinced that the Annual Report for the year 2009, including the 2009 financial statements, meet the transparency requirements, and therefore endorses this Annual Report. In the opinion of the Supervisory Board, it forms a sound basis for its reporting on the supervision exercised in the financial year 2009.

The Supervisory Board proposes to the General Meeting of Shareholders to adopt the 2009 financial statements included in this Annual Report during the Annual General Meeting of Shareholders (AGM) to be held on May 26, 2010.

Taking into account the negative results during the financial year 2009 and Kardan N.V.'s dividend policy, no dividend will be declared for the financial year 2009.

## Composition of the Supervisory Board

During the Annual General Meeting of Shareholders held on May 20, 2009, Mr. M. Groen was reappointed as member of the Supervisory Board for a period of four years. At the close of the AGM to be held on May 26, 2010, Mr. H. Benjamins' term will expire. Mr. Benjamins will be available for reappointment.

The Supervisory Board currently comprises seven members, five of which can be regarded as independent under the criteria laid down in the Dutch Corporate Governance Code. These are Mr. Krant, Mr.

Fink, Mr. Pomrenze, Mr. Groen and Mr. Benjamins. The other members, being Mr. Schnur and Mrs. Rechter, are not independent under these criteria. Mr. Schnur is holding more than ten percent of the issued share capital of Kardan N.V., while Mrs. Rechter is related by marriage to Mr. Rechter, who receives a remuneration in his position of Managing Director of Kardan Israel Ltd. For this reason, Kardan N.V. does not completely follow best practice provision III.2.1 of the Dutch Corporate Governance Code, which prescribes that all but one member of the Supervisory Board should be independent. Kardan N.V. regards a long-term alliance with these persons important to all the stakeholders involved in Kardan. Given the extensive provisions on conflicts of interest in its Articles of Association and the Supervisory Board Regulations, Kardan N.V. feels that there are – without jeopardizing the corporate governance system – good grounds for not following this best practice provision.

The profile of the Supervisory Board is such that each member shall be capable of assessing the broad outline of the overall policy and shall have the specific expertise required for the fulfillment of the duties assigned to the role designated to him or her within the framework of the profile. Each member shall be capable of performing his or her function properly and contributing to an adequate composition of the Supervisory Board. Each member shall have an international background, whereby various nationalities shall be represented. The Supervisory Board shall consist of a mix of persons with, among others, (i) expertise in managing enterprises, in the financial administration and accounting of listed companies and other large entities, (ii) specific know-how with respect to the various aspects of the business operations of Kardan and (iii) awareness of and the skills to identify international, economic, political, and social developments that are relevant for Kardan. The Supervisory Board has ensured that its composition fits the profile and is thus as diverse as possible, and it therefore feels that with its current composition it has the expertise necessary to supervise Kardan N.V., bearing in mind the nature and character of Kardan's business.

## Supervisory Board meetings

The Supervisory Board held six meetings during the year 2009 in the presence of the Management Board. Furthermore, the Supervisory Board held one meeting during the year 2009 without the presence of the Management Board. The purpose of this meeting was – inter alia – to discuss the performance of the Supervisory Board and its individual members, the functioning of the Supervisory Board committees and the performance of the Management Board and that of the individual managing directors, and the conclusions to be drawn from this. As a follow-up to this meeting, representatives of the Supervisory Board, including its chairman, held performance interviews with each of the members of the Management Board.

During the financial year concerned, the Supervisory Board devoted considerable time and attention to reviewing Kardan's strategic goals and monitoring of developments thereof. During 2009, specific attention was given to, and elaborate discussions were held on, strategic matters, such as the future development of the Water Infrastructure sector and financing thereof, further investments in the Financial Services sector in the Ukraine and the possible spin-off of a majority stake in Kardan Israel Ltd. Although this process was delayed mid November 2009 in view of transaction structure difficulties, the Supervisory Board is pleased that continuous efforts are made to ensure this envisaged transaction will improve the transparency of the Kardan Group. In addition, the Supervisory Board approved, among others, the entering into new facility agreements with Israel Discount Bank and the issuing of a guarantee on behalf of the Tahal Group for a EUR 15 million loan extended by the Israeli Bank Hapoalim. In light of the continuing economic crisis, the Supervisory Board extensively discussed Kardan N.V.'s cash position and expected developments therein with the Management Board from time to time.

Furthermore, considerable time was dedicated to discussions with the Management Board on risk management tools, the monitoring thereof and various compliance-related topics such as the revised Dutch

Corporate Governance Code of December 2008 and changes to the Supervisory Board Regulations resulting therefrom. During each Supervisory Board meeting, the Management Board presented the most important recent developments, including economic and geo-political circumstances, within each of the three sectors and the countries Kardan is active in. Finally, the Supervisory Board would like to thank the Remuneration, Appointment and Selection Committee for the time and attention devoted to the development of a system of short- and long-term collective and individual targets for the members of the Management Board. On the basis of this system, which was approved by the Supervisory Board in 2009, the determination and scale of the Management Board's variable remuneration will take place in accordance with the standards of the Dutch Corporate Governance Code and will conform to market standards.

Other subjects that were discussed, acknowledged and – where necessary – approved during the Supervisory Board meetings held during the year 2009 were, among others:

- Kardan's business objectives and investment budget;
- financing and financial exposure (partly by way of updates from the Audit Committee);
- 2008 annual financial statements, the 2009 quarterly financial statements and the financial reporting process (partly by way of updates from the Audit Committee);
- Management Board targets and the development of a share plan that will, in due course, replace the current Stock Option Plan (partly by way of updates of the Remuneration, Appointment and Selection Committee);
- internal audit; and
- corporate governance and other elements of compliance.

Most of the meetings were attended by the full Supervisory Board. None of the members of the Supervisory Board were frequently absent. Kardan's external auditor attended the Supervisory



Board meeting during which the 2008 annual results were discussed.

In addition to the formal meetings, informal discussions were held frequently between the Chairman of the Supervisory Board and one or more of the members of the Management Board.

## Supervisory Board committees

### Audit Committee

The Supervisory Board has appointed an Audit Committee from among its members. Currently, the Audit Committee comprises three members: Mr. M. Groen (Chairman), Mr. J. Krant and Mrs. K. Rechter.

The Audit Committee met eight times in 2009 and paid special attention to the following subjects during these meetings:

- 2008 annual financial statements, the 2009 quarterly financial statements, the financial reporting process and specific accounting issues arising from the financial statements;
- the letter received from the Dutch Authority for the Financial Markets relating to the supervision of financial reporting regarding the 2007 Annual Report;
- risk management, including the introduction of the so-called Goshen regulations (Israeli Sox) in Israel on the basis whereof Kardan N.V., starting the financial year 2010, needs to include a report as to the effectiveness of its internal control over financial reporting and disclosures as part of its periodic audited or reviewed financial statements;
- internal audit;
- financing and financial exposure; and
- compliance.

Most of the meetings were attended by the full Audit Committee. None of the members of the Audit Committee was frequently absent. All meetings but one were attended by Kardan N.V.'s Chief Financial Officer, Mrs. Oz-Gabber, and most of the time also by other members of the Management Board.

Kardan's external auditor attended all Audit Committee meetings in which financial statements were discussed and Kardan's internal auditor attended the meeting during which the internal audit report was discussed. In addition to the formal meetings, informal discussions were held regularly between the chairman of the Audit Committee and the Chief Financial Officer and financial controller and/or the external auditor.

### Remuneration, Appointment and Selection Committee

The Supervisory Board has appointed a Remuneration, Appointment and Selection Committee from among its members. Currently, the Remuneration, Appointment and Selection Committee comprises three members:

Mr. H. Benjamins (Chairman),  
Mr. J. Krant and Mr. J. Pomrenze.

The Remuneration, Appointment and Selection Committee held six meetings in 2009, all members being present. In addition to the formal meetings, informal discussions, also with members of the Management Board, took place regularly. In the beginning of the year, the focus of the meetings was the drawing up of a Remuneration Policy. The Supervisory Board takes the view that the Remuneration Policy, which was adopted by the General Meeting of Shareholders on May 20, 2009, follows the principles of the Dutch Corporate Governance Code. The policy provides for fixed and variable (both short- and long-term) components, whereby the variable components take into consideration both collective and personal targets. When recommending the remuneration of individual Management Board members to the General Meeting of Shareholders, the Remuneration, Appointment and Selection Committee analyzes the possible outcomes of the variable remuneration components and how they may affect the remuneration of the Management Board members. The policy provides that the level and structure of the compensation will be determined with due regard for the pay differentials within Kardan N.V. Important topics during the meetings of the Remuneration, Appointment and Selection Committee were the discussion on and determination of the collective and individual targets of the members of the

Management Board. The Supervisory Board, on the proposal of the Remuneration, Appointment and Selection Committee, adopted the individual and collective 2009 targets as well as the collective and individual long-term targets (2009-2011). For a further description of the remuneration of the members of the Management Board, reference is made to the Remuneration Report on page 31 of this Annual Report. Finally, the Remuneration, Appointment and Selection Committee started working on a share plan which in due course will replace the Stock Option Plan. Refer to the Remuneration Report on page 33 and 34 of this Annual Report for further information on the principles underlying the envisaged share plan.

During the AGM held on May 20, 2009, the General Meeting of Shareholders adopted the individual remuneration (for the financial year 2009, starting January 1, 2009) and bonuses (for the financial year 2008) for the members of the Management Board. A specification of the remuneration of the members of the Management Board and of the members of the Supervisory Board is included in the notes to the financial statements on page 268 of this Annual Report. In prior years, Kardan N.V. granted share options under the Kardan Stock Option Plan to its managing directors and certain key employees. More details of these options can be found in the corporate governance chapter on page 21 of this Annual Report and in the notes to the financial statements on pages 182 and 268 of this Annual Report.

## Corporate governance

In all the meetings with the Management Board, the Supervisory Board focused on the financial and commercial developments and management issues, such as the quality of corporate governance and the risk management policy.

As noted in the previous Annual Report, the Supervisory Board fully subscribes to the meaning and usefulness of the Dutch Corporate Governance Code

for Kardan and the ensuing changes in the law in the Netherlands. Therefore, the Supervisory Board endorses the outlines, principles, and best-practice provisions of the Dutch Corporate Governance Code with certain exceptions, which, in the view of the Supervisory Board, do not fit the character and size of Kardan.

## Responsibilities

The Supervisory Board notes that its members will sign off on the statutory financial statements, pursuant to their statutory duty under article 2:101 (2) of the Dutch Civil Code.

## In conclusion

Taking due note of the continuing difficult economic times with which Kardan has been confronted during 2009, the Supervisory Board expresses its special appreciation for all the effort invested by the Management Board, the Senior Management Team heading each sector, and all employees in its holding and group companies in 2009 to further strengthen Kardan.

Amsterdam, April 19, 2010

On behalf of the Supervisory Board,  
Joseph Krant



# Remuneration Report

The first part of this chapter outlines the responsibilities of Kardan N.V.'s Remuneration, Appointment and Selection Committee. The second part outlines the remuneration policy of Kardan N.V. and gives some further insight as to how the Management Board's remuneration is composed.

## Remuneration Committee

The main responsibilities of Kardan N.V.'s Remuneration, Appointment and Selection Committee include, inter alia:

- preparing proposals for the Supervisory Board concerning the remuneration policies for the Management Board members to be adopted by the General Meeting of Shareholders;
- preparing proposals for the Supervisory Board concerning the individual remuneration of members of the Management Board;
- preparing the yearly Remuneration Report;
- preparing the selection criteria and appointment procedures for members of the Management Board and the Supervisory Board;
- periodically evaluating the scope and composition of the Management Board and Supervisory Board;
- proposing the (re)-election of members of the Management Board and Supervisory Board.

The Remuneration, Appointment and Selection Committee consisted during the entire year 2009 of three members, being Mr. H. Benjamins (Chairman), Mr. J. Krant, and Mr. J. Pomrenze.

During 2009, the Remuneration, Appointment and Selection Committee met six times. For a specification of the main matters discussed during these meetings, reference is made to the Supervisory Board Report on page 29 and 30 of this Annual Report.

The Remuneration, Appointment and Selection Committee prepares its proposals for targets and remuneration (fixed and variable) for individual members of the Management Board after careful consideration, of which feedback by the Management

Board may be part. While doing this, the Remuneration, Appointment and Selection Committee, takes into account the advice of several external and internal advisors.

Although the Remuneration, Appointment and Selection Committee makes proposals to the Supervisory Board regarding the fixed and variable remuneration of the individual members of the Management Board, the final determination of the remuneration amount and composition of the remuneration of the members of the Management Board lies, in accordance with the Kardan N.V. Articles of Association, with the General Meeting of Shareholders of Kardan N.V. The Remuneration, Appointment and Selection Committee proposes individual and collective targets for each member of the Management Board; the Supervisory Board in its turn determines the final targets for each member of the Management Board.

The fixed remuneration over 2009 has already been approved by the General Meeting of Shareholders during the AGM on May 20, 2009.

The Supervisory Board, on proposal of the Remuneration, Appointment and Selection Committee, and in accordance with the remuneration policy (as specifically explained hereinafter), proposes that the variable remuneration over 2009 shall be as follows:

### Bonus 2009 (in EUR)

Alain Ickovics	68,866
Alon Shlank	72,657
Jan Slootweg	51,267
Walter van Damme	53,888
Einat Oz-Gabber	43,540

Furthermore the Supervisory Board, on proposal of the Remuneration, Appointment and Selection Committee, proposes that the fixed remuneration over 2010 for Mr. Slootweg increases with EUR 45,000 as he is

taking up the position as deputy Chairman in the Management Board of Kardan N.V. For the other members of the Management Board in 2010, an increase of 5%, compared to the fixed remuneration for 2009, is proposed.

The above proposals shall be submitted to the General Meeting of Shareholders during the AGM to be held on May 26, 2010.

### **Remuneration policy**

The Supervisory Board of Kardan N.V. takes the view that Kardan N.V.'s remuneration policy, adopted during the AGM held on May 20, 2009, follows the principles and the best practice provisions of the Dutch corporate governance code.

The objective of the Kardan N.V. remuneration policy is to attract, motivate, and retain qualified directors.

The remuneration policy aims to compensate based on both balanced short-term and long-term performance of Kardan N.V. and value creation for its shareholders. The policy provides that the level and structure of the compensation will be determined with due regard for the pay differentials within Kardan N.V.

The remuneration of the members of the Management Board consists of the following three elements:

- (i) a fixed remuneration;
- (ii) a short-term variable remuneration; and
- (iii) a long-term variable remuneration,

whereby the variable components will take into account both collective and individual targets.

The Remuneration, Appointment and Selection Committee measures whether and to what extent set targets have been met, by means of applying measuring methods, depending on the nature of the target. Measuring methods may include: reports by external parties, discussions with evaluators or other Management Board members, written notes and

(progress) reports, and measurable perceptions of the market.

### **(i) Fixed remuneration**

The fixed remuneration is benchmarked against a peer group of companies that are from time to time identified as relevant to Kardan N.V., based on their Dutch domicile, international character, size, and public listing (in the Netherlands and/or abroad).

Annually, when drawing up a proposal for the fixed part of the remuneration, the Remuneration, Appointment and Selection Committee takes into account the complexity, scale and, risks of Kardan N.V.'s activities, as well as personal factors of each individual member of the Management Board, such as education and level of experience.

In recommending the remuneration of individual Management Board members to the General Meeting of Shareholders, the Supervisory Board, upon recommendation by the Remuneration, Appointment and Selection Committee, analyzes the possible outcomes of the variable remuneration components and how they may affect the remuneration of the Management Board members.

### **Variable remuneration**

The level and structure of the variable remuneration shall be determined taking into account, among other things, the results, the share price performance, and non-financial indicators that are relevant to Kardan N.V.'s long-term value creation. The variable remuneration can be earned based on the achievement of specific and challenging individual and collective targets. The targets shall be annually determined by the Supervisory Board, following the recommendation of the Remuneration, Appointment and Selection Committee.

The short- and long-term variable remuneration, taking into account certain exceptions as provided for in the remuneration policy, each amount to a maximum of 50% of the annual fixed salary, so that

the maximum variable yearly remuneration amounts to a Management Board member's annual fixed salary.

During 2009 and following the adoption of the remuneration policy, the Remuneration, Appointment and Selection Committee started working on introducing collective and individual targets for the members of the Management Board, determining any entitlement to long- and/or short-term variable remuneration. These targets were adopted by the Supervisory Board during 2009. The long-term collective targets are formulated for a period of three years. The targets relate to an increase of the value of Kardan Group, realization of profit, share price outperforming the market, and further focus on debt and equity markets outside of Israel. The short-term collective targets also relate to value and profit creation, share price increase, and specific targets to increase transparency. Because of the sensitive nature of the specific collective targets, the Supervisory Board has adopted the policy not to disclose specific details of these targets. The same holds for the publication of individual targets.

**(ii) Short-term variable remuneration: cash**

Each year, a variable cash incentive can be earned, based on the achievement of certain targets. The maximum variable cash incentive is set at 50% of the fixed remuneration, provided that in case of extraordinary achievements, the Supervisory Board, upon recommendation by the Remuneration, Appointment and Selection Committee, may advise to grant a higher variable cash incentive provided that the variable cash incentive shall not amount to more than 75% of the fixed remuneration. Whether a variable cash incentive shall be awarded and to what extent shall depend for 70% on whether collective targets are achieved, and for 30% on whether individual targets are achieved. The Supervisory Board may, upon recommendation by the Remuneration, Appointment and Selection Committee, irrespective of meeting the predetermined targets and at its discretion, decide to recommend a variable cash

incentive equal to 1/3 of the maximum variable cash incentive.

**(iii) Long-term variable remuneration: shares**

Once every 3 years, a variable incentive in the form of shares in Kardan N.V. can be earned. Whether shares shall be awarded and to what extent shall depend for 70% on whether collective targets are achieved, and for 30% on whether individual targets are achieved. The maximum amount of the value of the shares is set at 50% of the fixed annual remuneration. With the approval of the Supervisory Board, a Management Board member can choose to receive part of this remuneration component in cash, provided that the cash component cannot be higher than 50%.

For the purpose of the long-term variable remuneration, a share plan is being developed which in due course will replace the Stock Option Plan. The Management Board and Supervisory Board of Kardan N.V. take the view that the share plan is in accordance with the Dutch corporate governance code, provided that one deviation is envisaged in respect of the retention of shares. With respect to the first possible grant of shares (three years after the adoption of the targets) a retention period of two years will apply, so that this in essence complies with best practice provision II.2.5 of the Dutch corporate governance code. However, for further grants of shares under the envisaged share plan, which will only be granted once every three years, providing the long-term targets have been met, no further retention period will apply if at the time of grant the member of the Management Board has been in office for a period of at least five years. Standard good leaver/bad leaver provisions will apply. The Supervisory Board takes the view that with this measure the long-term character of the share remuneration and retention of management are sufficiently met. As the above will constitute a deviation from the remuneration policy, approval for this will be sought during the AGM to be held on May 26, 2010.

Set out in a scheme, the maximum remuneration to be earned by each member of the Management Board annually is composed as follows:

Elements of remuneration	Remuneration	Explanation and reference
<b>Fixed</b>		
Fixed remuneration	1 X	Benchmarked against a peer group of companies, as well as set pursuant to Kardan N.V. targets and individual factors of the relevant member of the Management Board (see paragraph above entitled 'Fixed')
<b>Variable</b>		
Short-term variable remuneration	0.5 X	Taking into account indicators that are relevant to Kardan N.V. Only in case of extraordinary achievements, the Remuneration, Appointment and Selection Committee may decide to increase this to 0.75 of the fixed remuneration (see paragraph above entitled 'Variable'/short-term variable)
Long-term variable remuneration	0.5 X	Taking into account indicators that are relevant to Kardan N.V. (see paragraph above entitled 'Variable'/long-term variable)
<b>Total maximum remuneration to be earned</b>	<b>2 X</b>	(whereby X is the fixed annual salary in EUR)

Reference is made to the notes to the financial statements on page 268 of this Annual Report, where the exact amounts of fixed remuneration for the year 2009 per individual member of the Management Board are set out. Reference is also made to the scheme above, where both the fixed and the variable remuneration for the year 2009 has been set out. The variable remuneration for the year 2009 and the proposed fixed remuneration for the year 2010 will be submitted for shareholders' approval to the AGM to be held on May 26, 2010.

The remuneration policy and the remuneration over 2009 has been established after careful consideration and taking into account various relevant aspects and developments in the market. The Remuneration, Appointment and Selection Committee will see to continuance of this record for the future by performing checks and balances on a regular basis.

### **Loans**

The remuneration policy of Kardan N.V. includes that no personal loans, guarantees, or the like will be granted to members of the Management Board, unless in the normal course of business and on terms applicable to the personnel as a whole and after approval by the Supervisory Board. No remission of loans may currently be granted. At the date hereof, no member of the Management Board has been granted a loan, guarantee, or the like, and no member of the Management Board has been granted shares in the capital of Kardan N.V. by way of remuneration: in view of the share plan to be established, the foregoing is likely to change in the coming years.

### **Other**

Pension premiums will be for the account of the Management Board members and will be deemed to be included in the fixed remuneration. There are no specific arrangements in place with any of the members of the Management Board with respect to dismissal compensations.

### **Final authority to adjust remuneration with the Supervisory Board**

On the basis of the remuneration policy, the Supervisory Board has the right to deviate (upwards or downwards) from the remuneration policy in case of extraordinary circumstances in case such variable remuneration component conditionally awarded in a previous financial year would, in the opinion of the Supervisory Board, produce an unfair result in view of extraordinary circumstances during the period in which the predetermined personal targets have been or should have been achieved. In addition, the Supervisory Board may recover from the Management Board members any variable remuneration awarded on the basis of incorrect financial or other data.

### **Employment contracts and additional arrangements**

For further details on employment agreements, individual remuneration per member of the Management Board, options, and other interests of the members of the Management Board, reference is

also made to the notes to the financial statements on pages 182 and 268 of this Annual Report.

In addition to the remuneration allocated to the members of the Management Board, a number of additional arrangements may apply per individual member. These include liability insurances and, in an individual case, a company lease car. These arrangements are at arm's length and in line with standard Dutch practice.

### **Website**

This Remuneration Report shall be posted on Kardan N.V.'s website.

### **Remuneration Supervisory Board**

The remuneration of the Supervisory Board members has not been changed since 2008. In accordance with the policy adopted in this respect in 2007, the Supervisory Board will evaluate its remuneration once every two years and in case on the basis of such evaluation, based on comparisons made with other companies, the Supervisory Board takes the view that its remuneration needs to be amended a proposal for such amendment will be put forward to the general meeting of shareholders. Such evaluation of the Supervisory Board members' remuneration will take place in 2010.

Amsterdam, April 19, 2010

Mr. H. Benjamins

Chairman of the Remuneration, Appointment and Selection Committee

## Developments within the Portfolio of Activities

In 2009, the Group implemented its “Watch and Hold” strategy: Watch very closely the important developments in our markets and businesses by listening to our partners and local managers and vigilantly assessing our risk management as a result of which the quick decisions needed in such situations could be taken. Hold our liquidity ensuring that we have the proper liquidity levels for our debt-servicing ability in order to meet all of our commitments, and to support Group Companies.

As a result of this policy, investments were only made if the opportunities were unquestionable or necessary to safeguard our investments.

The main developments in Kardan N.V. and the divisions regarding the composition of the portfolio of activities during 2009 were as follows:

### Real Estate (GTC Group)

In November 2007, GTC Holding signed a memorandum of understanding with a developer in India to develop a residential and commercial project in the city of Pune. In June 2009, GTC Holding decided to terminate the agreement because some conditions precedent were not met. The developments had not started by the time the agreement was terminated. The cancellation of this project does not imply that GTC Holding is no longer interested in the Indian market.

### Financial Services (KFS Group)

TBIH, the insurance and pension holding 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 N.V.

In December 2009, TBIF increased its stake in the group's Ukrainian Bank (VAB Bank) from 50% to 63%, which was subject to the approval of Ukrainian authorities. As of the date of this report, the approvals have been granted. The increase was realized through the conversion into equity of loans amounting to EUR 12 million.

### Kardan N.V.

During Q1 2009, Kardan repurchased from Israel Discount Bank an 11% stake in KFS. As of the date of this report, Kardan N.V. 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 2009, Kardan sold 3% of its indirect holding in GTC SA for a consideration of EUR 38 million. Post-sale, Kardan N.V. owns 43.1% of the GTC SA shares and maintains effective control in the company. Reference is made to ‘Consolidated IFRS Financial Statements’, note 5C.

In September 2008, Kardan N.V. announced the intention to spin off Kardan Israel. Due to the financial and economic crises the process was delayed. In October 2009, Kardan N.V. announced the resumption of the process to spin off Kardan Israel and subsequently a delay of its plan to divest from its majority holding in Kardan Israel. The delay is a result of the fact that the complicated process is subject to different regulatory requirements in The Netherlands and Israel.

For a more detailed overview of the operations of each of the divisions reference is made to pages 44 until 78.

# Financial Developments

## Consolidated figures 2009

The consolidated net loss of the Group for the year 2009 amounts to EUR 176 million (2008: profit of EUR 175 million). The loss for the year 2009 is to a large extent attributable to losses on the revaluation and impairment of completed assets, investment properties under construction, and inventory (including land) of GTC SA Group (EUR 172 million; 2008: revaluation profit EUR 236 million).

Also the loan loss provisions charged to the profit and loss account of KFS Group were significant in 2009, amounting to EUR 111 million (2008: EUR 46 million). The consolidated total equity as of December 31, 2009 was EUR 988 million (December 31, 2008: EUR 1.112 billion).

Total assets of Kardan Group as of December 31, 2009, amounted to EUR 5.6 billion compared to EUR 5.3 billion as of December 31, 2008. The first-time proportional consolidation of Kardan Nichsey Emed (including Avis Israel) increased total assets with EUR 300 million. In the financial statements of 2008, this activity was included in the balance sheet according to the equity method. Due to the increase in the participation in the direct holding company of Avis Israel, proportional consolidation is required.

Since a significant part of the consolidated results and equity are attributable to the minority shareholders, the following two paragraphs will only discuss the result and equity attributable to Kardan N.V. equity holders. In the Chapters discussing the divisions (page 44 until 78), the amounts mentioned relate to 100% of the activities and not just to the share attributable to Kardan N.V. equity holders.



## Results 2009 attributable to equity holders of Kardan N.V.

€ in millions	2009	2008
Real Estate	(63)	89
Financial Services – Banking and Retail Lending	(29)	(54)
Financial Services – Insurance and Pension	19	8
(Water) Infrastructure – Projects	2	(5)
(Water) Infrastructure – Assets	(4)	(16)
Rental and Leasing of vehicles	1	–
Sale of vehicles	5	6
Other	(23)	24
<b>Total net profit attributable to equity holders</b>	<b>(92)</b>	<b>52</b>
Profit (loss) per share (EUR)	(0.91)	0.63
Profit (loss) per share diluted (EUR)	(0.92)	0.28

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.

In the following paragraphs the results of each division/segment are discussed. The results of a segment comprise of the results of the operating companies but also the results of the holding companies that were attributed to the segments.

### Real Estate

The net results of GTC Group, 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:

- 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 Group and the increase in deliveries of apartments by GTC SA Group and in China. 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 in 2009 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, GTC SA Group early adopted 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.
- GTC Holding 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 N.V. merged. This resulted in a negative goodwill of EUR 77 million that was booked as a profit in 2008, due to the book value of assets less liabilities of GTC RE N.V. exceeding the value of the shares issued by Kardan N.V.
- In 2008, GTC SA Group 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.

## Financial Services

KFS Group, 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. The loss 2009 is explained as follows:

The banking and lending segment (TBIF Group) 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 write offs and provisions on the loan portfolio) increased to EUR 65 million in 2009 from EUR 25 million in 2008. The increase is the result of a significant decrease in operational expenses due to downsizing 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 the 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 KFS.
- Due to the deteriorating global economy, Kardan N.V. recorded impairment losses in 2008 in the sum of EUR 55 million.

The insurance and pension segment (TBIH Group) 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 Group 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 N.V. 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, TBIH Group recorded a fair value profit amounting to EUR 13 million (2008: EUR 30 million) relating to the value of a put option held by KFS 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 was written off.
- In 2008, an impairment loss amounting to EUR 10 million was recorded due to a lower valuation of some of the activities.

### (Water) Infrastructure

Tahal Group, the Water Infrastructure division, lost EUR 2 million in 2009, a significant improvement compared to the loss of EUR 21 million in 2008. Tahal Group 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 a loss of EUR 5 million in 2008. The back-log 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 Group Companies' (page 71). The back-log as of December 31, 2009 is 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 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.

### Rental and Leasing of Vehicles

The segment is part of Kardan Israel and 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

This segment is part of Kardan Israel. In 2009, the contribution of UMI (General Motors franchiser in Israel) to the profit for equity holders of Kardan N.V. was EUR 5 million (2008: EUR 6 million). The decrease in profit was mainly due to the 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 converted 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 N.V. debentures that were bought by Tahal Group.

### **Equity as of December 31, 2009, attributable to equity holders of Kardan N.V.**

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

The solvency ratio (shareholders' 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.

### **Financial position of Kardan Group as of December 31, 2009**

Kardan Group has a decentralized funding structure. This implies that Kardan, its direct subsidiaries (all being holding companies of the operational entities), and the operational entities are mostly responsible for the funding of their own activities. As a consequence, within the Kardan Group, there are many agreements with lenders 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 of December 31, 2009, for Kardan N.V. and its divisions.

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

\* Free cash also includes cash equivalents and short term investments. The data do not include the liabilities due to deposit holders of the banking activities in Russia and Ukraine, which are supported by the Russian and Ukrainian national banks, respectively. 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. The operational debt of the banking and lending activity is not included in the table.

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

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

Based upon the positions as of December 31, 2009, Kardan management has no reason to believe that Kardan N.V. and its divisions will not be able to meet its current financial obligations and those expected in the two years following the publication of the financial statements.

## Dividend 2009

The dividend policy of Kardan N.V. recommends an annual dividend distribution between 20% and 30% of net income, taking into consideration, among others, the liquidity and capital position and future financing requirements. Due to the loss for the year and taking into account the financial position of Kardan N.V., the Management Board, with the approval of the Supervisory Board, has decided not to distribute any dividend from the reserves for the financial year 2009.

## 2010 outlook

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 in 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 on 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 improvement. 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 is expected be limited. Although the election of a new president and the formation of a new government in the 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 spin off 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.

## Real Estate Division

### General

Kardan operates in the real estate segment under the brand name Globe Trade Centre (GTC). The shares of the operating companies are held by an intermediate holding company. In order to simplify the structure of the Kardan Group and further increase transparency, the listing of the intermediate holding company GTC Real Estate N.V. (GTC RE NV) on the Tel Aviv Stock Exchange was terminated in December 2008 at the occasion of a triangular merger of this company with Kardan N.V. and the new intermediate holding company GTC Real Estate Holding B.V (GTC Holding). As part of the merger, in December 2008, Kardan N.V. increased its stake in the Real Estate division from 67% to 100%, and the minority shareholders received shares of Kardan N.V. in exchange for their shares in GTC RE NV.

GTC Holding is currently active in three regions: CEE, China and Western Europe.

In CEE, GTC Holding is active through its 43.1% holdings in Globe Trade Centre S.A. (GTC SA), one of the leading real estate developers in CEE. GTC SA is listed on the Warsaw Stock Exchange and is included in major indices, such as the WIG20, MSCI and GPR250.

The activities of GTC SA Group include the development and management of office buildings and shopping centers, and the development and sale of residential projects. GTC SA Group has vast experience in the region and is active in ten countries: Poland,

Hungary, Czech Republic, Romania, Serbia, Croatia, Slovakia, Bulgaria, Russia, and Ukraine. GTC SA's strategy is to focus on large-scale projects in prime locations.

In China, GTC Group is active through its 100% subsidiary in GTC Real Estate China Ltd. (GTC China). Since its incorporation in 2005, GTC China has entered into eight agreements for the acquisition or lease of land for mainly residential real estate development in mainly in Tier 2 and Tier 3 cities.

In seven of the projects, GTC China cooperates with local partners.

In Western Europe, GTC Holding conducts its limited activities through GTC Investments B.V.

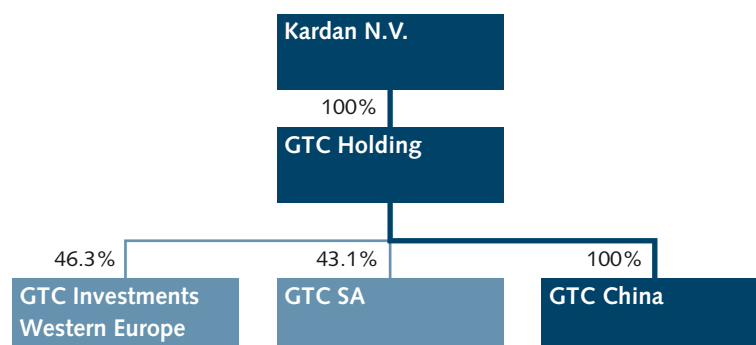
Since investment in developed countries is not part of Kardan's strategy, no new investments will be made in this region. Due to the relative small size of these operations they are not discussed any further.

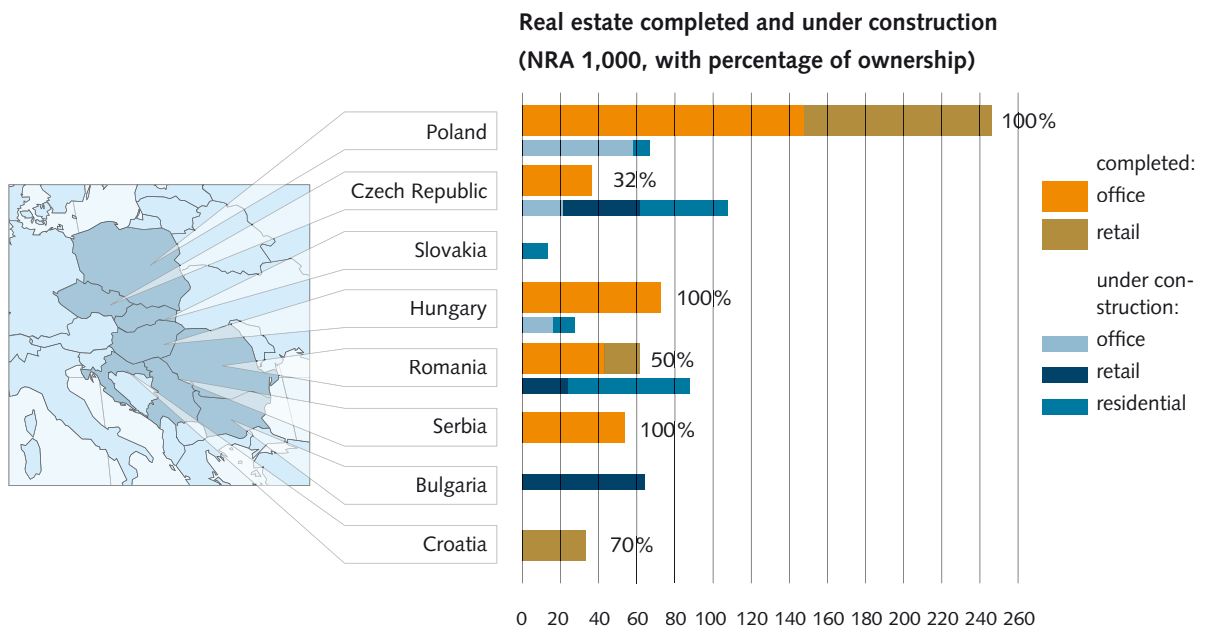
The real estate activities in Israel are conducted through Kardan Real Estate Enterprise and Development Ltd.

### Markets

#### Central and Eastern Europe

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





well developed in the CEE region and achieved positive 2009 economic growth of 1.7%. The GDP is expected to increase by another 3.0% in 2010, with the local currency (zloty) appreciating.

In the CEE real estate sector, construction and investment finance dwindled significantly, and borrowing conditions were strict and limiting. Due to the significant uncertainty in the market, asset prices were vulnerable, which resulted in investors and tenants alike postponing decision making.

In the office market, H2 2009 saw increased tenant activity. In Q4 2009, rental rates continued to be depressed, 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 onwards.

The retail market also experienced a weakening of local currencies, and a slowdown in retail sales 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, though a recovery is forecasted for 2011.

## China

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

China's growth accelerated to 10.7% in Q4 2009, the fastest pace since 2007, resulting in 8.7% of growth for 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.

The strong GDP growth, rapid urbanization in Tier 2 and Tier 3 cities (where GTC China 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 centers 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 restrict inflation after banks already extended 19% of 2010's lending targets just in January, and property prices climbed the highest in 21 months.

The government's key concern is average sales price of housing, not high transaction volume. Analysts generally 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 the 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 a significant short- and mid-term, but they are not key drivers for long-term growth.

## Development of Group companies

### GTC RE Holding

#### General

GTC Holding is the holding company of the division. Due to the nature of a holding company, the main activity is the management of the investments in the shares of GTC SA, GTC China and GTC Investments and the financing of these investments.

#### Portfolio

In September 2009, GTC Holding sold 3.1% of the shares of GTC SA. Through the sale, GTC Holding strengthened its financial position in order to be able to benefit from possible investment opportunities.

### Main financial developments

Next to the finance expenses related to the funding of the investments, the main result of the company is a capital gain amounting to EUR 4 million from the sale of 3% of the holding in GTC SA.

#### Funding

The net debt of GTC Holding as per December 31, 2009 is EUR 154 million (December 31, 2008: EUR 48 million). The increase of the net debt with approximately EUR 106 million is due to long-term bank credit. As per December 31, 2009, the company complies with the debt covenants, and the lenders to GTC Holding do not have recourse to Kardan N.V.

For further, information reference is made to note 34 of the Consolidated IFRS Financial Statements.

### GTC SA

#### General

GTC SA 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% in 2010-2011, compared to the volume as at December 31, 2009. The company is moderately leveraged, with a 54% long-term debt to total asset ratio, while 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.

#### Portfolio

In the CEE/CIS countries, the portfolio of yielding properties (Office and Retail) consists of 29 properties with a total Net Rentable Area of 505,000 sqm (GTC SA share is 455,000 sqm). In 2009, a total of approximately 115,000 sqm was completed and added to the existing portfolio of yielding properties. The

new completions include office buildings in Cracow and Warsaw (Poland) and Bucharest (Romania), and a shopping mall in Czestochowa (Poland). Between 80% and 95% of these properties are let to reputable international and local tenants. The portfolio as of December 31, 2009 can be detailed as follows:

Country	No. of properties	Area (sqm)	Rental revenues in 2009 (in EUR millions)	Occupancy	Original cost (in EUR millions)	Project value in financial statements (in EUR)	NOI <sup>1</sup> (in EUR) millions	Average monthly income per sqm (in EUR)	
								2009	2008
Poland	16	246,430	43.2	97%	465.4	808.0	45.6	21.0	21.0
Romania	4	61,500	0.5	78%	156.9	197.5	(2.2)	18.6	15.8
Hungary	3	72,829	8.4	29%-98%	93.4	148.7	8.2	14.6	13.6
Serbia	3	53,900	8.3	89%	84.5	127.2	7.9	16.8	18.0
Croatia	1	33,500	13.6	100%	77.0	176.3	13.6	31.2	28.1
<b>Total</b>	<b>27</b>	<b>468,159</b>	<b>74.0</b>	<b>–</b>	<b>877.2</b>	<b>1,457.7</b>	<b>73.1</b>	<b>–</b>	<b>–</b>
<b>Associates</b>									
Czech Republic	2	36,604	1.7 <sup>2</sup>	80% <sup>2</sup>	25.1	33.9	1.5 <sup>2</sup>	21.5	7.0

<sup>1</sup> Net Operating Income from renting buildings (NOI) is one of the most important parameters in the valuation of yielding properties

<sup>2</sup> The data represents one asset only, since the construction of the second asset was completed in December 2009

The pipeline of portfolio projects under development includes approximately 1.4 million sqm of net office, and retail space (GTC SA share is 1.2 million sqm). As of December 31, 2008, it stood at 1.6 million sqm (GTC SA share is 1.1 million sqm). For 11 projects (0.3 million sqm; GTC SA share (0.3 million)), construction has started and 31 projects (1 million sqm) are in the planning stage. The commercial projects under construction are in the following countries:

Country	Number of projects	NRA <sup>1</sup> (sqm)	Pre-lease (sqm)	Average price per sqm per month
Poland	2	57,800	–	–
Bulgaria	3	99,735	34,000	14.3
Croatia	1	26,000	6,100	15.5
Hungary	1	15,000	15,800	12.0
Romania	1	24,000	4,700	12.7
Slovakia	1	11,500	–	–
<b>Subtotal</b>	<b>9</b>	<b>234,035</b>	<b>60,600</b>	
Czech Republic (Associate 32%)	2	62,000	32,000	23.2
<b>Total</b>	<b>11</b>	<b>296,035</b>	<b>92,600</b>	

<sup>1</sup> Net Rentable Area

In the residential sector, 5 projects are under construction in Poland, Romania, Hungary, Slovakia and Serbia comprising approximately 1,718 units (146,000 sqm), of which 1,016 have been sold and 99 are in inventory. GTC SA's share in the projects under construction is approximately 70,500 sqm.

### Competition

As of the date of the report, following the global economic crisis, there has been a significant decrease in the number of companies and developers competing in the field of yielding properties, as well as a significant decrease in the number of projects competing in each city in which GTC SA Group operates. If in the years preceding the global economic crisis, competition focused on the search for land for development, construction and rental purposes, as of the reporting date, the competition is primarily focused

on securing bank financing at conditions suitable to projects under construction and contractual arrangements with tenants. Nevertheless, in 2009, despite the aftermath of the global economic crisis, GTC SA Group continued raising financial sources for its projects and has managed to enter into agreements for the rental of office and commercial space that may generate high occupancy rates in the yielding properties developed by GTC SA Group.

GTC SA Group deals with the competition, among others, by maintaining high standards of construction, meeting the deadlines of projects, undertakes, and offering high-quality service after the completion of the project. International corporations, which in the past entered into agreements with GTC SA Group in certain countries, sometimes continue to cooperate with GTC SA Group in other countries because of the advantages offered by GTC SA Group. Additionally, the reputation gained by GTC SA Group allows it to expand to other countries, and to market its projects to larger lessees and anchor tenants. GTC SA Group believes itself to be a leader in the field of yielding properties in Central-Eastern Europe.

#### Main financial developments

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 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 Group wrote off EUR 172 million of completed assets, investment properties under construction, and inventory including land. For the completed assets and assets under construction valued at fair value, yield expansion caused 26% of the

losses, and a decrease in estimated future rental rates (ERV) 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 Group's investment property are:

	Poland		Other countries	
	2009	2008	2009	2008
Completed property	7.5%	6.9%	8.2%	7.7%
Property under construction	N/A	7.9%	9.3%	8.1%

In two projects, one in Bulgaria and the office project in Romania completed in 2009, GTC SA Group managed to increase its stake by purchasing the share of its partners, requiring an investment of EUR 12 million.

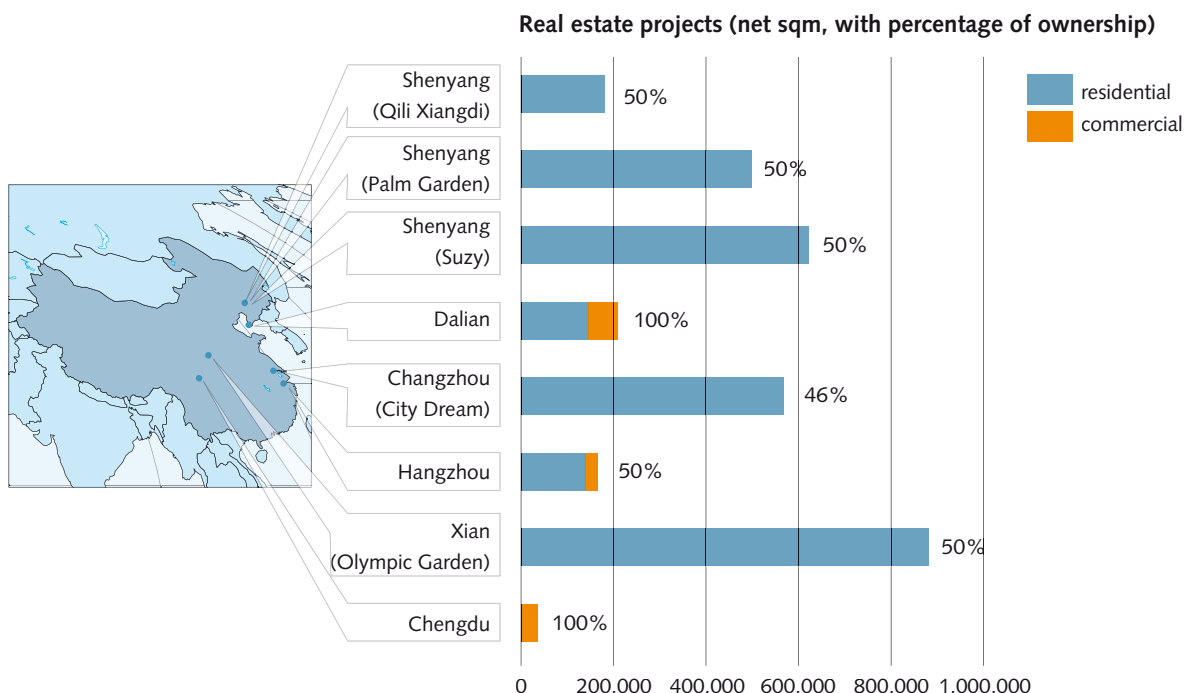
As of December 31, 2009, GTC SA Group holds a total amount of EUR 215 million in cash and deposits.

The total assets of GTC SA Group as per December 31, 2009 amount to EUR 2.6 billion (December 31, 2008: EUR 2.6 billion).

Due to continued development activities total assets increased. On the other hand, negative revaluations of yielding properties and the sale of inventory led to a decrease of assets.

#### Funding

GTC SA Group typically undertakes in its financing agreements with banks to meet certain financial covenants prescribed in those agreements. The main criteria are: maintaining a certain balance in bank



accounts; a certain ratio between the loan and the value of the project; a certain ratio between the net rental income from the financed project and the amounts of various expenses, such as interest and commission; maintaining certain ratios between the net rental income from the financed project and the principal interest under the loan that the company is required to pay during one quarter. In the terms of its debentures, GTC SA Group has undertaken, inter alia, that its aggregate loans will not, at any time, exceed 70% of the total assets.

The bank credit which GTC SA Group received for the construction of its projects is secured in most cases by fixed and variable collateral in favor of the lending bank, on the land, the project, the buildings for rent, the estimated income from projects, the inventory, and on insurance rights. In some cases, the shares and limited deposits of the company executing the project are pledged to the financing bank.

As of December 31, 2009, the balance of liabilities of GTC SA Group, which are secured by such collateral, amounted to approximately EUR 845 million.

For further information, reference is made to note 34 of the Consolidated IFRS Financial Statements.

## GTC China

### Portfolio

The various residential development projects in China for which construction has started, comprise approximately 25,450 apartments (2.72 million sqm). As of December 31, 2009, approximately 8,850 units were either completed or under construction, of which approximately 7,800 have been sold. Start of construction of new apartments depends on demand. These figures relate to 100% of the projects. The share of GTC China is less (see graph above).

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 of 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 addition, construction work for a shopping mall in Chengdu (50,000 sqm including parking) has begun in December 2008. Opening of the shopping mall is expected in Q4 of 2010.

### **Competition**

The real estate market in China is a decentralized market, where hundreds of large real estate companies operate, led by local mega companies that specialize in the construction of residential housing (e.g., Vanke, SOHO, Gemdale and Forte), followed by companies from Hong Kong and Singapore (e.g., CapitaLand, CR Land and Swire), which operate mainly in the fields of commercial real estate and luxury residential housing in Tier 1 and Tier 2 cities. In addition, numerous local companies operate primarily in the provinces of China. Following the accelerated development of the commercial real estate market in Tier 1 cities, many companies are expanding their operations to Tier 2 and Tier 3 cities, resulting in higher prices for commercial and residential land in these regions. GTC China has been developing projects in Tier 2 and Tier 3 cities since 2005 and has an organizational infrastructure and connections with service suppliers and government agencies, which help the company to expand its operations in the cities in which it operates. GTC China intends to expand its operations to other cities and regions in which the local government encourages foreign investment, to avoid high land prices. GTC Holding cannot estimate the share of GTC China in the Chinese real estate market.

### **Main financial developments**

The revenues from the delivery of apartments in 2009 amounted to EUR 44 million, a significant increase compared to 2008 when revenue was EUR 18 million. The gross margin increased from EUR 5 million in 2008 to EUR 12 million in 2009. In both years this represents 28% of total revenue.

Total assets of GTC China increased from EUR 194 million as per December 31, 2008 to EUR 249 million as per December 31, 2009. The majority of the increase is attributable to completed residential properties and

properties under construction (+EUR 24 million to EUR 171 million as per December 31, 2009) and investment properties under construction (+EUR 20 million to EUR 50 million as per December 31, 2009).

### **Funding**

Bank financing for residential real estate projects does not exist in China, and therefore all Chinese projects are funded through loans from GTC Holding, shareholder equity, supplier credit, advance payments from apartments buyers, and the pledge of land to secure loans from banks. In addition, payment for the land is made, in certain cases, in installments, so that occasionally it is possible to finance some of these payments through revenues from sales. The total equity and loans provided to GTC China for the projects in China amounted, as of December 31, 2009, to approximately EUR 146 million, and as of the date of the report to approximately EUR 110 million. Advances received from buyers amounted to EUR 57 million as of December 31, 2009.

In August 2009, GTC China entered into a loan agreement with the Chinese Construction Bank, pursuant to which a 10-year loan (non-recourse) of approximately RMB 245 million (approximately EUR 24.1 million) at a fixed interest rate of 5.94% was granted to GTC China. This loan is the first of its kind to be extended to a commercial project in the city of Chengdu. As of December 31, 2009, the balance of the loan to GTC China totaled Euro 17.2 million, and it is secured by a charge over some of GTC China's rights in the property.

## 2010 outlook

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 on these expectations, management believes the operating profits before revaluation and after finance expenses, and after taxation of the Real Estate activities, should be positive.

As a result of the current environment, it is not expected that the number of employees will increase. GTC SA Group expects to spend between EUR 200 and 300 million for current projects under construction and new projects in 2010 and 2011. In China, the amount to be spent on current projects depends upon the demand. No new investments will be made in Western Europe.





## Galleria Chengdu, China

Shopping centre  
50,000 sqm

Galleria Chengdu is GTC's first shopping centre in China, launching the brand name Galleria in the country. Galleria will set a new standard for shoppers and retailers in south-west China, and include the first stores in the region for several leading international brands.

## City Gate, Romania

Office buildings, 44,000 sqm

City Gate is an office complex located in a prestigious business district of Bucharest in front of the Romanian Exhibition Centre as well as on the main traffic route from the Bucharest International Airport. The project has been honoured both as the best office development as well as the best building project in general put into use last year in the CEE region (CEE Real Estate Quality Awards 2009).





### Galleria Dalian, China

Shopping and entertainment complex,  
towers for residential and commercial use  
200,000 sqm

Galleria Dalian is a mixed-use project, located in the East Port area of Zhongshan district, an extension of the city's established central business district. Construction is expected to conclude in 2013.

### Galeria Jurajska, Poland

Shopping centre, 49,000 sqm

Galeria Jurajska in Czestochowa is the third shopping mall completed by GTC in Poland and the biggest modern facility of this type in the region. The investment is adjacent to Poland's main north-south highway and has excellent access to public transit. Galeria Jurajska was recognized by the Construction & Investment Journal as the Best Shopping Center Development 2009.







### Sovcombank, Russia

Sovcombank is a growing regional bank with a strong federal presence, focusing on retail and SME clients.

The network of Sovcombank consists of 123 branches and offices, 562 points of sale, 69 ATMs, and 280 automatic cash-in machines.

### VAB Bank, Ukraine

VAB Bank focuses on retail, SME and corporate clients. It has an extensive network covering all regions and major industrial centers in the Ukraine.

The network of VAB Bank consists of 144 branches and offices, 7 outlets for it leasing services, and 256 ATMs.



