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

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

1.1. General

Kardan NV ("**Kardan NV**") was incorporated in the Netherlands in the year 2003 as a wholly owned subsidiary company of Kardan Israel Ltd. ("**Kardan Israel**"), which at that time was a public company whose shares were traded on the Tel-Aviv Stock Exchange Ltd. ("**The Tel-Aviv Stock Exchange**"). In July 2003 Kardan NV completed an alternative purchase offer, within the framework of which it purchased the entire holdings of Kardan Israel from the shareholders of Kardan Israel in consideration for an issuance of shares of Kardan NV. Following the said process, Kardan Israel became a wholly owned subsidiary company of Kardan NV.[1] At the same time, the shares of Kardan NV were listed for trading on the Tel-Aviv Stock Exchange on the Pan-European Stock Exchange in Amsterdam – Euronext Amsterdam NV and on the NYSE.

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

Kardan NV is an investment and holding company, which operates, via subsidiaries and related companies, in seven key operating segments, as follows: (1) Real estate; (2) Financial Services - banking and retail credit; (3) Financial Services - pensions and insurance; (4) Infrastructure - projects; (5) Infrastructures – investment in assets; (6) Sale of motor vehicles; and (7) Operating lease and car rental. In addition, business activities that are not included in the above fields are classified to the Others fields. Most of Kardan NV's activities in the real estate sector, in the banking and retail credit sector, in the insurance and pension sectors and in the infrastructure sector are carried out overseas through Kardan NV, whereas its activities in the motor vehicles sales, operating lease and car rental sectors and part of the real estate activities are carried out in Israel through Kardan Israel.

The activities of the Kardan NV Group overseas

In the mid 1990's Kardan Israel began to explore the possibility of investing in Central and Eastern Europe, under the assumption that there was a window of opportunities in that area, which would enable the the Company to achieve a higher return on its investments. Since then, the Kardan NV Group has expanded its business activities overseas, and today it is highly active in in Central and Eastern Europe in the field of real estate, banking and retail credit, in the field of insurance and pension and in the field of infrastructures – projects. In 2005, the Kardan NV Group began operating in China where it is currently active in the fields of real estate and infrastructures – investment in assets. The Kardan NV Group also has business operations in Latin America, Asia and Africa in the field of infrastructures-projects and limited real estate operations in West Eruope, Russian and Ukraine. In the wake of the crisis in the markets, which began in 2008 and continued through the start of 2009, the Kardan Group adapted its activities and development plans to the changing

[1] As set forth below, in June 2005, Kardan Israel's shares were listed for trade on the Tel Aviv Stock Exchanged and it once again became a public company.

environment, particularly in the real estate and financial services sectors in Central-Eastern Europe. For details, see Sections 8.5.8[a][1] and 8.5.8[b][1] of this Part.

Kardan NV's operations in Israel

Kardan NV in Israel's operations are carried out through its subsidiary Kardan Israel. Kardan Israel was incorporated in 1982 under the laws of Israel as a public company, and its shares were listed for trading on the Tel-Aviv Stock Exchange in 1982 and 1989. In 2003 Kardan NV acquired all of the shares in Kardan Israel in accordance with an exchange tender offer and Kardan Israel became a private company wholly owned by Kardan NV. In May 2005 Kardan Israel published a prospectus for the public offering of securities and an exchange tender offer for all of the shares of Kardan Real Estate Enterprise and Development Ltd. ("**Kardan Real Estate**") and in June 2005 Kardan Israel's shares were listed for trading on the Tel-Aviv Stock Exchange and it again became a public company. Since 1990 Kardan Israel has been indirectly controlled by the present shareholders of Kardan NV. Kardan Israel's activities are carried out in four sectors: real estate development, construction works, motor vehicles, operating lease and short-term car rental and communications and technology. In addition, as of December 2008, Kardan Israel holds shares of Kardan NV, representing 9.4% of the issued capital of Kardan NV. For a description of Kardan Israel, see Section 7 of the Part.

The controlling shareholders of Kardan NV have not undertaken not to directly perform activities in the fields and regions in which Kardan NV operates. In practice, as of the reporting date, the controlling shareholders of Kardan NV are not directly performing material activities in the fields and regions in which Kardan NV operates.

As of the reporting date, Kardan NV holds 73.85% of the issued capital of Kardan Israel. As of the reporting date, Kardan NV is examining a scheme for the sale of 55% of the shares of kardan Israel held by Kardan NV to the shareholders of Kardan NV. Given the complexity of the process, which is subject to the laws in the Netherlands and Israel, there is no certainty regarding the scheme of the sale, its date or its actual execution. For additional details see section 1.42 to this Part.

1.2. Definitions and assumptions

In this report, the following terms will have the meanings specified in the table:

Kardan NV	Kardan N.V.
Kardan NV Group	Kardan NV, together with its subsidiaries and related companies
Kardan Israel	Kardan Israel Ltd.
GTC RE	GTC Real Estate N.V.[2]
GTC Poland	Globe Trade Centre S.A.
GTC Holding	GTC Real Estate Holding B.V.
GTC Group	GTC Holding, together with its subsidiaries and related companies
Kardan Real Estate	Kardan Real Estate Enterprise and Development Ltd.
Emed	Emed Real Estate Development and Investment Ltd.

[2] GTC RE ceased to exist on December 16, 2008, the date on which it was merged into GTC Holding, as set forth in section 1.4.1 of this Part. Due the fact that this report describes events which primarily occurred prior to the merger, Kardan NV's real estate activities overseas , insofar as they relate to events preceding the date of the merger, are attributed to GTC RE (and its subsidiaries and related companies). Any real estate activity overseas performed after the date of the merger as well as general descriptions are attributed in this report to GTC Holding (and its subsidiaries and related companies).

Kardan Emed Properties	Formerly E. Osif Properties Ltd.
Dan Vehicle	Dan Vehicle and Transportation D.R.T. Ltd.
KFS (Beheer BV)	Kardan Financial Services B. V. (formerly Herfstzon Beher B.V.)
KFS Group	KFS, together with its subsidiary and related companies
TBIH	TBIH Financial Services Group N.V.
TBIF	TBIF Financial Services B.V
TBIH Group	TBIH, together with its subsidiaries and related companies
TBIF Group	TBIF, together with its subsidiaries and related companies
Tahal International	Tahal Group International B.V.
Tahal Group	Tahal Group Projects B.V.
Tahal Assets	Tahal Group Assets B.V.
Tahal Group	Tahal International, together with subsidiaries and associated companies
UMI	Universal Motors Israel Ltd.
Kardan Communications	Kardan Communications Ltd.
Kardan Technologies	Kardan Technologies Ltd
R.R. Sat	R.R. Sat Global Communications Network Ltd (formerly, R.R. Sat Satellite Communications Ltd
The Tel-Aviv Stock Exchange	The Tel-Aviv Stock Exchange Ltd.
NASDAQ	National Association of Securities Dealers Automated Quotation system – in the USA
Euronext	The Pan-European Securities Exchange in Amsterdam – Euronext Amsterdam N.V.
Dollar	The US Dollar
The financial statements	The financial statements of Kardan NV as of December 31, 2008, which are included in part C of the report.
Board of Directors' report	Report of Kardan N.V. Board of Directors as of December 31, 2009 included in Part B herein.
The Securities Law	The Securities Law, 5728 – 1968
The Companies Law	The Companies Law, 5759 – 1999
The Ordinance	Income Tax Ordinance (New Version), 5721-1961
Ma'alot	Standard & Poor`s Ma'alot- the Israeli Securities Rating Company Ltd (formerly, Ma'a lot - the Israeli Securities Rating Company Ltd.).
Midroog	Midroog Ltd

Following the implementation of IFRS 8: "Operating Segments" ("**IFRS 8**"), commencing with Kardan NV's financial statements for the period ending March 31, 2009, the classification of operating segments in Kardan NV's financial statements has changed (see section 2 of this Part as well as note 35A to the financial statements). The operating segments described in this Part are the reportable operating segments of Kardan NV in accordance with IFRS 8.

Kardan NV is a holding company. This section primarily presents details on Kardan NV's material holdings among its investee companies.[3] The significance of these holdings to Kardan NV was examined by Karsan NV's management. Some of the material companies are held by Kardan NV through Kardan Israel.

This section, including the description of operating segments and material transactions, includes information which is material from Kardan NV's perspective, while in some cases the description has been expanded in order to provide an indepth picture of the issue, but it does not necessarily demonstrate that the information is material from the point of view of Kardan NV.

Anywhere in this Part a contribution to the profit is mentioned, it means Kardan NV's share (attributed to the owners of Kardan NV) of the profits of the affiliated company (taking into account the amortization of original differences, if any, during the reported period).

As for the holding of shares of the companies mentioned in the report, data on the holdings of a company in another company through a wholly owned subsidiary is presented as direct holdings in the shares of the other company, unless otherwise stated.

The rates of the holdings in the shares of an affiliated company are calculated from the total issued capital of the affiliated company, without taking into account any possible dilution as the result of an exercise of options and other convertible securities issued by it, unless it is explicitly stated otherwise.

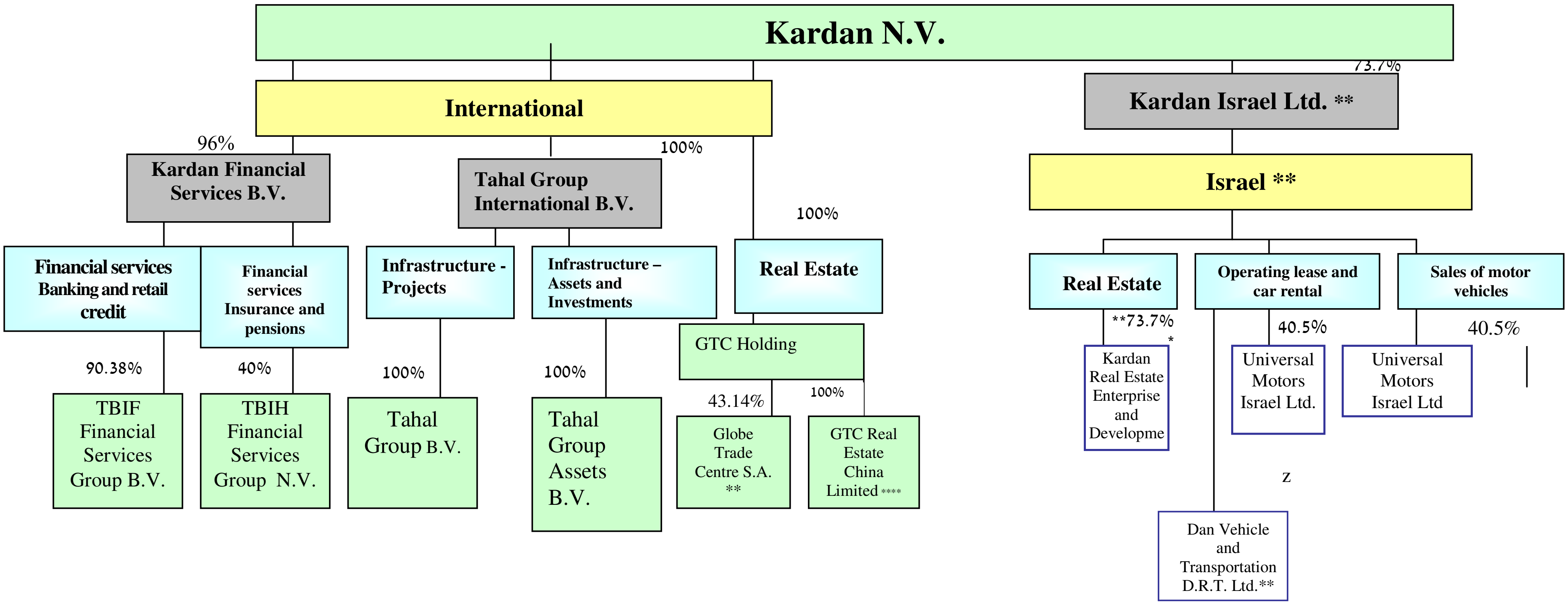
In the description of companies that are held by Kardan NV, the details are sometimes based on different surveys and research. Kardan NV is not responsible for the contents of these surveys and research.

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

[3] "Investee companies" – consolidated subsidiaries, proportionately consolidated subsidiaries, associated companies or other companies

1.3. Chart of the holding structure

The following is a chart of Kardan NV's holdings in material affiliated companies as of the time of this report.[4]



[4] For a description of the holding structure of each of the material companies, see the description set forth in the section on the operating segments.

* Kardan Israel directly holds Dan Vehicle in around 5.78% of its issued capital. Additionally, Kardan Israel holds the entire issued capital of Kardan Emed Properties Ltd., which holds 50% of Emed Real Estate Development and Investment Ltd., which holds 54.25% of Dan Vehicle.

** Public company.

*** In February 2010, Krdan Real Estate filed a prospectus for an Initial Public Offering of its Securities and as of March 23, 2010 its shares are traded on the Tel Aviv Stock Exchange. Subsequent to the allocation of additional shares to Clal Insurance Ltd. and to institutional bodies controlled by Kardan Real Estate, according to the reward adjustment mechanism detailed in Section 8.6.4[1] to this Part, Kardan Israel will hold around 72.1% of Kardan Real Estate's issued capital.

In addition to the holdings in material companies, Kardan NV has holdings in additional companies that operate in the same areas of activity. For details see a description of the different operating segments

1.4. Structural changes, mergers or material acquisitions

1.4.1. Merger between Kardan NV, GTC RE and GTC Holding:

On December 16, 2008, a statutory triangular merger pursuant to Dutch law was completed between GTC RE, a Dutch company whose securities were traded on the Tel Aviv Stock Exchange[5] and GTC Holding, a wholly owned subsidiary of Kardan NV, which was established for the purpose of the merger, and Kardan NV. Pursuant to such merger, all of GTC RE's assets and undertakings were transferred to GTC Holding, with the exception of undertakings that are related to debentures (Series A) and related to debentures (Series B) of GTC RE, which were transferred to Kardan NV as part of the merger; GTC RE merged into GTC Holding; Kardan NV issued 29,600,956 ordinary shares, €0.2 per share par value to each of the shareholders of GTC RE (with the exception of GTC RE and Kardan NV), in exchange for shares of GTC RE which were held by them on the record date for the merger, as well as issued to the debenture holders (Series A) of GTC RE NIS 15,904,092 par value of debentures (Series 1) convertible into shares of Kardan NV and to the debenture holders (Series B) of GTC RE NIS 1,333,967,977 par value of debentures (Series B), in exchange for their holdings in the Debentures (Series A) and Debentures (Series B) of GTC RE, respectively; and GTC RE ceased to exist ("**the merger between Kardan NV and GTC RE**").

On December 17, 2008, the aforementioned shares of Kardan NV were registered for trading on the Tel-Aviv Stock Exchange and on Euronext. The Debentures (Series 1) and Debentures (Series B) of Kardan NV were registered for trading on the same day on the Tel-Aviv Stock Exchange only.

1.4.2. As of the reporting date, Kardan is examining schemes for the sale of 55% of the shares of Kardan Israel that are held by Kardan NV to the shareholders of kardan NV. Given the complexity of the process, which is subject to the laws of the Netherlands and Israel, there is no certainty regarding the structure or execution of the sale.

1.4.3. In February 2010, Kardan Real Estate published a Prospectus for Initial Public Offering of securities and in March 2010 it issued 23,778,700 shares and 80,867,000 debentures (Series 1) convertible into Kardan Real Estate's shares. . Correct to the date of the report, Kardan Israel holds 73.7% of the issued capital of Kardan Real Estate. Subsequent to the allocation of additional shares to Clal Insurance Ltd. and to institutional bodies controlled by Kardan Real Estate, according to the reward adjustment mechanism detailed in Section 8.6.4[1] to this Part, Kardan Israel will hold around 72.1% of Kardan Real Estate's issued capital (around 61.8% fully diluted),

5 Prior to consummation of the merger, Kardan NV directly and indirectly held approximately 67.45% of GTC RE's issued share capital and Debentures (Series A) of GTC RE, par value NIS 26.41.

1.4.4. For details on the organizational restructuring, under which the infrastructure department was split into Projects activity segment and Investments in Assets segment, see Section 10.4.1 to this Part.

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

For details of assets purchases, sales or transfers in material volumes, outside the ordinary course of business, see a description of the different areas of activity.

For details regarding two transactions carried out by Kardan NV after the balance sheet date, pursuant to which Kardan NV increased its holdings in KFS by approximately 98.6%, see Section 9.5.1[a]-[d] of this Part

2. **Operating segments**

Below is a general description of Kardan NV's operating segments which, as stated in section 1.2 of this Part, are reported as operating segments in Kardan NV's financial statements:

2.1. **Real Estate Field**

Real estate overseas – Kardan NV, through the GTC Group, is engaged in the location, initiation, development, rental, sale and management of real estate projects in ten countries in Central-Eastern Europe: Poland, Hungary, Romania, the Czech Republic, Serbia, Croatia, Slovakia, Bulgaria, the Ukraine and Russia as well as in China. In addition, as of the reporting date, the GTC Group has investments in income-yielding properties in Western Europe (Germany and Switzerland).

The GTC Group's projects in Central-Eastern Europe include office buildings, shopping centers and residential development. The projects in which the GTC Group is involved in Central – Eastern Europe include, as of December 31, 2009, about 509,000 square meters of income-yielding assets, about 1,030,000 square meters of office space in various stages of planning and development, about 386,000 square meters of shopping centers in planning and construction stages and about _1,154,000 square meters of residential property in planning and construction stages. In addition, as of December 31, 2009, the GTC Group has building rights in China for a total of 3,027,000 square meters, primarily for residential purposes and about 102,000 square meters for a commercial center. The GTC Group focuses on those markets that offer, to the best of its understanding, a large potential for growth in the medium- long-term.

Real estate in Israel – Kardan Real Estate, a public company whose securities were issued to the public pursuant to a prospectus dated February 26, 2010 and which is 73.7%[6] held by Kardan Israel (61.8% fully diluted) is engaged in the development, construction and sale of residential real estate and in the development, sale and rental of office buildings and commercial areas. In addition, Kardan Kardan Israel holds 50% of the issued share capital of Emed [7]. Emed is a

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6 See Section 1.4.3 to this Part

7 For details regarding transactions, pursuant to which Kardan Israel acquired the entire issued capital of Kardan Emed Assets, which holds 50% of the issued capital of Emed, see Section 7.3.3 of this Part.

private company, which is engaged, *inter alia*, in the field of real estate in Israel, in the leasing of income-yielding real estate assets (offices, commercial areas and parking lots) and owns unoccupied real property, primarily in the Gush Dan area surrounding Tel-Aviv. In addition, Emed is engaged in the development and improvement of the real estate owned by it. Emed is an immaterial holding of Kardan NV.

For additional details on this area of activity, see section 8 of the report.

Financial Activity

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

2.2. **Financial Services – Retail Banking and Credit ("Retail Banking and Credit")**

The TBIF Group is engaged in the field of banking and retail credit, including, leasing, mortgages and asset management in countries in Central-Eastern Europe and in former USSR countries, as follows:

* Banking activity in the Ukraine and Russia;
* Retail credit activity in Bulgaria, in Romania, the Ukraine and in Russia;
* Leasing services in Bulgaria, Romania, the Ukraine and Russia;
* Asset management services in Bulgaria (and in the Ukraine, to an insignificant extent);
* Mortgages activity in Bulgaria, the Ukraine and Russia.

2.3. **Financial Services - Insurance and pension**

The TBIH Group is engatged in insurance and pension business in countries in Central-Eastern Europe, in former USSR countries and in Turkey, as follows:

* Insurance activity in Georgia, the Ukraine and Turkey;
* Pension activity in Bulgaria, the Ukraine and Georgia.

For additional details on the insurance and pensions business and the banking and retail credit field, see section 9 of this Part.

The infrastructure business

Kardan NV's operation in the field of infrastructure is performed by the Tahal Group and divided into two segments, as detailed in sections 2.4 and 2.5 below.

2.4. **Infrastructure - Projects**

The Tahal Group is engaged in infrastructure projects primarily in East European countries, Asia, Africa and Latin America. The Tahal Group, through subsidiaries and associated companies, provides engineering, planning and supervision services in the fields of water - sewage, water treatment and disposal; energy, gas and agriculture, and executes and builds projects in water resources and supply, irrigation, desalination, effluents treatment and purification, environmental engineering, civil engineering, water supply, sewage systems, agriculture, and geographical information systems and the solid waste field..

2.5. **Infrastructure – Investments in Assets**

The Kardan NV Group is engaged through the Tahal Assets, a wholly owned subsidiary, in investments in assets primarily in countries in Eastern Europe countries, Asia, Africa and South America. Tahal Assets is a holding company that invests in entities and companies holding income-yielding assets in the field of infrastructure or develops projects in water and sewage infrastructures, e.g., desalination plants, licenses to operate municipal water systems, hydroelectric power stations,[8] collection of water and municipal tax fees for municipal authorities, and maintenance of water and sewage infrastructure. It identifies business opportunities in the field of infrastructure, establishes companies and ventures for promising demand fields in the area of infrastructure, acquires controlling stakes in existing companies and also participates in tenders for obtaining rights or for the purpose of entering into B.O.T. or B.O.O. agreements and thereafter the construction and operation of water desalination or sewage treatment facilities, operation of municipal water and sewage systems, operation of water supply systems, franchise rights for sites engaged in waste disposal handling collection for local municipalities and other similar activities.

For additional details on infrastructure projects and investment in assets, see section 10 of the report.

2.6. **<u>Sale of motor vehicles</u>**

Kardan Israel indirectly holds 40.5% of the issued capital of UMI. UMI is an exclusive importer of GM, Opel and Isuzu motor cars and holds a franchise to import SAAB and Hammer vehicles to Israel. In addition, UMI sell spare parts for these cars and is engaged in several complemetary or related activities.

For additional detail on the vehicle sales sector, see sections 11 in this Part.

2.7. **<u>Operating lease and car rental</u>**

Kardan Israel holds the entire (100%) share capital of Kardan Emed Properties, which holds 50% of Emed. Emed, *inter alia*, holds 54.25% of the issued capital of Dan Motor Vehicles and Transportation D.R.T. ("**Dan Vehicle**"). Kardan Israel also directly holds an additional 5.78% of the issued capital of Dan Motor Vehicles such that the total indirect holdings of Kardan N.V. in Dan Vehicle, as of the reporting date, is about 32.9%. Dan Motor Vehicles is a public company traded on the Tel Aviv Stock Exchange, which is mainly engaged in the operating lease of vehicles and car rentals and holds the franchise for the "AVIS" brand in Israel.

For additional details on operating lease and short-term car rentals, see section 12 of this Part.

2.8. **<u>Others</u>**

Kardan NV's financial statements include another operating segment (Others) which includes a holding, through Kardan Israel, in additional companies that operate in different sectors. For details on additional affiliated companies, see section 13 of this Part.

3. <u>Investments in the capital of Kardan NV and transactions in its shares in the years 2008, 2009 and 2010 (until the reporting date)</u>

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[8] For details on a conditional license for the operation of a power plant for the generation of electricity that was issued in May 2009 to a company controlled by Tahal Assets, see section to this Part.

3.1. In 2008, 1,861,602 option warrants (Series 1) were exercised into 593,247 shares of Kardan NV,[9] respectively. The total proceeds that Kardan NV received in 2008 from the exercise of said options amounts to €0.1 million. The remaining unexercised option warrants (series 1) (58,321 option warrants) expired on November 2008.

3.2. In October 2006, 716,927 option warrants, convertible up to the end of five years from the date of issuance (October 2011) into 716,927 ordinary shares of € 0.2 par value each of Kardan NV, were allotted to four members of the managing board of Kardan NV. In addition, 382,400 option warrants, convertible into 382,400 ordinary shares of €0.2 par value each of Kardan NV, were allotted to ten employees of the Kardan NV Group. In 2008 no options were exercised and 159,835 options expired without being exercised. In 2009 no options were exercised and 39,802 unexercised option expired. In 2008 a total of 325,000 additional option warrants were allotted to two members of Kardan NV's Managing Board of Directors under similar terms. For further details see section 15 of this Part.

3.3. In December 2008, as part of the merger between Kardan NV and GTC RE (see Section 1.4.1 of the report), Kardan NV issued 29,600,956 ordinary shares of €0.2 par value each, Debentures (Series 1) totaling NIS 15,904,092 par value and Debentures (Series B) totaling NIS 1,333,967,777 par value in exchange for the shares and debentures that were held by the shareholders and debenture holders of GTC RE (with the exception of Kardan NV and GTC RE).

In June and August 2009, 13,575,424 par value of debentures (series 1) (valued at €2.5 million) were converted into 759,252 ordinary shares of Kardan NV. The outstanding debentures (series 1), which were not converted into shares of Kardan NV before the final conversion date (par value NIS 2,328,677.8 valued at €0.4 million), was repaid on August 31, 2009. Following said conversion, Kardan NV's total capital increased by €3 million.

3.4. In May 2009, the general meeting of shareholders of Kardan NV authorized the managing board of Kardan NV (subject to approval of the supervisory board), for a period of five years commencing May 20, 2009, to issue shares from the company's share capital, up to a maximum annual rate of 10% of Kardan's unissued registered capital, as it shall be on that date. For additional detail, see section 4 of this Part.

To the best of Kardan NV's knowledge, stakeholders in Kardan NV have not conducted substantial deals in Kardan NV's shares outside the stock exchange during 2008 and 2009.

4. **<u>Distribution of Dividends</u>**

Kardan NV is subject to the Dutch company law in all matters relating to the distribution of dividends and other distributions out of its shareholders' equity.

[9] During January 2009, Kardan NV issued 88,475 additional ordinary shares as a result of a technical error in the exercise of option warrants (series 1) to shares of Kardan NV in 2008.

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

In July 2007, Kardan NV distributed a dividend in respect of its earnings in 2006 in an aggregate amount of $12.5 million (about €9.4 million) which represented 25% of Kardan NV's net income for 2006 in accordance with international accounting principles.

In July 2008, Kardan NV distributed a dividend for 2007 totaling €18 million, which represented 20% of Kardan NV's net income for 2007 (about €0.22 per share).

In view of the crisis in the global economy and in line with the aforesaid dividend distribution policy, the Managing Board of Directors, with the approval of the Supervisory Board of Directors of Kardan NV on May 2009, decided not to distribute dividends in 2008.

Pursuant to the provisions of Dutch law, as of Decemer 31, 2009, Kardan NV has distributable retained earnings of approximately €243 million**.**

External restrictions on the distribution of a dividend: as part of loans which Kardan NV has taken from banks and institutional investors, and as part of Kardan NV's various undertakings in connection with debts of related companies, Kardan NV has entered into various financial covenants, including commitments for a minimum shareholders' equity and for maintaining certain ratios between its shareholders' equity and total assets. For further details in connection with the said undertakings, see section 16 of this Part. For details on the restrictions on distribution of dividends in affiliated companies see the description of operating segments.

In May 2009, Kardan NV's general assembly authorized the managing board for a period of 18 months, to purchase shares in Kardan NV on the stock exchange (in Tel Aviv and/or Euronext) or off the floor, subject to the provisions of the law and Kardan NV's Articles and subject to the approval of the supervising board of directors for each purchase, at a price that will range between the par value of the shares and 110% of the highest price average for Kardan NV's share in each of the last five trading days on Euronext, prior to the date of purchase, as quoted on Daily Office List of Euronext Amsterdam. Until the reporting date, Kardan NV did not buy back its shares.

Part B': Additional Information

5. Financial information on the operating segments of Kardan NV

Set forth below are financial data regarding Kardan NV's areas of activity (in Euro, million):

	Real estate			Financial services						Infrastructure						Sale of vehicle			Operating lease and short-term car rent			Others		
				Banking and retail credit			Pension and Insurance			Projects			Assets											
	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Revenues (from externals)	56	427	399	110	96	103	64	105	54	101	83	65	61	46	10	7	10	9	169	-	-	43	44	36
Fixed costs related to area of activity	(47)	(40)	(40)	(99)	(90)	(30)	(7)	(5)	(3)	(6)	(4)	(5)	(10)	(24)	(3)	-	-	-	(13)	-	-	(6)	(5)	(4)
Variable costs related to area of activity	(126)	(64)	(31)	(27)	(66)	(36)	(65)	(79)	(14)	(88)	(82)	(58)	(43)	(32)	(9)	-	-	-	(130)	-	(1)	(33)	(40)	(34)
Total costs	(173)	(104)	(71)	(126)	(156)	(66)	(72)	(84)	(17)	(94)	(86)	(63)	(53)	(56)	(12)	-	-	-	(143)	-	(1)	(39)	(45)	(38)
Total operational profit	(117)	323	328	(16)	(60)	37	(8)	21	37	7	(3)	2	8	(10)	(2)	7	10	9	26	-	(1)	4	(1)	(2)
Profit from ordinary operations attributed to owners of Kardan NV	(53)	121	21	(16)	(53)	37	(8)	19	37	7	(3)	2	8	(10)	(2)	5	6	5	18	-	-	3	-	(1)
Profit from ordinary operations attributed to interests that do not confer control	(64)	202	307	(0)	(7)	-	-	2	-	-	-	-	-	-	-	2	4	4	8	-	-	1	(1)	(1)
Total assets as of December 31	2,827	2,694	-	931	1,117	-	191	242	-	115	83	-	80	125	-	44	-	-	245	70	-	178	45	-
Total liabilities as of December 31	518	455	-	660	656	-	116	176	-	18	55	-	55	16	-	-	-	-	185	21	-	555	32	-

	Total		
	2009	2008	2007
Revenues (from externals)	611	811	676
Fixed costs related to area of activity	(188)	(168)	(85)
Variable costs related to area of activity	(512)	(363)	(183)
Total costs	(700)	(531)	(268)
Total operational profit	(89)	280	408
Profit from ordinary operations attributed to owners of Kardan NV	(35)	80	99
Profit from ordinary operations attributed to interests that do not confer control	(54)	200	310
Total assets as of December 31	4,611	4,376	-
Total liabilities as of December 31	2,107	1,411	-

For financial information on the operating segments of Kardan NV, see note 35 to the financial statements. For details on reclassification of kardan NV's operating segments, see note 35A to the financial statements. For details on secondary reporting on Geographical sectors, see note 35C to the financial statements. For explanations on operating results in Kardan NV's operating segments see Section 1.4 of the board of directors' report.

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

Kardan NV is an international holding company that is listed for trading on the Euronext and the Tel-Aviv Stock Exchange. As such, Kardan NV is affected by numerous external factors, both in the markets in which it is trading and in the countries and areas in which it operates, including:

Global economic crisis[10] – In 2008, there was a significant deterioration in global financial markets, accompanied by the collapse of some of the biggest financial corporations in the United States and other countries. This deterioration continued in th first half of 2009 as well. The economic and financial crisis resulted from the crisis in the subprime mortgages market,[11] which began in the second half of 2007, sweeping other financial sectors. The global economic and financial crisis resulted, *inter alia*, in a steep drop in the prices of financial assets and a severe slide of stock markets worldwide (including Israel), accompanied by a drop in the prices of securities of certain affiliated companies of Kardan NV. The global financial crisis also led to a credit crunch, as evidenced in a significant squeeze in credit availability from financial bodies. The global financial crisis aggravated, leading to a deceleration in economic activity and growth, which spread from the US to the rent of the world. The Israeli economy was also affected, albeit to a lesser extent than elsewhere in the world. The repercussions of the economic crisis included a decline in the value of assets held by the public (including in the value of pension funds and an increase in redemptions from provident funds and vocational study

[10] Economic developments in recent months, September to December 2009, Bank of Israel, Research Division, February 2010.

[11] Typically, a "subprime" loan is a loan provided to borrowers whose credit rating is relatively low and carries a higher risk for the lender. Consequently, it bears a higher interest rate than prime loans.

funds), waning demand, a significant deceleration of economic and commercial activity, which led to a decline in the pace of consumer spending and heightened uncertainty. Many economies worldwide had slipped into recession which led, among others, to a wave of cutbacks in activities, or even discontinuation of operations, and extensive layoffs of staff in various sectors, including real estate, industry, services and high-tech. In the wake of these events, a number of countries, led by the U.S., the EU and the U.K., implemented various measures to stabilize and prevent a further deterioration of the financial markets, by injecting funds into financial corporations and lowering interest rates. These measures contributed to the recovery of economies and stock markets in the short term, but have expanded the domestic defecits of those countries, so that the long-term consequences of said measures cannot be measured.

In the second half of 2009, global economy began showing signs of recovery, which accelerated in the fourth quarter of 2009. According to the Bank of Israel Review dated February 2010, during the fourth quarter of 2009, the economies of developed countries began stepping out of the recession, on the back of recovery in global demand and trade and a rally in financial markets. Share indices rose, interbank interest spreads narrowed, corporate borrowing spreads narrowed, and bond issues increased considerably, owing to an expansionary monetary policy and public expectations for positive economic developments. The economic growth is led by an increase in production and there are intial indicators of recovery in consumer spending and a moderate increase in investments. Neverthless, the expansion of economic activity is clouded by enormous government deficits, which have led to a sharp increase in public debt, instability in financial markets, the fragility of banking systems and high unemployment rates. In the third quarter of 2009 global economic growth accelerated and for the first time, there are indicators of a pick up in economic activity in developed countries (an increase industrial outputs and exports, a growth in investments despite difficulties to obtain financing, although consumer spending has been stagnating and unemployment is on the rise). In emerging markets, growth has continued at a relatively rapid pace.

As of the reporting date, it is not clear whether the direct economic ramifications of this crisis are less intense but accordinf to estimates, we have seen the height of the crisis.

The signs of the aforementioned crisis and the partial recovery from it have affected and might continue to affect the business results of the Kardan NV Group and the companies held by Kardan NV, including their liquidity, the value of their assets and the ability to realize them, the condition of their business, their financial covenants, credit rating, their ability to distribute dividends and to raise capital for their current and long-term operations as well as the financing terms. Credit rating companies have reviewed and revised the ratings of debentures of the Kardan NV Group, Kardan Israel and Dan Vehicles. For details regarding the downgrading of debentures of these companies, see this section and sections 7.11.5, 12.11 and 16.2[a] to this Part. For details on the repercussions of the crisis on Kardan NV and its affiliated companies, see also the Board of Directors' Report.

The economic, security and political situation in Israel - Kardan NV's operation in Israel, through Kardan Israel, which primarily focuses on the areas of real estate development, construction works, vehicle sales, operating lease and short-term car rent, communications and technology, is affected by the condition of the Israeli economy and by the security and geopolitical situation in Israel and in the Middle East. Moreover, the security and economic situation in Israel can also affect the willingness of foreign investors to enter into business alliances with Israeli companies, such as those held by Kardan NV.

The situation in capital markets - Kardan NV's shares are listed for trading on the Euronext and the Tel-Aviv Stock Exchange. Moreover, the Kardan NV Group has a number of material subsidiaries whose shares are listed for trading on different stock exchanges. As a result, the Kardan NV Group is affected by the condition of global stock markets in general and the condition of stock markets where the shares of companies in the Kardan NV Group are traded, in particular (in this respect, see also the global economic crisis). Changes in trends in Israel and worldwide may affect the prices of tradable securities held by Kardan NV and the companies held by it, and, in certain cases, result in write-downs or loss from the decrease in value of such holdings, as well as affect their ability to generate capital gains from the disposal of their holdings and their ability to conduct public offerings in Israel and/or abroad. In addition, such changes could impact capital raising through private placements or public offerings by Kardan NV and its affiliated companies or finding financing source or better financing conditions for the financing of the daily operations of Kardan NV and its affiliated companies. As a holding company engaged in the initiation of and investments in companies at initial stages, as part of a strategy of creating value in the medium to long term, the Kardan NV Group uses private and public offerings for the purpose of raising funds and increasing the economic value of its holdings. Any deterioration in global capital markets could have an adverse impact on the pace of growth of the Kardan NV Group and the possibilities for developing its business.