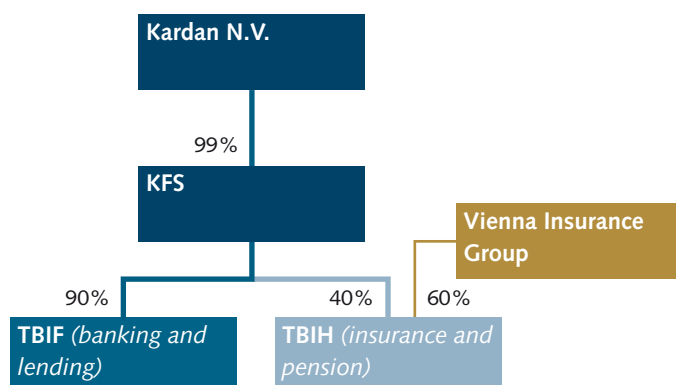
## Financial Services Division

### General

The strategy of Kardan Financial Services B.V. (KFS) is based on seizing early business opportunities and establishing a platform for building banking, lending, insurance, and pension activities in emerging markets. Currently, all activities are concentrated in CEE/CIS countries.

Kardan operates in the financial services sector through its 99% (December 31, 2008: 80%) holding in KFS Management owns the remaining part of the shares. In January, May, and July 2009, minority shareholders exercised their right to sell approximately 7% of the shares to Kardan N.V. The total consideration was EUR 17.2 million. In March 2009, Kardan extended its stake in KFS through the acquisition of the 11% stake of Discount Bank. The purchase price amounted to EUR 38.5 million, out of which EUR 8.5 million is payable in March 2016. The acquisition underlines Kardan's belief in the future growth of the financial services industry in CEE/CIS countries.

KFS holds an approximately 90% interest in TBIF Financial Services B.V. (TBIF), a sub-holding company for Kardan's banking and lending businesses. The remainder is held by the management.



KFS also owns 40% of TBIH Financial Services Group N.V. (TBIH), the holding company for insurance and pension activities. TBIH is jointly controlled by KFS and Vienna Insurance Group (VIG). VIG, the leading Austrian insurance company, which is widely active in CEE and CIS, holds 60% (December 2008: 60%). KFS has a put option to sell its share in TBIH to VIG. The option can be exercised as of 2011.

### Banking, lending and asset management (TBIF Group)

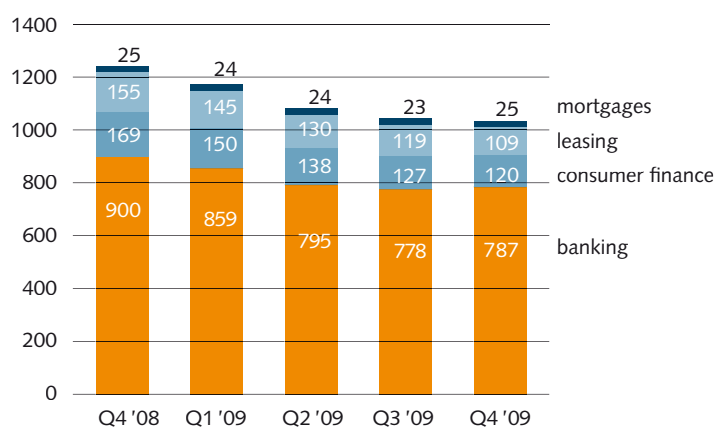
TBIF Group is active in the field of banking, consumer finance, leasing, mortgages, and asset management in Russia, Ukraine, Romania, and Bulgaria.

In Russia, TBIF is active through its 66% (December 31, 2008: 61%) stake in Sovcombank, a retail bank specializing in the origination of consumer loans. The bank has a nationwide network with 685 (December 31, 2008: 875) branches and outlets throughout Russia, focusing on the regional part of Russia. Furthermore, TBIF provides consumer credit to individuals to purchase consumer goods in retail outlets in Romania and Bulgaria.

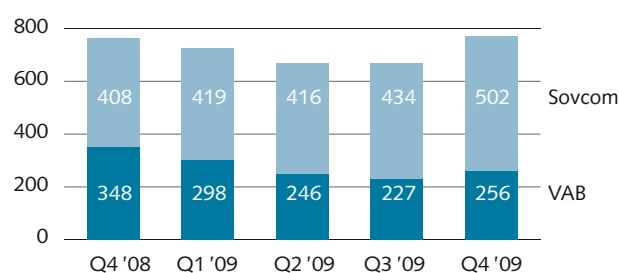
Subsequent to the balance sheet date, in April 2010, TBIF received a notice from the 31% co-shareholder in the Sovcombank, expressing its intention to exercise a call option to buy 19% of the shares in Sovcombank from TBIF. As a result of expressing this intention, according to the call option conditions, the co-shareholder now has the right to pay and exercise the option until September 3, 2010; the option does not define any penalty if the co-shareholder is not succeeding to fulfill these terms. The transaction is also subject to several conditions precedent, among others the approval of the regulatory authorities and the funding of the acquisition by the option holder.

If the option will be exercised, the cash consideration from the sale of the shares is expected amount to

### TBIF Group portfolio trends (€ millions)



### TBIF Group deposit trends (€ millions)



approximately EUR 39 million. The final purchase price will be determined upon closing.

In the Ukraine, TBIF is active through its 63% shareholding in VAB Bank. In 2009, TBIF increased its stake from 49% to 63% by way of conversion of subordinated debt amounting to EUR 12.5 million. In 2010, both the anti-trust authorities and the National Bank of Ukraine approved this increase. In January 2010, TBIF signed a framework agreement with the other main shareholder to further increase the stake to 98% for a consideration of approximately EUR 24 million. This transaction is subject to several conditions precedent which have to be fulfilled according to the satisfaction of TBIF management and receipt of regulatory approvals. The increase would offer VAB Bank greater flexibility in its corporate strategy and capital structure, allowing for new synergies with large financial institutions in a country that still has very little bank penetration. The bank, which is active in the corporate, retail, and SME sectors, focuses on developing retail services through its 144 (December 31, 2008:169) branches.

The TBIF Group also extends credit under leasing arrangements (financial leases and operational leases), mostly for vehicles and equipment. Activities in the leasing field are carried out predominantly in Romania and Bulgaria, and are in the early stages of development in Russia and the Ukraine.

TBIF Group is active in providing mortgages in Bulgaria via a non-banking vehicle, and in the Ukraine and Russia through VAB Bank and Sovcombank, respectively.

TBIF Group is active in the asset management market in Bulgaria and supplies services to the pension funds and insurance companies of TBIF Group, as well as to third parties. Services include institutional asset management, asset management for high net worth individuals, management of mutual funds, and brokerage.

## Insurance and pension activities (TBIH Group)

### Insurance

TBIH Group is active in the fields of general and life insurance in the following markets:

- Turkey – through a 84% stake in Ray Sigorta A.S. (December 31, 2008: 74%), active in the non-life sector, with a 2.4% market share. In September 2009, TBIH increased its holding by 10% for a consideration of EUR 13.9 million.
- Ukraine – through 100% (December 31, 2008: 62%) stakes in Ukrainska Strakhova Grupa (UIG) and VAB Insurance, active in the non-life and life-sector, with a combined 5.5% market share. In December 2009, the minority shareholder exercised its option right to sell 38% of the share capital to TBIH N.V. for a consideration of approximately EUR 10 million.
- Georgia: GPIH and IRAO, leading insurers, providing general, life, and health insurance with a combined 34% market share.

In December 2008, TBIH disposed of its insurance operations in Bulgaria, Croatia, Albania (including Macedonia and Kosovo) to VIG and in Russia to a third party. The proceeds from the transaction with VIG disposal amounted to approx. EUR 200 million, of which EUR 100 million were used to repay shareholders' loans to VIG. Part of the transaction was completed in 2008 and the remainder in 2009, upon receipt of the regulatory approvals.

In September 2009, TBIH sold its 50% stake in Omniasig Life SA, a life insurance company in Romania, for a consideration of EUR 1.2 million.

### Pension

In addition to insurance, TBIH Group is active in the field of pension funds. The main operation in this field is in Bulgaria. TBIH Group is also active in Croatia, Georgia, Russia, and the Ukraine. The Romanian activity was sold to a subsidiary of the Austrian Erste Bank.

In Bulgaria, TBIH holds a controlling interest in Pension Assurance Company Doverie AD (Doverie), which manages mandatory and voluntary pension funds in Bulgaria, with EUR 542 million assets under management. Doverie is the largest pension fund in Bulgaria and has a market share of approximately 33%. All of the TBIH Group pension companies are defined contribution funds in which members' pension payments are based on savings deposited and any returns accumulated on that amount prior to the pension being taken.

## Markets

### TBIF Group

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

### Russia

After a 2009 decline of 7.9%, GDP in 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 ruble, 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, private banks are likely to resume lending in H2 2010 and into 2011. At the same time, government pressure on state banks to boost lending is likely to be maintained in exchange for funding from the 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 rubles have been growing since February 2009. Monthly corporate deposits growth have been nearly flat or positive since May 2009, suggesting cash reserves of the companies have stopped bleeding.

### **Ukraine**

The Ukraine's political instability peaked with February 2010 run-off election of President Viktor Yanukovich, which overshadowed the 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 on the economy will depend heavily on political developments.

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 companies. 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 the 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 TBIF Group 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 was 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 were the main causes of the contraction of the GDP in 2009 and continue 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 Q4 2009).

### **TBIH Group**

#### **Insurance**

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



The insurance penetration rate in Eastern Europe is substantially lower than the insurance penetration rate in the West (Europe and the U.S.A.). The insurance penetration rate in CEE countries ranges between 1.2% and 6.4%, as opposed to Western countries, where the insurance penetration rate ranges between 2.7% to 13.8%. The low insurance penetration rate stems from, inter alia, a culture of business and consumption whose origins are in the communist regime, where there was central management of insurance, and disposable income was meager. Many residents in Eastern Europe still consider insurance a luxury, and product consumption is often carried out due to legal requisite.

Following are the insurance market trends in Eastern Europe:

- Consolidation in the insurance branch – and, in certain instances, the disappearance of small, local companies.
- In the years that preceded the period of the global crisis, the insurance market in Eastern Europe was characterized by the following trends: continuing improvement of the macroeconomic situation, which resulted in an increase in disposable income and consumption of insurance products, with a change in consumer conception regarding the advantages of insurance; an increase in awareness of property insurance due to the development of the real estate sector and the purchase of new properties by the public, at times by means of mortgages. These trends slowed down in 2008 and 2009.
- Changes in legislation that turn insurance into a mandatory insurance for products such as cars, independent professions, and construction.
- Increase in awareness of voluntary insurance due to exposure to mandatory insurance products.

#### Pension

At the beginning of the 1990s, the economies of Eastern European countries that were part of the former communist bloc underwent significant change in their pension structures. The pension reforms in these countries provide an answer for the sparse

national insurance deposit base (due to the aging of the population), which constitutes a source for the guaranteed income of retirees and the difficulty the governmental pension system faces in trying to meet future pension obligations. The reforms instated in Eastern Europe reflect the neglect of national insurance as an only source for pension funds and a transition to systems that include two additional levels of pension:

- **Mandatory Pension** – A pension structure that obligates every employer to allocate money to private funds on behalf of his employees.
- **Voluntary Pension** – A pension structure that allows members and their employers to deposit money in private funds.

### Development group companies

#### KFS

##### General

KFS is the holding company of the financial division. Due to its nature, the main activity is the management of the investments in the shares of TBIF and TBIH, and the financing of these investments.

##### Portfolio

No significant changes took place, although it has to be noted that KFS converted some of the shareholder's loans to TBIF into an equity investment for an amount of EUR 10 million.

##### Main financial developments

Due to the decrease of the fair market value of the investment in TBIH, KFS recorded a fair value gain of EUR 13 million (2008: EUR 30 million) on the put option it holds to sell its investment in TBIH to the partner in TBIH (VIG).

##### Funding

The net debt of KFS as per December 31, 2009 is EUR 107 million (December 31, 2008: EUR 89 million). The increase of the net debt by EUR 18 million is due to, among others things, to the conversion of a Shareholder's loan to TBIF into equity (EUR 10 million).

As per December 31, 2009, the company complies with the debt covenants.

Lenders to KFS B.V. have recourse to Kardan in the amount of EUR 50 million. This guarantee expires in 2019. In addition, Kardan N.V. issued another guarantee to a lender of KFS in the amount of EUR 50 million, only exercisable in case the put option KFS holds to sell its investment of 40% in TBIH to the partner proves unenforceable.

For further information, reference is made to note 34 of the Consolidated IFRS Financial Statements.

### **TBIF Group** **Portfolio**

#### **Sovcombank**

As a result of the macroeconomic developments described above and due to the high liquidity position of Sovcombank, the loan portfolio in Q4 2009 increased by 11.6% QoQ (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 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.

The net growth of deposits during the year amounted to EUR 94 million (22.8%), bringing the balance to EUR 502 million. The retail deposits account for 78% of the total (December 31, 2008: 74%). The majority of the total increase of deposits was realized in Q4 2009 (EUR 67 million). This demonstrates the growing

confidence in the economy overall and of depositors in Sovcombank 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.

#### **VAB Bank**

In the 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). 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.

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%.

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 macroeconomic and political environment in the 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 euros decreased by approximately 4%.

To overcome the threatening liquidity shortage at the end of 2008, VAB Bank 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.

Despite the deteriorating economy, Kardan is confident regarding the developments in the mid-to-long term.

## Competition

### Banking

The primary competitors in the banking segment in CEE/CIS are international banks (primarily European), which purchased banking operations in Russia and the Ukraine, and local banks that have not yet changed ownership to international entities. The comparison of Russian and Ukrainian markets to other banking markets in Eastern Europe points to a relatively low rate (less than 50%) of international ownership, as opposed to higher rates (approximately 80% and higher) in other Eastern European countries. In Russia and the Ukraine, approximately 11% and 41%, respectively, of the entire bank assets are internationally owned. By contrast, in Bulgaria and Romania, approximately 90% and 88%, respectively, of such assets are internationally owned. Should the Russian and Ukrainian markets continue to develop in accordance with the market development trend in Central-Eastern Europe, the estimate is that in the long term, the number of international entities will rise and the process of consolidation between large banks will increase. In the short and medium term, which is materially affected by the implications of the global economic crisis, market consolidation is expected, which will enable banks to integrate their activity and, consequently, to benefit from the economies of scale and streamlining. In addition, in light of the trend of nationalizing banks with solvency problems, it is expected that the number of banks held by local entities (including governments) will increase.

### Retail leasing and financing

The primary competitors in this segment are bank-related entities (or bank subsidiaries) and non-bank entities in the various countries. The advantage of bank-related entities is generally the competitive interest rates. The advantage of non-bank entities is the quality of service and presence in the actual points of sale.

### Asset management

The competitors in the asset management segment are primarily local entities (Bulgaria). In Bulgaria, the market has yet to develop to the extent that it will attract the activity of many big international entities.

## Main financial developments

### General

The results of TBIF Group consist of the contribution of each of the operating companies and the results of the holding companies attributable to this sector (KFS, TBIF and TBIH). In the elaboration below, unless stated differently, the amounts mentioned are 100% related to the companies' results.

### Holding companies

For the results of the holding companies attributable to Kardan, reference is made to the chapter 'Financial Developments'.

### Operating companies

The main financial information 2009 and 2008 of the operating companies is depicted below:

2009		Unit Sovcombank	VAB Bank**	TBI Bulgaria	TBI Romania
Holding		[%]	66%	49%	100%
Revenues (100%)*		[EUR mn]	131.8	41.9	22.0
Net profit / loss (100%)		[EUR mn]	(1.8)	(34.1)	(1.0)
Equity (100%)		[EUR mn]	71.1	33.5	3.1
Solvency		[%]	9%	6%	10%
Credit portfolio (100%)		[EUR mn]	332.0	455.3	113.1
Provisions		[%]	13%	15%	7%
Book value in TBIF (equity and loans)		[EUR mn]	74.4	41.6	45.6

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

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

2008		Unit Sovcombank	VAB Bank **	TBIF Bulgaria	TBI Romania
Holding		[%]	63.5%	49%	100%
Revenues (100%)		[EUR mn]	82.3	70.9	21.5
Net profit / loss (100%) *		[EUR mn]	-17.9	-9.1	1.5
Equity (100%)		[EUR mn]	61.9	69.2	13
Solvency		[%]	10%	10%	9%
Credit portfolio (100%)		[EUR mn]	360.9	538.7	142.5
Provisions		[%]	11%	6%	2%
Book value in TBIF (equity and loans)		[EUR mn]	64.1	64.2	52.4

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

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

The figures in the tables illustrate that the loan portfolio as per December 31, 2009 decreased significantly compared to December 31, 2008. This was due to the deteriorating quality of the portfolio caused by the impact of the economical developments in the countries of activity. Reference is also made to the 'Markets' paragraph.

In Russia, significant loan losses on the credit portfolio were compensated to a large extent by fair value gains on investments in bonds. Due to the relatively low level of lending in the first nine months as a result of management's decision to adopt a stricter underwriting policy and lower demand, the liquidity of Sovcombank expanded significantly. Management decided to invest (part of) the liquidity in highly rated bonds.

The total consolidated assets of TBIF Group as per December 31, 2009, amount to EUR 1.4 billion (December 31, 2008: EUR 1.4 billion). The decrease of the total loan portfolio by approximately 20% compared to December 31, 2008, was compensated by investments in bonds mainly in Russia.

#### **Funding**

In addition to deposit taking by Sovcombank and VAB Bank, operations of TBIF and subsidiaries are financed by means of shareholder's loans extended by KFS and loans from banks and other corporations extended primarily to subsidiaries of TBIF.

As of December 31, 2009, TBIF subsidiaries did not meet covenants on loans amounting to EUR 19 million. Waivers have been received.

For further information, reference is made to note 34 of the Consolidated IFRS Financial Statements.

## TBIH Group

### Portfolio

#### Insurance

The size of the insurance portfolio can be measured best by the premium volume, whereas the market shares give an idea of the importance of the activity (the figures in the table exclude the premium attributable to the companies sold in 2008 and 2009):

	Turkey	Ukraine	Georgia	Total
Premiums 2009 (EUR millions)	113.9	39.9	44.1	197.9
Premiums 2008 (EUR millions)	140.3	54.6	28.8	223.7
Increase (%)	(8)	(27)	77	(7)
Market share 2009 (%)	2	6	33	

The decrease of premiums in 2009 in Turkey and the Ukraine mainly stems from the weakening of local currencies (Turkey –13% and the Ukraine – 37%). The increase in Georgia is due to an increase in the health insurance activity as a result of new governmental regulations and an increase of the investment by TBIH in one the (two) Georgian companies, from 50% to 100% as of June 30, 2009.

#### Pension

The size of the pension portfolio of the companies owned by TBIH as of December 31, 2009 is demonstrated by the members and assets under management of the activities in the respective countries.

	Members		Assets under management (€ in millions)		Market share (%)
	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2009
Bulgaria	1,291.3	1,289.3	541.9	393.0	33
Ukraine	136.5	136.7	1.9	2.0	4
Croatia	233.9	226.8	527.7	398.3	15
Others	9.3	10.0	0.9	1.0	
Total	1,671.0	1,662.5	1,072.4	794.3	

The number of members as per December 31, 2009 hardly changed compared to the previous year-end. Due to receipt of pension premiums from the members, the assets under management increased significantly in all countries.

## Competition

### Insurance

The majority of competitors in the CEE markets, as well as in Turkey, are international entities that acquired shares of the local insurance companies during recent years, while a significant number of locally-owned companies still exist in Ukraine. In some countries, the government still has a controlling block in insurance companies.

The tendency towards international ownership in these markets is motivated primarily by the need for knowledge, expertise, and strong brands in developing markets; the need for consolidation in countries with numerous small bodies and by increasingly stringent regulatory requirements, including with respect to minimum capital, with the aim of creating security and stability for the market and its clients. Apart from that, international parties are interested in investing in the aforementioned markets due to their inherent growth potential.

### Pension

The competition in the pension fund activity in CEE is with local bodies and primarily with local companies owned by international bodies. Eminent bodies in the pension markets are financial institutions such as insurance companies and banks, as well as trade unions and other influential local organizations. The competition revolves around enlisting new members, as a result of the pension reforms implemented in the various countries. The process of enlisting new members to the pension funds against the background of the pension reforms is a process requiring significant investment, a fact which gives international entities an advantage over local entities. In addition, funds' relations with employers are also very important for the purpose of enlisting their employees as members.

In a more mature and stable market, following implementation of the pension reforms, the movement of members between the pension funds is less significant, and the primary aspect of competition is in consolidating existing businesses, as well as streamlining.

## Main financial developments

### General

The results of the insurance and pension segments consist of the contribution of each of the operating companies and the results of the holding companies attributable to this sector (TBIH/KFS/Kardan). In the elaboration below, unless stated differently, the amounts mentioned correspond to 100% of the companies result.

### Holding companies

In 2009 and in 2008, the holding company TBIH made a significant gain on the sale of insurance activities in Bulgaria, Albania, Kosovo, Macedonia, and Croatia to the partner in TBIH, the Vienna Insurance Group. The sale agreement was signed in December 2008. Closing of the transaction was partly in 2008 and partly in 2009. In 2008, also the activities in Russia were sold. The capital gain on transactions realized in the years 2009 and 2008 amounted to respectively EUR 55 million and EUR 38 million. In September 2009, TBIH closed the sale of life insurance activities in Romania. TBIH recorded a capital gain amounting to approximately EUR 11 million.

In 2009 and 2008, the holding companies recorded fair value profits amounting to respectively EUR 13 million and EUR 30 million relating to the value of a put option to sell the 40% holding in TBIH to the partner (contribution to Kardan N.V.).

At year end 2009 and 2008, the fair value of the investments in the operating companies was determined by external appraisers. Due to the financial crisis, in 2008 an impairment loss of EUR 10 million had to be taken (contribution to Kardan N.V.).



### Insurance (operating companies)

For the development of premium income, reference is made to the 'Portfolio' paragraph.

The net profit/loss of the insurance companies owned by TBIH as of December 31, 2009, can be detailed as follows:

€ in millions	2009	2008
Turkey	(8.1)	2.5
Ukraine	(4.3)	(6.2)
Georgia	3.1	1.0
Total	(9.3)	(2.7)

The loss in Turkey is attributable to a lower premium due to severe price competition and declining demand.

### Pension (operating companies)

For the development of the assets under management, reference is made to the 'Portfolio' paragraph.

The net profit/loss of the pension companies is :

€ in millions	2009	2008
Bulgaria	3.8	3.7
Ukraine	(0.2)	(1.9)
Croatia	1.6	(0.8)
Others	–	(0.1)
Total	5.2	2.5

The improvement of the results in each of the countries is due to the increase of the assets under management as the revenues of the pension activity not only relate to the return achieved on assets under management, but also to the total amount of these assets.

### Funding

TBIH Group's operations are financed by means of shareholder's loans extended by VIG.

For further information, reference is made to note 34 of the Consolidated IFRS Financial Statements.

### 2010 outlook

In the financial services sector in CEE, the general economic environment has shown signs of improvement. 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 is expected be limited.

Although the election of a new president and the formation of a new government in the Ukraine may stabilize the political environment, it is too early to conclude that the economic environment will improve as a result.

The total number of employees in 2010 is likely to decrease as a result of the adaptation of the reorganization to the effects of the financial crisis. On the other hand, if markets improve this may result in an increase of the number of employees. Except for the increase of the stake in VAB Bank (Ukraine) to 98% (reference is made to page 57) no further investments are anticipated.

After December 31, 2009, the other shareholder of Sovcombank announced its intention to exercise a call option to increase its holding in the bank. Reference is made to page 56 'Banking, lending and asset management' (TBIF Group).



### Fideco WWTP Subotica, Serbia

Client: European Agency for Reconstruction  
Design, supply and installation of electrical and mechanical equipment

TAHAL was commissioned to provide several services for rehabilitation of the wastewater treatment plant serving the city of Podgorica. These were completed with no interruption in the wastewater treatment process.

### Yaylak Plain Irrigation Project, Turkey

Client: DSI – Devlet Su Isleri  
(General Directorate of State Hydraulic Works)  
irrigation of 18,322 ha of lands

TAHAL in joint venture with Turkish firms performed design, engineering, management, construction and coordination services for the Yaylak Plain Irrigation Project, a turnkey undertaking that forms part of the Southern Anatolian Project (GAP).







## Water Distribution System Luanda, Angola

Client: Empresa Pública de Agua de Luanda  
Installation of 430 km of piping  
Installation of 140 public drinking fountains

TAHAL is engaged in the construction of a water supply system for domestic use in seven neighbourhoods in the southern part of Luanda.

## Tanggu WWTP, Tianjin, China

Client: Tanggu District  
Government  
70,000 m<sup>3</sup>/d, in two phases

Tanggu Waste Water Treatment Plant is one of the six plants in Tianjin City and Shandong Province under KWIG, an investment and operational platform of TAHAL Group in China. The Plant is currently in upgrade and expansion and will realize a capacity of 70,000 t/d with highest effluent standard in China by August 2010.



## (Water) Infrastructure Division

### General

Through Tahal Group, Kardan N.V. is active in the infrastructure business and operates as a leading international engineering company, specializing in water-related infrastructure projects and water-related asset ownership. Tahal Group has participated in the planning, development, design, construction, and management of thousands of projects in over 50 countries across five continents. Tahal Group's advanced technical resources include a staff of approximately 1,900 employees, including engineers and scientists in a wide variety of disciplines. Within the framework of restructuring the infrastructure companies, it was decided to have all project activities under one subsidiary, Tahal Group B.V. (Tahal Projects), and all assets-related activities under Tahal Group Assets B.V. (Tahal Assets). This went into effect on April 1, 2008.

Tahal Projects engages in two basic types of projects: engineering, procurement, and construction projects (EPC), and design projects. EPC projects are projects that include planning, procurement, management, and construction, as well as financing arrangements. EPC projects are usually in the field of water supply, desalination, wastewater treatment, and agriculture. Design projects include planning, design, project management, and construction supervision in a wide variety of fields, including water supply, waste and

wastewater treatment, desalination, water resource planning, solid waste management, and agricultural planning. Tahal Projects' design and EPC projects are located in Africa, Israel, Asia, Central and South America, and Eastern Europe.

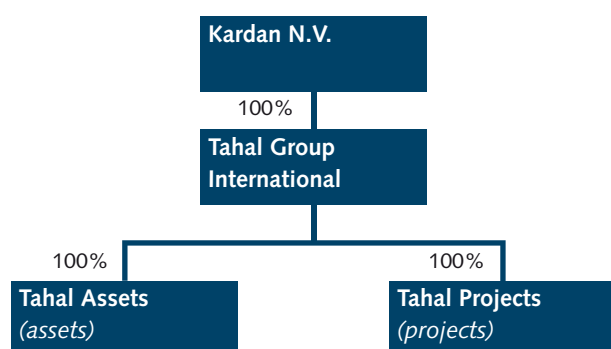
Tahal Assets invests in water-related assets such as municipal water systems, desalination plants, wastewater treatment plants, and hydropower plants. Tahal Assets is mainly operational in China via Kardan Water International Group (KWIG), Israel, and Turkey.

### Markets

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 about 8% YoY to a value of nearly EUR 350 billion. The market is expected to grow in developing countries (Tahal's regions of activity) by 10% over the next years, versus 3%-5% in developed countries. The growth is attributed to government stimulus packages worldwide, enabling many potential projects to be 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, as well as 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 the amount of the 11th Five-Year Plan (2005-2010). Competition is continually growing as new suppliers enter the market and changes in ownership to private concerns from government control increases.

## Development group companies

### Portfolio

#### Projects

After announcing the project in 2008, Tahal Projects signed an agreement in January 2010 with the government of Angola to execute a project, including, among other things, the development and construction of a water supply, and sewage and drainage system for a new rural settlement and the irrigation of farm land. Start of the development works is still subject to certain conditions precedent. The expected revenue from this project 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.

#### Assets

Tahal Assets is developing and investing in assets such as water supply systems and water treatment plants mainly in China (via KWIG), 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 20 to 30 years). In 2009, KWIG 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 has been operational since Q1 2010. In addition, KWIG won a tender in China for the acquisition of a wastewater treatment plant in Zhangjiakou with a capacity of 120,000 cubic meters per day. The transaction is expected to be closed in Q3 2010.

#### Competition

The Tahal Group operates in a competitive environment. The Tahal Group competes against international engineering and construction companies or their regional operating entities. The Tahal Group's ability to bid for and win major infrastructure development projects is dependent on its ability to show experience in executing large projects, demonstrate that it has strong engineering capabilities in executing technically complex projects, and that the

### Overview Assets KWIG

	Number of assets	Type of asset	Capacity in use (m <sup>3</sup> a day)	Full capacity	Full capacity in use	Concession ending
Tianjin	6	Industrial sewage	200,000	220,000	2010	2032
Dazhou	1	Water supply	3,000	20,000	2013	2040
		Industrial Sewage	30,000	100,000	2013	2040
	1	Sewage treatment	20,000	40,000	2013	2036
Dingzhou						
Zhangjiakou <sup>1</sup>	1	Sewage treatment	80,000	120,000	2026	2040

<sup>1</sup> In January 2010, Tahal won a tender to acquire this plant. The transaction is expected to be closed in Q3 2010.

Tahal Group has sufficient financial resources and/or ability to access funds. For many large construction contracts and infrastructure development projects, the Tahal Group may not always meet the pre-qualification criteria independently. Therefore, another key factor for the success of Tahal Group is its ability to partner and collaborate with other companies as joint venture partners or co-sponsors.

### Main financial developments

#### Projects

In 2009, revenues increased to EUR 100 million (2008: EUR 82 million), an increase of 22%. In 2009, the contribution of EPC projects to revenue increased from 59% of revenues in 2008 (EUR 48 million) to 68% in 2009 (EUR 68 million). This development is in line with the strategy of Tahal Projects to significantly increase the share of EPC activities. The growth was realized in Angola, where a project for the construction of a water distribution system with a length of approximately 400 kilometers contributed EUR 20 million to revenues in 2009 (2008: nil). Due to this project, the contribution to revenue of the Asia/Africa region increased from 42% in 2008 to 60% in 2009. The contribution of Eastern Europe and Latin America decreased from respectively 49% and 9% in 2008 to respectively 37% and 3% in 2009. Also the absolute revenue realized on these continents decreased. In

Eastern Europe, this relates to the completion of a project in St. Petersburg that generated significant revenues in 2008.

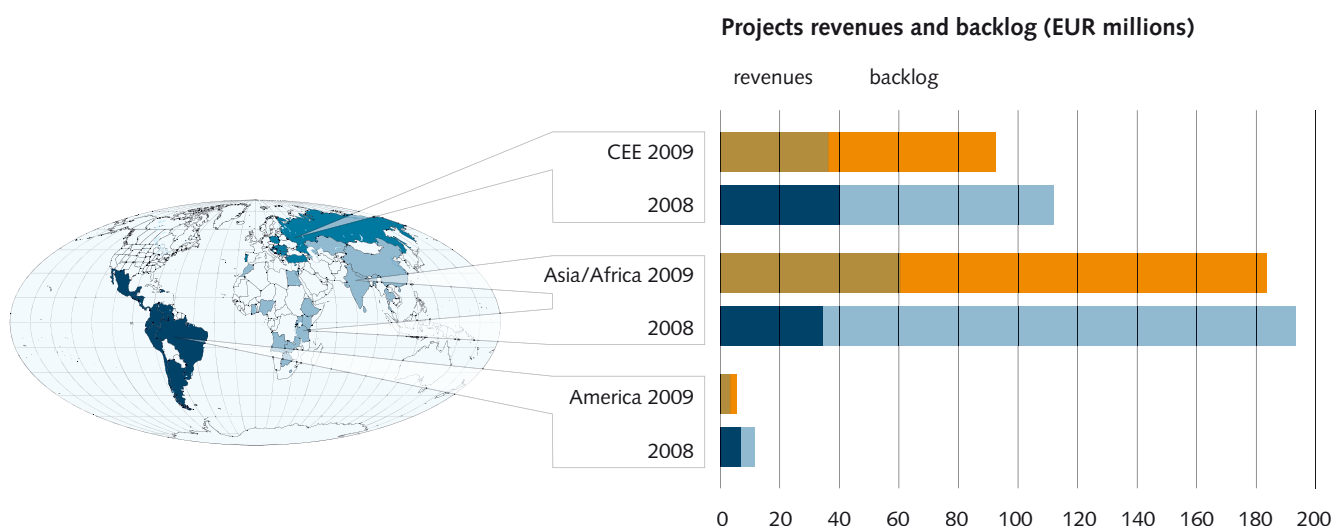
The operating profit of the sector increased to EUR 6.7 million compared to a loss of EUR 3.8 million in 2008. The significant improvement is due to the increase of revenues in 2009 and write offs on projects in 2008, among others, in Romania and Central America, amounting to EUR 7 million. The project management organization has been strengthened in response to these 2008 losses.

The total assets increased to EUR 112 million as per December 31, 2009 from EUR 99 million as per December 31, 2008. The increase is mainly caused by the increase of trade debtors due to increased revenue.

#### Assets

The assets segment noted an increase in revenues to EUR 52 million in 2009 from EUR 43 million in 2008 (+ 21%).

Of this increase, EUR 7 million was realized in China, where revenue almost doubled to EUR 15 million thanks to the development activities over the past few years. The main contribution to revenues (53% in 2009 and 60% in 2008) was made by Milgam, an Israeli company engaged in the operation and



management of municipal water networks, as well as the collection of receivables.

Operating profit in 2009 increased to almost EUR 3 million from a loss of EUR 3 million in 2008 due to increasing revenues and lower overhead expenses.

Total assets increased to EUR EUR 129 million as per December 31, 2009 from EUR 120 as per December 31, 2008 due to continued development of the Chinese activities.

### **Funding**

The total amount of consolidated debt raised from third parties according to the 2009 consolidated financial statements of Tahal Group amounts to EUR 70 million. Total cash and cash equivalents amounts to EUR 21 million as per December 31, 2009.

For further information, reference is made to note 34 of the Consolidated IFRS Financial Statements.

### **2010 outlook**

In the (Water) Infrastructure division, due to completion of wastewater 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, Tahal Group International is in the process of raising capital to an amount of approximately EUR 70 million. Although this should cause some dilution of the equity interest of Kardan N.V., the additional capital raised should allow Kardan to benefit from the many new opportunities available in the market which will ultimately result in greater value creation for our shareholders.

The investments in new projects depends upon funding made available through the capital raising.

The investment in Zhangjiakou (see page 71) is expected to be made in Q3 2010.

The total number of personnel of Tahal Group and Tahal Assets is not expected to change significantly.



## Other Businesses

### General

Kardan Israel Ltd. (Kardan Israel) is listed on the Tel Aviv Stock Exchange and operates three segments: Real Estate, Rental and Leasing of Vehicles, and Sale of Vehicles. Kardan N.V. owns almost 74% of the shares of Kardan Israel. The results and activities of the Real Estate segment are presented as part of the Real Estate division of Kardan.

In Rental and Leasing of Vehicles, Kardan Israel is active via Avis Israel, in which it has an (in)direct stake of 32.9% (December 31, 2008: 22%). Due to the increase of the holding in Avis Israel in 2009, the company is proportionally consolidated for the first time in the financial statements of 2009.

In Sale of Vehicles, Kardan Israel is holding 40.5% of UMI, the importer of General Motors and Suzuki brands, such as Chevrolet, Buick, Cadillac, Opel and Isuzu light trucks. The company not only imports and markets these vehicles, but also provides related services such as maintenance and repair, insurance and finance leasing.

### Markets

#### Rental and Leasing of Vehicles

In light of the global crisis, at the beginning of 2009 leasing companies in Israel have been facing difficulties in raising capital for new leasing transactions and therefore were forced to both reduce fleets and increase prices. 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.

#### Sale of Vehicles

Car importers have been working in a difficult market since 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 for companies to reduce inventory levels. This pressure was mitigated by an improvement in the Israeli economy and the expected increase in taxes to be

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.

### Development of activities

#### Rental and Leasing of Vehicles

##### Portfolio

The company dealing with this activity is Dan Vehicle, representing the Avis brand in Israel. The activities comprise both short-term rental as well as operating leases.

At the end of 2009, the short-term rental fleet amounted to approximately 5,750 vehicles, mainly 2008-2009 models. As of December 31, 2008, the fleet was 6,300 vehicles. Due to the financial crisis, in the first half of 2009 the demand reduced, resulting in a decrease in the fleet. In the second half of 2009, a trend of recovery was apparent and demand stabilized.

##### Competition

The market for short-term car rental in Israel is highly competitive. Dan Vehicle, together with S. Shlomo Vehicle, Eldan, Hertz and Budget, are the market leaders. Thanks to a high service level and the Avis brand name, Dan Vehicle aims to beat the competition.

In operating leasing, Dan Vehicle runs a fleet of 25,600 vehicles as of December 31, 2009 (December 31, 2008: 27,400). The reduction of this fleet is also due to the financial crisis. The total market for operating leases in Israel is approximately 190,000 vehicles. The main competitors are the same companies as mentioned for short-term leasing.

##### Main financial developments

Despite the lower fleet at year-end, the revenues of Avis Israel (Dan Vehicle) in 2009 were almost equal to the revenue in 2008 and amounted to approximately EUR 297 million. The net profit increased to EUR 12 million (2008: EUR 9.6 million), among others due to a



corporate income tax gain as a result of an adjustment to the deferred taxes following a decision of the government to reduce income taxes in future years.

#### **Funding**

The main sources of funding are bank credit and debentures, both listed and privately placed. The interest on these loans is both fixed and variable. The debentures are rated A+ by Standard and Poor's subsidiary Maalot. The ratio of total equity to total assets as of December 2009 is 20.3%, which is significantly above the minimum ratio of 15% agreed upon with eight banks. The debentures of series B and C, entitle holders to demand immediate repayment if the Maalot rating falls below BBB or if Dan Vehicle ceases to be a public company.

#### **Sale of vehicles**

##### **Portfolio**

In 2009, UMI delivered almost 14,000 vehicles, approximately 18% less than 2008, mainly due to the impact of the financial crisis on the Israeli market and its impact on General Motors, especially in the first half of 2009.

##### **Competition**

The Israeli market is highly competitive in all vehicle types (compact model, family sedan, SUV, etc.). According to management and estimates by the Importer Association, UMI was ranked fifth in 2009 with a market share of approximately 7.8%.

##### **Main financial developments**

The total revenues of UMI in 2009 declined compared to 2008. In sales of vehicles, the revenue decreased by 20% from EUR 342 million in 2008 to EUR 273 million in 2009. The decrease is in line with the decrease in the number of vehicles sold in 2009 compared to 2008. In the other departments (such as repair and maintenance, insurance and finance leasing), the

revenue decreased as well: from EUR 95 million in 2008 to EUR 86 million in 2009.

The net profit decreased by 33% from approximately EUR 21 million in 2008 to approximately EUR 14 million in 2009.

#### **Funding**

UMI finances its operations through bank financing. The assets of UMI are pledged to the banks. As of December 2009, UMI is meeting all its covenants.

#### **2010 outlook**

Due to the improving economy, revenues are expected to increase. No outlook is provided for net profit due to uncertainties.

In the case of both aforementioned segments, it is expected that investments in tangible assets will not significantly differ from 2009. The same holds for the number of personnel.

## Personnel and Organization

Kardan headquarters are located in Amsterdam, the Netherlands. Apart from general activities related to its ongoing operations as a listed company, the headquarters deals with locating and initiating business opportunities and managing Kardan's operations abroad. In relation thereto, the headquarters' employees provide services to companies within the Kardan Group. Via Kardan Israel, Kardan headquarters receives services regarding Kardan's connection to Israel and with Israeli financial entities, including financial and legal services, in view of the fact that Kardan's shares are also listed for trading on the Tel Aviv Stock Exchange.

Since Kardan's employees are of major importance to success, Kardan remains dedicated to having highly competent personnel throughout its organization. This is only possible by offering them competitive employment conditions and a challenging environment. Kardan's management is convinced that this is what it is offering its employees.

Kardan has a lean management structure with an entrepreneurial approach. Kardan is not only responsible for strategic development and for steering its subsidiaries' policies, but it also contributes its business experience, local and international network, and financial resources. Each sector is headed by an experienced manager with a relevant background.

Kardan believes that its Senior Management Team is its major asset and considers its senior managers to be business partners. Therefore, Kardan incentivizes them by granting them equity rights in the companies they manage. Various bonus and incentive schemes are in place throughout the Kardan Group.

Since the operational activities are concluded outside the Netherlands, most of Kardan Group employees are based in CEE/CIS countries and in China, where Kardan Group conducts the majority of its activities. All in all, Kardan Group is active in more than 40 countries.

At year-end 2009, the number of people employed by Kardan and its consolidated companies totaled 12,140.

	Number of employees as of 31 December, 2009					Total
	Kardan	GTC	KFS	Kardan LTD	Tahal	
Europe (mainly CEE & CIS)	15	227	8,678	137	427	9,484
China	–	208	–	–	251	459
Israel	–	–	–	963	1,007	1,970
Other	–	–	–	4	223	227
<b>Total</b>	<b>15</b>	<b>435</b>	<b>8,678</b>	<b>1,104</b>	<b>1,908</b>	<b>12,140</b>

## Financial Services

As of December 31, 2009, the Financial Services division employed 8,678 people. KFS, TBIF and TBIH Group headquarters, located in Amsterdam, the Netherlands, are made up of employees who engage in management duties primarily focused on geographical locations. All of the other KFS Group employees are locally employed in the various countries of activity. The number of employees in 2009 decreased significantly compared to 2008 (from 12,496 as per December 31, 2008 to 8,678 as per December 31, 2009) due the implementation of the KFS Group efficiency plan, which included the closing and merging of branches, and the sale of a number of companies.

## Real Estate

The companies performing the activities of the GTC SA Group in Poland, Romania, Hungary, the Czech Republic, Serbia, Croatia, Slovakia, Bulgaria, Ukraine and Russia are each managed by a local headquarter, which coordinates the business operations in each country. Sometimes, one of the headquarters manages the headquarters of several countries by providing management services. The local headquarters in each of the countries deal with the development of new projects, as well as the marketing and management of existing properties. As of December 31, 2009, GTC SA

Group in Europe, employed 227 people (282 as per December, 2008).

The GTC China headquarters, located in Beijing, comprise a full staff, all of whom deal with the management of GTC Holding's investments in China, as well as the location and development of new projects. As of December 31, 2009, GTC China employed 208 people (215 as per December, 2008).

### **(Water) Infrastructure**

Tahal Group's organization is based on its activity being divided into two business segments. In Tahal Projects, the internal division is geographical (Europe, Latin America, Israel and Asia-Africa), and in Tahal Assets, each company is managed by its own management, this in addition to the management and headquarters' departments of Tahal Assets. Tahal Projects established a separate department that operates parallel to the geographic division, and which deals with all aspects of project execution.

As of December 31, 2009, Tahal Group employed 984 people and Tahal Assets employed 924 people, therefore in total the Tahal Group has 1,908 employees, (December 31, 2008: 1,681).

### **Other Activities**

Kardan Israel's businesses are managed by independent headquarters. As of December 31, 2009, these businesses in total employed 1104 people, compared to 169 as per December 31, 2008. The significant increase in 2009 is mainly due to the first time consolidation of Kardan Nichsey Emed (including Avis Israel) in 2009.

## Risk Management

The Management Board is responsible for setting strategic, operational, and financial objectives as well as for implementing risk management practices in line with these objectives. In line with its decentralized management structure, management of Kardan's subsidiaries has first responsibility to ensure that their risk management and control systems are properly implemented. 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.

To verify the implementation of risk management within its subsidiaries, Kardan, among others, uses the various governance structures in place. Through Kardan's positions as a shareholder in its subsidiaries, as well as through the various board positions held by Kardan Management Board in Kardan's subsidiaries, Kardan is monitoring the status of risk management within its subsidiaries. In relation thereto, also certain structural control measures are implemented, through thresholds for approval of important decisions, for example, and through the performance of internal audits on issues as selected by the relevant audit committee.

In addition to monitoring through governance structures, there is ongoing management reporting that enables Kardan to monitor the businesses of its subsidiaries. Kardan's (main) subsidiaries provide Kardan with a representation letter on a yearly basis. The statement made in this letter is closely connected to the statement as made under 'Management review' below.

### The risk management framework and processes

The general concept of Kardan's risk management approach is to create and maintain a control framework that provides a clear view on Kardan's business environment as well as its position therein and to ensure high-quality information flows. This in

order to enable management at all levels to make sound analysis, leading to informed decisions on opportunities and risks that present themselves during the course of business.

In line with the enterprise risk management framework, as published by COSO (the committee of sponsoring organizations of the Treadway Commission), Kardan implemented certain recurring and ongoing processes.

- On an annual basis, the Management Board holds a strategy meeting. During this meeting the Management Board discusses Kardan's strategy and the objectives related thereto.
- Following the strategy meeting, the Management Board holds a risk assessment session. The general purpose of this session is to discuss and assess the risks related to Kardan's activities, aimed at getting a good common understanding of such risks within Kardan's Management Board that can provide a basis for (future) decision making and (targeted) measures to be taken. During the risk session, the Kardan Management Board discusses and rates a pre-selected set of relevant risk categories. These risk categories are discussed from a (group-wide) perspective of the strategy and objectives as had been discussed during the strategy meeting. The risk categories are rated through risk-rating criteria that have been developed to assess (a) the likelihood these risks will manifest themselves during the period under review, (b) their potential impact on the strategic objectives of Kardan, as well as (c) the potential for further mitigating these risks. Although the risks inherent to Kardan's strategy are also explicitly addressed and discussed, the voting perspective strongly reflects the views towards the residual risks.
- In due time after the risk assessment session, the Management Board evaluates the main results of the risk assessment workshop, focusing on the main

risks identified and the views and responses towards these main risks.

The outcomes of the various meetings are processed into a report that is shared with the Supervisory Board and with the internal auditors. The risks identified, as well as their related controls, are monitored using specific risk and control indicators embedded in Kardan's ongoing management reporting systems. Within Kardan's governance structure, internal management reporting systems form an important information source for management's analysis and decision-making processes and therefore the management of risks.

In addition to the internal ongoing risk management processes as described above, Kardan's internal audit function plays an important role in monitoring its risk management framework. Independent from management's own risk assessment, the internal audit, carried out by a third-party organization, identifies certain risks related to Kardan's internal controls. The recommendations given by Kardan's internal – as well as its external – auditors help Kardan define its responses to the risks identified, among others, via adopting (enhanced) policies and procedures.

### 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.

The aforementioned provisions will be effective for the periodic report as of December 10, 2010.

The goal 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, member of the Board.

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

### Main risks related to Kardan's strategy

Like in 2008, in 2009 Kardan has been closely following the changing global economic developments and is carefully reviewing and monitoring the impact thereof 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 section below describes the main risks related to Kardan's strategy, as well as their related controls. Also,

reference is made to the description of risks in the 2009 Statutory Financial Statements, included in this 2009 Annual Report. 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.

### **Business model**

Through its investments in emerging markets, Kardan is exposed to a relatively high degree of inherent risk. 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.

The fact that Kardan has diversified its business over different (emerging) markets and sectors to a certain level also provides for a risk mitigation effect. In addition, to ensure knowledge and understanding of its business environments, Kardan acts as locally as possible by entering into local partnerships using local management. Furthermore, Kardan thoroughly analyses business opportunities and tries to avoid and mitigate risks that are not intrinsic to its business model and core competencies.

### **Capital availability**

Kardan is strongly dependent on external financing and is exposed to sectors in emerging markets that are strongly affected by the current economic downturn. As a consequence, Kardan is exposed to the risk that insufficient access to capital threatens its capacity to grow, execute its business model, and generate future financial returns.

Kardan N.V. and each division of Kardan intensively manage their capital structure and liquidity position. Cash flow forecasts are made on a regular basis and discussed within the divisions and with the Management Board of Kardan. As part of these discussions, decisions are made with respect to raising

capital and the form of it (equity, mezzanine, debt), repayment or restructuring of loans, investment or divestment of assets, and dividend policy.

In 2009, capital availability remained limited and the risks related to capital availability remain of great importance and therefore need continuous attention. In response, Kardan continues to take various additional measures, such as restructuring its capital positions, servicing or existing commitments only and, preserving its cash position. Furthermore, Kardan continues its efforts to increase its transparency and is strongly intensifying its investor relation efforts.

### **Financial markets**

As a listed company strongly dependent on external financing and with a high exposure to emerging markets, Kardan runs the risk that movements in, among others things, prices, rates, and indices affect the value of its financial assets and stock prices, affecting its ability to raise capital, as well as its cost of capital. Although Kardan is not able to estimate the impact of this, the current ongoing developments in the financial markets could adversely affect Kardan's results, 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.

To manage these risks, Kardan intensively monitors the financial positions within its businesses and hedges these risks if and when expedient.

### **Credit risk**

Credit risk is a risk that Kardan 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. Kardan 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).

Processes are in place for the entities providing credit risk management. For the banks within Kardan, the risk management function has been constantly reviewed by the respective banking authorities. After the financial crisis began, underwriting criteria became more restrictive, and collection efforts have been intensified. Additionally, the risk management systems and infrastructure were improved.

### Interest rate risk

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

To manage interest rate risks in a cost-efficient manner, Kardan enters into interest rate swaps. 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, management regularly discusses the financial instruments to be used. Hedging is only allowed if detailed requirements are met. The financial statements contain additional information and disclosures on the use of financial instruments within Kardan.

### Partnering

A key element of Kardan's growth strategy is cooperating with partners in its various local businesses. In that respect, such partners often hold partnership percentages in the companies through which Kardan invests and often have significant rights regarding management decisions in the (local) businesses. Therefore, Kardan N.V. Group may depend on the consent of these partners for the implementation of its corporate strategy. In addition, Kardan is exposed to the risk that its partners will not be able to meet their contractual obligations, including but not limited to financial guarantees and loan commitments.

To mitigate the risks related to the partnerships Kardan enters into, Kardan makes strong efforts to carefully select suitable business partners to build sustainable partnerships. In that respect, Kardan among others, critically assesses the financial stability of the existing and potential future partners, as well as the legal structure of the partners.

### Currency exchange

Since Kardan conducts business in a variety of countries, a significant part of its assets, liabilities, and results is sensitive to currency movements.

To mitigate currency exchange risks, Kardan as a principle attempts to match the currency of the income with that of the costs and financing currency to minimize foreign currency risk. Furthermore, Kardan is continuously monitoring its currency exposures and responds to these exposures, e.g. through hedging. To erase any doubt: Kardan does not hedge the currency risks on its equity holdings.

The financial statements contain additional information and disclosures on the use of financial instruments within Kardan.

### Taxation

Kardan undertakes transactions in various countries, mainly through the local companies in which it invests. Accordingly, these activities are subject to the tax laws in place in those countries, as well as tax treaties. Calculation of these tax liabilities involves interpretation and application of these local tax laws and tax treaties. Although Kardan assesses its tax liabilities on the basis of understanding as well as possible those laws and treaties, the tax authorities could interpret or apply the relevant laws and treaties in a way that could lead to additional tax liabilities.

To mitigate its tax-related risks, Kardan focuses on tax issues and, on an ongoing basis, uses the services of external tax advisors.



### Investor relations

To a part of the investor community, Kardan N.V. is still relatively unknown. In addition, part of that community perceives the transparency of its organization as less than optimal. This may limit Kardan's ability to efficiently raise capital or sustain share valuation, which could adversely affect Kardan's strategy to further grow its businesses.

Kardan is continuously looking to increase its organizational transparency. An important step would be realizing the separation ('split') of the Israeli activities as currently held by Kardan Israel. Furthermore, in 2010 the company will strongly intensify its investor relations efforts. This will include the hiring of staff dedicated to investor relations and an increased allocation of management time for this matter.

### Human resources

As a key element of Kardan's strategy is to have local organizations led by local management, recruiting and retaining highly skilled personnel is seen as a critical success factor. In relation thereto, Kardan is dependent on a relatively small group of skilled managers, experienced in the markets it operates in. Particularly in the emerging markets, the market for local personnel that is qualified to manage local businesses in accordance with standards as used in developed countries is limited and under continuous pressure from strong competition.

With the support of its local partners, Kardan endeavors to ensure long-term commitments with key personnel, among others, by having incentive schemes in place that are aligned with the long-term development of their managers.

### Concentration

Although Kardan conducts considerable operations in Central-Eastern Europe, mainly in the real estate and financial services sectors, while in China the Group operates in the real estate and infrastructure sectors,

Kardan believes that it is well diversified in terms of geography and types of assets.

Kardan continues to divert managerial and financial resources mainly to investments in Central-Eastern Europe and in China, thereby closely monitoring the risks that are related to these specific markets and segments it operates in.

### Information flows

Kardan's businesses are organized and managed locally. Having proper information flows in place, both within the local organizations, as well as towards the holding companies, is an important mechanism for supporting informed decision making that is in line with Kardan's strategy, objectives, and risk policy.

To support the required proper information flows, Kardan is using its governance structures in place, emphasizing to management that transparency is very important. Furthermore, in light of its pivotal role in the organization, Kardan is continuously monitoring the set up of various ICT systems in place.

### Management review

Based on its review of the risk management and internal control systems, and cognizant of their inherent limitations as described below, the Management Board has concluded that there is reasonable assurance that:

- It understands to which extent Kardan's strategic and operational targets are being realized;
- Kardan's internal and external financial reports are reliable; and
- Applicable laws and regulations are being complied with.

Notwithstanding the above, Kardan believes its risk management practices can be further enhanced by adopting a more stringent approach to the central

monitoring of the design and operational effectiveness of the internal control measures currently in place.

Kardan's risk management and internal control systems as described above have been regularly discussed with the Audit Committee, the Supervisory Board, and the external auditor.

It is important to note that effective risk management, with embedded internal control, no matter how well designed and operated, provides only reasonable assurance to the Management and Supervisory Board regarding achievement of an entity's objectives. Achievement of objectives is affected by limitations inherent in all management processes. These include the inherent risk that human judgment in decision making can be faulty and that breakdowns can occur because as a result of human failure, such as simple error. Additionally, controls can be circumvented by the collusion of two or more people, and management has the ability to override the enterprise risk management process, including risk response decisions and control activities. Another limiting factor is the need to consider the relative costs and benefits of risk responses. Therefore, in this context 'reasonable assurance' refers to the degree of certainty that would be satisfactory for a prudent manager in the management of his affairs in the given circumstances. Any assessment of effectiveness in future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with Kardan's standing policies, procedures, and instructions may deteriorate.

## Sustainability

Kardan is dedicated to create long-term value in a sustainable manner. Kardan operates locally in emerging markets, focusing on sectors that benefit from the rising middle class. In doing so, Kardan is actively pursuing to serve the long-term interests of all stakeholders in a socially and environmentally responsible manner.

Kardan believes that sustainability should also be reflected in its governance. In relation thereto, Kardan is making ongoing efforts to increase its organizational transparency. In addition, Kardan prepared a Code of Conduct, designated to provide the employees of the group with guidelines for behavior and activities and for how to comply with laws, regulations and ethical standards that govern Kardan's businesses.

Being still in the early stages thereof, Kardan is committed to make intensive efforts to come to a more comprehensive approach of sustainability within its businesses and to gradually implement selected measures. The Management Board is responsible for the economic, social and environmental sustainability of Kardan's activities and has agreed to ensure that sustainability over time will be addressed throughout Kardan Group. In as far as sustainability concerns matters regarding the operational and financial objectives of Kardan and the strategy designed to achieve these objectives, involvement and – where appropriate – approval of the Supervisory Board will be sought.

### Real Estate

Within the real estate segment division, all stakeholders become increasingly aware of the need for and the benefits of developing and managing assets in a socially and environmentally responsible manner. GTC SA Group is paying utmost attention to environmental issues, using energy-efficient technologies and user-friendly designs. In relation thereto, GTC SA Group ensures their contracting parties work of the highest standards in terms of environmental impact, certificates of quality, etc.

Within CEE, GTC SA Group has been a pioneer in the revitalization of post-industrial sites, turning them into sustainable real estate development (e.g. Mokotów Business Park, Apartamenty przy Królikarnii, Galeria Mokotów, Platinum Business Park, Galeria Kazimierz, office park in Kraków, Galeria Jurajska, Riverloft).

Within its Chinese developments, GTC China is servicing the needs of the rising middle class by developing affordable housing, thereby also facilitating the strong urbanization trend as supported by the government.

### Financial Services

Kardan's Financial Services division is operated truly locally, offering its services through strong regional penetration. For example, in many of the regions served, the TBIF Group is one of the few active lenders providing basic financial services, focusing on individual and SME loans and financing, thereby providing means for individuals and small business owners to meet their basic needs and invest in their businesses.

Loans and financing are granted only under strict conditions to individuals and small business owners, who are deemed eligible to afford it. TBIF Group, for example, provides financing for small-scale energy efficiency and renewable energy projects. By lending to individuals and SMEs in a conservative and responsible manner, TBIF Group is contributing to the sustainable economic and social development in the markets where it is active.

TBIF Group was an early mover regarding its business in the relevant CEE countries and is thereby contributing to the economic development and reforms taking place in these countries following political changes. Providing long-term sustainable and trustworthy insurance and pension services is a key element for economic development in countries which did not enjoy a stable and affordable social system so far.

## (Water) Infrastructure

Water is a clear example demonstrating how social, environmental and economic goals are interlocked. Tahal Group has developed its activities around the world by ensuring that water resources and infrastructures are being developed with the aim of enhancing social and environmental goals. For example, development of water supply systems in rural areas in developing countries supports not only food security but also creates job opportunities and income in those rural areas, reduces wealth gaps and, reduces desertification, increases hygiene and survival rate of newborns. Wastewater treatment facilities planned and/or owned by Tahal Group assist in preventing dumping of raw sewage into clean streams and provide recycled water suitable for irrigation.

Performing an Environmental Impact Assessment has become a routine procedure in construction projects directly affecting Tahal's design and planning activities directly, where prevention and mitigation of environmental risks play an important role in each such project. The performance of such assessments is also in line with new requirements for performing social and environmental impact assessments by leading commercial banks as a precondition for obtaining financing. This requires Tahal Group to take into consideration the needs of existing and future populations and the ecology and the environment at the project's site and in its vicinity.

In China our Kardan Water Investment Group (KWIG) was rewarded as one of the Top 10 Low Carbon contribution International Entreprises. This award is sponsored by China people's Consultative Committee and the National Development and Reform Committee. KWIG CEO, Ms. Iris Arbel is also included in the Top 50 Elite Managers in China Water Industry.

## Declaration by the Management Board

In accordance with Article 5:25c of the Financial Supervision Act (Wet op het financieel toezicht), the Management Board declares, to the best of its knowledge that:

- (i) The consolidated financial statements for the financial year 2009 give a fair view of the assets, liabilities, financial position, and loss of Kardan N.V. and of the companies included in the consolidation; and
- (ii) That the 2009 Annual Report gives a fair view of Kardan N.V.'s condition on the balance sheet date, the development of Kardan N.V. and its affiliated companies (subsidiaries, joint ventures, and associated companies) during the financial year 2009, and all material risks to which Kardan N.V. and its affiliated companies are exposed.

Amsterdam, April 19, 2010  
Management Board

A. Ickovics

W. van Damme

E. Oz-Gabber

A. Shlank

J. Slootweg



# Statutory Financial Statements

for the year ended December 31, 2009 by Kardan N.V., Amsterdam, The Netherlands

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€ in millions	Note	December 31, 2009	December 31, 2008
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued and paid-in capital	22	23	23
Share premium		235	230
Foreign currency translation reserve		(52)	(43)
Property revaluation reserve		93	140
Revaluation reserve, other		(14)	(35)
Retained earnings		8	53
		<b>293</b>	<b>368</b>
<b>Minority interests</b>		<b>695</b>	<b>744</b>
<b>Total equity</b>		<b>988</b>	<b>1,112</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	24	1,698	1,128
Banking customers accounts	25	144	127
Derivatives *		64	79
Other long-term liabilities	26	19	12
Options	27	28	55
Convertible debentures	28	–	29
Other debentures	29	866	806
Insurance provisions	30	71	71
Deferred income tax liabilities	47	153	172
Accrued severance pay, net		2	2
		<b>3,045</b>	<b>2,481</b>
<b>Current liabilities</b>			
Advances from customers in respect of contracts	15	23	22
Banking customers accounts	25	483	469
Trade payables	31	125	112
Interest-bearing loans and borrowings	32	640	673
Income tax payables		9	7
Advances from apartment buyers	15	88	123
Derivatives *		18	5
Other payables and accrued expenses	33	191	187
		<b>1,577</b>	<b>1,598</b>
Liabilities held for sale	5	23	60
<b>Total current liabilities</b>		<b>1,600</b>	<b>1,658</b>
<b>Total liabilities</b>		<b>4,645</b>	<b>4,139</b>
<b>Total equity and liabilities</b>		<b>5,633</b>	<b>5,251</b>

\* Please refer to note 2E

The accompanying notes are an integral part of the financial statements

# Consolidated Income Statement

€ in millions	Note	December 31, 2009	December 31, 2008	December 31, 2007
Sales of goods	36	145	91	55
Contract revenues		173	149	86
Insurance activities	37	59	67	16
Banking and retail lending activities	38	96	96	72
Property rental revenues		105	80	60
Revenues from renting vehicles		108	–	–
Revenues from sale of rental vehicles		58	–	–
Services and management fees		9	9	8
		<b>753</b>	<b>492</b>	<b>297</b>
Cost of goods sold	39	114	70	39
Contract costs		138	126	68
Operating expenses of insurance activities	40	68	63	15
Costs of banking and retail lending activities	41	124	120	65
Costs of property rental operations		24	20	12
Costs of rental of vehicles		78	–	–
Cost of sale of rental vehicles		54	–	–
Other expenses, net	42	30	10	6
		<b>630</b>	<b>409</b>	<b>205</b>
<b>Gross margin</b>		<b>123</b>	<b>83</b>	<b>92</b>
Selling and marketing expenses	43	24	20	19
General and administration expenses	44	62	27	56
<b>Profit (loss) from operations before fair value adjustments, disposal of assets and financial expenses</b>		<b>37</b>	<b>36</b>	<b>17</b>
Adjustment to fair value of investment properties	8	(179)	196	287
Impairment losses on goodwill		(1)	(89)	(1)
Gain on issuance of shares in associated companies and subsidiaries to third parties		1	2	45
Gain (loss) on disposal of assets and other income	45	30	121	47
<b>Profit (loss) on fair value adjustments and disposal of assets and investments</b>		<b>(149)</b>	<b>230</b>	<b>378</b>
<b>Profit (loss) from operations before finance expenses and income taxes</b>		<b>(112)</b>	<b>266</b>	<b>395</b>

The accompanying notes are an integral part of these financial statements

# Consolidated Income Statement (continued)

€ in millions	Note	December 31, 2009	December 31, 2008	December 31, 2007
Other financial income	46	63	177	42
Other financing expenses	46	(186)	(247)	(104)
Adjustment to fair value of other financial instruments		3	58	(44)
<b>Total financial expenses, net</b>		<b>(120)</b>	<b>(12)</b>	<b>(106)</b>
<b>Profit (loss) from operations</b>		<b>(232)</b>	<b>254</b>	<b>289</b>
Share of profit (loss) of associates accounted for using the equity method	9	7	3	6
<b>Net profit (loss) before income taxes</b>		<b>(225)</b>	<b>257</b>	<b>295</b>
Income tax expenses (benefit)	47	(27)	81	42
Net profit (loss) for the year from continuing operations		(198)	176	253
Net profit (loss) for the year from discontinued operations	5	22	(1)	(3)
<b>Net profit (loss) for the year</b>		<b>(176)</b>	<b>175</b>	<b>250</b>
Attributable to:				
Equity holders		(92)	52	90
Minority interest holders		(84)	123	160
		<b>(176)</b>	<b>175</b>	<b>250</b>
<b>Earnings (loss) per share attributable to shareholders</b>	48			
Basic from continuing operations		(1.13)	0.63	1.11
Basic from discontinued operations		0.22	–	–
		<b>(0.91)</b>	<b>0.63</b>	<b>1.11</b>
Diluted from continuing operations		(1.14)	0.28	1.10
Diluted from discontinued operations		0.22	–	–
		<b>(0.92)</b>	<b>0.28</b>	<b>1.10</b>

The accompanying notes are an integral part of these financial statements

# Consolidated Statement of Comprehensive Income (expense)

€ in millions	Note	December 31, 2009	December 31, 2008	December 31, 2007
Result for the period		(176)	175	250
Foreign currency translation differences		(12)	(12)	(10)
Change in hedge reserve, net of tax <sup>1</sup>		21	(65)	(5)
Unrealized revaluations, net of tax <sup>2</sup>		(1)	–	(1)
Change due to restatement of subsidiary <sup>4</sup>		–	–	(7)
Other comprehensive income (expense) for the period <sup>3</sup>		8	(77)	(23)
<b>Total comprehensive income (expense)</b>		<b>(168)</b>	<b>98</b>	<b>227</b>
Attributable to:				
Equity holders		(80)	4	69
Minority interest holders		(88)	94	158
		<b>(168)</b>	<b>98</b>	<b>227</b>

1 Presented net of tax which amounted to € 1.2 and € 7.7 million for the years ended December 31, 2009 and 2008, respectively, and less than € 1 million for 2007.

2 The tax effect amounted to less than € 1 million in all presented periods.

3 Other comprehensive income (expenses) includes the following amounts resulting from associates: for the years ended on December 31, 2009, 2008 and 2007 – € (2.1), € (8.8) and € 0.4 million, respectively.

4 Due to the 2007 restatement of Kardan Israel with regards to the valuation of an equity component of convertible debentures.

The accompanying notes are an integral part of these financial statements



# Consolidated Statement of Changes in Equity

€ in millions	Attributable to equity holders of the parent						Total	Minority interest	Total equity
	Issued and paid-in capital	Share premium	Property revaluation Reserve *	Revaluation reserve, Other *	Foreign currency translation reserve *	Retained earnings			
<b>Balance as of January 1, 2007</b>	<b>17</b>	<b>160</b>	<b>65</b>	<b>–</b>	<b>(14)</b>	<b>39</b>	<b>267</b>	<b>491</b>	<b>758</b>
Total comprehensive income									
(expense) for the year	–	–	–	(5)	(11)	(5)	(21)	(2)	(23)
Net result for the period	–	–	–	–	–	90	90	160	250
<b>Comprehensive income</b>									
<b>(expense) for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(5)</b>	<b>(11)</b>	<b>85</b>	<b>69</b>	<b>158</b>	<b>227</b>
Issuance and sale of shares in subsidiaries to minority shareholders	–	–	–	–	–	–	–	78	78
Share-based payment	–	2	–	–	–	–	2	3	5
Exercise of warrants and options	–	14	–	–	–	–	14	–	14
Dividend distributed	–	–	–	–	–	(9)	(9)	–	(9)
Reclassification according to the Netherlands Civil Code requirements*	–	–	44	–	–	(44)	–	–	–
<b>Balance as of December 31, 2007</b>	<b>17</b>	<b>176</b>	<b>109</b>	<b>(5)</b>	<b>(25)</b>	<b>71</b>	<b>343</b>	<b>730</b>	<b>1,073</b>

\* In accordance with the Netherlands Civil Code, part of the retained earnings is restricted for distribution, following the regulations to maintain a revaluation reserve in respect of real estate unrealized fair value and other adjustments

The accompanying notes are an integral part of the financial statements

# Consolidated Statement of Changes in Equity (continued)

€ in millions	Attributable to equity holders of the parent						Total	Minority interest	Total equity
	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Retained earnings			
<b>Balance as of January 1, 2008</b>	<b>17</b>	<b>176</b>	<b>109</b>	<b>(5)</b>	<b>(25)</b>	<b>71</b>	<b>343</b>	<b>730</b>	<b>1,073</b>
Total comprehensive income									
(expense) for the year	–	–	–	(30)	(18)	–	(48)	(29)	(77)
Net profit for the period	–	–	–	–	–	52	52	123	175
<b>Comprehensive income</b>									
<b>(expense) for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(30)</b>	<b>(18)</b>	<b>52</b>	<b>4</b>	<b>94</b>	<b>98</b>
Issuance of Company's shares to minority shareholders	6	51	–	–	–	–	57	(112)	(55)
Share-based payment	–	1	–	–	–	–	1	4	5
Issuance of shares to consolidated company	–	–	–	–	–	(21)	(21)	–	(21)
Exercise of warrants and options	–	2	–	–	–	–	2	–	2
Shares purchased in consolidated and newly consolidated subsidiaries	–	–	–	–	–	–	–	29	29
Dividend distributed	–	–	–	–	–	(18)	(18)	–	(18)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(1)	(1)
Reclassification according to the Netherlands Civil Code requirements*	–	–	31	–	–	(31)	–	–	–
<b>Balance as of December 31, 2008</b>	<b>23</b>	<b>230</b>	<b>140</b>	<b>(35)</b>	<b>(43)</b>	<b>53</b>	<b>368</b>	<b>744</b>	<b>1,112</b>

\* In accordance with the Netherlands Civil Code, part of the retained earnings is restricted for distribution, following the regulations to maintain a revaluation reserve in respect of real estate unrealized fair value and other adjustments

The accompanying notes are an integral part of the financial statements

# Consolidated Statement of Changes in Equity (continued)

€ in millions	Attributable to equity holders of the parent						Total	Minority interest	Total equity
	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Retained earnings			
<b>Balance as of January 1, 2009</b>	<b>23</b>	<b>230</b>	<b>140</b>	<b>(35)</b>	<b>(43)</b>	<b>53</b>	<b>368</b>	<b>744</b>	<b>1,112</b>
Total comprehensive income									
(expense) for the year	–	–	–	21	(9)	–	12	(4)	8
Net profit for the period	–	–	–	–	–	(92)	(92)	(84)	(176)
<b>Comprehensive income</b>									
<b>(expense) for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>21</b>	<b>(9)</b>	<b>(92)</b>	<b>(80)</b>	<b>(88)</b>	<b>(168)</b>
Share-based payment	–	1	–	–	–	–	1	5	6
Issuance of shares to consolidated company	–	1	–	–	–	–	1	–	1
Exercise of warrants and options	–	3	–	–	–	–	3	–	3
Transactions with minority shareholders	–	–	–	–	–	–	–	15	15
First time consolidation	–	–	–	–	–	–	–	20	20
Dividend paid to minority	–	–	–	–	–	–	–	(1)	(1)
Reclassification according to the Netherlands Civil Code requirements*	–	–	(47)	–	–	47	–	–	–
<b>Balance as of December 31, 2009</b>	<b>23</b>	<b>235</b>	<b>93</b>	<b>(14)</b>	<b>(52)</b>	<b>8</b>	<b>293</b>	<b>695</b>	<b>988</b>

\* In accordance with the Netherlands Civil Code, part of the retained earnings is restricted for distribution, following the regulations to maintain a revaluation reserve in respect of real estate unrealized fair value and other adjustments

The accompanying notes are an integral part of the financial statements

# Consolidated Cash Flow Statement

For the year ended December 31

€ in millions	2009	2008	2007
<b>Cash flow from operating activities</b>			
Net profit (loss) before taxes on income from continued operations	(225)	257	295
Adjustments required to present cash flow from operating activities (see A below)	276	(449)	(395)
<b>Net cash provided by (used in) operating activities</b>	<b>51</b>	<b>(192)</b>	<b>(100)</b>
<b>Cash flow from investing activities</b>			
Acquisition of tangible fixed assets and investment properties	(313)	(422)	(200)
Investments in companies and partnerships	(103)	(45)	(63)
Collecting (granting) of loans from (to) associated companies, net	(9)	(2)	(11)
Proceeds from sale of assets and investments	60	6	16
Granting of long-term loans	(141)	(502)	(442)
Change in loans to bank customers	(175)	(48)	(113)
Collecting of long-term loans and receivables	318	341	298
Change in short-term investments	(256)	(3)	(4)
Acquisition of newly consolidated subsidiaries, net of cash acquired (see B below)	3	(30)	(134)
Disposal of formerly consolidated subsidiaries, net of cash disposed (see C below)	24	7	119
Increase in cash due to transaction in the financial services segments (see D below)	–	–	18
Change in deferred brokerage fees	(2)	(2)	(2)
Income taxes received (paid)	–	–	(21)
Change in other assets	(6)	(1)	–
Decrease in cash of assets held for sale	2	(6)	–
<b>Net cash used in investing activities</b>	<b>(598)</b>	<b>(707)</b>	<b>(539)</b>

## For the year ended December 31

# Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2009	2008	2007
<b>A. Adjustments to reconcile net profit to net cash</b>			
<b>Charges / (credits) to profit / (loss) not affecting operating cash flows:</b>			
Share of profit (loss) of associates accounted for using the equity method	(7)	(3)	(6)
Dividend from associated companies	6	9	11
Gain on issuance and sale of shares in associated companies and subsidiaries to third parties, net	(5)	(2)	(45)
Gain from release of negative goodwill	(5)	(78)	–
Impairment of goodwill	1	83	–
Loss (gain) on disposal of assets and investments, net	2	(27)	(31)
Share-based payment	6	5	5
Depreciation and amortization	74	16	13
Fair value adjustments of investment properties	179	(196)	(292)
Exchange rate differences, net	99	33	61
Change in fair value of options and share appreciation rights	(14)	(94)	51
Decrease (increase) in fair value of securities held for trading, and hedge instruments, net	(20)	43	1
Increase in provision for bad debts in the financial services segment	116	45	–
Gain (loss) from early repayment of loans	–	(15)	(3)
Increase in accrued severance pay, net	–	–	(1)
Acquisition of rental vehicles	(79)	–	–
Proceeds from sale of rental vehicles	54	–	–
Impairment of assets	19	–	–
<b>Changes in operating assets and liabilities</b>			
Change in insurance provisions and deferred acquisition costs, net	–	7	12
Change in outstanding insurance premiums, reinsurance receivables and insurance companies	(1)	(11)	(11)
Change in trade and other receivables	(42)	(47)	(94)
Change in inventories and in contract work in progress, net of advances from customers	(2)	(152)	(97)
Change in trade and other payables	(76)	(117)	79
Interest paid	(246)	(175)	(65)
Interest received	230	232	24
Income taxes paid	(13)	(5)	(6)
	<b>276</b>	<b>(449)</b>	<b>(395)</b>

# Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2009	2008	2007
<b>B. Acquisition of newly consolidated subsidiaries, net of cash acquired</b>			
Cash	1	–	(26)
Working capital (excluding cash)	73	19	(71)
Non-current assets	(279)	(104)	(122)
Goodwill on acquisition	(1)	(38)	(80)
Gain on disposal of investment	–	3	7
Minority interests	20	–	9
Long-term liabilities	192	–	123
Capital reserve	(2)	–	–
Total purchase price	4	(120)	(160)
Less – cash in subsidiaries acquired	(1)	–	26
Payable on account of investment	–	90	–
<b>Cash used in acquisition, net of cash acquired</b>	<b>3</b>	<b>(30)</b>	<b>(134)</b>
<b>C. Disposal of formerly consolidated subsidiaries, net of cash disposed</b>			
Cash	29	–	1
Working capital (excluding cash)	30	(30)	(1)
Non-current assets	10	21	–
Investment properties	9	–	120
Goodwill	16	19	–
Minority interests	(7)	–	–
Long-term liabilities	(49)	(3)	–
Gain on disposal of investment	19	–	–
Total consideration	57	7	120
Cash of subsidiary which ceased to be consolidated	(29)	–	(1)
Release of capital reserves	(1)	–	–
Other receivables from disposal of investments	(3)	–	–
<b>Cash flows from disposal, net of cash disposed</b>	<b>24</b>	<b>7</b>	<b>119</b>



# Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2009	2008	2007
<b>D. Increase in cash due to transaction in the financial services segment <sup>1</sup></b>			
Cash	–	–	84
Working capital (excluding cash)	–	–	100
Non-current assets	–	–	(158)
Goodwill on acquisition	–	–	(27)
Minority interests	–	–	14
Long-term liabilities	–	–	70
Total consideration	–	–	83
Change in cash	–	–	(84)
Change in capital reserves	–	–	(1)
Gain on disposal	–	–	20
<b>Cash flows from disposal, net of cash disposed</b>	<b>–</b>	<b>–</b>	<b>18</b>
<b>E. Significant non-cash transactions</b>			
Acquisition of subsidiary shares from minority shareholders against issuance of Company's shares	–	33	–
Conversion of debentures into shares in subsidiaries	–	6	158
Exercise of options into Company's shares	–	3	14
Conversion of debentures into Company's shares	3	–	3
Purchase shares of subsidiary from minority shareholders against assignment of loans	7	–	–
Purchase of subsidiary shares against contribution – in kind of assets	17	–	–

<sup>1</sup> Relates to a transaction in April 2007, whereby the Company increased its stake in KFS from 55.12% to 92.3%.

With respect to cash flows of discontinued operations, please refer to Note 5C.

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

# Notes to the Consolidated IFRS Financial Statements

December 31, 2009

## 1 General

### A Introduction

Kardan N.V. ('Kardan' or 'the Company') having its legal seat in Amsterdam, The Netherlands, was incorporated on May 2, 2003, and acts as an investment company which is engaged in the development of real estate, insurance and pension, banking and lending, infrastructure projects, infrastructure assets, rental of vehicles and sale of vehicles and others through its subsidiaries, joint ventures and associated companies.

The Company, its subsidiaries, joint ventures and associates are referred to as 'the Group'.

The total number of employees in the Company and its subsidiaries was 12,140 as of December 31, 2009 (December 31, 2008 – 14,959).

The registered office address of the Company is located at Claude Debussylaan 30, Amsterdam, The Netherlands.

The statutory financial statements, which comprise these consolidated IFRS financial statements and the Company-only Dutch Gaap financial statements were authorized for issuance on April 19, 2010.

For additional information included in the Barnea report as required by the Israeli SEC regulation reference is made to the website of the Company ([www.kardan.com](http://www.kardan.com)).

## 2 Basis of preparation

### A Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, goodwill, intangible assets and derivative financial instruments, cash settled share-based payment liabilities and other financial assets that have been measured at fair value.

The consolidated financial statements are presented in Euros and all values are rounded to the nearest million (€ in millions) except when otherwise indicated.

The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. As of the date of authorization of these consolidated financial statements, Kardan N.V.'s Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Group.

The Company has elected to present the non-owner changes in equity in two statements – income statements and statement of comprehensive income. The statement of comprehensive income is presented according to the function of expense method.

### B Statement of compliance

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

The Group does not apply the carve-out and consequently, these IFRS financial statements also comply with IFRS as issued by the IASB.

### C Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and the companies that it controls as of December 31 each year. Effective control is present when a company has

the power, directly and indirectly, to govern the financial and operational policies of an entity so as to obtain benefits from its activities. In determining control, the effects of potential voting rights existing as of the statement of financial position date are taken into account. The Company consolidates the companies that it controls from the moment it achieves control until the time this control ceases. The financial statements of the controlled companies are prepared for the same reporting year as the parent company.

Joint ventures are accounted for using proportionate consolidation. The Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated statement of financial position, separately from equity attributed to the equity holders of the parent. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill. Similarly, a reduction of an interest in a subsidiary is accounted for using the parent entity extension method.

In respect of transactions between shareholders, the Group applies the parent-entity extension method. Accordingly, the difference between the consideration paid and the relative amount of minority interests acquired at the date of acquisition are carried against goodwill. When this difference is negative, a gain is recognized for the amount of this difference. On disposal of a subsidiary that does not result in a loss of control, a gain or loss is recognized in the amount of

the difference between the consideration received by the Group and the carrying amount of the minority interests in the subsidiary, including any translation differences in respect of that subsidiary. Any goodwill recognized in respect of the disposed subsidiary is simultaneously written off to the income statement.

The excess, and any further losses applicable to the minority in a subsidiary which has a capital deficiency, are allocated against the Group's interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered.

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

Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss.

#### **D Changes in accounting policies and disclosures**

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of January 1, 2009:

- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations effective January 1, 2009
- IFRS 7 Financial Instruments: Disclosures effective January 1, 2009
- IFRS 8 Operating Segments effective January 1, 2009
- IAS 1 Presentation of Financial Statements effective January 1, 2009
- IAS 16 Property, Plant and equipment effective January 1, 2009
- IAS 32 Financial Instruments: Presentation effective January 1, 2009
- Amendments to IAS 32 and IAS 1 – Puttable Financial Instruments: The revisions provide a limited scope exception for puttable instruments to be

classified as equity if they fulfill a number of specified features.

- IAS 38 Intangible assets effective January 1, 2009
- IFRIC 15 Agreement for the Construction of Real Estate effective January 1, 2009
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after June 30, 2009
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective October 1, 2008
- Improvements to IFRSs (May 2008)

IAS 40 revised was early adopted by the Company in 2008. The impact is presented in Note 4E.

#### **IFRS 2 Share-based Payment (Revised)**

The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Group adopted this amendment as of January 1, 2009. It did not have an impact on the financial position of the Group.

#### **IFRS 7 Financial Instruments: Disclosures**

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 49. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 49.

#### **IFRS 8 Operating Segments**

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The standard applies to companies whose securities are traded or are in the process of filing with any securities stock exchange.

The standard determines that an entity will adopt a management approach in reporting on the financial performance of the operating segments. The segment information would be the information that is internally used by management in order to assess its performance and allocate resources to the operating segments.

Furthermore, information is required to be disclosed about the products or services (or group of products and similar services) from which the entity derives its revenues, the countries in which these revenues or assets are generated and major customers, irrespective of whether management uses this information for making operating decisions.

With respect to IFRS 8, according to the standard the Company has adopted the 'Management Approach' for the reporting of its operating segments. The operating segments are presented according to the way the management internally presents information for evaluating the performance of the different segments and according to decision-making, except for the presentation of the rental and leasing of vehicles and sale of vehicles segments, and are the same as was reported under IAS 14.

#### **IAS 1 Presentation of Financial Statements**

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

**IAS 16 Property Plant and Equipment**

The revised IAS 16 requires that fixed assets held for rental, which are routinely sold, will be classified as inventory at the time the fixed asset ceased using the company for rental purposes. The sale of the asset will be presented as gross revenue and not merely as a net profit. Cash movements resulting from the sale will be presented as cash flow from operating activities.

**IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation**

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

**IFRIC 15 Agreement for the Construction of Real Estate**

The IFRIC issued IFRIC interpretation 15 in July 2008 and is effective for financial years beginning on or after January 1, 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The adoption of the interpretation does not have a material impact on the financial position of the Group.

**IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement**

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the

date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of the interpretation does not have a material impact on the financial position of the Group.

**IFRIC 16 Hedges of a Net Investment in a Foreign Operation**

The Interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The adoption of the interpretation does not have a material impact on the financial position of the Group.

**Improvements to IFRSs**

In May 2008, the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard the Group has adopted the following amendments to standards:

- IFRS 7 Financial Instruments: Disclosures: the amendment removed the reference to 'total interest income as a component of finance costs'. This had no impact to the accounting policy and financial position of the Group as this policy was already applied.
- IAS 1 Presentation of Financial Statements: assets and liabilities classified as 'held-for-trading' in accordance with IAS 39 Financial Instruments: recognition and measurement are not automatically classified as current in the statement of financial position.

- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors: the amendment clarifies that only implementation guidance that is an integral part of an IFRS is mandatory when selecting an accounting policy. This had no impact on accounting policy and financial position of the Group as it had already been applied.
- IAS 10 Events after the Reporting Period: the amendment clarifies that dividends declared after the end of the reporting period are not obligations. This had no impact on accounting policy and financial position of the Group as this was already applied.
- IAS 16 Property, Plant and Equipment: replaces the term 'net selling price' with 'fair value less costs to sell'. The Group amended its accounting policy accordingly, which did not result in any change in the financial position.
- IAS 18 Revenue: the amendment replaces the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- IAS 19 Employee Benefits: revised the definition of 'past service costs', 'return on plan assets' and 'short-term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted was the reference to the recognition of contingent liabilities to ensure consistency with IAS 37. Changes to definitions on return on plan assets, contingent liability and short-term and other long-term benefits are to be applied retrospectively. The change to past service cost definition to be applied prospectively. The amendment had no impact on accounting policy and financial position of the Group as the definitions were consistent with the amendment.
- IAS 28 Investment in Associates: if an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group. An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment has no impact on the Group because this policy was already applied.
- IAS 36 Impairment of Assets: when discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment has no immediate impact on the disclosures of the consolidated financial statements of the Group because the recoverable amount of its cash-generating units is currently estimated using 'value in use'.
- IAS 38 Intangible Assets: expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities. The reference to the existence of persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed. Therefore, the use of the unit of production method is allowed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

The Company made a policy choice and decided to change the classification of residential project loans directly linked to individual projects (project loans). These loans will now be classified in accordance with the classification of the related project based on its operating cycle. The projects are recognized in the financial statements as cost of building in progress. If the project is classified as current, the project loan is classified as current as well even though the remaining contractual maturity may exceed 12 months. Comparative figures have not been adjusted due to immateriality.

## E Reclassifications

Certain amounts in the statement of financial position and income statements were reclassified, within the same group of accounts, in order to conform with current period presentation.

With respect to reclassifications made in connection with adoption of IFRS 8, please refer to Note 35.

## 3 Significant accounting judgments, estimates and assumptions

### A Judgments, estimates and assumptions

The preparation of the financial statements necessitates the use of judgments, estimates and assumptions. These judgments, estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities disclosed in the notes as of statement of financial position date as well as reported income and expenses for the period.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### Revaluation of investment properties and of investment properties under construction

Investment property includes investment property under construction and completed investment property. Completed investment property comprises real estate (land or building or both) held by the Group or leased under a finance lease in order to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services or for administrative purposes or in the ordinary course of business.

Completed investment properties are presented at fair value as of the statement of financial position date. Any changes in the fair value are included in the

income statement. Any change in fair value is determined by independent real estate valuation experts in accordance with recognized valuation techniques. These techniques comprise both the Yield Method and the Discounted Cash Flow Method and include estimating future cash flows from assets and estimates of discount rates applicable to those assets. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Company's assets.

Fair value of investment properties is based on independent appraisal values. Independent appraisal values are, however, on their turn subject to judgments, estimates and assumptions, and do not take into account estimation uncertainty, if any, about key assumptions concerning the future as property valuations are based on market conditions in effect as of the balance sheet date.

Starting December 31, 2008, when the Group early adopted the improvements to IAS 40 as enacted in the IFRS Improvements Standard (May 2008), also investment property under construction is valued at fair value if and when such value can be reliably determined. If a fair value cannot be reliably determined, the Cost Approach is adopted in valuing investment property under construction. The fair value of investment properties under construction is either determined on the basis of the Discounted Cash Flow Method described below or the Residual Method. However, generally valuing investment properties under construction implies also factoring in those significant risks which are relevant to the development process, including but not limited to construction and rental risks. The impact of the early adoption of IAS 40 was additional fair value adjustments amounting to € 91 million (see Note 8).

#### Definitions used for valuing investment properties

Under the Cost Approach, the value of a property is estimated by summing the land value and the depreciated value of any improvements, whereby



these improvements are estimated at the value of reproduction cost new less depreciation or replacement cost new less depreciation and impairment.

The Income Approach to value converts anticipated future benefits in the form of rental income into present value. This approach requires careful estimation of future benefits and application of investor yield or return requirements. One approach to value the property on this basis is to capitalize net rental income on the basis of Net Initial Yields, generally referred to as the Yield Method. The discounted cash flow analysis, as an accepted methodology within the Income Approach to valuation involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. For development properties, the calculated periodic cash flow is typically estimated as gross income less vacancy and collection losses, and less operating expenses / outgoings. The series of periodic net operating incomes, along with an estimate of the reversion / terminal value, anticipated at the end of the projection period, is then discounted. The aggregation of the net present values leads to the market value of the property.

The Residual Approach is a combination of the income and cost approaches. The Residual Method is defined according to 'Approved European Property Valuation Standards' of the TEGoVA (The European Group of Valuers' Associations), as: 'A method of determining the value of a property which has potential for development, redevelopment or refurbishment. The estimated total cost of the work, including fees and other associated expenditures, plus allowance for interest, developer's risk and profit, is deducted from the gross value of the completed project. The resultant figure is then adjusted back to the date of valuation to give the residual value.' Elements of the Cost Approach (as completed) were used in order to estimate the construction costs of the Subject Property.

### **Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable risk-adjusted discount rate in order to calculate the present values of those cash flows. Generally, the Group uses the Weighted Average Cost of Capital of the applicable cash-generating units. The carrying amount of goodwill as of December 31, 2009 was € 199 million (2008 – € 191 million), of which € 12 million is allocated to real estate activities (2008 – € 24 million), € 160 million (2008 – € 146 million) is allocated to financial services activities, and € 26 million (2008 – € 21 million) is allocated to the infrastructure activities. Where goodwill is paid in compensation for future project development profit, the goodwill is reduced commensurate with the amount of development profits subsequently realized. Such goodwill is either capitalized as part of investment properties under construction, or as the case may be, separately classified as goodwill.

### **Service concession arrangements**

The Group measures the total investment of the concession agreements based on the discounted investments during the construction and operational period, taking into account an estimated gross margin. The estimated gross margin has been initially determined during the acquisition of the project and will be evaluated continuously during the period of the project. The carrying amount of the service concession arrangements as of December 31, 2009 amounted to a total of € 27 million (2008 – €23).

### **Deferred tax assets**

Deferred tax assets are recognized for all unused tax losses to the extent it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can

be recognized, based upon likely timing and level of future taxable profits, together with future tax planning strategies. The carrying amount of the deferred tax assets as of December 31, 2009 was € 24 million (2008 – € 70).

#### **Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input for these models is taken from observable markets where possible, but where this is not feasible, a degree of judgments is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

#### **Fair value of equity instruments**

Fair value of equity instruments, primarily put options granted to minority shareholders, phantom options and conversion components of convertible debentures, have been valued, in most cases, by independent external appraisers, using applicable valuation models, or based on the value of the respective companies as assigned in transactions with third parties. The valuations are necessarily and inevitably based on certain assumptions, and hence they are subject to estimation uncertainty. The assumptions and models used are disclosed in Note 26. The fair value of such equity instruments as of December 31, 2009 was € 28 million (December 31, 2008 – € 55 million).

#### **Share-based payments**

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they were granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the

option, volatility and dividend yield, and making assumptions about them. The assumptions and models used are disclosed in Note 22. For cash-settled, share-based payment transactions, the Group remeasures the liability at the fair value at each reporting date.

#### **Valuation assumptions of insurance claims**

Claims provisions of insurance companies are calculated using various assumptions, including but not limited to mortality / morbidity in life assurance and numerous other assumptions in general and health insurance. In general insurance, the main assumption is that past claims patterns continue in the future. Especially in the countries in which the Group operates this assumption may be incorrect as the 'insurance culture' has not always stabilized and local courts have not always gained sufficient experience and accordingly built appropriate legislation benchmarks for dealing with legal matters related to insurance. The Company's assumptions underlying their claims provision reflect the Company's current best estimates of the outstanding claims, whether reported or whether incurrent but not reported.

#### **Impairment losses on loans and advances**

The Group reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors including assessments of delinquencies and default risks, and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures, in connection with those loan classes which, although not specifically identified as requiring a specific allowance, are considered to have a greater risk of

default than when originally granted. These take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

#### **Impairment losses on inventory**

In connection with residential units under construction which classify as inventory, impairment is tested by comparing the estimated discounted selling price per unit and the expected cost per unit on completion. The carrying amount of inventory as of December 31, 2009 was € 394 million (December 31, 2008 – € 477 million).

#### **Future interest payable**

Under IFRS 7, an entity has to provide a maturity table of financial liabilities including future interest due. In cases where interest is variable, future interest is estimated based on currently known variables.

#### **Depreciation of rental vehicles**

The rental vehicles fleet is depreciated over its expected useful life. The depreciation rate is examined for each homogenized group of vehicles separately. The depreciation is calculated based on the residual value and the useful life of the vehicle.

### **B World credit crisis**

In the future, residual effects of the crisis in the financial markets could possibly have continuing adverse economic implications on the global credit markets, and could possibly lead to a further limited or absence of growth in the world economy. These global economic effects 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.

The above-mentioned global economic effects could also possibly result in future value losses due to:

Potential increases in real estate yields and decrease of rents and therefore decreases in value of investment properties;

- A negative effect on the KFS Group's banking operations in Russia and Ukraine and non-banking activities in Bulgaria and Romania, putting additional strain on their liquidity position, quality of the loan portfolio and ability to lend, and preventing normal bank operations;
- Negative impact on insurance and pensions business due to a potential decrease in demand for the products;
- Impairment of goodwill and investments in associated companies; and
- Impairment of financial instruments and other assets;
- Funding of projects in the infrastructure segment.

Currently, the Group is not able to estimate the future impact of these factors and the effect, if any, on the Group's activities in the future.

As of December 31, 2009, all investment properties have been valued by external appraisers. Although the markets in Central Eastern Europe and CIS are less active and therefore there are only few comparable transactions, management is reasonably comfortable that the valuations reflect the current values of the assets as of that date. In general, the yields and discount rates applied in valuing the investment properties have increased in line with the general market trends.

Notwithstanding the potential adverse effects of the credit crisis, as of the date of approval of these financial statements, the valuations and further analysis by management support the Group's management belief that the fair value of the investment properties under construction and the buildings inventory (residential units developed with a view to sell) is not lower than its carrying value (including goodwill allocated to such assets, if applicable).

In addition, as of December 31, 2009 the value of major investments in subsidiaries in the financial services segment, has been reviewed based on valuation reports provided by external valuers. Although there is a lack of comparable transactions in the markets of CEE and CIS, management is reasonably comfortable that the valuations reflect the fair values of the assets. Notwithstanding the foregoing, as of the date of approval of these financial statements, the valuations support the management's belief that the fair value of its investment in subsidiaries exceeds the carrying values in the books.

Where appropriate, sensitivity analysis has been provided to analyze the exposure to changes in assumptions which may occur in general but also as a result of the world credit crisis.

#### 4 Summary of significant accounting policies

On the basis of the aforementioned presentation and estimation techniques applied, a summary of significant accounting policies is presented below:

##### A Interest in joint ventures

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

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

Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealized gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss.

##### B Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

In the consolidated income statement of the reporting period, and of the comparable periods of the previous years, income and expenses from discontinued operations are reported separately from normal income and expenses down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss is reported separately in the income statement. The cash flow effect of the discontinued operation is separately disclosed in Note 5.

Tangible fixed assets and intangible assets once classified as held-for-sale are not depreciated / amortized.

##### C Foreign currency translation

With the exception of the change in presentation and functional currency, as outlined above, the translation policies are as follows:

The consolidated financial statements are presented in Euros, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using the functional currency. Transactions in foreign currencies are initially recorded at the foreign currency exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign currency rate of exchange ruling at the statement of financial position date. All differences are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity, and for which hedge accounting requirements are met. These are recognized in OCI until the disposal of the net investment, at which time they are recognized in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recognized in OCI. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling on the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

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

	USD	NIS	CPI
December 31, 2009	0.69	0.184	122.5
December 31, 2008	0.718	0.189	117.9
December 31, 2007	0.68	0.177	113.6
December 31, 2006	0.759	0.1797	109.9
Change in 2009	(3.9%)	(2.6%)	3.9%
Change in 2008	5.6%	6.8%	3.8%
Change in 2007	(10.4)%	(1.7)%	3.4%

#### D Tangible fixed assets

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

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

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

Furniture and office equipment	3-16 years (mainly 10 years)
Property, plant and equipment	10-20 years (mainly 10 years)
Motor vehicles	2-7 years (mainly 5 years)
Buildings	25-50 years (mainly 50 years)
Leasehold improvement	over the term of the lease (mainly 5 years)

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

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

### E Investment properties

Investment properties comprises a land plot or a building or a part of a building held to earn rental income and/or for capital appreciation and property that is being constructed or developed for future use as investment property (investment property under construction).

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

Both completed investment properties and investment properties under construction are externally valued based on open market values. Completed properties are either valued on the basis of Discounted Cash Flow or – as deemed appropriate – on basis of the Income

Capitalization or Yield method. For Investment Property under Construction, see Note 8. For a description of these valuation techniques, see Note 3.

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

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

The impact of early adoption of IAS 40 was additional fair value adjustments of IPUC amounting to € 91 million. The impact on the 2008 basic and diluted earnings per share was € 0.45.

### Lease origination costs / deferred brokerage fees

The costs incurred to originate a lease (mainly brokers fees) for available rental space are added to the carrying value of investment property until the date of revaluation of the related investment property to its fair value. Upon measurement of investment property to its fair value, these balances are released as part of a fair value adjustment.

### Non-current assets held for sale

Investment property is transferred to non-current assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sale of such property, and its sale must be highly probable.



For the sale to be highly probable:

- The Board must be committed to a plan to sell the property, and an active program to locate a buyer and complete the plan must have been initiated.
- The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as completed sale within one year from the date of classification.

On reclassification, investment property that is measured at fair value continues to be measured at fair value less costs to sell.

#### **F Contract work and building inventory in progress**

Costs relating to the construction of the residential properties are stated at the lower of cost and net realizable value. Costs relating to the construction of a project are included in inventory as follows:

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

Costs related to the phase the project is not available for sale may include:

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

The carrying amounts are tested for impairment as of each reporting date. Impairment is assessed to have occurred if the estimated future selling price of the residential units falls below the estimated cost per unit. Impairment is subsequently calculated on discounted cash flow basis

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units, which are not refundable, are expensed in full when the contract to sell is secured.

Receivables for contract work is separately calculated for each contract and presented in the balance sheet at the aggregate amount of costs incurred and recognized profits less recognized losses and progress billings. Progress billings are amounts billed for work performed up to the balance sheet date, whether settled or not settled. If the amount balance is positive, it is recorded in the balance sheet as an asset under receivables for contract work. If it is negative, it is recorded in the balance sheet as a liability for contract work. The financial asset, receivables for contract work, is treated for impairment and derecognition as discussed below regarding impairment of financial assets presented at amortized cost and the derecognition of financial assets, respectively.

Costs of projects based on contract work are recognized at cost, which includes identifiable direct costs, joint indirect costs and borrowing costs. Joint indirect costs are allocated between the projects based on various burden keys.

The Company classifies cost of building in progress as current or non-current based on the operating cycle of the related projects. Ongoing projects are presented as current. Projects where the construction date has not yet been determined, are presented as non-current.

#### **G Merchandise inventories**

Merchandise inventories are stated at the lower of purchase cost or net realizable value, cost being determined by the 'first-in, first-out' method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.



## H Business combinations and goodwill

Business combinations are accounted for using the purchase accounting method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. The final determination of value of the acquired assets and liabilities at acquisition date can be adjusted up to 12 months from the acquisition date. Unless otherwise indicated, the Group applies this exemption, particularly in the financial services segment, particularly in the financial services segment, since applying purchase price allocation is a time-consuming and complicated process requiring numerous sophisticated valuation techniques.

The excess of acquirer's interests in the net fair value of the acquiree's identifiable assets and liabilities over cost is recognized immediately in profit or loss.

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

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than an operating segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IFRS 8 Operating Segments.

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

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortized goodwill is recognized in the income statement.

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

## I Service concession arrangements

### Introduction

Service concession arrangements are arrangements where an entity (the Concession Operator) may enter into an arrangement with another entity (the Concession Provider or the Grantor) to provide services that give the public access to major economic and social facilities.

Service concession arrangements which contractually oblige the Group, acting as operator, to provide the services to the public on behalf of the public sector entity are accounted for in accordance with the accounting policies mentioned below. Service concession arrangements which do not meet that criterion, for instance where the asset is either derecognized by the grantor or is an asset constructed for the concession that the grantor never controls, are dealt with using other accounting policies adopted by the Group. This may apply to:

- a) Public-to public arrangements; or
- b) The treatment of existing assets of the Group; or
- c) Situations in which the Group leases assets from the grantor; or
- d) The Group only performs specific tasks e.g. maintenance or debt collection.

If these exceptions do not apply and the Group acts as an operator and provides construction or upgrade services in accordance with service concession arrangements that meet the above-mentioned definition, the consideration received or receivable by the Group are recognized at its fair value. These considerations are then considered either rights to:

- a) A financial asset, or
- b) An intangible asset.

#### **Financial assets**

A financial asset is recognized to the extent that the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.

The financial asset is measured on initial recognition at its fair value, and interest is calculated on the balance using the effective interest rate method. Revenue is recognized when the contract work is performed using the percentage of completion method. This means that the financial asset will be recognized from the beginning of contract activity.

Operating and maintenance costs, which are deemed executory, will be accounted for as incurred. Contractual obligations, including obligations to

maintain, replace or restore infrastructure, are recognized and measured at the best estimate of the expenditure required to settle the present obligation at the statement of financial position date. These may include obligations to restore infrastructure to a specified condition before it is returned to the grantor at the end of the concession. These do not include any upgrade elements as these are treated as an additional construction service.

#### **Intangible assets**

The Group recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.

The Group recognizes the intangible asset at deemed cost, i.e. the fair value of consideration transferred to acquire the asset, which is the fair value of the consideration received or receivable for the construction services delivered. During the construction phase of the arrangement the Group's asset (representing its accumulating right to be paid for providing construction services) is classified as an intangible asset (license to charge users of the infrastructure). The Group estimates the fair value of its consideration received to be equal to the forecast construction costs plus applicable margin and additionally capitalizes the borrowing costs during the construction phase of the arrangement.

The intangible asset is subsequently amortized on a systematic basis over its useful life, whereby the Group adopts the straight-line method. Revenue recognition and cost accounting for the operation services are recognized as described under the financial asset model.

#### **Mixed assets**

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset it accounts separately for each component of the

consideration. The consideration received or receivable for both components is recognized initially at the fair value of the consideration received or receivable. The nature of the consideration given by the grantor to the Group is determined by reference to the contract terms and, if applicable, to relevant contract law.

#### Revenue recognition

Both under intangible and financial asset models the Group accounts for revenue and costs relating to construction or upgrade services in accordance with the stage of completion method, provided that the outcome can be measured reliably. The Group accounts for revenue and costs relating to operation services in accordance with the criteria it has adopted for revenue recognition, i.e. when the outcome of a transaction involving the rendering of services can be estimated reliably, and revenue associated with the transaction is recognized by reference to the stage of completion of the transaction at the statement of financial position date.

If the Group performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

#### Impairment

The Group assesses potential impairments of the concession assets at each reporting date.

#### J Other intangible assets

Other intangible assets acquired separately or identified separately as part of a purchase price allocation, on initial recognition are measured at cost. The cost of intangible assets acquired in a business combination is the estimated fair value as of the date of acquisition. Following initial recognition, other intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Other intangible assets are amortized commensurate with their estimated economic life.

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

#### K Investment in associates

The Group's investment in its associates is accounted for under the equity method of accounting.

An associate is an entity in which the Group has, directly or indirectly, significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associates is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The income statement reflects the share of the Company in the net earnings of the associate. The Company records its share of losses exceeding the associate's equity, if any, up to its investment in the associate with the addition of any loss as a result of a guarantee or other financial assistance.

Gains or losses from transactions between the Group and an associate are eliminated according to the ownership percentage in the associate. Unrealized losses are eliminated unless the transaction provides evidence of impairment.

Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this in the statement of changes in equity.

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

Equity investments which do not qualify as investments in associates are classified as available-for-sale financial assets and carried at fair value.

#### **L Impairment of non-financial assets**

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been

recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at the revalued amount, in which case the reversal is treated as a revaluation increase.

Impairment losses recognized in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

#### **Goodwill**

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized.

#### **Associates**

The Company reviews the need to recognize an impairment loss after applying the equity method for an associate. The Company reviews at each statement of financial position date if there is objective evidence that the investment in an associate is impaired. If required, an impairment loss is determined as the difference between the recoverable amount of the investment in the associate, which is the highest of the value in use and the fair value less costs to sell and the book value. The amount of the loss is recognized in the statement of income in the Group's share of earnings (losses) of associates.

#### **M Financial assets**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition, when they are measured at fair value, plus, in the case of investments not carried at fair value

through profit or loss, directly attributable transaction costs.

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

#### **Financial assets at fair value through profit or loss**

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in profit or loss as part of the financing income or expenses.

#### **Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process. Under the requirements of IFRS the Group will not be able to classify any financial instruments in the held-to-maturity portfolio for the next two years after the date

of these consolidated financial statements due to the sale of held-to-maturity securities.