The attitude of capital markets to holding companies - In recent years, the tendency to favor holding companies has decreased, both by stock markets and by financing corporations. There is a clear preference by investors and financing entities to invest (using their own equity or external equity) in focused companies that conduct their own business. This makes it difficult for holding companies, including Kardan NV, to raise funds, and could even hurt Kardan NV's market value. Notwithstanding the foregoing, Kardan NV's management believes that its activities as a diverse holding company constitute the basis for its growth, since the extensive activity in developing markets is a source for diversified business development. The extensive experience and presence in developing countries while operating in a specific field enables business development in additional areas with a growth potential. Moreover, the diversification among sectors and regions reduces the risk for the Kardan NV Group and contributes to its stability.

Holding company – Kardan NV's business results are comprised of and influenced primarily by Kardan NV's share of the business results of its affiliated companies, through disposals or acquisitions or a value adjustment of Kardan NV's holdings in such companies, and from the activity of Kardan NV's headquarters, which includes expenses or net financing income, administrative and general expenses and income from management fees. Kardan NV's cash flow is affected, *inter alia*, by dividends that are distributed by its affiliated companies, management fees received from these companies and by income from the disposal of its holdings therein and from Kardan NV's investments and dividends which Kardan NV distributes to its shareholders. The potentially high variance in Kardan NV's business results in various reporting periods may result from the timing of disposals by Kardan NV and its affiliated companies, due to changes in the prices of shares of affiliated companies, and changes in the financing expenses and revenues of Kardan NV and its affiliated companies, which are affected by their net debt, debt linkage and changes in the Consumer Price Index and the dollar's exchange rate during the reported period. In addition, from time to time, Kardan NV and Kardan Israel raise loans or issue debentures for the purpose of financing their activities, by pledging shares of affiliated companies, and also by exercising shares of affiliated companies. Kardan NV's ability to make financial resources available for the development of its business and to meet its financial obligations, is dependent to a large extent on the cash flows generated by its affiliated companies and by its ability to raise loans and to dispose of holdings.

Exchange rates - Fluctuations in the exchange rates of the various currencies used by the Kardan NV Group in conducting its business may affect the financial condition of the Kardan NV Group. The Kardan NV Group's business (and liabilities) is conducted using a variety of currencies, including the U.S. Dollar, Euro, Japanese Yen, NIS and currencies of Central and Eastern Europe and China. In certain cases, the Kardan NV Group performs hedge transactions in order to reduce the impact of exchange rate fluctuations on its business. Nevertheless, fluctuations in the exchange rate of the various currencies which the Kardan NV Group uses in conducting its business could affect the financial condition of the Kardan NV Group and its operating results.

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

The Hodek Committee. In February 2010 the Committee for Establishing Parameters for Institutional Bodies' Investments in Nongovernmental Debentures (in this section - "**the Committee**"), which was appointed by the Commissioner of Capital Markets, Insurance and Savings in the Finance Ministry ("**the Commissioner**"), published a final report of its position and recommendations. The report includes recommendations for the Commissioner's regulatory involvement in the establishment of internal processes in institutional bodies prior to investment in debentures, recommendations regarding provisions that must be included in the bond ducuments as a condition for the investment of institutional entities therein, recommendations for requiring institutional bodies to set a policy concerning the right to demand immediate repayment, which will be included in the debentures, recommendations regarding information which the institutional body must receive and parameters which it must examine prior to investing in the debentures and information that must be provided during the priod of debt, as well as recommendations regarding the establishment of mechanisms for cooperation between institutional bodies on certain matters relating to investment in debentures. There is no certainty which of the Committee's recommendations will be adopted and in which format they will be adopted. If the recommendations are adopted as they appear in the Committee's report, this could have implications on the ability to raise capital from institutional bodies through debentures, including the terms and price for said capital raising.

For additional details on the external factors that affect each area of activity, see the sections describing the operating segments.

7 **Kardan Israel Ltd.**

As aforementioned, Kardan NV's operations in Israel are performed through its subsidiary, Kardan Israel, which is a holdings company. Kardan NV is consolidating Kardan Israel's financial statements into Kardan NV's financial statements. Below is a description of Kardan Israel. For a description of additional companies through which Kardan NV operates, see the sections describing the operating segments (real estate, banking and retail credit, insurance and pension, infrastructure – projects and infrastructure – investment in assets) in Sections 8.5, 9 and 10 of this part.

7.1 Below are data related to Kardan NV holdings in Kardan Israel as of December 31, 2009:

Rate of holdings (in %)	Investment in Kardan Israel as recorded in Kardan NV's books (in Euro millions)	The investment in Kardan Israel as a % in the total equity attributed to Kardan NV's shareholders	Market value of the investment (in Euro millions)	Contribution to net profit attributed to shareholders of Kardan NV (in Euro millions)
73.85%	71	24%	84	5

7.2 Kardan Israel was incorporated in 1982 as a public company under the laws of the State of Israel, and its shares were issued on the Tel-Aviv Stock Exchange in 1982 and 1989. In 2003, Kardan NV acquired all the shares of Kardan Israel as part of an exchange tender offer, and Kardan Israel became a private company wholly owned by Kardan NV. In May 2005, Kardan Israel published a prospectus and full tender offer for the shares of Kardan Real Estate, and in June 2005, Kardan Israel's shares were listed for trading on the Tel Aviv Stock Exchange, and it once again became a public company. Kardan Israel has been indirectly controlled by the present controlling shareholders of Kardan NV since 1990.

Correct to the date of the report, Kardan NV is considering a scheme for the sale of about 55% of Kardan Israel's shares held by Kardan NV to Kardan NV's shareholders. In view of the complexity of this move, which has to comply with Dutch and Israeli legal systems, there is no certainty in regard to the scheme of the sale, its date or its actual execution.

Kardan Israel's activities, through its subsidiaries and related companies, are currently focused on five fields of activity: real estate development, construction, vehicle sales, operating lease and short-term car rental and communications and technologies. In addition, business activities that are not included in the above fields, are classified to the Others field. In addition, Kardan Israel holds approximately 9.4% of the issued capital of Kardan NV. Such holdings are considered a material investment of Kardan Israel.

7.3 Structural Change, Material Merger or Acquisition

7.3.1 In September 2008, Kardan Real Estate distributed 4,983,111 shares of GTC RE to Kardan Israel as a dividend in kind, which represented 48.41% of shares of GTC RE which were held by the company (5.86% of the issued capital of GTC RE). In October 2008, Kardan Israel purchased Kardan Real Estate's remaining holdings in GTC RE (5,311,949 shares) from Kardan Real Estate for a total consideration of NIS 91.3 million (NIS 7.2 per share). It is noted that in December 2008, Kardan Real Estate distributed the proceeds from the sale among its shareholders (Kardan Israel) as a cash dividend. For further details regarding the aforementioned events, see Section 8.6.5 of this part.

7.3.2 In December 2008, a statutory triangular merger was consummated between Kardan NV and GTC RE. On the date of the merger between Kardan NV and GTC RE, Kardan Israel held shares representing 15.47% of the issued capital of GTC RE. Upon consummation of the merger between Kardan NV and GTC RE, the shares were exchanged for shares which Kardan NV had issued to Kardan Israel and represented approximately 9.47% of the issued capital of Kardan NV. As of the date of the report, Kardan Israel holds shares representing 9.47% of the issued capital of Kardan NV. For further details regarding the merger between Kardan NV and GTC RE, see Section 1.4.1 of this part.

As a result of the merger, Kardan Israel recorded a loss of about NIS 226 million in its financial statements for 2008, which is the difference between the market value of Kardan NV's shares received by Kardan Israel and the book value of Kardan Israel's investment in GTC RE on the eve of the merger, and as a result of capital reserves recorded in the income statement in respect of Kardan Israel's investment in GTC RE. The investment in shares of Kardan NV is presented in Kardan Israel's financial statements at its fair value (the share price value of Kardan NV at TASE). On the date of the exchange of shares, Kardan Israel designated its investment in the shares of Kardan NV at fair value through profit or loss. In 2009, Kardan Israel recorded a profit of approximately NIS 147.4 million from the revaluation of its investment in the shares of Kardan NV.

7.3.3 In November 2008, Kardan Israel consummated a transaction, pursuant to which it purchased 20% of the share capital of Kardan Emed Properties, which was held by Osif Investments and Development Ltd. ("**Osif**"), and Osif's rights in the shareholders' loan in the amount of NIS 18 million, which was provided to Kardan Emed Properties, for an aggregate consideration of approximately NIS 12 million and release from the guarantee that Osif had provided for

Kardan Emed Properties' undertakings towards a bank, in the amount of approximately NIS 59 million. Following such purchase, Kardan Israel held 50% of the share capital of Kardan Emed Properties. In January 2009, Kardan Israel consummated an additional transaction, pursuant to which Kardan Israel further increased its holdings in Kardan Emed Properties by way of purchasing an additional 10% of the share capital of Kardan Emed Properties that was held by Osif and Osif's remaining rights in the shareholders loan which it had provided to Kardan Emed Properties, in the amount of NIS 9 million, for an aggregate consideration of NIS 6 million and release from the guarantee Osif had provided for Kardan Emend Properties' undertakings toward a bank, in the amount of NIS 30 million. Through the two aforementioned transactions, Kardan Israel purchased all of Osif's holdings in the shares of Kardan Emed Properties (30%).

In July 2009, Kardan Israel entered into an agreement with Casdan Properties Israel LLC ("**Casdan**") and Promontoria Holdings III B.V. ("**Promontorai**"), according to which Kardan Israel acquired all their shares in Kardan Emed Properties, which together constitute 40% of Kardan Emed Properties, and also acquired their rights in shareholders loans in the sum of approximately NIS 37 million, which they provided to Kardan Emed Properties. In consideration for the acquired shares and Casdan and Promontoria's rights in the said shareholders loans, Kardan Israel paid Casdan and Promontoria the nominal value of the acquired shares and released Casdan from a guarantee it guaranteed for Kardan Emed Properties' liabilities towards the bank, in the sum of approximately NIS 120 million due to loans Kardan Emed Properties took in the past for the acquisition of Emed's shares. In addition, Kardan Israel Provide Casdan with an option to acquire up to five residential apartments at cost price, in a project to be built in the Arlozorov site, according to terms detailed in the acquisition agreement. With the completion of the said transactions, Kardan Israel holds 100% of Kardan Emed Properties' shares, and indirectly holds 50% of Emed's shares. From the first quarter of 2009, Kardan Israel is consolidating the statements of Kardan Emed Properties and Kardan Emed Properties is proportionally consolidating Emed's statements. Namely, Emed is presented in Kardan Israel's financial statements by way of a proportional consolidation.

As a result of the acquisition, Kardan Israel recorded a profit in the third quarter of 2009, due to the difference between the compensation that had been paid and the net assets that had been acquired (negative goodwill) totalling about NIS 10 million.

7.3.4 In February, 2010 Kardan Israel and Kardan Real Estate entered into a contractual engagement with Clal Insurance Company Ltd. ("**Clal**"), Meitavit Atudot Pension Funds management Company Ltd ("**Meitavit**") and Clal

Gemel ("**Clal Gemel**")[12], (Clal, Meitavit and Clal Gemel jointly: "**Clal Insurance**") in an agreement regarding a private allocation of Kardan Real Estate shares to Clal Insurance ("**the Allocation Agreement**"). According to the Allocation Agreement, on February 21, 2010, Kardan Real Estate allocated shares that constituted 15% of its issued capital to Clal Insurance in return for an investment of approximately NIS 60 million in Kardan Real Estate's capital, which a reflects a value of NIS 400 million (post-investment) to Kardan Real Estate. For additional details regarding the agreement and its terms and regarding the additional allocation to Clal, see Section 8.6.4[1] to this part.

7.3.5 In February 2010 Kardan Real Estate published a prospectus of first offer of securities to the public and in March 2010 it issued 23,778,700 shares and 80,867,000 debentures (Series 1) that can be converted into Kardan Real Estate shares. As of the date of the report, Kardan Israel holds 73.7% of Kardan Real Estate's issued capital. Subsequent to the offering of additional shares to Clal according to the reward adjustment mechanism detailed in Section 8.6.4[1] to this Part, Kardan Israel will hold about 72.1% of Kardan Real Estate's issued capital (about 61.8% fully diluted)[13].

7.4 Investments in the Capital of Kardan Israel and Transactions in its Shares

7.4.1 Pursuant to the prospectus published by Kardan Israel in May 2005, in addition to the issuance of shares, Kardan Israel offered to the public, NIS 160,000,000 par value of registered Debentures (Series 3) of Kardan Israel, convertible into ordinary shares of Kardan Israel, such that each NIS 11.6 par value Debentures (Series 3), are convertible into one ordinary share of Kardan Israel (subject to adjustments, as set forth in Kardan Israel's prospectus) and 2,000,000 registered option warrants (Series 4), exercisable into ordinary shares of Kardan Israel commencing on the date of issue until May 31, 2009 (with the exception of periods set forth in Kardan Israel's prospectus), such that each Warrant (Series 4) is exercisable into an ordinary share of Kardan Israel for a consideration of NIS 11.9, linked to the CPI and subject to adjustments, as set forth in Kardan Israel's prospectus. Up to the date of the report, NIS 15,322,878 par value Debentures (Series 3) were converted into 1,287,637 shares of Kardan Israel. In 2008 no option warrants (Series 4) were exercised and in 2009 4,811 option warrants (Series 4) were exercised and converted into 4,811 shares of Kardan Israel. The total proceeds Kardan Israel received from the exercise of the option warrants as mentioned amounted to an

[12] Meitavit and Clal Gemel are institutional entities controlled by Clal.

[13] On the assumption that all of the debentures (Series 1) are converted into shares and on the assumption that all the options that Kardan Real Estate has obliged to allocate to its employees, as detailed in Section 8.6.11[2] to this Part, are allocated and realized into shares.

immaterial sum. The balance of Kardan Israel's unexercised option warrants (Series 4) (1,926,463 option warrants) expired on May 31, 2009.

7.4.2 During 2008, Kardan NV acquired 1,635,579 ordinary shares of Kardan Israel, in a number of various transactions within the trading on the Tel-Aviv Stock Exchange, for a total consideration of approximately NIS 10,319 thousand. During 2009, Kardan NV acquired 392,604 ordinary shares of Kardan Israel, in a number of various transactions within the trading on the Tel-Aviv Stock Exchange, for a total consideration of approximately NIS 1,613 thousand.

7.4.3 In October 2009, within the framework of receiving loans in the total amount of NIS 240 million, as detailed in Section 7.11.3 to this Part, Kardan Israel allocated a total amount of 2,762,000 options to Hadas Mercantile Provident Funds Ltd. ("**Hadas**"), to Bereshit I A' Fund Limited Partnership and Bereshit I B' Fund Limited Partnership that are limited partnerships managed by Bereshit General Partner Ltd" ("**Bereshit Funds**"), and to Mizrahi Tefahot Bank Ltd ("**Mizrahi Bank**"). These options can be exercised for up to 2,762, 000 ordinary shares of Kardan Israel, which will constitute, after realization, approximately 3.4% of Kardan Israel's issued and paid up capital and of its voting rights (including dormant shares) and at full dilution approximately 2.88% of Kardan Israel's issued and paid up capital and of its voting rights (including dormant shares). Hadas was allocated with 700,000 options that can be exercised for up to 700,000 ordinary shares of Kardan Israel, Bereshit Funds was allocated with 1,750,000 options that can be exercised for up to 1,750,000 ordinary shares of Kardan Israel, and the Mizrahi Bank was allocated with 312,000 options that can be exercised for up to 312,000 ordinary shares of Kardan Israel. The options were allocated to Bereshit Funds and Hadas at an exercising price of NIS 6 and to Mizrahi Bank at an exercising price of NIS 7.54 (linked to the Consumer Price Index of June 2009) and they can be exercised during six years from the date of their allocation. For further details see Section 7.11.3 to this Part.

7.4.4 In October 2009, Kardan Israel's board of directors confirmed that Kardan Israel will acquire, itself and/or through a subsidiary fully owned by Kardan Israel, Debentures (series 3) of Kardan Israel, convertible into ordinary shares of Kardan Israel, in the amount of up to NIS 50,000. The dates of the acquisitions and the prices will be determined by Kardan Israel's management, at its discretion, provided that, in any case, the acquisition price will not cause a distribution in a sum higher than the sum of Kardan Israel's distributable profits. Accordingly, during October 2009, Kardan Israel acquired, through a subsidiary owned by it, 7,052,711 debentures (series 3) in a total amount of approximately NIS 8,266 thousand.

7.4.5 In February 2009, El-Har Engineering and Construction Ltd., (El-Har) a daughter company of Kardan Israel, acquired debentures (Series 3) of Kardan

Israel, in a nominal value of NIS 1,366,079, in exchange for a total amount of NIS 1,500 thousand. The transaction took place as part of the trade in TASE.

7.5 Dividend Distribution

Kardan Israel did not distribute dividends during 2008 and 2009. As of the date of the report, Kardan Israel does not have a dividend distribution policy. As of December 31, 2009, Kardan Israel has a balance of distributable profits in the amount of approximately NIS 107,691 thousand.

For details regarding Kardan Israel's commitment to financial covenants, including its commitment to maintain a minimum capital total and total capital ratio, see Sections 7.11.3, 7.11.5 and 7.11.8.2 of this part.

7.6 Below are data on Kardan Israel's fields of activity taken from the Kardan Israel's financial statements (in NIS thousands):

	Real Estate			Building			Car Sales			Short-term Operative Leasing and Car Rental			Communications and Technology			Others		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**
Revenues (External)	,33942	50,853	140,535	65,923	127,134	109,827	48,144	55,750	39,769	(3,109)	(3.934)	879,411	(22,553)	(9,575)	5,283	137,344	120,860	120,081
Routine Costs Attributable to Business Segments	16,393	11,000	9,401	3,909	8,098	10,011	76	30	24	-	-	68,505	3,118	2,614	3,280	15,881	18,053	17,414
Variable Costs Attributable to Business Segments	37,768	52,115	103,016	62,153	117,632	94,539	-	-	-	-	-	711,448	2,283	943	191	109,019	96,206	96,567
Other Costs	-	6,261	4,629	-	232	-	-	-	-	-	-	-	5,158	2,750	29	7	62	-
Total Costs	54,160	69,376	117,046	66,062	125,962	104,550	76	30	24	-	-	779,952	10,559	6,307	3,500	124,907	114,321	113,981
Routine Operation Profits (Loss) Attributable to Kardan Israel's Equity Holders	(11,821)	(18,523)	23,489	(149)	1,083	3,520	43,822	50,844	35,969	(3,109)	(3,934)	79,582	(24,107)	(10,099)	4,145	12,416	6,415	5,914
Routine Operation Profits (Loss) Attributable to Rights Without Control Access	-	-	-	10	89	1,757	4,246	4,876	3,776	-	-	19,877	(9,005)	(5,783)	(2,362)	21	124	186
Total Assets as of December 31	-	528,266	849,529	-	70,585	59,859	-	222,576	237,977	-	36,036	1,331,034	-	236,237	239,239	-	119,394	129,788

	Real Estate			Building			Car Sales			Short-term Operative Leasing and Car Rental			Communications and Technology			Others		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**
Total Liabilities as of December 31	-	264,664	523,326	-	46,318	34,730	-	22	117	-	-	1,006,313	-	161,669	161,614	-	114,486	125,829

7.7 The general environment and the effects of external factors on Kardan Israel

The general environment in which Kardan Israel operates and the external factors influencing it are essentially similar to the general environment and factors affecting Kardan NV's Israel-related activities, which are described in Section 6 of this part.

7.8 Kardan Israel's operating segments

Below is a general description of the operating segments of the Kardan Israel Group, according to Kardan Israel's operating segments reported in its financial statements for December 31, 2009 (Kardan Israel, together with its subsidiaries and related companies, will hereinafter be called, the "**Kardan Israel Group**").

7.8.1 Real Estate Development

Kardan Real Estate, a public company whose securities were issued to the public according to a renewed prospectus from February 2010 and an affiliate company held by Kardan Israel at a rate of ___ % (___% fully diluted), engages in locating, promoting, developing and selling residential real estate and in locating, promoting, developing, selling and renting office buildings and commercial areas. In addition, Kardan Israel holds approximately 40% of the issued capital of Mikdan Management and Maintenance Ltd., (Mikdan), which manages and maintains buildings in Israel and in Central and Eastern Europe, this holding being immaterial to Kardan Israel and is classified in Kardan Israel's financial statements under the 'Others' field. Additionally, Kardan Israel holds 50% of the issued capital of Emed. Emed is a private company, engaging, inter alia, in the real estate segment in Israel, in renting income-producing properties (offices, commercial areas and parking lots), and owns vacant properties, mainly in throughout the region of Gush-Dan. Emed also engages in developing and improving properties it owns. Out of the affiliate companies held by Kardan Israel in the real estate promoting segment, only Kardan Real Estate is material to Kardan NV. For details regarding Kardan Real Estate's activity, see Section 8.6 to this Part.

7.8.2 Construction Projects

Kardan Real Estate holds 50% of the issued capital of El-Har. El-Har engages in the provision of operating contractor services for projects of constructing residential, commercial and public buildings. El-Har is not material to Kardan NV. For additional details on the holding in El-Har, see Sections 8.6.10 and 13 to this Part.

7.8.3 Vehicle sales

Kardan Israel holds, by means of companies under its control, 40.5% of the issued capital of UMI, which imports and markets exclusively in Israel, vehicles produced by General Motors, Opel and Isuzu, and holds a concession to import into Israel vehicles produced by Saab and Hummer. Additionally, UMI markets spare parts for the vehicles it imports, and engages in a number of complementary or connected activities. For additional details regarding the vehicle sales segment, see Section 11 to this Part.

7.8.4 Operating Lease and Short-term Car Rental

Kardan Israel holds, directly and indirectly, approximately 32.9% of the issued capital of Dan Vehicle, a public company whose shares are traded in the Tel Aviv Stock Exchange, which holds a concession to use the brand "Avis" in Israel, and engages in the operating lease and short term car rental segments. For additional details regarding the operating lease and short term car rental segment, see Section 12 to this Part.

7.8.5 Communication and Technologies

Kardan Israel Group is active in the communication and technologies markets, mainly through two affiliate companies it directly holds – Kardan Communications and Kardan Technologies. Kardan Communications is wholly owned by Kardan Israel and it coordinates the communication activity of Kardan Israel. Kardan Communications' material holding is its holding of approximately 24.43% of the issued capital of RRsat Global Communications Network Ltd (formerly R.R. Satellite Communication Ltd.) ("**RRsat**"), which provides satellite broadcast management and distribution services in Israel and abroad and mobile satellite communication services over the Inmarsat network. In addition, Kardan Communication operates through additional companies which are not material to Kardan Israel, in the fields of media and multi-channel television broadcasts; the operation of a television channel for infants and toddlers; the operation of a television channel for Israelis overseas; the development and assimilation of software for television networks; development and provision of innovative access products and communications exchange networks; call center services in Central-Eastern Europe; data and added value services for mobile phones, monitoring and security-related video solution services, building children's websites and in a venture capital fund specializing in technology. Kardan Technologies is a public company whose shares are listed for trade on the Tel-Aviv Stock Exchange, which is held, prior to the date of the report, at a rate of approximately 62.33% by Kardan Israel. Kardan Technologies' main field of activity focuses on material holdings of rights in the limited Partnership, which holds a portfolio of three (3) companies in the field of technology, which engage in the development of software solutions in the life insurance and pension segment; the development and marketing of software solutions for the management and support of business processes of elementary insurance companies; and the development of GRID based decentralized applications (optimal collaboration and utilization of computer resources). None of the companies engaged in the communications and technologies segment are material to Kardan NV, as of the date of the report.

7.8.6 Others

Kardan Israel’s financial statements include another sector (others), which includes: (1) holding, through a subsidiary, the Kol Hai Radio Broadcasting in Faith Ltd, a company held by concession from the Second Authority for the Television and Radio for radio broadcasting to the religious sector in the central area and in Jerusalem; and (2) holding, through a subsidiary, the whole issued capital of S.F.D.I Ltd. (“**SFDI**”), which coordinates import and marketing activity for a range of electrical appliances. SFDI holds 70% of the shares of Kardan Trade Ltd., which engages in the import and marketing of household electrical appliances (a white line and a brown line) mainly products of Bauknecht, Whirlpool and Sanyo, and 70% of the shares of Electrodan Trade Ltd., which imports and markets household electrical appliances under the brand name “Bellers”; and (3) holding in Kardan Agricultural Initiations, a company which is entitled to royalties due to cooperation in research with the Volcanic Institute and (4) holdings in Mikdan, a company that manages and maintains buildings and also gives consulting and supervision services for entrepreneurs in the stages of planning and establishing projects in all matters connected to asset management and maintenance in Israel and in Central-Eastern Europe. These companies are not material to Kardan Israel and Kardan NV.

Kardan Israel's investment in shares of Kardan NV is presented in the financial statements of Kardan Israel in the note on segments under assets/liabilities which were not allocated to the segments.

7.9 Human Resources

Kardan Israel's business is managed from its headquarters in Tel Aviv, which is responsible for Kardan Israel's ongoing operations. As of the date of the report, the headquarters numbers 27 employees. Some of Kardan Israel's employees provide services to companies in the Kardan NV group, for payment. On December 31, 2008, Kardan Israel's headquarters employed 27 people. The companies active in the Kardan Israel Group are managed by independent headquarters.

7.10 Working Capital

As of December 31, 2009, Kardan Israel (company, not consolidated) has a working capital deficiency of NIS 17,347 thousand, deriving primarily from current maturity due to convertible debentures (series 3) of Kardan Israel. Kardan Israel’s board of directors has determined that Kardan Israel does not have liquidity problems. This determination was made after Kardan Israel's board of directors was presented with the repayment sources for the existing and expected liabilities, the credit sources of Kardan Israel, the possibilities of raising capital and debt, and also in light of the letter from the parent company (Kardan NV) in which the latter undertakes to support Kardan Israel, if necessary, for the purpose of repaying its liabilities. This undertaking is in effect up to April 1, 2011, and does not bind the parent company (Kardan NV) to third parties. **[]**

7.11 Financing

7.11.1 Kardan Israel finances its operations, inter alia, through external debt, which includes debentures and bank credit.

7.11.2 Below are details regarding Kardan Israel's credit structure as of December 31, 2009:

		Balance as of December 31, 2009 (in NIS thousands)[14]	**Effective interest rate as of December 31, 2009**	**Weighted interest rate as of December 31, 2009**
Debentures and convertible long-term debentures (including current maturities) from non-banking sources	Index-linked	277,295	8.05%	6.67%
Long-term bank loans	Variable interest	99,109	6.15%	5.45%
Long-term loans from non-banking sources	Index-linked	140,267	9.94%	7.5%

7.11.3 In March 2009, Kardan Israel received a bank loan in the amount of NIS 100,000 thousand. The terms of the loan were amended in 2009 and as of the date of the report, it bears prime interest rate plus 2.7% (an effective interest rate of 6.15%). The loan's principal will be repaid in three equal annual payments beginning on June 30, 2011 and the interest due to the loan will be repaid in semi-annual payments, beginning on December 30, 2009. In relation to the loan, Kardan Israel allocated 312,000 options, that can be exercised for up to 312,000 ordinary shares of Kardan Israel, to the Mizrahi Bank, and which will constitute, after their exercise, approximately 0.38% of Kardan Israel's issued and paid up share capital and of its voting rights, and in full dilution will constitute approximately 0.33% of Kardan Israel's issued and

[14] Balance without accrued interest.

paid up share capital and of its voting rights (including dormant shares), at an exercise price of NIS 7.54 (linked to the consumer price index of June, 2009). The options can be exercised within six years from the date of their allocation. For further details, see Section 7.4.3 of this part.

To secure the loan, Kardan Israel, Taldan Motors Ltd. (**"Taldan")** and Kardan Motors Ltd. (**"Kardan Motors"**) created a first-ranking fixed charge, in favor of the Mizrahi Bank, over 40.5% of shares of UMI which are held by Taldan Motors Ltd. ("**Taldan"**), and 90% of shares of Taldan which are held by Kardan Motors Ltd. (**"Kardan Motors"**) (together: "**the Charged Shares**"); Taldan Motors rights according to the UMI shareholders agreement (see Section 11.5.1 to this part); and receivables (including dividend and management fees) received from UMI (insofar as an event of breach does not occur, the management fees in the maximal annual sum of NIS 10,000 thousand will be released from the charge).

In addition, Kardan Israel undertook that Kardan Israel's total tangible equity (stand-alone), would not fall, at any time, below 35% of the total of the Company only statement of financial position (stand-alone balance) which is the basis of the consolidated financial statements of Kardan Israel, provided that for the purpose of such calculation, it will be permitted to deduct Kardan Israel's cash balance from its liabilities in the Company only statement of financial position (balance sheet); that the total tangible equity of Kardan Israel will not be less than NIS 300 million at any time, and that the financial obligation to the total tangible equity ratio in Kardan Israel's Company only statement of financial position (Solo Balance Sheet) will not exceed 1.5 at any time. In addition, Kardan Israel undertook toward the Mizrahi Bank, *inter alia*, that in the following cases the loan would become immediately due and payable: (1) if UMI's total tangible equity is, at any time, less than 25% of UMI's consolidated statement of financial position; (2) if UMI's total tangible equity is, at any time, less than a total of NIS 300 million; (3) if UMI merges with another company and/or a change in the control of UMI occurs without the prior written consent of the Mizrahi Bank; or (4) if UMI increases or decreases its issued capital or performs a capital dilution of any type without receiving the Mizrahi Bank's prior written consent; (5) if a change in control in Kardan Israel will occur; and (6) if the loan that had been provided to Kardan Israel, as detailed in this Section below would stand for immediate repayment. Kardan Israel further undertook to immediately repay 40% of the principal amount of the loan in the event GM ceases to manufacture Chevrolet cars, in the event UMI is no longer able to purchase any vehicles from the GM Group or if a liquidation order is issued against GM. It was further agreed that 50% of any dividend or management fees which will be received from UMI will be used to repay the principal and interest of the loan. As of December 31, 2009 and prior to the date of the report, Kardan Israel is meeting its said obligations (based on its financial statements for December 31, 2009).

Kardan Israel and a director of Kardan Israel indirectly hold the entire issued capital of Taldan (Kardan Israel holds 90% and the director holds the remainder). Taldan holds 45% of the shares of UMI. For the purpose of pledging the shares of UMI, as set forth above, Kardan Israel reached an agreement with the director, which permits it to pledge UMI's shares without harming the rights of the director. The director was also granted a tag along right in the event the shares of UMI are sold.

In July, 2009 Kardan Israel entered into a loan agreement with Bereshit Funds, and Hadas, according to which Bereshit Funds and Hadas undertook to provide Kardan Israel with a loan in the amount of NIS 100,000 thousand and NIS 40,000 thousand, respectively, and in total a loan in the amount of NIS 140,000 thousand (in this section: "**the Loan**"). The Loan, which was provided to Kardan Israel on October 2009, is linked to the consumer price index of August 2009 and bears an annual interest at a rate of 7.5%. The principal of the loan will be repaid at the end of five years from the date it was provided, and the interest due for the loan will be paid in semi-annual payments in the months of June and December, commencing on December 2009. As security for the repayment of the loan, a charge was created by Kardan Israel in favor Bereshit Funds and Hadas over the Charged UMI shares. It should be clear that the said registered charge is of an equal rank to the charge that was registered on the UMI charged shares, in favor of the Mizrahi Bank, against a loan that the Mizrahi bank provided Kardan Israel, in the amount of NIS 100,000 thousand, and it was agreed that the consideration received from the realization of the charged UMI shares (as far as they will be realized) will be divided between Bereshit Fund and Hadas on the one hand and the Mizrahi Bank on the other, in equal parts. In addition to said charge, a charge was created in favor of Bereshit Funds and Hadas over Taldan's rights according to the UMI shareholder agreement, and the dividends paid by UMI to Kardan Israel and/or Kardan Motors (see Section 11.5.1 to this Part).

As of the date of the report, the loan agreement includes various obligations of Kardan Israel, including the obligation to meet financial covenants, among them: (1) the total equity attributable to the equity holders of Kardan Israel (without non-controlling interests) on a consolidated basis, will not be less than NIS 325,000 thousand based on annual financial statements and will never be less than NIS 300,000 thousand; (2) the ratio between the total equity of Kardan Israel attributable to the equity holders on a consolidated basis and the total company only statement of financial position (stand alone balance sheet) with the deduction of cash will never be less than 35%; (3) the ratio between a net financial debt in Kardan Israel's company only statement of financial position (stand alone) and the total equity attributable to the equity holders of the parent on a consolidated basis will not rise above 1.5; (4) the total equity attributable to the equity holders of UMI (without non-controlling interests) on a consolidated basis, with the deduction of intangible assets will not be less than NIS 375,000 thousand; (5) the ratio between the total tangible equity of UMI and the total company only statement of financial position (balance sheet) of UMI on a stand-alone basis will never be less than 25%; (6) the ratio between the total tangible equity of UMI and the total company only statement of financial position (balance sheet) of UMI on a consolidated basis will never be less than 15%. The loan agreement includes a commitment by Kardan Israel for a prepayment of the loan or part of it, if certain conditions exist. As of December 31, 2009 and prior to the date of the report, Kardan Israel is meeting its obligations (based on its financial statements for December 31, 2009). As of the date of the report, The UMI shares that were placed in charge secure a debt of nominal scope, the total sum of NIS 240 million.

On the date of completion of the transaction, Kardan Israel allocated to Bereshit Funds and to Hadas, without consideration, 2,450,000 options that can be exercised for up to 2,450,000 ordinary shares of Kardan Israel of NIS 1 par value, which will constitute after their exercise approximately 2.9% and fully diluted will constitute approximately 2.56% of the issued and paid up capital of Kardan Israel and the voting rights in it (not including dormant shares). The options were allocated to Bereshit Funds and Hadas at an exercise price of NIS 6 (linked to the consumer price index of June 2009), and they can be exercised during six years from the date of their allocation. For further details, including the allocation of 312,000 options to the Mizrahi Bank, see Section 7.4.3_ to this Part.

7.11.4 Kardan Israel's debentures

7.11.4.1 As part of the prospectus published by Kardan Israel in June 2005, NIS 160,000,000 par value Debentures (Series 3), of Kardan Israel were offered to the public. The principal amount of Debentures (Series 3) is to be paid in a single installment on May 31, 2010, and the interest on the Debentures (Series 3) is to be paid in five annual installments on May 31 of 2006 through 2010. The Debentures (Series 3) are convertible into registered ordinary shares of NIS 1 par value each of Kardan Israel, on each trading day as of the date of issue until May 15, 2010, such that each NIS 11.9 par value Debentures (Series 3) will be convertible into one ordinary share, of NIS 1 par value of Kardan Israel (subject to adjustments). Up to the date of the report, NIS 15,322,878 par value Debentures (Series 3 were converted into 1,287,637 shares of Kardan Israel. The Debentures (Series 3) are traded on the Tel Aviv Stock Exchange. No collateral was provided to secure the rights of the debenture holders. As of the date of the report, the balance of the Debentures (Series 3) in circulation is approximately NIS 144,677 thousand.

7.11.4.2 In June 2009 and February 2010 Kardan Israel issued, within the framework of shelf offering reports that were published according to a shelf prospectus of May 2009, NIS 210,000,000 par value debentures (series D), registered by name, of NIS 1 par value each. The total consideration (gross) that was received for the said two issuances totaled a sum of NIS 228,500 thousand. The debentures (series D) bear a fixed annual interest rate of 7.9%, linked (principal and interest) to the consumer price index published in May 2009. The principal of the debentures (series D) will be repaid in three equal annual payments on June 18 of each of the years 2013 up to 2015 (inclusive). The interest due to the debentures (series D) will be paid in semi-annual payments on December 18 of each of the years 2009 and up to 2014 (inclusive) and on June 18 of each of the years 2010 up to 2015 (inclusive). The debentures (series D) are secured by a first ranking fixed charge created over the shares of Kardan NV which are held by Kardan Israel, in the value of 100% of the balance of the debentures (series D).