#### **Loans and receivables**

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

#### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are not classified in one of the three categories above. After initial measurement, available-for-sale financial assets are measured at fair value. Unrealized profits or losses are allocated directly to the revaluation reserve in equity. When such assets are derecognized or impaired, any accumulated profit or loss allocated to equity in the past is allocated to the income statement. Interest income and expenses are recorded on the effective interest basis. Dividends received for these investments are allocated to the income statement when the Company has the right to receive them.

#### **N Cash and cash equivalents**

Cash and short-term deposits in the statement of financial position comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less. Unless otherwise disclosed, cash is unrestricted and is subject to an insignificant risk of changes in value.

#### **O Insurance receivables**

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

## **P Impairment of financial assets**

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

### **Assets carried at amortized cost**

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred (such as financial hardship of the borrower), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit-risk characteristics, and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

### **Assets carried at cost**

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at

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

### **Available-for-sale financial assets**

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

## **Q Treasury shares**

Own equity instruments which are reacquired (treasury shares) are recognized at cost and are presented in the statement of financial position as a deduction from shareholders' equity. No gain or loss is recognized in the income statement on the sales, issuance, or cancellation of treasury shares.

The consideration paid is presented in the financial statements as a change in shareholders' equity.

Shares of the parent company purchased by subsidiaries are also accounted for as treasury shares.

## **R Borrowing costs**

Borrowing costs are accrued and expensed in the period in which they are incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset.



Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are either based on the actual borrowing costs incurred for the purchase of a qualifying asset or at a capitalization rate representing the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during any period will not exceed the amount of borrowing costs it incurred during that period.

### S Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognized initially at fair value, less, in the case of loans and borrowings, directly attributable transaction costs

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

#### Loans and borrowings

After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortized cost. Amortized cost is calculated by taking into account premiums paid at initiation of the loans and using the effective interest method.

Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the amortization process.

#### Financial guarantee liabilities

Financial guarantee liabilities issued by the Group, primarily by the financial services segment, are those contracts that require a payment to be made to reimburse the holder for a loss incurred because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognized in the financial statements (within 'Other payables') at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the income statement, and the best estimate of expenditure required, settling any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the income statement in 'costs of banking and lending activities'. The premium received is recognized in the income statement in 'income from banking and retail lending activities' on a straight-line basis over the life of the guarantee.



### **Convertible debentures**

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

The conversion component is accounted for in equity if the convertible debentures are denominated in the company's functional currency. If the convertible debentures are denominated in foreign currency, the conversion component is allocated to other financial liabilities.

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

After initial recognition, the conversion component, which is recorded as a financial liability, is measured according to IAS 39 and is presented at fair value. Gains or losses are recognized in profit or loss.

### **Debentures**

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

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

## **T Insurance liabilities**

### **General insurance contracts liabilities**

General business contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of general insurance claims, particularly in respect of liability business, therefore the ultimate cost of which cannot be known with certainty at the statement of financial position date.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the statement of financial position date even if they have not been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions.

### **Provision for unearned premiums**

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the income statement in the order that revenue is recognized over the period of risk.

**Liability adequacy test**

At each balance sheet date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related DAC assets. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used.

The test used is to calculate the present value of expected future claims and related direct and indirect expenses, and compare this to the liability carried for each line of business. This is done separately for the outstanding claims and the future claims, where the latter is compared to the unearned premium provision net of DAC. If the expected value of claims and expenses is higher, then the DAC is decreased (if the deficiency is in respect of future claims) and/or the liability is increased, accordingly.

**Product classification***Insurance contracts*

Insurance contracts are defined as those containing significant insurance risk, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependant on both the probability of an insured event and the magnitude of its potential effect. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period. There are no investment contracts within the Group, and all the contracts are insurance contracts as described above.

**U Derecognition of financial assets and liabilities****Financial assets**

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; and
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

**Financial liabilities**

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

Where an existing financial liability is replaced by another from the same lender on substantially different

terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

## V Provisions

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

## W Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions'). Some employees are granted share appreciation rights, which can only be settled in cash ('cash-settled transactions'). In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date. This is then capitalized or expensed as appropriate.

### Equity-settled transactions

The cost of equity-settled transactions with employees for awards granted after November 7, 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined

by using an appropriate pricing model, further details of which are given in Note 23.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

The income statement expense or credit for a period represents the movement in cumulative expense recognized as of the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 48).

#### **Cash-settled transactions**

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 23.

This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense (Note 23 and 27).

#### **X Leases**

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

##### **Group as a lessee**

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

In the case that operating leases of land have all the characteristics of investment properties, they are treated as finance leases. In that case, the leased asset is treated as investment property.

Capitalized leased assets, which do not comprise investment property, are depreciated over the useful life of the asset. However, if there is no reasonable

certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

##### **Group as a lessor**

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

#### **Y Revenue recognition**

##### **General**

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

##### **Sale of goods**

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Sale of goods in these consolidated financial statements include revenues from the sale of apartments (see also below) and from sale of consumer goods.

##### **Interest and dividend income**

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

Dividend income is recognized when the Group's right to receive payments is established.

**Contract revenues**

Revenue from work performed under a contract, which qualifies as a construction contract is recognized by reference to the stage of completion when the outcome can be measured reliably. The stage of completion is measured based on engineering estimates. When the contract outcome cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable. In the period in which it is determined that a loss will result from the performance of the contract, the entire amount of the estimated ultimate loss is charged against income. Contract revenue is recognized within the company's infrastructure segment, by the subsidiary Tahal Group International B.V. and its investee companies.

**Rental income**

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms. Costs of rental operations are recorded in the same period as rental income is recognized. The aggregate cost of rental incentives are recognized as a reduction of rental income over the lease term on a straight-line basis. Rental income is recognized within the company's real estate segment, mainly by the subsidiary GTC Real Estate Holding B.V. and its investee companies.

**Sale of apartments**

Revenue from the sale of houses and apartments is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. The risks and rewards are considered as transferred to the buyer when the houses or apartments have been substantially constructed, accepted by the customer and the full amount resulting from the sale agreement was paid by the buyer. Revenues from the sale of apartments is recognized within the company's real estate segment, mainly by the subsidiary GTC Real Estate Holding B.V. and its investee companies. Revenues from sale of apartments are presented in the income statements as 'Sale of goods'.

**Rendering of services (including management fees)**

Revenues from services are recognized as the services are provided and when the outcome of such transactions can be estimated reliably. Where the outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Fees from managing pension funds are based on the contribution to the pension funds, on assets under management in the pension funds and in some instances on the yields of the fund. Contribution to the pension funds are recorded on a cash basis. Fees from managing pension funds are recorded on an accrual basis.

**Premium income**

Non-life business premiums written are recognized on policy inception and earned on a pro rata basis over the term of the related policy coverage. The premiums include automatic renewals of policies specially in motor lines of business at the date of the renewal. Estimates of premiums written as of the statement of financial position date but not yet received are assessed based on estimates from underwriting or past experience and are included in premiums earned. Premiums from life insurance contracts are recognized as revenue within the company's Insurance and Pension sub-segment under the company's financial services segment, mainly by the company's subsidiary TBIH Financial Services Group N.V. and its investee companies.

**Revenues from operating leasing and rental of vehicles**

These revenues are recognized over the rental period, as long as the following criteria are met:

- a. Revenues can be measured reliably;
- b. The economic benefits will flow to the Group; and
- c. The associated costs can be measured reliably.

## Z Insurance business

### General insurance business

- a. The underwriting results for general insurance business are determined on an annual basis.
- b. Premiums are accounted for on an accrual basis.
- c. The unearned premium reserve and the reinsurers' share in reinsurance receivable are calculated on a daily basis. The unearned premium reserve and any deferred acquisition costs in currencies other than the functional currency of the relevant subsidiary are treated as non-monetary assets for the purpose of foreign currency translation.
- d. The proportion of commission and other acquisition expenses, in relation to the unearned premium, is carried forward as deferred acquisition costs. The deferred expenses are computed using actual rates. In lines of business where the loss ratios do not allow for the deferral of all or any expenses, the Group adjusts the deferred acquisition costs.
- e. Claims comprise the settlement and handling cost of paid and outstanding claims arising from events occurring in the reporting year and adjustments to outstanding claims reserves established in prior years. Any such adjustments are currently reflected in earnings.
- f. Outstanding claims are included on the basis of actuarial valuations or case by case estimate if higher.
- g. Business from other insurance companies and underwriting agencies are included to the extent such results are reported in statements received by the balance sheet date.

### Reinsurance

- a. The reinsurers' shares in insurance reserves and outstanding claims are presented separately in the statement of financial position, net of an allowance for doubtful or bad debts, based on management's estimate.
- b. The reinsurers' liabilities to the subsidiaries do not release the subsidiaries from their obligation to their policyholders insured under the insurance policies. A reinsurer who will not fulfill his future

obligations under the reinsurance treaties may cause the Group losses in the future.

- c. In order to reduce the insurance risks the company utilizes a reinsurance program. The majority of reinsurance business ceded is placed on a quota share / excess (in the aviation line of business the company writes business only with facultative cover with no significant retention) of loss basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders, and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. Reinsurance is placed with high-rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each year-end, management performs assessments of creditworthiness of reinsurers to update reinsurance purchase strategy and ascertaining suitable allowance for impairment of reinsurance assets.

## AA Taxes

### Current income tax

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

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



### Deferred income tax

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

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

- Where the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

Deferred income tax relating to items recognized in OCI is recognized in equity and not in the income statement.

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

At each statement of financial position date, the Group companies reassess unrecognized deferred tax assets and the carrying amount of deferred tax assets. The companies recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Conversely, the companies reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilized.

### BB Fair value of financial instruments

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

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



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

The Group has judged that the fair value of some of the statement of financial position items does not differ significantly from their current carrying amounts. This is valid for cash items, receivables from banks, customers' loans, and other receivables and liabilities. The Company believes that the current carrying amount of these assets and liabilities approximates their fair value, especially when they are short term or their interest rates are changing together with the change in the current market conditions.

### CC Derivative financial instruments and hedging

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

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

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by independent valuers using agreed-upon valuation models.

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

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

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge. At the inception of the hedge relationship the Group classifies and documents the type of hedge it wishes, the use for the purpose of financial reporting and its strategic goals for risk management relating to the specific hedging relationship. The documentation includes identification of the hedging instrument, the hedged item, and the nature of the hedged risk and how the Group assesses hedge effectiveness.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to

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

#### **Cash flow hedges**

Cash flow hedges are a hedge of the exposure to variability in cash flow that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized in OCI through the hedge reserve, while the ineffective portion is recognized in profit or loss.

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

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

#### **Hedges of a net investment**

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in

OCI while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized in OCI is transferred to profit or loss.

#### **DD Put option granted to minority shareholders**

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

The Group recognizes a financial liability under the above contract at its fair value. The minority interest reported in the financial statements is subsequently reclassified to a financial liability. Any changes in the fair value of that financial liability in subsequent periods are taken to the income statement or to goodwill if the put option can be classified as an IFRS 3-like transaction (business combination).

Any put options granted to minority interest in a business combination are accounted for based on the 'parent entity extension method'. Under this method the Company recognizes goodwill for the difference between the acquisition cost and the fair value of the minority interests acquired. At initial recognition, the minority interest is reclassified from equity to liabilities. The liability is subsequently remeasured at each reporting date based on the fair value of the proceeds determined, and at the same time the minority interests are treated as if they were held by the Group. Changes in the liability are adjusted against goodwill, except for the unwinding of the discount due to the passage of time. The unwinding of the discount is recognized in the income statement as interest expense.

#### **EE Earnings per share**

Basic earnings per share are calculated by dividing the net profit for the period attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share amounts are calculated by dividing the net profit attributable to the equity holders of the parent (after adjusting for interest on convertible debentures and options classified as

derivative instruments) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. In addition, securities that were converted during the period are included in the diluted earnings per share calculation to the date of conversion, and from that date they are included in the basic earnings per share. Potential ordinary shares are only included in diluted earnings per share when their conversion would decrease earnings per share (or increase loss per share) from continuing operations. Options and warrants are dilutive when they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period.

#### **FF Pensions and other post-employment benefits**

Pensions and other post-employment benefits are either classified as defined contribution or defined benefit. Under defined contribution plans, contributions during the period are expensed when incurred.

#### **Defined contribution plans**

Defined contribution plans are funded through independent pension funds or similar organizations. Contributions fixed in advance (e.g., based on salary) are paid to these institutions, and the beneficiary's right to benefits exists against the pension fund. The employer has no legal or constructive obligation beyond payment of the contributions.

Under retirement plans in the form of defined contribution plans, the enterprise pledges to pay the beneficiary benefits at a predefined level. This effectively releases the enterprise from any further obligations beyond the contributions payable and at the same time precludes the enterprise from participating in the investment success of the contributions.

#### **Defined benefit plans**

The Company has no material defined benefit schemes.

#### **GG Period of operational business cycle**

The period of the operational cycle of the Group exceeds one year, especially in connection with real estate and infrastructure construction projects that may last for 2-4 years. Accordingly, assets and liabilities derived from the construction works include items that may be realized within the above-mentioned operational business cycle.

#### **HH Future changes in accounting policies**

Standards issued but not yet effective:

#### **IFRIC 17 Distributions of Non-cash Assets to Owners**

This interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Company believes that the new interpretation will not have a material impact on its financial statements.

#### **IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items**

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

The Company believes that the new interpretation will not have a material impact on its financial statements, as the Group has not entered into any such hedges.

#### **IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)**

IFRS 3 (Revised) will introduce significant changes in the accounting for business combinations, the changes will be effective starting 2010. Changes affect the

valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes by IFRS 3 (Revised) and IAS 27 (Amended) will be adopted prospectively and will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

### **IFRS 9 Financial Instruments**

IFRS 9 'Financial Instruments' introduces new requirements for the classification and measurement of financial assets. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. IFRS 9 is required to be applied retrospectively. If the standard is adopted prior to January 1, 2012, an entity will be exempt from the requirement to restate prior period comparative information. IFRS 9 is subject to EU endorsement, the timing of which is uncertain. Accordingly, TBIF is unable to provide a date by which it plans to apply IFRS 9.

The main changes to the requirements of IAS 39 are summarized below.

- All financial assets that are currently in the scope of IAS 39 will be classified as either amortized cost or fair value. The available-for-sale and held-to-maturity categories will no longer exist.
- Classification is based on an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Reclassifications between the two categories are prohibited unless there is a change in the entity's business model.
- A financial asset is measured at amortized cost if two criteria are met: i) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows; and ii) the contractual cash flows of the instrument are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value. Movements in the fair value of financial assets classified at fair value are recognized in profit or loss, except for equity investments where an entity takes the option to designate an equity instrument that is not held for trading at fair value through other comprehensive income. If this option is taken, all subsequent changes in fair value are recognized in other comprehensive income with no recycling of gains or losses to the income statement. Dividend income would continue to be recognized in the income statement.
- An entity is only permitted to designate a financial asset otherwise meeting the amortized cost criteria at fair value through profit or loss if doing so significantly reduces or eliminates an accounting mismatch. This designation is made on initial recognition and is irrevocable.

- Financial instruments which contain embedded derivatives are to be classified in their entirety either at fair value or amortized cost depending on whether the contracts as a whole meet the relevant criteria under IFRS 9.

IFRS 9 is the first instalment in the IASB's planned phased replacement of IAS 39 with a less complex and improved standard for financial instruments. The next steps in the IASB's project will address the classification and measurement requirements for financial liabilities, the impairment of financial assets measured at amortized cost and hedge accounting. The IASB has indicated that it aims to finalize the replacement of IAS 39 by the end of 2010. In addition, the IASB is working with the US Financial Accounting Standards Board to reduce inconsistencies between US GAAP and IFRS in accounting for financial instruments. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's financial instruments project. As a result, it is impracticable to quantify the impact of IFRS 9 as at the date of publication of these financial statements.

In November 2009 the IFRIC issued IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'. The interpretation clarifies the requirements of IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The application of the interpretation is compulsory for years beginning on or after July 1, 2010, while earlier application is permitted. Currently, Management does not expect the adoption of the interpretation – if endorsed by the EU in the current version – to have a material impact on the Group's consolidated financial statements.

## II Definitions

The following definitions are used throughout these financial statements:

Kardan or the Company – Kardan N.V.

The Group or Kardan Group – Kardan N.V. and its subsidiaries, joint ventures and associates

GTC Holding – GTC Real Estate Holding B.V.

GTC Group – GTC Holding and its subsidiaries, joint ventures and associates

GTC SA – Globe Trade Centre S.A.

GTC SA Group – GTC SA and its subsidiaries, joint ventures and associates

KFS – Kardan Financial Services B.V.

KFS Group – KFS and its subsidiaries, joint ventures and associates

TBIF – TBIF Financial Services B.V.

TBIF Group – TBIF and its subsidiaries, joint ventures and associates

TBIH – TBIH Financial Services Group N.V.

TBIH Group – TBIF and its subsidiaries, joint ventures and associates

Kardan Israel or KIL – Kardan Israel Ltd.

KIL Group – KIL and its subsidiaries, joint ventures and associates

TGI – Tahal Group International B.V.

TGI Group – TGI and its subsidiaries, joint ventures and associates

Dan Vehicle – Dan Vehicle & Transportation D.R.T Ltd. (AVIS)

## 5 Business combinations and investment in subsidiaries and joint ventures

### A Principal directly held subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Following is a list of the Company's principal directly held subsidiaries:

Name of subsidiary	Country of incorporation	% equity interest and voting rights as of December 31		
		2009	2008	
Kardan Financial Services B.V. <sup>1</sup>	Netherlands	98.6	80	Subsidiary
GTC Real Estate Holding B.V.	Netherlands	100	100	Subsidiary
Tahal Group International B.V.	Netherlands	100	100	Subsidiary
Kardan Israel Ltd.	Israel	73.85	73.4	Subsidiary

<sup>1</sup> Due to put options granted to minority shareholders, the Company consolidates 100% of KFS.

Additional information regarding directly held subsidiaries:

€ in millions	Investment in shares	Credit facilities provided by the Company to its subsidiaries		Total investment in the subsidiary *	Goodwill included in the investment
		Loans	Collaterals		
2009					
Kardan Financial Services B.V.	113	95	100	208	8
GTC Real Estate Holding B.V.	316	79	–	395	6
Tahal Group International B.V.	19	88	63	107	–
Kardan Israel Ltd.	71	–	–	71	–
	519	262	163	782	14
2008					
Kardan Financial Services B.V.	92	29	100	121	(2)
GTC Real Estate Holding B.V.	381	178	–	558	20
Tahal Group International B.V.	18	86	24	105	–
Kardan Israel Ltd.	69	–	22	69	–
	560	293	146	853	18

\* The total investment in a subsidiary includes investment in shares and loans granted by Kardan N.V.



**B Principal indirectly held subsidiaries  
(fully consolidated into the Group) and  
joint ventures**

The consolidated financial statements include the financial statements of the Company, its subsidiaries and its joint ventures. Following is a list of the Company's principal indirectly held subsidiaries (consolidated into the Group) and joint ventures (proportionally consolidated into the Group):

Holding company	Name of subsidiary or joint venture	Country of incorporation	% equity interest by the direct holding as of December 31		
			2009	2008	
Kardan Financial Services B.V.	TBIH Financial Services Group N.V.	Netherlands	40	40	Joint venture
	TBIF Financial Services B.V. <sup>1</sup>	Netherlands	90.4	90.4	Subsidiary
TBIH Financial	TBI Bulgaria EAD <sup>2</sup>	Bulgaria	–	51	Subsidiary
Services Group N.V.	Alpha Insurance & Reinsurance Broker Limited	Gibraltar	85	85	Subsidiary
	UPIH B.V.	Netherlands	100	62	Subsidiary
	GPIH B.V.	Netherlands	60	50	Subsidiary
	IRAO International Insurance Company Ltd.	Georgia	90	90	Subsidiary
	Ray Sigorta A.S.	Turkey	84.3	74.3	Subsidiary
	S.C. Omniasig-Pensii SA	Romania	90	90	Subsidiary
	Sigma Sh.a <sup>2</sup>	Albania	–	75	Subsidiary
	Ukraine Insurance Group	Ukraine	100	62	Subsidiary
UPIH B.V.	VAB Pension	Ukraine	100	100	Subsidiary
	VAB Insurance	Ukraine	100	100	Subsidiary
	VAB Life Insurance <sup>5</sup>	Ukraine	–	100	Subsidiary
GPIH B.V.	Georgian Pension and Insurance Holding Ltd.	Georgia	90	90	Subsidiary
TBIH (RUS) LLC	NPF "Victoria" Fund <sup>5</sup>	Russia	–	100	Subsidiary
Sigma Sh.a.	Sigma AD Skopje <sup>2</sup>	Macedonia	–	100	Subsidiary
TBIF Financial Services B.V.	TBI Credit IFN SA	Romania	99.99	99.99	Subsidiary
	TBI Leasing SA	Romania	99.99	99.99	Subsidiary
	VAB Bank	Ukraine	48.91	48.91	Joint venture
	VAB Leasing	Ukraine	100	100	Subsidiary
	SovcomBank	Russia	65.96	60.87	Subsidiary

Holding company	Name of subsidiary or joint venture	Country of incorporation	% equity interest by the direct holding as of December 31		
			2009	2008	
TBIF – Dan Leasing Ltd.	VIP Rent Foreign Enterprise	Ukraine	100	100	Subsidiary
TBIF Bulgaria EAD and s subsidiaries	TBI Leasing EAD	Bulgaria	100	100	Subsidiary
	TBI Credit EAD	Bulgaria	100	100	Subsidiary
	TBI Asset Management AD	Bulgaria	100	100	Subsidiary
	TBI Invest AD	Bulgaria	100	100	Subsidiary
	Creditex OOD	Bulgaria	50	50	Subsidiary
GTC Real Estate Holding B.V.	Globe Trade Centre S.A. <sup>3</sup>	Poland	43.14	46.2	Subsidiary
	GTC Real Estate China Ltd.	Hong Kong	100	100	Subsidiary
	GTC Investment B.V.	Netherlands	46.25	46.25	Joint venture
Globe Trade Centre SA	GTC Hungary Real Estate Development Company Ltd.	Hungary	100	97.5	Subsidiary
	GTC Real Estate Investments Romania B.V.	Netherlands	100	94.6	Subsidiary
	GTC Real Estate Investments Serbia B.V.	Netherlands	100	97.5	Subsidiary
	GTC Real Estate Investments Croatia B.V.	Netherlands	100	97.2	Subsidiary
	GTC Real Estate Investments Slovakia B.V.	Netherlands	100	95	Subsidiary
	GTC Real Estate Investments Ukraine B.V.	Netherlands	90	85.5	Subsidiary
	GTC Real Estate Investments Bulgaria B.V.	Netherlands	100	95	Subsidiary
	GTC Real Estate Investments Russia B.V.	Netherlands	100	95	Subsidiary
GTC Real Estate China Ltd.	Shenyang Taiyiling Real Estate Development Ltd.	China	50	50	Joint venture
	Shenyang GTC Palm Garden Development Co. Ltd.	China	50	50	Joint venture
	Shanxi GTC Lucky Hope Real Estate Development Ltd.	China	50	50	Joint venture
	GTC Lucky Hope Suzy Real Estate Development Ltd.	China	50	50	Joint venture
	GTC Chengdu Real Estate Development Ltd.	China	100	79.6	Subsidiary
	GTC Dalian Galleria Real Estate Ltd.	China	100	100	Subsidiary
	Hangzhou International Financial Center Co. Ltd.	China	50	50	Joint venture
GTC Investment B.V.	Blitz Portfolio GmbH	Germany	85	85	Subsidiary
Tahal Group International B.V.	Tahal Group B.V.	Netherlands	100	100	Subsidiary
	Tahal Group Assets B.V.	Netherlands	100	100	Subsidiary

Holding company	Name of subsidiary or joint venture	Country of incorporation	% equity interest by the direct holding as of December 31		
			2009	2008	
Tahal Group B.V.	Tahal Consulting Engineers Ltd.	Israel	100	100	Subsidiary
	Sitahal 'Hagal' (Talia) Partnership	Israel	100	100	Subsidiary
	Palgey Maim Ltd.	Israel	55.5	55.5	Subsidiary
	Eko-Wark Sp. ZOO	Poland	72	72	Subsidiary
	Fideco DOO	Serbia	100	100	Subsidiary
	Tahal Angola Ltd.	Angola	70	70	Subsidiary
Tahal Group Assets B.V.	Kardan Water International Group Limited <sup>7</sup>	Hong Kong/ Cayman Islands	100	80	Subsidiary
	Perilla Water Group Ltd.	China	100	100	Subsidiary
	Tri-River Water Group Ltd.	China	100	100	Subsidiary
	Dazhou Tianhe Water Supply and Drainage Co., Ltd.	China	100	100	Subsidiary
	Task Water B.V.	Netherlands	100	100	Subsidiary
	TASK SU Kanalizasyon AS	Turkey	50	50	Joint venture
	Milgam	Israel	98.7	98	Subsidiary
	Agri Products N.V.	Netherlands	51	51	Subsidiary
Kardan Israel Ltd.	Kardan Real Estate Enterprise and Development Ltd.	Israel	100	100	Subsidiary
	Kardan Motors Ltd.	Israel	100	100	Subsidiary
	Kardan Technologies Ltd.	Israel	62.3	62.3	Subsidiary
	Kardan Communications Ltd.	Israel	100	100	Subsidiary
	Kardan Emed Properties Ltd. <sup>6</sup>	Israel	100	50	Subsidiary
	Dan Vehicle and Transportation D.R.T Ltd. (AVIS Israel) <sup>8</sup>	Israel	5.78	5.78	Joint venture
Kardan Real Estate Enterprise and Development Ltd.	Nofei Hashemesh B.S. Ltd.	Israel	50	50	Joint venture
	El-Har Engineering and Construction Ltd. <sup>4</sup>	Israel	50	50	Subsidiary
Kardan Motors Ltd.	Taldan Motors Ltd.	Israel	90	90	Subsidiary
	S.F.D.I. Ltd.	Israel	100	100	Subsidiary
Kardan Emed Properties Ltd.	Emed Real Estate and Investments Development Ltd.	Israel	50	50	Joint venture
Emed Real Estate and Investments Development Ltd.	Dan Vehicle and Transportation D.R.T Ltd. (AVIS)	Israel	54.25	54.25	Subsidiary

## Comments:

- 1 Due to existing put options, which were considered IFRS 3-like transactions, TBIF Financial Services B.V. ('TBIF') is effectively 100% consolidated by KFS.
- 2 For details regarding the disposal of these subsidiaries, please refer to Note 5C below.
- 3 Despite the fact that currently the Company holds less than 50% of the shares of GTC S.A., the Company has the right to nominate the majority of the Supervisory Board. The Supervisory Board by majority vote can appoint the Management Board and can take all strategic decisions. Therefore the Company has de facto control of GTC S.A. and consolidation is continuing.
- 4 Although the Company holds only 50% in the share capital of El-Har, as a result of a put option granted to the minority shareholder of El-Har, which is treated as a IFRS 3-like transaction, the Company effectively holds 66.6% of El-Har and consolidates accordingly.
- 5 The effect of changes in holding was not material to the Group's operations.
- 6 Please refer to note 5C.
- 7 In 2008, the activities were under Kardan Water International Group ('KWIG') located in Cayman Islands, 80% owned by Tahal Group Assets B.V. During 2009, following restructuring of the TGI Group, all subsidiaries of KWIG Cayman Islands were transferred to KWIG Hong-Kong, 100% owned by Tahal Group Assets B.V.
- 8 Although direct holding of KIL is 5.8%, it is a joint venture due to indirect holding through Kardan Nichsei Emed.

## C Significant transactions and business combinations

### 1 Significant transactions and business combinations in 2009:

- a. During 2009 minority shareholders in KFS exercised part of their put options and sold the Company a total of 7.3% of the shares in KFS in consideration of €17.6 million.

Following these acquisitions and the transaction described in b below, the Company now holds a 98.6% interest in KFS.

- b. In March 2009, the Company has reached an agreement with Israel Discount Bank ('IDB') to buy back the 11% stake IDB holds in KFS. The purchase price amounted to €38.5 million and is payable in two installments. The first installment amounting to €30 million was payable upon closing; the second installment of €8.5 million is due after 7 years and bears no interest.

Within the framework of the agreement the Company has granted IDB an option to repurchase a 5% stake in KFS during the next six years, at a price changing gradually reflecting a valuation of KFS of €386 million plus 5% interest from the third year. Furthermore IDB approved new credit facilities for Kardan Group. The agreements were signed on March 30, 2009. In addition, on March 30, 2009 an agreement was signed with IDB according to which, among others, KFS early repaid IDB an amount of €50 million, and some of the financial covenants that were agreed between the parties in the past were changed. In addition, the Company and one of its subsidiaries received additional loans from IDB.

The present value of the amounts paid to IDB in consideration for the shares plus the fair value of the option are estimated by the Company at €37

million. The excess of the purchase price over the carrying value of the acquired shares amounted to €28 million. The part of the excess purchase price related to the difference between the fair value of the acquired shares, as estimated as of December 31, 2008 and the carrying value of the shares, amounting to €14 million, was allocated to goodwill. The remainder, amounting to €14 million, was allocated to financing cost, which will be amortized over the different terms of the loans. Although in principal the share purchase transaction was discussed separately from the additional financing and changes in covenants, and each transaction was discussed separately by the Company, the above-mentioned amount was allocated to financing costs.

- c. In January 2009, GTC SA and a minority shareholder in its subsidiaries signed an agreement according to which the minority shareholder realized his right and sold all his shares in GTC SA's subsidiaries to GTC SA, in consideration of €17.6 million. The related put options were previously accounted for as share appreciation rights. As the option was, as of December 31, 2008, valued at the agreed upon exercise price, the effect on the income statements for the reported period was nil.
- d. In September 2009, GTC Holding sold 6.7 million shares of GTC SA in consideration for approximately €38 million. The capital gain from the sale amounts to approximately €3 million. After the sale, the Company indirectly holds 43.14% in GTC SA and still remains the controlling shareholder.
- e. In November 2008, KIL acquired 20% in Kardan Kardan Emed Properties Ltd ('Nichsei Emed') and the seller's rights over a shareholders loan to Nichsei Emed for the amount of NIS 12 million, the carrying amount of the loan was NIS 18 million. The acquisition increased KIL's ownership

percentage to 50% of the company's equity. Furthermore, KIL signed over an agreement with the seller to acquire an additional 10% of the company's equity and an additional shareholder's loan to in the amount of NIS 6 million, the carrying amount of the loan was NIS 6 million. The second part of the agreement was subject for an approval from the Israeli Antitrust Authority. In January 2009, after receiving all the required approvals KIL has acquired an additional 10% in Kardan Emed Properties Ltd ('Nichsei Emed'), such way that following the acquisition KIL holds 60% of the shares, and started consolidating the financial statements of Nichsei Emed from the first quarter of 2009.

Nichsei Emed holds 50% of the shares of Emed Real Estate Developments and Investments Ltd. ('Emed Real Estate'). Emed Real Estate which is proportionately consolidated and is engaged in real estate activities in Israel also holds 54% of the shares of AVIS Israel. KIL also directly hold 5.78% of the equity of AVIS Israel.

KIL recognized an equity reserve of €2 million as a result of the change in fair value of the recognized assets and liabilities of the acquired company.

As a result of the acquisition the Company recognized a profit in the amount of €2 million due to negative goodwill.

The fair value and carrying amount of the recognized assets and liabilities of Nichsei Emed are as follows:

€ in millions	Fair value	Carrying amount
Cash and cash equivalents	6	6
Trade receivables	16	16
Other accounts receivables	5	5
Goods and vehicles held for sale	6	6
Short-term investments	1	1
Rental vehicles	209	209
Investment property and fixed assets, net	48	48
Intangible assets	3	3
Goodwill in the acquired company	–	11
Other non-current assets	2	2
	<b>296</b>	<b>307</b>
Current liabilities (not including current maturities of long-term bank loans or debentures)	47	47
Long-term bank loans (including current maturities)	87	87
Debentures (including current maturities)	99	121
Deferred tax liabilities	23	18
Other long-term liabilities	7	7
Minority interest	27	18
	<b>290</b>	<b>298</b>
<b>Net assets</b>	<b>6</b>	<b>9</b>
Percent of acquired equity (10%)	1	1
Goodwill resulting from the acquisition	–*	–
Consideration, paid in cash	1	–

\* Less than €1 million

Net cash increase generated from the increase in equity:

€ in millions	
Cash and cash equivalents of the acquired company	6
Cash paid	(1)
Net cash	5

The effect of the business combination would not materially change the Company's revenues and result of the Company if it would have taken place on January 1, 2009.

In July 2009, KIL acquired the remaining 40% of the shares of Nichsei Emed and became the sole shareholder of that company. In consideration for the shares, KIL paid the nominal value of the shares and released the seller from a guarantee it had provided in connection with a NIS 120 million (€22 million) bank loan. As part of the transaction, KIL had acquired shareholders' loans of €7 million and granted the seller an option to receive 5 apartments in one of the residential projects it owns at cost price, as stipulated in the agreement. As a result of the transaction, KIL recognized a gain of €1.7 million representing the difference between the fair value of the acquired shares and the consideration paid.

## 2. Significant transactions and business combinations in 2008:

- a. In February 2008, TBIH completed the acquisition of 62% of Ukrainian insurance company ('UIG') for a total consideration of €46.5 million.

The shareholders agreement included a call option for TBIH to purchase and a put option for the sellers to sell the remaining 38% of UIG within five years, under certain terms and conditions. The excess of the purchase price over the net assets of UIG (including the financial liability to recognize the put option granted to the minority shareholder) amounted to €47.5 million (in which the Company's share is €19 million) and was classified as intangible assets and goodwill.



The fair value of the identifiable assets and liabilities of UIG at the date of acquisition were:

€ in millions	Carrying value	Fair value recognized on acquisition
Tangible fixed assets	1	1
Reinsurance assets	1	1
Insurance receivables	1	1
Other assets	27	27
	<b>30</b>	<b>30</b>
Insurance contracts liabilities	(27)	(27)
Other liabilities	(5)	(5)
Net assets	(2)	(2)
Minority interests	–	–
Intangible assets arising on acquisition	–	3
Goodwill arising on acquisition	–	45
Total acquisition cost – TBIH (including put option)	<b>(2)</b>	<b>46</b>
Total acquisition cost – consolidated to the Company (based on % shareholding of the Group)	–	<b>18</b>

Cash outflow at acquisition, in TBIH:

€ in millions	
Net cash acquired with UIG	9
Cash paid	(33)
<b>Net cash outflow</b>	<b>(24)</b>

Since the date of acquisition and until December 31, 2008, UIG has contributed general insurance premiums from continuing operations of €35 million (€14 million for the Company) and a loss of €0.3 million to the consolidated net profit of the Company for the year 2008 (a loss of €0.8 million to TBIH).

If the business combination had taken place at the beginning of 2008, the profit for TBIH would have decreased by €3.7 million (€1.5

million for the Company) and general insurance premiums from continuing operations would have increased by €10.2 million (€4 million for the Company). The goodwill recognized above is attributed to the expected synergies and other benefits from combining the assets and activities of UIG with those of TBIH.

- b. In December 2008, the shareholders of TBIH agreed on reorganization, aimed at supporting the equity basis of TBIH and providing liquidity for ongoing purposes. Agreements were signed between the shareholders of TBIH, Vienna Insurance Group ('VIG') and KFS and with TBIH regarding this reorganization transaction as follows:
- (i) Croatia – TBIH sold all of its holdings in Kvarner Vienna Insurance Group and Helios to VIG.
  - (ii) Albania – TBIH sold all of its holdings in Sigma Sh.a and Sigma Skopje AD to VIG.
  - (iii) Bulgaria – TBIH sold all of its direct and indirect holdings in TBI Bulgaria AD ('TBIB'), other than Pension Assurance Doverie ('Doverie') to VIG. Subsequently, Doverie was transferred to TBIH and became a direct subsidiary of TBIH and all the insurance companies in Bulgaria are held by VIG.
  - (iv) Russia – the rights and obligations under the agreements between TBIH and Veskotir were assigned to KFS and terminated such that TBIH deconsolidated and fully impaired its investment in RIC in December 2008.
  - (v) TBIH used the proceeds from the sale of assets as described in (i) through (iii) above, amounting to approximately €200 million, to repay shareholder loans from VIG, in the amount of approximately €100 million. The receipt of proceeds and repayments of loans occurred in December 2008 and early January 2009.

The transactions relating to the activities in Croatia, Russia and the transfer of 49% of the Bulgarian insurance holdings were finalized in 2008. Accordingly, a capital gain of €37.9 million was recognized in TBIH (€9.4 million for the Company). The finalization of the sale of the remaining 51% of the insurance holdings in Bulgaria, the holdings in Albania and the Romanian pension activities were completed in 2009 following the receipt of all regulatory approvals. In 2008, the Company recognized a gain of €9.4 million.

In 2008, in accordance with IFRS 5, the assets and liabilities of the companies that were sold in 2009 were presented as assets and liabilities held for sale on the face of the statement of financial position. The financial results of all subsidiaries subject to the above-mentioned reorganization are presented as discontinued operations in the consolidated income statement of the Company for the years 2009, 2008 and 2007. Comparative figures have been restated accordingly.

Composition of the income and expenses for the years ended December 31, 2009, 2008 and 2007 related to discontinued operations:

€ in millions	2009	2008	2007
Total income	24	62	50
Total expenses	(24)	(72)	(53)
Profit before tax	–	(10)	(3)
Income tax expenses	(1)	–	–
Net profit from discontinuing operations before capital gains	(1)	(10)	(3)
Capital gain (loss) from sale	28	12	–
Release of goodwill	(5)	(3)	–
<b>Net profit (loss) from discontinued operations</b>	<b>22</b>	<b>(1)</b>	<b>(3)</b>

Composition of main groups of assets and liabilities held for sale as of December 31, 2008:

€ in millions	December 31, 2008
<b>Assets</b>	
Intangible assets	17
Tangible fixed assets	9
Financial assets	18
Reinsurance assets	7
Insurance receivables	16
Deferred acquisition costs	7
Prepayments and accrued incomes	3
Cash and cash equivalents	6
<b>Total assets</b>	<b>83</b>
<b>Liabilities</b>	
Insurance contract liabilities	48
Other financial liabilities	3
Insurance payables	5
Trade and other payables	4
<b>Total liabilities</b>	<b>60</b>

Composition of the net cash flows related to discontinued operations:

€ in millions	For the year ended December 31,		
	2009	2008	2007
Net cash flow from operating activities	(1)	(4)	(6)
Net cash flow from investing activities	47	(1)	2
Net cash flow from financing activities	1	(2)	–
<b>Net cash flows from discontinued operations</b>	<b>47</b>	<b>(7)</b>	<b>(4)</b>

- c. In 2008, following the expiration of an agreement of jointly controlled venture with the minority shareholders of Sovcom bank on December 31, 2008, KFS, which at the time held 60.9% of the voting rights of Sovcom bank, met the requirements of IAS 27 for obtaining effective control over Sovcom bank and started consolidating the assets and liabilities of Sovcom bank as of that date. The following table presents the assets and liabilities that were consolidated at the time control was obtained:

€ in millions	
Working capital (including cash)	8
Assets and investments	177
Long-term liabilities	(163)
Minority interests	22

In addition, during 2008 TBIF has increased its stake in Sovcom Bank from 50% to 60.9% through several transactions whereby TBIF has acquired and sold shares from and to its partner in Sovcom Bank or via issuance of new shares. The total consideration paid by TBIF amounted to €35 million. The goodwill which arose from these acquisitions amounted to €13 million. The carrying value and the fair value of the assets and liabilities of Sovcom bank deemed to be similar and accordingly the entire excess of

consideration over the carrying value was allocated as goodwill.

Furthermore, TBIF signed an agreement according to which TBIF was granted options to increase its share in Sovcom Bank to 75%. The exercise price of those options will be determined by a mutually agreed formula. The first option relating to 1.5% of the shares of Sovcom Bank was cancelled by agreement between TBIF and its partner. The second option relating to 10% of the shares can be exercised during a period of 30 days after the adoption of the financial statements of Sovcom Bank for each calendar quarter from December 31, 2008 to September 30, 2009.

In the event that TBIF will not exercise the second option, the other shareholder in Sovcom Bank will have an option to purchase from TBIF shares, which will reduce TBIF's interest in Sovcom Bank by the same amount that TBIF paid for increasing its share in Sovcom Bank plus annual interest of LIBOR + 5%.

TBIF had to notify its partner by December 3, 2009 of its intention to exercise the option. In the event that TBIF decided not to exercise its option, the partner should notify TBIF by March 3, 2010 if it intends to exercise an option that it has to purchase from TBIF stakes in the Bank, so that TBIF holdings will decrease to 50%. If this occurs, the partner is required to complete the purchase by September 3, 2010. The cost to the partner is based on TBIF's historical costs to acquire its stakes over 50% in the bank, plus interest (5% to 8% margin over MosPrime). As of the date of signing these consolidated financial statements, TBIF notified the partner that it is not going to exercise the option mentioned above. In February 2010, the partner received an extension to inform TBIF by April 9, 2010 of its intentions regarding exercising the option. The option can be

exercised by the partner as of January 1, 2010. In April 2010, the partner has notified TBIF about his intention to exercise the mentioned option. For further information please refer to Note 51 of these financial statements.

The exercise of the above-mentioned options is subject to regulatory approvals.

d. Merger with GTC Real Estate N.V.

On October 16, 2008 the Company, GTC Real Estate N.V. ('GTC RE') and GTC Holding filed merger documents at the trade register in Amsterdam. The merger proposal was approved by the Management Boards and Supervisory Boards of the companies. The merger took the form of a triangular legal merger pursuant to Dutch law. By operation of law, at the moment the merger became effective, the assets and liabilities of GTC RE, except for the debentures issued by it, see below, were acquired respectively assumed by GTC Holding, a newly incorporated company, 100% owned by Kardan. At the same time, all shareholders of GTC RE (except for the Company) received shares in the Company at a share exchange ratio of 0.81 Kardan share for each GTC RE share. In connection with the merger, the convertible debentures (series A) and debentures (series B) of GTC RE were exchanged for newly issued debentures and convertible debentures of Kardan.

The merger was completed on December 16, 2008 ('the Merger Date'). Following the completion of the merger, GTC RE ceased to exist.

In relation to the newly issued debentures and convertible debentures of the Company, as described above, immediately following the issue of the debentures, Kardan and GTC Holding signed a loan agreement for a total amount of €270 million, representing the aggregate

carrying values of these financial instruments in the books of GTC RE at Merger Date (the transfer values). These transfer values comprised the debentures (series B) for an amount of €277 million and the convertible debentures for an amount of €3 million net of the positive value of the swap for a net amount of €4 million (an asset of €7 million net of the equity component of this swap deal, a loss of €3 million).

During 2008 the Company has, prior to the merger, increased its stake in GTC RE to 67.8% through several transactions including: own shares purchased by GTC RE, conversion of convertible debentures into shares of GTC RE and acquisition of GTC RE shares by Kardan Israel. As a result, the Company has recognized a gain of €2 million, and additional goodwill amounting to €2.8 million was created and allocated to property under construction.

For accounting purposes, the merger of GTC RE into Kardan (through GTC Holding) is considered an acquisition of minority interests at the Merger Date as the Company already owned 67.8% (directly and indirectly) of the GTC RE shares prior to the merger. The cost of the acquisition comprises the fair value of the newly issued shares (29,600,956 shares at a price of NIS 10.45 each (€1.973), the price quoted on the Tel Aviv Stock Exchange at the Merger Date) issued by Kardan to the minority shareholders of GTC RE which, under IFRS 3, is deemed to constitute the consideration for the minority interest acquired. The difference between the cost of the acquisition and the value of the proportionate share of the Company in the net assets of GTC RE at the Merger Date, is accounted for as negative goodwill, amounting to €77 million. As the Company applies the parent-entity extension method in accounting for minority interests, the negative goodwill is fully recognized in the income statement (under 'Gain on disposal of assets and other income').

The shares held by KIL in GTC RE (15.5% of the total number of shares issued by GTC RE at the Merger Date) were also converted into shares of the Company and are subsequently treated as treasury shares (for further details regarding accounting for treasury shares, please refer to Note 4R) Accordingly these treasury shares are valued at the above-mentioned fair value and deducted from other reserves for an amount of €21 million.

With respect to exchange of the convertible debentures and the convertible debentures of GTC RE for newly issued debentures and convertible debentures of Kardan, it should be noted that there are no substantially different terms or modifications of the terms as issued by GTC RE. Accordingly, the exchange is not accounted for as an extinguishment and, consequently the debentures and the convertible debentures, including the liability and conversion component of the convertible debentures, were at Merger Date initially recognized by the Company at the carrying value in GTC RE's books prior to the Merger Date.

Since the cash flow hedge continues to be effective, the Company continues to account for the swap as a cross-currency hedge at fair value.

- e. In May 2008, KFS acquired the minority share (approximately 25%) of The Russian Insurance Company ('RIC') in consideration of €16 million. Following the closing of this transaction KFS will hold 100% of RIC. The excess of the purchase price over the net asset value of RIC amounted to €3.3 million and was accounted for as goodwill. Following the reorganization, as described in Note 5C2b above, the investment in RIC was sold to a third party for no consideration. Accordingly, KFS recorded a total loss from the disposal of RIC amounting to €11 million, resulting from the operating losses and the costs incurred to dispose of RIC (€3.2 million).

- f. During 2008, the Company has increased its stake in GTC RE to 67.8% (prior to the merger) through several transactions including: own shares purchased by GTC RE, conversion of convertible debentures into shares of GTC RE and acquisition of GTC RE shares by Kardan Israel. As a result, the Company has recognized a gain of €2 million, and additional goodwill amounting to €2.8 million was created and allocated to property under construction.

**D The following shares are used as collateral by the Group:**

As described in Note 34, the Group has pledged shares as collateral for certain loan agreements. The main shares pledged are as follows:

1. Shares of GTC SA
2. Shares of Kardan Israel
3. Shares of KFS
4. GTC SA Group pledged shares of its subsidiaries for several construction loans
5. Shares of UMI



### E Investments in joint ventures

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

#### Group share in the companies' statement of financial position according to holding percentage:

€ in millions	December 31, 2009	December 31, 2008
Current assets	505	641
Non-current assets	733	1,212
Current liabilities	(469)	(756)
Long-term liabilities	(614)	(704)
<b>Assets, net</b>	<b>155</b>	<b>393</b>

#### Group share in the operating results of the companies according to holding percentage:

€ in millions	December 31, 2009	December 31, 2008
<b>Revenues</b>	<b>370</b>	<b>335</b>
Expenses	(414)	(302)
Minority share in profit (loss)	(2)	–
<b>Profit, net</b>	<b>(46)</b>	<b>33</b>

For additional information regarding commitments and contingent liabilities related to the joint ventures, please refer to Note 34.

**F The Group's investments in subsidiaries whose shares are publicly traded:**

€ in millions	December 31, 2009	December 31, 2008
<b>Kardan Technologies *</b>		
Carrying value	2	1
Market value	2	1
<b>GTC SA **</b>		
Carrying value	409	498
Market value	591	373
<b>Kardan Israel *</b>		
Carrying value	71	69
Market value	84	28
<b>Dan Vehicle &amp; Transportation D.R.T Ltd. (AVIS) *</b>		
Carrying value	28	–
Market value	23	–

\* Traded on the Tel Aviv Stock Exchange.

\*\* Traded on the Warsaw Stock Exchange.

Although the market value of GTC SA and Kardan Israel was lower than their carrying values as of December 31, 2008, the Company did not impair its investment in these subsidiaries, as the Company believed that the fair value of the net assets was at that time at least equal to the carrying value. As of December 31, 2009, the situation did turn around and the market values are higher than the carrying values. Close to the date of signing of these financial statements, the market value of the investment in AVIS amounts to approximately €29 million and accordingly in the opinion of management there is no impairment.

**G The Group has received the following dividend amounts in the reporting period:**

€ in millions	2009	2008
From Subsidiaries	43	4
From Joint Ventures	3	1
From Associated Companies	9	6

For liens, contingent liabilities and commitments of investees, please refer to Note 34.

## 6 Tangible fixed assets

€ in millions	Freehold land and buildings	Property, plant and equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
<b>Cost</b>						
Balance as of January 1, 2008	45	40	11	13	3	112
Additions <sup>1</sup>	16	27	22	10	–	75
Disposals <sup>2</sup>	(9)	(1)	(5)	(4)	–	(19)
Exchange differences	(6)	(1)	(4)	(3)	–	(14)
<b>Balance as of December 31, 2008</b>	<b>46</b>	<b>65</b>	<b>24</b>	<b>16</b>	<b>3</b>	<b>154</b>
Additions <sup>1</sup>	14	38	7	10	3	72
Disposals <sup>2</sup>	(4)	(38)	(8)	(2)	–	(52)
Exchange differences	(1)	–	3	(1)	–	1
<b>Balance as of December 31, 2009</b>	<b>55</b>	<b>65</b>	<b>26</b>	<b>23</b>	<b>6</b>	<b>175</b>
<b>Accumulated depreciation</b>						
Balance as of January 1, 2008	5	16	4	7	–	32
Depreciation for the year <sup>1</sup>	2	7	9	4	–	22
Eliminated on disposals <sup>2</sup>	(2)	(1)	(3)	(1)	–	(7)
Exchange differences	(1)	–	(2)	(1)	–	(4)
<b>Balance as of December 31, 2008</b>	<b>4</b>	<b>22</b>	<b>8</b>	<b>9</b>	<b>–</b>	<b>43</b>
Depreciation for the year <sup>1</sup>	3	8	6	7	3	27
Impairment <sup>3</sup>	2	5	–	–	–	7
Eliminated on disposals <sup>2</sup>	–	(6)	(3)	(2)	–	(11)
<b>Balance as of December 31, 2009</b>	<b>9</b>	<b>29</b>	<b>11</b>	<b>14</b>	<b>3</b>	<b>66</b>
<b>Net book value</b>						
December 31, 2008	42	43	16	7	3	111
<b>Net book value</b>						
December 31, 2009	46	36	15	9	3	109

Freehold land and buildings are related to owner-occupied property.

<sup>1</sup> Includes additions resulting from newly consolidated subsidiaries: December 31, 2009 cost – €30 million; accumulated depreciation – €4 million (December 31, 2008 – €27 thousand and €6 thousand, respectively).

<sup>2</sup> Includes disposals resulting from deconsolidation of subsidiaries: December 31, 2009 cost – €0 million; accumulated depreciation – €0 million, (December 31, 2008 – €4 thousand and €2 thousand, respectively).

<sup>3</sup> In 2009 the Impairment loss in the amount of €7 represents a write-down of certain property in the infrastructure segment to its recoverable amount, based on value in use. This has been recognized in the income statement in the line item 'Other expenses'.

## 7 Rental vehicles

€ in million	2009
<b>Cost</b>	
Balance as of January 1, 2009	–
First time consolidation	292
Purchases	79
Reclassification to Inventory	(106)
<b>Balance as of December 31</b>	<b>265</b>
<b>Accumulated depreciation</b>	
Balance as of January 1, 2009	–
First time consolidation	70
Depreciation	43
Reclassification to inventory	(49)
<b>Balance as of December 31</b>	<b>64</b>
<b>Net book value</b>	<b>201</b>

This activity is primarily generated via AVIS Israel. AVIS Israel acquires most of its rental vehicles mainly from three suppliers.

Please refer to Note 34 regarding vehicles held as collateral.

## 8 Investment properties

### A General

As of December 31, 2009, investment properties owned by the Group include office and commercial space and comprise both completed properties and investment properties under construction.

**B The movement in investment properties, which are valued at fair value, unless specified otherwise, is as follows:**

€ in millions	2009	2008
Opening balance	1,965	946
Capitalized subsequent expenditure and transfers from investment property under construction	324	773
Additions of newly proportionally consolidated joint venture	–	4
Additions of newly consolidated subsidiaries	42	–
Investment property sold	(18)	(7)
Adjustment to fair value <sup>1</sup>	(165)	235
Transfer from cost of building in progress	28	–
Foreign currency translation differences	(10)	11
Transfer to property in equipment	(1)	–
Deferred brokerage fees	1	3
	<b>2,166</b>	<b>1,965</b>
Transfer to assets held for sale <sup>2</sup>	(10)	–
<b>Closing balance</b>	<b>2,156</b>	<b>1,965</b>
Includes:		
Investment properties on freehold land	867	544
Investment properties on leasehold land	1,299	1,421
	<b>2,166</b>	<b>1,965</b>

<sup>1</sup> As a result of revaluation of investment properties under construction and completion of construction of investment properties, the goodwill allocated to these properties was deducted from the adjustment to fair value. In 2009, the goodwill deduction amounted to €15 million (2008: €39 million). Accordingly, the consolidated income statement shows net fair value adjustments of €179 million (2008: €196 million).