7.11.5 Rating of Kardan Israel's Debentures

In April 2009, Ma'alot announced the lowering of the rating of the debentures issued by Kardan Israel from ilA/CW Negative to ilA with a negative outlook. According to Ma’alot’s notification, the current rating reflects the expectation that Kardan Israel will maintain the net debt to portfolio value ratio which Ma’alot estimates would not rise above 50% and maintain an adequate level of liquidity. In June 2009, Ma’alot announced the validation of the ilA rating with a negative outlook for the debentures (series D) of Kardan Israel. Following the enlargement of the debenture series (series D) that Kardan Israel issued, Ma’alot notified in January 2010 that the debentures (series D) that were issued within the enlargement of the series will have an identical rating as well. According to Ma’alot’s notification, the current rating reflects the expectation that Kardan Israel will maintain an adequate level of liquidity, such that it will not be required to realize assets in order to meet its liabilities, and therefore Ma’alot expects Kardan Israel to maintain liquidity balance and to turnover debts in time. Additionally, it was stated in the rating report that Ma’alot expects Kardan Israel to maintain a reasonable distance from its financial stipulations with the current and future entities that finance it. According to Ma’alot’s notification, the negative rating outlook reflects Ma’alot’s concern of a decline in the credit quality of Kardan NV which has a negative outlook. According to the rating, Kardan Israel’s rating may go down if Kardan Israel will not maintain the LTV ratio expected of it, if the market conditions worsen and negatively affect the credit quality of Kardan Israel subsidiaries, or if Kardan Israel will not turnover its debts with sufficient time in advance and will be dependent on a swift realization of its assets.

7.11.6 Liens

No current or negative liens exist on Kardan Israel's assets. For details regarding liens of assets directly held by Kardan Israel or assets held by means of special purpose companies or companies fully held by Kardan Israel, see Sections 7.114.2, 7.11.3 and 7.11.7 of this Part. Also, Kardan holdings Emed Properties are in lien. For additional details of specific liens created on the assets of the companies held by Kardan Israel that are described in the various sectors, see description of operation sectors.

7.11.7 Financial undertakings

Kardan Israel has undertaken to a bank to meet certain financial obligations, including maintaining a minimum total equity and total equity to company only statement of financial position ratio. For details, see Section 7.11.3 and Section 7.11.4 to this Part.

Pursuant to an agreement in which Kardan Communication borrowed a sum of NIS 140,000,000 from an Israeli bank, Kardan Israel became a guarantor of Kardan Communication's obligations, As part of the guarantee, Kardan Israel undertook, among other things, to meet the financial covenants set forth below: (1) Kardan Israel’s rate of capital from the Company only statement of financial position (stand-alone) shall not be less than 30%; (2) Kardan Israel's total equity shall not be less than NIS 300 million; (3) control (51%) will be maintained in each of the means of control in Kardan Communication; (4) If a legal proceeding is instituted against Kardan Communication for an amount exceeding $10 million or if Kardan Communication's or Kardan Israel's loan becomes immediately due, the loan will be immediately due. It was further agreed that if Kardan Israel sells all or part of its holdings in Kardan Real Estate, Kardan Communication, Kardan Motors or Taldan, it would use at least 50% of the net proceeds to repay the loan. For further details, see Section 12.5.2 of this part. As of December 31, 2009 and prior to the date of the report, Kardan Israel is meeting all its said obligations (based on its financial statements for December 31, 2009).

7.11.8 Guarantees

7.11.8.1 Kardan Israel is a guarantor and / or has made financial guaranties available for the obligations of its daughter companies and associated companies, in the total amount of approximately NIS 527,000 thousand (as of December 31, 2009).As of the date of the report, the aforesaid amount is NIS 220,000 thousand.

7.11.8.2 A framework of an agreement between Kardan Israel and Kardan Technologies exists that was corrected in March 2010, according to which Kardan Technologies is entitled to supervise, from time to time, loans and/or receive from Kardan Israel guarantees for Kardan Technologies liabilities and/or lien of assets owned by Kardan Israel for securing the debts of Kardan Technologies up to the total of NIS 30,000,000 (loans, guarantees and liens).

7.11.9 In December 2009, Kardan Israel delivered Kardan Real Estate a letter according to which Kardan Israel obliged to provide financing to Kardan Real Estate if Kardan Real Estate needs the financing in order to meet its ongoing obligations. Additionally, in March 2010, Kardan Israel delivered Kardan Technologies a letter according to which Kardan Israel obliged to provide financing to Kardan Technologies if Kardan Technologies needs the financing in order to meet its ongoing obligations. The amount of the said financing will not exceed the framework approved by Kardan Israel's board of directors, totaling NIS 25,000 thousand. This obligation does not imply any obligation of Kardan Israel toward third parites. Additionally, in March 2010, Kardan Israel obliged that if needed, it will continue to finance the operations of SFDI, Kardan Sahar Ltd. and Electrodan Sahar Ltd., according to the rates of its holdings in the said companies, though loans or guarantees. This obligation does not imply any obligation of Kardan Israel toward third parites.

7.11.9.1 For details regarding Kardan NV's undertakings to support Kardan Israel, see Section 16.5 to this Part.

7.12 <u>Taxation</u>

For details regarding taxation, see note 47 in the financial statements.

For details regarding taxation of the companies of Kardan Israel Group resident in Israel - see Section 17.4 to this Part.

The tax rates applicable to the Kardan Israel Group companies are different from the statutory tax rate. Such difference primarily stems from profit that is tax-exempt or subject to reduced tax rates, losses and other timing differences for which no tax benefit was recorded, and from differences between the basis of measurement for tax purposes and the basis of measurement in financial statements.

Kardan Israel and several of its consolidated companies have carried forward losses for tax purposes for the next years in the amount as of December 31, 2009 to the company and to part of the consolidated companies losses carried over for tax purposes of NIS 611 million (of which about NIS 270 million are carry forward capital losses). This sum includes losses of Kardan Israel totaling about NIS 293 million (of which about NIS 195 million are carry forward capital losses).

Kardan Israel was issued final tax assessments up to and including the tax year 2004.

7.13 Legal Proceedings

For details regarding material legal proceedings, see Note 34.c. of the financial statements.

7.14 Business Objectives and Strategy

Kardan Israel's strategy is to create medium to long-term value, basing its activities on the following principles: [1] lean management, with extensive business experience that allows for quick decision making; [2] autonomous management of business sectors by a professional, experienced team under the supervision of Kardan Israel headquarters; [3] enhancing and increasing the value of Kardan Israel's business sectors.

Kardan Israel will examine the possibility of making additional investments in Israel, based on the following criteria: [a] investments with significant growth potential; [b] the Kardan Israel Group would be the controlling shareholder or partner; [c] calculated risk.

For details on Kardan NV’s strategy in regard to its holding in Kardan Israel, see Section 21.3 to this Part.

7.15 Events or matters outside Kardan Israel's ordinary course of business

For details regarding legal proceedings that have been completed against Mr. Joseph Greenfeld and Mr. Eytan Rechter, see Section 23 to this Part.

7.16 Discussion of risk factors

The general risk factors applicable to Kardan Israel as a holding company are similar in essence to those applicable to Kardan NV. See Section 25 to this Part. A portion of the risk factors which apply to Kardan NV with respect to its international activities apply to Kardan Israel as well, which operates abroad through its holdings in Kardan NV. With respect to risk factors applicable to Kardan Israel, see Sections 25.1, 25.6, 25.8 through 25.19 to this Part.

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

8. Description of the Real-Estate business

8.1. The Kardan NV Group has operations in the real-estate sector, both overseas and in Israel.

Overseas real-Estate business

Kardan NV's operations in the real-estate sector overseas is carried out through the GTC Group which deals in the location, development, rental, selling and management of real-estate projects in international markets, mainly in Central-Eastern Europe. As of the date of the report, the GTC Group is also engaged in real-estate development in China and holds assets in Western Europe.

In December 2008, the statutory triangular merger pursuant to Dutch law was consummated between GTC RE[15] and GTC Holding, a subsidiary wholly owned by Kardan NV which was established for the purpose of the merger, and Kardan NV. GTC RE was merged into GTC Holding, and GTC RE's assets and liabilities (with the exception of liabilities by virtue of debentures that were transferred to Kardan NV) were transferred to GTC Holding. Upon consummation of the merger, GTC RE ceased to exist and Kardan NV holds GTC Holding's entire share capital (for further details, see Section 1.4.1 of this part).

As of the date of the report, GTC Holding holds about 43.14% of issued capital of GTC Poland, which is traded on the WSE in Poland and holds the shares of the rest of the GTC Group companies operating in Central-Eastern Europe. Also, GTC Holding indirectly holds all the share capital of GTC China, and 46.25% of the shares of GTC Investments, which is engaged in investment in income-producing property in Western Europe.

Kardan NV consolidates the financial statements of GTC.

The real-estate business in Israel

Most of Kardan NV's operations in the real-estate sector Israel is carried out through Kardan Real-Estate. [In February 2010, Kardan Real Estate published a prospectus for the initial public offering of its securities. With the issuance of the securities and their being registered for trade on the Tel Aviv Stock Exchange, Kardan Real-Estate has become a public company, as defined in the Companies Law. As of the date of the report, Kardan Israel holds 73.7% of Kardan Real Estate's issued capital, and after Clal Insurance Co. Ltd. and entities under its control (in this section: "Clal") were allocated additional shares in accordance with the consideration adjustment mechanism elaborated in section 8.6.4[1] of this Part, Kardan Israel holds approximately 72.1% of the issued capital of Kardan

15 Prior to consummation of the merger, Kardan NV held, directly and indirectly, approximately 56.41% of GTC RE's issued capital.

Real Estate (approximately 61.8 % with full dilution).[16] Kardan Real-Estate is engaged in the location and development of residential buildings real-estate in Israel intented for sale and the location, development, sale and rental of office buildings and commercial parks. Kardan Real-Estate holds 50% of the issued capital of El-Har, a company that is engaged in the provision of contracting services in projects for the construction of residential buildings, public and commercial buildings.

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

For details regarding Kardan Real-Estate see Section 8.6 of this part.

As of the date of the report, Kardan Israel holds all the issued capital (100%) of Kardan Emed Properties, which holds approximately 50% of the issued capital of Emed. Emed is a private company which operates, *inter alia*, in the field of real estate in Israel, in the rental of income-producing properties (offices, commercial space and parking facilities) in addition to ownership of undeveloped land, primarily in the Tel Aviv area. Additionally, Emed is engaged in the development of residential real estate. For details regarding the transactions, within the framework of which Kardan Israel acquired all the issued capital of Kardan Emed Properties, see Section 7.3.3 of this part. Holdings of Emed are not considered material to Kardan NV.

8.2. The following are data regarding Kardan NV's investment in GTC Holding and Kardan Real Estate as of the date December 31, 2009: [Kardan please update the table]

An affiliate company	Rate of holding linked (in percentages)	The linked amount of the investment in Kardan NV's books (in EUR millions)	The percentage constituting the amount of the investment in the affiliate company of the equity attributable to Kardan NV's owners	Market value of the investment in the affiliate company (in EUR millions)	Contribution to the net profit attributable to Kardan NV's woners in 2009 (in EUR millions)	
GTC Holding	100%	316	108%		(63)	
Kardan Real-Estate	73.7%	38[17]	13%	[18]	(1)	

8.3. Following are data taken from the financial statements of GTC Holding, Kardan Real Estate and Emed as of December 31 of the years 2007, 2008 and 2009 (with amounts in Euro millions): [Kardan – please update the table}

16 In this regard, "**Full Dilution**" – assuming the conversion of all debentures (SeriesA) to shares, and assuming that all the options that Kardan Real Estate has undertaken to allocate to its employees as detailed in section 11.6.8[2] of this part, are allocated and exercised into shares.

17 Including the loan provided by Kardan Israel to Kardan Real Estate through an affiliated company, in the sum of Euro16 million.

In March 2010, Kardan Real Estate, issued shares and debentures (Series A), convertible to shares of Kardan Real Estate. As of March 23 2010, the market value of the investment in Kardan Real Estate is Euro 41 million [18]

An affiliate company	Revenues			Net profit attributable to Kardan NV owners			Captial attributable to Kardan NV owners		Total Assets		Accounting relationship in the books of Kardan NV
	In 2009	In 2008	In 2007	In 2009	In 2008	In 2007	On December, 31, 2009	On December, 31, 2008	On December, 31, 2009	On December, 31, 2008	
GTC Holding	207.2	138.4	86.4	(5.2)	59.6	20.3	348.5	399.3	2,970.6	2,867.6	Consolidated
Kardan Real-Estate	42.7	36	19.6	(1)	(1)	10	24	8.4	87.4	78.1	Relative Consolidation

8.4. For a description of the material transactions in real-estate made by Kardan NV and\or its subsidiaries and related companies during 2009, see Note 5c.1 to the financial statements.

8.5. **GTC Holding**

Below is a description of and details relating to GTC Holding:

8.5.1 In this section, the terms will be interpreted in accordance with the meaning attached to them:

GTC Poland - Globe Trade Center S.A.

GTC Hungary – GTC Hungary Real Estate Development Private Company RT., a company incorporated in Hungary.

GTC Serbia – GTC Real Estate Investments Serbia B.V., a company incorporated in the Netherlands.

GTC Romania – GTC Real Estate Investments Romania B.V., a company incorporated in the Netherlands.

GTC Croatia – GTC Real Estate Investments Croatia B.V., a company incorporated in the Netherlands.

GTC Bulgaria – GTC Real Estate Investments Bulgaria B.V., a company incorporated in the Netherlands.

GTC Slovakia – GTC Real Estate Investments Slovakia B.V., a company incorporated in the Netherlands.

GTC Ukraine – GTC Real Estate Investments Ukraine B.V., a company incorporated in the Netherlands.

GTC Russia GTC Real Estate Investments Russia B.V., a company incorporated in the Netherlands.

GTC Investments	–	GTC Investments B.V., a company incorporated in the Netherlands.
Blitz	–	Blitz Portfolio GmbH, a company incorporated in Germany.
Blitz Properties	–	Mainz 1 Blitz Portfolio GMBH, Mainz 2 Blitz Portfolio GMBH, Mainz 3 Blitz Portfolio GMBH, Hamburg Blitz Portfolio GMBH, Essen Blitz Portfolio GMBH, Bonn Blitz Portfolio GMBH, Munchen Blitz Portfolio GMBH , companies incorporated in Germany.
GTC Asia	–	GTC Real Estate Asia B.V., a company incorporated in the Netherlands.
GTC China	–	GTC Real Estate China Limited, a company incorporated in Hong Kong
The Joint Venture	–	Joint venture of GTC Holding and Assets & Construction Company Ltd., operating through GTC Investments.
Durango	–	Durango Switzerland B.V., a company incorporated in the Netherlands.
Galeria Mokotow Company	–	Rodanco CH1 Sp. z o.o, a company holding full rights in the commercial center, located in Warsaw, Poland, called Galeria Mokotow (see Section 8.5.8.[a][2][d] of this part), held in equal shares by GTC Poland and Rodanco Polska B.V.
GTC Group	–	GTC Holding and companies held by it.
GTC Poland Group	–	GTC Poland and companies it holds.
Kardan Group	–	The group of companies controlled by the controlling shareholders of Kardan N.V.
WSE	–	The Warsaw Stock Exchange

8.5.2 <u>General:</u>

GTC RE was incorporated according to Dutch laws as a private company (B.V.), in August 1999. GTC RE shares were registered for trading at the Tel Aviv Stock exchange Ltd., in September 2004, and securities were issued to the public. Prior to the merger between Kardan NV and GTC RE, as set forth in Section 1.4.1 of this part, GTC RE held the shares of the remaining companies of the GTC Group operating in the field of real estate overseas.

In December 2008, the statutory triangular merger pursuant to Dutch law was consummated between GTC RE, GTC Holding, as wholly owned subsidiary of Kardan NV which was established in June 2008 for the purpose of the merger, and Kardan NV. Pursuant to the merger, GTC RE merged into GTC Holding, and GTC RE's assets and liabilities were transferred to GTC Holding (with the exception of certain liabilities, which were transferred to Kardan NV, as set forth in Section 1.4.1 of this part). On December 16, 2008, GTC RE ceased to exist, and its securities were delisted from the Tel-Aviv Stock Exchange. For further details regarding the aforementioned merger, see Section 1.4.1 of his part.

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

Operation in Central - Eastern Europe

The operations of GTC Holding in central-eastern Europe are conducted through GTC Poland. As of the date of the report, GTC Holding directly holds 43.14% of the issued capital of GTC Poland, a company incorporated in Poland, dealing since 1994 in the location, development, leasing, sale and management of office buildings, shopping centers and residential housing in central-eastern Europe, through its subsidiaries and related companies. As at the statement date, GTC Poland has operations in the following countries in central-eastern Europe: Poland, Hungary, Romania, Czech Republic, Serbia, Croatia, Slovakia, Bulgaria, the Ukraine and Russia. GTC Holding consolidated the financial statements of GTC Poland in its financial statements, due to maintaining effective control over the operations of GTC Poland. Following the global economic crisis, the GTC Group adjusted its activities and its development plans to the current situation in the real estate field in Central-Eastern Europe. For details, see Section 8.5.8[a][1], 8.5.8[b][1] and 8.5.20[a] of the report.

GTC Poland shares have been traded in the WSE in Warsaw, Poland since May 2004. GTC Poland's share price on the WSE on December 31, 2009 was 25.65 Zloty (about EUR 6.2), reflecting a market value of EUR 1,370 million for GTC Poland. GTC Poland's share price on the WSE on March 23, 2010 was 23.40 Zloty (about EUR 5.96 million) reflecting a market value of EUR 1,307 million.[Please complete]

Operations in China

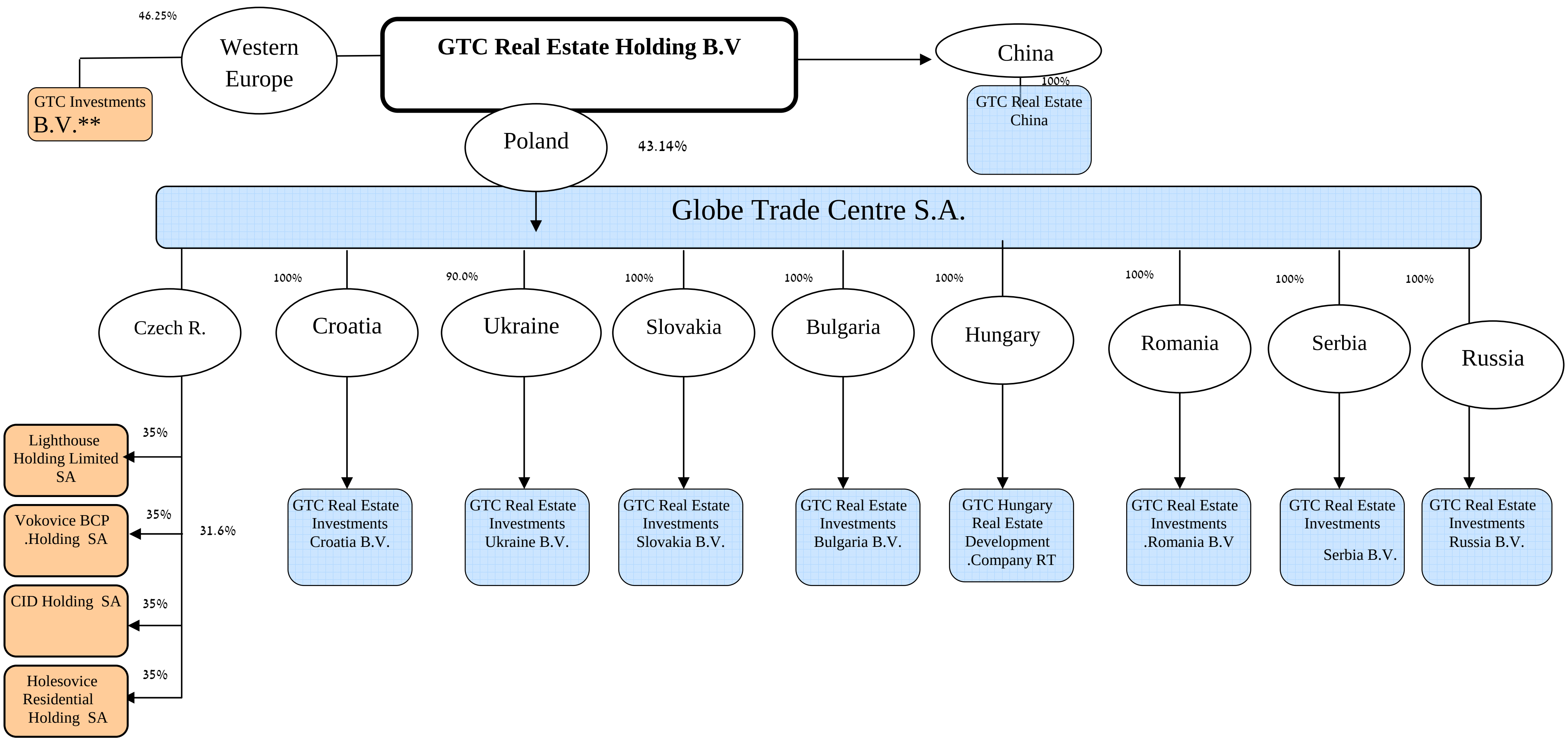
In 2005, after the Group acquired vast experience and gained in-depth acquaintance with markets in central-eastern Europe and established solid operations in this region, GTC RE decided to expand its operations to another geographical region, China. The GTC Group identified China as a growth market suited to its development activity, given China's strong economy, growing purchasing power, urbanization trends and government reforms that the government of China is instituting in the last years, with the purpose of opening the real-estate market in China to private foreign investors as well. GTC Holding operates in China through GTC China, a company wholly owned by GTC Holding. The financial statements of GTC China are consolidated in the financial statements of GTC Holding.

Operations in Western Europe

GTC Holding operates in Western Europe through GTC Investments, a company incorporated in the Netherlands that was established in November 2005 by GTC RE and Assets and Construction Co. Ltd., ("**Assets and Construction"**) part of I.D.B. Holding Group Ltd. As of the date of the report, GTC Holding holds 46.25% of the issued capital of GTC Investments, and Assets and Construction holds, as of that date, 50% of the issued capital of GTC Investments. As of the date of the report, GTC Investments holds approximately 94% of the portfolio of seven real estate companies that own seven office buildings in central cities in Germany as well as approximately 80% of the issued capital of a Swiss company that holds a portfolio of six office buildings in central cities in Switzerland, this following the sale by GTC Investments in July 2009 and January 2010 of three office buildings out of the portfolio of assets in Switzerland in consideration of 24 million Swiss francs (approximately EUR 16 million) and the granting of an option to a third party for the acquisition of an additional asset in the portfolio of Swiss assets that is exercisable in the course of 2010. To the date of the report, the activity of GTC Investments is not material to GTC Holding and Kardan NV and is therefore not presented in this Section below.

In 2006, GTC RE undertook to GTC Poland to ensure that all GTC RE real estate activities, including development, construction, management, etc., in the Czech Republic, Hungary, Romania, Serbia, and Poland will be conducted only through GTC Poland. GTC RE further undertook to act to the best of its ability to prevent its shareholders from competing with GTC Poland in the aforementioned countries. Other than the foregoing, holders of the controlling interest in GTC Holding are not committed to refrain from operating in the real estate field in regions where GTC Holding operates. As at the reporting date, some of the controlling shareholders of GTC Holding have insignificant business activity in the field of real estate in regions where GTC Holding operates.

Flow Chart of the Main Holding of GTC Holding in Subsidiaries and Related Companies at the Statement Date



* The chart does not include project companies.

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8.5.3 Nature and results of every material structural change, merger, acquisition or sale

[a] On December 16, 2008, the statutory triangular merger under Dutch law was consummated between GTC RE, GTC Holding and Kardan NV. See Section 1.4.1 of this part.

[b] In January 2009, GTC Poland acquired the minority holding in its subsidiaries and related companies[19], such that subsequent to the acquisition, GTC Poland's holdings in GTC Hungary, GTC Serbia, GTC Romania, GTC Croatia, GTC Bulgaria and GTC Slovakia increased to 100% (prior to such acquisition, GTC Poland held 97.5% of GTC Hungary and GTC Serbia; 94.6% of GTC Romania; 97.2% of GTC Croatia and 95% of GTC Bulgaria and GTC Slovakia). In addition, following the acquisition, GTC Poland's holdings in GTC Ukraine rose from 85% to 90%, and, in each of the investee companies in the Czech Republic, holdings rose from 31.6% to 34%. In consideration for the acquisition of the minority shares in each of the aforementioned companies, GTC Poland has paid minority shareholders of such companies an amount of EUR 17.6 million. For further details, see Section 8.5.17[b][1] of this part.

8.5.4 GTC Holding's Fields of Operation

GTC Holding operates in two main geographical regions:

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

Companies in GTC Group are engaged in two fields of activity in these regions:

[A] **Offices and Commerce** - location, development, leasing and management of offices buildings and commerce centers ("**The Field of Income-Producing Property**").

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

Companies in the GTC Group operate in Central-Eastern Europe in both fields of activity. In China, most of the operation, as of the date of the report, is in residential real estate.

Below is financial information on the operating segments according to the geographic regions in which GTC Holding operates (in EUR millions):[20]

[19] From the Chairman of the Board of Directors of GTC Poland.

[20] Some operations of the companies in GTC Holding Group are conducted in local currency. The data included in the report to Euro was converted by converting balance sheet data in other currencies to Euro based on the Euro's exchange rate on the date of the financial statements

	Central-Eastern Europe			China			Other [21]			Total		
	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Revenues												
Income-producing properties	96.2	72.1	52.3	-		-	6.5	6.1	6.7	102.7	78.2	59.0
Residential properties	60.1	42.5	21.3	44.4	17.7	6.1		-	-	104.5	60.2	27.4
Total revenues	156.3	114.6	73.6	44.4	17.7	6.1	6.5	6.2	6.7	207.2	138.4	86.4
Expenses												
Total expenses	71.2	51.9	23.7	32.5	12.9	4.3	1	1	1.3	104.7	65.8	29.3
Operational Profit (Loss)												
Operational Profit (Loss)	85.1	62.7	49.9	11.9	4.8	1.8	5.5	5.1	5.4	102.5	72.6	57.1
Assets attributable to a segment												
Income-producing properties	2,061.1	1,954.6	1,066.5	50.0	30.3	14.6	83.1	88.0	85.6	2,194.2	2,072.9	1,166.7
Residential properties	306.2	344.2	388.2	170.7	146.7	44.9	-	-	-	476.9	490.9	433.1
Total assets of income-producing properties and residential properties	2,367.3	2,298.8	1,454.7	220.7	177.0	59.5	83.1	88.0	85.6	2,671.1	2,563,779	1,599,747
Investments in associates	48.6	41.2	24.2	-	-	-	-	-	-	48.6	41,209	24,240
Assets not attributed to segments	206.7	218.4	411.2	28.3	16.7	43.6	3.3	3.2	3.2	250.9	262,589	625,503
Total assets	**2,622 .6**	**2,558.4**	**1,890.1**	249.0	**193.7**	**103.1**	86.4	**91.2**	**88.8**	2,970.6	**2,867.6**	**2,249.5**
Liabilities												
Total liabilities	1,611.9	1,402.5	**875.0**	**108.0**	101.1	73.6	78.1	82.3	83.9	2,022.5	1,812.5	1,347.2

For explanations on GTC Holding operation results and assets, see Section 1.4 in the board of directors' report.

8.5.5 Investments in the Capital of GTC Holding and GTC Poland and Transactions in their Shares

[a] In 2008, 11,781,766.71 debentures of GTC RE (Series A) were converted into 732,121 GTC RE ordinary shares. The debentures of GTC RE remaining in circulation were exchanged upon completion of the merger between Kardan NV and GTC RE (December 16, 2008) for debentures of Kardan NV (series 1).

[b] Following the decision of the Kardan NV Supervisory Board of Directors in July and October of 2007 to approve the purchase of GTC RE shares and debentures for the total sum of Euro 20 million, at the market price of the stock and at the discretion of Kardan NV's Managing Board of Directors, Kardan NV purchased 256,334 shares of GTC RE in 2008, in stock exchange transactions for the total amount of Euro 2.6 million.Upon the completion of the merger between Kardan NV and

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including the said data and the results were translated to Euro based on the average exchange rate for the period of the financial statement that included these results, unless indicated otherwise.

21 These data refer to GTC Holding operations in Western Europe.

GTC RE in December 2008, GTC RE ceased to exist and Kardan NV holds the entire issued capital of GTC Holding.

[c] In October 2005, GTC RE issued in a private offering 280,000 options exercisable into up to 280,000 GTC RE ordinary shares, to eight employees of Kardan Group and in July 2006, GTC RE allocated 40,000 options which were exercisable into 40,000 GTR RE ordinary shares to Mr. B. Bremer, Director in GTC Holding's supervisory board. The basic exercise price of options allocated to employees and to the director was set at NIS 8.8 plus linkage differentials to the Consumers Price Index, where the base index for calculation is the known index at the options allocation date and subject to adjustments, detailed in the options plan.[22] 220,000 options were exercised during 2008 into 220,000 ordinary shares of GTC RE. Since part of the options were phantom type options, some of the options expired. As of the date of the merger between Kardan NV and GTC RE, no exercisable options remained. For futher details, see Note 23 b(1) of the financial statements.

[d] In January 2008, the board of directors of Kardan Israel approved the purchase of GTC RE. Pursuant to said resolution, in several transactions in 2008, during trading, Kardan Israel purchased 675,450 shares of GTC RE for a consideration of approximately NIS 65.68 million (approximately EUR 12.4 million).

[e] In 2008, in a number of transactions during trading, and pursuant to the authorization granted by the General Meeting of GTC RE to the managing board of GTC RE (as set forth in Section 8.5.6[a] of this part), GTC RE purchased 1,326,631 shares of GTC RE for a consideration of NIS 18.6 million (approximately EUR 3.74 million). In addition, in October 2008, in an off-the-floor transaction, GTC RE purchased 6,592,478 Debentures (Series A) of GTC RE for an aggregate consideration of NIS 11,207,212 (approximately EUR 2.23 million).

[f] Pursuant to the merger between Kardan NV and GTC RE, shares of GTC RE which were held by the shareholders of GTC RE (with the exception of GTC RE and Kardan NV) were exchanged for 29,600,956 ordinary shares, of EUR 0.2 par value per share, of Kardan NV. The number of issued shares represented an exchange ratio of 0.81 ordinary shares of Kardan NV for each ordinary share, of EUR 0.20 par value, of GTC RE. For further details regarding the merger, see Section 1.4.1 of this part.

[g] In September 2009, GTC Holding sold approximately 3% (approximately 6,700,000 shares) of GTC Poland's shares, which it

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22 Pursuant to dividend division by GTC RE in January 2005, the nominal exercise price decreased to NIS 8.63 per share.

owned at that time, for a total consideration of approximately EUR 38 million , at an average share price of 24 Zloty (approximately EUR 5.75 per share). On the selling date, the closing share price on the Warsaw Stock Exchange was 24.3 Zloty (approximately EUR 5.8 per share). As part of the sale, GTC Holding agreed to refrain from selling further GTC Poland shares for a period of six months, which will end close to the date of publication of the report Subsequent to this sale, and as of the date of the report, GTC Holding holds approximately 43.1% of GTC Poland's issued capital. This sale generated a profit of Euro5.5 million to GTC Holding and a profit of Euro 4 million to Kardan NV.

8.5.6 Dividend distribution

[a] GTC Holding

GTC RE did not distribute dividends in 2008. GTC Holding did not distribute dividends in 2009.

For details about the financial liabilities undertaken by GTC Holding, see Section 8.5.13[a] of this part.

The Articles of Association of GTC Holding prescribes that GTC Holding may distribute dividends to its shareholders and to other eligible parties, subject to the approval of the supervisory board. Such distribution shall be made from the distributable equity only, i.e. equity exceeding the aggregate sum of the portion of issued and outstanding capital and the reserves to be maintained pursuant to Dutch law. The General Meeting of GTC Holding's shareholder may determine the method of managing the Company's revenues, as represented on the overall profit (loss) statement. Shares held by GTC Holding shall not grant a right to participate in the distribution of revenues.

In accordance with Dutch statutory provisions, as of December 31, 2009, the balance of GTC Holding's retained earnings available for distribution amounts to approximately EUR 192 million.

In September 2007, the general meeting of GTC RE authorized the management board for a period of 18 months, to buy GTC RE shares through transactions on and off the stock exchange, subject to the provisions of the law and GTC RE Articles and subject to the approval of the supervisory board, at a price ranging between the par value of the shares and their opening price on the stock exchange on the purchase day, plus 10%. For details regarding the aforementioned acquisition of GTC RE shares in 2008, see Section 8.5.5[e] of this part.

[b] GTC Poland

GTC Poland did not distribute dividends in 2009 and 2008.

For details regarding GTC Poland's financial liabilities see section 8.5.13[B] of this part.

In accordance with Polish statutory provisions, as of December 31, 2009, the balance of GTC Poland's retained earnings available for distribution amounts to approximately EUR 653 million. .

GTC Group develops and builds projects through designated project companies. Some of the banks financing terms with respect to some of these companies require the company that wishes to distribute dividend to obtain approval of the lending bank. GTC Holding and GTC Poland are not restricted by the aforesaid agreements.

8.5.7 <u>General Environment and impact of external factors on the operations of GTC Holding</u>

Data presented in this section are based on external market surveys. In addition, information presented in this section, including reference to macro economic data and trends and real estate market data is forward looking information, as defined by the Securities Act, which might not be realized, in their entirety or in part, or might be realized in a different (even significantly different),manner than expected, due to market factors, economic and other policies of countries, European Union Policy and condition of global economics, [including due to the direct and/or indirect implications of the global economic crisis.] Kardan NV is not responsible for the quality or integrity of the data presented in this section.

[a] <u>Global economic crisis</u>

During 2008 there was a significant deterioration in the Global financial markets, which continued in the first half of 2009, causing a global economic crisis. As of the date of the report, it is not clear whether the direct economic effects of the aforesaid crisis have run their course, but it is thought that the worst of the global economic crisis has passed. For additional details on the global economic crisis, see Section 6 of this part. Financial corporations that finance real estate transactions and/or entities involved in real estate transactions in general, and in the acquisition of apartments and houses in particular, toughened their credit policies and bank support. Within this context, the banks tightened the threshold terms for granting mortgages and increased the interest spreads, while also reducing overall loan to value ratios. The real estate projects in which the GTC Group participates are also exposed to a decline in financing sources, both for new projects and for the refinancing of existing projects, an increase in financing expenses and/or a decrease in customer demand and rental. At the moment, the GTC Group cannot assess the full repercussions of the aforementioned factors and their impact on its operations, which may be reflected, *inter alia*, in a reduction in the number of projects that it carries out and./or a decrease in the anticipated profitability arising from these projects. For changes in the scope of activity of the GTC Group resulting from the global economic crisis, see Sections

8.5.8[a][1] and 8.5.8[b][1] of this part.

[b] Macro Economic Environment - Central Eastern Europe

Following the collapse of the communist regimes, Central-Eastern Europe experienced a significant economic growth in the past fifteen years, until the start of the current economic crisis. Nevertheless, the gaps between Eastern and Western Europe are still significant.

GTC Holding is active in the field of real estate in Central-Eastern Europe through GTC Poland in ten countries: Poland, Hungary, Czech Republic, Romania, Serbia, Croatia, Bulgaria, Slovakia, the Ukraine and Russia. Poland, Hungary, the Czech Republic and Slovakia joined the European Union in the first half of 2004 Romania and Bulgaria joined the European Union in early 2007, while other countries in which GTC Poland is active, namely, Serbia, Croatia, Ukraine and Russia, are not members of the European Union.