<sup>2</sup> Subsequent to the balance sheet date, in January 2010 a GTC Group company has signed agreement for the sale of three properties located in Switzerland, in consideration for approximately €10 million. The transaction is expected to be completed by the end of June 2010.

Part of the buildings and lands are being used as securities for long-term loans from banks.

**C Fair value adjustments comprise:**

€ in millions	For the year ended December 31,	
	2009	2008
Adjustment to fair value of newly completed properties, net of goodwill released	17	73
Adjustment to fair value of new properties completed in prior years	(142)	32
Adjustment to fair value of investment property under construction, net of goodwill released	(14)	91
Impairment adjustments to investment properties under construction measured at cost	(40)	–
<b>Total fair value adjustments for the year</b>	<b>(179)</b>	<b>196</b>

**D Investment properties can be split up as follows:**

€ in millions	December 31, 2009	December 31, 2008
Completed investment properties	1,580	1,243
Investment properties under construction carried at fair value	158	370
Investment properties under construction carried at cost	418	352
	<b>2,156</b>	<b>1,965</b>

**E During 2009 the following projects were completed and classified as completed investment properties:**

Completion date	Property name	Fair value adjustment	Value at completion	Valuation method
€ in millions				
June 2009	Spiral 1	5	46	NPV
June 2009	Galleria Kazimirez offices	(3)	38	NPV
June 2009	Mars	(5)	11	NPV
September 2009	Jurajska	20	179	NPV
December 2009	Platinum 3	(3)	26	NPV
December 2009	City Gate	3	164	NPV
		17	464	

The vacancy in the completed properties is considered insignificant relative to any remaining property risks and has been taken into account in the external appraisal valuations.

**F Significant assumptions**

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

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

Significant assumptions used in the valuations are presented below on the basis of weighted averages:

	Western Europe		CEE	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
<b>Completed investment properties</b>				
Average rental rate per sqm per month (in €)	10.8	10.3	20.2	24.0
Reversionary yield	6%	6%	7.8%	7.3%
ERV per sqm per month (in €)	9.8	9.7	20.3	24.6
Vacancy	7.3%	4.9%	10.9%	9.1%
<b>Assets under construction (only assets at fair value)</b>				
Average risk-adjusted yield used in capitalizing the net future income stream	n/a	n/a	9.3%	7.97%
Average % complete	n/a	n/a	75%	42%
Estimated average development profit (1-[total expected costs/fair value upon completion])	n/a	n/a	6%	33%
Effective average development profit (1-[total expected costs/current fair value])	n/a	n/a	2%	42%

### G Sensitivity analysis

The table below presents the sensitivity of profit (loss) before tax due to changes in assumptions (the values are presented in absolute numbers as a change can either be positive or negative):

€ in millions	Western Europe		CEE	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
<b>Completed investment property</b>				
Change of 25 bp in reversionary yield	5.5	6.4	47.1	41.1
Change of 5% in estimated rental income	13.8	12.9	73.3	54.1
<b>Investment property under construction</b>				
Change of 5% in total construction costs	n/a	n/a	3.6	25.6
Change of 5% in estimated rental income	n/a	n/a	12.1	36.8



The Company has not disclosed main assumptions and sensitivity analysis of investment properties located in Israel, as they are not material for the Group and possible changes in yields or in rental income will not have a significant effect on the financial position of the Company.

#### H Investment property under construction

Property under construction includes borrowing costs incurred in connection with the construction of real estate projects. Borrowing costs capitalized to property under construction amounted to €8 million prior to transferring to investment properties under construction (2008: €11 million). The average interest capitalization rate is EURIBOR + 3.25% (2008: 5.7%).

The main projects included in investment properties under construction are as follow:

Country	Property	Details	Value (€ in million)
Poland	University Business Park	Office building in Lodz	35
Bulgaria	Galleria Varna	Shopping mall in Varna	61
	Galleria Stara Zagora	Shopping mall in Stara Zagora	42
Romania	Mercury	Shopping mall in Arad	31
Russia	Saint Petersburg	Office project in Saint Petersburg	31
China	Galleria Chengdu	Shopping mall in Chengdu	45

#### I Additional information

The continued instability in the financial markets causes volatility and uncertainty in the world's capital markets and real estate markets. There is a low liquidity level in the real estate market and transaction volumes are significantly reduced, resulting in a lack of clarity as to pricing levels and the market drivers. As a result, there is less certainty with regard to valuations and market values can change rapidly due to the current market conditions.

Completed assets were revalued based on discounted cash flow approach, assets under construction and impaired assets were revalued based on residual approach.

Certain properties under construction are carried at cost, as pre-letting and / or construction has not yet started. Accordingly, those assets are not yet qualified as assets to be presented at fair value. For those assets, an impairment test was performed. The impairment test was conducted on the basis of the residual value method, whereby an average exit yield of 7.5%-9.1% was applied and a developers' profit of 20% was assumed. There is no reason to believe that any further impairment has arisen.

## 9 Investments in associates

### A Principal associates

Holding company	Name of direct associate	% of ownership of the direct holding		Country	Carrying value (€ in millions)	
		December 31, 2009	December 31, 2008		December 31, 2009	December 31, 2008
Taldan Motors Ltd.	Universal Motors Israel Ltd.	45	45	Israel	44	38
Kardan Communications Ltd	Lidan Investment Agencies (1994) Ltd.	49	49	Israel	10	7
	R.R. Satellite Communication Ltd.	24.4	24.6	Israel	14	14
Kardan Technologies Ltd.	Formula Vision Portfolio Holdings Limited Partnership	49	49	Israel	5	6
Kardan Israel Ltd.	Ocif Nichsey Emed	–	30	Israel	–	5
	Dan Vehicle & Transportation D.R.T Ltd. (AVIS) <sup>1</sup>	–	5.8	Israel	–	5
Globe Trade Centre S.A <sup>2</sup>		35.0	31.6	Luxembourg	48	41
Other associated companies					25	36
					<b>146</b>	<b>152</b>

<sup>1</sup> As described in Note 5C, in 2009 KIL increased its holding in the parent company of AVIS and consequently ceased to be an associate, and is accounted for as subsidiary from 2009.

<sup>2</sup> GTC SA has several associates all located in Luxembourg, which are 35% owned. All these associates hold Czech subsidiaries which are active in the development of real estate in the Czech Republic.

**B Composition**

€ in millions	December 31, 2009	December 31, 2008
Cost of shares	41	53
Accumulated profits since acquisition net of dividend	55	46
Capital reserves	(27)	(27)
Total of equity investments	69	72
Loans and other long-term balances	77	80
<b>Total investment in associates</b>	<b>146</b>	<b>152</b>
<b>These investments include goodwill as follows:</b>		
Goodwill arising from acquisition		
Cost	7	7
Carrying amount as of the statement of financial position date	6	6

Impairment testing revealed no impairment of these goodwill amounts.

**C Movement in the equity investments in associates is as follows:**

€ in millions	2009	2008
Balance as of January 1	152	127
Additions, net	1	21
Change in loans, net	7	3
Equity earnings	7	4
Dividend distributed	(6)	(9)
Transfer from associated companies to proportionately consolidated companies	(10)	–
Reclassification of investment in associated company to financial assets	(1)	–
Impairment	(1)	–
Foreign currency translation differences	(3)	6
<b>Balance as of December 31</b>	<b>146</b>	<b>152</b>

**D Loans**

The investment in associated companies includes loans as follows:

€ in millions	December 31, 2009	December 31, 2008
In NIS (linked to the CPI) <sup>1</sup>	36	45
In EUR <sup>2</sup>	40	34
In USD	1	1
	<b>77</b>	<b>80</b>

<sup>1</sup> As of December 31, 2009 and 2008, an amount of €21 and €13 million yielded an annual interest rate of 4.1% and 5.0%, respectively. The balance of €23 million (2008 - €24 million) is linked to the Israeli CPI and does not bear interest. The loan repayment date has not been determined, as yet.

<sup>2</sup> The loans bear an annual interest at a variable Euribor rate + margin (as of December 31, 2009 the average margin was approximately 4%). No repayment date was set for the loans, as yet.

**E Below is a summary of financial data from the statement of financial positions of the Group's associated companies:**

€ in millions	December 31, 2009	December 31, 2008
Current assets	148	161
Non-current assets *	160	194
Current liabilities	(126)	(116)
Non-current liabilities	(113)	(167)
<b>Assets, net</b>	<b>69</b>	<b>72</b>
* Including goodwill	8	10

Share of the Group in the results of associated companies proportionate to the holding rate for the period:

€ in millions	For year-end December 31,		
	2009	2008	2007
<b>Revenues</b>	<b>235</b>	<b>260</b>	<b>220</b>
<b>Profit, net *</b>	<b>7</b>	<b>3</b>	<b>6</b>
* Including goodwill impairment	(1)	(2)	–

**F Additional information regarding investments in associates whose shares are publicly traded:**

€ in millions	December 31, 2009		December 31, 2008	
	Carrying amount	Market value	Carrying amount	Market value
RRSat Global Communications Network Ltd.	14	33	14	35
Dan Vehicle & Transportation D.R.T Ltd. (AVIS)	–	–	5	1

In 2009, Kardan Israel increased its stake in the parent company of Dan Vehicle & Transportation and it ceased to be an associate. For details, please refer to Note 5C.

## 10 Available-for-sale and held-to-maturity financial assets

### A Composition

€ in millions	December 31, 2009	December 31, 2008
Investment in marketable government bonds	4	4
Investments in unlisted companies <sup>1</sup>	10	12
Investments in available-for-sale marketable debt securities <sup>2</sup>	–	54
Total available-for-sale financial assets	14	70
Investments in held-to-maturity marketable debt securities <sup>3</sup>	–	49
	<b>14</b>	<b>119</b>

1 Investments in unlisted companies and venture capital funds are carried at fair value as determined, among others, according to external valuation reports, based upon non-market-observable input.

2 Investments in marketable trade securities are valued at fair value, which is deemed to be the trading price on the close of the business of the last day of 2009.

3 Investments in held-to-maturity marketable debt securities are valued at amortized cost.

The rapid decrease of available-for-sale and held-to-maturity investments compared to the end of the comparative period is due to the restructuring of the investment strategy in Sovcombank, as a result of which the bank focused on held-for-trading investments and eventually disposed of most of the available-for-sale and held-to-maturity instruments. Under the requirements of IFRS the Group will not be able to classify any financial instruments in the held-to-maturity portfolio for the next two year after the date of these consolidated financial statements.

### B Profit or loss from available-for-sale

The profit or loss from available-for-sale financial assets is recognized in other comprehensive income. In 2009 the Company recognized a profit of €3.7 million (in 2008 – €0.7 loss).

## 11 Loans to bank customers

### A Composition

€ in millions	December 31, 2009	December 31, 2008
Loans and advances to individuals	229	121
Mortgage loans	56	45
Other loans and advances to banks	33	26
Credit cards	2	1
	320	193
Corporate loans	315	292
Loans and advances to banks	–	1
Total loans and advances gross	635	486
Less – allowance for impairment losses <sup>1</sup>	(88)	(31)
	<b>547</b>	<b>455</b>

<sup>1</sup> Movements in allowance for impairment losses are:

€ in millions	December 31, 2009	December 31, 2008
Balance as of January 1	31	8
Increase due to change from proportionate to full consolidation	–	6
Recovered amounts	–	(6)
Allowance for the period	65	31
Recognized written-off uncollectible debts	(58)	–
Reclassification of portfolios to Sovcombank <sup>1</sup>	52	–
Foreign currency exchange differences	(2)	(8)
<b>Balance as of December 31</b>	<b>88</b>	<b>31</b>

<sup>1</sup> Due to restructuring of the banking activities in Russia, part of the consumer credit portfolio was redefined as banking portfolio.

### B Maturities

€ in millions	December 31, 2009	December 31, 2008
Presented as current assets	358	167
Presented as non-current assets	189	288
	<b>547</b>	<b>455</b>

During 2009, TBIF repossessed assets with a carrying value of €16 million as of December 31, 2009 (€2 million in 2008). TBIF is in the process of selling the repossessed assets.

## 12 Long-term loans and receivables

### A Composition

€ in millions	December 31, 2009	December 31, 2008
In USD <sup>1</sup>	33	19
In EUR <sup>2</sup>	266	233
In NIS	7	7
In other currencies <sup>3</sup>	89	411
	395	670
Less – current maturities	(195)	(292)
	200	378
Value of put option granted to the Group in relation to sale investment in a joint venture <sup>4</sup>	48	36
Service concessions	4	–
Related parties	16	–
Advances to government authorities	4	–
Long-term deposits	1	–
Other	10	–
Capital note issued by related party <sup>5</sup>	1	1
Provision for doubtful debts <sup>6</sup>	(26)	(36)
	258	379

1 As of December 31, 2009 and 2008, the balance includes €19 million and €13 million, respectively, relating to leasing activities.

2 As of December 31, 2009 (2008) the balance includes: an amount of €180 million (€112 million) for leasing operations and retail credit; €26 million (€51 million) loans granted to minority shareholders in companies consolidated in GTC Group and in KFS Group. The loans bear fixed interest at an annual rate of 5%, and some bear a variable annual interest rate of Euribor + 3%. In addition, the balance includes loans to proportionally consolidated companies, amounting to €61 million (2008 – €57 million), mostly bearing an annual interest rate of Euribor + 3%.

3 The balance includes mainly leasing and retail lending denominated primarily in Russian Roubles (€11 million) and Romanian Lei (€60 million).

4 In the TBIH shareholders agreement between KFS and VIG dated April 16, 2007 and December 22, 2008, KFS was granted a put option relating to its holdings in TBIH (40%). The terms of the option include a minimal price for the stake in TBIH if the option will be exercised in 2011 and if certain conditions are met. Amendments to certain conditions included in the agreement from 2008 triggered the recognition of value related to this option according to IAS 39. In 2008, KFS carried out the initial recognition of this asset at fair market value – €34.8 million. As of December 31, 2009 the fair market value of the asset is €47.8 million.

The asset was valued by external valuator using the 'Binomial model'. The valuation was done with respect to the minimum exercise price and by using parameters of TBIH value as of the balance sheet date, effective contractual period of the option (2 years), annual interest rate (2.9%) and expected volatility of shares (49.9%).

#### Sensitivity analysis:

A sensitivity analysis regarding the effect using a different annual interest rate and expected volatility was carried out for the asset.

Increasing the annual interest rate by 1% and 1.5% would have resulted in an asset value of €46.3 million and €45.6 million, respectively.

Decreasing the expected volatility by 1% and 2% would have resulted in an asset value of €47.3 million and €46.8 million respectively.

5 A capital note in the amount of NIS 6.5 million par value (€1.2 million) was issued by a related party. The capital note does not bear interest and is repayable in December 2011. The capital note is included at its present value computed at an annual discount rate of 11.5%.

6 Provision for doubtful debts primarily includes provision for impairment losses relating to consumer credit and mortgage activities.



**B Long-term loans and receivables are further specified as follows:**

€ in millions	December 31, 2009	December 31, 2008
Financial leases *	115	157
Consumer credits and mortgages	131	332
Other long-term loans and receivables	149	181
	395	670

\* Net investments in financial leases are further specified as follows:

€ in millions	December 31, 2009	December 31, 2008
Not later than one year	80	84
Later than one year and not later than five years	61	108
Later than five years	5	5
Gross receivables from financial leases	146	197
Less – gross earnings allocated to future periods	(21)	(37)
Less – allowance for impairment losses	(10)	(3)
<b>Net investment in financial leases</b>	<b>115</b>	<b>157</b>
Not more than one year	61	65
Later than one year and not later than five years	50	88
Later than five years	4	4
	115	157

Financial leases include mainly agreements with corporate and private costumers for vehicles and production equipment.

**C Movement in the provision for doubtful debts:**

€ in millions	December 31, 2009	December 31, 2008
Balance as of January 1	36	9
Increase due to change from proportionate to full consolidation	–	10
Change due to first time consolidation of newly acquired subsidiaries	9	6
Reclassification of portfolios in Sovcombank	(50)	–
Allowance for the period	37	19
Recognized written-off uncollectible debts	(3)	(7)
Foreign currency exchange differences	(3)	(1)
<b>Balance as of December 31</b>	<b>26</b>	<b>36</b>

**D Maturities**

€ in millions	December 31, 2009	December 31, 2008
First year – current maturities	195	292
Second year	75	139
Third year	91	91
Fourth year	11	21
Fifth year	5	8
Sixth year and thereafter	18	119
	<b>395</b>	<b>670</b>

**13 Deferred Acquisition Costs (Insurance Companies)****A Composition**

€ in millions	December 31, 2009	December 31, 2008
General insurance	7	6

**B Movement in deferred acquisition costs relating to life insurance**

€ in millions	2009	2008
Balance as of January 1	–	3
Change due to disposal of subsidiaries	–	(3)
<b>Balance as of December 31</b>	<b>–</b>	<b>–</b>

**C Movement in deferred acquisition costs relating to general insurance**

€ in millions	2009	2008
Balance as of January 1	6	9
Additions due to consolidation of newly acquired subsidiaries	–	1
Change due to disposal of subsidiaries	–	(7)
Expenses deferred	5	3
Amortization for the year	(4)	(1)
Change from joint venture to fully consolidated	–	1
<b>Balance as of December 31</b>	<b>7</b>	<b>6</b>

## 14 Intangible Assets and Goodwill

A Movement in goodwill, service concessions and other intangible assets are as follows:

€ in millions	Goodwill	Service concessions	Other intangibles	Total
Balance as of January 1, 2008	315	–	27	342
Additions <sup>1</sup>	59	23	4	86
Change due to disposal of investments	(40)	–	–	(40)
Decrease due to completion of projects and revaluation of assets	(47)	–	–	(47)
Impairment due to decrease in value	(94)	–	(2)	(96)
Foreign currency exchange differences	(2)	–	(2)	(4)
<b>Balance as of December 31, 2008</b>	<b>191</b>	<b>23</b>	<b>27</b>	<b>241</b>
Additions	33	4	19	56
Change due to disposal of investments	(5)	–	–	(5)
Decrease due to completion of projects and revaluation of assets	(16)	–	(1)	(17)
Impairment due to decrease in value	(1)	–	–	(1)
Amortization	-	(1)	(13)	(14)
Foreign currency exchange differences	(3)	–	–	(3)
<b>Balance as of December 31, 2009</b>	<b>199</b>	<b>26</b>	<b>32</b>	<b>257</b>
As of December 31, 2008				
Total cost	338	23	31	392
Accumulated amortization and impairment losses	(147)	–	(4)	(151)
	<b>191</b>	<b>23</b>	<b>27</b>	<b>241</b>
As of December 31, 2009				
Total cost	363	27	50	440
Accumulated amortization and impairment losses	(164)	(1)	(18)	(183)
	<b>199</b>	<b>26</b>	<b>32</b>	<b>257</b>

<sup>1</sup> Including goodwill and other intangible assets resulting from first-time consolidation of newly acquired subsidiaries in the amount of €7 million (2008 – €19 million).

**B As of December 31, 2009 and 2008, goodwill is allocated to groups of cash-generating units as follows:**

€ in millions	December 31, 2009	December 31, 2008
GTC Holding and its subsidiaries	12	24
KFS and its subsidiaries	160	146
Tahal Group and its subsidiaries	26	21
Kardan Israel and its subsidiaries	1	–
	<b>199</b>	<b>191</b>

Goodwill acquired through business combinations has been allocated to the relevant cash-generating units, in each reportable segment, and is primarily allocated to anticipated future profits from development projects. Relevant cash-generating units within the reportable segments could be individual subsidiaries, activities in a certain country, or total segments. Reference is made to Note 3H.

The recoverable amount of the goodwill has been determined based on the values used for valuations of each reportable segment, according to methods and assumptions applicable to such segments. The Company annually assesses impairment, or more frequently if deemed required.

As of December 31, 2009 the Company has no internally generated intangible assets.

**C Information regarding goodwill impairment testing**

**1 GTC Holding and subsidiaries**

Goodwill in GTC Holding almost fully relates to the buyout of minority shareholders in 2005 and initially amounted to €43 million. Because these buyouts were not considered as business combinations (as there was

no change in control) the cost of the buyouts' goodwill has not been allocated in accordance with IFRS 3.36. Instead, the difference between the cost of acquisition and the minority interest acquired was, at initial recognition, allocated to goodwill ('parent entity extension method'). The paid surplus value is mainly related to development projects in place at the date of the transaction.

In addition, as a result of conversion of convertible debentures into shares of GTC RE in 2007 and 2008, additional goodwill amounting to €46 million was added at the level of the Company.

*Timing of impairment testing*

In accordance with IAS 40, the Company measures its real estate projects at fair value or – if such fair value cannot be reliably measured – at cost. In these specific circumstances, concurrently with the fair value measurement, the Company releases the goodwill that was attributed to projects that are completed or measured at fair value or, where applicable, includes the goodwill in the impairment testing for those properties valued at cost.

Goodwill has been allocated to the relevant cash-generating units, and is primarily allocated to anticipated future profits from development projects.

*Basis of the recoverable amount*

The recoverable amount of the goodwill has been determined based on the values used for valuations of investment properties and investment properties under construction, according to methods and assumptions applicable, as further described in Note 8.

*Sensitivity analysis*

The Group has released the entire goodwill allocated to those projects that were revalued as of December 31, 2009, even for IPUC that was partially revalued. Therefore the Group believes that any change in the assumptions, as described in the sensitivity analysis in Note 7, will not result in additional release of goodwill.

## 2 KFS and subsidiaries

Goodwill acquired through business combinations are allocated to individual Cash-Generating Units ("CGU"). CGUs are defined at the subsidiary level. Goodwill amounts relate to:

€ in millions	December 31, 2009	December 31, 2008
Romania – consumer credit and leasing	19	19
Bulgaria – lending and asset management	26	25
Ukraine – banking and leasing	7	12
Russia – banking and consumer finance	34	34
Bulgaria – pension and insurance	32	34
Turkey – insurance	31	31
Russia – insurance	21	–
Ukraine – insurance		18
Other	3	1
KFS holding goodwill <sup>1</sup>	15	–
Deferred income <sup>2</sup>	(28)	(28)
<b>Total</b>	<b>160</b>	<b>146</b>

<sup>1</sup> KFS holding goodwill included amounts allocated to the holding company that represent the implied value of KFS as investment platforms for future additional investments.

<sup>2</sup> Deferred income was created in 2007 as a result of the transaction described in Note 5, since the reorganization was considered as linked transaction for accounting purposes, and accordingly the Company will recognize the gain upon realization of its investment in TBIH.

### *Impairment charges recognized*

As of December 31, 2009, the Company recognized an impairment charge of €0.6 million (2008: €91 million) in respect to the leasing operations in Ukraine (2008: mostly in respect of operations in Ukraine and Russia and to the impairment of 'platform' goodwill related to the holding companies of the KFS Group). In addition, in 2009 KFS recorded a disposal of €2.4 million in respect of the selling of the insurance activities in Bulgaria.

The reduction of the recoverable amounts in 2008 can be attributed to higher losses than were expected for 2008 (predominantly in the fourth quarter of the year), including higher levels of impairment charges, contraction in new business from lending activities and a delay in the expected return to previously anticipated profitability levels. In addition, the discount rate used increased as observed market rates increased globally and for CIS countries as well as for the financial sector. In 2009, the yields remained stable and even decreased in Russia, Romania and Bulgaria.

### *Timing of impairment testing*

Goodwill is tested for impairment at least once a year and whenever there is an indication that goodwill may be impaired. Given the extraordinary market events experienced globally during 2009 and 2008, KFS performed full impairment testing on all significant CGUs within the KFS Group as of December 31, 2009 and 2008.

### *Basis of the recoverable amount*

Recoverable amounts have been determined based on valuations using the Discounted Cash Flow (DCF) method, applying assumptions specific to markets in which the CGUs operate. In specific cases where recent transactions have occurred, the derived valuation was used as a benchmark.

For each significant CGU, the value is calculated by discounting management's cash flow projections. The cash flow periods used were 10 years, 5 years and 30 years for insurance, lending, and pensions, respectively. The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective of KFS' business strategy.

### *Discount rates and long-term growth rates*

The discount rate used to discount the cash flows is derived from the Capital Asset Pricing Model ('CAPM'). The CAPM depends on inputs reflecting a number of financial and economic variables including the risk-free rate in the country concerned and a

premium to reflect the inherent risk of the business being evaluated.

The rates used as of December 31, 2009:

Country	Discount rate for forecast period	Discount rate for residual value	Long-term growth rate
Ukraine	20%	14%	4%
Russia	14%	14%	4%
Bulgaria	13%	12%	3%
Romania	13%	12%	3%
Turkey	14%	14%	4%

*Management's judgment in estimating the cash flows of a CGU*

The cash flow projections for each CGU are based on long-term plans prepared by the management. These take into account local market conditions and management's judgment of local future trends. The forecasted cash flows in 2010 continue to reflect challenging global economic conditions. The key assumptions, in addition to the discount rates and the long-term growth rate for each significant CGU, are discussed below:

**Banking and lending:** The level of impairment charges (based on management's current assessment of the credit quality of the lending portfolios year 2010 and to a lesser extent the following years will result in impairment losses at levels higher than in 2009 but higher than the historical levels); the timing and scope of the return to a growth trend of the portfolios and the returns that will be achieved on the portfolio; operational efficiencies.

**Insurance:** Growth of insurance penetration in the relevant markets, loss ratios in the substantial lines of business; operational efficiencies.

**Pension:** Number of members joining the funds; salary trends; fee levels (asset management fees and contribution fees).

*Sensitivity analysis*

**Banking and lending CGUs -** A sensitivity analysis regarding the effect using a different discount rate for the long term was carried out for all operations. Increasing the discount rate in the long term by 1% (equivalent to a decrease in the assumption for long-term growth rate by 1%) would have resulted in an additional impairment charge of €10.5 million: €9.7 million relating to Russia and €0.8 million relating to Ukraine. This sensitivity analysis results in no additional potential impairment charges relating to the Bulgarian and Romanian operations due to the surplus of fair value over book value.

**Insurance and pension CGUs -** A sensitivity analysis regarding the effect using a different discount rate for the long term was carried out for the operations with the most substantial goodwill balances: insurance in Turkey (Ray Sigorta), in Ukraine (UIG), and the pension fund in Bulgaria (Doverie).

Increasing the discount rate in the long term by 1% and 2% (equivalent to a decrease in the assumption for long-term growth rate by 1% and 2%) would have resulted in an additional impairment charge of €7.7 million and €21.6 million, respectively, relating to Turkey. The other goodwill balances reflect valuations for the operations which materially exceed book value.

### 3 Tahal Group and subsidiaries

Based on impairment testing, no impairment was deemed necessary as of December 31, 2009. Goodwill acquired through business combinations has been allocated to the relevant cash-generating units, in each reportable segment, and is primarily allocated to anticipated future profits from development projects and assets.

The method used for calculating the fair value is the Discounted Cash Flow ('DCF') method. This approach is based on the estimation of future returns on an investment in terms of cash flows, and the calculation of the present value of the expected cash flows by discounting them according to the required rate of return of investment (WACC).

The basic assumption within the DCF method is that the company and its subsidiaries will continue as a going concern in the foreseeable future.

The assumptions regarding the fair value evaluation can be presented as follows:

	WACC	Operating income margin
Projects segment:		
2009	12%	7,6%
2008	9%	3,3%
Assets segment:		
2009	7%-11%	10%-15%
2008	12%	16%

#### *Sensitivity analysis*

TGI has impaired in full the goodwill allocated to CGUs where value has decreased. Accordingly, any change in value of those CGUs will not result in additional impairment losses.

#### **D Service concession agreements:**

The Service concession agreements included in the other intangible fixed assets commenced during 2008 and can be presented as follows:

€ in millions	Carrying value 31 December 2009	Construction period until 31.12.2009	Remaining construction period	Remaining operational period	Carrying value 31 December 2008
Tianjin Jinnan Huanke Sewage Treatment	2	1 year	0 years	15 years	2
Tianjin Dagang Huanke Lantian Sewage treatment	4	1 year	0.5 years	21 years	3
Tianjin Tanggu Huanke Xinhe Sewage treatment	5	1 year	0 years	22 years	5
Tianjin Baodi Huanke Bishui Sewage treatment	1	1 year	0 years	18 years	1
Zibo Huantai Huanke Sewage treatment	4	1 year	0.5 years	23 years	3
Zibo Boshan Huanke Sewage Treatment	7	1 year	0.5 years	26 years	6
Guluc project – Turkey	4	1.5 year	(–)	32 years	3
<b>Total</b>	<b>27</b>				<b>23</b>

The intangible assets represent the right to charge users for waste water treatment. The grantors of these projects are all municipal authorities.

Intangible assets are depreciated in accordance with their concession period in the operational period, as identified above.

The Group has the obligation to operate a treatment facility and to provide the user with water in accordance with the conditions of the concession agreement. This obligation covers the construction period and the operational period.

The carrying value of each of the identified projects is based on the net present value of expenses made, adjusted for an estimated gross margin, taking into account the construction and operating period.

#### E Information regarding other intangible assets

Other intangible assets were primarily created from purchase price allocations of business combinations in the financial services segment. These intangible assets are amortized over a period of 5-10 years.

#### F Amortization expenses

Amortization expenses of intangible assets are included in the following line items in the income statement:

- Cost of goods sold;
- Contract costs;
- Operating expenses of insurance activities;
- Costs of banking and retail lending activities;
- Costs of rental vehicles;
- Selling and marketing expenses;
- General and administration expenses; and
- Finance expenses

## 15 Inventories, Contract Work and Buildings Inventory in Progress

### A Composition

€ in millions	December 31, 2009	December 31, 2008
Building inventory in progress (1)	417	462
Contract work in progress (2)	20	21
Merchandise inventories (3)	10	16
Vehicles	8	–
Other	13	–
	<b>468</b>	<b>499</b>

### B The movement is as follows:

€ in millions	December 31, 2009	December 31, 2008
Opening balance	499	297
Additional costs capitalized during the year	261	311
Less – costs charged to the income statement	(253)	(109)
Transfer to investment properties *	(28)	–
Write-down to net realizable value	(11)	–
	<b>468</b>	<b>499</b>

\* During 2009, the GTC Group reclassified projects from inventory to investment property as it is in process of modifying the building rights from residential to offices.

#### (1) Building inventory in progress:

- a The balance as of December 31, 2009 includes capitalized financing expenses amounting to €8 million (December 2008 – €12 million) million in total at an average interest rate of EURIBOR + 3.25%.



**b** Composition of cost of buildings in progress

€ in millions	December 31, 2009	December 31, 2008
Current:		
Completed	49	27
Under construction	201	239
In design stage	7	174
	257	440
Non-current:		
In design stage *	160	22
	417	462

\* Building in progress in design stage amounting to €160 million (2008 – €22 million) are presented as long-term inventory, as starting date of the respective projects have not been determined yet.

- c** Building inventory is stated in gross figures.  
Customer advances are presented under other liabilities and amount to €88 million as of December 31, 2009 (December 31, 2008 – €123 million).
- d** Cost of buildings in progress are inventories of residential unities in connection with residential projects developed for sale and are accounted for under the completed contract method.
- e** Management has conducted an impairment test for each of the residential projects. The estimated sales prices and project costs were discounted at a rate of 8.5%-10%. The time of completion was assumed to be 2-6 years. Following the impairment test, the GTC Group wrote down €11 million, primarily from projects in the design stage.
- f** During the past year the Group entered into 1,545 sales contracts of apartments, for which the total consideration is estimated at €77 million. The aggregated number of signed contracts of existing projects amounts to 5,784 contracts for which the aggregated consideration is estimated at €351 million.

- g The main projects included in buildings inventory in progress are as follows:

Country	Property	Cost € in millions	Details
Hungary	Sassad Resort	40	Residential project in Budapest
Romania	Rose Garden	49	Residential project in Bucharest
	Felicity	68	Residential project in Bucharest
Slovakia	Vineyard	37	Residential project in Bratislava
China	Olympic Garden	24	Residential project in Xi'an

(2) Contract work in progress:

Contract work in progress relates to infrastructure projects, which are not considered service concession arrangements. Details are as follows:

€ in millions	December 31, 2009	December 31, 2008
Contract costs incurred	260	135
Recognized profits	(14)	(2)
	246	133
Less – revenues from customers	(249)	(122)
	(3)	11
Presented in statement of financial position		
Current assets – contract work in progress	20	33
Current liabilities – advance payments from customers	(23)	(22)
	(3)	11

- (3) Merchandise inventory primarily relates to the consumer goods activities and mainly includes electrical appliances and white goods products.

## C Additional information concerning long-term construction works

December 31, 2009 € in millions	Infrastructure works		Construction for industry and trade		Residential construction	
	Cumulative up to the end of the reporting period	For the year ended	Cumulative up to the end of the reporting period	For the year ended	Cumulative up to the end of the reporting period	For the year ended
Revenues recognized	238	71	–	–	188	117
Cost recognized	189	57	–	–	150	93

December 31, 2008 € in millions	Infrastructure works		Construction for industry and trade		Residential construction	
	Cumulative up to the end of the reporting period	For the year ended	Cumulative up to the end of the reporting period	For the year ended	Cumulative up to the end of the reporting period	For the year ended
Revenues recognized	191	61	13	–	131	70
Cost recognized	159	53	11	–	102	55

## 16 Trade Receivables

### A Composition

€ in millions	December 31, 2009	December 31, 2008
Trade receivables <sup>1</sup>	64	26
Checks and credit card receivables	17	11
Accrued income from work performed <sup>2</sup>	15	25
	96	62

<sup>1</sup> Net of provision for doubtful debts amounting to €4 million (2008 – €4 million).

The movement in the provision during the year was insignificant.

<sup>2</sup> The accrued income from work performed relates to the revenue realized on long-term projects in the infrastructure segment, accounted for against the percentage of completion method.

For terms and conditions relating to receivables, refer to Note 49.

Trade receivables are non-interest-bearing and are generally on 30-120 days' terms.

**B As of December 31, the ageing analysis of trade receivables is as follows:**

€ in millions	Neither past due nor impaired	Past due but not provided					Total
		< 30 days	30 – 60 days	60 – 90 day	90 – 120 day	>120 days	
2009	44	2	6	2	1	7	62
2008	21	3	1	1	2	2	30

**17 Insurance Premium Receivables**

€ in millions	December 31, 2009	December 31, 2008
Due from policyholders	9	10
Due from reinsurers	3	1
Due from agents and insurers receivables	15	16
	<b>27</b>	<b>27</b>

Due from policyholders – relates to the part of premium receivables that is due to direct contracts with the policyholders.

Due from reinsurers – this is the current account with the reinsurers.

Due from agents and insurers receivables – relates to the part of premium receivables that is due to contracts with agents.

## 18 Other Receivables and Prepayments

€ in millions	December 31, 2009	December 31, 2008
<b>Financial:</b>		
Central banks in Ukraine and Russia <sup>1</sup>	10	18
<b>Non-Financial:</b>		
Prepaid expenses and accrued income	27	23
Advances to suppliers	16	63
Advance for land	45	–
VAT receivable	37	54
Other	33	13
	<b>168</b>	<b>171</b>

<sup>1</sup> VAB Bank and Sovcombank are required to maintain, in the form of non-interest earning cash deposits, certain cash reserves with the local central banks (obligatory reserve), which are computed as a percentage of certain liabilities of the bank less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the central banks, however, if minimum average reserve requirements are not met, the banks could be subject to certain penalties. The banks were obligated to and maintained the minimum cumulative average reserve calculated on a daily basis over a monthly period. The banks meet the obligatory reserve requirements for the whole year 2009 and 2008.

## 19 Reinsurance Assets

### A Composition

€ in millions	December 31, 2009	December 31, 2008
Provision for outstanding claims – reinsured	14	10
Provision for unearned premiums – reinsured	12	15
	<b>26</b>	<b>25</b>

## B Movement in provision for outstanding claims

€ in millions	2009	2008
Balance as of January 1	10	14
Disposals for companies deconsolidated	–	(3)
Claims incurred in the current accident year	3	12
Movement in claims incurred in prior accident years	15	–
Claims paid during the year	(14)	(10)
Foreign currency exchange differences	–	(3)
<b>Balance as of December 31</b>	<b>14</b>	<b>10</b>

## C Movement in provision for unearned premiums

€ in millions	2009	2008
Balance as of January 1	15	18
Disposals for companies deconsolidated	–	(1)
Transfer from fully consolidated to held for sale	–	(4)
Reinsurance premium written in the year	12	30
Premiums earned during the year	(15)	(28)
<b>Balance as of December 31</b>	<b>12</b>	<b>15</b>

## 20 Short-Term Investments

	Average interest rate	December 31, 2009	Average interest rate	December 31, 2008
	%	€ in millions	%	€ in millions
Bank deposits in other currencies	15.6%	3		7
Restricted bank deposits <sup>1</sup>	0.9%-3.8%	57	3%-4%	59
Securities held for trading <sup>2</sup>		328		1
Investment in participating units in partnerships <sup>3</sup>		–		2
		<b>388</b>		<b>69</b>

1 The majority of the balance as of December 31, 2009 and 2008, is comprised of deposits pledged in connection with purchase of land.

2 Debt securities as of December 31, 2009 consist mostly of a bond portfolio held by Sovcombank. The major parts of the portfolio are bonds issued by the Russian government and by some major facility provider companies in the Russian Federation.

The sharp increase as compared to the previous year is due to the bank's desire to investigate further possibilities for profitable transactions on the Russian capital market.

3 In June 2007, Kardan Israel bought 9,437 participating units in Omega Limited Partnership, at a price of NIS 2.12 (€0.37) per unit. The partnership invests in traded securities and other financial assets. In 2009, the units were sold in consideration of € 2 million.

## 21 Cash and Cash Equivalents

€ in millions	December 31, 2009	December 31, 2008
Cash at bank and in hand	95	80
Short-term deposits	379	460
	<b>474</b>	<b>540</b>

As of December 31, 2009 the average annual interest rate earned on short-term deposits was 2.8% (December 31, 2008 – 5.2%).

## 22 Issued and Paid-In Capital

### A Composition

Number of shares	December 31, 2009		December 31, 2008	
	Authorized	Issued and paid-in	Authorized	Issued and paid-in
Ordinary shares with nominal value of € 0.20 each	225,000,000	111,824,638	225,000,000	110,976,911

## B Movement in issued and paid-in shares

	Number of shares	Par value in €
Balance as of		
January 1, 2008	80,871,183	16,174,237
Conversion of options to shares	504,772	100,954
Issue of shares as part of merger	29,600,956	5,920,191
Balance as of		
December 31, 2008	110,976,911	22,195,382
Conversion of options to shares	88,475	17,695
Conversion of debentures	759,252	151,850
Balance as of		
December 31, 2009	111,824,638	22,364,927

## C Changes in share capital

During 2009, the Company issued 759,252 ordinary shares as a result of the conversion of NIS 13,575,424 (€2.5 million) par value of convertible debentures. The remaining 2,328,668 NIS (€0.4 million) par value were paid to the debentures holders.

The conversion of the debentures resulted in an addition of approximately €3 million to the Company's shareholders' equity.

In 2008, the Company issued 593,247 ordinary shares as a result of the exercise of 1,861,602 options (route 1). As a result, the shareholders' equity of the Company increased by €338 thousand. Due to a technical error, an additional 88,475 ordinary shares were issued in January 2009 following the exercise of options in November 2008. Following the exercise, the outstanding balance of the options (route 1) amounted to 58,321 options which expired at the end of November 2008.

Within the framework of the 2008 merger between the Company, GTC RE and GTC Holding, as described

in Note 5C, the Company issued 29,600,956 ordinary shares to the shareholders of GTC RE (except for the Company) in exchange for their shares in GTC RE, at an exchange ratio of 0.81. The exchange ratio was determined based on an external valuation report.

As described in Note 1B, as a result of the 2008 merger between the Company, GTC RE and GTC Holding, KIL which held 15.5% interest in GTC RE received shares of the Company, which are accounted for as treasury shares. Accordingly, the shareholders' equity of the Company decreased with €21 million representing the fair value of these treasury shares. Treasury shares are deducted from retained earnings.

## D Movement in treasury shares

	Number of shares	Par value in €
Balance as of		
January 1, 2009	10,506,111	2,101,222
Treasury shares issued/ repurchased	–	–
Balance as of		
December 31, 2009	10,506,111	2,101,222

## E Dividend

In June 2008, the Annual General Meeting of Shareholders approved distribution of dividend for the year 2007 in a total amount of €18 million, which amounts to €0.22 per share. The dividend was paid in July 2008.

## 23 Share-Based Payments

### A The expense recognized during the year is shown in the following table:

€ in millions	For the year ended December 31	
	2009	2008
Expense arising from equity-settled share-based payment transactions of the Company	1	1
Expense arising from equity-settled share-based payment transactions of subsidiaries	3	4
(Income) / expense arising from cash-settled share-based payment transactions of the Company and subsidiaries	–	(32)
	<b>4</b>	<b>(27)</b>

The expenses are presented as part of 'Payroll and related expenses' within the 'General and administrative expenses'.

### B Option plans

#### (1) Kardan N.V.

In October 2006, the Management Board, the Supervisory Board and the General Meeting of Shareholders of the Company approved a stock-option plan according to which the Company will grant to members of the Management Board, employees of the Company, and employees of the Kardan Group, without consideration, 1,099,327 options (of which 716,927 options were granted to members of the Management Board) exercisable into up to 1,099,327 ordinary shares of the Company each having par value of €0.20 (subject to adjustments). The exercise price of each option is equal to €8.2 (NIS 46.512). The options can be exercised during a period of five years from the date of grant. One third of the options can

be exercised one year following the date of grant, one third two years following the date of grant, and one third – three years from the date of grant.

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

The total value of the options at date of grant was estimated at €4 million.

In June 2008, the General Meeting of Shareholders of the Company approved the grant of additional 325,000 options to two members of the Management Board as follows:

- 1 150,000 options exercisable for into up to 150,000 ordinary shares in the capital of the Company at an exercise price of €6.615 per option, reflecting a price of 90% of the closing price of the Company's share on Euronext as of the date of grant, being April 1, 2008.
- 2 175,000 options exercisable into up to 175,000 ordinary shares in the capital of the Company at an exercise price per option of €9.22. Reflecting 90% of the closing price of Kardan's share on Euronext on the date of grant. The options were granted under the terms and conditions of the Company's Employees Option Plan with the following exceptions for the 175,000 options granted: the options will be granted in three equal portions over three years, with the vesting period commencing at the end of two years from the date of grant. The options will be exercisable as follows: up to two thirds of the options are first exercisable at the end of three years after the date of grant. The balance will be exercisable at the end of the fourth year after the date of grant. The options will be exercisable from the end of their vesting period until six years after the date of grant.



In 2009, the Management Board of the Company approved the grant of 30,000 phantom options to an employee of the Company. The phantom options are exercisable as cash settlement only at an exercise price of €6 per option. The options are exercisable in three equal tranches, starting on May 1, 2009. The phantom options will expire after 5 years from date of grant.

The fair value of the options was calculated by an independent external valuator using the Merton and adjusted Black & Scholes model under the following assumptions:

Number of options	150,000	175,000	1,099,327	30,000
Exercise price (in €)	6.62	9.22	8.2	6
Risk free interest rate	3.68%	4.26%	4%	2.44%
Expected term of the options (in years)	5	6	5	5
Standard deviation	40.5%	40.4%	31%	58.9%

The Company accounts for the options granted in accordance with IFRS 2, assuming equity payments will be affected. For the 2009 phantom options, IFRS 2 is implemented assuming cash payment will be affected.

#### Movement in the year

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

	2009		2008	
	No.	WAEP €	No.	WAEP €
Outstanding as of January 1	1,240,525	8.4	1,051,494	8.5
Granted during the year	30,000	6	325,000	8.02
Exercised during the year	–		–	
Expired during the year	(39,810)	8.4	(135,969)	8.5
Outstanding as of December 31	1,230,715	8.3	1,240,525	8.4
Exercisable as of December 31	914,356		576,982	

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

## (2) GTC Holding and its subsidiaries

- a. In July 2005, the Management and Supervisory Board of GTC RE approved an employee option plan. According to the option plan, GTC RE will grant to employees of the parent company and subsidiaries of GTC RE, without consideration, 280,000 options exercisable in up to 280,000 ordinary shares of GTC RE each having a par value of €0.20. The exercise price of each option is equal to NIS 8.80 (€1.6) adjusted to the changes in the Israeli CPI.

The options can be exercised in two ways: (1) payment of the full exercise price and receiving the whole number of shares derived from the number of options exercised; or (2) not to pay the exercise price but to be entitled to the number of shares reflecting only the benefit component inherent in the options. The options can be exercised during the earliest of a period of 4 years from the determining date or 90 days following the termination of the employment relationship between GTC RE and the employees. Each employee shall be entitled to exercise half of the options granted after 1 year from the determining date and to exercise the remaining options after 2 years from the determining date. The options were granted on October 12, 2005, as of December 31 2007, the employees were entitled to exercise all the options.

The fair value of the options as of the date of grant was estimated at €0.3 million.

In July 2006, GTC RE has granted an additional 40,000 employee options to the Chairman of the Supervisory Board. The options have the same

terms as the employees options granted in October 2005. The fair value of the options as of the date of grant is estimated at €0.1 million.

During 2008, all outstanding options were exercised into shares.

	2008	
	No.	WAEP NIS
Outstanding as of January 1	220,000	8.68
Granted during the year	–	–
Forfeited during the year	–	–
Exercised during the year	(220,000)	8.99
Expired during the year	–	–
<b>Outstanding as of</b>		
<b>December 31</b>	–	–
Exercisable as of		
December 31	–	–

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

Expected volatility (%)	26%
Risk-free interest rate (%)	4.5%
Expected life of options (years)	3.2
Weighted average share price (NIS)	28.35
Model used	Merton and adjusted Black & Scholes

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

- b. GTC SA has granted certain key management personnel Phantom Shares. The Phantom Shares grant the entitled persons a right for settlement

from GTC SA in the amount equal to the difference between the closing price of GTC SA's shares on the Warsaw Stock Exchange during the 30-day period prior to the date of delivery of the exercise notice to GTC SA, and settlement price ('strike') amount per share (subject to adjustments).

The table below presents an overview of the issued Phantom Shares as of December 31, 2009:

Series	Number of Phantom Shares	Strike price (PLN)	First exercise date	Final exercise date	Value per option at date of grant (€)
1a first	350,000	22.5	January 1, 2007-2008	December 31, 2012	4.51
1a latest	350,000	18.15	January 1, 2009-2010	December 31, 2012	5.42
1b first	150,000	22.5	January 1, 2007-2008	December 31, 2014	7.37
1b latest	300,000	18.15	January 1, 2009-2010	December 31, 2014	8.25
2	1,200,000	18.15	January 1, 2011-2015	December 31, 2015	8.95
3	500,000	18.15	January 1, 2011-2012	December 31, 2012	5.42

During 2009, the final exercise dates of the above-mentioned Phantom Shares were extended, subject to the approval of the Supervisory Board of GTC SA. The final exercise dates in the above-mentioned table are the extended dates.

GTC SA used Whaley model to calculate the value of options as of the granting date. In the valuation, GTC SA used half-year volatility.

The settlement of the Phantom Shares (cash or equity) is at the discretion of the shareholders of GTC S.A.

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

The table below presents the movement in the Phantom Shares during the year:

Number of shares	Phantom Shares Series1a (first)	Phantom Shares Series1a (latest)	Phantom Shares Series1b (first)	Phantom Shares Series1b (latest)	Phantom Shares Series 2	Phantom Shares Series 3
Number of options/shares vested as of December 31, 2008	700,000	700,000	300,000	300,000	1,000,000	–
Number of options/shares granted in the year (subject to vesting period)	–	–	–	–	200,000	500,000
Number of options exercised in the period	–	–	–	–	–	–
Extension of expiry period	–	–	–	–	–	–
Number of options/shares vested as of December 31, 2009	700,000	700,000	300,000	300,000	1,200,000	500,000
Settlement price (PLN)	22.5	18.15	22.5	18.15	18.15	18.15
Exercise date	January 1, 2007 until December 31, 2012	January 1, 2009 until December 31, 2012	January 1, 2007 until December 31, 2014	January 1, 2009 until December 31, 2014	January 1, 2011 until December 31, 2015	January 1, 2011 until December 31, 2015

### (3) Kardan Israel

Kardan Israel and its subsidiaries granted employee options to senior managers in the various companies during the years 2006 – 2008. In 2009 and 2008, the consolidated companies of Kardan Israel incurred a total expenses amount of €0.5 million and €0.5 million, respectively, arising from options granted to senior managers in those companies.

Value of options granted by these companies is estimated, as of December 31, 2009, at an amount of €2.1 million.

### (4) Financial Services

In 2009 and 2008 consolidated companies in the financial services sector incurred a total expenses amount of €0.5 million and €0.8 million, respectively, arising from options granted to senior managers in those companies.

Value of options granted by these companies was estimated at the date of grant at an amount of €2.8 million.

### (5) Tahal Group International

In 2008, the Management Board, the Supervisory Board and the General Meeting of Shareholders of TGI approved stock option plans according to which TGI has granted to key management members of the Company 1,253 options exercisable into up to 1,253 shares of the Company, constituting approximately 6% of the shares of TGI post-issuance. The exercise price of the options has a range of €869 to €1,717. The options can be exercised until December 31, 2012, and have different vesting periods for each of the offerees. Since TGI had constructive obligation towards the offerees as of December 31, 2008, TGI has recognized the associated cost starting 2008.

Upon exercise of the options, the Supervisory Board of TGI will determine whether to allocate the full number of shares deriving from exercise of the options or the number of shares reflecting only the benefit component inherent in the options, as calculated at

the exercise date, or alternatively, the Supervisory Board may elect to pay that benefit in cash.

The total value of the options at date of grant was estimated at €1.2 million. This fair value was based on calculation prepared by an independent external valuator.

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

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

€'000	2009 No.	2008 No.	2009 WAEP	2008 WAEP
Outstanding as of January 1	1,253	–	1,758	–
Granted for the year	–	1,253	–	1,758
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
<b>Outstanding as of December 31</b>	<b>1,253</b>	<b>1,253</b>		
<b>Exercisable as of December 31</b>	<b>933</b>	<b>774</b>		

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

2008	
Expected volatility (%)	50.52%
Interest-free interest rate (%)	2.68%
Expected life of options (years)	4
Weighted average share price (€)	1,758.24
Model used	Black & Scholes

## 24 Non-Current Interest Bearing Loans and Borrowings

### A Composition

	December 31, 2009		December 31, 2008	
	Weighted interest rate as of %	€ in millions	Weighted interest rate as of %	€ in millions
<b>Banks</b>				
In USD	3.47	64	6.1	101
In EUR	2.9	1,307	5.4	775
In NIS (linked to CPI)	6.47	77		8
Linked to other currencies	2.8	89	9	164
Others – in NIS	4.7	78		9
Others – in USD	5.1	48		32
Others – in EUR	3.9	197	9.3	241
		<b>1,860</b>		<b>1,330</b>
<b>Less – Deferred debt issuance costs</b>		12		7
– Current maturities		150		195
		<b>1,698</b>		<b>1,128</b>

### B Maturities

€ in millions	December 31, 2009	December 31, 2008
First year – current maturities	150	195
Second year	165	141
Third year	134	138
Fourth year	135	111
Fifth year	298	139
Thereafter	978	606
	<b>1,860</b>	<b>1,330</b>

## 25 Banking Customers Accounts

### A Composition

€ in millions	December 31, 2009	December 31, 2008
<b>Due to banks:</b>		
Deposits	–	19
Loans and advances	–	–
	–	19
<b>Due to customers:</b>		
Deposits from corporate clients	140	165
Deposits from individual clients	487	412
	627	577
	627	596

### B Maturities

€ in millions	December 31, 2009	December 31, 2008
First year – current maturities	483	469
Second year	60	17
Third year	82	102
Fourth year	1	1
Fifth year and thereafter	1	7
	627	596

Under normal circumstances, banking customers accounts which can be drawn on demand are considered covered by the banks' financial assets.

## 26 Other Long-Term Liabilities

€ in millions	December 31, 2009	December 31, 2008
Deposits from tenants	5	3
Deferred purchase price for shares in subsidiary	5	–
Long-term advances from buyers	6	–
Land purchase commitment	–	9
Other	3	–
<b>Total other long-term liabilities</b>	<b>19</b>	<b>12</b>

## 27 Options

€ in millions	December 31, 2009	December 31, 2008
<b>Options on Group companies' share</b>		
Kardan Israel	2	–
<b>Call option granted to third parties <sup>1</sup></b>	3	–
<b>Put options granted to minority shareholders</b>		
Kardan Israel	1	1
KFS Group <sup>2</sup>	21	52
GTC Group <sup>3</sup>	1	2
	<b>23</b>	<b>55</b>
	<b>28</b>	<b>55</b>

1 In March 2009, the Company has reached an agreement with Israel Discount Bank ('IDB') to buy back the 11% stake IDB holds in KFS (for details please refer to Note 5C1b).

Within the framework of the agreement, the Company has granted IDB an option to repurchase a 5% stake in KFS during the next six years, at a price changing gradually, reflecting a valuation of KFS of €386 million plus 5% interest from the third year.

2 The balance includes the following:

€15 million (December 31, 2008 – €16 million) put option granted to Cavebrook, a minority shareholder in TBIF. As of December 31, 2009 Cavebrook holds approximately 9.62% in TBIF shares.

€5 million put options granted to minority shareholders in insurance companies purchased during 2007 and 2008 (December 31, 2007 – €15 million). During 2009, TBIF acquired additional stakes in the insurance companies, thus decreasing the put options liabilities.

The fair value of the put options was determined based on external valuation reports used by the Group for goodwill impairment testing. For details regarding the underlying assumptions, please refer to Note 14.

In 2008, the balance included €20 million put options granted by the Company to minority shareholders in KFS. In 2009, most of these put options were exercised. For details please refer to Note 5C1a.

3 The balance includes the following put options:

€1 million put option granted to minority shareholders in GTC Investments (December 31, 2008 – €1.2 million).

€0.2 million long-term portion of the put option granted by GTC SA to a minority shareholder in some of its subsidiaries (December 31, 2008 – €0.4 million).

In January 2009, GTC SA and the minority shareholder signed an agreement in which the minority shareholder realized its right and sold all his shares in GTC SA's subsidiaries to GTC SA in consideration of €17.6 million. As of December 31, 2008, the financial liability is accordingly valued at this settlement price, and presented in 'other payables and accrued expenses'.



## 28 Convertible Debentures

### A Composition

€ in millions	Par value as of December 31, 2009	Balance as of December 31, 2009, net	Balance as of December 31, 2008, net	Interest rate	Currency and linkage	Maturities principal	Conversion rate
Kardan Israel – (June 2005) – conversion to Kardan Israel shares	27	28	29	6%	In NIS linked to CPI	2010	<sup>1)</sup>
Kardan – series B – conversion to Company shares	–	–	3	6%	In NIS linked to CPI	2009	<sup>2)</sup>
		–	32				
Less – current maturities		(28)	(3)				
		–	29				

1 Each €2.1 par value is convertible into one ordinary share of NIS 1 par value of Kardan Israel. The market value of the debentures as of December 31, 2008, was €24 million.

2 Following the merger between the Company, GTC Holding, and GTC RE, as described in Note 5C2d, the holders of the convertible debentures of GTC RE exchanged their convertible debentures for newly issued convertible debentures of the Company and simultaneously GTC Holding assumed a debt from Kardan for the same amount. As of the day of the merger, the balance of convertible debentures of GTC RE amounted to NIS 15,904,120 par value. During 2009, the remainder of the debentures was fully converted to the Company's shares.

### B Maturities

€ in millions	December 31, 2009	December 31, 2008
First year	28	3
Second year	–	29
Third year	–	–
<b>Total</b>	<b>28</b>	<b>32</b>

### C For share collaterals – see Note 34

## 29 Other Debentures

### A Composition

The issuer	Par value as of December 31, 2009	Balance as of December 31, 2009, net	Balance as of December 31, 2008, net	Interest rate	Currency and linkage	Maturities principal
	€ in millions	€ in millions	€ in millions	%		
The Company – 2007	210	213	217	4.45	1)	2013-2016
The Company – 2008 <sup>2</sup>	236	268	262	4.9	1)	2014-2020
GTC SA – 2007	212	279	276	7.45	1)	2012-2014
The Company – 2005 <sup>4</sup>	–	–	24	6.6	1)	2010
Kardan Israel – 2005	–	–	11	6.4	1)	2009
Kardan Israel – 2005	–	–	11	5.5	1)	2009
Kardan Israel – 2009 <sup>3</sup>	20	21	–	7.9	1)	2013-2015
Dan Vehicle and Transportation D.R.T Ltd <sup>5</sup>	191	89	–	4.5-6.7	1)	2007-2017
Other subsidiaries <sup>6</sup>	–	61	39	7.2-10.1	In €, linked to €, or USD	2008- 2012
		931	840			
Less – current maturities		(63)	(31)			
Debentures issuance expenses		(2)	(3)			
		<b>866</b>	<b>806</b>			

1 In NIS linked to the Israeli CPI.

2 Following the merger between the Company, GTC Holding, and GTC RE, as described in Note 5C2d, the holders of the debentures of GTC RE exchanged their convertible debentures for newly issued debentures of the Company and simultaneously GTC Holding assumed a debt from Kardan for the same amount. As of the day of the merger, the balance of debentures of GTC RE amounted to NIS 1,334 million par value (€251.8 million).

3 In May 2009, KIL published a shelf prospectus in Israel. In June 2009, KIL published a shelf offering report which KIL issued to the public in NIS 110 million (€20 million) par value debentures (series D) in consideration for their nominal value. The debentures bear an annual interest rate of 7.9% and are linked (principal and interest) to the Israeli CPI. The principal will be repaid in three equal annual installments in the years 2013-2015. Subsequent to the balance sheet date, in February 2010, Kardan Israel has raised an additional NIS 185 million (€34 million) par value debentures (series D), by extending the series.

4 During 2009, the Company early repaid these debentures.

5 Presented due to the first time consolidation of AVIS. AVIS issued six different series of debentures. Final maturities are in the years 2010, 2011, 2012, 2016 and 2017. Each series has a different interest rate as follows: 4.5%, 4.9%, 5.1%, 5.15%, 5.3% and 6.7%.

6 Relates mainly to VAB bank, TBI Credit EAD and Hypocredit. Subsequent to the balance sheet date, in March 2010, the meeting of the debenture holders issued by VAB bank decided to extend the final maturity date of these debentures from 2012 to 2014, and to increase the annual interest rate to 10.4%. As of December 31, 2009 the debentures of VAB bank amount to €34 million.

## B Maturities

€ in millions	December 31, 2009	December 31, 2008
First year – current maturities	63	31
Second year	25	31
Third year	34	6
Fourth year	166	22
Fifth year	280	163
Sixth year onwards	363	587
<b>Total</b>	<b>931</b>	<b>840</b>

## C Additional information

- 1 In May 2008, GTC SA completed the issuance of debentures amounting to PLN 350 million (approximately €104 million). The debentures were issued to institutional investors in Poland and are not subject to any pledge or guarantee. The debentures bear fixed interest of 6.63% denominated in PLN and will be repaid in five years from the issuance date.
- 2 Within the framework of the merger, as described in Note 5C2d, the holders of the debentures issued by GTC RE received in exchange for such debentures newly issued debentures by the Company, having the same terms as the GTC RE above-mentioned debentures. The carrying amount of the debentures transferred at the date of the merger was €276.5 million.
- 3 Regarding swap transactions in relation to the above mentioned debentures, please refer to Note 49.

## 30 Insurance Provisions

€ in millions	December 31, 2009	December 31, 2008
General insurance		
Unearned premium reserves	40	44
Outstanding claims	31	27
<b>Total</b>	<b>71</b>	<b>71</b>

\* The Life Assurance companies were sold (Helios and Bulstrad), as of December 31, 2009.

## A Issuance contract and deferred acquisition costs in general insurance

### 1 The methods for determining various types of insurance liabilities and deferred acquisition costs:

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

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

### ■ Unearned premium provision

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

### ■ Provision for outstanding claims

*Valuation of the outstanding claims:*

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

cases, the expected loss ratio method is applied in order to ensure reasonable estimations when the statistical method fails. The actuaries carry out estimations using data regarding claims payments, numbers of claims reported and case reserves. The estimates allow for IBNR, IBNER, expected subrogation and direct claims handling expenses. See below for more details.

For other lines of business, due to the absence of statistical effect the actuarial model was not applied and the outstanding claims in these business lines are included for known outstanding claims that include an appropriate provision for settlement and handling expenses. This provision is based mainly on an individual valuation for each claim according to the opinion obtained from the legal advisors and the Company's experts that handle the claims. A provision for IBNR is added for these lines according to local regulations. This IBNR provision is not material due to the short-tail nature of these lines. The total outstanding claims provision includes a provision for indirect or unallocated claims settlement expenses, based on the current expense level of the relevant claims departments, and projected forward according to the claims runoff.

■ **Deferred acquisition costs:**

The portion of the commission and other acquisition costs, relating to unearned insurance premiums on retention, are carried forward to the next reporting periods as deferred acquisition costs. These are calculated according to the actual commission rates.

**2 The assumptions and models used for determining the provisions**

■ **Unearned premium provision**

The above mentioned 'Unearned premium provision' in principle is not calculated according to an actuarial method and does not depend on any assumptions, but rather it constitutes an unearned premium balance. However, where the portion of unearned premium, net of DAC, is not sufficient to cover expected claims and related costs, based on the

actuaries' estimation, the DAC is reduced or the reserve for unexpired risks is increased, as appropriate. This is done at the level of line of business.

■ **Provision for outstanding claims**

For the sake of valuating outstanding claims, or supplementing the claims departments' per-claim case reserves for IBNR and IBNER, the actuarial models detailed below have been used in conjunction with various assumptions:

- Chain ladder: this method is based on the development of historical claims (development of payments and/or development of amount of claims, development of the number of claims, etc.), in order to value the anticipated development of existing and future claims. The use of this method is mainly suitable after a sufficient period, since the event occurred or the policy is written when there is enough information from the existing claims in order to value the total anticipated claims.
- Bornhuetter-Ferguson (or modified version thereof): this method combines early estimates known in the Company or class of business, and additional estimates based on the claims themselves. The early estimates utilize premiums and loss ratio for evaluating the total claims. The second estimate utilizes actual claims experience based on other methods (such as chain ladder). The combined claims valuation weighs the two estimates while a larger weight is given to the valuation based on the claims experience as time passes and additional information is accumulated for the claims. The use of this method is mainly suitable for the recent period where there is not enough information from the claims or when talking about a new business or one with insufficient historical information.
- The average payment per claim: at times, as in the Bornhuetter-Ferguson method, when the claims experience in the last periods is insufficient, the historical average method is utilized. In this method the provision is calculated based on the forecast of the number of claims (chain ladder method) and historical average claim size.

The selection of a suitable actuarial method for each insurance branch, and for each underwriting/ calendar year is determined by considering the compatibility of the method for the respective case and there is also a combination between the various methods.

For some lines of business, claims are discounted (e.g. Motor TPL and Green Card), while for most lines of business claims are not discounted due to the fact that most claims are settled within a very short period of time and very few claims remain outstanding for more than 2 of 3 years. There were no material changes to assumptions or models used compared to last year.

There are no material assumptions made in determining the outstanding claims provisions, other than the general broad-based assumptions that past experience regarding claims reporting and settlement patterns will be repeated in the future with changes based on trends in claim frequency and severity due to changes in regulations, policy conditions, customer mix and so on. All other assumptions only exist on a claim-by-claim basis, regarding issues such as the probability of winning a claim dispute.

- Liability adequacy tests are carried out by the group in each of its material subsidiaries, in respect of their general insurance liabilities, as follows:

**a** For most of the liability (e.g. in respect of motor and health business) for outstanding claims net of recoverables from reinsurance, subrogations and salvage, an actuarial analysis is carried out in order to determine that the recorded liability (net of relevant assets) is adequate, based on current best estimates of future claims development and interest rates. If the liabilities are not adequate, they are increased through the Income Statement.

**b** For most of the liability (e.g. in respect of motor and health business) for unexpired risks (the unearned premium reserve net of DAC), an actuarial estimate is carried out of the expected future loss ratio in respect of unexpired risks on in-force contracts. If the expected loss ratio implies that the unearned premium provision net of DAC is

inadequate, the DAC is reduced, and if necessary the unearned premium reserve is increased, until it is adequate.

**c** For the remaining lines of business the companies reviewed the average loss ratios over the previous years, and the current pricing basis, and concluded that they do not expect to make losses, and therefore that the unearned premium provision net of DAC is adequate. In terms of outstanding claims, the provision was concluded to be adequate since case reserves are held for every reported claim, and these reserves are reviewed on an annual basis, at least, in order to ensure that they are adequate.

IBNR for these lines of business is immaterial due to the short tail of the business.

#### B Movement of outstanding claims in general insurance (gross)

€ in millions	2009	2008
Balance as of January 1	27	54
Additions for newly consolidated companies	–	4
Disposals for companies deconsolidated	–	(10)
Transfer to 'held-for-sale'	–	(20)
Claims incurred in the current accident year	56	53
Movement on claims incurred in prior accident years	–	(1)
Claims paid during the year	(52)	(48)
Foreign exchange adjustment	–	(5)
<b>Balance as of December 31</b>	<b>31</b>	<b>27</b>

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

### C Movement of unearned premium reserves in general insurance (gross)

€ in millions	2009	2008
Balance as of January 1	44	62
Additions for newly consolidated companies	–	7
Disposals for companies deconsolidated	–	(5)
Transfer to 'held-for-sale'	–	(28)
Premium written in the year	42	89
Premium earned during the year	(46)	(81)
<b>Balance as of December 31</b>	<b>40</b>	<b>44</b>

### D Changes in assumptions and actuarial models and their effect on the provisions

There were no material changes in assumptions or reserving methods compared to the previous year.

### 31 Trade Payables

€ in millions	December 31, 2009	December 31, 2008
Trade payables	109	99
Checks payables	16	3
Other	–	10
	<b>125</b>	<b>112</b>

Trade payables are non-interest bearing and are generally aged in between current and 60 days overdue.

### 32 Current Interest-Bearing Loans and Borrowings

	Weighted average annual interest rate *	December 31, 2009	December 31, 2008
	%	€ in millions	€ in millions
Short-term credit from banks			
In NIS	3.3	58	50
In USD	4.2	15	4
In EUR	7	15	66
In other currencies	6.4	224	88
Short-term credit from others	5.5	5	239
		<b>317</b>	<b>447</b>
Long-term interest-bearing loans related to current cost of buildings in progress		82	–
Current maturities of long-term liabilities:			
Loans (see Note 24)		150	195
Debentures (see Note 29)		91	31
		<b>640</b>	<b>673</b>

\* As of December 31, 2009

Collateral – see Note 34

### 33 Other Payables and Accrued Expenses

€ in millions	December 31, 2009	December 31, 2008
<b>Financial:</b>		
Accrued expenses	78	81
Insurance companies	5	10
Payroll and related expenses	11	11
Promissory notes	15	11
Put option (1)	5	18
<b>Non Financial:</b>		
Advances from customers	11	11
Unearned revenues	4	–
VAT payable	7	–
Related companies	12	9
Current maturities of long-term liabilities	–	7
Other	43	29
	<b>191</b>	<b>187</b>

1 Includes the settlement price agreed on the put option granted to a minority shareholder in GTC SA. For details regarding this option, please refer to Note 27.

### 34 Liens, Contingent Liabilities and Commitments

#### A Liens and collaterals

1 In connection with loan agreements signed with banks and financial institutions for loans amounting to approximately €64 million as of December 31, 2009 (€103 million as of December 31, 2008), the Company has undertaken to maintain certain financial covenants and has pledged certain assets, including, among others the following:

- a Maintain control over Kardan Israel;
- b Maintain unpledged holdings of at least 51% in KFS;
- c Maintain holdings of 35% in TBIH and 51% in TBIF;

- d Maintain holdings of 51% in GTC Holding;
- e Commitment of the Company not to pledge all its assets;
- f Maintaining equity to stand-alone balance sheet ratio at 25%-30%; and 10%-12% with respect to consolidated balance sheet and total equity;
- g Shareholders' equity will not be less than €260 million;
- h Pledge over 29% of KFS shares;
- i Pledge over Kardan Israel shares at a value of 120%-125% of the outstanding loans (€16.4 million and €21 million as of December 31, 2009 and 2008, respectively);
- j Prior approval of one of the lenders for any change in control, reorganization, capital reduction or de-listing.
- k The Company's shares should be traded on TASE during a certain loan period.

As of December 31, 2009 and throughout the year 2009, the Company has met the above mentioned requirements.

It should be noted that during the year the Company has agreed with two lending banks to change some of the financial covenants. The description of the covenants above is after the agreed-upon changes.

- 2 To secure the repayment of debentures (series D) issued by KIL, amounting to approximately €21 million as of December 31, 2009, KIL has pledged shares of Kardan that it holds at a value of 100% of the nominal value of the debentures.
- 3 To secure the repayment of loans amounting to €26 million, Kardan Israel pledged 40.5% of the shares of UMI.

As of December 31, 2009 and throughout the year 2009, Kardan Israel has met the aforementioned requirements.

**4** In connection with a NIS 140 million loan (€26 million as of December 31, 2009), Kardan Israel has committed to meet certain financial covenants, as follows:

- a** The shareholders' equity to stand-alone balance less cash ratio of Kardan Israel will be at least 35%;
- b** The shareholders' equity of Kardan Israel will be at least NIS 300 million;
- c** The financial debt to equity ratio of Kardan Israel on a stand-alone basis will not be more than 1.5 and
- d** The tangible shareholders' equity of UMI will be at least NIS 375 million and will not fall below 15% of total consolidated balance sheet.

As of December 31, 2009 and throughout the year, Kardan Israel has met its financial covenants.

**5** Kardan Real Estate has committed towards banks to meet certain financial covenants in connection with future loans to finance projects. Among others, Kardan Real Estate has committed to maintain tangible equity of at least 20% of the stand-alone balance sheet and not to distribute dividend that will lead to not meeting its obligations towards the banks.

**6** Kardan Real Estate and some of its investee companies have pledged, in favor of banks, land investment properties, rental revenues, real estate under construction, shares, and rights in different contracts. The loans secured by those pledges amount to €34.5 million as of December 31, 2009 (€30 million as of December 31, 2008).

**7** To secure credit granted to Dan Vehicle and Transport, it made the following commitments towards the lending banks and debenture holders:

- a** First-rank fixed pledges over 5,000 vehicles (15% of its fleet);
- b** Shareholders' equity will not fall below 15% of its balance sheet;
- c** Certain limitations over dividend distribution;

- d** To continue being a publicly listed company; and
- e** To maintain a BBB rating.

As of December 31, 2009 Dan meets its financial covenants.

**8** Kardan Communications has committed towards a lending bank to maintain a shareholders' equity to balance sheet ratio of at least 30% and that the shareholders' equity will be at least NIS 300 million. In addition, Kardan Communications has pledged its entire holdings in RR.

**9** In connection with a €173 million credit facility (€100 million as of December 31, 2008), GTC Holding has committed towards the lending bank to maintain certain financial covenants, including: minimum shareholders' equity of €240 million and group equity of €500 million, equity to stand-alone balance sheet ratio of 40% and 20% for consolidated balance sheet, maintaining effective control of at least 30% over GTC SA. In addition, GTC Holding has pledged in favor of lending the bank shares of GTC SA at a value equal to 150% of the outstanding loan. In addition, the Company has committed to maintain certain requirements with respect to the loan as follows: maintain interest of 51% in GTC Holding, maintain equity to balance sheet ratio of 27% or minimal shareholders' equity of €260 million. As of December 31, 2009 GTC Holding has withdrawn approximately €155.6 million.

As of December 31, 2009 and throughout the year, GTC Holding has met its obligations in connection with the loan.

**10** In most cases, in its financing agreements with banks, the GTC Group undertakes to comply with certain financial covenants that are prescribed in those agreements, the principal elements of which are: maintaining a balance for a certain amount in the bank accounts, maintaining a certain ratio



between the loan and the value of the project, maintaining certain ratios between the net revenues from the lease of the financed project and the amounts of the various expenses, such as interest and commissions, maintaining certain ratios between the net revenues from the financed project and the principal and interest that the borrowing company is required to pay for a period of a quarter.

In addition, substantially, all investment properties and IPUC have been pledged to secure long-term loans from banks. The fair value of the pledged assets exceeds the carrying value of the related loans.

As of December 31, 2009 and throughout the year, the borrowing companies are fulfilling their obligations in connection with the financial covenants.

**11** Under a loan agreement between KFS and a lending bank, KFS is required to comply with certain covenants. As of December 31, 2008, KFS was not compliant with some of the covenants. The loan, amounting to approximately €235 million, was presented in the financial statements as of December 31, 2008 as current liability. As of December 31, 2009 and following new agreements signed with the bank, KFS has met its financial covenants.

**12** As of December 31, 2009, TBIF companies were in breach of loans for a total amount of €9 million (maturing in 2013), which is presented as short-term in these consolidated financial statements. The breaches relate to ratios for up-hedged open currency positions. TBIF has obtained waivers for all breached loans as of issue the date issue of these consolidated financial statements.

**13** The KFS Group has pledged assets amounting to €482 million to secure liabilities amounting to €381 million as of December 31, 2009 (as of December 31, 2008 – €293 million and €247 million,

respectively). The assets pledged by the KFS Group are strictly for the purpose of providing collateral for the counterparty. The pledged assets will be returned to the KFS Group when the underlying transaction is terminated but, in the event of the KFS Group's default, the counterparty is entitled to apply the collateral in order to settle the liability.

**14** In order to secure the liabilities of Tahal Consulting Engineers Ltd. ('TCE') to banks and performance guarantees received from banks, fixed charges have been placed on TCE's share capital and assets including cash, bank deposits, motor vehicles, shares of investees and TCE's goodwill. Floating charges have also been recorded on TCE's assets. In addition, TCE has recorded charges on contractual rights securing execution of agreements in Israel, South American countries and Africa, and on notes in which TCE has rights, and funds that will be received from the Government of Israel in connection with services in progress.

**15** Kardan Israel and its subsidiaries recorded liens on their assets and their rights, in part or in full, as collateral for credit received from banks and from others, which credit amounted to approximately €209 million as of December 31, 2009 (€68 million as of December 31, 2008).

**16** The Company has provided letters of support to the managements of its subsidiaries KIL and Foodyard.

## B Guarantees

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

€ in millions	2009		2008	
	Limited in amount	Not limited in amount *	Limited in amount	Not limited in amount *
With respect to:				
– Subsidiaries	472	–	319	28
– Associated companies	28	21	24	13
	<b>500</b>	<b>21</b>	<b>343</b>	<b>41</b>

\* The amount of the guaranteed liabilities as of December 31

In addition, the Kardan Israel Group has issued guarantees not limited in amount towards third parties. The guarantees amounted to €2 million as of December 31, 2009.

As of December 31, 2009, and 2008, GTC SA has provided guarantees to third parties in order to secure loans and cost overruns of its subsidiaries in a total amount of €216 million and €120 million, respectively.

As of December 31, 2009 and 2008, TGI provided bank guarantees in an amount aggregating to approximately €47 million and €52 million, respectively, in favor of customers in respect of advances received from them for projects and for performance and tender guarantees.

As of December 31, 2009, the Kardan Israel Group has provided bank guarantees to apartment buyers and performance guarantees amounting to €52 million.

In connection with the sale of certain subsidiaries during 2008 and 2009, TBIH provided certain guarantees and warranties. As of the date of these financial statements, it is not expected that these guarantees and warranties will result in any material expense to TBIH or the Group.

## C Legal claims and contingencies

- Subsidiaries have liabilities with respect of warranty for the quality of the services and the work which they perform. In order to cover these obligations, the subsidiaries are insured with liability insurance up to the amount of €7 million for each claim. Management of the subsidiaries believes - based, among others, on estimates of the insurance companies and on prior experience - that the provisions included in the financial statements with respect to the claims filed against them in excess of the existing insurance coverage and with respect to the deductible portion of the insurance are sufficient.
- Three claims were filed against Kardan Sahar Ltd. ('Kardan Sahar') in November 2007. An application to approve the claim as a collective claim was attached to each of these claims.

Kardan Sahar imports and markets electrical household appliances. The subject of the claims is excess amounts, allegedly collected illegally from buyers of the products for service provided to the product. The damage to the whole Group, as estimated by the claimants, amounts to NIS 54 million (€10 million).

Currently, Kardan Sahar is in advanced negotiation in order to reach a settlement agreement with the representatives of the claimants. As of the date of these financial statements, a settlement agreement hasn't been signed yet.

- 3 In May 2008, disputes arose between Habas H.Z. Credit (1994) Ltd ('Habas') and a subsidiary in connection with continuation of the works on a residential tower in Tel Aviv, in consequence of which the subsidiary gave notice of termination of the agreement between the parties.

On September 15, 2008, Habas H.Z. Credit (1994) Ltd and Habas Shikun-Dan Ltd ('the Plaintiffs') filed a claim against the subsidiary amounting to NIS 43.2 million (€8.2 million), out of which NIS 7.5 million (€1.4 million) was set off in respect of monies due to the company for works executed. The claim that was filed is in respect of the supposed termination of an agreement for the execution of works on a residential tower in Tel Aviv, which according to the Plaintiffs were executed contrary to the law. In accordance with an opinion of the subsidiary's legal advisors and in accordance with a statement of the subsidiary's management, at this preliminary stage it is difficult to assess the prospects of the claim; however, the subsidiary seems to have good defense pleas and the prospects of the claim are assessed at less than 50%.

On November 23, 2008, the subsidiary filed its defense, in which it denied Habas's pleas and argued that it did not breach the aforesaid contract and that it was forced to terminate it and cease the works on the project after Habas committed a fundamental breach of the contract. Simultaneously, the subsidiary filed a counterclaim in the amount of NIS 28 million (€5.3 million) in respect of the damages supposedly caused to it. At this preliminary stage, it is difficult to assess the prospects of the counterclaim; however, it appears that the subsidiary has good pleas.

The balance of the income receivable in respect of the aforesaid project as of December 31, 2009 amounts to NIS 7.5 million. As of the date of the approval of these financial statements, mediation is underway between the parties. The subsidiary's management, in reliance, inter alia, on the opinion of its legal advisors, believes that there are good prospects of collecting the income receivable that was recorded as aforesaid.

- 4 In February 2008, a pecuniary claim was filed against Universal Motors Ltd. ('UMI'), an associated company, in the amount of NIS 12 thousand together with an application to approve the filing of a class action amounting to NIS 220 million (€40.4 million).

The cause of action is the Plaintiff's plea that it was deceived by UMI with regard to the brake pads that were installed in his 2004 Isuzu Trooper motor vehicle, which according to him wore down very frequently. The Plaintiff applied for leave to file a class action on behalf of all Isuzu vehicle purchasers.

On June 1, 2009 the claim was erased.

- 5 In December 2008, a claim and motion to certify the claim as a class action was filed with the Tel Aviv District Court against Dan Vehicle. The argument underlying the claim was that Dan Vehicle demanded compensation from the plaintiffs for damage caused to vehicles owned by Dan Vehicle as a result of an accident in which the plaintiffs were involved, in amounts which exceeded the amounts Dan Vehicle actually expended to repair the damage to the vehicles. The plaintiffs set the amount of their personal claim at NIS 3,000 and the amount of the class action at NIS 120 million (€22 million). Dan Vehicle filed a motion for summary dismissal of the motion to certify the claim as a class action. With respect to the motion for summary dismissal, Dan Vehicle's legal advisors believe that it has sound arguments which have a good likelihood of being accepted in a

manner that would result in the summary dismissal of the class action motion, and it is more likely than not that the motion for summary dismissal will be accepted. It is clarified that at the present stage, Dan Vehicle's legal advisors cannot and do not address the motion to certify on the merits.

- 6 In February 2009, an additional claim was filed against Dan Vehicle, concurrently with a motion to certify the claim as a class action. The claim was based on the argument that Dan Vehicle had charged the plaintiff an amount which exceeds the cost of gas for Dan Vehicle by 41%, for filling the gas tank in the plaintiff's rented car. The plaintiff argued, inter alia, that the clause in the rental agreement, pursuant to which Dan Vehicle charged renters a surcharge for filling the gas tank, was misleading and a discriminatory clause in a standard contract and should be nullified. The plaintiff set the class action amount at NIS 66 million (€12.1 million).

## D Commitments

- 1 To meet the financial needs of customers, the TBIF and its subsidiaries enter into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the TBIF Group. The total outstanding commitments include financial guarantees, letters of credit and undrawn commitments to lend and amount to €44 million as of December 31, 2009 (December 31, 2008 - €110 million).

Letters of credit, guarantees (including standby letters of credit) commit the TBIF Group to make payments on behalf of customers in the event of a specific act. Guarantees and standby letters of credit carry the same credit risk as loans.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have

fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The TBIF Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

- 2 As of December 31, 2009 and 2008, the Group has contractual commitments in relation to future building construction, amounting to €185 million and €506 million, respectively. These commitments are expected to be financed from current financing facilities, other external financing, or future installments under already contracted sale agreements and sale agreements yet to be contracted.

## E Operating lease commitments

### Operating lease commitments – Group as lessor

The Group has entered into various operational lease contracts with tenants related to properties in Poland, Romania, Croatia, Serbia, Hungary, Germany, Switzerland and Israel. The aggregate amount of contracted future rental income as of December 31, 2009 and 2008 amounts to approximately €434 million and €498 million, respectively, and is due according to the table below:

€ in millions	2009	2008
First year	86	91
Second to fifth year	247	244
After the fifth Year	102	161

### Operating lease commitments – Group as lessee

Two subsidiaries within the GTC Holding Group have commitments to pay annual lease payments for the leased land totaling €20 million as of December 31, 2009.

The KFS Group has entered into commercial leases on premises. There are no restrictions placed upon the lessee by entering into these leases. Future minimum lease payments under non-cancellable operating leases as of December 31, 2009 and 2008 amount to €5 million and €12 million, respectively.

### Financial lease commitments – Group as lessor

The TGI Group has entered into financial leases relating to plant operations. Future minimum amounts payable under non-cancelable commitments as of December 31, 2009 amount to €1 million, all due after 1 years but less than 5 years.

## 35 Segment Information

### A General

The Group's operating businesses are organized and managed separately. Each segment represents a strategic business unit that offers different products and serves different markets. The segmentation was determined by the Company's CODM which is the management board.

Starting January 1, 2009, following the first time proportionate consolidation of AVIS, and the first time adoption of IFRS 8, the Company has changed the segmental reporting of the Automotive & Consumer Goods segment. Starting 2009 the Automotive part of the segment is split into two new segments: 'Rental & leasing of vehicles' which includes the activities of AVIS, and 'Sale of vehicles' which includes the contribution of Universal Motors Israel Ltd., an associate that was included in the Automotive & Consumer Goods segment, and that is engaged in the import and distribution of vehicles, was reclassified to the 'All other segments' for all presented periods. In addition, the Company combined the 'Communication & Technology' segment and reclassified the contract work component previously included in real estate with 'All other segments' for all presented periods due to immateriality of the revenues and result of those activities.

#### Financial Services

Incorporated under KFS, the financial services segment includes the following 2 segments:

1. Banking and lending.
2. Insurance and pension.

Through its subsidiaries, the Company is active in Bulgaria, Romania, Turkey, Georgia, Russia and Ukraine.

#### Real Estate

Through the GTC Group, the Company owns investment properties and is involved in the development of offices, shopping centers and

residential projects primarily in Central and Eastern Europe, China and Israel. The real estate activities of the Group are presented as the Real Estate segment.

#### *Infrastructure*

Incorporated under TGI, the Infrastructure activities includes the following two segments: Infrastructure Projects and Infrastructure Assets.

Through its subsidiary, the Company develops and invests in infrastructure assets and provides engineering, consulting and design services. The Company undertakes projects in Latin America, Eastern Europe, Africa, China, Israel and in other countries, mainly relating to the environment, water, sewage, drainage, irrigation, energy and agriculture.

#### *The Rental and leasing of vehicles segment*

Includes rental and leasing activities of AVIS under Kardan N.V.'s subsidiary Kardan Israel.

#### *Sale of vehicles*

Includes the contribution of Universal Motors Israel Ltd, under Kardan N.V.'s subsidiary Kardan Israel.

#### *Others*

The Other lines of business are mainly included under Kardan N.V.'s subsidiary Kardan Israel through its investee companies and comprise the following lines of business: technologies and communication, consumer goods, and contract work.

The Group's segments are operating segments and are fully independent from each other. Apart from invoicing management fees or recharge of expenses, there are no material segment to segment invoicing.

## B Segments revenues

€ in millions	For the year ended December 31,		
	2009	2008	2007
Financial services – insurance and pension	64	105	54
Financial services – banking and retail lending	110	96	103
Real estate	56	427	399
Infrastructure – assets	61	46	10
Infrastructure – projects	101	83	65
Rental and leasing of vehicles	169	–	–
Sale of vehicles	7	10	9
Others	43	44	36
	<b>611</b>	<b>811</b>	<b>676</b>

\* Segment revenues include fair value adjustments of investment properties, goodwill impairment, and gains from disposal of assets and investments

## C Segments results and reconciliation to net result

€ in millions	For the year ended December 31,		
	2009	2008	2007
Financial services – insurance and pension	(8)	21	37
Financial services – banking and retail lending	(16)	(60)	37
Real estate	(117)	323	328
Infrastructure – assets	8	(10)	(2)
Infrastructure – projects	7	(3)	2
Rental and leasing of vehicles	26	–	(1)
Sale of vehicles	7	10	9
Others	4	(1)	(2)
	<b>(89)</b>	<b>280</b>	<b>408</b>
Unallocated expenses	16	11	7
<b>Profit (loss) from operations</b>	<b>(105)</b>	<b>269</b>	<b>401</b>
Finance expenses, net	120	12	106
<b>Profit (loss) before income tax</b>	<b>(225)</b>	<b>257</b>	<b>295</b>
Income tax expenses (benefit)	(27)	81	42
<b>Profit (loss) from continuing operations</b>	<b>(198)</b>	<b>176</b>	<b>253</b>
Profit (loss) from discontinued operations	22	(1)	(3)
<b>Profit (loss) for the period</b>	<b>(176)</b>	<b>175</b>	<b>250</b>

**D Segments assets**

€ in millions	December 31, 2009	December 31, 2008
Financial services – insurance and pension	191	242
Financial services – banking and retail lending	931	1,117
Real estate	2,827	2,694
Infrastructure – assets	80	125
Infrastructure – projects	115	83
Rental and leasing of vehicles	245	70
Sale of vehicles	44	–
Others	178	45
	<b>4,611</b>	<b>4,376</b>
Unallocated assets	1,022	875
	<b>5,633</b>	<b>5,251</b>

**E Segments liabilities**

€ in millions	December 31, 2009	December 31, 2008
Financial services – insurance and pension	116	176
Financial services – banking and retail lending	660	656
Real estate	518	455
Infrastructure – assets	55	16
Infrastructure – projects	18	55
Rental and leasing of vehicles	185	21
Sale of vehicles	–	–
Others	555	32
	<b>2,107</b>	<b>1,411</b>
Unallocated liabilities	2,538	2,728
	<b>4,645</b>	<b>4,139</b>



## F Segments capital expenditure

€ in millions	December 31, 2009	December 31, 2008
Financial services – insurance and pension	2	7
Financial services – banking and retail lending	18	22
Real estate	312	397
Infrastructure – assets	20	33
Infrastructure – projects	2	3
Rental and leasing of vehicles	101	1
Sale of vehicles	–	–
Others	5	4
	<b>460</b>	<b>467</b>

## G Segments depreciation

€ in millions	December 31, 2009	December 31, 2008
Financial services – insurance and pension	6	2
Financial services – banking and retail lending	12	9
Real estate	3	3
Infrastructure – assets	3	1
Infrastructure – projects	2	1
Rental and leasing of vehicles	46	–
Sale of vehicles	–	–
Others	1	–
	<b>73</b>	<b>16</b>

## H Information about geographical areas

(1) Revenues by geographical markets (according to location of customers):

€ in millions	For the year ended December 31,		
	2009	2008	2007
Europe (mainly Central & Eastern Europe)	178	642	564
China	62	26	6
Israel	286	115	74
Other	85	28	32
	<b>611</b>	<b>811</b>	<b>676</b>

(2) Non-current assets by geographical areas (according to location of assets):

€ in millions	Segment non-current assets	
	December 31, 2009	December 31, 2008
Europe (mainly Central & Eastern Europe)	2,085	1,939
China	126	92
Israel	299	79

Segment non-current assets include all investment properties, goodwill, intangible assets and property plant and equipment.

### 36 Sales of goods

€ in millions	For the year ended December 31,		
	2009	2008	2007
From sale of merchandise	19	21	22
From selling apartments	126	70	33
	<b>145</b>	<b>91</b>	<b>55</b>

### 37 Revenues from Insurance Activities

€ in millions	General Insurance activities		
	For the year ended December 31,		
	2009	2008	2007
Income from premiums	79	90	38
Less – reinsurance	(27)	(30)	(18)
Income from premiums, net	52	60	20
Change in provisions, net of share of reinsurers	(1)	1	(4)
Income from investments	8	6	–
	7	7	(4)
	<b>59</b>	<b>67</b>	<b>16</b>

All figures are presented net of discontinued operations (see Note 5).

### 38 Revenues From Banking and Retail Lending Activities

€ in millions	For the year ended December 31,		
	2009	2008	2007
<b>Revenues of lending and fiduciary activities</b>			
Interest income	296	195	109
Finance costs	(113)	(96)	(56)
	<b>183</b>	<b>99</b>	<b>53</b>
Commission and service fees	23	31	24
Finance advisory and fiduciary fees	1	12	8
Impairment of loans granted *	(111)	(46)	(13)
	<b>96</b>	<b>96</b>	<b>72</b>

\* See also Note 11

### 39 Cost of Goods Sold

€ in millions	For the year ended December 31,		
	2009	2008	2007
Cost of sale of merchandise	14	13	17
Cost of apartments sold	100	57	22
	<b>114</b>	<b>70</b>	<b>39</b>

## 40 Operating Expenses of General Insurance Activities

€ in millions	General insurance activities		
	For the year ended December 31,		
	2009	2008	2007
Claims paid and outstanding	51	46	20
Less – reinsurers	(14)	(9)	(4)
	<b>37</b>	<b>37</b>	<b>16</b>
Commissions paid	11	12	2
Reinsurers' share of commissions	–	–	(3)
General, administrative and other expenses	21	15	2
Increase in deferred acquisition costs	(1)	(1)	(2)
	<b>31</b>	<b>26</b>	<b>(1)</b>
	<b>68</b>	<b>63</b>	<b>15</b>

All figures are presented net of discontinued operations (see Note 5)

## 41 Costs of Banking and Lending Activities

€ in millions	For the year ended December 31,		
	2009	2008	2007
Staff costs	55	52	28
Impairment losses on assets other than loans portfolio	5	–	–
Other operating expenses	64	68	37
	<b>124</b>	<b>120</b>	<b>65</b>

## 42 Other Expenses, net

€ in millions	For the year ended December 31,		
	2009	2008	2007
Impairment of properties *	13	–	–
Loss on disposal of investment	1	4	–
Cost of services	2	2	1
Expenses of managing pension funds	–	–	2
Other expenses, net	14	4	3
	<b>30</b>	<b>10</b>	<b>6</b>

\* Mainly relates to devaluation of land

## 43 Selling and Marketing Expenses

€ in millions	For the year ended December 31,		
	2009	2008	2007
Payroll and related expenses	7	5	6
Commissions	2	1	2
Marketing and advertising	6	6	5
Other	9	8	6
	<b>24</b>	<b>20</b>	<b>19</b>

## 44 General and Administrative Expenses

€ in millions	For the year ended December 31,		
	2009	2008	2007
Payroll and related expenses	21	18	19
Share-based payment <sup>1</sup>	4	(27)	12
Management fees	10	8	6
Office maintenance	5	5	3
Professional fees	10	8	7
Depreciation and amortization	3	2	2
Other	9	13	7
	<b>62</b>	<b>27</b>	<b>56</b>

<sup>1</sup> For details please refer to Note 23

Payroll and related expenses are as follows:

€ in millions	For the year ended December 31,		
	2009	2008	2007
Wages and salaries	19	16	14
Pension expenses	1	1	3
Unemployment contributions	–	1	2
Other social expenses	1	–	–
	<b>21</b>	<b>18</b>	<b>19</b>

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

Total payroll and related expenses in the Group for the year ended December 31, 2009 amounted to approximately €131 million.

Total depreciation and amortization in the Group for the year ended December 31, 2009 amounted to approximately €70 million.

## 45 Gain on Disposal of Assets and Other Income

€ in millions	For the year ended December 31,		
	2009	2008	2007
Gain on disposal of investment in subsidiaries	18	6	38
Release of negative goodwill <sup>1</sup>	5	77	–
Gain from release of provision from preferred return	–	–	–
Other <sup>2</sup>	7	38	9
	<b>30</b>	<b>121</b>	<b>47</b>

<sup>1</sup> For details please refer to Note 5C2d regarding the merger.

<sup>2</sup> In 2008 includes the gain from initial recognition of the put option granted to KFS. For details please refer to Note 12.

## 46 Other Financing Expenses

€ in millions	For the year ended December 31,		
	2009	2008	2007
<b>Income</b>			
Income from bank deposits	10	24	25
Interest income with respect to long-term loans and receivables	10	5	8
Income from securities held for trading		–	6
Exchange differences	41	145	–
Other	2	3	3
<b>Total financing income</b>	<b>63</b>	<b>177</b>	<b>42</b>
<b>Expenses</b>			
Interest on long-term loans and borrowings	83	78	47
Interest on debentures and convertible debentures	42	4	8
Exchange differences	54	152	39
Short-term loans and borrowings	1	3	2
Other	6	10	8
<b>Total financing expenses</b>	<b>186</b>	<b>247</b>	<b>104</b>

## 47 Taxes on Income

A The Company has its statutory seat in the Netherlands, and therefore is subject to taxation according to the Dutch law.

The Company benefits from the Participation Exemption ('Participation Exemption'). According to the Participation Exemption, all capital gains and dividends income derived from qualifying participations are exempt from Dutch corporate income tax.

Starting from 2007, the Participation Exemption applies to any shareholding of 5% or more in the paid-in capital of an active participation whose capital is divided into shares. However, holdings of a 'low-taxed portfolio participation' will not allow application of the Participation Exemption. This relates to investments in passive companies which are subject to an effective tax at a rate lower than 10% (which is to be calculated according to Dutch tax law); or to participations whose assets, directly



or indirectly, mainly (more than 50%) consist of free portfolio investments. An exception to this rule is shareholdings of 5% or more in companies where at least 90% of the (consolidated) assets are real estate assets. Holdings in such companies shall benefit from the Participation Exemption even if the investees have been classified as low-taxed portfolio participation.

As from 2010, the Participation Exemption should apply to all participations of 5% or more if the participation is not considered to be held as a mere portfolio investment.

The enacted tax rates in the various countries were as follows:

Tax rate	2009	2008
Bulgaria	10%	10%
China	25%	25%
Croatia	20%	20%
Hong Kong	16.5%	16.5%
Hungary	20%	20%
Israel	26%	27%
Poland	19%	19%
Romania	16%	16%
Russia	20%	24%
Serbia	10%	10%
Slovakia	19%	19%
The Netherlands	25.5%	25.5%
Turkey	20%	20%
Ukraine	25%	25%

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

€ in millions	For the year ended December 31,		
	2009	2008	2007
Current taxes	19	14	8
Deferred taxes	(46)	67	34
	<b>(27)</b>	<b>81</b>	<b>42</b>

**C The reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:**

€ in millions	For the year ended December 31,		
	2009	2008	2007
Accounting profit (loss)	(225)	257	289
Tax expense (tax benefit) computed at the weighted average taxable rate of 12.4% (2008 – 23%; 2007 – 18.5%) *	(29)	58	54
Increase (decrease) in tax expense (tax benefit) due to:			
– Unrecognized tax losses	13	8	27
– Equity in net earnings of associated companies and gain on issuances of shares to third parties which are not taxable	(2)	(14)	(1)
– Tax effect of unrealized foreign currency related to investment property	(9)	24	(6)
– Tax effect of revenues exempted from tax	(1)	–	(15)
Change in tax rates	(4)	–	–
Non deductible expenses (incomes) and others	5	5	(17)
	<b>(27)</b>	<b>81</b>	<b>42</b>
Average effective tax rate	12%	32%	14%

\* The average weighted taxable rate differs from year to year due to different mix of revenues, costs and profits or losses generated in the various countries of operations, each subject to a different tax rate, as indicated in A above

## D Composition of deferred taxes

€ in millions	Consolidated statement of financial position		Recorded in the income statement		
	December 31, 2009	December 31, 2008	Movement for the year ended December 31,		
			2009	2008	2007
<b>Deferred income tax assets (deferred tax liabilities) with respect to:</b>					
Investment properties	(131)	(143)	31	(45)	(41)
Tangible fixed assets	(16)	(15)	1	(13)	(2)
Contract work in progress	–	–	–	1	(1)
Temporary differences relating to investments in companies	–	–	–	2	(1)
Financial assets	(2)	(19)	–	(17)	(1)
Temporary differences in reserves and allowances	3	–	3	–	–
Carry forward losses available for offset against future taxable income	11	4	6	2	2
Valuation allowance	–	–	–	–	2
Basis differences	3	8	3	–	8
Financial liabilities	1	1	8	(1)	2
Other	2	10	(6)	4	(2)
	<b>(129)</b>	<b>(154)</b>	<b>46</b>	<b>(67)</b>	<b>(34)</b>

## E Tax presented in the consolidated statement of financial position is broken down as follows:

€ in millions	December 31, 2009	December 31, 2008
Net deferred income tax asset	24	18
Net deferred income tax liability	(153)	(172)
	<b>(129)</b>	<b>(154)</b>

## F Loss carry forwards and final tax assessments

The Group has tax losses of €343 million that are available for offset between five years and indefinitely. Deferred tax assets have not been recognized in respect of tax loss carry forwards amounting to €328 million as they may not be used to offset taxable profits elsewhere in the Group and the losses are of subsidiaries that have generated losses for extended periods.

The Company has received final tax assessments for the years 2003 until 2006. The Company filed an appeal regarding the 2003 tax assessment.

According to the Corporate Income Tax Act, costs with regard to (indirect) foreign (non-EU) participation are non-deductible. GTC Holding (as the successor of GTC RE), upon the advice of its advisors, has decided to appeal against corporate tax assessments raised by the inspector of taxes with regard to the fiscal years 2001-2003 on the basis that the decision of the European Court of Justice (C-168/01), upon which the Dutch Supreme court amended the Corporate Income Tax Act, should be extended to cover not only the EU and Economic European Area (EEA) but also countries who have association agreements with the EU based on article 56 EC (free movement of capital with third countries).

For the year 2001, the appeal has been made to the Tax Court, and for the years 2002 and 2003 at the Tax Authorities.

At present it is not possible to ascertain the outcome of the appeal against the corporate tax assessments raised by the tax inspector. Should GTC Holding be fully successful in its appeal then it would be able to deduct €1 million for 2001, €0.6 million for 2002 and €3.1 million for 2003.

GTC Holdings' tax provision is based upon the assessments raised by the tax inspector.

## G Tax regulations in Eastern Europe

Restrictive tax regulations exist in Eastern European countries regarding value-added tax, company tax and national insurance (social security) payments. Since these regulations were enacted in recent years, they often include internal contradictions that cause problems in their interpretation. Differences in interpretation of the tax regulations between various tax-related entities and tax authorities, and the tax payers cause numerous disputes. Arrangements regarding taxation and other areas of activity (such as foreign currency transactions) may be subject to supervision by the tax authorities and by other authorities that are empowered to levy material penalties including interest on the penalties. In these circumstances, business activity in Eastern European countries includes more serious tax risks than in countries with a more stable tax base. Eastern European countries do not have a formal procedure for determining the amount of the final tax. Tax arrangements may be audited at any time during a number of years. A risk exists that the tax authorities' interpretation of the tax legislation will be different from the interpretation of the subsidiaries in Eastern Europe, a fact that may affect the tax liability of those companies.

Regulations regarding VAT, corporate income tax and social security contributions are subject to frequent changes. These frequent changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies. Tax settlements and other areas of activity (e.g. customs or issues related to foreign currency) may be subject to inspection by administrative bodies authorized to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in the Group's countries than in countries that have a more established taxation system.

## 48 Earnings per Share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, less the weighted average number of treasury shares.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent, after adjusting for interest on convertible share, by the weighted average number of ordinary shares outstanding during (less the weighted average number of treasury shares) the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, adjusted for the effects of dilutive options and dilutive convertible debentures of the Company and of Group companies.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2009	2008	2007
Net profit (loss) attributable to ordinary equity holders of the parent (€ in millions)	(92)	52	90
Effect of dilution of earnings of Group companies	(1)	(5)	(1)
Effect of dilution of convertibles and options of the Company	–	(16)	–
	<b>(93)</b>	<b>31</b>	<b>89</b>
Weighted average number of ordinary shares for basic earnings per share (in millions)	101	82	81
Effect of dilution:			
Shares options	–	1	–
<b>Adjusted weighted average number of ordinary shares for diluted earnings per share</b>	<b>101</b>	<b>83</b>	<b>81</b>

In the calculation of the earning per share convertible securities issued by Kardan Israel (series 4 warrants) were not included in the calculation of diluted earnings

per share for the year 2007 because they were anti-dilutive.

In addition, employee options granted by the Company during 2006 and 2008 were excluded, and in accordance with their vesting conditions, they have, as of December 31, 2009, 2008 and 2007, a negative benefit rate and on that basis no shares would have been issued.

The impact of the early adoption of IAS 40 Revised in 2008 on the earnings per share of the Company amounted to €0.45 on both basic and diluted earnings per share.

## 49 Financial Instruments and Risk Management

### A The Kardan Group

#### Financial risk management

The Group's principal financial instruments, other than derivatives, comprise bank loans, debentures, convertible liabilities, cash deposits and loans granted. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

Operations of the Group expose it to various financial risks, e.g., market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group employs derivative financial instruments, principally interest rate swap transactions, to hedge certain exposures to risks.

The Group operates in real estate primarily in emerging markets. It is vulnerable to the dangers that exist in developing countries, mostly of a political nature, and involving local economies. The Group is exposed to fluctuations of supply and demand in the real estate markets in which it operates.

The Management Boards, Supervisory Boards and Boards of Directors (as applicable) of the various Group's companies provide overall risk-management principles, and also the specific policy on certain exposure to risks, e.g., exchange rate risk, interest rate risk, credit risk and use of derivative financial instruments.

#### Capital management

The primary objective of the Group's capital management aims to ensure capital preservation and maintain healthy capital ratios in order to support its business and maximize shareholder value. The group considers its equity to be its capital.

In addition, capital management objectives ensure that relevant group companies, mainly in the financial segment, comply with externally imposed capital requirements (e.g. banks, insurance companies). The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group decides on leverage policy, repayment of loans, investment or divestment of assets, dividend policy and the need, if any, to issue new shares or debentures.

#### Risk management structure

The Management Board of Kardan N.V. and of each Group company is ultimately responsible for identifying and controlling risks. However, there are separate independent bodies within the Group that are responsible for managing and monitoring risks.

##### *(i) Corporate level*

The Supervisory Board has the responsibility to monitor the overall risk process. The Management Board is responsible for the overall risk-management approach and for approving the risk strategies and principles. Within the Management Board of Kardan, the Chief Operating Officer is responsible for risk management. The COO works closely with risk managers within the Group and together the COO has developed functional lines of responsibility and has the overall responsibility for the development of the risk strategy

and implementation of principles, frameworks, policies and limits.