Among the countries in which GTC Poland operates, the global economic crisis had the strongest impact on the economies of Ukraine and Russia, in each of which, as of the date of the report, GTC Poland has one tract of land whose development has not yet begun. In Poland, where most ofGTC Poland's activity is concentrated, and where most of its assets are located, the economy was affected to a lesser extent than the economies of the other countries, and in 2009 the GNP even increased, contrary to the trend that characterized most Central-European countries. Like other global markets, in the other countries of Central-Eastern Europe in which GTC Poland operates, there has been a drop in the scope of economic activity in the wake of the global economic crisis, albeit to a more moderate degree. oIn light of the prevailing situation in the markets during 2009, many companies active in the Central-Eastern Europe markets froze development projects, inter alia, due to a shortage of financing sources. Consequently, in accordance with market surveys with respect to countries in Central-Eastern Europe[23], there is likely to be a shortage of office space beginning in 2010. Nevertheless, a number of development companies, including GTC Poland, which are characterized by their financial strength, experience and goodwill, have continued and still continue their efforts to raise financing sources for the projects executed by them, this being despite the shortage of financing sources referred to above. During 2009, only a small number of sales transactions took place in the Central-Eastern Europe real estate market; however, in the same way that the forecasts for economic recovery are improving, so too the first signs are being seen of investors once again seeking out quality properties.

The above mentioned assessment regarding the shortage of office space during 2010-2011, is forward-looking information as defined in the Securities Act, and is

[23] CEE OFFICE DEVELOPMENT TRENDS, by Jos Tromp, Director- Head of CEE Research and Consulting and Mattew Marden – CEE Research Analyst, December 2009

based on the forecasts and assessments of Real Estate experts and analysts examining the central and eastern European real estate market. The said assessment is likely not to materialize, partially or entirely, or to materialize in a different and material manner than is expected, as a result of market factors, indirect and direct implications of the global economic crisis, including central and eastern European markets, and or realization of all of any of the risk factors detailed in section 8.5.20 of this part.

[c] Macro Economic Environment - China[24]

China is considered to be the fastest growing economy in the world, due to a population in excess of 1.3 billion people and a total work force of over 800 million people. In the past 30 years the Chinese economy has been gradually shifting from one controlled by the central government to a market economy, open to international markets.

After years of double-digit growth in the GDP, in 2009, China's GDP grew by approximately 8.7%, while the GDP per capita has reached approximately $ 3,700. The growth in GDP in 2009 is the result of the incentive scheme introduced by the Chinese government, which is intended to invest in infrastructures and to boost domestic demand in order to compensate for the dramatic fall in exports caused by the global economic downturn. The Chinese government has taken specific steps intended to stimulate the domestic real estate sector and increase the purchase of residential housing and has therefore reduced stamp duty and relaxed the terms for receiving mortgages in 2009. The Chinese real estate market has also benefited from the significant rise in the use of credit and from the fall in interest rates on loans. The impact of these factors, together with the positive psychological effect of the government's involvement, has caused the volume of investments in real estate to rise by approximately 16.1% in 2009, compared to 2008. Also recorded was an increase of approximately 15.5% in retail sales, an increase of approximately 8.8% in the disposable income per capita, as well as an increase of more than 30% in the investment in fixed assets.

[d] Success Factors

The following factors contribute to a great extent to the success of GTC Holding Group. A local management team that is qualified and experienced in the field of real estate; diversification of the property portfolio among countries and cities and several real estate segments (offices, commercial and residential housing); a wise selection of sites selected by the GTC Group for construction projects and adapting the type of project to the specific location; focused selection of large scale projects, constructed in stages, according to the demand; conducting a due diligence test prior to entering every project, adherence to project completion

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24 Data included in this section are based on publications by the Chinese Bureau of Statistics and the Chinese Academy of Social Sciences (CASS).

dates to which it committed, and diversifying the sources of financing (banks, capital and debentures).

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

The following factors contribute to successful operation in China: The decision to operate in large second and third tier cities and not in first tier cities[25] because these areas have a higher-than-average economic and real estate growth potential that significantly exceeds the average rate of growth in China as a whole; focus on the growing middle class; the decision to commence business activities in China jointly with local parties, which combines the global experience and resources of GTC Group with the partners' vast experience with the local market and the decision to act in accordance with the policies and trends prescribed by the Chinese Government.

<u>GTC Holding Business Description according to operation zones</u>

8.5.8 **<u>Activity in Central-Eastern Europe</u>**

GTC Holding operates in Central-Eastern Europe through its 43.1% direct holding in the shares of GTC Poland, which operates independently and through investee companies in Poland, Hungary, Romania, Czech Republic[26], Croatia, Serbia, Bulgaria, Slovakia, the Ukraine and Russia in the Field of Income-Producing Property (offices and shopping malls) and residential properties.

GTC Poland Group is engaged in real estate development in two main segments –

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[25] First tier cities are the most developed cities in China (from the standpoint of per capita GNP , infrastructures, education, etc., such as Shanghai and Beijing. The second tier contains cities that are less developed than the first tier in the aforementioned characteristics, among them regional cities and large cities such as Shenyang, Xian and Chengdu, in which GTC China operates. The third tier cites also include less developed cities than second tier cities according to the aforementioned characteristics, including Xianyang, in which GTC China operates.

[26] GTC Poland's activities in the Czech Republic are managed via four companies consolidated in Luxembourg, in each of which GTC Poland hold shares granting approximately 35% of capital rights and control. GTC Poland's investment in each of the said companies arte reported in the financial statement by the equity method. The charactaristics of the business activities of each of the said companies is similar to those of GTC Poland, both in the income-yielding real estate sector and the residential real estate sector, including with respect to clients, marketing and distribution, suppliers, environment, risk factor etc. for details regarding the operational projects of the said companies in the Czech Republic, see tables in sections 8.5.8[A] and 8.5.8[B][2](a) to (j) of this part.

income properties (offices and shopping malls) and residential properties.

[a] **Income-producing property**

[1] Business Environment

Following is a description of trends, events and developments which have, or are expected to have, a material effect on the activity of GTC Poland Group in the Field of Income-Producing Property:

Offices in Central-Eastern Europe

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

In recent years, the area of modern offices in the major cities of Central-Eastern Europe has increased, although in the developing countries that have not joined the European Union, the office market is still in the initial stages.

As a direct outcome of the global economic crisis, inter alia, in 2009, only a few transactions were conducted on the Central-Eastern European office property market. Nevertheless, along with the improvement of the forecasts for economic recovery, there are first signs for the return of investors that aim to locate quality property.

It should be noted that GTC Poland's rental contracts are denominated in or linked to the dollar or euro and therefore they were not directly affected by the devaluation in local currency. Nevertheless, in the wake of the devaluations, local companies whose revenues are in local currency are finding it harder to pay rent quoted in dollars or euros.

Shopping malls in Central-Eastern Europe

During the last 15 years, the retail market in Central-Eastern Europe has developed to almost western standards. In the more developed cities, such as Warsaw, Budapest and Prague the shopping mall offer the same standard as shopping malls in Western European capitals. Nevertheless, the size of commercial spaces in central cities in Central-Eastern Europe is considerably smaller than that in central cities in Western Europe. Furthermore, the quality of some shopping malls in Central-Eastern Europe is not up to western standards, and there is considerable demands for high-quality commercial space from international retail chains, mainly in the central cities of the less developed countries of Central-Eastern Europe.

The GTC Group has substantial office space and shopping malls in the area of Central-Eastern Europe, and the Group anticipates an increase in office and commercial space in the years ahead[27].

It should be noted that GTC Poland's rental contracts are denominated in or linked to the dollar or euro and therefore they were not directly affected by the devaluation in local currency. Nevertheless, in the wake of the devaluations, local companies whose revenues are in local currency are finding it harder to pay rent quoted in dollars or euros.

Changes in scope and profitability of the business

Following the global economic crisis and its aftermath, the GTC Group adapted its operations and development plans to the situation in the markets. With regard to projects that are underway, the GTC Group is monitoring and adapting the pace of construction and progress of each project to current market conditions. Regarding projects that have not yet commenced, the GTC Group is verifying whether there are indications that the project can be successfully marketed and accordingly, considers whether to commence construction.

[2] **Data on income-producing property projects**

The following are data on GTC Group's projects in the field of income-producing property divided to income properties as of the date of this report, sold properties, properties under development and the land reserves of GTC Group:

27 **The aforementioned assessment regarding the amount of commercial space and shopping centers in Central-Eastern Europe, as described above, is forward-looking information as defined in the Securities Act, based on the number of projects under construction in the field of income-producing properties, the GTC Group's strategy, the GTC Group's cash surpluses that will enable it to finance the purchase of additional projects and/or additional land, the availability of land suitable for the construction of offices and shopping centers, the situation in the markets and the demand for office and commercial space. The aforementioned assessment might not be realized, or might be realized in a different, including significantly different, manner than expected, due to lack of success in the change of use of lands that are part of the reserves of the GTC Group as detailed in the report, on the one hand, and failure to complete deals for the purchase of land or the acquisition of the companies that own the land (as detailed in Sections 8.5.8[a][3] and 8.5.9[d] of this part) for any reason whatsoever, [the direct and/or indirect implications of the global economic crisis,] changes in the condition of the market and changes in demand for office and commercial space and/or realization of all or part of the risk factors detailed in Section 8.5.20-21 of this part.**

(a) Following is a summary of information on leased projects by country:

As of December 31, 2009

Country	No. of properties	Area (thousands of sq. m.)	Rental revenues in 2009 (in EUR thousands)	Occupancy	Original cost (in EUR thousands)	Project value in financial statements (in EUR thousands)	NOI[28] (in EUR thousands)
Poland	16	246,430	43.2	97%	465.4	808	45.6
Romania	4	61,500	[29]0.5	78%	156.9	197.5	[30](2.2)
Hungary	3	72,829	[31]8.4	29%-98%	93.4	148.7	8.2
Serbia	3	53,900	8.3	89%	84.5	127.2	7.9
Croatia	1	33,500	13.6	100%	77	176.3	13.6
Russia							
Total	27	468,159	**32**74	-	877.2	1,457.7	73.1
Associates							
Czech Republic	2	36,604	331.7	3480%	25.1	33.9	351.5

28 The net operating income from renting buildings. The NOI figure is one of the most important parameters in the valuation of income properties. The result of dividing this figure by accepted capitalization rate in the geographic region where the property is located (Cap Rate) serves as one of the indications for determining the property's value (together with other indications such as: the market value of similar properties in the same region, sale prices per sq. m., etc.). Additionally, this figure is used to compute the sum of cash available for servicing the debt taken for financing the acquisition of the property, while from the total NOI are offset the investments in renovation and preservation of the property (Capex). It is hereby stressed that the NOI: (1) Does not present cash flows from operating activity according to the generally accepted (IFRS) accounting principles; (2) Does not reflect the cash available for financing the cash flows of GTC Holding, including its ability to distribute dividends; (3) is not expected to substitute the net income for the assessment of the results of GTC Holdings.

29 This data represent only two assets, since the construction of two additional assets covering 53,360 square meters, has been completed during the fourth quarter of 2009

30 This data represent only two assets, since the construction of two additional assets covering 53,360 square meters, has been completed during the fourth quarter of 2009 .

31 This data does not include revenues from the project that was sold during 2009. See table 8.5.8[A][2](j)

32 This data does not include managment fees for the projects. For additional details regarding income-producing real estate, by countries, see table 8.5.8[a][2](g)

33 The data represents one asset only, since the construction of the second asset was completed in December 2009

34 The data represents one asset only, since the construction of the second asset was completed in December 2009

35 The data represents one asset only, since the construction of the second asset was completed in December 2009.

As of December 31, 2008[36]

Country	No. of properties	Area (thousands of sq. m.)	Rental revenues in 2008 (in EUR thousands)'	Occupancy	Original cost (in EUR thousands)'	Project value in financial statements (in EUR thousands)'	NOI (in EUR thousands)'
Poland	13	171,990	30.2	99%	288.6	659.6	29.9
Romania	2	12,100	37	67% - 64%	21.2	31.5	38
Hungary	3	47,460	7.5	94%	56.8	118.5	7.4
Serbia	3	53,900	4.1	71%	97.8	133.5	3.7
Croatia	1	33,500	13.6	100%	76.2	200.1	13.7
Total	**22**	**318,950**	**55.4**		**540.6**	**1,143.2**	**54.7**
Associates							
Czech Republic	1	23,392	1.9	91%	8.6	16.4	1.6

As of December 31 2007

Country	No. of properties	Area (thousands of sq. m.)	Rental revenues in 2007 (in EUR thousands)'	Occupancy	Original cost (in EUR thousands)'	Project value in financial statements (in EUR thousands)'	NOI (in EUR thousands)'
Poland	9	123,950	21.3	96%	150.4	451.9	21.9
Romania[39]	-	-	4.8	-	-	-	4.5
Hungary	3	47,460	7.2	90%	56.8	128.8	7
Serbia	2	33,900	3.1	62%-100%	44.6	94.1	3
Croatia	1	33,500	3.7	90%	74.5	190.2	4.2
Total	**15**	**235,810**	**40.1**		**326.3**	**864.9**	**40.6**
Associates							

36 In May 2008, GTC Poland, through GTC Russia, completed the acquisition of 50% of two Russian companies that own land and a building slated for preservation in Saint Petersburg (Russia). The building generates monthly rental revenues of approximately EUR 185 thousand. From the start of July 2008 through December 31, 2008, rental income totaled approximately EUR 1.1 million (GTC Poland's share of these revenues is 50%).

37 Revenue for 2008 was negligible, since the projects were first occupied in the fourth quarter of 2008 .

38 Revenue for 2008 was negligible, since the projects were first occupied in the fourth quarter of 2008.

39 The America House office building was sold in September 2007.

Czech Republic[40]	1	23,392	4.3	91%	39.5	19	4

(b) Below are additional details on income-producing property projects by country:

Country	Average monthly income per sq. m. (in EUR)			Original cost (in EUR millions)	Material investments (in EUR millions)			Loan balances as of December 31, 2009 (in EUR millions)	Value of projects in the financial statements (in EUR millions)	Effective annual interest rate on loans
	2009	2008	2007		2009	2008	2007			
Poland	21	21	18.7	465.4	1.3	11.4	-	482.7	808	5.2%
Romania	18.6	15.8	22	156.9	-	-	-	48.4	197.5	5.5%
Hungary	14.6	13.65	13.9	93.4	-	-	-	77.2	148.7	4.05%
Serbia	16.8	18	18.7	84.5	-	-	-	59	127.2	4.56%
Croatia	31.2	28.1	28.9	77	-	-	-	47.9	176.3	3.14%
	-	**-**	**-**	**877.2**	**1.3**	**11.4**	**-**	**715.2**	**1,457.7**	**-**
Total	21	21	18.7	465.4	1.3	11.4	-	482.7	808	5.2%

(c) Below is financial data on income-producing property projects by countries (in EUR millions):

		Poland			Romania			Hungary			Serbia			Croatia		
		2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Revenue	Income from rent	43.2	30.2	21.3	0.5	0.2	4.8	8.4	7.5	7.2	8.3	4.1	3.1	13.6	13.6	3.7
	Income from management fees	12.5	9.6	7.3	0.7	-	1.4	2.5	2.6	1.8	2.1	0.9	0.5	3.1	3.5	1.3
	Total incomes	**55.7**	**39.8**	**28.6**	**1.2**	**0.2**	**6.2**	**10.9**	**10.1**	**9**	**10.4**	**5**	**3.6**	**16.7**	**17.1**	**5**
Expenses	Administration, maintenance and operating expenses	10.1	9.8	6	3.4	0.4	1.6	2.7	2.6	2.1	2.5	1.4	0.6	3.2	3.4	0.8
	Total expenses	**10.1**	**9.8**	**6**	**3.4**	**0.2**	**1.6**	**2.7**	**2.6**	**2.1**	**2.5**	**1.4**	**0.6**	**3.2**	**3.4**	**0.8**
Profit from rental and operation of properties		____	45.6	30	22.6	(2.2)	(0.2)	4.6	8.2	7.5	6.9	7.9	3.6	3	13.6	13.7
NOI		____	45.6	30	22.6	(2.2)	(0.2)	4.6	8.2	7.5	6.9	7.9	3.6	3	13.6	13.7

40 The Lighthouse Towers office building was sold in October 2007.

(d) Below is a summary of data on rented projects as of December 31, 2009:

Country	City	Property name	GTC Poland group share	Property Use	Title Type	Net sq. m. for rent	Gross sq. m. for rent	Original construction cost (in EUR millions)	Lease period (years)[41]	No. of tenants	End of lease period	Average occupancy in %				Project value in financial statements (in EUR millions)			Rental revenues[42] (in EUR millions)			NOI [43] (in EUR millions)		
												Date of report	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Poland	Krakow	Galeria Kazimierz [44]	50%	Shopping center	Lease	19,100	28,000	35.5	1-6	149	2010-2015	100%	100%	100%	95%	80	87.2	84.5	5.8	5.5	4.8	6.1	5.8	5.6
Poland	Krakow	Galileo	100%	Offices	Lease	10,300	14,800	10	1-3	10	2010-2012	100%	100%	100%	100%	20.5	28	20.6	1.4	1.4	1.4	1.5	1.4	1.5
Poland	Poznan	Globis Poznan	100%	Offices	Lease	13,000	20,000	14.1	2-5	21	2011-2014	92%	94%	95%	100%	30.4	36.4	34.1	2.2	2.2	2	2.4	2.4	2.2
Poland	Warsaw	Topaz	100%	Offices	Lease	11,080	15,800	19		2-5	7	2011-2015	100%	100%	100%	28	35.9	36.1	2.2	2.1	2	2.2	2.1	2.1
Poland	Warsaw	Galeria Mokotow [45]	50%	Shopping center	Lease	31,050	40,000	100%	43.3	1-5	247	2010-2014	100%	100%	100%	183.6	197.1	158.5	10.7	11.4	10.4	11.8	11.6	10.4
Poland	Krakow	Newton	100%	Offices	Lease	10,480	15,900	100%	15	3	7	2012	100%	100%	99%	21	27.8	23.2	1.5	1.5	0.7	1.6	1.5	0.8
Poland	Krakow	Edison	100%	Offices	Lease	10,400	15,900	100%	16.1	4	7	2013	100%	95%	The building was completed in 12/07	24.2	30.3	33	1.8	0.9	-	2	0.9	-
Poland	Warsaw	Nothus	100%	Offices	Lease	9,140	11,000		100%	19.6	4	7	2013	100%	The building was completed in 12/07	22.9	28	28.9	1.7	0.6	-	1.7	0.3	-

41 Excluding optional extension of renting agreements.

42 The amounts in this column are the total revenues from the project. Project rentals are fixed revenues, except for Galeria Kazimierz which generated variable revenues representing approximately 3.4%, 3.2% and 3.5% in 2009, 2008 and 2007, respectively, of the project's total revenues, Galeria Mokotow which generated variable revenues representing approximately, 12.7% and 11.5% in 2009, 2008 and 2007, respectively, of the project's total revenues and Avenue Mall, which generated variable revenues representing approximately 7%, 10% and 10% in 2009, 2008 and 2007, respectively, of the project's total revenues.

43 Net operating income.

44 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC Poland's financial statements.

45 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC Poland's financial statements. In March 2009, GTC Poland announced that the negotiations conducted with Unibail Rodamco ("**Rodamco**") for the sale of 50% of the shares of Galleria Mokotow that holds the shopping center was terminated without the parties reaching any concensus, due to the market's instability.

Country	City	Property name	GTC Poland group share	Property Use	Title Type	Net sq. m. for rent	Gross sq. m. for rent	Original construction cost (in EUR millions)	Lease period (years)[41]	No. of tenants	End of lease period	Average occupancy in %				Project value in financial statements (in EUR millions)			Rental revenues[42] (in EUR millions)			NOI [43] (in EUR millions)		
												Date of report	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Poland	Warsaw	Platinium 1	100%	Offices	Lease	9,040	11,000	100%	100%	20.9	3	13	2013	100%	The building was completed at end 12/07	27	33.5	33	2.3	1.5	-	2.2	1.4	-
Poland	Warsaw	Platinium 2	100%	Offices	Lease	8,900	11,000	100%	100%	20.7	4	15	2013	The building was completed in 06/08	-	26	33.5	-	2	0.2	-	1.9	-	-
Poland	Warsaw	Platinium 3	100%	משרדים	חכירה	11,300	14,400	90%	90%	18.9	5	6	The building was completed in12/2009	-	-	25.7	-	-	-	-	-	-	-	-
Poland	Warsaw	Nefryt	100%	Offices	Lease	15,300	19,600	60%	הושלם בדצמבר 2009	31	4	11	2013	The building was completed in 03/08	-	42.8	52.1	-	3.3	1.6	-	3.5	1.7	-
Poland	Warsaw	Zephirus	100%	Offices	Lease	9,140	11,000	100%	100%	20.7	5	14	2014	The building was completed in 06/08	-	22.4	27.6	-	1.6	0.3	-	1.6	0.1	-
Poland	Wroclaw	Globis Wroclaw	100%	Offices	Lease	14,700	17,500	100%	100%	26.2	4	13	2013	The building was completed in 03/08	-	36.1	42.2	-	2.7	1	-	3	0.7	-
Poland	Cazesto-chowa	Galleria Jurajska	100%	Shopping Center	Lease	48,500	90,000	96%	98%	126	5	174	The building was completed in 03/09	_____	_____	179.3	-	-	3.4	-	-	3.4	-	-
Poland	Krakow	Kazimierz office	100%	Offices	Lease	15,000	29,000	95%	הושלם בספטמבר 2009	28.4	5	5	The building was completed in 06/09	_____	_____	38.1	-	-	0.6	-	-	0.6	-	-
Hungary	Budapest	Center Point I+II	100%	Offices	Ownership	41,760	46,500	92%	הושלם ביוני 2009	49.4	3-5	22	2011-2014	100%	98%	102.7	106.6	118.3	7.4	7.3	7.1	7.4	7.4	6.9

Country	City	Property name	GTC Poland group share	Property Use	Title Type	Net sq. m. for rent	Gross sq. m. for rent	Original construction cost (in EUR millions)	Lease period (years)[41]	No. of tenants	End of lease period	Average occupancy in %				Project value in financial statements (in EUR millions)			Rental revenues[42] (in EUR millions)			NOI [43] (in EUR millions)		
												Date of report	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Hungary	Budapest	Spiral I+III	100%	Offices	Ownership	31,069	36,581	98%	98%	44	3-5	2	The building was completed in 06/09	___%	-	46	-	-	1	-	-	0.8	-	-
Serbia	Belgrade	GTC House	100%	Offices	lease	13,500	15,000	29%	הושלם ביוני 2009	18.5	3-5	12	2013-2015	100%	100%	38	39.8	40	3	3.2	3.1	3.1	3.1	3
Serbia	Belgrade	Avenue 19	100%	Offices	lease	17,400	20,500	100%	100%	29	3-5	23	2013	89%	62%	47.3	51.8	54	3.6	0.8	-	3.4	0.5	-
Serbia	Belgrade	GTC Square	100%	Offices	lease	23,000	24,600	89%	89%	37	3-5	33	2013-2015	The building was completed in 12/08	-	41.9	41.9	-	1.7	0.2	-	1.4	0.1	-
Croatia	Zagreb	Avenue Mall + Avenue Center	70%	Offices + shopping center	Ownership	33,500	44,421	82%	71%	77	5-10	143	2010-2019	100%	90%	176.3	200.1	190.2	13.6	13.6	3.7	13.6	13.7	4.2
Romania	Suceava	Gallena Suceava[46]	50%	Shopping center	Ownership	5,400	7,300	100%	100%	11.8	4-10	22	2014-2019	The building was completed in 12/08	-	9.1	13.9	-	0.2	-	-	(0.6)	-	-
Romania	Buzau	Galleria Buzau[47]	50%	Shopping center	Ownership	6,700	9,250	62%	60%	11	3-10	39	2013-2018	The building was completed in 10/08	-	13.4	17.6	-	0.2	-	-	) (0.8)	(0.2)	-
Romania	Pietra Neamt[48]	Galeria Pietra Neamt[49]	50%	Shopping center	Ownership	6,400	8,350	82%	75%	12.5	5-10	26	The building was completed in 09/09	_____	_____	11	-	-	0.1	-	-	) (0.8)(	-	-

46 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC Poland's statements.

47 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC Poland's statements.

48 GTC Romania and Aura Investments Ltd. signed a founders agreement for the establishment of a joint venture company, held and managed in equal shares, which will engage in the construction of shopping centers in various cities in Romania, outside Bucharest, at a total investment estimated at approximately EUR 20-60 million per project and in accordance with the terms set forth in the founders agreement. In August 2006, the agreement was amended, so that GTC Romania's share in some of the projects would be greater than 50%. As of the date of the report, three projects had been completed (Galeria Buzau, Galeria Scueva and Galeria Pietra Neamt), which are described in Section 8.5.8[a][2](d) of this part, one project was under construction (Galeria Arad) (see the table is section 8.5.8.A][2](k) of this part) and two projects were at the planning and permits stage (Galeria Galati

Country	City	Property name	GTC Poland group share	Property Use	Title Type	Net sq. m. for rent	Gross sq. m. for rent	Original construction cost (in EUR millions)	Lease period (years)[41]	No. of tenants	End of lease period	Average occupancy in %				Project value in financial statements (in EUR millions)			Rental revenues[42] (in EUR millions)			NOI [43] (in EUR millions)		
												Date of report	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Romania	Bucha-rest	City Gate (Puarta)[50]	59%	Offices	Lease	43,000	53,250	64%	הושלם בספטמבר 2009	121.6	5-10	11	The building was completed in 12/09	_____	_____	164	-	-	-	-	-	-	-	-
Total						468,159	53,250	80%	הושלם בדצמבר 2009	**877.2**		**1,039**				**1,457.7**	**1131.3**	**854.4**	**74**	**55.3**	**35.2**	**73.1**	**54.5**	**36.7**
Associates																								
Czech Republic	Prague	Sarka Logistic Business Park	32.1%	Offices+ storage	Ownership	23,392	27,660	8,593	1	50	2010	___%	__%	91%	91%	14.6	16.4	19	1.7	1.9	1.7	1.5	1.6	1.4
Czech Republic	Prague	Prague Marina Office center one	32.1%	משרדים	בעלות	13,212	15,702	16.5	4-7	6	2013-2016	30%	The building was completed in 12/09	-	-	19.3	-	-	-	-	-	-	-	-
Total						**36,604**	**43,362**	**25.1**		**50**						**33.9**	**16.4**	**19**	**1.7**	**1.9**	**1.7**	**1.5**	**1.6**	**1.4**

and Galeria Bistrita). (see the table is section 8.5.8.A][2](k) of this part) As of the date of the report, Aura Investments Ltd. has not provided financing to the joint venture company according to its proportionate share in the share capital (its share that had not been provided amounts to approximately EUR 9 million). Due to the aforesaid and to the state of the markets as of the date of the report, the management of the GTC Group intends to review whether to continue to cooperate with Aura Investments Ltd.

49 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC Poland's statements.

50 Pursuant to the put option granted by GTC Poland to its partner in the project, the aforesaid partner has sold its share in the project companies (15%) to GTC Poland for a total of approximately EUR 9.8 million.

(e) Valuation of rental properties

Property name	Valuation method	Appraiser	Value (in EUR millions, unless stated otherwise)			Average rent per sq. m. (in EUR unless stated otherwise)			Capitalization rate (in percents)			Sources for change in value	Date of last valuation
			31/12/09	**31/12/08**	**31/12/07**	**31/12/09**	**31/12/08**	**31/12/07**	**31/12/09**	**31/12/08**	**31/12/07**		
Galeria Mokotow[51]	DCF	Jones Lang Lasalle	$_______K (EUR _____K)	$555,300K (EUR394,080K)	$466,300K (EUR317,000K)	$__ (EUR __)	$43 (EUR 30.9)	$33.2 (EUR 25.7)	___%	6.1%	5.3%	Increase in capitalization rate	31/12/09
Galeria Kazimierz[52]	DCF	Jones Lang Lasalle	_____	174,500	169,000	___	24	22	___%	6.25%	5.80%	Increase in capitalization rate	31/12/09
Globis Poznan	DCF	CBRE-2007 DTZ-2008+2009	_____	36,350	34,100	___	15	13	___%	7.25%	6.50%	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Galileo	DCF	CBRE-2007 DTZ-2008+2009	$_______K (EUR _____K)	$39,550K (EUR28,070K)	$30,460K (EUR20,638K)	$__ (EUR __)	$17 (EUR 12.2)	$15.7 (EUR 10.7)	___%	7.25%	6.80%	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Topaz	DCF	CBRE-2007 DTZ-2008+2009	_____	35,900	36,150	___	17	15	___%	6.75%	5.80%	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Newton	DCF	CBRE-2007 King-2008 Sturge-2009	_____	$39,200K (EUR 27,821K	$34,140K (EUR 23,208K)	___	$17 (EUR 12.2)	$14 (EUR 11.1)	___%	7.25%	6.60%	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Edison	DCF	King-2007 Sturge-2008 +2009	_____	33,300	30,000	___	17	16	___%	7.0%	6.0%	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Notus	DCF	Knight Frank-2007 DTZ-2008+2009	_____	28,000	28,900	___	17	17	___%	6.75%	6.20%	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09

[51] The GTC Poland Group has a 50% interest in the property. The data represent 100% of the project.

[52] The GTC Poland Group has a 50% interest in the property. The data represent 100% of the project.

Property name	Valuation method	Appraiser	Value (in EUR millions, unless stated otherwise)			Average rent per sq. m. (in EUR unless stated otherwise)			Capitalization rate (in percents)			Sources for change in value	Date of last valuation
			31/12/09	31/12/08	31/12/07	31/12/09	31/12/08	31/12/07	31/12/09	31/12/08	31/12/07		
Platinium1	DCF	2007 - Knight Frank 2008+– 2009 - DTZ	27	33.5	35.6	21	20	19	7.5%	6.75%	5.90%	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Platinium2	DCF	DTZ	26	33.5	-	21	21	-	7.6%	6.75%	-	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Platinium3	DCF	DTZ	27.6	-	-	17	-	-	7.5%	-	-	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Golobis Wroclaw	DCF	DTZ	36.2	42.2	-	16	16	-	7.75%	7.0%	-	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Nefryt	DCF	DTZ	42.9	52.2	-	19	19	-	7.5%	6.75%	-	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Zephirus	DCF	DTZ	22.5	27.6	-	17	17	-	7.75%	6.75%	-	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Galleria Jurajska	_____	Jones Lang Lasalle	183	-	-	24	-	-	7.5%	-	-	_____	_____
Kazimierz office	DCF	Jones Lang Lasalle	38.7	-	-	18	-	-	7.75%	-	-		
Center Point 1+2	DCF	2007+2008- JLL 2009King Struge	102.6	106.6	118.3	14	14	14	7.75%	7.15%	5.70%	Change in capitalization rate	31/12/09
Spiral I-II	DCF	King Struge	50.7	-	-	14	-	-	8.75%	-	-	_____	_____
GTC House	DCF	King Struge	38	39.8	40.1	18	19	20	9%	8.0%	7.68%	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Avenue 19	DCF	King Struge	47.3	51.8	54	19	19	19	9%	7.50%	7.30%	Change in rate of capitalization and on the other hand, percentage leased was higher compared to the end of 2007 when the property began to operate	31/12/09
GTC Square	DCF	King Struge	41.9	41.9	-	16	16	-	9%	8.5%	-	Unchanged	31/12/09
Avenue Mall	DCF	CBRE	_____	200.1	190.2	______	Commercial - 32 Offices - 17	Commercial -32 Offices - 14	___%	Commercial - 6.8% - Offices - 7.0%	Commercial - 6.3% Offices - 7.0%	Change in rate of capitalization. During 2008 rents increased. Occupancy rates in the offices rose from 30% to 100% at a level of rent	31/12/09

Property name	Valuation method	Appraiser	Value (in EUR millions, unless stated otherwise)			Average rent per sq. m. (in EUR unless stated otherwise)			Capitalization rate (in percents)			Sources for change in value	Date of last valuation
			31/12/09	31/12/08	31/12/07	31/12/09	31/12/08	31/12/07	31/12/09	31/12/08	31/12/07		
												payments higher than anticipated	
Galleria Buzau[53]	DCF	Colliers	26.8	35.1	-	13	16.7	-	9%	8.40%	-	Increase in capitalization rate and update of assumption concerning future rental fees	31/12/09
Galleria Suceava[54]	DCF	JLL	18.2	27.8	-	10	16.6	-	9.8%	8.60%	-	Increase in capitalization rate and update of assumption concerning n future rental fees	31/12/09
Galleria Piatra Neamt[55]	DCF	JLL	22	-	-	12	-	-	9.73%	-	-	First appraisal	_____
City Gate	DCF	Colliers	164	-	-	21	-	-	7.49%	-	-	First appraisal	_____
Sarka Logistic Business Park[56]	DCF	CBRE	14.6	16.4	19	7	7	7	10.5%	10.5%	9.5%	Drop in occupancy and update of assumption concering the decline in future rental fees	31/12/09
Prague Marina Office center one	DCF	CBRE	19.3	-	-	14.5	-	-	7.8%	-	-	First appraisal	31/12/09

53 The GTC Poland Group has a 50% interest in the property. The data represent 100% of the project.

54 The GTC Poland Group has a 50% interest in the property. The data represent 100% of the project.

55 The GTC Poland Group has a 50% interest in the property. The data represent 100% of the project.

56 In which GTC Poland has a 29.25% share.

Valuation of property under construction:

Property name	**Valuation method**	**Appraiser**	**Value (in EUR millions, unless stated otherwise)**		**Percentage executed**[57]		**Average rent per sq. m.**		**Leases or MOUs signed at construction stage**		**Capitalization rate (in percents)**		**Date of valuation**[58]
			31/12/09	31/12/08	31/12/09	31/12/08	31/12/09	31/12/08	31/12/09	31/12/08	31/12/09	31/12/08	
Galeria Varna	Residual	JLL	60.5	38.7	75%	35%	19.3	19.8	31%	25%	9.72%	8.32%	31/12/09
Galeria Stara Zagora	Residual	JLL	41.7	28.1	87%	35%	19.3	21.0	36%	29%	9.67%	8.27%	31/12/09
Galeria Arad[59]	Residual	Colliers	41.2	35.4	58%	30%	16	18.4	24%	20%	9.25%	8.48%	31/12/09
GTC Metro (Budapest)	DCF	King Sturge	25.2	19.4	76%	60%	12	12.5	100%	100%	8%	8.40%	30/9/09
Galeria Harfa (Prague)	DCF	CBRE	110	71	70%	30%	Commercial – 23.2 Office 13.5	Commercial – 24.2 Office 13.5	52%	-	Commercial – 7.25% Office 7.5%	Commercial – 75% Office 7.25%	31/12/09

57 The rate of progress of each project was measured by the ratio of actual costs to total costs of the project.

58 As of December 2008, GTC group has made an early adoption of IAS 40 (Investment Property) as set forth in Note 2e of the financial statements. As a result of the implementation of the standard, some of the investment property has been revaluated as stated above.

59 מוחזק בשיעור 75% על-ידי GTC Poland. הנתונים מייצגים 100% מהפרויקט.

(f) Following is a summary of average rent in the rented projects for 2009, 2008 and 2007 as of the date of the report:

Country	City	Property name	Property use	Average rent per sq. m. (in EUR unless stated otherwise)		
				2009	2008	2007
Poland	Krakow	Galeria Kazimierz	Shopping mall	22.0	22.0	22.0
		Galileo	Offices	$17	$17	$15.7
		Newton	Offices	$17	$17	$14
		Edison	Offices	17	17	16
		Kazimierz office	Offices	18	-	-
	Poznan	Globis Poznan	Offices	15	15	13
	Warsaw	Topaz	Offices	16	17	15
		Galeria Mokotow	Shopping center	$44	$43	$33.2
		Nothus	Offices	18	17	17
		Platinium 1	Offices	21	20	19
		Platinium 2	Offices	21	21	-
		Nefryt	Offices	17	19	-
		Zephirus	Offices	19	17	-
	Wroclaw	Golbis worclaw	Offices	17	16	-
	Cazestochowa	Galleria Jurajska	Shopping center	16	-	-
Croatia	Zagreb	Avenue Mall + Avenue Center	Offices and shopping center	24	Commercial - 35 Offices - 17	Commercial - 32 Offices - 14
Hungary	Budapest	Center Point I+II	Offices	Commercial - 32 Offices - 17	14	14
		Spiral I+II	Offices	14	-	-
Serbia	Belgrade	GTC House	Offices	14	19	20
		Avenue 19	Offices	18	19	19
		GTC Square 1	Offices	19	16	-
Romania	Buzau	Galleria Buzau	Shopping center	16	16.7	-
	Scueava	Galleria Suceava	Shopping center	13	16.6	-
	Piatra Neamt	Galleria Piatra Neamt	Shopping center	10	-	-
	Bucharest	City Gate	Offices	23	-	-
Associates						
Czech Republic	Prague	Sarka Logistic Business Park	Offices		7	7
		Prague Marina Office center one	Offices	7	2	2

(g) Following is data on vacant space in income property projects as of December 31 2009:

Project name	Percentage of vacant space	Total vacant space (sq. m.)	Value of vacant space (in EUR millions)	Vacancy period	Total monthly cost of maintenance of vacant space (in EURthousands)
Platinium 3	40%	4,520	11	-	10
Spiral I	71%	22,059	36	9 months	26
Avenue 19	11%	1,914	5.2	18 months	7
GTC Square 1	29%	6,670	12.2	6 months	21
Galleria Buzau	18%	1,206	3.4	15 months	6
Galleria	40%	1,206	3.6	9 months	13

Project name	Percentage of vacant space	Total vacant space (sq. m.)	Value of vacant space (in EUR millions)	Vacancy period	Total monthly cost of maintenance of vacant space (in EURthousands)
Suceava					
Galleria Piatra Neamt	36%	2,304	4	4 months	13
City Gate[60]	20%	8,600	32.8	-	52
Platinium 3	40%	5,760	10,260	-	

60 בניית הפרויקט הושלמה בחודש דצמבר 2009.

(h) Following are additional details on material projects[61] of income properties as of December 31, 2009:

Project name	**Average revenue per sq. m. (in Euros, unless stated otherwise)**			**Original cost (in EUR millions)**	**Material investments (in EUR millions)**			**Loan balance as of December 31. 2009 (in EUR millions)**	**Effective interest rate on loans**
	2009	**20087**	**2007**		**2009**	**20087**	**2007**		
Galeria Kazimierz	22	22	22	35.5	-	1.2	-	44.3	4.7%
Galeria Mokotow	$_____	$43	$33.2	43.3	_____	-	-	_____	____%
Avenue Mall + Avenue Center	Commercial - 32 Offices - 17	Commercial - 32 Offices - 17	Commercial - 32 Offices - 14	77	_____	-	-	_____	____%
Galleria Jurajska	-	-	-	126	60.4	-	-	95.5	Euribor 1.3%+
City Gate	21	-	-	121.6	-	-	-	30.1	Euribor 6% +

(i) Following are data on the profit and NOI from material income property projects as of December 31, 2009 (in EUR thousands):

		Galeria Kazimierz[62]			**Galeria Mokotow[63]**			**Galeria Cazestchowa**			**Avenue Mall + Avenue Center**		
		2009	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Revenues	Rental revenues	5.8	5.5	4.8	10.7	11.4	10.7	3.4	-	-	13.6	13.6	3.7
	Revenues from management fees	1.5	1.3	1.7	4	1.3	4	2.3	-	-	3.2	3.5	1.3
	Total revenues	7.3	**6.8**	**6.5**	14.7	**12.7**	**14.7**	5.7	-	-	16.8	**17.1**	**5**
Expenses	Administration, maintenance and operation costs	1.2	1.1	0.9	2.9	2.7	2.9	2.3	-	-	3.2	3.4	0.8
	Total expenses	1.2	**1.1**	**0.9**	2.9	**2.7**	**2.9**	2.3	-	-	3.2	**3.4**	**0.8**
Profit from rental and operation of properties			5.7	5.6	11.8	10	10.1	3.4	-	-	13.6	13.7	4.2
NOI			5.7	5.2	11.8	10	10.1	3.4	-	-	13.6	13.7	4.2

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61 A material project is a project the total revenues from which exceeds 10% of GTC Holding's consolidated revenues and/or the profit generated thereby exceeds 10% of GTC Holding's profits and/or whose book value exceeds 10% of the total consolidated assets of GTC Holding.

62 הנתונים מייצגים 50% מהפרויקט המאוחד באיחוד יחסי בדוחותיה של GTC Poland.

63 הנתונים מייצגים 50% מהפרויקט המאוחד באיחוד יחסי בדוחותיה של GTC Poland.

(j) Following is a summary of figures on projects sold in 2007-2009:

Country	**City**	**Property name**	**Date of purchase/ completion of property construction**	**Date of property sale**	**Share of GTC RE Group**	**Use of property**	**Net sq. m. for rent**	**Proceeds from property sale (in EUR (millions)**	**Profit from property sale (in EUR (millions)[64]**	**Investment in the project (in EUR millions)[65]**			**Revenue from rentals and management fees (in EUR millions)[66]**			**Gross profit (loss) (in EUR millions)**		
										2009	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Romania	Bucharest	America House	2006	2007	94.6%	משרדים	26,000	120	88.3	-	-	31.7	-	-	6.2		-	4.5
Hungary	Budapest	Riverloft office	2007	2009	100%	משרדים	7,500	8.4[67]	1	-	-	6.9	0.2	0.1	0.1	0.1	0.1	0.1
Total							33,500	128.4	89.3	-	-	38.6	0.2	0.1	6.3	0.1	0.1	**4.6**
Associates																		
Czech Republic	Prague	Lighthouse	2004	2007	27.7%	משרדים	27,000	65	34.4	-	-	31.5	-	-	3.4	-	-	2.5

64 The profit represents the selling price less the construction cost because in accordance with IFRS, profit from the sale of property cannot be recognized.

65 This data reflects the book value, namely, with the addition of timing differences.

66 The amounts in this column are the total income from the project.

67 Of this sum, actual receipt was sum of Euro 52 million, and Euro32 million are due in May of 2012 under certain conditions as detailed in the sale agreement.

(k) Following is a summary of figures on income property projects in staged of planning and development:[68]

Country	City	Project name	Share of GTC Poland Group	Date of purchase	Original cost of land (in EUR millions)	Type of title	Term of lease (years/final year)	Construction rights according to urban planning scheme (gross sq. m.)	Project description: Land area (in sq m.)	Project description: Net area for rent (in sq. m.)	Project description: Designation and further details[70]	Date of start of construction	Planned date of completion	Investment sum as of December 31, 2009 (in EUR thousands)[69]	Cost estimate of project completion (in EUR thousands)	Estimated total financial value (in EUR thousands)
Offices																
Poland	Lodz	University BP	100%	2007	2.3	Lease	99 2089	46,000	12,000	36,800	Offices	Q3-2008	2010-2011	37.6	34.4	72
Poland	Wroclaw	Karkonowska-1 -2	2006	2.3	Ownership	-	33,898	4,400	27,000	Offices	Not yet determined	Not yet determined	8	41	49	
Poland	Wroclaw	Karkonowska 3	100%	2006	2.3	Ownership	-	8,600	1,100	7,310	Offices	Not yet determined	Not yet determined	1.6	11.4	13
Poland	Katowice	Francuska off ice center	100%	2006	0.7	Lease	99 2089	26,500	7,200	21,000	Offices	Q3-2008	2010-2011	29.2	8	37.2
Poland	Katowice	Mikolowska Office park	100%	2006	2.5	Lease	99 2089	66,250	17,334	53,000	Offices	2010 and on	Not yet determined	8.4	76.1	84.5
Poland	Krakow	Pascal	100%	2000	0.6	Lease	99 2089	8,500	2,000	5,300	Offices	Not yet determined	Not yet determined	4.7	8.8	13.5
Poland	Konstancja	Konstancja comm.	100%	1998	10	Ownership	-	52,500	120,000	42,000	Offices and shopping mall	Not yet determined	Not yet determined	17.6	50.4	68
Poland	Warsaw	Platinum 4-5	100%	2004	1.7	Lease	99 2089	45,750	16,500	36,600	Offices	Not yet determined	Not yet determined	2.9	60.1	63
Poland	Warsaw	Okecie Business Park 3	100%	1999	1	Lease	99 2089	11,000	6,600	9,140	Offices	Not yet determined	Not yet determined	0.8	17.2	18
Poland	Warsaw	Okecie 4-Business Park 4-6	100%	1999	1.5	Ownership	99 2089	30,850	13,200	27,080	Offices	Not yet determined	Not yet determined	2.6	51.4	54

68 No revenue has been recognized yet for projects under development, except for income from the reappraisal of several the properties as a result of the early adoption of accounting standard IAS 40. The information with respect to projects which GTC Poland consolidates, represent 100% of the data, unless otherwise stated.. **The figures in this table which relate to the planned date of completion, cost estimate of project completion and the estimated total financial value are forward-looking information as defined in the Securities Act, based on agreements entered into with sub-contractors, the condition of the local and global markets and the specific data of each project. These estimates may not be realized, in their entirety or in part, or realized differently, including materially differently than expected, due to changes in the factors at the basis of these estimates, [including the direct and/or indirect implications of the global economic crisis,] the changes in the condition of the market and changes in the demand for office and commercial space, and/or the realization of all or part of the risk factors detailed in Section 8.5.20 of this part.**

69 With the addition of timing differences attributed to the project and excluding reappraisals that were carried out in accordance with IAS 40 (see Note 32 of the financial statements).

70 The designation of land as of the date of this report is subject to changes to be decided by the GTC Group.

Country	City	Project name	Share of GTC Poland Group	Date of purchase	Original cost of land (in EUR millions)	Type of title	Term of lease (years/final year)	Construction rights according to urban planning scheme (gross sq. m.)	Project description			Date of start of construction	Planned date of completion	Investment sum as of December 31, 2009 (in EUR thousands)[69]	Cost estimate of project completion (in EUR thousands)	Estimated total financial value (in EUR thousands)
									Land area (in sq m.)	Net area for rent (in sq. m.)	Designation and further details[70]					
Poland	Lodz	Ortal 1-2	100%	2008	17.6	Lease	99 2089	94,000	47,240	75,000	Offices	Not yet determined	Not yet determined	18.5	101.5	120
Poland	Poznan	Green Park Office Center	100%	2006	5.1	Lease	99 2089	17,500	8,330	12,500	Offices	Not yet determined	Not yet determined	5.8	24.2	30
Hungary	Budapest	Spiral 3	100%	2005	6.3	Ownership	-	24,742	6,633	21,253	Offices	Not yet determined	Not yet determined	7.4	23.1	30.5
Hungary	Budapest	GTCMetro	100%	2006	5.7	Ownership	-	18,351	4,078	15,800	Offices	Q4 2007	2010	20.5	9.5	30
Hungary	Budapest	Sezeremi Gate	100%	2008	19.9	Ownership	-	176,191	55,800	151,056	Offices	Not yet determined	Not yet determined	20	189.6	209.6
Hungary	Budapest	Renaissance Plaza	100%	2007	8.5	Ownership	-	26,750	5,997	24,043	Offices	Not yet determined	Not yet determined	12.1	25.3	37.4
Hungary	Budapest	SASAD Resort 1	50%	2007	1.4	Ownership	-	12,566	10,862	13,050	Offices	Not yet determined	Not yet determined	1.4	16.2	17.6
Hungary	Budapest	SASAD Resort 2	50%	2007	1.5	Ownership	-	13,534	10,862	13,050	Offices	Not yet determined	Not yet determined	1.4	18.2	19.6
Romania	Bucharest	Aurora Business Park	100%	2006	1.6	Ownership	-	34,000	12,000	28,900	Offices	Not yet determined	Not yet determined	3.7	25.3	29
Romania	Bucharest	Green Dream	100%	2006	10.2	ownership		36,870	10,535	31,340	Offices	2011	2013	15	55	70
Serbia	Belgrade	GTC Aquare 2	100%	2008	15.2	Lease	99 years	23,178	3,000	19,622	Offices	Not yet determined	Not yet determined	15.6	15.9	31.5
Croatia	Zagreb	Center Point	100%	2007	7.5	Ownership	-	43,000	12,000	36,700	Offices	Not yet determined	Not yet determined	10	71.5	81.5
Slovakia	Bratislava	Jarroslava	70%	2008	6.1 including existing building	Ownership	-	12,500	3,933	11,500	Offices	Q1 2010	2010-2011	7.2	6.8	14
Russia	Saint Petersburg[71]	St. Petersburg P1-2	50%	2008	29.6 Including existing building	Ownership	-	55,000	21,500	47,500	Offices	Not yet determined	Not yet determined	31.2	175.3	206.5
Total					**161.1**			**1,051,111**	**413,104**	**770,024**				**283.2**	**1116.2**	**1,399.4**
Associates																
Czech Republic	Prague	Prague Marina further phases	32.1%	2001	Combination deal 15% of income will be paid	Lease	5 periods of 49 years each	72,300	14,000	55,599	Offices	2010 and on	2012 and thereafter	-	81	81
Czech Republic	Prague	Harfa office A	32.1%	2006	5.3	Ownership	-	24,377	8,797	19,175	Offices	Q3 2008	2010-2011	21.1	5.9	27

71 In May 2008, GTC Poland, through GTC Russia, completed the acquisition of 50% of the shares of two Russian companies which own the property.] Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC Poland's financial statements.

Country	City	Project name	Share of GTC Poland Group	Date of purchase	Original cost of land (in EUR millions)	Type of title	Term of lease (years/final year)	Construction rights according to urban planning scheme (gross sq. m.)	Project description			Date of start of construction	Planned date of completion	Investment sum as of December 31, 2009 (in EUR thousands)[69]	Cost estimate of project completion (in EUR thousands)	Estimated total financial value (in EUR thousands)
									Land area (in sq m.)	Net area for rent (in sq. m.)	Designation and further details[70]					
Czech Republic	Prague	Harfa office B	32.1%	2006	1.7	Ownership	-	27,760	17,495	24,429	Offices	Not yet determined	Not yet determined	2.8	24.2	27
Czech Republic	Prague	Harfa office C	32.1%	2006	1.8	Ownership	-	29,200	18,403	25,696	Offices	Not yet determined	Not yet determined	3	25	28
Czech Republic	Prague	Harfa office D	32.1%	2006	1.8	Ownership	-	29,200	18,403	25,696	Offices	Not yet determined	Not yet determined	3	25	28
Ukraine[72]	Odessa	Odessa business park	45%	2008	11.2	Owenrship		131,000	139,834	108,000	Offices, commerce, hotels & logistuics	Not yet determined	Not yet determined	14.5	71.5	86
Total					**21.8**			**301,693**	**216,932**	**259.211**				44.4	232.6	277
Shopping centers																
Hungary	Budapest	Vassas	100%	2007	15.2	Lease	99	60,000	47,000	36,568	Shopping center	Not yet determined	Not yet determined	17.4	73.6	91
Romania	Bucharest	Galeria Bucharest	100%	2006	10.9	Ownership	-	75,000	84,000	52,200	Shopping center	Not yet determined	Not yet determined	17.3	107.7	125
Romania	Arad[73]	Galeria Arad	75%	2007	4.7	Ownership	-	31,500	25,500	24,000	Shopping center	Q3 2007	2011	31.6	21.4	53
Romania	Bistriea[74]	Galeria Bistriea	67%	2007	5.7	Ownership	-	24000,	18,667	17,334	Shopping center	Not yet determined	Not yet determined	7.2	29.5	36.7
Romania	Galati[75]	Galeria Galati	64%	2008	6.8	Ownership	-	25,500	19,125	18,169	Shopping center	2010 and on	2012	5.9	39.4	45.3
Croatia	Osijek	Osijek	100%	2008	7.7	Ownership	-	35,000	40,396	26,000	Shopping center	Q4 2009	2011	21.9	39.1	61
Serbia	Subotica	Galeria Subotica	100%	2008	7.5	Lease	-	35,000	11,000	25,000	Shopping center	Not yet determined	Not yet determined	9.3	8.3	57.6
Bulgaria	Varna	Galeria Varna	65%	2007	8.8	Ownership	-	54,100	33,700	38,243	Shopping center	Q1 2008	2011	60.5	30.8	91.3
Bulgaria	Burgas	Galeria Burgas[76]	100%	2007	7.3	Ownership	-	53,300	42,000	35,680	Shopping center	Q1 2010	2011	14.5	59.7	74.2

72 In July 2008 GTC Poland, through subsidiaries, completed the purchase of 49.99% of the shares in a real estate company in Ukraine (Europort Cyprus), which owns land, for a consideration of approximately EUR 3.5 million. GTC Poland also purchased 10% of the shares in Europort LTD, which owns 50.01% of Europort Cyprus. Pursuant to the agreement, GTC Poland (through its subsidiaries) was given an option to increase their holdings by an additional 10%, for an additional consideration of approximately EUR 4.4 million, should Europort LTD enter into an agreement for the purchase of land or an additional project in Ukraine or Russia, for at least $5 million during the 12 months following the date of signing of the agreement.

73 The data represent 75% of the project, which is consolidated by the proportionate consolidation method in GTC Poland's financial statements.

74 The data represent 66.67% of the project which is consolidated by the proportionate consolidation method in GTC Poland's financial statements.

75 The data represent 64.8% of the project which is consolidated by the proportionate consolidation method in GTC Poland's financial statements.

76 In October 2009, GTC Poland acquired a further 33% of the share capital of Galeria Burgas for aprroximately EUR 6.3 million. As a result of the acquisition GTC Poland holds 100% of the share capital of Galeria Burgas.

Country	City	Project name	Share of GTC Poland Group	Date of purchase	Original cost of land (in EUR millions)	Type of title	Term of lease (years/final year)	Construction rights according to urban planning scheme (gross sq. m.)	Project description			Date of start of construction	Planned date of completion	Investment sum as of December 31, 2009 (in EUR thousands)[69]	Cost estimate of project completion (in EUR thousands)	Estimated total financial value (in EUR thousands)
									Land area (in sq m.)	Net area for rent (in sq. m.)	Designation and further details[70]					
Bulgaria	Stara Zagora	Galeria Stara Zagora	75%	2007	6.1	Ownership	-	36,440	12,500	25,812	Shopping center	Q4 2007	2010-2011	41.7	17.6	59.3
Bulgaria	Russe	Russe	100%	2008	13.8	Ownership	-	62,700	34,730	44,970	Shopping center	not yet determined	not yet determined	17.3	69.5	86.8
Total					**94.4**			**591,123**	**467,918**	**398,996**				**244.62**	**536.6**	**781.2**
Associates																
Czech Republic	Prague	Harfa Retail	32.1%	2006	18.3	Ownership		60,934	35,700	39,000	Shopping center	Q3 2008	2010-2011	57.8	52.8	11.06

As of the date of the report, there are 30 office projects under planning and construction in the income-producing real estate sector, covering a total area of approximately 1,030 thousand square meters, of which 12 projects are in Poland (356 thousand square meters); 6 projects are in Hungary (238 thousand square meters); 2 projects are built in Romania 60 thousand square meters); one project is in Serbia 20 thousand square meters); one project is built in Croatia 37 thousand square meters); one project is in Slovakia 12 thousand square meters); one project is in Russia 48 thousand square meters); one project is in Ukraine 108 thousand square meters); and 5 projects are in the Czech Republic 151 thousand square meters).

In addition, as of the date of the report, there are 12 commercial projects under planning and construction in the income-producing property sector, covering an area of 386 thousand square meters, of which one project is in Hungary 37 thousand square meters); 4 projects are in Romania 112 thousand square meters); one project is in Serbia 25 thousand square meters); one is in Croatia 26 thousand square meters); four projects are in Bulgaria 145 thousand square meters); and one project is in the Czech Republic 41 thousand square meters).

In total, as of the date of the report, in the income-yielding property sector, there are 31 projects under planning and construction (including projects which have not begun construction) , covering an area of 1,119 thousand square meters and 11 projects in stages of construction covering an area of 297 thousand square meters.[77]

During 2009 GTC Poland poerformed an impairment test for income-yielding properties in stages of construction that are presented in the financial statement on the basis of cost. For further details see Note 7b(1) of the financial statements.

(l) Listed below are rental contracts signed for income property projects under development and in planning and construction stages as of December 31, 2009:

Country	**City**	**Project name**	**Area covered by lease agreements (sq. m.)**	**Average price per sq. m. (in EUR)[78]**
Romania	Arad	Galleria Arad	4,724	12.7
Bulgaria	Varna	Galleria Varna	11,900	14.65
	Burgas	Galleria Burgas	12,700	14
	Stara Zagora	Galleria Stara Zagora	9,415	14.3
Hungary	Budapest	Metro Site	15,800 (100%)	12.0
Croatia	Osijek	Galeria Osijek	6,117	15.5

77 Data on associates are presented at a rate of 100%.

78 The data are based on the prices of the initial rentals (primarily commercial space, such as supermarkets and cinemas).

[3] Transactions not yet completed

Following are details of a transaction for the purchase of interest in land, by a company in the GTC Group on which the GTC Group plans to build an income property projects.[79] This transaction depends on compliance with a number of conditions detailed in the agreement, which have not yet been met, and therefore this is not classified as a project at planning and construction stages.

Country	**Property description**			**GTC Poland's share**	**Amount of investment as of December 31, 2009 (in EUR thousands)**
	Land area (in sq. m.)	**Net area planned for construction (in sq. m.)**	**Designation**		
Serbia	45,000	35,250	Offices and shopping center	97.5%	15.1

[4] Breakdown of income

Following are details on the breakdown of rental income generated by the GTC Group in Central-Eastern Europe by office and commercial centers.

	For 2009		**For 2008**		**For 2007**	
	In EUR millions	**% of GTC Group's total revenues**	**In EUR millions**	**% of GTC Group's total revenues**	**In EUR millions**	**% of GTC Group's total revenues**
Offices	51.3	32.6%	35.5	25.66%	28.2	38.29%
Commercial centers	44.9	28.4%	36.6	26.47%	24.1	32.76%
Total	**96.2**	**61%**	**72.1**	**52.13%**	**52.3**	**71.05%**

For explanations regarding the changes in revenue of the GTC group between the years 2007-2009, see section 1.1 of the Board of Directors' report.

[5] Customers

GTC Group has hundreds of customers leasing its properties, and has no dependence on a particular customer.

[6] Lease agreements

Below is a summary of data on the number and scope of GTC Group's leases signed with various lessees for properties owned by the GTC Group, which will expire each year until 2027 and which were signed until December 31, 2009 (assuming that options for the extension of leases and the increase of the rented space will not be exercised).

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

Year	No. of lease agreements due to expire	Rented space (in sq. m.)	Annual rental income (in EUR thousands)
2010	183	48,366	12,232
2011	73	48,673	10,361
2012	125	48,529	13,719
2013	164	96,159	18,806
2014	200	53,642	13,823
2015	86	53,514	11,297
2016	72	34,081	8,712
2017	82	40,002	11,073
2018	34	12,977	2,736
2019	133	43,877	10,676
2020	17	21,263	4,175
2021	17	11,552	1,744
2025	4	6,030	905
2026	1	4,828	695
Total	**1,191**	**523,493**	**120,954**

[7] Competition

The GTC Group is exposed to competition from a number of developers of commercial property and office buildings, real estate companies and owners of real estate in regions where the GTC Group’s properties are located, which are active in the real estate market in Central-Eastern Europe. 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 Income-Producing Property, as well as a significant decrease in the number of projects competing in each city in which the GTC Group operates. If in years preceding the 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 renters. Nevertheless, in 2009, despite the aftermath of the global economic crisis, the GTC Group continued in the raising of financing sources for its projects and has managed to enter into agreements for the rent of office and commercial spaces that may generate high occupancy rates in the income-producing property developed by the GTC Group.

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

Beyond the factors of success of the GTC Group, as specified in Section 8.5.7[d] of this part, GTC Group deals with the competition by maintaining high standards of construction, meeting the deadlines of projects it undertakes and offering a high quality of service after the completion of the project. International corporations which in the past entered into agreements with the GTC Group in certain countries, sometimes continue to cooperate with the Group in other countries because of the advantages offered by the GTC Group. Additionally, the reputation gained by GTC Group allows it to expand to other countries, and to market its projects to larger lessees and anchor tenants. The GTC Group believes itself to be a leader in the field of Income-Producing Property in Central-Eastern Europe.

[b] **Residential construction**

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

In recent years before the the global economic crisis the modern residential real estate market in several Central-Eastern European countries has enjoyed considerable growth because the ratio of modern apartments to the number of residents in this region is lower than in Western Europe.

In the wake of the economic crisis in the countries of Central-Eastern Europe in 2008 and 2009, many international corporations ceased to purchase residential apartments for investment purposes while the credit crunch and the tightening of banks' mortgage policy make it difficult for private buyers to buy residential apartments. As a result, there has been a decrease in demand for residential apartments. Nevertheless, starting in the second half of 2009, there has been renewed interest in residential apartments in the markets of Central-Eastern Europe, mainly on the part of local residents .

there have been signs of a recovery in the Central-Eastern European markets.

Changes in scope and profitability of the business

The residential market in Central-Eastern Europe has been affected by the global economic slowdown. The declining availability of mortgages for individuals and financing for developers and contractors has had a negative impact on the residential real estate market. In 2009, almost no new projects have been developed and many of the planned projects of various contractors have been frozen or postponed. As a result, the supply of residential apartments in 2010 and 2011 is expected to decrease.

The aforesaid assessment as to the reduction in the supply of residential apartments in Central-Eastern Europe in the years 2010-2011 constitutes a forward-looking statement, as defined in the Securities Law, which is based on management's experience, its familiarity with the local markets as well as facts and data pertaining to the condition of the markets in which it operates. Such assessments may not be realized, in full or in part, or may be realized

differently than expected, even materially, as a result of changes in the relevant markets in Central-Eastern European countries as well as changes in the demand for residential apartments and/or the realization of all or part of the risk factors specified in Section 8.5.20 of this part.

In the wake of the global economic crisis, the GTC Group adjusted its activities and its development plan to the current state of the market. In connection with projects that are underway, the GTC Group is examining and adapting the pace of construction and progress of each project to the condition of the market. In connection with projects that have not yet commenced, the GTC Group is examining the possibility of converting some of the projects designated for residence into office projects.

[2] Following is a summary of figures on GTC Group's residential projects:

(a) Following is a summary of data on residential projects for construction (projects in progress) by countries (the data represent 100% of the projects):[80]

Country	GTC Poland's share	No. of projects	Date of beginning of project marketing	Expected date of completion of sales	Expected date of completion of project	No. of planned housing units	No. of housing units in inventory as of December 31, 2009	No. of housing units sold as of December 31, 2009	No. of housing units sold as of December 31, 2008	No. of housing units sold as of December 31, 2007	No. of housing units sold after the statement of financial position date and through March 18, 2010
Poland[81]	100%	2	2007	2010 2011-	2009-2011	74	45	29	10		-
Romania	50%	2	2006-2007	In stages from 2008 to 2010	In stages from 2008 to 2012	1,232	94	82697	886	755	8
Hungary	50%-100%	2	2005-2009	In stages from 2008 to 2010	In stages from 2008 to 2010	448	5	376	366	363	14
Slovakia	70%	1	2007	In stages from 2010	In stages from 2010	177	-	117	110	99	-
Serbia	100%	1	2007	ended	ended	181	-	181	181	-	-
Total		**8**				2,112	106	1,400	**1,553**	**1,217**	**22**
Czech Republic[83]	32.1%	2	2006-2007	2009-2010	ended	770	233	537	480	323	4

80 **The figures in this table relate to the foreseen date of the completion of the project and sales and are forward looking information as defined in the Securities Act, based on agreements entered with sub-contractors, management experience in the construction and marketing of projects, the condition or the relevant markets and specific data of every project. These estimates may not be realized, completely or in part, or be realized differently, including materially differently than expected, due to unexpected delays in projects construction, the situation of the local and global market, changes in the condition of the market and changes in demand for housing and/or materialization of all or part of the risk factors detailed in Section 8.5.21 of this part.**

81 Includes project stages that concluded in previous years.

82 הקיטון במספר הדירות המכורות נובע, בעיקר, מביטול עסקאות מכירה למשקיעים.

83 Data regarding the associates represent the share of GTC Poland, while, with respect to other companies, the data represent 100% of the project.

(b) Below is a summary of information on residential construction projects (projects in the planning stage that have not commenced construction), broken down by countries (the data represent 100% of the projects):[84]

Country	GTC Poland's share	No. of projects	Expected date of completion of sales	Expected date of completion of project	No. of planned housing units	Total actual costs (in EUR millions)	Foreseen cost (in EUR millions)	Total cost (in EUR millions)
Poland	100%	1	Not yet determined	Not yet determined	300	8.2	50.3	58.5
Romania	50%-100%	4	Not yet determined	Not yet determined	3,047	62	312.4	374.4
Bulgaria	100%	1	Not yet determined	Not yet determined	600	5	57	62
Hungary	50%-100%	2	Not yet determined	Not yet determined	1,555	39.2	117.3	156.5
Slovakia	70%	2	Not yet determined	Not yet determined	943	30.1	117.6	147.7
Croatia	80	1	Not yet determined	Not yet determined	114	7.5	72.3	79.8
Total		**11**	Not yet determined	Not yet determined	**6,559**	**150.2**	**726.9**	**878.9**
Czech Republic[85]	32.1%	2	Not yet determined	Not yet determined	412	2.6	72.3	74.9

As stated in Section 8.5.8[b][1] of this part, as result of the global economic crisis, the GTC Group has adapted its business activities and development plan to the situation in the market. With respect to projects that have not yet commenced, the GTC Group is examining the possibility of converting some of the residential projects to office uses, and is also verifying whether there are clear indications of the fact that the project can be marketed successfully and, accordingly, it is considering whether to commence

84 **The figures in this table relate to the expected date of completion of the projects, the expected date of completion of the sales, the total number of planned units, and the anticipated costs and are forward looking information as defined in the Securities Act, based on agreements that were signed with sub-contractors, establishment costs, management's experience in the construction and marketing of projects, the condition of the relevant markets and specific data of every project. These estimates might not be realized, completely or in part, or might be realized in a different, including signficantly different, manner than expected, due to unexpected delays in the construction of projects, the condition of the local and global markets, [including due to the direct and indirect implications of the global economic crisis,] changes in the condition of the market and changes in demand for residential space and/or the realization of all or part of the risk factors detailed in Section 8.5.20 of this part.**

85 Data regarding associates represent the share of GTC Poland, while, with respect to other companies, the data represent 100% of the project.

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construction. In view of the aforesaid concerning the residential projects, which are at the planning stage and have not yet commenced construction, no data has been provided in this report on the projected income, projected gross profit and the projected gross profit margin, which has been provided for residential projects under construction, as specified in Sub-Sections (c) and (d) below.

During 2009, GTC Poland performed an impairment test for residential construction projects (projects in planning stages that have not yet begun construction) presented in the financial reports on a basis of cost. For further details see Note 14(1)(e) of the financial reports.

(c) Below is a compilation of estimated data[86] on residential construction projects (under construction), broken down by countries, as of December 31, 2009 (in EUR thousands) (the data represent 100% of the projects):

State	**GTC Poland's share**	**Projected income**			**Projected costs**	**Projected gross profit**	**Projected gross profit margin[87]**
		Projected income from signed contracts	**Projected income from inventory**	**Total**			
Poland	100%	21.4	26.5	47.9	36.2	11.7	24%
Romania	50%	85.1	62.5	147.6	138	9.6	6.5%
Hungary	50%-100%	39.5	12.9	52.4	50.5	1.9	3.8%
Slovakia	70%	20.7	14	34.7	30	4.7	15.7%
Total		**166.7**	**115.9**	**282.6**	**254.7**	**27.9**	**10%**
Czech Republic[88]	32.1%	34.6	19.6	54.2	42.6	11.6	22%

86 **The figures included in this table constitute forward looking information as defined in the Securities Act based on prices of apartments already sold, the condition of the local and global market, construction costs and the agreements signed for these projects. These estimates might not be realized, in their entirety or in part, or might be realized in a different (even significantly different) manner, due to, changes in apartment prices in a certain region or the entire market, [including due to the direct and indirect implications of the global economic crisis,] changes in the condition of the market and changes in the demand for housing or delays in project completion and/or realization of all or some of the risk factors specified in Section 8.5.21 of this part.**

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

88 Data regarding associates represent the share of GTC Poland, while, with respect to other companies, the data represent 100% of the project.

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(d) Following is a summary of information on residential projects under construction (projected surplus/deficit in the projects) by countries as of December 31, 2009 (in EUR thousands) (the data represent 100% of the projects):[89]

Country	GTC Poland's share	Actual income	Accounts receivable with respect to sold apartments	Inventory at sale prices	Total income	Costs actually paid/accrued	Remaining costs to be paid through project completion	Total costs	Projected gross profit
Poland	100%	21	0.4	26.5	47.9	21.4	14.8	36.2	11.7
Romania	50%	46.1	39	62.5	147.7	119.4	18.6	138	9.6
Hungary	50%-100%	30.7	8.8	12.9	52.4	47.2	3.3	50.5	1.9
Slovakia	70%	4.9	15.8	14	34.7	24.1	5.9	30	4.7
Total		**102.7**	**64**	**115.9**	**282.6**	**212.1**	**42.6**	**254.7**	**27.9**
Czech Republic [90]	35%	23.7	10.9	19.6	,54.3	,42.3	0.3	42.6	11.6

89 **The aforementioned estimates regarding the remaining costs to be paid through the completion of the project, total costs and the projected gross profit are forward-looking information as defined in the Securities Act, based on sold unit prices and construction costs, and on the state of the relevant markets, including the state of the global market. The aforementioned estimates might not be realized, in their entirety or in part, or might be realized in a different (even significantly different) manner than expected, due to changes in residential prices in a certain region or the entire market, delays in project completion, [including due to the direct and indirect implications of the global economic crisis,] changes in the condition of the market and changes in the demand for housing and/or realization of all or part of the risk factors detailed in Section 8.5.21 of this part.**

90 Data regarding associates represent the share of GTC Poland, while, with respect to other companies, the data represent 100% of the project.

(e) Residential construction projects (construction and sale of housing units), including projects at the construction stage (the data represent 100% of the projects):[91]

State/city	Project name	Share of GTC Poland	Project description	Project phase	Average area per housing unit (in sq. m.)	Rate of progress[92]	Start date	Planned date of completion	Housing units sold as of December 31, 2009	Estimated total cost (in EUR millions)	Outstanding costs as of December 31, 2009 (in EUR millions)	Estimated cost of project completion (in EUR millions)	Project income (in EUR millions)			Profit included in the financial statements or amount of provision for loss (in EUR millions)		
													For 2009	For 2008	For 2007	For 2009	For 2008	For 2007
Poland																		
Warsaw	Konstancin housing project Phase D	100%	Area of 250 dunam. 52,000 sq./m. planned for housing units	project completed	284	j project ended	2008	Project ended	29	18.2	18.2	-	18.4	2.6	-	5.3	0.9	
Warsaw	Konstancin housing project Phase E	100%	Area of 250 dunam. 52,000 sq./m. planned for housing units	under construction	Warsaw	Konstancin housing project	q1-2010	2011	-	18	3.2	14.8	-	-	-	-	-	-
Hungary																		
Budapest	Sasad Resort Phase A	50%	An area of about 26 dunam. About 24,,000 sq. m. designated for construction. About 271 housing units planned.	Under construction	67	89%	2007	2009 -2010	202	31	27.7	3.3	9.6	-	-	-	-	-
Budapest	Riverloft	100%	An area of about 10 dunam. About 18,000 sq. m. designated for construction. 177 housing units have been	Project Completed	75	100%	2006	project ended	174	19.5	19.5	-	1.3	2	3.9	0.4	0.2	0.9

91 **The figures in this table relate to the scheduled date of completion, total estimated cost and estimated cost of project completion are forward looking information as defined in the Securities Act, based on management experience in the construction and marketing of projects, costs of construction inputs at the estimate issue date, including sub-contractor prices, the state of the local and global market, and the specific data of every project. These estimates might not be realized, in their entirety or in part, or might be realized in a different (even significantly different) manner than expected,, due to changes in the factors on which the estimates are based [including due to the direct and indirect implications of the global economic crisis,] changes in the condition of the market and changes in the demand for housing and/or realization of all or some of the risk factors detailed in Section 8.5.20 of this part.**

92 The rate of progress of each project is measured by the ratio between the actual costs and all the costs of the project.