*(ii) Group companies*

Some of the Kardan Group companies have appointed risk managers at corporate levels as well as at country levels or subsidiary levels (e.g. in TBIF). When a country has a risk manager, the risk manager is in charge of all risk-related issues in that country. The country risk manager is guided from a professional point of view by the chief risk manager of the relevant subsidiary.

*(iii) Risk mitigation*

Kardan uses the analysis of the structure of its portfolios in order to mitigate excessive risk in each of the countries and each of the business segments. The risk is spread among the different activities of the Kardan Group. The diversification of the businesses (commercial and residential real estate, banking and lending, insurance and pension, infrastructure projects and asset ownership) as well as collateral management are useful risk mitigation tools as well.

*(iv) Excessive risk concentration*

Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. Concentrations indicate the relative sensitivity of Kardan's performance to development affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, Kardan's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (CEE, CIS, China etc.); industry diversification (financial services, real estate, infrastructure); product diversification (i.e. residential and commercial real estate, lending, banking, insurance, pension, etc.).

**Market risk**

The Group operates in various sectors in emerging markets. The Group is exposed to inherent risks in

developing countries, mainly political and other risks which include local economic and legal issues.

Success of the Group in the emerging markets depends on the continued development of these markets, continued development of real-estate business, development of financial services and infrastructures. Decreased development rate of the said markets may have an adverse impact on the business of the Company. It should also be noted that the official information published in developing countries is not always available.

The Company conducts considerable operations in China and Central Eastern Europe, mainly in real estate and financial services sectors, while in China the Group operates in the real estate and infrastructure sectors. The Company continues to direct management and financial resources to investments in Central Eastern Europe, following the economic growth experienced by this region in recent years and in expectation that the trend of decreasing general and economical differences between Eastern and Western Europe will continue and apply to investments in China as well, which is considered to be the largest economy in the world, which has been gradually shifting over the last 25 years from a central government-controlled economy to an open-market economy, that opens up to international markets. A change in these trends in countries where the Group operates may have an adverse impact on its operations.

Throughout 2008 and 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. Management is carefully reviewing and monitoring the impact of the crisis on its financing position, valuation of assets, and liquidity position. Through a range of bond offerings it has secured a good cash position. Also the Group has not significantly invested in residential mortgage backed securities and collateralized debt obligations which could be subject to significant value adjustments. Reference is made,

however, to the paragraph on significant judgments as included in Note 3 of these financial statements.

The home mortgage market in the countries of operation is not yet sufficiently developed. Difficulty in obtaining loans on easy terms for purchasing apartments may affect the demand for home units in the projects undertaken by the Company.

The Management of the Group believes that the following factors contribute significantly to its operating success and handling of the above-mentioned risks.

- 1 Skilled and experience management team and a constant local presence in the countries of operation.
- 2 Close working relations with international financing institutions.
- 3 Focus on selection of major projects which are developed in stages, according to demand.
- 4 Strict due diligence before embarking on a project, and adherence to project completion dates committed to.

#### **Price risk**

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest-rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Kardan's price-risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investments in each country, Because of the Group's operations in different countries, it has no significant concentration of price risk. There is no significant exposure to equity price risk.

#### **Political risk**

The Group has significant business in China, Central and Eastern Europe and in Israel. These emerging

markets have a different risk profile than the Western European area. Political and economic changes in these regions can have consequences for the Group's activities there, as well as an impact on the results and financial positions of the Group. By closely monitoring these businesses, the Board of Management intends to limit the risks of those changes.

#### **Credit risk**

Credit risk is a risk of loss the Group may incur because its customers or counterparties fail to discharge their contractual obligations. Credit risk is also applicable to 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. It is the policy of the Group to trade generally with recognized third parties with good credit standing.

The Group companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from provision of credit, with respect to specific debts whose collection is doubtful. As a result, the Group's exposure to bad debts outside the financial segment is not significant (refer to Note 35).

Credit risks, or the risk of counterparties defaulting are controlled by the application of credit approvals, limits and monitoring procedures. To manage this risk, the Company periodically assesses the financial viability of customers.

A concentration of credit risk exists when changes in economic, industry, or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instruments is broadly diversified along product and geographic lines, and transactions are entered into with diverse creditworthy counterparties, thereby mitigating any significant concentration of credit risk.



The Group performs ongoing credit evaluations of their customers' financial condition and requires collateral as deemed necessary.

Counterparties to financial instruments consist of a large number of financial institutions. The Group has no significant concentration of credit risk with any single counterpart or group of counterparties.

With respect to trade receivables, the maximum exposure equals to the amount on the face of the statement of financial position.

As of December 31, 2009 and 2008, cash and cash equivalent amounted to €474 million and €540, respectively, and restricted deposits in banks amounted to €20 and €59 million, respectively. All deposits are deposited with high-rated financial institutions in the countries of operation.

**Maximum exposure to credit risk**

The sum of all financial assets presented in table below shows the maximum exposure to credit risk for the components of the Group. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

**1 Classification of material financial assets and liabilities in accordance with IAS 39:**

€ in millions	December 31, 2009	December 31, 2008
<b>Financial assets:</b>		
Financial assets at fair value through profit or loss:		
Held for trading	328	3
Designated at fair value through P&L	55	28
Derivatives that are not designated as hedging instruments	8	20
Held to maturity financial assets	–	50
Cash, loans and receivables	1,744	1,929
Available-for-sale financial assets	3	107
Derivatives that are designated as hedging instruments	49	29
Put option	48	36
	<b>2,235</b>	<b>2,202</b>
<b>Financial Liabilities:</b>		
Presented at fair value:		
Held for trading financial liabilities		
Financial liabilities presented at amortized cost	4,250	3,681
Derivatives that are not designated as hedging instruments	5	21
Derivatives that are designated as hedging instruments	74	80
Put option	18	60
	<b>4,347</b>	<b>3,842</b>

Refer to the liquidity note regarding collaterals of financial guarantees.

**Insurance risk**

For a detailed description of the insurance risk, please consult the note on financial instruments for the financial services activities.

**Interest-rate risk**

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest cost using a 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.

The possible exposure on financial assets such as loans to bank customers is considered immaterial.

The tables below present the sensitivity of the consolidated OCI and profit and loss of the Group due to change in certain interest rates, over the fair value of derivatives. The percentages of the analysis changed from 10-20% to 25-80% due to changes in market expectations.

- 2 The tables below present the sensitivity of the OCI and the profit and loss (before tax) due to change in EURIBOR, PLN Wibor and Israeli NIS interest:

The fair values of the derivatives are determined by taking into account the EURIBOR, PLN Wibor and Israeli NIS interest anticipated future curves.

€ in millions	2009			
	Effect on OCI			
	+50%	+25%	-25%	-50%
EURIBOR	34	18	(19)	(38)
	+80%	+50%	-25%	
Israeli NIS interest	(40)	(26)	15	

€ in millions	2009			
	Effect on Profit and loss			
	+50%	+25%	-25%	-50%
EURIBOR	1	1	(1)	(1)
	+80%	+50%	-25%	
Israeli NIS interest	(1)	(1)	–	

€ in millions	2008			
	Effect on OCI			
	+20%	+10%	-10%	-20%
EURIBOR	27	14	(14)	(29)
Israeli NIS interest	(14)	(7)	8	15

€ in millions	2008			
	Effect on Profit and loss			
	+20%	+10%	-10%	-20%
EURIBOR	1	1	(1)	(1)
Israeli NIS interest	(1)	–	–	1

The tables below present the sensitivity of the consolidated profit (loss) of the Group before tax due to change in interests rates, not including derivatives. The sensitivity analysis regarding derivatives is presented in the tables in D above. The percentages of the analysis changed from 10-20% to 25-80% due to changes in market expectations.

€ in millions	Sensitivity to change in EURIBOR			
	Effect on profit and loss			
	+50%	+25%	-25%	-50%
<b>2009</b>	(7)	(3)	3	7
	+20%	+10%	-10%	-20%
<b>2008</b>	(8)	(4)	4	8

€ in millions	Sensitivity to change in Israeli interest			
	Effect on profit and loss			
	+80%	+50%	-25%	
2009	(1)	(1)	-	
	+20%	+10%	-10%	-20%
2008	-	-	-	-

€ in millions	Sensitivity to change in LIBOR			
	Effect on profit and loss			
	+50%	+25%	-25%	-50%
<b>2009</b>	(4)	(2)	2	4
	+20%	+10%	-10%	-20%
<b>2008</b>	(3)	(2)	2	3

€ in millions	Sensitivity to change in Russian interest			
	Effect on profit and loss			
	+50%	+25%	-25%	-50%
<b>2009</b>	32	16	(16)	(32)
	+20%	+10%	-10%	-20%
<b>2008</b>	7	4	(4)	(7)

€ in millions	Sensitivity to change in UAH interest			
	Effect on profit and loss			
	+50%	+25%	-25%	-50%
<b>2009</b>	23	12	(12)	(23)
	+20%	+10%	-10%	-20%
<b>2008</b>	–	–	–	–

€ in millions	Sensitivity to change in other interest rates			
	Effect on profit and loss			
	+50%	+25%	-25%	-50%
<b>2009</b>	–	–	–	–
	+20%	+10%	-10%	-20%
<b>2008</b>	1	–	–	(1)

\* Primarily include Ron interest and Turkish lira interest

## B Derivatives

a Details of Group companies hedge transactions are presented as follows:

1 The Group has the following derivatives:

Party	Loan hedged	Commence	Expiration date	Hedges amount	Interest rate on bank loan (swapped)
Discount Bank	Debentures	Aug-07	Jan-16	59.90	4.45% + CPI
FIBI Bank	Debentures	March-07	Jan-16	36.0	4.45% + CPI
Poalim Bank	Debentures	March-07	Jan-16	54.5	4.45% + CPI
Discount Bank	Debentures	March-07	Jan-16	37.0	4.45% + CPI
Leumi Bank	Debentures	Feb-07	Jan-16	38.0	4.45% + CPI
Leumi Bank	Debentures	Feb-07	Feb-20	100.2	4.9%+CPI
Other	Bereshit mercantile and other	Oct-09	Oct-14	25.73	CPI
FIBI Bank, Mizrahi	Purchase commitments	Dec-09	January-May/2010	2.00	Euro exchange rate
Other	Currency	Nov-09	2011-2015	14.00	USD exchange rate
Discount Bank (1)	Debentures	Dec-07	Jan-20	35.3	4.9%+CPI
Discount Bank (1)	Debentures	Jan-08	Jan-20	36.3	4.9%+CPI
Discount Bank (1)	Debentures	Sep-08	Jan-20	81.6	4.9%+CPI
Raffaisen Bank	Loan from EBRD (GTC Serbia)	May-06	Aug-11	18.6	Floating
MKB Bank	Loan from MKB (GTC Hungary)	Apr-06	Jan-09	31.4	Floating
		Jan-09	Jan-14	27.2	Floating
		Jan 08	Oct 09	35.2	Floating
		Jan 08	Jan 12	31.9	Floating
		Sep-09	Sep-12	18.0	Floating
Bank PEKAO S.A	Bonds	Apr-07	Apr-12	19.5	Floating PLN
		Apr-07	Apr-14	175.3	Floating PLN
Bank PEKAO S.A	Bonds	May-08	May-13	85.1	Floating PLN
EUROHYPO	Topaz	Jan-08	Dec-12	13.0	Floating
WBK Bank	Newton office building	Feb-08	May-13	10.7	Floating
WBK Bank	Edisson office building	Feb-08	May-13	12.6	Floating
WBK Bank	Globis Poznan office building	Jul-08	Jun-14	17.5	Floating
ING Bank	Platinum 1 + 2 office building	July-08	Dec-15	41.3	Floating
ING Bank	Nothus + Zephyrus office building	July-08	Dec-15	35.4	Floating
EUROHYPO	Nefryt office building	August-08	Dec-15	32.7	Floating
BPH bank	Globis Wroclaw office building	March-09	March-15	28.5	Floating
Aareal bank	Loan from Aareal (GTC galeria kazimierz)	Apr-07	Mar-11	50.1	Floating
		May-06	May-11	10.0	Floating
Pekao bank	Loan from Pekao (GTC galeria kazimierz)	Feb-08	Jan-13	44.4	Floating
WBK bank	Loan from WBK (Kazimierz office)	Jan-09	Dec-15	29.7	Floating
Berlin bank	Loan from Berlin (Galeria Mokotow)	Nov-11	Nov-14	102.1	Floating
Other	Discount Bank	2009	2010	110	NIS

Interest to be paid by the company	Installments	Accounting treatment as of December 31, 2009	Accounting treatment as of December 31, 2008	Fair value as of December 31, 2009 € in millions	Fair value as of December 31, 2008 € in millions
5.64%	Yearly installments	Hedge accounting	Hedge accounting	11.6	6.9
5.43%	Yearly installments	Hedge accounting	Hedge accounting	5.2	2.7
5.38%	Yearly installments	Hedge accounting	Hedge accounting	7.4	4.4
5.43%	Yearly installments	Hedge accounting	Hedge accounting	3.9	2.1
5.54%	Yearly installments	Hedge accounting	Hedge accounting	5.3	3.0
5.94%	Yearly installments	Hedge accounting	Hedge accounting	12.9	7
–	Bullet payment	Profit and Loss	N/A	0.5	N/A
currency	Bullet payment	Profit and Loss	N/A	(0.01)	N/A
currency	Bullet payment	Hedge accounting	Hedge accounting	(0.6)	N/A
6.44%	Yearly installments	Hedge accounting	Hedge accounting	3.7	1
6.21%	Yearly installments	Hedge accounting	Hedge accounting	2.8	0.3
7.06%	Yearly installments	Hedge accounting	Hedge accounting	(8.5)	(9.5)
Fixed 3.85%	Quarterly installments	Hedge accounting	Hedge accounting	(0.6)	(0.4)
Collar 3.41%-3.70%	Quarterly installments	–	Profit and Loss	–	(0.2)
Collar 3.77%-4.15%	Quarterly installments	Profit and Loss	Profit and Loss	(1.3)	(0.8)
Collar 4.03%-4.6%	Quarterly installments	Profit and Loss	Profit and Loss	–	(0.2)
Collar 3.89%-4.6%	Quarterly installments	Profit and Loss	Profit and Loss	(1.3)	(0.5)
Fixed 2.39%	Quarterly installment	Hedge accounting	–	(0.1)	–
Fixed Euro 5.745%	Semi-annual installments	Hedge accounting	Hedge accounting	(3.1)	(2.7)
Fixed Euro 5.745%	Semi-annual installments	Hedge accounting	Hedge accounting	(26.5)	(27.5)
Fixed Euro 6.63%	Semi-annual installments	Hedge accounting	Hedge accounting	(25.0)	(25.6)
Collar 3.2%-4.1%	Monthly installments	Profit and Loss	Profit and Loss	(0.5)	(0.3)
Fixed 3.56%	Monthly installments	Hedge accounting	Hedge accounting	(0.5)	(0.7)
Fixed 3.9%	Monthly installments	Hedge accounting	Hedge accounting	(0.6)	(0.4)
Fixed 4.99%	Monthly installments	Hedge accounting	Hedge accounting	(1.7)	(1.5)
Fixed 4.83%	Monthly installments	Hedge accounting	Hedge accounting	(4.3)	(3.7)
Fixed 4.74%	Monthly installments	Hedge accounting	Hedge accounting	(3.4)	(2.9)
Fixed 4.68%	Monthly installments	Hedge accounting	Hedge accounting	(3.2)	(2.7)
Fixed 4.81%	Monthly installments	Hedge accounting	Hedge accounting	(2.8)	(2.3)
Collar 3.25%-5.5%	Monthly installments	Profit and Loss	Profit and Loss	–	(0.4)
Fixed 3.92%	Monthly installments	Hedge accounting	Hedge accounting	–	(0.1)
Fixed 3.11%	Monthly installments	Hedge accounting	–	(1.0)	–
Fixed 2.72%	Monthly installments	Hedge accounting	–	(0.03)	–
Fixed 2.70%	Monthly installments	Hedge accounting	–	(0.7)	–
Currency	Profit and Lost	–	–	4	–

The ineffective portion of the gain and loss on the hedging instruments recognized in the income statement amounted to €5 millions (2008 – €0 millions).

For all cash flow hedges the swap periods are approximately the same as the hedged instruments.

#### **b Movement**

The movement in the fair value of derivatives for the years ended December 31, 2009 and 2008 was as follows:

€ in millions	2009	2008
Fair value at the beginning of the year	(55)	9
Charged directly to OCI	19	(63)
Charged to income statements	7	(3)
<b>Fair value at the end of the year</b>	<b>(29)</b>	<b>(55)</b>

On October 1, 2008, GTC SA designated some of its IRS instruments as hedge instruments. As from that date, the differences in value of such hedge instruments are recognized in equity. GTC SA found that such treatment would be more appropriate, as the purpose of the hedge is to mitigate risks and reduce unnecessary volatility of GTC SA's financial performance. Starting from October 1, 2008 the instruments meet the requirements of hedge accounting and hedge accounting is applied.

Until the fourth quarter of 2008, part of the swap transactions relating to PLN denominated liabilities were not accounted for using hedge accounting. Accordingly, the impact of the changes in the PLN Wibor had an impact in 2007 only on the profit and loss, and in 2008 on shareholders' equity.



### 3 Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

To limit this risk, the Group finances its operations through diversified, short-term and long-term credit obtained from the public and from banking and non-banking organizations. The Company raises financing according to needs and market conditions at that time.

The tables below summarize the maturity profile of the Group's financial assets and liabilities as of December

31, 2009 and 2008. The maturity of the liabilities is based on contractual undiscounted cash flow and the maturity of financial assets is based on expected cash flow in conformity with the way they are managed by the Company. The tables include repayments of principal amounts as well as interest due. Interest due was estimated based on actual amortization schedules of the loans and known variable interest rates as of December 31, 2009, and amounts to €359 million as of December 31, 2009 and €409 million as of December 31, 2008.

€ in millions	December 31, 2009							Total
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	
Cash and cash equivalents	457	17	–	–	–	–	–	474
Deposits in bank	1	59	1	–	–	–	–	61
Trade receivables	78	18	–	–	–	–	–	96
Balances with central banks	10	–	–	–	–	–	–	10
Marketable debt securities	322	6	1	–	–	–	–	329
Consumer credit and mortgage loans	69	43	30	16	5	2	11	176
Banking loans granted	242	292	126	102	68	18	44	892
Finance leases	34	39	33	17	6	2	5	136
Long-term loans and receivables (including maturities)	7	21	25	118	3	3	75	252
Available for sale financial assets	1	1	2	2	–	–	10	16
Other receivables	30	50	–	–	–	–	–	80
Reinsurance receivables and insurance companies	20	6	–	–	–	–	–	26
Insurance premium receivables	20	7	–	–	–	–	–	27
Other	4	1	1	–	–	–	14	20
	1,295	560	219	255	82	25	159	2,595

€ in millions	December 31, 2009							Total
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	
Short-term credit	211	121	–	–	–	–	–	332
Trade payables	124	1	–	–	–	–	–	125
Other payables and accrued expenses	94	69	4	1	–	–	2	170
Banking customers accounts	317	189	73	110	1	1	–	691
Interest-bearing loans and borrowings	63	158	259	217	284	245	1,093	2,319
Convertible debentures	–	30	–	–	–	–	–	30
Other debentures	32	98	81	88	226	321	397	1,243
Other financial liabilities	4	28	3	6	–	–	19	60
Insurance contract liabilities	43	29	–	–	–	–	–	72
	<b>888</b>	<b>723</b>	<b>420</b>	<b>422</b>	<b>511</b>	<b>567</b>	<b>1,511</b>	<b>5,042</b>

€ in millions	December 31, 2008							Total
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	
Cash and cash equivalents	540	–	–	–	–	–	–	540
Deposits in bank	33	36	–	–	–	–	–	69
Trade receivables	44	18	2	–	–	–	–	64
Balances with central banks	18	–	–	–	–	–	–	18
Consumer credit and mortgage loans	143	124	70	28	10	4	12	391
Banking loans granted	178	192	104	72	24	19	42	631
Finance leases	28	56	53	32	16	6	6	197
Long-term loans and receivables (including maturities)	3	18	17	98	2	1	96	235
Available-for-sale financial assets	56	35	16	3	2	–	9	121
Other receivables	34	51	4	1	–	–	14	104
Insurance premiums	24	9	–	–	–	–	–	33
Reinsurance receivables and insurance companies	18	6	–	–	–	–	–	24
Assets held for sale	–	83	–	–	–	–	–	83
	<b>1,119</b>	<b>628</b>	<b>266</b>	<b>234</b>	<b>54</b>	<b>30</b>	<b>179</b>	<b>2,510</b>

€ in millions	December 31, 2008							Total
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	
Short-term credit	34	454	–	–	–	–	–	488
Trade payables	103	9	–	–	–	–	–	112
Other payables and accrued expenses	64	192	–	–	–	–	–	256
Banking customers accounts	325	145	23	137	1	10	–	641
Interest-bearing loans and borrowings	114	144	208	198	165	169	738	1,736
Convertible debentures	1	4	31	–	–	–	–	36
Other debentures	39	40	80	53	69	534	354	1,169
Other financial liabilities **	–	21	5	–	1	–	33	60
Other – insurance contract liabilities	12	8	51	–	–	–	–	71
	<b>692</b>	<b>1,017</b>	<b>398</b>	<b>388</b>	<b>236</b>	<b>713</b>	<b>1,125</b>	<b>4,569</b>

\*\* Includes put options and conversion component of convertible debentures which were all presented on the face of the statement of financial position as non-current liabilities

The maturity table does not include any non financial assets. However, the Group's most significant commitments relate to real estate projects under construction and infrastructure projects. These commitments are substantially covered by revenue stream from the underlying assets and undrawn bank facilities and thus have no major impact on liquidity.

For group shares which are used as collateral, please refer to Note 5.

Contingent liabilities and commitments:

€ in millions	December 31, 2009							Total
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	
Financial guarantees *	183	1	1	1	–	1	–	187
Letters of credit	–	18	–	2	3	–	–	23
Other undrawn commitment to lend	36	10	10	9	6	8	–	79
	<b>219</b>	<b>29</b>	<b>11</b>	<b>12</b>	<b>9</b>	<b>9</b>	<b>–</b>	<b>289</b>

\* In addition to the guarantees presented in the table above, GTC SA provided guarantees to third parties in connection with cost overruns and loans of its subsidiaries. The guarantees granted amounted to €216 million, as of December 31, 2009. As the guarantees are combined (financial and performance) it is impractical to assign them to a specific time bucket.

- a Expected realization periods of material financial assets, grouped in accordance with IAS 39 classification:

€ in millions	December 31, 2009						Total
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	
<b>Financial Assets at fair value through profit or loss:</b>							
Shares	4	–	–	–	–	–	4
Debentures	321	–	1	–	–	–	322
Other	1	6	–	–	–	–	7
<b>Available-for-sale financial assets:</b>							
Shares	1	–	–	–	–	–	1
Debentures	–	1	1	2	–	–	4
Derivatives that are not designated as hedging instruments	–	1	–	–	–	–	1
	<b>327</b>	<b>8</b>	<b>2</b>	<b>2</b>	<b>–</b>	<b>–</b>	<b>339</b>

€ in millions	December 31, 2008						Total
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	
<b>Financial Assets at fair value through profit or loss:</b>							
Shares	1	–	–	–	–	–	1
Debentures	11	12	–	–	–	–	23
Other	4	–	–	–	–	–	4
<b>Available-for-sale financial assets:</b>							
Shares	27	35	16	1	2	–	81
Debentures	4	–	–	–	–	–	4
	<b>47</b>	<b>47</b>	<b>16</b>	<b>1</b>	<b>2</b>	<b>–</b>	<b>113</b>

#### **4 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. Additional details of hedging transactions are presented in the note.

## a Currency exposure

As of December 31, 2009:

€ in millions	In €	USD
<b>Assets</b>		
Cash and cash equivalent	249	47
Short-term investments	37	2
Reinsurance assets	–	1
Insurance premiums receivables	2	5
Trade receivables	18	11
Inventories, contract work and cost of buildings in progress	–	–
Other receivables and prepayments	13	6
Loans to bank customers	25	129
Investments in associates and others	–	–
Long-term investments and receivables and current maturities of long-term receivables	205	16
Investment properties, under construction, fixed assets, deferred purchase expenses, other assets, deferred taxes and assets held for sale	–	–
	<b>549</b>	<b>217</b>
<b>Liabilities</b>		
Interest-bearing loans and borrowings	93	8
Trade payable	11	4
Other payables and accrued expenses, taxes, payable and liabilities held for sale	126	21
Banking customers accounts	66	109
Convertible debentures and other debentures (including current maturities)	785	34
Interest-bearing loans and borrowing (including current maturities)	1,501	113
Convertible debentures conversion component and options liabilities	3	6
Insurance contracts liabilities		2
Deferred taxes		
Accrued severance pay		
Other liabilities	27	14
	<b>2,612</b>	<b>311</b>
<b>Differences between assets and liabilities</b>	<b>(2,063)</b>	<b>(94)</b>

Ukraine Hryvina	Romanian Ron	Russian Rouble	In other Currency or linked to it	In NIS linked to Israel CPI	In NIS not linked	Non- monetary items	Total
11	2	45	93	–	27	–	474
2	–	325	10	–	12	–	388
–	–	–	25	–	–	–	26
1	–	–	19	–	–	–	27
1	3	–	7	–	56	–	96
–	–	–	–	–	–	468	468
9	21	14	27	–	13	71	174
102	–	291	–	–	–	–	547
–	–	–	–	–	–	146	146
–	–	–	20	–	12	5	258
						3,029	3,029
<b>126</b>	<b>26</b>	<b>675</b>	<b>201</b>	<b>–</b>	<b>120</b>	<b>3,716</b>	<b>5,633</b>
53	1	171	14	–	61	–	401
1	7	–	54	–	48	–	125
4	6	9	42	2	26	9	245
53	–	398	1	–	–	–	627
–	–	–	–	137	–	–	956
1	32	1	69	68	61	–	1,846
–	–	–	–	19	–	–	28
9	–	–	60	–	–	–	71
–	–	–	–	–	–	153	153
–	–	–	–	–	1	1	2
–	–	–	12	–	36	102	191
<b>121</b>	<b>46</b>	<b>579</b>	<b>252</b>	<b>226</b>	<b>233</b>	<b>265</b>	<b>4,645</b>
<b>5</b>	<b>(20)</b>	<b>96</b>	<b>(51)</b>	<b>(226)</b>	<b>(113)</b>	<b>3,451</b>	<b>988</b>

**As of December 31, 2008:**

€ in millions	In €	USD
<b>Assets</b>		
Cash and cash equivalent	330	70
Short-term investments	48	2
Insurance companies and reinsurers	–	–
Insurance receivables	2	7
Trade receivables	7	7
Inventories, contract work and cost of buildings in progress	–	–
Account receivables and tax receivables	11	4
Loans to bank customers	30	170
Investments in associates and others	23	11
Long-term investments and receivables and current maturities of long-term receivables	375	40
Investment properties, under construction, fixed assets, deferred purchase expenses, other assets and deferred taxes	–	–
	<b>826</b>	<b>311</b>
<b>Liabilities</b>		
Interest bearing loans and borrowings	257	55
Trade payable	15	13
Other payables and accrued expenses and taxes payable	103	10
Banking customers accounts	59	151
Prepayments less construction in progress cost	–	–
Convertible debentures and other debentures	788	–
Interest-bearing loans and borrowing (including current maturities)	1,007	101
Convertible debentures conversion component and options liabilities	–	–
Insurance contracts liabilities	–	1
Deferred taxes	–	–
Accrued severance pay	–	–
Other liabilities	87	1
	<b>2,316</b>	<b>332</b>
<b>Differences between assets and liabilities</b>	<b>(1,490)</b>	<b>(21)</b>



Ukraine Hryvina	Romanian Ron	Russian Rouble	In other Currency or linked to it	In NIS linked to Israeli CPI	In NIS not linked	Non-monetary items	Total
10	6	38	69	–	17	–	540
5	–	–	14	–	–	–	69
–	–	–	25	–	–	–	25
1	–	–	17	–	–	–	27
1	2	–	6	–	39	–	62
–	–	–	–	–	–	477	477
18	21	8	78	–	5	36	181
67	–	188	–	–	–	–	455
–	–	–	1	45	–	72	152
–	85	170	138	–	9	–	817
–	–	–	83	–	–	2,363	2,446
<b>102</b>	<b>114</b>	<b>404</b>	<b>431</b>	<b>45</b>	<b>70</b>	<b>2,948</b>	<b>5,251</b>
–	10	68	3	1	53	–	447
2	15	–	56	3	8	–	112
2	7	16	87	4	20	133	382
87	–	292	2	–	–	5	596
–	–	–	–	–	–	22	22
3	–	–	–	75	–	–	866
–	34	44	95	8	34	–	1,323
–	–	–	–	55	–	–	55
12	–	2	56	–	–	–	71
–	–	–	–	–	–	172	172
–	–	–	1	–	–	1	2
–	–	–	1	1	1	–	91
<b>106</b>	<b>66</b>	<b>422</b>	<b>356</b>	<b>92</b>	<b>116</b>	<b>333</b>	<b>4,139</b>
<b>(4)</b>	<b>48</b>	<b>(18)</b>	<b>130</b>	<b>(47)</b>	<b>(46)</b>	<b>2,615</b>	<b>1,112</b>

b The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably realistic change in exchange rates compared to other main currencies in which the Group operates, when all other variables are held constant:

€ in millions	Sensitivity to change in EUR\USD			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2009	4	2	(2)	(4)
2008	(7)	(3)	3	7

€ in millions	Sensitivity to change in EUR PLN			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2009	3	1	(1)	(3)
2008	(1)	(1)	1	1

€ in millions	Sensitivity to change in EUR HUF			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2009	(1)	(1)	1	1
2008	2	1	(1)	(2)

€ in millions	Sensitivity to change in EUR RUB			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2009	(3)	(1)	1	3
2008	7	4	(4)	(7)

€ in millions	Sensitivity to change in EUR RON			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2009	–	–	–	–
2008	3	1	(1)	(3)

€ in millions	Sensitivity to change in EUR UHA			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2009	(1)	–	–	1
2008	(1)	–	–	1

€ in millions	Sensitivity to change in EUR NIS			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2009	(4)	(2)	2	3
2008	1	–	–	(1)

€ in millions	Sensitivity to change in EUR Israeli CPI *			
	Effect on profit and loss			
	+3%	+2%	-2%	-3%
2009	6	4	(4)	(5)
2008	–	–	–	–

\* In 2008 convertible debentures were sensitive to the Israeli CPI (less than 1 million)

€ in millions	Sensitivity to change in EUR Other currencies *			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2009	–	–	–	–
2008	4	2	(2)	(4)

€ in millions	Sensitivity to change in USD\UHA			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
<b>2009</b>	(1)	–	–	1
<b>2008</b>	9	4	(4)	(9)

€ in millions	Sensitivity to change in USD\RUB			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
<b>2009</b>	(4)	(2)	2	4
<b>2008</b>	(5)	(2)	2	5

**5 Fair value disclosure:**

a Set out below is a comparison by class of the differences between the carrying amounts and fair values of the Group's financial instruments.

€ in millions	Methods of determining fair value	Carrying amount		Fair value		
		2009	2008 *	2009	2008 *	Comment
<b>Assets</b>						
Cash and cash equivalents		474	540	474	540	A
Short-term investment		67	66	67	66	A
Held for trading financial assets	(1)	321	3	321	3	
Held-to-maturity financial assets	(2)	–	50	–	51	
Available-for-sale financial assets	(1)	3	58	3	57	
Available-for-sale financial assets	(2)	11	11	11	11	
Reinsurance receivables and insurance companies		26	25	26	25	H
Insurance premium receivable		27	27	27	27	H
Long-term loans and receivables		453	671	459	663	H
Loans to associates		77	80	76	80	D
<b>Liabilities</b>						
Short-term credit from banks and others		(319)	(447)	(314)	(447)	C
Banking customers accounts		(627)	(591)	(630)	(589)	J
Convertible debentures		(28)	(32)	(28)	(24)	B
Non-convertible debentures		(957)	(892)	(994)	(598)	I
Interest-bearing loans and borrowings		(1,860)	(1,330)	(1,852)	(1,240)	C
Long-term liabilities and derivatives	(3)	(83)	(91)	(84)	(91)	E
Warrants and options	(3)	(28)	(5)	(28)	(5)	E
Insurance provisions		(71)	(71)	(71)	(71)	G

\* Restated to include those financial assets and liabilities where there was no difference between their fair value and carrying value

Methods of determining the fair value of the financial assets and liabilities:

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 – Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 – Techniques which use inputs that have a significant effect on the recorded fair value that is not based on observable market data.

Comments regarding determining the fair value:

- A** The carrying amount of cash and cash equivalents and short-term investments, which include bank deposits, approximates their fair values, due to the nature of such financial assets.
- B** Market values have been used to determine the fair value of listed convertible and non-convertible debentures issued by the Company and subsidiaries. Please refer to Note 28.
- C** The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. Refer to Note 24 for carrying amount reconciliation of long-term interest bearing loans and borrowings and refer to Note 32 for reconciliation of short-term credit from banks and others.
- D** Includes loans granted to associates that are deemed to be equity investments.
- E** Warrants, options and certain long-term receivables were valued by independent external valuers. The valuations were based on Discount Cash Flows or Residual methods. Management concurred with the outcome of these valuations. The main asset in this account amounting to €48 million was valued using the 'Binomial model'. The valuation was done with respect to the minimum exercise price and by using parameters of TBH value as of the balance sheet date, effective contractual period of the option, annual interest rate and expected volatility of shares. Please refer to note 27. This amount includes derivatives and long-term liabilities; please refer to the face of the statement of financial position for reconciliation.

**F** Financial instruments for which fair value could not be determined are immaterial.

**G** Please refer to Note 30.

**H** Accounted for as receivables. In 2009, the carrying amount includes the long-term loans and receivables in the amount of €258 with the related current maturities in the amount of €195, totaling to €453. In 2008 the amount includes long term loans and receivables in the amount of €379 and current maturities in the amount of €292.

**I** The carrying amount includes current maturities and accrued interest in the amount of €26 million, refer to Note 29.

**J** This amount includes both short-term and long-term banking customers account, please refer to Note 25.

**b Financial assets and liabilities measured at fair value**

December 31, 2009 € millions	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets at fair value through profit or loss:				
Debentures	321	1	–	322
Derivatives that are not designated as hedging instruments	–	–	7	7
Derivatives that are designated as hedging instruments	–	–	42	42
Available-for-sale financial assets:				
Debentures	3	–	–	3
Shares	–	–	12	12
Put options	–	2	48 *	50
Other	–	2	11	13
<b>Financial liabilities</b>				
Financial Liabilities at fair value through profit or loss:				
Derivatives that are designated as hedging instruments	–	–	(79)	(79)
Derivatives that are not designated as hedging instruments	–	–	(3)	(3)
Put Options	–	–	(23)	(23)

\* See Note 12A

During 2009, there have been no transfers between financial instruments valued in level 1 to level 2 or between level 2 to level 1.

c Level 3 financial assets reconciliation

	As of January 1, 2009	Fair Value gain (loss) recorded in P&L	Fair value gain in compre- hensive income	Transfers	Deducted against related assets goodwill	Settlements	As of December 31, 2009	Total gains (losses) for the period included in P&L
Assets related to put options	36	12	–	–	–	–	48	12
Derivative assets	29	2	18	–	–	–	49	2
Other assets	13	2	–	1	–	–	13	2
<b>Total assets</b>	<b>78</b>	<b>16</b>	<b>18</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>110</b>	<b>16</b>
Liabilities related to put options	60	(1)	–	–	2	(38)	23	1
Derivative liabilities	84	(3)	1	–	–	–	82	2
Other liabilities	1	–	–	–	–	–	1	–
<b>Total liabilities</b>	<b>145</b>	<b>(4)</b>	<b>1</b>	<b>–</b>	<b>2</b>	<b>(38)</b>	<b>106</b>	<b>3</b>

**B Additional information on financial instruments and risk management in the financial services sector**

**1 Regulatory capital requirements**

**a Banking**

TBIF maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital of the banks in TBIF is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ('BIS rules/ratios') and adopted by the National Bank of Ukraine and National Bank of Russia in supervising the banks.

During 2008 and 2009, the banks in the group have complied in full with all their externally imposed capital requirements.

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision, as implemented by the National Bank of Russia and National Bank of Ukraine for supervisory purposes. The minimum Tier 1 ratio is 4% and the minimum total capital ratio is 8% of all risk-weighted assets, including off-balance sheet items and market risk associated with trading portfolios.

*Regulatory capital*

€ in millions	Ukraine		Russia	
	2009	2008	2009	2008
Tier 1 capital	29	32	56	46
Tier 2 capital	22	9	19	16
<b>Total capital</b>	<b>51</b>	<b>41</b>	<b>75</b>	<b>62</b>
<b>Risk-weighted assets</b>	<b>276</b>	<b>280</b>	<b>653</b>	<b>317</b>
Tier 1 capital ratio	10.4%	11.6%	8.5%	14.6%
Total capital ratio	18.5%	14.9%	11.4%	19.5%

**b Insurance**

TBIH's management policy is to sustain a sturdy capital base that will allow it to keep its ability to continue its activities and produce a yield to its shareholders, in order to support its future business activities in all the countries. In most jurisdictions TBIH operates, including Bulgaria, Ukraine and Turkey, the local insurance or financial regulator sets capital requirements from insurance companies and other regulated entities, such as pension fund management companies. These requirements are put in place to ensure sufficient solvency margins. It is the TBIH's intention to comfortably meet these requirements but not to exceed them materially, so as to prevent the use of the limited capital in other ventures.

TBIH manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. In order to maintain or adjust the capital structure, TBIH may adjust the amount of dividends paid or inject further capital in those entities that require it. TBIH did not fully comply with externally imposed capital requirements during the reported financial year.



The table below summarizes the required capital of the main insurance companies of the group as of December 31, 2009:

€ in millions	December 31, 2009		December 31, 2008	
	Minimum required capital	Actual capital	Minimum required capital	Actual capital
<b>Company</b>				
Ray Sigorta (Turkey) *	34.7	18.9	36.5	29.0
UIG (Ukraine)	5.8	9.8	7	12.8

As of December 31, 2009, Ray Sigorta has a capital deficiency of €15.8 million. The shareholders of Ray Sigorta decided to increase the capital by YTL 40 million (€19.5 million) in the second quarter of 2010. In order to meet the capital requirements of the insurance regulators in Turkey, TBIH's Management Board approved the YTL 40M capital increase in Ray Sigorta in March 2010.

The Company doesn't expect any implications in the operations of Ray Sigorta in relation to the minimum required capital.

## 2 Insurance risk

The principal risk the group faces under insurance contracts is that the actual claims and benefit payments, or the timing thereof, differ from expectation. This is influenced by the frequency of claims, severity of claims, actual benefits paid, and unfavorable decisions of the local courts and subsequent development of long-term claims. Therefore the objective of the group is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The majority of insurance business ceded is placed on an excess of loss basis and surplus with retention limits varying by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreement. The group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the group substantially dependent upon any single reinsurance contract.

### General insurance contracts

The group's main subsidiaries within the insurance segment, Ray Sigorta in Turkey and UIG in Ukraine, all write mainly non-life insurance. The main types of non-life insurance are motor – third-party liability and casco and property insurance. Some of the group's subsidiaries, GPIH and IRAO in Georgia, also write short-term health insurance and a small amount of short-term life insurance.

Risks under non-life insurance policies usually cover twelve month duration.

For general insurance contracts, the most significant risks arise from changes in the relevant legal environment, changes in behavior of policyholders, natural disasters and terrorist activities. For healthcare contracts, the most significant risks arise from epidemics, natural disasters and increases in healthcare costs.

The nature of these risks does not vary significantly in relation to the location of the risk insured by the group.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and investigation of possible fraudulent claims are all policies and processes put in place to reduce claims. Where appropriate, the group further enforces a policy of actively managing and promoting the pursuance of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the group.

The group has also limited its exposure by imposing maximum claim amounts on certain contracts, as well as the use of reinsurance arrangements. The reinsurance arrangements limit the exposure to individual risks and the exposure to catastrophic events (e.g. hurricanes, earthquakes and flood damages). In known earthquake zones such as Turkey the company acquires specific reinsurance cover that is designed to limit the effect of any earthquakes on the group's activities.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the group's risk appetite as decided by management.

The tables below sets out the concentration of non-life insurance contract liabilities (including liabilities for unexpired risk and for outstanding claims) by type of contract:

€ in millions	December 31, 2009								
	Gross			Reinsurance share			Net		
	Gross unearned premium provision	Out-standing claims	Total	Gross unearned premium provision	Out-standing claims	Total	Premium provision	Out-standing claims	Gross unearned premium provision
Total motor lines of business	18	14	32	1	1	2	18	13	31
Marine & Cargo	1	1	2	–	–	–	–	–	–
Property	11	10	21	8	9	17	3	1	4
Aviation	1	2	3	1	2	3	–	–	–
Other	10	4	14	2	1	3	8	2	10
<b>Total</b>	<b>41</b>	<b>31</b>	<b>72</b>	<b>12</b>	<b>13</b>	<b>25</b>	<b>29</b>	<b>16</b>	<b>45</b>

€ in millions	December 31, 2008								
	Gross			Reinsurance share			Net		
	Gross unearned premium provision	Out-standing claims	Total	Gross unearned premium provision	Out-standing claims	Total	Premium provision	Out-standing claims	Gross unearned premium provision
Total motor lines of business	20	17	37	2	1	3	18	16	34
Marine & cargo	1	1	2	–	1	1	–	–	–
Property	10	5	15	7	4	11	3	1	4
Aviation	5	2	7	5	2	7	–	–	–
Other	5	2	7	1	1	2	5	1	6
<b>Total</b>	<b>41</b>	<b>27</b>	<b>68</b>	<b>15</b>	<b>9</b>	<b>24</b>	<b>26</b>	<b>18</b>	<b>44</b>

## 1 Key assumptions

The principal assumptions underlying the estimates relate to how the group insurance segment's future claims development experience will differ, if at all, from the past claims development experience. This includes, for each accident period, assumptions in respect of average claim costs, claim handling costs, claim inflation factors, number of claims and delays between the claim events, claim reporting and claim settlement. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

In the countries in which the group operates, some assumptions, such as public attitude to claiming and economic conditions, are more subject to volatility than those in more developed countries with large and long established insurance operations.

Other assumptions include variations in interest rates and changes in foreign currency rates.

The company's functional currency is the Euro. The Turkish Lira and Ukrainian Grivna, the functional currencies, respectively, of Ray Sigorta and the Ukrainian companies (UIG and VAB insurance), are floating. The Turkish Lira has in past years been subject to significant fluctuations and the Ukrainian Grivna had a significant devaluation in 2008. A large number of policies issued by GPIH in Georgia are linked to the US dollar rather than the Euro.

## 2 Sensitivities

The non-life insurance claims provision is sensitive to the above key assumptions. It has not been possible to quantify the sensitivity of certain assumptions, such as legislative changes or uncertainty in the estimation process, in isolation.

The analysis below is performed for reasonably possible movements in key assumptions (or combinations of the effect of several assumptions) with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and OCI. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in some of these assumptions may not be linear.

€ in millions	December 31, 2009				
	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on OCI *
Average claim severity/cost of incurred claims due to motor property damage	+10%	2	1	(1)	(1)
Average claim severity/cost of incurred claims due to liability and motor bodily injury or death *	+10%	–	–	–	–
Average claim severity (cost) of incurred claims in all other (non-motor) lines of business *	+10%	2	–	–	–
Average claim frequency or severity of future claims in all lines of business	+10%	2	2	(2)	(2)

€ in millions	December 31, 2008				
	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on OCI *
Average claim severity/cost of incurred claims due to motor property damage	+10%	1	1	(1)	(1)
Average claim severity/cost of incurred claims due to liability and motor bodily injury or death *	+10%	–	–	–	–
Average claim severity (cost) of incurred claims in all other (non-motor) lines of business *	+10%	1	–	–	–
Average claim frequency or severity of future claims in all lines of business	+10%	2	2	(2)	(2)

\* Impact on OCI reflects adjustment for tax, when applicable.  
The method used for deriving sensitivity information and significant assumptions did not change from the previous period, however the scope of the information has been increased.

### 3 Claims development table

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated into Euros at the rate of exchange that applies at the end of the accident year.

The table shows the most material lines of business (Motor Casco and Motor Third Party Liability). There are no other material lines of business that the insurance segment underwrites with a long tail.

The group aims to maintain strong reserves in respect of its non-life insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences are eliminated, which results in the release of reserves from earlier accident years. In order to maintain strong reserves, the group transfers much of this release to current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Gross non-life insurance claims for 2009:

€ millions	Before 2003	2003	2004	2005	2006	2007	2008	2009	Total
<b>Accident year</b>									
<b>Cumulative claims payments</b>									
Accident year	15	11	17	24	33	28	31	25	184
One year later	19	14	21	30	41	37	37	–	199
Two years later	19	14	22	30	42	37	–	–	164
Three years later	19	14	22	31	42	–	–	–	128
Four years later	19	14	22	31	–	–	–	–	86
Five years later	19	14	22	–	–	–	–	–	55
Six years later	19	14	–	–	–	–	–	–	33
Seven years later	19	–	–	–	–	–	–	–	19
Cumulative claims paid to December 31, 2009	21	14	22	31	42	37	37	25	229
<b>Current outstanding claims reserve</b>	–	–	1	1	1	2	2	8	15
<b>Current estimate of incurred claims</b>	<b>21</b>	<b>14</b>	<b>23</b>	<b>32</b>	<b>43</b>	<b>39</b>	<b>39</b>	<b>33</b>	<b>244</b>

Cumulative Incurred Claims (claims paid + o/s claims liability):

€ millions	Before 2003	2003	2004	2005	2006	2007	2008	2009	Total
<b>Accident year</b>									
Accident year	20	15	22	30	42	38	42	33	242
One year later	20	14	22	31	44	39	39	–	209
Two years later	20	14	22	32	43	39	–	–	170
Three years later	20	14	23	31	43	–	–	–	131
Four years later	20	14	23	32	–	–	–	–	89
Five years later	20	14	23	–	–	–	–	–	57
Six years later	20	14	–	–	–	–	–	–	34
Seven years later	20	–	–	–	–	–	–	–	20
Current estimate of incurred claims	21	14	23	32	43	39	39	33	244
Current estimate of deficiency in original claims estimates	2	–	–	1	1	1	(3)	–	2
Deficiency as % of initial estimate of incurred claims	8%	-2%	2%	4%	3%	2%	-7%	–	1%

Reconciliation of liability in above development triangles to liability in the Statement of Financial Position:

€ in millions	Gross	Net
<b>Accident year</b>		
Current insurance claim liabilities from Motor Lines in above tables	14	13
Current insurance claim liabilities from other lines of business from companies included above	17	4
<b>Total current insurance claim liabilities in the Statement of Financial Position</b>	<b>31</b>	<b>17</b>

### 3 Credit risk – banking and lending

Credit risk is the risk that the financial group will incur a loss because of the inability of its customers to discharge their contractual obligations. The financial group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits.

The financial group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

#### (i) Credit-related commitments risks

The financial group makes available to its customers guarantees which may require that the group makes

payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the group to similar risks to loans and these are mitigated by the same control processes and policies.

#### (ii) Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of TBIF. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

€ in millions	December 31, 2009	December 31, 2008
Cash and cash equivalents (excluding cash in hand)	91	104
Deposits in banks	2	–
Balances with central banks	10	18
Marketable debt securities	317	16
Consumer credit and mortgage loans	131	332
Banking loans granted	547	455
Finance leases	115	157
Other loans and long-term receivables	21	32
Available-for-sale financial assets	3	33
Held-to-maturity financial assets	–	50
Other receivables	13	20
	1,249	1,217
Financial guarantees	20	13
Letters of credit	2	22
Undrawn commitments to lend	21	79
	43	114
<b>Total credit risk exposure</b>	<b>1,293</b>	<b>1,331</b>

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.



For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The description of collateral and other risk mitigation techniques is shown below.

*(iii) Geographical credit risk concentrations per industry*

The tables below show the maximum exposure to credit risk for the components of the banking segment statement of financial position and the off-statement of financial position commitments and contingencies, broken down according to the banking segment main lines of business and geographical regions, before the effect of mitigation through the use of collateral agreements.

Risk concentration of the maximum exposure to credit risk as of December 31, 2009:

€ in millions	Banking	Consumer mortgage	Leasing	Asset management	Others	Total
Ukraine	255	–	25	–	–	280
Russia	728	–	8	–	–	736
Romania	–	70	54	–	–	124
Bulgaria	–	91	35	1	–	128
Others	–	–	–	–	25	25
	<b>983</b>	<b>161</b>	<b>121</b>	<b>1</b>	<b>26</b>	<b>1,293</b>

Risk concentration of the maximum exposure to credit risk as of December 31, 2008:

€ in millions	Banking	Consumer mortgage	Leasing	Asset management	Others	Total
Ukraine	376	–	22	–	–	398
Russia	394	151	18	–	–	563
Romania	–	95	86	–	–	181
Bulgaria	–	111	41	2	–	152
Others	–	–	–	1	36	37
	<b>770</b>	<b>357</b>	<b>166</b>	<b>3</b>	<b>36</b>	<b>1,331</b>

*(iv) Collateral and other credit enhancements*

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Cash deposits, both in retail and in corporate lending (mostly small and medium enterprises)
- Non-commercial premises in the large cities (high liquidity) for retail lending
- Moveable assets (cars, equipment)
- Commercial premises (in good shape and condition) for corporate lending

The banking segment obtains guarantees from parent companies for loans to their subsidiaries, but the benefits are not included in the above table.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

*Reposessed collaterals:*

The carrying value of assets reposessed as of December 31, 2009 is €16 million (2008 – €2 million) which the banking group is currently in the process of selling.

*(v) Carrying amount per class of financial assets, whose terms have been renegotiated, and which otherwise would be past due or impaired*

€ in millions	December 31, 2009	December 31, 2008
Consumer credit and mortgage loans	–	6
Banking loans granted	142	–
<b>Total credit risk exposure</b>	<b>142</b>	<b>6</b>

*(vi) Impairment assessment*

The main considerations for the loan-impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit-rating downgrades, or infringement of the original terms of the contract. The banking segment addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

*Individually assessed allowances*

TBIF determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

*Collectively assessed allowances*

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and

unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date, with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with TBIF's overall policy. Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans. The collectively assessed allowances for the financial group amounted to €59 for the year ended December 31, 2009 (2008 – €49).

#### 4 Credit risk – insurance and pension

Credit risk is the risk that one party will cause a financial loss to the other party by failing to discharge an obligation. The large majority of investments held were issued by the local government or guaranteed by it. This means that credit risks, even though they exist, are mainly limited to the local governments in the countries in which the group operates.

The following policies and procedures are in place to mitigate the group's exposure to credit risk:

- a A group credit-risk policy setting out the assessment and determination of what constitutes credit risk for the group. Compliance with the policy is monitored and exposures and breaches are reported to the

group risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- b Net exposure limits are set for each counterparty or group of counterparties, geographical and industry segment (i.e., limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held).
- c Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines with respect to counterparties' limits that are set each year by the Board of Directors and are subject to regular reviews. Reinsurance counterparties are approved by the group's senior management after input by VIG.
- d At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- e The group sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long-term credit ratings per individual subsidiary.
- f The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated.

#### Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for lending. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral and requests additional collateral then needed and performs an impairment valuation when applicable.

## 5 Credit risk – indicators financial services segment

### a Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of KFS. The maximum exposure is shown gross, before the effect of mitigation, through the use of collateral agreements.

€ in millions	2009	2008
Financial leases, consumer credits, and mortgages	246	489
Loans and advances to bank customers	547	455
Bank deposits	12	7
Balances with central banks	10	18
Marketable securities	322	25
Other loans and receivables	98	132
Available-for-sale financial assets	3	34
Held-to-maturity financial assets	–	50
Assets held for sale	–	83
Reinsurance assets	26	24
Insurance receivables	27	27
Cash and cash equivalents	125	120
	<b>1,414</b>	<b>1,464</b>
Financial guarantees	18	13
Letters of credit	2	22
Undrawn commitments to lend	21	79
	<b>43</b>	<b>114</b>
<b>Total credit-risk exposure</b>	<b>1,458</b>	<b>1,578</b>

Where financial instruments are recorded at fair value the amounts shown above represent the current credit-risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

#### **b Credit quality per class of financial assets**

The tables below show the credit quality by class of assets, based on an internal credit rating systems of the local entities. High grade equates to very low probability of default, standard grade equates to low to moderate probability of default and low grade equates to moderate to high probability of default.