State/city	Project name	Share of GTC Poland	Project description	Project phase	Average area per housing unit (in sq. m.)	Rate of progress[92]	Start date	Planned date of completion	Housing units sold as of December 31, 2009	Estimated total cost (in EUR millions)	Outstanding costs as of December 31, 2009 (in EUR millions)	Estimated cost of project completion (in EUR millions)	Project income (in EUR millions)			Profit included in the financial statements or amount of provision for loss (in EUR millions)		
													For 2009	For 2008	For 2007	For 2009	For 2008	For 2007
			built.															
Romania																		
Bucharest	Rose Garden	50%	An area of about 27 dunam. About 84,000 sq. m. designated for construction. About 908 housing units planned.	Under construction	76	90%	Phase A - Q1-2007 . Phases B through E during 2008	In stages as of 2008 to 2010.	592	87	79.5	7.5	22	11.8	-	3.8	3.3	-
Bucharest	Felicity Phase 1+2	50%	An area of about 44 dunam. About 44,000 sq. m. designated for construction. About 324 housing units planned.	Under construction	120	100% stage 1 60% stage 2	Phase A Q1- 2007. Phases B & C during 2008	In phases from 2009 to 2012	105	51	39.9	11.1	1.4	-	-	(4.1)	-	-
Bratislava	Vinohrsdy Phase A, Bldg A&B	70%	An area of about 15 dunam. About 19,000 sq. m. designated for construction. About 178 housing units are planned	Under construction	60	25%	Q2- 2008	2010	117	30	24.1	5.9	-	-	-	-	-	-
Serrbia																		
Belgrade	Park apartment (Block 19 A)	100%	An area of about 6.4 dunam, about 20,000 sq. m. designated for residential construction of 181 housing units	Completed	60	100%	11/2005	Complete. All units were sold. Last units were handed over in 2009	181	25	25	-	7.5	21.7	-	0.1	3.4	-
Total	**6 projects**									**279.7**	237.1	**42.6**	**60.2**	**38.1**	**3.9**	**5.5**	**7.8**	**0.9**
Associates[93]																		
Czech Republic																		
Prague	Prague Marina Phase 1	32.1%	An area of about 10 dunam, 40,000 sq. m. planned	Construction began Q4-2006	94	100%	Q4- 2006	Q3- 2008	257	21.5	21.5	-	13.4	-	-	4.5	-	-

93 Data regarding associates represent the share of GTC Poland, while, with respect to other companies, the data represent 100% of the project.

State/city	Project name	Share of GTC Poland	Project description	Project phase	Average area per housing unit (in sq. m.)	Rate of progress[92]	Start date	Planned date of completion	Housing units sold as of December 31, 2009	Estimated total cost (in EUR millions)	Outstanding costs as of December 31, 2009 (in EUR millions)	Estimated cost of project completion (in EUR millions)	Project income (in EUR millions)			Profit included in the financial statements or amount of provision for loss (in EUR millions)		
													For 2009	For 2008	For 2007	For 2009	For 2008	For 2007
			for residential construction. The project will include 3 buildings and a total of about 340 housing units. (100 units GTC Poland's share)															
Prague	Zelena Mesto (green city)	32.1%	An area of about 48 dunam, 46,000 sq. m. planned for residential construction.	Construction beganQ3-2007	90	100%	2007	Project ended in Q3- 2009	280	21.1	20.8	0.3	6.5	-	-	1	-	-
Total	**2 projects**									**42.6**	**42.3**	**0.3**	**19.9**	**-**	**-**	**5.5**	**-**	**-**

(f) Residential construction projects (construction and sale of housing units) in the planning stages (the data represent 100% of the project):[94]

Country/ city	**Project name**	**Share of GTC Poland**	**Project description**	**Project phase**	**Average area per housing unit (in sq. m.)**	**Start date**	**Scheduled date of completion**	**Estimated total cost (in EUR millions)**	**Remaining costs as of December 31, 2008 (in EUR millions)**	**Estimated cost of project completion (in EUR millions)**
Poland										
Krakow	Ogrody Galileo	100%	An area of about 30 dunam, about 41,000 sq. m. designated for residential construction of 300 housing units	Project is in planning	90	2010 and thereafter	2011 and thereafter	58,500	______	______
Hungary										
Budapest	Paskal	100%	An area of about 61 dunam, about 57,000 sq. m. designated for residential construction of 775 housing units	The project will be built in 5 phases, all of them currently still in planning	75	2010 and thereafter	2011 and thereafter	75,800	______	______
Budapest	Sasad Resort – other stage	50%	An area of about 81 dunam, about 69,000 sq. m. designated for residential construction of 780 housing units	Project is in planning	67	2010 and thereafter	2011 and thereafter	80,800	______	______
Romania										
Bucharest	Green Dream[95]	100%	An area of about 10.5 dunam, about 24,800 sq. m. designated for residential construction of 225 housing units	Project is in planning and authorization	110	2010	2012	37,000	______	______

94 **The figures in this table relate to the scheduled date of completion, total estimated cost and estimated cost of project completion are forward looking information as defined in the Securities Act, based on , management experience in the construction and marketing of projects, costs of construction inputs at the estimate issue date, including sub-contractor prices, the state of the local and global market, and the specific data of every project. These estimates might not be realized, in their entirety or in part, or might be realized in a different (even significantly different) manner than expected, due to changes in the factors on which the estimates are based, [including due to the direct and indirect implications of the global economic crisis,] changes in the condition of the market and changes in the demand for housing and/or realization of all or some of the risk factors detailed in Section 8.5.21 of this part.**

95 The GTC Group is working to change the designation of the land from residential to office.

Country/ city	Project name	Share of GTC Poland	Project description	Project phase	Average area per housing unit (in sq. m.)	Start date	Scheduled date of completion	Estimated total cost (in EUR millions)	Remaining costs as of December 31, 2008 (in EUR millions)	Estimated cost of project completion (in EUR millions)
Bucharest	Jasmin	100%	An area of about 24 dunam, about 30,000 sq. m. designated for residential construction of 300 housing units	Project is in planning	100	2010	2012	27,000	______	______
Bucharest	Felicity Other phases	50%	An area of about 62 dunam, about 124,000 sq. m. designated for residential construction of 819 housing units	Project is in planning	120	2010	In stages as of 2012 to 2013	140,900	______	______
Bucharest	Garden of Eden	67%	An area of about 106 dunam, about 195,000 sq. m. designated for residential construction of 1,916 housing units	Project is in planning	120	2010	2015	236,000	______	______
Bulgaria										
Burgas	Burgas	100%	An area of about 26 dunam, about 65,000 sq. m. designated for residential construction of 600 housing units	Project is in planning	108	2010	2012	62,000	______	______
Slovakia										
Bratislava	Vinorsdy – other phases	70%	An area of about 91 dunam, about 77,000 sq. m. designated for residential construction of 773 housing units	Project is in planning	60	In Phases as of 2010 to 2012	In phases as of 2011 to 2013	121,800	______	______
Bratislava	Park Bratislava	70%	An area of about 5.5 dunam, about 19,000 sq. m. designated for residential construction of 170 housing units	Project is in planning	70	Q1-2010	2011	25,900	______	______
Croatia										
Pola	Marlera Golf Resort[96]	72.9%	An area of about 1,300 dunam, of which about 24,000 dunam designated for construction of 114 housing units	Project is in planning	207	Q1- 2010	Q1- 2012	79,800	______	______
Total								**973,500**		

96 Subject to receipt of additional approvals, additional land will be acquired on which a hotel and two golf courses will be built

Country/ city	Project name	Share of GTC Poland	Project description	Project phase	Average area per housing unit (in sq. m.)	Start date	Scheduled date of completion	Estimated total cost (in EUR millions)	Remaining costs as of December 31, 2008 (in EUR millions)	Estimated cost of project completion (in EUR millions)
Associates[97]										
Czech Republic										
Prague	Prague Marina (phases 2-3)	32.1%	An area of about 30 dunam, about 80,000 sq. m. designated for residential construction of 680 housing units (199 units GTC Poland's share)	Project is in planning	94	Phase 1 - Q1- 2009 Phase 2- Q1- 2010	Phase 1 - Q1- 2011 Phase 2- Q2- 2013	43,290	______	______
Prague	Zelena Mesto (green city)	32.1%	An area of about 73 dunam, about 64,000 sq. m. designated for residential construction of 665 housing units(195 units GTC Poland's share)	Project is in planning	90	2009-2010	2011-2013	24,131	______	______
Total								**67,421**	______	______

97 Data regarding associates represent the share of GTC Poland, while, with respect to other companies, the data represent 100% of the project .

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(g) Material residential construction projects[98] (additional general figures about the projects) (in EUR thousands) (the data represent 100% of the projects):

Project name	Date of start of project marketing	Foreseen date of completion of sales	Foreseen date of project completion	Financial body overseeing the project	Rate of costs for which there is a binding agreement (including purchase of land)	No. of housing units in inventory as of December 31, 2009	No. of housing units sold as of December 31, 2007	No. of housing units sold as of December 31, 2008	No. of housing units sold as of December 31, 2008	No. of housing units sold after the statement of financial position date through March 18, 2010
Rose Garden	2007	2012	2010	RZB	100%	101	568	646	592	10

(h) Material residential construction projects (results in projects for which profit or loss was recognized) (in EUR millions) (the data represent 100% of the projects[99]):[100]

Project name	Cumulative costs as of December 31, 2009				Cumulative income as of December 31, 2009	Cumulative gross profit margin as of December 31, 2009	Recognized income and gross profit					
							As of December 31, 2009		As of December 31, 2008		As of December 31, 2007	
	Land and development	Construction costs	Additional costs	Total			Annual income	Cumulative gross profit	Annual income	Cumulative gross profit	Annual income	Cumulative gross profit
Rose Garden	12.6	57.2	9.7	79.5	33.8	20.9%	22	3.8	11.8	3.3	-	-

98 A material project is a project the total income from which exceed 10% of GTC Holding's consolidated income and/or the profit generated thereby exceeds 10% of GTC Holding's profits and/or whose book value is more than 10% of the total consolidated assets of GTC Holding.

99 The data in this table relating to the scheduled date of completion of the project and the expected date of completion of sales, are considered forward-looking information, as defined in the Securities Act, and based on agreements with sub-contractors, management experience in the construction and marketing of projects, the condition of the relevant markets, and the specific data of the project. The estimates might not be realized, parting its entirety or in part, or be realized in a different manner, including signficantly different than expected, as a result of unexpected delayes in the construction of the project, changes in local and global market condition, including as a result of the direct or indirect repercussions of the global economic crisis, and due to changes in demand for housing and/or realization of all or any of the risk factors as detailed in section 8.5.20 of this part.

100 As at December 31, 2009, there are no material residential construction projects that have not yet been completed and in respect of which income has not been recognized. No disclosure has therefore been made regarding material residential construction projects (estimated data for projects) nor a disclosure about material residential construction projects (estimated surplus/ deficit in the projects).

(i) Material residential construction projects (expected data[101] regarding projects) (in EUR millions):

Name of project	Projected income			Projected costs	Projected gross margin	Projected gross profit margin
	Projected income from signed contracts	Projected income from inventory	Total			
Rose Garden	65.8	30	95.8	87	8.8	9%

(j) Material residential construction projects (expected surplus/deficit on projects) as of December 31, 2009 (in EUR millions):[102]

Name of project	Actual income received	Accounts receivable with respect to apartments sold	Inventory at selling prices	Total income	Actual costs paid/ accrued	Remaining costs payable through project completion	Total costs	Projected gross profit
Rose Garden	41.5	24.3	30	95.8	79.5	7.5	87	9%

101 **The data included in this table are forward-looking information as defined in the Securities Act, based on sold unit prices, the state of the market, construction costs and various agreements signed in connection therewith. These estimates might not be realized, in their entirety or in part, or might be realized in a different (even significantly different) manner than expected, due to changes in residential prices in a certain region or the entire market, due to the direct and indirect implications of the global economic crisis, and/or due to realization of all or some of the risk factors detailed in Section 8.5.20 of this part.**

102 **The remaining costs payable through project completion and expected gross profit are forward-looking information as defined in the Securities Act, based on sold unit prices and construction costs. These estimates might not be realized, in their entirety or in part, or might be realized in a different (even significantly different) manner than expected, due to changes in residential prices in a certain region or the entire market, delays in project completion, [due to the direct and indirect implications of the global economic crisis,] and/or due to realization of all or some of the risk factors detailed in Section 8.5.20 of this part.**

[3] Customers

GTC Group has hundreds of customers with which it has agreements for the sale of its apartments and houses such that it does not depend on one specific customer.

[4] Competition

In the rental market, as in the residential construction sector GTC Group is exposed to competition from a number of real estate developers, real estate companies and property owners in regions where the GTC Group's properties are located. As of the date of the report, amid the crisis in the global economy, the number of these properties has been significantly reduced. In the years preceding the the global economic crisis, competition focused on the search for land for development, construction and rental purposes, while as of the reporting date, the focus of competition has been shifted to securing bank financing under conditions suitable for projects under construction, mortgages for potential buyer and the marketing and selling of housing units. Nevertheless, bank financing has been secured for the GTC Group'a residential projects that are currently under construction.

8.5.9 **Activity in China**

[a] General

The GTC Group started operating in China in 2005, through GTC China, and gradually expanded its activity in the Chinese market. As in Central-Eastern Europe, in China GTC RE studied the business environment, recruited a local and international development and management team and opened offices in China. During the last five years GTC China, through its subsidiaries, signed eight agreements for the purchase or lease of real properties for development, mainly for residential construction, in large district cities in various regions in China, in partnership local partners on most of the projects. Total construction interests purchased up to the date of this report cover about 3 million sq. m., and the share of GTC China in these projects ranges from 45% to 100% (in most projects – 50%).

The figures presented in this section below are based on external market surveys and official data of the Chinese government. Furthermore, the information presented in this section, including reference to macro figures and trends in China and its real estate market and effects of regulation amendments in China is forward looking information as defined in the Securities Act, which might be realized in their entirety or in part, or might be realized in a different, including significantly different manner than expected, as a result of changes in the condition of the market, China's economic and other policies and the world's economy, including due to the direct and/or indirect implications of the global economic crisis, the involvement of the Chinese government in real estate transactions, through

regulation of additional laws, changes in the demand for residential space and/or materialization of all or some of the risk factors detailed in Section 8.5.20 of this part. Kardan NV is not liable for the quality or accuracy of the figures presented in this section.

In recent years China became a major source of attraction for the real estate investors worldwide for a number of reasons:[103]

(a) China's real estate market is a vast market that accounts for a large share of China's economy.

(b) The reform of China's economy which led to its gradual integration into the world's economy included joining the World Trade Organization (WTO) which fueled its economic growth and turned it into a major player in the global economy. Since 1998, the citizens of China are free to purchase apartments and starting in 2000 the local real estate market has been growing by approximately 10% annually.

(c) The Chinese government encourages immigration from rural areas to the large cities in order to fight poverty. As a result, the urban population is expected to increase by approximately 300 million by 2025. As of the date of the report, the urban population in China is growing at an annual rate of more than 10 million.

(d) The government policy's is aimed at developing a society that is based on private local consumption, alongside the government's massive investment in infrastructure and public services and the encouragment of investors.

(e) The policy of the Chinese government, as expressed in the legislative changes in China, according to which, as of 2010, the income yielding real estate market in China will be open to institutional investors and foreigners.

The policy of the Chinese government changes from time to time, in order to protect the local economy from sudden deceleration or excess activity.

In response to the global economic crisis, in 2009 the Chinese government took the following steps: (1) The Chinese central bank lowered interest rates a number of times, to a current level of 1,5%; (2) The Central Bank has reduced the local banks' required reserve ratio in order to increase market liquidity; (3) A number of taxes on apartment purchases were reduced or repealed and there was a reduction of the down-payment required to finance the purchase of apartments; (4) Some of the taxes in the Chinese capital market were reduced or cancelled. Consequently, in 2009 the Chinese economy grew by approximately 8.7% and the apparent recocery in the housing market brought prices, in most cities, back to their levels prior to the global economic crisis.

Following the actions taken by government, as described above, the demand for

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103 The figures in Section 8.5.9[a] and [b] are based on publications of the Chinese National Bureau of Statistics from February 2010.

residential apaertments increased at the end of 2008 as well as during 2009. Recently, the Chinese government has decided to slow down the pace of real estate development and took several actions to redue the volume of credit extended to the real estate sector. The reduction in credit relates mainly to buyers of apartments for investment.

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

Shenyang

Shenyang is a large city in north-eastern China and is the cultural, economic and commercial center of the Liaoning district. The city has about 7.2 million residents and it is the transportation hub of north-eastern China (including the largest airport in the region). During 2009 the GDP growth rate in Shenyang was approximately 21% (after a growth rate of 16.13% and 17.3% in 2008 and 2007, respectively), and it is one of the 10 cities with the highest GDP rate in China. Investments in fixed assets in the city grew considerably in 2009, by 25.2%, further to the annual average growth rate of approximately 40% (between 2000-2008). The per capita disposable income grew at a rate of 9.3% in 2009, after a rise of more than 10% in each of the four preceding years.

Xianyang

Xianyang is a city in north-central China of about five million residents. It is located near Xian, capital of Shanxi district, with a population of about 7.5 million residents and is considered to be one of China's most important second-tier cities.

Xian's economy has grown at a rapid pace in recent years. In 2009, GDP in Xianyang grew by 14.5% after having grown by more than 13% in each of the three previous years. Investment in real estate grew by 28.9%, and per capita disposable income rose 24.7%. The project constructed by GTC China is in the municipal jurisdiction of Xianyang, near the municipal border of Xian.

Chengdu[104]

Chengdu is one of the central cities in western China and the capital of the district of Szechuan, with about 11.3 million residents. Chengdu is one of the most important centers of economy and transportation in China. Many international corporations such as Intel, IBM and Microsoft have development centers and offices in Chengdu. Chengdu is also known for its large military industry, mainly of fighter planes. Chengdu also became one of the largest centers of traditional Chinese medicine. The Chinese government granted Chengdu the status of a National Economic Zone, which enables the city to implement a flexible economic policy based, among others, on exports and offering tax incentives for foreign investments. Furthermore, Chengdu enjoys stable economic indicators

[104] The data in this section are based on information from the government website www.cdstats.chengdu.gov.cn.

and a rise in demand for commercial and residential real estate properties. Consequently, there is a trend of growth in real estate prices in Chengdu. During 2009, the GNP grew by a rate of 14.3%. The per capita disposable income increased by 12.5% in 2009, compared to 14.16% in 2008, following an average growth of over 8% in previous years. The commercial project, which GTC China intends to build in Chengdu, is located at the city's new government and technology center. Retail sales in the city grew by 20.4% in 2009.

Changzhou

Changzhou is a city located at the center of one of China's richest provinces, Jaingsu, about 160 kilometers north-west of Shanghai and about 100 kilometers south of Nanjing, with a population of about 3.5 million residents. The city's GDP increased by 11.7% in 2009**.**

Hangzhou

Hangzhou is the capital city of the Zhezhiang Province, which is one of China's wealthiest and most densely populated provinces. Hangzhou has over 5 million residents. It is located in the Yangtze River delta, south of Shanghai. Hangzhou is one of China's most popular tourist destinations, and is viewed as a city with considerable potential for the acquisition of vacation apartments. The GDP of Hangzhou grew in 2009 by 10%. Investment in fixed assets and real estate grew in 2009 by 15.7% and 14.5%, respectively.

Dalian

Dalian is the second largest city in Liaoning Province, located on the northeast coast of China, east of Beijing. It has over 6 million inhabitants and is considered one of the most beautiful and modern cities in China. It is a preferred target for investors from Korea and Japan, due to the proximity of the two countries, and its urban and European architecture, influenced by its colonial past. In 2009, its GDP grew by about 13%. Investment in fixed assets, real estate and total retail sales grew in 2009 by 31.5%, 14.3% and 18%, respectively.

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

[1] Following is a summary of figures on residential real estate projects in China (the data represents the share of GTC China):[105]

No. of projects	Date of starting project marketing	Expected date of sales completion	Scheduled date of project completion	Total planned housing units[106]	No. of housing units in invenory as of December 31, 2009	No. of housing units sold as of December 31, 2009	No. of housing units in invenory as of December 31, 2008	No. of housing units sold as of December 31, 2008	No. of housing units sold after the statement of financial position date through March 18, 2010
5	2005-2011	2009-2016	2009-2016	12,725	533	3,892	809	2,740	348

[2] Following is data regarding residential construction projects in China (financial results of a project in respect of which profit and loss were recognized) as of December 31, 2009 (in EUR millions):

Project name	Cumulative costs as of December 31, 2009				Cumulative income as of December 31, 2009	Cumulative gross profit margin as of December 31, 2008	Recognized income and gross profit					
							As of December 31, 2009		As of December 31, 2008		As of December 31, 2007	
	Land and development	Construction costs	Additional costs	Total			Annual income	Annual gross profit	Annual income	Annual gross profit	Annual income	Annual gross profit
Qil iXiandi[107]	2.8	10.2	4.8	17.8	22.9	29%	3.1	1.2	6.9	2.5	6.1	3.1
Palm Garden[108]	15.9	12.9	5.8	34.6	12.1	32%	6.8	2.6	5.2	1.3	-	-

105 **Figures in this table relating to the date of the start of the project marketing, the scheduled date of completion of the projects and sales are forward looking information as defined in the Securities Act, based on agreements entered with sub-contractors, management experience in project construction and marketing, the state of the local and global market and the specific data of every project. These estimates might not be realized, in their entirety or in part, or might be realized in a different, including signficantly different manner than expected, due to unexpected delays in project construction, [including due to the direct and/or indirect implications of the global economic crisis,] changes in the condition of the market and changes in demand for housing and/or the realization of all or some of the risk factors specified in Section 8.5.20 of this part.**

106 The data does not include stores and parking areas, nor housing units in the Dalian and HIFC projects, which are at various planning stages and their scope has not yet been determined.

107 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC China's financial statements.

108 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC China's financial statements.

Project name	Cumulative costs as of December 31, 2009				Cumulative income as of December 31, 2009	Cumulative gross profit margin as of December 31, 2008	Recognized income and gross profit					
							As of December 31, 2009		As of December 31, 2008		As of December 31, 2007	
	Land and development	Construction costs	Additional costs	Total			Annual income	Annual gross profit	Annual income	Annual gross profit	Annual income	Annual gross profit
Olympic Garden[109]	17.3	24.2	12.7	54.2	40	23%	34.4	8.2	5.6	1.1	-	-

[3] Following is a summary of estimated data[110] on residential construction projects in China as at December 31, 2009 (in EUR millions):

Projected income			Projected costs	Projected gross profit	Projected gross profit margin
Projected income from signed contracts	Projected income from inventories	Total			
281	929	1,210	1,037	173	11%-23%

[4] Following is a summary of information on residential construction projects in China (projected surplus/deficit in the projects) as of December 31, 2009 (in EUR millions):[111]

Actual income received	Accounts receivable with respect to apartments sold	Inventory at selling prices	Total income	Actual costs paid/accrued	Remaining costs payable through project completion	Total costs	Projected gross profit

109 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC China's financial statements.

110 **The figures included in this table are forward looking information as defined in the Securities Act based on prices of apartments already sold, the state of the local and global market, construction costs and the agreements signed on them. These estimates might not be realized, in their entirety or in part, or might be realized in a different, including signficantly different manner than expected, due to unexpected delays in project construction, [including due to the direct and/or indirect implications of the global economic crisis,] changes in the condition of the market and changes in demand for housing and/or the realization of all or some of the risk factors specified in Section 8.5.20 of this part.**

111 **The remaining costs to be paid until the project's completion and the foreseen gross profit are forward looking information as defined in the Securities Act based on the prices of apartments already sold, construction costs and the state of the local and global market. These estimates might not be realized, in their entirety or in part, or might be realized in a different, including signficantly different manner than expected, due to unexpected delays in project construction, [including due to the direct and/or indirect implications of the global economic crisis,] changes in the condition of the market and changes in demand for housing and/or the realization of all or some of the risk factors specified in Section 8.5.20 of this part.**

262	18.9	929	1,210	194.5	842.5	1,037	173

[5] Residential construction projects (construction and sale of housing units), including projects at the planning stage:[112]

City	Project name	Share of GTC Holding	Project description	Project phase	Average area of a housing unit	Rate of progress[113]	Start date	Planned date of completion	Housing units sold as of December 31, 2009	Estimated total cost (in EUR millions)	Inventory as of December 31, 2009 (in EUR millions)	Estimated cost of project completion (in EUR millions)	Project income (in EUR millions)			Profit included in financial statements or amount of provision for loss (in EUR millions)		
													2009	2008	2007	2009	2008	2007
Shenyang	Qili xiandi[114]	50%	An area of about 130 dunam. 181 thousand sq. m. planned for residential construction. The project is developed in four phases of 1,922 housing units. (GTC China's share is 961 units)	Project completed	86	100%	Q3 .2005	project ended	1,015	20.7	1.1	2.9	3.1	6.9	6.1	1.2	2.5	3.6
	Palm Garden[115]	50%	An area of 442 dunam. 497 thousand sq. m. planned for residential construction. The project is developed in five phases of 3,577 housing units.. (GTC China's share is 1,789 units)	Phase A completed, Phases B and C in progress, and Phases D through F not yet begun	139	Phase A: 100%, Phase B: 90%; phase C- 50% Phases D through F: not yet begun	Q4 2006	Q4 2014	332	87.1	26.4	52.5	6.8	5.2	-	2.6	1.3	-

112 **Figures in this table relating to the foreseen date of completion, estimated total financial scope and estimated cost of project completion are forward looking information as defined in the Securities Act, based on agreements entered with sub-contractors, Management experience in projects construction and specific data of every project. These estimates might not be realized, in their entirety or in part, or might be realized in a different, including signficantly different manner than expected, due to unexpected delays in project construction, [including due to the direct and/or indirect implications of the global economic crisis,] changes in the condition of the market and changes in demand for housing and/or the realization of all or some of the risk factors specified in Section 8.5.20 of this part.**

113 The rate of progress of each project is measured by the ratio between the actual costs and all the costs of the project.

114 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC China's financial statements.

115 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC China's financial statements.

City	Project name	Share of GTC Holding	Project description	Project phase	Average area of a housing unit	Rate of progress[113]	Start date	Planned date of completion	Housing units sold as of December 31, 2009	Estimated total cost (in EUR millions)	Inventory as of December 31, 2009 (in EUR millions)	Estimated cost of project completion (in EUR millions)	Project income (in EUR millions)			Profit included in financial statements or amount of provision for loss (in EUR millions)		
													2009	2008	2007	2009	2008	2007
Shenyang	Suzy Garden[116]	50%	An area of about 260 dunams . 620,000square meters of planned residential construction. The project is being built in 4 stages of about 7,249 housing units.(GTC China's share is 3,623 units)	Phase A in progress, Phases B through D not yet begun.	92	Phase A: 95%, Phases B through D: not yet begun	Q2 2008	Q4 2014	571	113.7	17.2	96.5	-	-	-	-	-	-
Xi'an	Olympic Garden[117]	50%	An area of about 386 dunam. 880 thousand sq. m. planned for residential construction, commercial center and hotel. The project is developed in six stages of 8,615 housing units(GTC China's share is 4,308 units)	Phase A complete. Phases B to D under construction. Phase E not yet begun	112	Phase A, Phase C - 100%, Phase D – 50% Phase E not yet begun	Q4 2006	Q4 2014	1,697	165.4	24.1	111.2	34.3	5.6	-	8.2	1.1	-
Changzhou	City Dream[118]	46%	An area of about 195 dunam, which includes building rights for about 653,000 sq.m. planned for residential construction, (567 sq. .m. planned for residential construction, about 4,916 units). (GTC China's share is 2,212 units)	Phase A under construction Phases B through E not yet begun	133	Phase A 70% Phases B through E not yet begun	Q4-2008	Q1-2016	371	121.3	12.8	108.5	-	-	-	-	-	-

116 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC China's financial statements.

117 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC China's financial statements.

118 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC China's financial statements.

City	Project name	Share of GTC Holding	Project description	Project phase	Average area of a housing unit	Rate of progress[113]	Start date	Planned date of completion	Housing units sold as of December 31, 2009	Estimated total cost (in EUR millions)	Inventory as of December 31, 2009 (in EUR millions)	Estimated cost of project completion (in EUR millions)	Project income (in EUR millions)			Profit included in financial statements or amount of provision for loss (in EUR millions)		
													2009	2008	2007	2009	2008	2007
Hangzhou	HIFC[119]	50%	An area of about 10.5 dunam, includes building rights for about 151,000 square meters (about 138,000 sq. m. planned for residential construction).	Planning and authorization	-	-	2010	2015	-	150.4	-	150.4	-	-	-	-	-	-
Dalian	Dalian	100%	An area of about 66,000 sq. m, which includes building rights for about 292,000 square meters (about 144,000 sq. m. planned for residential construction).	Planning and authorization	-	-	2010	2015	-	145.2	-	145.2	-	-	-	-	-	-
Total									3,892	803.8	81.6	28.6	44.3	17.7	6.1	12	4.9	3.6

119 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC China's financial statements. As part of this project, the plans include commercial and office space, as detailed in Section 8.5.9[d] of this part.

[d] Following is a compilation of figures on income property projects under development and in stages of planning and construction in China:[120]

City	Project name	Share of GTC Group	Date of purchase	Original cost of land (in EUR millions)	Title	Term of lease (years/end year)	Construction rights according to urban planning scheme (gross sq. m.)	Project description			Date of start of construction	Scheduled completion date	Investment sum as of December 31, 2009 (in EUR millions)[121]	Estimated cost of project completion (in EUR millions)	Total estimated financial scope (in EUR millions)
								Land area (in sq. m.)	Net area for lease (in sq. m.)	Designation and further details[122]					
Chengdu	Galeria Chengdu	100%	2007	**25.8**	Lease	40	**92,441**	20,896	34,575	Commercial center	Q3 2008	Q4 2010	46.6	24.7	71.3
Hangzhou	HIFC[123]	50%	2008	**1.3**	Lease	40	**151,317**	5,209	2,700	Commercial center and offices	Q3 2010	Q2-2014	2.4	3.6	6
Dalian	Galleria Dalian	100%	2008	**91.7**	Lease	40	**291,700**	66,300	65,000 (not including parking areas)	Commercial center	Q1 2010	Q1 2015	9	130.5	139.5
Total				160.2			535,458	**92,405**					**58**	**158.8**	**216.8**

120 No income has been recognized yet in projects under development described in this section. **Figures in the table relating to the planned date of completion, estimated cost of project completion and estimated total financial scope, are forward looking information as defined in the Securities Act, based on agreements entered with sub-contractors, Management experience in projects construction, const of construction inputs at the estimate issue date and specific data of every project. These estimates might not be realized, in their entirety or in part, or might be realized in a different, including signficantly different manner than expected, due to unexpected delays in project construction, [including due to the direct and/or indirect implications of the global economic crisis,] changes in the condition of the market and changes in demand for housing and/or the realization of all or some of the risk factors specified in Section 8.5.20 of this part.**

121 With the addition of timing differences attributed to the project.

122 The designation is effective as of the date of this report, and subject to changes as determined by GTC Group.

123 Data represent 50% of the project which is consolidated by the proportionate consolidation method in GTC China's financial statements. As part of this project, the plans also include the construction of residential housing, as detailed in Section 8.5.9[c][5] of this part.

[e] 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., CapitalLand, CR Land and Swire), which operate mainly in the fields of commercial real estate and luxury residential housing in first and second tier cities. In addition, numerous local companies operate primarily in the provinces of China. Following the accelerated development of the commercial real estate market in first-tier cities, many companies are expanding their operations to additional second and third tier cities, resulting in higher prices for commercial and residential land in these regions. GTC China has been developing projects in second tier 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 additional 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.

[f] Material Agreements

[1] In December 2005 GTC China entered into a purchase agreement, a joint venture agreement, a shareholder agreement and a loan agreement with companies of the Lucky Hope Group ("**Lucky Group**"). According to the aforesaid agreements, the parties are partners to a joint venture for the construction and development of a residential and commercial real estate project at the suburbs or the city of Shenyang. .These conditions were applied to a similar set of agreements with Lucky Hope in connection with all the other projects it develops across China together with Lucky Hope, and with respect to all the real estate properties it purchased for the development of additional projects, together with Lucky Hope (it should be noted that there are projects in China which GTC China is not building together with Lucky Hope). it was stipulated that the board of directors of each project company will appoint six directors, half of whom would be appointed by GTC China and half by Lucky Hope. . By the date of this report, six joint ventures have been established, which manage real estate projects at various stages in six

cities in China. Most of the project companies are held by the parties in equal shares (50% each).[124]

[2] In July 2008, a company owned in equal shares by GTC China and by Geely, the largest private manufacturer of cars in China, purchased a plot of land with an area of 10.418 sq. m. in the city of Hangzhoufor the development of a residential and commercial project.

[3] For further details on projects in China developed as part of the joint ventures of GTC China and Lucky Hope see tables in Sections 8.5.9[c][2] and [5] of this part (except for the HIFC and Dalian projects in Section 8.5.9[d] of this part) .

8.5.10 Human Capital

GTC Holding

GTC Holding receives management and consultation services from Kardan NV, and from other related parties. During 2008, two persons were employed by GTC RE and after the merger between Kardan NV and GTC RE, they are employed by GTC Holding.

Issuance of share options of GTC RE

GTC RE issued options to employees of the Kardan Group, which were exercisable in installments over different periods of time. Prior to the merger between Kardan NV and GTC RE, all of the remaining options were exercised (see Section 8.5.5[c]of this part).

The GTC Poland Group

The companies performing the activities of the GTC group in Poland, Romania, Hungary, the Czech Republic, Serbia, Croatia, Slovakia, Bulgaria, the 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 the date of the report and as of December 31, 2009, GTC Poland employed 164 people and 33 service providers (who are employed by one of

[124] For projects held in different shares see Sections 8.5.9[c][5] and 8.5.9[f] of this part.

the subsidiaries outside Poland). As of December 31, 2008, GTC Poland employed 180 people and approximately 30 service providers..

<u>Issuance of shares to senior employees of GTC Poland</u>

In accordance with the share issuance plan at GTC Poland, a number of senior officers at the Company are entitled to Phantom type GTC Poland shares. In respect to the said Phantom shares, the said officers are entitled to a payment equal to the difference between the average closing price of the share on the Warsaw Stock Exchange during the 30 days preceding the date on which GTC Poland was informed of the exercise by the officer, and the exercise price that was set for each share (subject to adjustments)

Following are details about the Phantom shares that were issued to senior officers at GTC Poland:

Number of shares issued	**Exercise price**	**Start of exercise period**	**End of exercise period***	**Offerees**
700,000	22.5 zlotys (6.28 euros)	January 1, 2007 and January 1, 2008	December 31, 2012	Chairman of the Board of Directors
700,000	18.15 zlotys (5.10 euros)	January 1, 2009 and January 1, 2010	December 31, 2012	
300,000	22.5 zlotys (6.28 euros)	January 1, 2007 and January 1, 2008	December 31, 2014	Executive Board members
300,000	18.15 zlotys (5.10 euros)	January 1, 2009 and January 1, 2010	December 31, 2014	
1,200,000	18.15 zlotys (5.10 euros)	January 1, 2011, January 1, 2012, January 1, 2013, January 1, 2014 and January 1, 2015	December 31, 2015	
500,000	18.15 zlotys (5.10 euros)	January 1, 2011 and January 1, 2012	December 31, 2012	Chairman of the Board of Directors

For further details of allocation of the phantom shares regarding the senior officers of the company of GTC Poland, see Note 23.b.2 of the financial statements.

For details on the exercise of Put options that were granted to the Chairman of the GTC Poland board of directors for the sale of his holdings in the companies held by GTC Poland, see Section 8.5.17[b][1] of this part.

The total expense recorded in GTC Poland's financial statements for 2009 in respect of the said options was Euro 3.2 million. The estimated expense in 20101 in respect of said options is Euro 1.8 million.

<u>GTC China</u>

The GTC China headquarters, located in Beijing, comprises 17 employees. The companies managing the projects in the GTC China Group employ, as of the date of this report, and as of December 31, 2009, 208 people. As of December 31, 2008, these companies employed 215 employees people.

<u>Issuance of shares to senior employees of GTC China</u>

In 2009, GTC China issued options exercisable to up to 3.5% of GTC China’s issued capital to members of GTC China's senior management. In addition, there are agreements between GTC China and Mr. Alon Shlank, a director in GTC China, pursuant to which Mr. Shlank would be issued options exercisable into up to 5% of GTC China’s shares. It should be noted that,as of the date of the report, an agreement has not yet been signed, and the options have not yet been issued.

8.5.11 <u>Marketing and Distribution</u>

[a] <u>The GTC Poland Group</u> - The marketing policy of the leasing and residential projects executed by the GTC Poland group is based, to the extent possible, on the commencement of the leasing or sale of the properties built under the different projects, as soon as construction begins, and on the division of each project to a number of stages, in order to adjust the construction pace to market demand.

In Central-Eastern Europe, project marketing is performed through the marketing teams of the GTC Poland Group, as well as through agreements with international companies or local companies which engage in the marketing of the projects. GTC Poland does not depend on any of these companies. Under agreements with said entities, they are paid an acceptable fee..

[b] GTC China - In its business operation in China, the GTC Group is aided by marketing companies in marketing the projects. Marketing is based on the branding of the project, creating sale sites and designing marketing packages, segmentation of the target audience, direct marketing to potential buyers, billboards in the project area, and public transportation leading to the project site, production of launching events for each phase in the project, etc. It should be noted that marketing of residential projects in Shenyang, Xi'an and Changzhou is performed through companies connected to GTC China's partner – Lucky Hope. The choice of marketing through the local partner was made for professional reasons, and the GTC Group is not required to carry out its marketing activities solely through Lucky Hope. The project companies are not dependent on the marketer. The leasing of GTC China's first commercial project is directly managed by GTC China, while using international and local service providers. In 2009, GTC China has established direct working relations with dozens of international and local fashion retail chains operating in China.

In 2009, 2008 and 2007, the selling and marketing expenses of the GTC Group totaled EUR 6,9 thousand, EUR million.

8.5.12 Suppliers

[a] The GTC Poland Group - The GTC Poland group companies in different countries serve as the chief developer of each of the projects they are involved in, and usually hire independent subcontractors for the execution of each project, including the planning, development, construction and marketing of the projects.

For the purpose of constructing the buildings, the companies usually employ leading local contractors. Construction in Central-Eastern Europe is usually based on the turn-key method, through a main contractor, which works with the relevant GTC Group company on the project.

[b] GTC China - GTC China operates as a real-estate entrepreneur, while the development is carried out in stages, through a main contractor and local subcontractors in the field of planning, execution and marketing (see Section 8.5.11[b] of this part). GTC China selects the suppliers and contractors for each project phase, based on the price quotes it receives from a number of experienced companies in each field, while engineers employed by GTC China and/or by the project companies cooperating with GTC China and its

local partners, manage the project and supervise over the work performed by the contractor companies.

8.5.13 Funding

[a] GTC Holding Funding

GTC Holding funds its activities through loans and debentures as follows:

[1] In January 2006, GTC RE signed an agreement with Israel Discount Bank ("**Discount Bank**"), under which GTC RE received from Discount Bank a loan of EUR 24.8 million for a period of 8 years ("**First Discount Loan**"). As of January 1, 2008, the terms of the First Discount Loan are identical to the terms of the Second Discount Loan (as defined below).

In December 2006, GTC RE signed an agreement with Discount Bank ("**The Second Discount Loan**"), under which Discount Bank has agreed to provide GTC RE, in installments, over a period of 3 years from the date of signing of the agreement, loans the total amount of which shall be up to EUR 100 million, including the first Discount loan, against the pledge of GTC Poland shares at a ratio of 250% of the loan utilized as of that date. The second Discount loan bears an annual interest rate of Euribor + 1.8% (the effective interest rate is not materially different from the nominal rate), for a period of 14 years. As of 2008, all of the terms of the Second Discount Loan apply to the First Discount Loan. As part of the loan agreement, GTC RE has undertaken to Discount Bank to comply with certain financial covenants, which were amended following the merger between Kardan NV and GTC RE and the transfer of the Second Discount Loan to GTC Holding. Within this context, GTC Holding has undertaken to the bank to comply with financial covenants, including (1) maintaining a ratio of total tangible equity to total assets of no less than 20%, (2) maintaining total tangible equity attributed to shareholders of no less than EUR 240 million, (3) maintaining total tangible equity of no less than EUR 500 million in the consolidated financial statements of GTC RE, (4) maintaining a ratio of GTC Holding's total tangible equity to total assets (company only) of no less than 40%. GTC Holding further undertook to hold a controlling stake in 40% of GTC Poland or 30% of the capital and effective control in GTC Poland. In addition, Kardan NV has undertaken to comply with various financial covenants relating to such loan, as set forth in Section 16.4 of this part.

In March 2009, GTC Holding signed another loan agreement with Bank Discount, under which Bank Discount provided to GTC Holdings an additional amount of EUR 73 million (the "Third Discount Loan"). Pursuant to the agreement for the Third Discount Loan, it was agreed that the conditions of the Second Discount Loan would be amended such that to secure the Second Discount Loan and the Third Discount Loan, the shares of GTC Poland would be pledged at a ratio of 150% of the utilized loan amount on that date, and not at a ratio of 250%, as had been agreed with respect to the Second Discount Loan. Except as stated, the Third Discount Loan was provided at conditions identical to those of the Second Discount Loan.

As of the date of the report, GTC Holding utilized about EUR 155 million of the framework amount arranged in the agreements with Bank Discount (including the First, Second and Third Discount Loan).

As of December 31, 2009 and close to the date of the report, GTC Holding is in compliance with the aforesaid financial covenants (based on its financial statements as of December 31, 2009).

[2] On the eve of the merger between Kardan NV and GTC RE, NIS 15,904,119 par value debentures (Series A), convertible into shares of GTC RE, were in circulation, bearing an annual interest of 6%, linked (principal and interest) to the Consumer Price Index for July 2004, . As part of said merger, Kardan NV issued Debenture (Series 1) to holders of Debentures (Series A) of GTC RE, on identical terms (*mutatis mutandis*, with the exception of the conversion rate) to the Debentures (Series A) of GTC RE, in exchange for their holdings in the aforementioned debentures on the record date of the merger. On August 31 2009, Kardan NV's debentures (Series A) which were in circulation at that time, were repaid. For further details, see Sections 1.4.1 and 16.4[e] of this part.

[3] One the eve of the merger between Kardan NV and GTC RE, there were NIS 1,333,967,977 par value debentures (Series B) of GTC RE in circultation, linked to the Consumer Price Index and bearing an annual interest rate of 4.9%. Pursuant to the merger between Kardan NV and GTC RE, Kardan NV issued new Debentures (Series B) of Kardan NV to the debenture holders (Series B) of GTC RE, on terms identical (*mutatis mutandis*) to those of the Debentures (Series B) of GTC RE, in exchange for their holdings in the Debentures on the record date of the merger. For further details, see Section 1.4.1 of this part. As of the date of the report, the balance (principal and interest) of Kardan NV’s debentures (Series B) amounts to NIS million. In February and December 2007, and in January 2008, following the issuance of the debentures (series B), GTC RE entered into two hedge transactions with banks in Israel, under which, commencing on the date of execution of the transaction, the bank shall pay GTC RE the linked shekel cash flows required

for repaying the debentures (series B), while GTC RE shall pay the bank corresponding cash flows in Euros, with a fixed annual interest at rates set between GTC RE and the banks (which is in the range of 5.94% and 7.06%). In January and December 2009, in the wake of the issuance of the debentures (Series B) of debentures (Series B) as aforesaid, all the said hedge transactions were endorsed from GTC RE to Kardan NV. For details about the said hedge deals, Section Section 16.2[d] in this part. [1א]As of the date of the report, the balance (principal and interest) of Kardan NV's debentures (series B) totals approximately 1,333,968,977 NIS.

[4] Following are details regarding the variable interest borrowings of GTC Holding in 2009:

Change mechanism	Interest range	Amount of credit (in EUR millions)	Interest rate as of December 31, 2009
Euribor	Euribor + 1.8%	155.6	3.379%

[b] <u>Financing the business activities of GTC Poland and its subsidiaries</u>

[1] Following are the details of the outstanding loans and debentures provided to GTC Poland and its affiliates as of December 31 2009 and the interest rates thereof:

[b]

	Currency	**Balance as of 31.12.09 (in Euro millions)**	**Interest Rate**	**Effective interest rate in 2009**[125]
Liabilities (long term) (including current maturities				
Bank Sources	Euro	864.7	Euribor + 1.25%-6%	4.8%
	Other	41.8	Libor/Robor/Bubor+[126]1.12%-2.85%	
Sources other than banks (debentures)	Euro[127]	279.9	Wibor+ [128]0.9%-2%	
Sources other than banks (affiliated company share holders)	Euro	119	Euribor+ 3.25%	4%
Total		**1,304**		

[125] Including the influence of hedge transactions

[126] Robor – Romanian InterBank Offered Rate; Bubor – Hungary Budapest InterBank Offered Rate

[127] The aforesaid debentures were issued in April 2007 and May 2008, for the total of Zloty 1,150 million bearing a local variable interest rate. After the issuance of the said debentures, GTC Poland entered into an interest swap transaction, according to which GTC Poland will pay an annual fixed interest rate of 5.745%-6.63%. GTC Poland converted the cash flows expected from the debentures from Zloty to Euro .

[128] Wibor – Warsaw InterBank Offered Rate

[2] The companies of the GTC Poland group have loans that bear a floating interest linked to changes in the Libor, Euribor, Bubor and Bribur interest rates.

[3] Following are details regarding loans at a floating interest rate in respect of which no hedge transactions were made to fix the interest rate, which GTC Poland received in 2009[129]:

Change mechanism	Interest range	Amount of credit (in EUR millions)	Average Interest rate as of December 31, 2009
Euribor	Euribor + 1.25%-6%	426.7	3.4%
Libor	Libor + 1.12%	6.2	1.4%
Bubor	Bubor+ 2.1%	16.3	8.3%
Robor	Robor + 2.85%	8.3	13.4%

[3] The GTC Poland Group typically undertakes in its financing agreements with banks to meet certain financial covenants prescribed in those agreements, the main ones being: maintaining a certain balance in bank accounts; a certain ratio between the loan and the value of the project; and 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 and interest the borrowing that the company is required to pay during one quarter. Pursuant to the issue of debentures, GTC Poland has undertaken, *inter alia*, that its aggregate loans will not, at any time, exceed 70% of the total assets.

As of December 31, 2009 and close to the date of the report, the GTC Poland group members are in compliance with their obligations in relation to the financial ratios.(based on GTC Poland's financial statement as of December 31 2009)

[4] The bank credit which the GTC Poland group received for the construction of its projects is secured in most cases by fixed and floating charge 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 the GTC Poland which are secured by said charge amount to some EUR 845 million.

[129] The figures in the table to not include credit from shareholders in affiliated companies.

[c] Financing of GTC China

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 the 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 by 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.

During August 2009, GTC China entered into a loan agreement with a the Chinese Construction Bank (CCB), pursuant to which a 10-year loan (non recourse) of approximately RMB 245 million (approximately Euro 24.1 million) at a fixed interest rate of 5.94% will be 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.

[d] Liens and guarantees

[1] As of the date of the report, GTC Holding has pledged 80,660,550 GTC Poland shares to Israel Discount Bank, representing approximately 36.8% of GTC Poland’s share capital, at a rate of at least approximately 150% of the Discount loan balance, as detailed in Section 8.5.13[a] of this part.

[2] As of the date of this report, GTC Poland has provided various guarantees totaling approximately EUR 216 million to third parties, which provided loans for companies of the GTC Poland group.

8.5.14 Taxation

For details on taxation in the Netherlands, see Section 17.1 of this part

For details of taxation information in countries where GTC Group operates, see Section 17.3 of this part.

Tax Assessment Hearings

Pursuant to the income tax law applying to Dutch corporations, expenses deriving from (indirect) investments in companies in countries which are not members of the European Union are not tax deductible. Upon advice from its advisors, GTC Holding decided to appeal the 2001 and 2003 tax assessments issued by the Tax Commissioner. The appeal is based on a decision of the European Court of Justice in a specific case, following which the Supreme Court in the Netherlands amended the corporate tax law [which should] not only apply to member states of the European Union and the European Economic Area, but also to countries that have executed agreements with the European Union pursuant to Section 56 of the provisions relating to EC free movement of capital with third parties. With respect to 2001, an appeal was filed with the tax court, and an objection was submitted to the tax authorities with respect to 2002-2003. As of the date of the report, it is still impossible to evaluate the outcome of the appeal and the aforementioned objections to the tax assessments. If the appeal and objections are granted, GTC Holding may be able to deduct taxes of up to EUR 1 million for 2001, EUR 0.6 million for 2002 and EUR 3.14 million for 2003.

8.5.15 Environmental Issues

The GTC group examines the lands which it acquires using environmental specialists in various countries. The examination is conducted in accordance with the European Union environmental standards. These examinations are usually carried out during the due diligence process which is part of the acquisition of the land in the final decision concerning the acquisition of the land.

8.5.16 Limitations and Supervision over the operations of GTC Holding

The GTC group's business operations are subject to laws and regulations in the various regions it operates. The laws and limitations are in the areas of planning and construction, real estate, municipal supervision, and environmental regulations.

8.5.17 Material Agreements

Below is a concise description of key material agreements entered into outside the ordinary course of business, to which agreements the GTC Group companies are parties or pursuant to which, to the best knowledge of the GTC Group companies, they are entitled:

[a] GTC Holding

[1] In June 2009, GTC Holding announced the cancellation of the agreement it had entered into in July 2008 with D.S. Kulkarni Developers Ltd. (**"DSK"**), a registered public company in India whose shares are traded on the Bombay stock exchange, with regards to the development of a residential and

commercial project in the city of Puna, with this being because of the likely non-realization of certain prerequisites that had been stipulated by the parties in the agreement.

[b] GTC Poland and its subsidiaries

[1] In March 2006, GTC Poland signed an agreement with the Chairman of the Board of Directors of GTC Poland and a corporation wholly owned and controlled by him, which was amended in November 2006 and which regulated, *inter alia*, the Chairman's shareholdings in the subsidiaries of GTC Poland and companies related to GTC Poland (the "**Original Agreement**"). This agreement replaced a previous agreement from March 2004. In January 2009, an amendment to the original agreement (the "**Amendment**") was signed which, inter alia, cancelled certain provisions in the Original Agreement and the validity of the Original Agreement was extended. Below are highlights of the Original Agreement and its Amendment.

(a) The Original Agreement relates to the period beginning on January 1, 2006 and ending on December 31, 2009 ("**Agreement period**"). In accordance with the Amendment, the validity of the Original Agreement was extended to December 31, 2011 (the "**Extended Agreement Period**").

(b) The Original Agreement gives the Chairman the right to invest (up to 5% of the aggregate share of GTC Poland and the Chairman in the companies owned by them) in the shares of the companies through which GTC Poland performs investments in the field of real estate outside Poland (the "**New Investee Companies**"), which will be established after the agreement is signed and in the management thereof the Chairman will be involved. As part of the Amendment, the Chairman's right to make investments together with GTC Poland in the New Investee Companies was canceled.

(c) The Original Agreement further specified that the Chairman shall carry out investments in existing and New Investee Companies, in which the chairman was a shareholder at the time of the signing of the Original Agreement (hereinafter together: the "**Investee Companies**"), pro-rata to GTC Poland. As part of the Amendment, the Chairman's undertaking to invest in the Investee Companies and in the New Investee Companies was canceled.

(d) In the Original Agreement, GTC Poland undertook to provide the Chairman loans and guarantees as follows: (A) Loans in the sum of EUR 2,006,187 on the date of signing the Original Agreement, for the purpose of financing loans that the Chairman had provided in the past to Investee Companies for shares in those companies. (B) Loans in the amount of the financing that the

Chairman will be required to invest in the share capital of the existing Investee Companies or New Investee Companies that may be established by GTC Poland. (C) Loans in the amount of the loans that the Chairman will be require to provide existing or New Investee Companies established by GTC Poland. (D) Guarantees to the Investee Companies and/or to the New Investee Companies, instead of the guarantees that the Chairman is required to provide to these companies in respect of his shares. The Original Agreement stipulated that the amount of the loans and the guarantees that the Chairman has received and will receive for the purpose of investing in the capital or providing loans and/or guarantees in respect of the portion of his shares in the Investee Companies and in the New Investee Companies, which were defined in the Original Agreement, will be limited to a total of EUR 4 million. In view of the sale of the shares of the Investee Companies pursuant to the Amendment, as specified in Sub-Section (f) below, GTC Poland's undertaking to provide the Chairman loans and guarantees was canceled, apart from those already extended up to the date of the Amendment to the Original Agreement and an arrangement was made for the repayment of the loans that were already extended.

(e) In accordance with the Original Agreement and to secure the above loans, the Chairman pledged to GTC Poland all of his shares in the Investee Companies and the New Investee Companies and all the loans are without recourse to the assets held by the Chairman, excluding the shares that were pledged as aforementioned. The Original Agreement further specified that the Chairman must repay the loans on the different dates stipulated by the Original Agreement by April 30, 2013 at the latest.

(f) In the Original Agreement, the Chairman was granted a put option to require GTC Poland to purchase his shares in the Investee Companies and in the New Investee Companies from him, provided that on the date of exercising the option these shares will be tradable, during a period of 24 months beginning from the date of termination of the Original Agreement Period or the termination of the Chairman's employment, whichever is earlier. The Original Agreement specified that the exercise price shall be the fair market value of the shares in a sale from a willing seller to a willing buyer, on the date of notice on the exercise of the option, which shall be determined by an appraiser appointed by the parties, after deducting the outstanding loans of the Chairman at that time. The Original Agreement also granted GTC Poland a Call option to require the Chairman to sell his shares in the Investee Companies and in the New Investee Companies to it, at the conditions stipulated in the Original Agreement.

(g) In the framework of the Amendment, which was signed in January 2009, it was agreed that the Chairman would exercise the Put option immediately, for a consideration of EUR 17.6 million, although the period of the Original Agreement and his employment have not terminated. For details on the exercise of the Put option, see Note (4)27 to the financial statements.

(h) Additionally, in accordance with the Original Agreement, the Chairman is entitled to receive an annual bonus at a rate of 2% of the GTC Poland's pre-tax profits, but without revaluation profits and capital gains, and an annual bonus at a rate of 1.2% of the profit arising from the sale of assets, subject to certain adjustments, as set forth in the Original Agreement. The Chairman shall be entitled to at the rate of 75% of the bonus during the first four quarters after the termination of the agreement with him and 50% of the bonus during the following four quarters.

[2] Pursuant to the articles of Association of GTC Poland, the members of the supervisory board of GTC Poland will be appointed by the shareholders at the shareholders meeting, for a period of three years. The number of members of the supervisory board will be between 5 and 20 and they will be appointed by the shareholders in accordance with a key that was determined and which is derived from the rate of holdings of the shareholders in GTC Poland as follows: [1] A shareholder who directly holds over 5% of the share capital of GTC Poland will be permitted to appoint one member; [2] A shareholder who holds 5% of the share capital of GTC Poland in excess of the holding specified in Sub-Section [1] above will be permitted to appoint one additional member for each 5% held by him; [3] Shareholders who jointly hold no less than 5% of the share capital of GTC Poland will be permitted to jointly appoint one member. The shares that were not taken into account for the purpose of calculating the percentage of holdings in the shares of GTC Poland for appointing members of the supervisory board pursuant to Sub-Sections [1] and [2] above can be taken into account for the purpose of calculating the percentage of holdings for appointing a member pursuant to Sub-Section [3] above. In addition to members of the supervisory board as stated above, one additional member will be appointed (who is deemed an independent director), whose appointment is subject to the compliance of that member of the supervisory board meeting with the conditions specified in the Articles by the general meeting of GTC Poland. In the event of a tied vote in the supervisory board the chairman of the supervisory board will cast the deciding vote. At the date of the report, Alroi is serving as chairman of the supervisory board. As of the date of the report, ten directors are serving on

the supervisory board of GTC Poland, [of whom nine directors were appointed by GTC Re.]

8.5.18 Objectives and Business Strategy

The business and administrative strategy of the GTC Group is based upon principles the main ones are specified below:

[a] Activity in emerging markets.

[b] Gradual expansion into new markets.

[c] The establishment of a local company in every country in which the GTC Group operates.

[d] Focus primarily on large projects in central areas (Prime Locations) in important cities

[e] Building projects in stages.

[f] Partnerships – mainly with sellers of land, local real estate partners, international financing entities, and strategic entities.

[g] Cultivation of senior management at the GTC Group.

8.5.19 Forecasts for development in the year ahead

[a] Regarding operations in Central-Eastern Europe - GTC Poland shall continue to develop projects in 2010 which are at various stages of development in Central-Eastern Europe. GTC Poland will examine opportunities to enter additional countries in Central-Eastern Europe. GTC Poland and its subsidiaries will continue to explore opportunities to dispose of income-producing projects, where market conditions for the disposal thereof are attractive.

Following the global economic crisis, the business and development plans have been adapted to the changed conditions in global markets. Projects under construction – the GTC Group is examining the pace of construction and progress of each project in connection with the current economic environment. With respect to projects whose construction has not yet commenced – GTC is verifying whether there are indications that the project can be successfully marketed and accordingly, considers whether to commence construction; in addition, GTC is exploring the possibility of converting some of the projects for residential development to office uses.

[b] Regarding operations in China – in the last few years the GTC Group has acquired substantial building rights and considers the

development and promotion of these projects to be a central objective. The continued acquisition of building rights for integrating commercial projects and residential projects, as well as building rights in the residential sector in second and third tier cities will also be examined. The strategic goal of GTC China for the upcoming 3-5 years is the construction and operation of ten commercial centers, five of which are currently in various stages of construction. GTC China's assessment is that the next stage in the development of the real estate sector in China will be the secondary income-producing property market in China, ahead of the planned entry of institutional investors in 2010 in the wake of legislative changes in China, to encourage investments in income-generating real estate, among others, by institutional investors.

[c] Regarding operations in Western Europe - Since GTC Holding's management regards the company's main business strategy and objectives as a real estate developer in developing areas, GTC Holding does not plan to allocate significant resources to other areas in the near future, including investment in income-producing property in Western Europe and will act to reduce its investments in Western Europe..

The aforementioned assessments regarding the developments expected by GTC Group in the coming year are forward-looking information, as defined in the Securities Act, based on macro economic data relevant to each geographical region in which GTC group is active, the management's experience and the condition of the local and global market. The aforementioned assessments might not be realized in their entirety or in part, or might be realized in a different, including significantly different manner than expected, due to the unsuccessful rezoning of land that is part of the GTC Group's reserves as described in the report, both in the Field of Income-Producing Property and residential construction and changes in the condition of the market and changes in the demand for office, commercial and residential space, regulatory changes and/or the realization of all or some of the risk factors detailed in Section 20.8.5. of this part .

8.5.20 Discussion of Risk Factors

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

Macro Risks

[a] **Global economic crisis –** During 2008 there was a significant deterioration in the global financial market, which has continued through the first half of 2009, leading to a global economic crisis. As of the date of this report, it is not clear whether the direct economic effects of the aforesaid crisis have run their course, but it is thought that the worst of the global economic crisis has passed. For additional details on the global economic crisis, see Section 6 of this part. The implications of the global financial crisis are also liable to affect the GTC Group, inter alia by way of a reduction in financing resources, difficulties in refinancing existing projects, increased financing expenses, decreases in demand and in rental.

[b] **Risks stemming from activity in developing countries –** The GTC Group is active in emerging real estate markets both in Central-Eastern Europe and in China. Therefore, it is exposed to risks stemming from business activity in developing countries (including geopolitical and military risks, and local economy risks). It should be noted that some of the aforementioned countries are not part of the European Union.[130] The political and security instability in the countries where the GTC Group is active (including the nationalization of assets by authorities) may influence the markets in those countries and as a result negatively affect the activity of the GTC Group and its operating results. GTC Holding continues to direct managerial and financial resources to investment in Central-Eastern Europe following the economic growth in this region over recent years and in the expectation that this trend will continue to decrease the general and economical gaps between Eastern Europe and Western Europe, as well as to investments in China which has experienced accelerated growth in recent years; Changes in these trends in central-eastern Europe and China may negatively affect the activity of the GTC Group.

Sector Risks

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

[c] **Exposure to fluctuations in supply and demand on the real estate market –** The GTC Group is exposed to fluctuation and changes in supply and demand in real estate markets in the countries where it operates, which may negatively affect occupancy rates in the properties, rental prices, the possibility of disposing of these properties, and the demand for and prices of residential apartments. Similarly, the demand for office and commercial space may decrease as a result of the increase in the supply of space and as a result of heightened competition for prime lessees (international retail companies and chains with financial stability). In light of the foregoing, changes in the rate of return, on the basis of which income property in the regions in which the GTC Group operates is evaluated, are liable to affect its operating results, following the revaluation of income property owned by the GTC Group and the revaluation of the liabilities of the GTC Group,

[d] **Mortgage market for housing in Central-Eastern Europe is undeveloped –** The mortgage market for housing is not sufficiently developed in the markets where the GTC Group is active. Difficulty in receiving loans at comfortable conditions for buying apartments may affect the demand for residential units in the projects developed by the GTC Group.

[e] **Increased competition in the real estate sector –** The entry of additional investors and real estate companies into the areas of activity of the GTC Group could impact real estate competition in these areas and, as a result, affect the results of the GTC Group.

[f] **Environment –** The activity of the GTC Group is subject to regulations, limitations, and conditions related to the environment in the countries where it is active. The GTC Group examines the property that it acquires from an environmental point of view, however this assessment does not ensure the identification of all the potential risks in the area as well as possible changes in the applicable policies and laws (especially in light of potential entry of Central-Eastern European countries into the European Union). The GTC Group may incur unforeseen debts as a result of these risks, such as limitations on or loss of ability to develop part of its properties.

[g] **Financial stability of the GTC Group's tenants –** The value of real estate or any property improvement may depend upon the credit and

financial stability of the tenants of the GTC Group. If a significant number of tenants are unable to fulfill their obligations or if the GTC Group is unable to collect rental fees from the tenants, this is likely to adversely affect the revenues of the GTC Group and its available capital. In the event of failure to pay by tenants, the GTC Group may experience delays in enforcing its rights as landlord, and may incur considerable expenses in protecting its investments.

[h] **Impact of the fair value of the GTC Group's properties on the financial statements –** In the consolidated financial statements of GTC Holding, investment properties are measured initially as cost, including transaction costs, and are subsequently presented at fair value. The fair value is determined once a year by independent real estate appraisers in accordance with recognized valuation techniques (future cash flows and acceptable discount rates for these properties). In some cases the fair values are determined based on recent real estate transactions with similar characteristics and location. Fair value is based on independent appraisal values. Independent appraisal values are however subject to judgments, estimates and assumptions and are not certain since property valuations are based on market conditions in effect as of the balance sheet date and do not take into account future changes in market conditions. In addition to the independent annual valuations, the management of the GTC Group adjusts the fair value of assets over the course of the year if it believes that the fair value needs to be adjusted. These adjustments constitute management's best estimate based upon developments in the markets.

[i] **Undertakings with respect to properties under construction or to be built in the future –** Obligations with respect to properties under construction, or which are to be constructed in the future, are subject to risks including: insolvency of a contractor; construction or other unanticipated delays; construction costs not secured by rental income from the project; excess costs in one or more projects; failure of tenants to pay the rent in accordance with lease agreements and a decrease in rental prices and/or residential real estate prices. Any of these risks could have an adverse effect on the financial condition of the GTC Group, its operating results or reputation.

<u>Special Risks</u>

[j] **Dependence on the condition of subsidiaries –** The ability of GTC Holding and its investee companies to repay the loans it has taken and to take out additional loans in order to develop their business depends on the condition of the market and on the subsidiaries' ability to generate cash flow, both by disposing of assets or by refinancing loans to the extent that allows them to repay debts, as well as the changes in the value of the companies and assets owned by them.

[k] **The effect of the economic condition of countries where the GTC Group operates and the condition of the income-producing property market on the leverage of the GTC Group –** In order to maximize the return on equity, the GTC Group currently relies on and plans to continue relying on external funding in the future for the purpose of developing its projects. In accordance with the loan agreements it has entered into, the GTC Group is required to continue repaying its loans during periods in which there is a decrease in rental income, and as a result the GTC Group is dependent on the financial condition of the countries where it operates and the condition of the real estate market. Similarly, the high leverage exposes the GTC Group to higher financing expenses in the event of delayed completion and/or population of new projects, especially given the fact that in some of the financing agreements the GTC Group is required to make additional payments to the lending bank in the event of a delay in the completion of the projects. In the event the GTC Group will be unable to repay the interest and/or the principal of its loans, the lenders could sell the properties that were placed as collateral for repayment of the loans. In addition, some of the financing agreements of the GTC Group include meeting certain financial restrictions that limit the possibility to continuously manage the company, and the violation of these restrictions could the loans due and payable. As of December 31, 2009 and as of the date of the report, the GTC Group is not in violation of any of its obligations to the banks.

[l] **Dependence on the interpretation and implementation of tax laws –** The calculation of tax obligations of the GTC Group is dependent on the interpretation and implementation of various tax laws and agreements. The GTC Group performs transactions in different countries, mainly via local companies in which it invests. Accordingly, the business activity of the GTC Group is subject to the

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

[m] **Changes in the exchange rates of the various currencies in which the business operations of the GTC Group are conducted –** Changes in the exchange rate for different currencies in which the GTC Group's operations are conducted may affect the financial condition of the GTC Group. The business operations of the GTC Group are carried out in several currencies. In certain cases the GTC Group enters into hedge transactions in order to reduce the effect of changes in exchange rates on its results. Nonetheless, changes in the exchange rates of the different currencies in which the GTC Group's business is conducted may influence the financial condition of the GTC Group and its operating results, as well as the market value of GTC Poland.

[n] **Fluctuations in interest and inflation rates –** Changes in the local interest and inflation rates may affect the results of the GTC Group. Since the GTC Group has significant loans at varying interest rates and/or loans that are linked to the CPI or other indices, future changes in these rates may negatively influence the results of the GTC Group.

[o] **Impairment in the market value of GTC Poland –** Impairment in the market value of GTC Poland as a result of declines in the stock market in Poland which may lead to a decrease of the value of collateral provided to lending banks.

[p] **Dependence on key staff members –** The activity of the GTC Group is managed by a small highly skilled managerial staff with experience in the markets in which the GTC Group is active. Accordingly, the GTC Group is dependent on services provided by a limited number of directors and advisors. Despite the fact that the GTC Group has adopted a policy of remuneration based upon incentives that are intended to limit the departure of managers, the resignation of executives may negatively affect the GTC Group and

its operating results. In addition, in Central-Eastern European countries and elsewhere, there is a shortage of experienced directors. It may therefore be difficult for the GTC Group to recruit appropriate directors, both for the purpose of expanding its activity and replacing managers that may resign.

[q] **Significant government involvement in China –** In its activity in China, the GTC Group is exposed to a market where the government is highly active in the economy in general, and in the real estate market in particular. This exposure also includes the risks of changes in legislation and in laws regulating the activity in the real estate sector, including risks resulting from amendments made to regulations, such as, among others, encouraging investments in certain regions in China and regulations regarding the activity of foreign investment companies. In addition, the activity involves a high degree of bureaucracy and it is necessary to receive many permits over the course of the business activity.

[r] **Limited ability to secure credit for construction in China –** The ability to secure credit for construction in China is limited.

The following table presents the aforementioned risk factors and rates the degree of impact of the risk factors on the business operations of the GTC Group by types of risk:

Secction in this part		**Degree of impact of the Risk Factor on the business activity of the GTC Group**		
	Risk factors	**High Influence**	**Medium Influence**	**Small Influence**
	<u>Macro Risks</u>			
8.5.20[a]	Global economic crisis		X	
8.5.20[b]	Risks stemming from activity in developing countries		X	
	<u>Sector Risks</u>			
8.5.20[c]	Exposure to fluctuations in supply and demand on the real estate market	X		
8.5.20[d]	Mortgage market for housing in Central-Eastern Europe is undeveloped		X	
8.5.20[e]	Increased competition in the real estate sector		X	
8.5.20[f]	Environment			X
8.5.20[g]	Financial stability the GTC Group's tenants		X	
8.5.20[h]	Impact of the fair value of the GTC Group's properties on the financial statements		X	
8.5.20[i]	Undertakings with respect to properties under		X	

	construction or to be built in the future			
	<u>Risks special to the GTC Group</u>			
8.5.20[j]	Dependence on the condition of subsidiaries			
8.5.20[k]	The effect of the economic condition of countries where the GTC Group operates and the condition of income-producing property market on the leverage of the GTC Group			
8.5.20[m]	Dependence on the interpretation and implementation of tax laws			
8.5.20[n]	Changes in the exchange rates of the various currencies in which the business operations of the GTC Group are conducted			
8.5.20[o]	Fluctuations in interest and inflation rates			
8.5.20[p]	Impairment in the market value of GTC Poland			
8.5.20[q]	Dependence on key staff members			
8.5.20[r]	Significant government involvement in China			
8.5.20[s]	Limited ability to secure credit for construction in China			

8.6 Kardan Real Estate

Following are a description and particulars of Kardan Real Estate:

8.6.1 General

Kardan Real Estate was incorporated in Israel in 1988. In November 1999 Kardan Real Estate offered securities to the public under a prospectus.

In May 2005, Kardan Israel, which at that time was a private company, wholly owned by Kardan NV, published a securities prospectus as well as a full exchange tender offer to the shareholders of Kardan Real Estate. In June 2005, following the tender offer, Kardan Real Estate became a private company and was delisted from trading on the Tel Aviv Stock Exchange.

In February 2010 Kardan Israel published a securities prospectus (in this Section 8.6: **"the prospectus**"), and in March 2010 it issued hares 23,778,700 shares and 80,867,000 debentures (Series 1) convertible into shares of Kardan Real Estate. The immediate gross proceeds received in respect of these securities amounted to NIS 138,541 thousand.

As of the date of the report, Kardan Israel holds 73.7% of Kardan Real Estate's issued capital, and after Clal Insurance Company Ltd. and entities controlled by it (in this section: "**Clal**") will be allotted additional shares according to the consideration adjustment mechanism described in Section 8.6.4[1] of this part, Kardan Israel will hold 72.1% of Kardan Real Estate's issued capital (61.% of its fully diluted issued capital). Additionally, as of the date of the report, Clal holds 13% of Kardan Real Estate's issued capital, and following the allotment to Clal, as aforesaid, Clal will hold 14.9% of Kardan Real Estate's issued capital (13.5% of its fully diluted issued capital[130]). The remaining shares of Kardan Real Estate are held by the public. For details, see Section 8.6.4[1] of this part.