Credit quality per class of financial assets as of December 31, 2009:

€ in millions	Neither past due nor impaired					Total
	High grade	Standard grade	Low grade	Past due/not individually impaired	Individually Impaired	
Cash in banks	58	67	–	–	–	125
Deposits in banks	10	2	–	–	–	12
Consumer credit and mortgage	–	95	–	35	18	147
Banking loans granted	18	302	52	148	115	635
Finance leases	–	70	–	31	24	124
Marketable debt securities	315	6	–	–	–	322
Available for sale financial assets	3	–	–	–	–	3
Long-term loans and receivables	1	84	–	–	–	85
Insurance receivables	26	1	–	–	–	27
Other receivables	5	8	1	–	–	13
	<b>436</b>	<b>635</b>	<b>53</b>	<b>214</b>	<b>157</b>	<b>1,495</b>

Credit quality per class of financial assets as of  
December 31, 2008:

€ in millions	Neither past due nor impaired					Total
	High grade	Standard grade	Low grade	Past due/not individually impaired	Individually Impaired	
Cash in banks	53	67	–	–	–	120
Deposits in banks	–	7	–	–	–	7
Consumer credit and mortgage	–	272	–	84	10	365
Banking loans granted	–	269	126	63	28	486
Finance leases	–	69	49	34	8	160
Other securities	2	20	2	–	–	24
Assets held for sale	83	–	–	–	–	83
Available-for-sale financial assets	8	26	–	–	–	34
Held-for-maturity financial assets	–	50	–	–	–	50
Insurance receivables	2	24	1	–	–	27
Other receivables	4	124	4	–	–	132
	<b>152</b>	<b>929</b>	<b>182</b>	<b>181</b>	<b>46</b>	<b>1,489</b>

Aging analysis of past due but not impaired loans and  
receivables

Aging analysis of past due but not impaired loans and  
receivables as of December 31, 2009:

€ in millions	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Consumer credits and mortgages	7	4	3	20	34
Banking loans granted	40	9	9	90	148
Finance leases	13	6	4	9	32
	<b>60</b>	<b>19</b>	<b>16</b>	<b>119</b>	<b>214</b>

Aging analysis of past due but not impaired loans and receivables as of December 31, 2008:

€ in millions	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Consumer credits and mortgages	22	12	7	43	84
Banking loans granted	37	12	5	9	63
Finance leases	21	5	3	5	34
	80	29	15	57	181

#### 6 Liquidity risk – banking and lending

Liquidity risk is the risk that the group will encounter difficulties in meeting obligations associated with financial liabilities, which are settled by delivering cash or another financial asset. To limit this risk, management has arranged diversified sources in addition to deposit bases (only in the banking subsidiaries), manages assets with liquidity in mind and monitors future cash flow and liquidity on a daily basis. This incorporates assessments of expected cash flows and the availability of high-grade collateral that could be used to secure additional funding if required.

The banking subsidiaries maintain a portfolio of marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. The banking subsidiaries have certain committed lines of credit that are available to meet liquidity needs. In addition, all banks in the group maintain statutory deposits with the central banks in their countries of incorporation in compliance with the requirements of the local legislation.

The KFS group uses maturity tables in managing its liquidity risk by performing maturity gap analysis, including estimations of deposit roll forwards for the banks in the group. The group focuses on maintaining a diversified mix of funding sources and assets that allows for secured funding. The tables below show an analysis of assets analyzed according to when they are expected to be recovered or settled, as well as the

contractual expiry by maturity of the group's contingent liabilities and commitments.

The group estimates that the contractual maturity of financial assets and liabilities matches their expected maturity, except for the trading portfolio in the Russian banking operation, due to the following:

The group expects that its financial liabilities will be settled on the earliest date on which group entities can be required to pay;

There is no active market for the majority of financial assets held by the group and they are not readily saleable.

During 2009 and 2008, the group did not recognize any contingent assets on its balance sheet due to the uncertainty of the assets' recoverability.

The group has no significant concentration of liquidity risk.

Interest-bearing debt falling within one year is substantially covered by the group's cash position and its credit facilities. Under normal circumstances, banking customers accounts which can be drawn on demand are considered covered by the banks' financial assets.

## 7 Liquidity risk – insurance and pensions

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policies and procedures are in place to mitigate the group's exposure to liquidity risk:

- A country-by-country liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the group.  
The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Set guidelines on asset allocations, portfolio limit structures, and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance contracts obligations.
- Setting up contingency funding plans on a group side basis that specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

## 8 Liquidity risk-indicators of financial services sector

### *Maturity profiles*

The group uses maturity tables in managing its liquidity risk. The tables below show an analysis of assets and liabilities analyzed according to when the assets are expected to be recovered or settled and the liabilities will have contractually matured, as well as the contractual expiry by maturity of the group's contingent liabilities and commitments.



Maturity analysis of KFS's assets and liabilities as of  
December 31, 2009:

	Between 0-3 months	Between 3-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter/ No term	Total
Cash and cash equivalents	155	–	–	–	–	–	–	155
Deposits in banks	–	11	1	–	–	–	–	12
Trade receivables	2	–	–	–	–	–	–	2
Balances with central banks	10	–	–	–	–	–	–	10
Marketable securities	322	–	–	–	–	–	–	322
Consumer credit and mortgage loans	68	43	30	16	5	2	11	175
Banking loans granted	242	293	126	102	68	18	45	894
Financial leases	34	39	33	17	6	2	5	136
Long-term loans	2	5	49	4	1	2	22	85
Available-for-sale financial assets	1	1	1	2	–	–	–	5
Other receivables	11	3	–	–	–	–	–	14
Insurance receivables	20	7	–	–	–	–	–	27
Reinsurance assets	19	6	–	–	–	–	–	25
<b>Total assets</b>	<b>886</b>	<b>408</b>	<b>240</b>	<b>141</b>	<b>80</b>	<b>24</b>	<b>83</b>	<b>1,862</b>

	Between 0-3 months	Between 3-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter/ No term	Total
Bank customer accounts	317	189	73	110	1	–	–	690
Short-term credit	191	60	–	–	–	–	–	251
Insurance contract liabilities	43	29	–	–	–	–	–	72
Interest-bearing borrowings and other loans	31	56	214	91	42	74	118	626
Non-convertible debentures	1	46	8	4	16	–	–	75
Other liabilities	–	–	–	6	–	–	15	21
Other payables	26	22	1	–	–	–	3	52
<b>Total liabilities</b>	<b>609</b>	<b>402</b>	<b>296</b>	<b>211</b>	<b>59</b>	<b>74</b>	<b>136</b>	<b>1,787</b>
<b>Liquidity gap</b>	<b>277</b>	<b>6</b>	<b>(56)</b>	<b>(70)</b>	<b>22</b>	<b>(50)</b>	<b>(52)</b>	<b>75</b>

Maturity analysis of KFS's assets and liabilities as of  
December 31, 2008:

	Between 0-3 months	Between 3-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter/ No term	Total
Cash and cash equivalents	158	–	–	–	–	–	–	158
Deposits in banks	–	7	–	–	–	–	–	7
Trade receivables	–	1	–	–	–	–	–	1
Balances with central banks	18	–	–	–	–	–	–	18
Marketable securities	–	–	–	–	–	–	–	–
Consumer credit and mortgage loans	143	124	70	28	10	4	12	391
Banking loans granted	178	192	104	72	24	19	42	633
Financial leases	28	56	53	32	16	6	6	197
Long-term loans	1	7	4	56	2	1	17	88
Available-for-sale financial assets	56	35	16	1	2	–	–	110
Other receivables	22	1	–	–	–	–	–	23
Insurance receivables	18	9	–	–	–	–	–	27
Assets held for sale	–	83	–	–	–	–	–	83
Reinsurance assets	18	6	–	–	–	–	–	24
<b>Total assets</b>	<b>641</b>	<b>522</b>	<b>247</b>	<b>190</b>	<b>54</b>	<b>30</b>	<b>77</b>	<b>1,760</b>
Bank customer accounts	326	141	23	137	11	–	–	638
Deposits from banks	–	24	–	–	–	–	–	24
Insurance contract liabilities	12	8	51	–	–	–	–	71
Borrowings	70	176	137	85	315	186	–	969
Non-convertible debentures	1	9	40	20	20	–	–	90
Other liabilities	15	93	5	–	–	–	–	113
<b>Total liabilities</b>	<b>424</b>	<b>451</b>	<b>256</b>	<b>242</b>	<b>346</b>	<b>186</b>	<b>–</b>	<b>1,905</b>
<b>Liquidity gap</b>	<b>217</b>	<b>71</b>	<b>(8)</b>	<b>(52)</b>	<b>(298)</b>	<b>(157)</b>	<b>77</b>	<b>(145)</b>

Maturity analysis of KFS's contingent liabilities and commitments as of December 31, 2009:

	0-3 months	4-12 months	1-3 years	3-5 years	Thereafter	Total
Financial guarantees	12	5	1	1	–	19
Letters of credit	1	–	2	–	–	3
Undrawn commitments to lend	22	–	–	–	–	22
<b>Total</b>	<b>35</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>–</b>	<b>44</b>

Maturity analysis of KFS's contingent liabilities and commitments as of December 31, 2008:

	0-3 months	4-12 months	1-3 years	3-5 years	Thereafter	Total
Financial guarantees	10	1	1	1	–	13
Letters of credit	18	–	4	–	–	22
Undrawn commitments to lend	79	–	–	–	–	79
<b>Total</b>	<b>107</b>	<b>1</b>	<b>5</b>	<b>1</b>	<b>–</b>	<b>114</b>

The group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments

## 50 Related Parties Disclosures

The group has entered into a variety of transactions with its related parties. The group has adopted the policy to enter into such transactions, which are being concluded in the normal course of business, on an arm's-length basis. The sales and purchases from related parties are made at comparable normal market prices. Outstanding balances relating to such sales and purchases at year-end are unsecured, interest-free, and settlement occurs in cash. Outstanding loans from related parties are unsecured and presented with accrued interest. The most significant of these balances and transactions are as follows:

## A Balances

€ in millions	December 31, 2009	December 31, 2008
<b>Assets</b>		
Long-term loans and receivables granted to associates:		
Associates in GTC Group	40	34
Associates in Tahal Group	11	13
Associates in Kardan Israel Group	26	33
	<b>77</b>	<b>80</b>
Capital note issued by a related party	1	1

Long-term loans and receivables include loans granted to associates. For details regarding these loans, please refer to Note 8.

Capital note issued by a related party relates to one of the controlling shareholders. For details, please refer to Note 11.

## B Transactions

€ in millions	For the year ended December 31,		
	2009	2008	2007
Management fees from associated companies	4	3	2
Financing income from associated companies, net	4	5	1

Management fees from associated companies primarily relates to management fees paid by the associates of Kardan Israel and GTC SA.

Financing income relates to interest on the loans granted to associates as described above.

**C Remuneration to directors <sup>1</sup>**

	Options granted by the Company	For the year ended December 31,	
		2009	2008
	No. of options	€'000	€'000
<b>Fees to Management Board:</b>			
A. Shlank	179,232	279	262
E. Oz-Gabber	149,360	186	170
Z. Rubin <sup>2</sup>	105,000	–	105
W. van Damme <sup>3</sup>	150,000	208	210
A. Ickovics	179,232	266	244
J. Slootweg <sup>4</sup>	175,000	207	109
<b>Fees to Supervisory Board:</b>			
J. Krant		36	32
I. Fink		21	20
J. Pomrenze		25	22
M.I. Groen		25	24
A. Schnur		21	20
K. Rechter		25	22
H. Benjamins		25	22
<b>Fees and salaries to shareholders employed by the Company:</b>			
Y. Grunfeld		331	458
E. Rechter		437	432
<b>Shares of the Company held by directors:</b>			
(Directly and through companies under their control)		20.9%	24.7%

<sup>1</sup> Amounts paid directly by the Company and by Group companies.

<sup>2</sup> Resigned from the Management Board in June 2008.

<sup>3</sup> Member of the Management Board since June 2007.

<sup>4</sup> Member of the Management Board since June 2008.

The remuneration to the members of the Management Board and Supervisory Board is presented every year to the Annual General Meeting of Shareholders of the Company and approved by it.

## 51 Subsequent Events

**A** In October 2009, TBIF signed an agreement with its joint venture partner in VAB Bank whereby TBIF will purchase additional shares in VAB Bank representing 14% of the share capital of VAB Bank in consideration of approximately €12.5 million.

Subsequent to the balance sheet date, TBIF received the necessary regulatory approvals and the transaction was completed. Following the completion of the transaction, TBIF holds 63% of the shares of VAB Bank and accordingly became the majority shareholder in VAB Bank and gained control over the bank. As a result, TBIF will start fully consolidating the financial statements of VAB Bank as of March 31, 2010. TBIF and the Company are evaluating the accounting implications of the transaction.

**B** Subsequent to the balance sheet date, in March 2010, Kardan Real Estate completed a public offering of shares and convertible debentures on the Tel Aviv Stock Exchange. The total proceeds amounted to approximately €25 million, as follows:

- 1** 23,778,700 ordinary shares in consideration of €10 million,
- 2** NIS 80,867,000 par value convertible debentures in consideration of €15 million. The debentures are linked to the CPI and bear annual interest of 5.7%. The debentures mature on March 30, 2014. The debentures can be converted into Kardan Real Estate shares until March 14, 2014 at a rate of 3.884 NIS par value debentures per share.

**C** Subsequent to the balance sheet date, in April 2010, TBIF received a notice from the 31% co-shareholder in the Russian bank SovCom, expressing its intention to exercise a call option to buy 19% of the shares in SovCom Bank from TBIF. As a result of expressing this intention, according to the call option conditions, the co-shareholders now have the right to pay and exercise the option until September 3, 2010. The option does not define any penalty if the

co-shareholder is not succeeding to fulfill these terms. The transaction is also subject to several conditions precedent, among others the approval of the regulatory authorities and the funding of the acquisition by the option holder. Therefore by expressing this intention the co-shareholder has effectively extended the option period.

Due to the nature and significance of the conditions precedent TBIF will continue to have control over SovCom, until these conditions are materially satisfied, and is fully consolidated.

If the option will be exercised, the cash consideration expected from the sale of the shares amounts to approximately €39 million. The final purchase price will be determined upon closing.

In case that the option will be exercised and TBIF will proportionally consolidate 50% of SovCom Bank, based on December 31, 2009 positions, the total assets which will be deconsolidated from the company's consolidated balance sheet will amount to €395 million. For further information regarding SovCom Bank please refer to Note 5 of these financial statements.





# Company-only Statutory Dutch GAAP Financial Statements

## Balance Sheet

December 31, 2009 – Before Appropriation of Net Result

€ in millions	Note	December 31, 2009	December 31, 2008
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible fixed assets	3	54	44
Derivatives and long-term receivables	4	50	27
Investments in consolidated subsidiaries	5	465	516
Loans to consolidated subsidiaries		215	281
		<b>784</b>	<b>868</b>
<b>Current assets</b>			
Cash and cash equivalents	6	61	109
Short-term investments	7	6	31
Other receivables	8	58	18
		<b>125</b>	<b>158</b>
<b>Total assets</b>		<b>909</b>	<b>1,026</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
	9		
Share capital		23	23
Share premium		235	230
Property revaluation reserve		93	140
Revaluation reserve, other		(14)	(35)
Foreign currency translation reserve		(52)	(43)
Retained earnings (accumulated deficit)		100	1
Result for the period		(92)	52
		<b>293</b>	<b>368</b>
<b>Long-term liabilities</b>			
Debentures	10	510	505
Loans from banks and others	11	53	43
Warrants and options	12	8	20
		<b>571</b>	<b>568</b>
<b>Current liabilities</b>			
Current maturities of long term-loans		11	59
Other payables	14	34	31
		<b>45</b>	<b>90</b>
<b>Total equity and liabilities</b>		<b>909</b>	<b>1,026</b>

See accompanying notes

# Company-only Statutory Dutch GAAP Income Statement

Year ended December 31

€ in millions	Note	2009	2008
Net result from investments for the year	5D	(73)	48
Other income (expense), net	14	(19)	4
<b>Net profit (loss)</b>		<b>(92)</b>	<b>52</b>

See accompanying notes

# Notes to the Company-only Statutory Dutch GAAP Financial Statements

December 31, 2009

## 1 General

The description of the Company's activities and the group structure, as included in the notes to the consolidated IFRS financial statements, also apply to the Company-only Dutch GAAP Financial Statements, unless otherwise stated. These financial statements are not meant to be statutory financial statements.

## 2 Significant Accounting Policies

The Company-only Dutch GAAP Financial Statements are drawn up in accordance with accounting policies generally accepted in The Netherlands (Dutch GAAP) and are the same as described in the notes to the Consolidated IFRS Financial Statements with the exception of the following: investments in consolidated subsidiaries are stated at the Company's share in their net asset value.

In accordance with Article 402 of part 9, Book 2, of the Netherlands Civil Code, the Company-only Dutch GAAP Income Statement is presented on a condensed basis, as its income statement is already included in the Consolidated IFRS Income Statement.

## 3 Intangible Fixed Assets

Intangible fixed assets include goodwill arising on the acquisition of subsidiaries and associated companies and other intangibles. Movements are as follows:

€ in millions	2009	2008
Cost at January 1, net of accumulated amortization	44	99
Acquisition of subsidiaries	29	–
Impairment losses	(2)	(28)
Release due to revaluation of investment properties *	(14)	(26)
Amortization	–	(1)
Disposal of other intangibles	(3)	–
Cost at December 31, net of accumulated amortization	<b>54</b>	<b>44</b>
At January 1,		
Cost	100	100
Less – accumulated amortization	(56)	(1)
	<b>44</b>	<b>99</b>
At December 31,		
Cost	129	100
Less – accumulated amortization and impairment losses	(75)	(56)
	<b>54</b>	<b>44</b>

\* The release is offset against net result from investment, see Note 13 of the Consolidated IFRS Financial Statements

The goodwill which relates to platform goodwill is allocated to the following segments:

€ in millions	2009	2008
Financial Services	34	22
Real Estate	7	21
	<b>41</b>	<b>43</b>

### Impairment testing

The above-mentioned goodwill has been subject to impairment testing. For further information and results hereof, refer to Note 14 of the Consolidated IFRS Financial Statements.

The other intangible assets amounted to €13 million and €1 million in 2009 and 2008, respectively, the intangible assets relate only to the financial segment.

## 4 Long-Term Receivables

Long-term receivable relates to the fair value of derivatives as further described in Note 49 to the Consolidated IFRS Financial Statements.

€ in millions	2009	2008
Open balance	27	–
Revaluation of derivatives	16	20
Transfer of derivatives due to merger	6	7
Other	1	–
	<b>50</b>	<b>27</b>

## 5 Financial Fixed Assets

### A Investments in consolidated subsidiaries

The movement in the investment in consolidated subsidiaries can be summarized as follows:

€ in millions	2009	2008
January 1	516	418
Acquisition of shares in subsidiaries and investments	10	4
Conversion of loan to equity	–	9
Treasury shares	–	(21)
Acquisition of minority shares in subsidiary against issuance of Company's shares	–	136
Capital reserves *	(8)	(34)
Share in profit (loss) of investments for the year	(53)	4
December 31	<b>465</b>	<b>516</b>

The impact of the treasury shares is as follows:

€ in millions	2009	2008
Gross investment, Dec. 31	486	537
Treasury shares	(21)	(21)
<b>Net investment, Dec. 31</b>	<b>465</b>	<b>516</b>

\* Primarily relates to foreign currency exchange differences arising on translation of foreign operations

A further specification is as follows:

Names of significant subsidiaries	2009		2008	
	Ownership %	Total value € in millions	Ownership %	Total value € in millions
Kardan Israel Ltd.	73.85	71	73.4	69
GTC Real Estate Holding B.V.	100.0	309	100.0	360
Kardan Financial Services B.V. <sup>1</sup>	98.6	66	80.0	68
Tahal Group International B.V.	100.0	19	100.0	19
<b>Total investments in significant consolidated subsidiaries</b>		<b>465</b>		<b>516</b>

<sup>1</sup> Due to put options granted to minority shareholders, the Company's effective interest is 100% of Kardan Financial Services B.V.

## B Additional information

### 2009 Events

**1** In March 2009, the Company reached an agreement with Israel Discount Bank ('IDB') to buy back the 11% stake IDB holds in KFS. The purchase price amounted to €38.5 million and was payable in two installments. The first installment amounting to €30 million is payable upon closing; the second installment of €8.5 million is due after seven years and bears no interest.

Within the framework of the agreement the Company granted IDB an option to repurchase a 5% stake in KFS during the next six years, at a price changing gradually, reflecting a valuation of KFS of €386 million plus 5% interest from the third year. Furthermore, IDB approved new credit facilities for Kardan Group. The agreements were signed on March 30, 2009. In addition, on March 30, 2009 an agreement was signed with IDB according to which, among others, KFS early repaid IDB an amount of €50 million, and some of the financial covenants that were agreed between the parties in the past were changed. In addition, the Company and one of its subsidiaries received additional loans from IDB.

The present value of the amounts paid to IDB in consideration for the shares plus the fair value of the option were estimated by the Company at €37

million. The excess of the purchase price over the carrying value of the acquired shares amounted to €28 million. The part of the excess purchase price related to the difference between the fair value of the acquired shares, as estimated as of December 31, 2008, and the carrying value of the shares, amounting to €14 million, was allocated to goodwill. The remainder, amounting to €14 million, was allocated to financing cost, which will be amortized over the different terms of the loans. Although, in principle, the share purchase transaction was discussed separately from the additional financing and changes in covenants, and each transaction was discussed separately by the Company, the above-mentioned amount was allocated to financing costs.

## 2008 Events

- 1 As described in Note 5 to the Consolidated IFRS Financial Statements, as a result of the merger between the Company, GTC RE and GTC Holding, the Company has issued 10,506,111 of its own shares to Kardan Israel in exchange for its 15.5% interest in GTC RE. These shares of the Company are accounted for as treasury shares, and accordingly an amount of €21 million was deducted from the investment account. This amount represents the market value of the Company's shares at the date of the merger (being 10,506,111 shares at €1.97). These shares are deducted from the shareholders' equity of Kardan.
- 2 In the first quarter of 2008, the Company completed a restructuring of its infrastructure holdings. The former holding company, Tahal Group B.V., became the holding company of the projects activities; a new company, Tahal Group Assets B.V., was incorporated and became the holding company of the asset ownership activities; both are now 100% held by the new holding company, Tahal Group International B.V., a newly incorporated 100% subsidiary of Kardan. In line with the restructuring, certain subsidiaries of Tahal Group International B.V. were

transferred to the new company, Tahal Group Assets B.V. The restructuring did not have an impact on the Company.

## C Loans to consolidated subsidiaries:

Loans to consolidated subsidiaries include a loan to Tahal Group International B.V. amounting to €88 million, a loan to KFS amounting to €95 million, and a loan to GTC Holding amounting to €80 million. The loans are primarily denominated in Euros.

- The main loan to KFS bears an interest of Euribor + 2.875% and matures in 2013.
- The loan to Tahal Group International bears an interest of Euribor + 3% per annum and matures not earlier than December 31, 2010.
- The loan to GTC Holding bears an interest of Euribor + 3% per annum, and has its final maturity date in 2020.

The movement in the loans is as follows:

€ in millions	2009	2008
Balance as of January 1	281	117
Loans granted to subsidiaries	258	210
Loans repaid by subsidiaries	(291)	(32)
Conversion of loan into capital	–	(9)
Accrued interest and foreign currency differences, net	8	7
<b>Balance as of December 31</b>	<b>256</b>	<b>293</b>
Less – current maturities	(41)	(12)
	<b>215</b>	<b>281</b>

## D Net result from investments for the year

€ in millions	2009	2008
Net profit/(loss) of investments for the year (see Note 5A)	(53)	4
Gain from issuance of shares in subsidiaries	–	2
Release of goodwill due to revaluation of investment properties	(14)	(26)
Impairment losses	–	(9)
Gain from merger (release of negative goodwill)	–	77
Disposal	(3)	–
Amortization	(3)	–
	<b>(73)</b>	<b>48</b>

## 8 Other Receivables

€ in millions	2009	2008
Current maturities of loans to subsidiaries	41	12
Interest receivables from subsidiaries	8	1
Other	9	5
	<b>58</b>	<b>18</b>

## 6 Cash and Cash Equivalents

Cash and cash equivalents comprise only short-term deposits.

The average interest earned on short-term deposits is 2% (2008 – 2.8%-3.6%).

## 7 Short-Term Investments

€ in millions	2009	2008
Bank deposits in USD	–	1
Pledged deposits in EUR	6	30
	<b>6</b>	<b>31</b>

The pledged deposits relate to security provided for a loan and certain swap transactions which are linked to the repayment of debentures and are used to secure the Company's payments once the repayment of debentures take place.

The average interest earned was 1.2% (2008 – 4%).

## 9 Dutch GAAP Shareholders' Equity

€ in millions	Attributable to equity holders of the parent						Total
	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Retained earnings	
<b>Balance as of January 1, 2008</b>	<b>17</b>	<b>176</b>	<b>109</b>	<b>(5)</b>	<b>(25)</b>	<b>71</b>	<b>343</b>
Currency translation differences	–	–	–	–	(18)	–	(18)
Change in fair value of hedge instrument	–	–	–	(30)	–	–	(30)
Total income and expense for the year recognized directly in equity	–	–	–	(30)	(18)	–	(48)
Net profit/(loss) for the period	–	–	–	–	–	52	52
Total income /expense for the year	–	–	–	(30)	(18)	52	4
Issuance of Company shares to minority shareholders	6	51	–	–	–	–	57
Share-based payment	–	1	–	–	–	–	1
Issuance of Company shares to consolidated company (treasury shares)	–	–	–	–	–	(21)	(21)
Exercise of warrants and options	–	2	–	–	–	–	2
Dividend distributed	–	–	–	–	–	(18)	(18)
Dividend paid to minority shareholders	–	–	–	–	–	–	–
Reclassification according to requirements *	–	–	31	–	–	(31)	–
<b>Balance as of December 31, 2008</b>	<b>23</b>	<b>230</b>	<b>140</b>	<b>(35)</b>	<b>(43)</b>	<b>53</b>	<b>368</b>
Comprises:							
Balance before treasury shares	23	230	140	(35)	(43)	74	389
Treasury shares	–	–	–	–	–	(21)	(21)
<b>Balance as of December 31, 2008</b>	<b>23</b>	<b>230</b>	<b>140</b>	<b>(35)</b>	<b>(43)</b>	<b>53</b>	<b>368</b>



€ in millions	Attributable to equity holders of the parent						Total
	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Retained earnings	
<b>Balance as of January 1, 2009</b>	<b>23</b>	<b>230</b>	<b>140</b>	<b>(35)</b>	<b>(43)</b>	<b>53</b>	<b>368</b>
Currency translation differences	–	–	–	–	(9)	–	(9)
Change in fair value of hedge instrument	–	–	–	22	–	–	22
Change in unrealized revaluation reserve	–	–	–	(1)	–	–	(1)
Total income and expense for the year recognized directly in equity	–	–	–	21	(9)	–	12
Net profit (loss) for the period	–	–	–	–	–	(92)	(92)
Total income /expense for the year	–	–	–	21	(9)	(92)	(80)
Issuance of shares	–	1	–	–	–	–	1
Share-based payment	–	1	–	–	–	–	1
Exercise of warrants and options	–	3	–	–	–	–	3
Reclassification according to requirements *	–	–	(47)	–	–	47	–
<b>Balance as of December 31, 2009</b>	<b>23</b>	<b>235</b>	<b>93</b>	<b>(14)</b>	<b>(52)</b>	<b>8</b>	<b>293</b>
Comprises:							
Balance before treasury shares	23	235	93	(14)	(52)	29	313
Treasury shares	–	–	–	–	–	(21)	(21)
<b>Balance as of December 31, 2009</b>	<b>23</b>	<b>235</b>	<b>93</b>	<b>(14)</b>	<b>(52)</b>	<b>8</b>	<b>293</b>

\* In accordance with the Netherlands Civil Code, part of the retained earnings is restricted for distribution, following the regulations to maintain a revaluation reserve in respect of real estate unrealized fair value and other adjustments

#### Additional information

As described in Note 5 to the Consolidated IFRS Financial Statements, as a result of the merger between the Company, GTC RE and GTC Holding, the Company has issued 10,506,111 of its own shares to Kardan Israel in exchange for its 15.5% interest in GTC RE. These shares of the Company are accounted for as treasury shares, and accordingly an amount of €21 million was deducted from Shareholder's Equity (presented as issuance of shares to consolidated company in shareholders' equity movement).

## 10 Debentures

Composition:

€ in millions	December 31, 2009	December 31, 2008
Debentures – issued in 2007	244	242
Debentures – issued in 2008 and assumed from GTC in connection with the merger (refer to Note 5 in the Consolidated Financial Statements)	269	266
Convertible debentures – issued in 2008 in connection with the merger	–	3
	<b>513</b>	<b>511</b>
Less – debt issuance expenses	(3)	(3)
Less – current maturities	–	(3)
	<b>510</b>	<b>505</b>

For further details, please refer to Note 29 to the Consolidated IFRS Financial Statements regarding debentures issued by the Company.

## 11 Loans From Banks and Others

Composition:

€ in millions	December 31, 2009	December 31, 2008
Phoenix (1)	–	24
Mercantile Discount Bank (2)	11	14
Israel Discount Bank (3)	30	6
Leumi Bank (4)	18	30
Mizrachi Bank (5)	–	20
Union Bank (6)	5	6
	<b>64</b>	<b>100</b>
Less – deferred debt issuance costs	–	(1)
	<b>64</b>	<b>99</b>
Less – current maturities	(11)	(56)
	<b>53</b>	<b>43</b>

The fair value of the long-term loans from banks and others at year-end, being the current values of the liabilities calculated using estimated interest rates, approximates the book value (see also Note 49 to the Consolidated IFRS Financial Statements).

The fair value of the long-term loans from banks and others at year-end, being the current values of the liabilities calculated using estimated interest rates, approximates the book value (see also Note 49 to the Consolidated IFRS Financial Statements).

(1) In January 2005, the Company issued a debenture to Phoenix Israel Insurance Company Ltd. ('Phoenix'), pursuant to which the Company received a loan amounting to NIS 110.0 million (€21 million) from Phoenix. The debenture was for a term of five years and bore an interest at a fixed rate of 6.6% per annum. The principal and interest are linked to the Israeli CPI. The principal of the debenture will be repaid in one instalment, five years following the date of issuance. The interest is

to be repaid in five annual installments, the first falling due on February 1, 2006. As security for the debenture, the Company pledged a deposit amounting to €25.4 million, which should not be lower than 110% of the value of the outstanding debenture for a period longer than five days. In the event of certain conditions not being fulfilled, the debenture can be called for immediate repayment. Some of these conditions relate to the Company-only equity of Kardan N.V., which (i) must not fall below NIS 150 million (€28 million) during a continual three-month period; (ii) must not fall below NIS 140 million (€26 million) during one month; and (iii) must not fall below 28% of the statement of the financial position total for a three month period. In addition, prior approval by Phoenix should be received for any change in control, reorganization, and reduction of capital and delisting of the Company. The Company early repaid the debentures in December 2009.

- (2) In June 2009, the Company signed a loan agreement with Mercantile Discount Bank Ltd ('Mercantile'). The loan was granted for a period of 5.5 years, amounting € 9.17 million and bear an interest at a rate of LIBOR + 2.6% per annum. The principal and interest is repaid in quarterly installments of € 417 thousands each.
- (3) In March 2009, the Company received two loans from Israel Discount Bank Ltd. ('Discount Bank') in the total amount of €30. One loan in the amount of €15 million, bears an interest of LIBOR + 2.5% paid quarterly. The principal of the loan will be repaid in five yearly installments starting March 30, 2014 and the additional loan in the amount of €15 will be repaid in March 2019. The covenants of the loans are as follows:
  - (1) KNV will hold at least 51% in the means of control in GTC Holding. The tangible equity attributed to Kardan N.V. shareholders will not go below €260 million up to July 2011 and € 290 million from July 2011.

- (2) The ratio between the tangible equity attributed to Kardan N.V. shareholders and the total statement of financial position statement of financial position (solo) will not go below 27%, and starting July 2011 - 30%.

- (3) Kardan N.V.'s debentures will not be downrated to BB or below, in the event the condition is not met, securities will be issued to the Bank's satisfaction within 45 days. In the event Kardan N.V.'s debentures rating goes below B- (to CCC+ or less), the bank has the right to immediately demand early repayment of the loan with no ratifying period, but KNV's shares will continue to be traded on TASE during the loan period.

- (4) In April 2006, the Company signed a credit facility agreement with Leumi Bank regarding a total facility of €23 million. The loan drawn under this facility bears interest of EURIBOR or LIBOR + 1.3% and is repayable in five equal annual instalments during the years 2007-2011. Interest is payable per quarter.

In March 2008, the Company has signed an additional loan agreement with Leumi Bank for a €13.7 million loan bearing interest of EURIBOR + 1.43% per annum. The loan is repayable in five installments during the years 2009-2013. The interest is paid on a quarterly basis.

The interest rate for both loans was increased by 0.7% in October 2008 due to a change in rating of the Company's debentures.

As security for both loans, the Company pledged its holdings in KFS in favor of the bank and, in addition, committed itself to maintain an equity-to-statement of financial position ratio of 26% and also has also guaranteed that the equity of the Company will not fall below USD 98 million. Furthermore, the Company has committed itself not to pledge shares of TBIH for purposes other than those described in the agreement, and that KFS will hold at least 51% of TBIH and 35% of TBIH.

During 2009, Kardan Financial Services B.V. sold some of the group companies, resulting in a decrease of €3 million related to Goodwill allocated to these companies at the Kardan N.V. level.

- (5) In January 2007, the Company signed a loan agreement with Union Bank. The loan, amounting to €6 million bears interest of 5.615% per annum maturing in January 2009 in one installment. The loan was fully repaid as scheduled.
- (6) In February 2009, the Company signed a new loan agreement amounting to €5.8 million with Union Bank for the same amount of loan. The new loan bears interest of EURIBOR + 2.5% and is repayable in eight half-annual installments during the years 2009-2013. As a security to the loan, the Company pledged 11,578,390 shares of Kardan Israel which equal 120% of the outstanding balance of the loan. In addition, the Company committed to maintain shareholders' equity of at least 25% of the company-only total statement of financial position and that Kardan will continue to control Kardan Israel.

As of December 31, 2009, the Company met all its financial covenants.

## 12 Options

The Company issued two put options related to Kardan Financial Services B.V. amounting to €8 million (2008: €20 million).

## 13 Taxes on Income

The Company has its statutory seat in the Netherlands, and therefore is subject to taxation according to the Dutch law.

The Company benefits from the Participation Exemption ('Participation Exemption'). According to the Participation Exemption, all capital gains and dividends income derived from qualifying

participations are exempt from Dutch corporate income tax.

Starting from 2007, the Participation Exemption applies to any shareholding of 5% or more in the paid-in capital of an active participation whose capital is divided into shares. However, holdings of a 'low-taxed portfolio participation' will not allow application of the Participation Exemption. This relates to investments in passive companies that are subject to an effective tax at a rate lower than 10% (which is to be calculated according to Dutch tax law); or to participations whose assets, directly or indirectly, mainly (more than 50%) consist of free portfolio investments. An exception to this rule are shareholdings of 5% or more in companies where at least 90% of the (consolidated) assets are real estate assets. Holdings in such companies shall benefit from the Participation Exemption even if the investees have been classified as low-taxed portfolio participation.

As from 2010, the Participation Exemption should apply to all participations of 5% or more if the participation is not considered to be held as a mere portfolio investment.

The enacted tax rate in the Netherlands is 25.5%.

Up and including 2008, Kardan N.V. has tax losses of €42 million that are available for offset up to nine years.

Deferred tax assets have not been recognized in respect of tax loss carry forwards as they may not be used to offset taxable profits.

The Company received final tax assessments for the years 2003 to 2006. The Company filed an appeal regarding the 2003 tax assessment.

Net loss for the year amounts to €92 mio (2008: €52 million profit), including a net result from investments 2009: €73 million losses (2008: €48 million gain) which are not deductible/taxable. The remaining other expenses and income does not result in tax benefits or tax expenses due to the available tax losses of the Company.

## 14 Other Payables

€ in millions	December 31, 2009	December 31, 2008
Accrued expenses (mainly accrued interest)	22	25
Others	12	6
	<b>34</b>	<b>31</b>

## 15 Other Income (Expense)

In 2009, other income (expense) comprises mainly finance expense of €14 million, management fees of €1 million, general and administrative expenses of €5.

In 2008, other income (expense) comprises mainly finance income of €9 million, management fees of €1 million, gain on issuance of shares in subsidiary to third party of €2 million, and general and administrative and other expenses of €6 million.

Share-based payments and other remunerations to related parties amount to less than €1 million. Please refer to Note 23 of the Consolidated Financial Statements.

## 16 Audit Fees

The table below summarizes the fees invoiced to the Company and its subsidiaries by its auditors, Ernst & Young Accountants LLP in 2009 and 2008:

€ in millions	For the year ended December 31,	
	2009	2008
EY accountants LLP	1	1
EY Network	2	2
	<b>3</b>	<b>3</b>

## 17 Remuneration of Management Board and Supervisory Board

The Company's Management Board and Supervisory Board received remuneration in 2009 and 2008 as described in Note 50 to the Consolidated IFRS Financial Statements.

## 18 Commitments, Contingent Liabilities, Guarantees and Subsequent Events

For commitments, contingent liabilities, guarantees, and subsequent events, please refer to Notes 34 and 51, respectively, of the Consolidated IFRS Financial Statements.

### Management Board

A. Ickovics

A. Shlank

J. Slootweg

E. Oz-Gabber

W. van Damme

### Supervisory Board

J. Krant

A. Schnur

K. Rechter

I. Fink

J. Pomrenze

M. Groen

H. Benjamins

## Other Information

### **Statutory arrangements in respect of the appropriation of net result**

The Articles of Association of the Company provide that the appropriation of the net result for the year is decided upon at the Annual General Meeting of Shareholders.

### **Proposed appropriation of 2009 result**

The proposal is to deduct the result of 2009 from the retained earnings.

The dividend policy of Kardan N.V. recommends an annual dividend distribution between 20% and 30% of net income, taking into consideration, among others, the liquidity and capital position and future financing requirements. Due to the loss for the year and taking into account the financial position of Kardan N.V., the Management Board, with the approval of the Supervisory Board, has decided not to distribute any dividend from the reserves for the financial year 2009.

### **Subsequent events**

For subsequent events please refer to Note 51 of the consolidated financial statements.

# Auditor's Report

To: The Management and Shareholders of Kardan N.V.

## Report on the statutory financial statements

We have audited the accompanying statutory financial statements for the year ended December 31, 2009 of Kardan N.V., Amsterdam. The statutory financial statements consist of the Consolidated IFRS Financial Statements and the Company-only Dutch GAAP Financial Statements. The Consolidated IFRS Financial Statements comprise the consolidated statement of financial position as at December 31, 2009, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes. The Company-only Dutch GAAP Financial Statements comprise the Company-only balance sheet as of December 31, 2009, the Company-only income statement, the Company-only changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility

Management is responsible for the preparation and fair presentation of the statutory financial statements in accordance with International Financial Reporting Standards as adopted by the European Union with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on the statutory financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion with respect to the Consolidated IFRS Financial Statements**

In our opinion, the Consolidated IFRS Financial Statements give a true and fair view of the financial position of Kardan N.V. as of December 31, 2009, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

**Opinion with respect to the Company-only Dutch GAAP Financial Statements**

In our opinion, the company only Dutch GAAP financial statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

**Report on other legal and regulatory requirements**

Pursuant to the legal requirements under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Zwolle, April 19, 2010  
Ernst & Young Accountants LLP  
Signed by A.J. Buisman





# Additional Financial Information

## According to Rule 9C

Herewith financial data and separate financial information related to the Company-only from the Consolidated Financial Statements of the Group as of December 31, 2009, which is published as part of the annual report (herewith – Consolidated Financial Statements), presented in accordance with rule 9c of the Israeli Securities and Exchange regulations (Periodic and immediate reports), 1970. The main accounting policy used for this financial information was described in the notes to the Consolidated Financial Statements. The notes to this financial information and disclosures needed are not included in the Consolidated Financial Statements, as it refers to the Company-only Information.

The term 'Investees' is as defined in Note 1 of the Consolidated Financial Statements.

# Additional Financial Information from the Company-only Statement of Financial Position

December 31, 2009

€ in millions	Additional information	December 31, 2009	December 31, 2008
<b>Assets</b>			
<b>Non-current assets</b>			
Long-term receivable (mainly fair value of derivatives)		50	27
<b>Financial fixed assets</b>			
Investments in consolidated subsidiaries	5	519	560
Loans to consolidated subsidiaries		215	281
		<b>734</b>	<b>841</b>
<b>Current assets</b>			
Cash and cash equivalents	1	61	109
Short-term investments	2	6	31
Other receivables	4	58	18
		<b>125</b>	<b>158</b>
<b>Total assets</b>		<b>909</b>	<b>1,026</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to equity shareholders</b>			
Share capital		23	23
Share premium		235	230
Property revaluation reserve		93	140
Revaluation reserve, other		(14)	(35)
Currency translation reserve		(52)	(43)
Retained earnings		8	53
		<b>293</b>	<b>368</b>
<b>Long-term liabilities</b>			
Debentures		510	505
Loans from banks and others		53	43
Warrants and Options		8	20
		<b>571</b>	<b>568</b>
<b>Current liabilities</b>			
Current maturities of long-term loans		11	59
Other payables		34	31
		<b>45</b>	<b>90</b>
<b>Total equity and liabilities</b>		<b>909</b>	<b>1,026</b>

## Additional Information from the Company-only Income Statement

€ in millions	Year ended December 31		
	2009	2008	2007
Net result from investments for the year	(73)	48	62
Other income	1	1	6
<b>Total revenues</b>	<b>(72)</b>	<b>49</b>	<b>68</b>
General and administrative expenses	5	5	6
Other expenses	2	1	10
<b>Total expenses</b>	<b>7</b>	<b>6</b>	<b>16</b>
<b>Profit (loss) from operations before financing expenses</b>	<b>(79)</b>	<b>43</b>	<b>52</b>
Financing income (expenses), net	(13)	9	38
<b>Net profit (loss) for the year</b>	<b>(92)</b>	<b>52</b>	<b>90</b>

## Additional Information on the Company-only Statement of Comprehensive Income

€ in millions	For the year ended December 31,		
	2009	2008	2007
<b>Net profit (loss) for the year</b>	<b>(92)</b>	<b>52</b>	<b>90</b>
Foreign currency translation differences	(9)	(18)	(11)
Change in hedge reserve, net	22	(30)	(4)
Unrealized revaluations, net of tax	(1)	–	(1)
Change due to restatement of subsidiary	–	–	(5)
Other comprehensive income (expense) for the period	12	(48)	(21)
<b>Total comprehensive income (expense)</b>	<b>(80)</b>	<b>4</b>	<b>69</b>

# Additional Information from the Company-only Cash Flow Statement

€ in millions	For the year ended December 31,		
	2009	2008	2007
<b>Cash flow from operating activities of the Company</b>			
Net profit (loss) for the year	(92)	52	90
<b>Adjustments to reconcile net profit (loss) to net cash of the Company</b>			
Charges to net loss not affecting operating cash flows:			
Share-based payment	1	1	2
Change in fair value of hedge instruments	(12)	(27)	–
Gain from sale of shares in subsidiary		(2)	4
Financial income/expense	26	25	(38)
Equity loss (earnings)	73	(48)	(62)
<b>Changes in working capital of the Company</b>			
Change in receivables	8	(16)	(4)
Change in payables	(4)	13	10
<b>Cash amounts paid and received during the year</b>			
Interest paid	(27)	(15)	(3)
Interest received	8	2	2
<b>Net cash provided by (used in) operating activities of the Company</b>	<b>(19)</b>	<b>(15)</b>	<b>1</b>
<b>Cash flow from investing activities of the Company</b>			
Purchase of subsidiary debentures	–	–	(19)
Proceeds from sale of shares in subsidiaries	–	–	9
Short-term investments, net	26	(11)	12
Granting of loans to subsidiaries, net	32	85	(118)
Investments in subsidiaries	(48)	(5)	(32)
<b>Net cash provided by (used in) investing activities of the Company</b>	<b>10</b>	<b>69</b>	<b>(148)</b>
<b>Cash flow from financing activities</b>			
Dividend distributed	–	(18)	(9)
Proceeds from issuance of debentures	–	–	211
Proceeds from long-term debt	59	31	13
Repayment of long-term debt	(98)	(5)	(43)
<b>Net cash provided (used in) by financing activities of the Company</b>	<b>(39)</b>	<b>8</b>	<b>172</b>
<b>(Decrease) / increase in cash and cash equivalents of the Company</b>	<b>(48)</b>	<b>62</b>	<b>25</b>
Cash and cash equivalents at beginning of the period of the Company	109	47	22
<b>Cash and cash equivalents at end of the period of the Company</b>	<b>61</b>	<b>109</b>	<b>47</b>

# Notes to the Company-only Financial Statements

## 1 Cash and Cash Equivalents

€ in millions	December 31, 2009	December 31, 2008
Short-term deposits in USD	9	2
Short-term deposits in EURO	52	107
	<b>61</b>	<b>109</b>

The cash primarily comprise short-term deposits.  
The average interest rate on short-term deposits was 2% p.a. in 2009 (in 2008 – 2.8% - 3.6%).

## 2 Short-Term Investments

€ in millions	2009	2008
Bank deposits in USD	–	1
Pledged deposits in EUR	6	30
	<b>6</b>	<b>31</b>

The pledged deposits relate to security provided for a loan and certain swap transactions.

The average interest earned in 2009 and 2008 was 1.2% and 4%, respectively.

## 3 Details of material financial assets in accordance with IAS 39

€ in millions	December 31,	
	2009	2008
<b>Financial assets at fair value through profit or loss:</b>		
Shares	–	1
Loans	256	297
Derivatives	50	27
	<b>306</b>	<b>325</b>

## 4 Other Receivables

€ in millions	December 31, 2009	December 31, 2008
Derivatives	4	2
Interest receivable from subsidiaries	8	1
VAT receivable	2	1
Income tax receivable	2	2
Other	1	–
Current maturities	41	12
	<b>58</b>	<b>18</b>

## 5 Expected realization periods of material financial assets and liabilities grouped in accordance with IAS 39 classifications:

### Assets as of December 31, 2009

€ in millions	Up to 1 year	1-2 years	2-3 years	Total
Loans and receivables	58	138	61	257
	<b>58</b>	<b>138</b>	<b>61</b>	<b>257</b>

### Assets as of December 31, 2008

€ in millions	Up to 1 year	1-2 years	2-3 years	Total
Shares	1	–	–	1
Loans and receivables	18	59	221	298
	<b>19</b>	<b>59</b>	<b>221</b>	<b>299</b>

### Liabilities as of December 31, 2009

€ in millions	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Debentures	28	28	28	81	114	380	659
Loans	12	12	7	6	6	30	73
Payables	5	–	–	–	–	–	5
Put options	3	–	–	–	–	–	3
	<b>48</b>	<b>40</b>	<b>35</b>	<b>87</b>	<b>120</b>	<b>410</b>	<b>740</b>

### Liabilities as of December 31, 2008

€ in millions	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Debentures	30	52	28	28	81	494	713
Loans	60	9	8	3	3	–	83
Payables	17	–	–	–	–	–	17
Put options	19	–	–	–	–	–	19
	<b>126</b>	<b>61</b>	<b>36</b>	<b>31</b>	<b>84</b>	<b>494</b>	<b>832</b>

The substantial majority of the Company's financial assets, other than cash, are denominated in EURO.



## 6 Taxes on income

The Company has its statutory seat in the Netherlands, and therefore is subject to taxation according to the Dutch law.

The Company benefits from the Participation Exemption ('Participation Exemption'). According to the participation exemption, all capital gains and dividends income derived from qualifying participations are exempt from Dutch corporate income tax.

Starting from 2007, the Participation Exemption applies to any shareholding of 5% or more in the paid-in capital of an active participation whose capital is divided into shares. However, holdings of a 'low-taxed portfolio participation' will not allow application of the Participation Exemption. This relates to investments in passive companies that are subject to an effective tax at a rate lower than 10% (which is to be calculated according to Dutch tax law); or to participations whose assets, directly or indirectly, mainly (more than 50%) consist of free portfolio investments. An exception to this rule is shareholdings of 5% or more in companies where at least 90% of the (consolidated) assets are real estate assets. Holdings in such companies shall benefit from the Participation Exemption even if the investees have been classified as low-taxed portfolio participation.

As from 2010, the Participation Exemption should apply to all participations of 5% or more if the participation is not considered to be held as a mere portfolio investment.

The enacted tax rate in the Netherlands is 25.5%.

Up and including 2008, Kardan N.V. had tax losses of €42 million that are available for offset up to nine years.

Deferred tax assets have not been recognized in respect of tax loss carry forwards as they may not be used to offset taxable profits.

The Company has received final tax assessments for the years 2003 to 2006. The Company filed an appeal regarding the 2003 tax assessment.

## 7 Loans, mutual balances, commitments and transactions with investee companies

### A Balances with investee companies

€ in millions	December 31, 2009	December 31, 2008
Short-term deposit	5	–
Long-term loans to subsidiaries	256	293
Debentures held by subsidiary	(31)	(30)
The largest amount of loans and current debts during the year	386	293
Collaterals in favor of investee companies *	163	146

\* Collaterals were provided to secure loans undertaken by subsidiaries

**B Transactions with investee companies**

€ in millions	Year ended December 31		
	2009	2008	2007
Management fees	1	1	1
Guarantee fees	1	1	–
General and administrative expenses	(1)	–	–
Financial income	21	9	6
Financial expenses	(8)	–	–

**C Commitments**

The Company is engaged in an agreement with a subsidiary to pay the amount of approximately €1 million, as yearly fee for services rendered.

The Company collects yearly management fees from its subsidiaries in the amount of €1 million.

The Company collects guarantee fees from subsidiaries in connection with guarantees provided which relate to subsidiary loans.

## 8 Commitments, contingent liabilities, guarantees, and subsequent events

For commitments, contingent liabilities, guarantees, and subsequent events, please refer to Notes 34 and 51, respectively of the Consolidated IFRS Financial Statements.

**Management Board**

A. Ickovics

A. Shlank

E. Oz-Gabber

W. van Damme

J. Slootweg

**Supervisory Board**

J. Krant

A. Schnur

K. Rechter

I. Fink

J. Pomrenze

M. Groen

H. Benjamins

## Profile

Kardan is a leading emerging markets player, active in setting up and developing business platforms in emerging markets, mainly in CEE (Central and Eastern Europe), CIS (Common Wealth of Independent States) and China. Kardan focuses on those sectors that benefit from a growing middle-class demand: real estate, financial services and infrastructure. In these markets, which are characterized by high growth potential, Kardan is building on its strong positions, both through organic growth and acquisitions.

€ in millions	2009	2008	2007
Revenues	753	492	297
Net profit (loss) before income taxes	(225)	257	295
Net profit (loss)	(176)	175	250
Net profit (loss) net of minority interest	(92)	52	90
Total equity	988	1,112	1,073
Equity net of minority interest	293	368	343
Total consolidated assets	5,633	5,251	4,272
Solvency (equity/total assets)	17.5%	21.2%	25.1%
Return on average equity net of minority interest	(27.8%)	14.6%	29.5%
Number of employees	12,140	14,959	13,411

€ per share	2009	2008	2007
Basis earnings (loss)	(0.91)	0.63	1.11
Diluted earnings (loss)	(0.92)	0.28	1.10
Equity net of minority interest	2.6	3.3	4.2
Number of shares (used for calculation of information per share)			
December 31	111,824,638	110,976,911	80,871,183
Weighted average for the year	100,993,970	81,926,520	80,759,951
Fully diluted	100,993,970	83,204,750	83,752,604

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