8.6.2 Material structural change, merger or acquisition; purchase, sale or transfer of properties on a material scope outside the ordinary course of business

[1] In July 2007, Kardan Real Estate acquired one half of the issued capital of El-Har Engineering and Construction Ltd. ("**El-Har**"), by way of an allotment of shares, in consideration for NIS 18,000 thousand. The transaction reflected a value for El-Har of NIS 36,000 thousand (after the money). After acquiring El-Har, Kardan Real Estate began operating in the field of construction. Shortly after entering into the above acquisition transaction, El-Har's shareholders, including Kardan Real Estate, entered into a shareholders' agreement. See Section 8.6.10 of the part.

[2] In September 2008, Kardan Real Estate distributed, as a dividend in kind, to Kardan Israel, 4,983,111 shares of GTC RE, representing 48.40% of the shares of GTC RE held by it as of then, as described in Section 8.6.5 of this part. In October 2008, Kardan Real Estate sold to Kardan Israel its remaining holdings in GTC RE (5,311,949 shares), in consideration for a total of NIS 91,300 thousand (NIS 17.2 per share). It should be noted that Kardan Real Estate

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130 In this regard, "**fully diluted**" – assuming that all the debentures (Series 1) are converted into shares, and assuming that all the options which Kardan Real Estate committed to allot to its employees, as detailed in Section 8.6.11[2] of this part, are allotted and exercised into shares.

distributed the proceeds of that sale as a cash dividend to its shareholders, as described in Section 8.6.5 of this part.

[3] In December 2009, Kardan Real Estate acquired from Kardan Services (1993) Ltd., a wholly owned subsidiary of Kardan Israel ("**Kardan Services**"), 40% of the issued share capital of Mekdan Management & Maintenance Ltd. ("**Mekdan**"), in consideration for NIS 14,000 thousand. The consideration was set based on a valuation by an independent appraising firm. The transaction reflected a value for Mekdan of NIS 35,000 thousand. For further details regarding Mekdan, see Section 8.6.21[A] of this part.

[4] In December 2009, Kardan Real Estate entered into an agreement, pursuant to which it sold all its rights in an income-producing property located in the Rishon Lezion Industrial Area (Building M-1), having an area of 3,800 square meters and 240 parking spaces, to Hamizrach Holding Company (1984) Ltd. ("**Hamizrach**"), which was its partner in that property, in consideration for NIS 33,000 thousand, subject to an adjustment mechanism that was put in place (in this section: "**the consideration**").[131] As a result of the transaction, Kardan Real Estate recorded an increase in value (before payment of taxes) of NIS 3,500 thousand. For further details regarding the above property, see Sections 8.6.9[C][1] – 8.6.9[C][7] of this part. The agreement provided that Kardan Real Estate and Hamizrach would indemnify Kardan, each up to its share in the property prior to the closing of the transaction, for any claim that would be brought by the original landowners of the property (as they are defined in the footnote to Section 8.6.9[C][1] of this part, pursuant to a guarantee which they received from Kardan Israel.

8.6.3 <u>Areas of activity</u>

Kardan Real Estate, directly and through holdings in other companies and its joint projects in Israel, is engaged in three areas of activity which are reported as business segments in its financial statements for 2009:

Housing – location and development of residential buildings in Israel designated for sale (“**residential construction segment**” and/or “**housing segment**”).

Income-producing properties – location, , development, sale and leasing of office buildings and commercial spaces (“**income-producing properties segment**”).

Construction – provision of construction contractor services in projects of residential buildings, commercial buildings and public buildings ("**construction segment**"). This activity is carried out by El-Har, whose operations are immaterial to Kardan NV.

8.6.4 <u>Investments in Kardan Real Estate Group's[132] capital and transactions in its shares</u>

[1] In February 2010, Kardan Israel and Kardan Real Estate entered into an agreement with Clal Insurance Company Ltd. ("**Clal**"), Meitavit-Atudot Pension Funds Management Ltd. ("**Meitavit**") and Clal Gemel Ltd. ("**Clal Gemel**")[133] (Clal, Meitavit and Clal Gemel, jointly:

[131] Hamizrach holds, indirectly, 45% of the issued capital of UMI. Kardan Israel holds, indirectly, 40.5% of the issued capital of UMIT.

[132] "**Kardan Real Estate Group**" – Kardan Real Estate and its affiliates, including joint ventures.

[133] Meitavit and Clal are institutional entities controlled by Clal.

"**Clal Insurance**"), pursuant to which Kardan Real Estate allotted to Clal Insurance shares representing 15%[134] of Kardan Real Estate's issued capital ("**the allotment date**"), in consideration for an investment of NIS 60,000 thousand in Kardan Real Estate's equity ("**the investment amount**"), which reflected a value for Kardan Real Estate of NIS 400,000 thousand (after the investment) ("**the basic value**").

In addition, it was specified in the agreement that if a public offering of Kardan Real Estate shares on a minimum scope of 15% of Kardan Real Estate's share capital in its amount immediately prior to such public offering would not be completed within three years from the date of allotment of the shares to Clal Insurance ("**the public offering**"), all or each of Clal, Meitavit and Clal Gemel would have a put option to sell to Kardan Israel the shares of Kardan Real Estate that were allotted to them, in consideration for the investment amount, subject to the formula set in the allotment agreement, with Kardan Israel to pay this amount, subject to certain conditions set in the allotment agreement, in unrestricted negotiable shares of Kardan Israel, and if this would not be possible, then Kardan Israel would pay the aforesaid amount in cash.[135]

The agreement established a mechanism for indemnifying Clal, in the event of a securities offering at an effective price per share lower than 105% of the per-share price derived from the basic value, by issuing additional shares that would be allotted to it by Kardan Real Estate, without consideration and according to the formula specified in the agreement ("**the additional allotment**"). In accordance with this agreement, and since the public offering was carried out at an effective price per share lower than the derived share price, Kardan Real Estate will allot to Clal an additional 3,968,164 shares. The approval of the Tel Aviv Stock Exchange is required for listing the shares included in the allotment for trading on the exchange.

Furthermore, Kardan Real Estate undertook in the agreement to indemnify and compensate Clal Insurance for any damage caused to Clal Insurance due to any contention, demand and/or claim against Kardan Real Estate and/or Clal Insurance on a cause and/or occurrence and/or circumstances arising in the period up to the allotment of the shares, that were not specified in the agreement or its appendices, and in the event that the representations made by Kardan Real Estate and Kardan Israel regarding Kardan Real Estate and the state of its business prove to be incorrect and/or incomplete and/or lacking, provided that three years have not elapsed from the allotment date and that the aggregate amount of the compensation and/or indemnity is not less than NIS 2,000 thousand (in which case the duty of indemnification will apply to the full amount).

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134 Clal – 7.4%, Meitavit – 1.5% and Clal Gemel – 6.1%.

135 The allotment agreement specified that cash dividends that would be distributed by Kardan Real Estate from the date of allotment of the shares to the date of exercise of the put option would be deducted from the aforesaid investment amount. It was further specified that the aforesaid investment amount would be linked to the consumer price index and bear interest at a rate of 4% for the first two years after the allotment date, and at a rate of 6% for the third year after the allotment date. It was further agreed that if Kardan Israel would pay the consideration for the put option in Kardan Israel shares, the consideration for the investment would be calculated based on the fair value of Kardan Israel (determined as the average price of Kardan Israel shares on the Tel Aviv Stock Exchange during the ninety trading days preceding the date of exercise of the put option) minus 5%.

Furthermore, subject to completion of the public offering, Kardan Israel undertook to indemnify and compensate Kardan Real Estate for any amount which Kardan Real Estate would be ordered to pay in a judgment and/or judicial decision (including an arbitrator's decision), in connection with legal proceedings conducted against Kardan Real Estate presently or in the future, and in connection with any tax payment or provision on a cause arising before the allotment date and in respect of which no provision was made or an inadequate provision was made in the financial statements of Kardan Real Estate, all the foresgoing subject to the following condition: At the end of three years from the allotment date, an examination will be made of the "**cumulataive effect**"[136] of the payments which Kardan Real Estate has been ordered to make. If the amount of the cumulative effect is positive, Kardan Israel will pay Kardan Real Estate the amount of the cumulative effect in excess of NIS 10,000 thousand ("**the minimum amount**"). If the amount of the net cumulative effect is lower than the minimum amount or negative – no adjustment will be made. The aforesaid indemnity and compensation will be effected by way of injection of the indemnity amount into Kardan Real Estate, by Kardan Israel, as premium on share capital.[137]

Furthermore, the allotment agreement set restrictions on transactions for the provision of services by Kardan Israel to Kardan Real Estate.[138]

Under the agreement, Kardan Israel gave an irrevocable undertaking, for an unlimited amount, to guarantee Kardan Real Estate's obligations in respect of the indemnities described above.

[2] In September 2009, Kardan Real Estate issued to Kardan Israel ordinary shares of NIS 1 nominal value each of Kardan Real Estate, representing 67% of Kardan Real Estate's issued capital on that date and after said issuance of shares, against an investment of NIS 120,000 thousand in Kardan Real Estate's capital which was implemented by converting shareholders' loans in an equivalent amount that had been provided by a wholly owned subsidiary of Kardan Israel to Kardan Real Estate (see Section 8.6.13[B] of this part). Furthermore, in February 2010, Kardan Real Estate issued to Kardan Israel ordinary shares of NIS 1 nominal value each

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136 "**Cumulative effect**" – The cumulative amount of payments and provisions during three years from the allotment date, in respect of which an inadequate provision was made or no provision was made at all in the financial statements of Kardan Real Estate, less the cumulative amounts of over-provisions as well as amounts that Kardan Real Estate will receive until the end of those three years, in respect of all legal proceedings conducted presently or in the future by Kardan Real Estate on a cause arising in the period before the allotment date and in respect of which no positive provision was recorded in the financial statements of Kardan Real Estate.

137 In case the public offering is not compeleted, as stated, Kardan Real Estate has undertaken to indemnify Clal Insurance in lieu of the undertaking given by Kardan Israel to indemnify Kardan Real Estate, according to Clal Insurance's proportion in Kardan Real Estate, and subject to the conditions specified in the allotment agreement. Kardan Israel is guarantor for this undertaking of Kardan Real Estate.

138 The allotment agreement specifies that in consideration for various services to be provided by Kardan Israel to Kardan Real Estate, Kardan Real Estate will pay Kardan Israel an amount not exceeding NIS 600 thousand per year, linked to the index. Furthermore, and in addition to the foregoing, starting from the date of the public offering, Kardan Real Estate will be permitted to pay Kardan Israel directors' fees for a total not exceeding NIS 400 thousand per year, linked to the index. It was further agreed that if and to the extent that the public offering would be completed, it would not be possible to modify the terms of the aforesaid service agreement until the lapse of a period of three years from the date of allotment of the shares to Clal Insurance, and that on that date it would be permitted to extend the term of the agreements in connection with the aforesaid services or to modify their terms, subject to the approval of the competent organs of Kardan Real Estate, as required by law.

of Kardan Real Estate, representing 10% of Kardan Real Estate's issued capital on that date and after said issuance of shares, against an investment of NIS 111,300 thousand in Kardan Real Estate's capital which was implemented by converting shareholders' loans in an equivalent amount that had been provided by a wholly owned subsidiary of Kardan Israel to Kardan Real Estate (see Section 8.6.13[B] of this part).

[3] For details regarding a plan for the allotment of (unlisted) options of Kardan Real Estate to executives and employees at Kardan Real Estate, see Section 8.6.11[2] of this part.

[4] On February 26, 2010, Kardan Real Estate published a supplementary prospectus ("**the prospectus**") for the issuance of shares of Kardan Real Estate ("**Kardan Real Estate shares**") and of debentures (Series 1) convertible into shares of Kardan Real Estate, bearing annual interest at a rate of 5.70% and linked (principal and interest) to the Consumer Price Index published for January 2010 ("**debentures (Series 1)**"). On March 21, 2010, Kardan Real Estate issued, pursuant to the prospectus and pursuant to a supplementary notice to the prospectus ("**supplementary notice**"), 23,778,700 shares of Kardan Real Estate at a price of NIS 2,32 per share (and in total for a consideration of NIS 55,167,000) and 80,867,000 debentures (Series 1) in consideration for a total of NIS 83,374,000, which were listed for trading on the Tel Aviv Stock Exchange on March 21, 2010.

8.6.5 Dividend distribution

In September 2008, Kardan Real Estate distributed to its shareholders, as a dividend in kind, a portion of the shares of GTC RE owned by it, and in total, shares accounting for 48.4% of the shares of GTC RE held by Kardan Real Estate and 5.8% of the issued capital of GTC RE on that date, in a taxable distribution, not in accordance with Section 104C of the Income Tax Ordinance [New Version], 5721-1961 ("**the Income Tax Ordinance**" or "**the Ordinance**") . In connection with this distribution, Kardan Real Estate and Kardan Israel reached an agreement that if Kardan Real Estate were to have an actual tax liability, Kardan Israel would transfer to Kardan Real Estate the amount of the tax as an investment in equity. In January 2010, the aforesaid agreement was cancelled. As of the date of the report, no tax demand has been received from the tax authorities. Since the distribution is taxable as aforesaid, it did not require the prior approval of the tax authorities. Furthermore, since Kardan Real Estate had distributable profits in a sufficient amount, the distribution did not require the approval of the court as per Section 303 of the Law.

In October 2008, the Board of Directors of Kardan Real Estate approved the sale of its remaining shares in GTC RE (5,311,949 shares) to Kardan Israel for a total consideration of NIS 91,300 thousand (NIS 7.2 per share) and the distribution of the proceeds of the sale as a cash dividend to the shareholders of Kardan Real Estate. The aforesaid distribution was implemented with the approval of the court.

Other than the aforesaid, in the years 2010 (up to the date of the report), 2009 and 2008, Kardan Real Estate did not distribute any dividend to its shareholders.

Under certain circumstances, Kardan Real Estate's obligations to banks could delay or reduce the amount of its dividend distributions, in view of agreements between Kardan Real Estate and the banks which granted Kardan Real Estate credit facilities against a commitment on its part to comply with certain financial covenants, which, in the event of noncompliance by

Kardan Real Estate, would entitle the banks to demand the immediate repayment of the credit that was granted. For details, see Section 8.6.13[E] of this part.

As of December 31, 2009, Kardan Real Estate does not have any retained earnings for distribution.

8.6.6 Financial information on Kardan Real Estate's areas of activity (NIS thousands)

	Income-Producing Properties Segment			Residential Housing Segment[141]			Construction Segment[140]			Other			Reconciliation to the Report[139]			Total		
	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Revenue from outside jobs	6,762	7,750	8,543	142,864	52,877	66,950	109,743	126,758	65,631	724	1,845	2,123	(26,488)	-	(32,961)	233,605	189,230	110,286
Revenue from other business segments	-	-	-	-	-	-	40,387	26,971	-	-	-	-	(40,387)	(26,971)	-	-	-	-
Total revenue	6,762	7,750	8,543	142,864	52,877	66,950	150,130	153,729	65,631	724	1,845	2,123	(66,875)	(26,971)	(32,961)	233,605	189,230	110,286
Expenses for outside jobs	192	912	2,194	131,444	51,136	68,771	104,550	125,730	66,062	-	-	-	(20,256)	10,988	(16,822)	215,930	188,766	120,205
Expenses for other business segments	-	-	-	-	-	-	39,444	23,646	-	-	-	-	(39,444)	(23,646)	-	-	-	-
Total attributed expenses[142]	192	912	2,194	131,444	51,136	68,771	143,994	149,376	66,062	-	-	-	(59,700)	(12,658)	(16,822)	215,930	188,766	120,205
Increase (decrease) in value of investment properties and investment properties under development or construction, and decrease in value of noncurrent inventory	1,757	(4,138)	1,698	-	-	-	-	-	-	-	-	-	-	-	-	1,757	(4,138)	1,698
Other income (expenses), net	(500)	(36)	-	-	239	-	84	376	294	-	-	-	(380)	(901)	-	(796)	(322)	294
Total operating profit (loss)	7,827	2,664	8,047	7,748	1,980	(1,821)	6,220	4,729	(137)	724	1,845	2,123	(3,883)	(15,214)	(16,139)	18,636	(3,996)	(7,927)
Total assets as of December 31	231,349	207,845	164,831	513,989	464,591	363,648	62,951	73,346	59,764	-	-	-	(158,903)	(170,672)	115,198	649,386	575,110	703,441
Total liabilities as of December 31	137,830	87,279	29,506	396,313	385,410	333,003	34,732	46,388	44,474	-	-	-	(105,440)	(15,839)	(39,148)	463,435	503,238	367,835

139 Revenues, expenses and assets which Kardan Real Estate does not attribute to the business segments.

140 This business segment of Kardan Real Estate is included in the financial statements of Kardan Israel under the construction segment.

141 The residential housing segment includes also the revenues, expenses and assets of Holyland Park Ltd. ("**Holyland**") (according to the holding rate of Kardan Real Estate in Holyland (30%)), the investment in which is presented in the financial statements of Kardan Real Estate by the equity method.

142 Including expenses included in gross profit and general and administrative expenses.

Revenues in the residential construction segment are affected by the accounting treatment, whereby income from the sale of housing units is recognized when the unit is handed over to the customer. The increase in revenues in the housing segment in 2009 over 2008 stems from an increase in the number of housing units handed over to customers. Thus, in 2009, 248 housing units were handed over (including 60 housing units handed over by an affiliate), compared to 129 housing units that were handed over in the same period last year (in 2008 no housing units were handed over by the affiliate). The increase in revenues, expenses and operating profit, in the housing segment, in 2009 compared to 2008, is attributable mainly to an increase in the number of housing units handed over to customers. The decrease in revenues in the housing segment in 2008 compared to 2007, stemmed from a different mix of apartments that were handed over.

The increase in total assets in the income-producing properties segment between 2008 and 2009 stems mainly from accrued costs in Stage B of the Kardan House project,[143] net of the sale of the M-1 project.[144] The increase in total assets, in the income-producing properties segment, between 2008 and 2009, stems mainly from accrued costs in Stage B of the Kardan House project[145] net of sold properties. The increase in total assets, in the housing segment, between 2008 and 2009, stems mainly from cash balances in the projects in Lod, Petach Tikva and Rehovot, from the entry of new projects in Ramat Gan, Petach Tikva and Lod, and from progress in the execution of projects in Herzliya and Rehovot,[146] net of inventory which was transferred to the costs of goods sold. The increase in total assets, in the housing segment, between 2007 and 2008, stemmed mainly from the acquisition of rights in the Andromeda project[147] and from accrued costs in the Notan project.[148]

The results of the income-producing properties segment include in 2009 a net increase in value of NIS 1,757 thousand, stemming from an increase in the value of Building M-1 and of the Kfar Saba Complex,[149] net of a decrease in the value of Kardan House Stage A[150] and Kardan House Stage B, and in 2008 – a decrerase in value in respect of Building M-1 and in respect of land in Givat Shaul held by El-Har, net of a gain from the sale of an office building by El-Har. The results of the income-producing properties segment include, in 2007 – an increase in value in respect of Kardan House Stage A. The decrease in operating profit, in the income-producing segment, between 2007 and 2008, stems mainly from increases and decreases in the value of these properties. In spite of the increase in value of properties in 2009 described above, revenue in the income-producing properties segment was lower than in 2008, due to the fact that revenue in this segment in 2008 included revenues from the sale of areas in Building M-1

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143 For details regarding the Kardan House Stage B project, see Section 8.6.9[C][9] of this part.

144 For details regarding the M-1 building, see Sections 8.6.9[C][1]-[7] of this part.

145 For details regarding the Kardan House project (Stages A and B), see Section 8.6.9[C] of this part.

146 For details regarding the said projects in Rehovot, Herzliya, Lod, Petach Tikva and Ramat Gan, see Sections 8.6.8[C][1]-[6] of this part.

147 For details regarding the Andromeda project, see Section 8.6.8[C][5] of this part.

148 For details regarding the Notan project, see Section 8.6.8[C][3] of this part.

149 For details regarding this complex, see Section 8.6.9[C][1]-[8] of this part.

150 For details regarding Kardan House Stage A, see Sections 8.6.9[C][1]-[7] of this part.

amounting to NIS 800 thousand. Accordingly, the decrease in expenses in this segment in 2009, compared to 2008, stems from the sale of areas in Building M-1, as stated.

8.6.7 General environment and influence of external parties

As a company dealing in the different areas of the Israeli real estate sector, Kardan Real Estate is exposed to changes in market conditions in general and in the real estate sector in particular.

The following are the factors in the macroeconomic environment that influence or could influence Kardan Real Estate's operations:

The economic and security situation: Demand in the real estate sector is influenced, among other things, by Israeli macroeconomic developments and trends and by security events that may lead to a slowdown in the economy in general, and in the real estate market in particular. In recent years, until the middle of 2008, the general economy and the real estate sector recorded growth, reflected in a rise in apartment and office prices in high demand areas and in an increase in construction activity. Beginning in the third quarter of 2008, the global economic crisis began to make its mark on the Israeli economy too, causing a slowdown in real estate activity, with a fall in luxury apartment prices and office rentals in high demand areas as well as a drop in the number of housing starts. In contrast to the weakening of the commercial real estate market, in 2009 the residential real estate market showed an improvement, reflected in a rise in demand for apartments alongside an increase in prices in this market.[151] In addition, the banking system demonstrated greater willingness to provide financing, and even removed some of the rigid conditions it had set with the outbreak of the world economic crisis.

Furthermore, Israel's political and security situation has a direct impact on the real estate sector, reflected in a decrease in demand for housing units and increase in construction costs. The security situation could cause a shortage in raw materials coming from the West Bank (mainly stone), as well as a temporary shortage in manpower due to frequent call-up of the military reserve forces without advance warning.

The crisis in the world economy – During 2008 there was a significant deterioration in global financial markets, which persisted during the first half of 2009, causing a real worldwide economic crisis. As of the date of the report, it is unclear if the direct economic repercussions of this crisis have been exhausted, however assessments are that the global economic crisis has peaked. For further details regarding the global economic crisis, see Section 6 of this part.

In the wake of the global economic crisis and based on the experience gained from it, financial corporations in Israel which finance real-estate transactions have tightened their policies regarding the provision of credit and bank loans, toughened the threshold conditions for granting mortgages and raised the interest spread on their loans, while at the same time reducing loan-to-value financing ratios on properties. The slowdown in Israel and around the world has, among other things, hit the income of households and economic activity in the

[151] In 2009, there was a 10% increase in the demand for new apartments compared to 2008. The data are taken from a press release of the Central Bureau of Statistics from January 28, 2010 – "Demand for New Apartments: December 2009."

For further details see: http://www.cbs.gov.il/reader/newhodaot/hodaa_template.html?hodaa=201004020 business sector, caused a rise in unemployment rate and affected the payment capacity of apartment buyers and renters of commercial areas and office space. The real estate sector, including the construction sector, is affected by these developments, including by way of reduction of financing sources, difficulty in obtaining bank financing, which hinders the development of new projects and the ability of entrepreneurs to obtain refinancing for their projects, as well as an increase in financing expenses and a decrease in demand including due to the contraction of the activity in Israel of Israeli and international business entities, and a reduction in the volume of the acquisition of properties by foreign residents. In the second half of 2009, the banking system indicated a willingness to finance real-estate transactions, by selectively easing its policy on extending credit and bank loans for projects.

In this connection, it is noted that the global economic crisis had, alongside the aforesaid negative effects, also positive effects on Kardan Real Estate's business, due to the weakening of several of its competitors who suffered a credit squeeze. In addition, opportunities arose for purchasing land plots at lower prices than characterized the pre-crisis period, there were changes in customer preferences, with customers now preferring to contract with large and established companies, and construction costs declined.

Such developments and upheavals in the markets are liable to have significant and ongoing negative effects on the business results of Kardan Real Estate, El-Har and Mekdan. Likewise, such turmoil could affect the liquidity of Kardan Real Estate, its equity value and its asset value, its ability to dispose of its assets, the condition of its business (including demand for its properties), its ability to distribute dividends and its ability to raise financing for its current activity and its long-term activity, as also financing terms, as stated. In addition, the activity of El-Har was affected by the crisis and its repercussions, reflected in a contraction in the scope of its activity.

Regulatory factors – Activities in the industry are influenced by and subject to regulatory procedures and legal requirements with respect to planning and construction, and to changes therein. A change in these requirements and the setting of additional requirements could have a negative effect on Kardan Real Estate due to unexpected expenses. Furthermore, in light of the long period of time required for project planning and approval procedures, from the initiation stage until actual construction, substantial capital is required for real estate development in Israel. This places a constraint on company operation in the industry.

Population growth rate and immigration and emigration trends – The growth rate of the population in Israel affects the activity of Kardan Real Estate. Trends such as a decrease in the birth rate, a decline in immigration to Israel and emigration from Israel change the demand for housing units and for public buildings.

Raw materials – Real estate activity is influenced by the availability of raw materials for construction and by changes in the prices of raw materials. Raw material shortages, as a consequence of the security and/or political situation, labor disputes at the ports, changes in global commodity markets and global consumption, and events which influence the ability to import raw materials to Israel, could cause delays in supply and price increases in the real estate sector. By the third quarter of 2008, a substantial increase was noted in the prices of raw materials for construction, such as iron, steel and fuel. From the fourth quarter of 2008 and up to the second quarter of 2009, prices of raw materials trended downward, and as of the date of the report, the downward trend in raw material prices has moderated and prices have stabilized.

Government policy and availability of manpower – Kardan Real Estate's activity is affected by the government's policy, including with respect to the availability of mortgages, taxation on apartment sales or rent, the extent of benefits for apartment buyers, availability of foreign workers and workers with suitable professional training, the prices of building inputs, the allocation of land for tenders, the policy of the planning bodies, and government policy regarding the granting of licenses for activity in the field of real estate. Owing to the reform implemented by the government for the employment of foreign workers through designated manpower corporations, a continued shortage in manpower was created in the construction industry due to over-dependence on foreign workers. The shortage and unavailability of skilled manpower could affect the ability to meet deadlines and the cost of contracts.

The land reform – In January 2010, an amendment to the Israel Lands Law, 5720-1960 came into effect, based on the work of the Gadish committee from 2005 and the Ronen committee from 1997.

The purpose of the reform is to replace the Israel Lands Administration with a new authority, the Israel Lands Authority, which will act to promote competition in the land property market, to prevent the concentration of land ownership, and to promote land in Israel as a major resource in the country's development for the benefit of the public, while leaving land reserves for future needs. Another purpose of the reform is to enable the transfer of ownership of some of the land plots designated for housing and employment to the lessees. The reform will enable the transfer of ownership of state lands and lands of the Development Authority which constitute municipal land. Proponents of the reform see it as an important factor in increasing the operating efficiency of the land real estate market and inducing growth, especially in a period of economic crisis. In the wake of the reform, intensive marketing of land for the construction of numerous housing units has begun in high-demand areas.

Financial factors

Fluctuations in the Consumer Price Index and interest rate – Kardan Real Estate finances its business activity by loans linked to the CPI and unlinked shekel loans. Its rental income is also linked to the CPI. Therefore, fluctuations in the Consumer Price Index and interest rate influence Kardan Real Estate’s cash flow and financing expenses. A change in the interest rates affects prices of credit for financing projects, the decision of buyers of apartments as an investment and/or the decision of customers whether to buy or rent a residential apartment.

Fluctuations in foreign currency rates – As of the date of the report, Kardan Real Estate does not have dollar loans nor receivables in respect of dollar loans. In certain areas in Israel in which foreign citizens are the main target population for purchasing apartments, housing prices and demand levels may be influenced by fluctuations in the rate of the dollar and euro. Likewise, fluctuations in foreign currency exchange rates could affect activity in the construction segment. Some expenses in the construction segment, such as raw materials, equipment and employment of foreign labor, are denominated in a foreign currency.

Fluctuations in the exchange rates of the foreign currencies in which the Kardan Real Estate Group's business is conducted in the segment (mainly the dollar and the euro) could affect its expenses. Furthermore, these fluctuations could affect the demand for real estate projects.

Interest rates – Fluctuations in the interest rate affect active projects of Kardan Real Estate in which conditions were set for financing from the financing entity (by way of signing bank loan agreements). In cases where the loan is on prime interest basis, Kardan Real Estate pays financing expenses that vary in line with reductions in interest. Furthermore, fluctuations in interest influence the decision of potential apartment buyers who require a mortgage-type bank loan to complete the purchase.

Availability and cost of financing sources – An increase or limitation on the scope of bank credit to the real estate market, to large companies, to real estate entrepreneurs, to contractors and to apartment buyers, unrelated to crises such as the recent global economic crisis, as described above, and the toughening of financing conditions, reflected in the total equity, the scope of the collateral required when entering into new investments and in the financing costs, could expose the Kardan Real Estate Group to difficulties in the execution and completion of projects and in the sale of the apartments in the projects.

Fluctuations in the construction input index – Kardan Real Estate agreements with major contractors for the execution of projects are stated in shekels and linked to the building inputs index. The revenues of Kardan Real Estate from the sale of apartments are linked to the building inputs index. Changes in the construction inputs index directly influence the cost of housing construction and revenue from the sale of apartments and consequently affect cash flows and operating results. In the field of construction projects, an increase in the price of construction inputs affects the costs of raw materials, the cost of manpower and agreements with subcontractors. In the course of 2008 the construction inputs index declined, but this trend was reversed with the decline in prices of iron, fuel and raw materials against the background of the global economic crisis, and by year-end the construction inputs index has risen by 3.3% compared to 3.1% in 2007. In 2009 there was no change (in the aggregate) in the construction inputs index.[152]

8.6.8 The housing segment

[A] General

Kardan Real Estate locates, promotes and develops residential buildings for sale. Kardan Real Estate manages these projects itself or through companies or joint transactions with partners that are generally other real estate companies. Large projects where construction can be divided into stages, the pace of construction is adapted, among others, to the rate of sale of apartments in the project. Kardan Real Estate usually outsources the construction work to construction companies on a turnkey basis. The contractors execute the project as the head contractor, sometimes together with subcontractors that are subordinate to them, up to completion of the project, as stated. As of the date of the report, Kardan Real Estate has 7

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[152] From the website of the Association of Contractors and Builders in Israel: http://www.acb.org.il/Site/Uploads/Articles/Files680.pdf

projects for a total of 1,579 housing units (in different stages of planning and execution).[153] In addition, Kardan Real Estate has 3 projects in reserve, and an additional 2 projects are suspended. In some projects construction of certain stages has been completed and they are even inhabited, while others are in various construction, development and planning stages.

Below are details regarding the number of housing units included in projects of Kardan Real Estate, by type of project:[154]

Type of Project	No. of Housing Units by UBPs in Force		No. of Housing Units by UBPs in Approval and/or Planning		Total Housing Units in the Project	Total Housing Units – Share of Kardan RE	Share of Kardan RE in Revenues of the Stage	Share of Kardan RE in Profit of the Stage	Expected Average Gross Profit Rate – for Kardan RE	Expected Year of Start of Construction	Expected Average Duration of Construction by Years
	No. of Units	Share of Kardan RE[155]	No. of Units	Share of Kardan RE							
Projects in process	372	133	-	-	372	133	231,390	27,610	11.9%	-	2.75
Projects in planning	1,207	798	23	16	1,230	814	995,396	145,811	14.6%	2012 – 2010	2.75
Land reserves[156]	712	538	322	169	1,034	707	564,988	78,801	13.9%	2015 – 2010	4.50
Suspended projects	37	37	107	85	144	122	147,900	17,675	12%	2013	2.50
Total	2,328	1,506	452	270	2,780	1,776	1,939,674	269,897	13.9%	2015 – 2010	-

[B] <u>General information about the business segment</u>

Below is a description of trends, events and developments in the sector which affect and may affect Kardan Real Estate's activity in the residential housing segment, apart from factors affecting the overall real estate industry in Israel (specified above in Section 8.6.7 of this part):

The field of residential construction in Israel is characterized by great decentralization and fierce competition. A large number of companies operate in the real estate industry in general, and the residential construction sector in particular, dealing in the development, construction and sale of housing projects. Many other entities operate in parallel with these companies, such as small and local private entrepreneurs, purchasing groups and other groups that organize for the concentrated purchase of apartments. In this connection, it is noted that the presence of

153 Kardan Real Estate's share in these units is 931 housing units.

154 **The data in this table regarding plans that have still not been approved, the number of units in projects in planning, in land reserves and in suspended projects, the expected average gross profit rate, the expected year of start of construction and the expected duration of construction, constitute forward-looking information as defined in the Securities Law, based on forecasts and/or work plans of Kardan Real Estate. These assessments might not be realized, wholly or partly, or may be realized in a different manner than anticipated, including in a material manner, due to changes in planning policy, statutory processes, changes in plans of the Kardan Real Estate management and/or realization of all or part of the risks factors detailed in Section 8.6.22 of this part.**

155 Excluding owners' rights in combination transactions.

156 Excluding the rights of Kardan Real Estate (jointly with others) in land in Rehovot with an area of 830 square meters, in which Kardan Real Estate's share on the books amounts to NIS 800 thousand. As of the date of the report, Kardan Real Estate is acting to dispose of its said rights.

purchasing groups in the housing construction market causes a rise in prices of land available for construction.

The residential construction sector in Israel is divided into two sub-sectors – publicly initiated construction (initiated by the Ministry of Housing and Construction), which is generally centered in national priority areas and periphery areas and characterized by relatively small to medium apartments and by a basic building specification; and privately initiated construction, which is generally centered in high-demand areas and in the center of the country and characterized by medium to large apartments and by a richer building specification. Kardan Real Estate's activity is focused primarily on the privately initiated residential construction sector.

From 2005 until the second half of 2008, the residential construction sector enjoyed a trend of increasing growth in demand. Starting from the second half of 2008 and up to the beginning of 2009, the effects of the global economic crisis and its repercussions were apparent in the Israeli market, and the aforesaid growth trend was checked and even reversed. At the beginning of 2009, the trend has changed, with demand turning positive again. Nevertheless, the slowdown in demand for luxury housing and by foreigners still persisted.

In the first eleven months of 2009, demand for new apartments rose in the market by 9% compared to the same period last year. The increase in this period was recorded both in the number of apartments sold (+25%) and in the number of apartments on which construction was started not for selling purposes (+5%). Concurrently, the number of new apartments remaining for sale in the privately initiated construction sector continued to decline, reaching at the end of November 209 only 8,220 apartments, a decrease of 25% compared to the end of November 2008.[157]

As noted, the global economic crisis resulted in the weakening of several competitors of Kardan Real Estate in the residential construction sector, enabled the purchase of land at lower prices than characterized the pre-crisis period and led to customer preference for contracting with larger and better established companies. Kardan Real Estate took advantage of these opportunities and executed a number of transactions in the course of 2009 that improved its standing in the residential construction market.

Demand for housing in Israel is influenced, among others, by the pace of growth of households, the scope of immigration to Israel and emigration from Israel, the economic situation of potential buyers, the number of apartments purchased by "foreign residents" and other foreign investors, the availability and price of credit, the supply of apartments and land, the prices of apartments and land, interest rates, fluctuations in the dollar exchange rate, expectations for changes in housing prices, expectations for a return on increases in housing prices and/or a return on long-term investments (return on third party rental of apartments), from other assessments relating to the real estate market in the area in which the transaction is executed, from purchasers' investment preferences, etc. Demand for apartments has a direct effect on selling prices and profitability.

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[157] From a press release of the Central Bureau of Statistics from December 31, 2009.

In addition, changes in construction input prices, government and ILA policy regarding the marketing of land and the availability of land in high-demand areas affect the scope of activity in the sector and its profitability. The time interval between the purchase of rights in the land and the validation of urban building plans and building approvals could also have a material effect on the project's profitability, the availability of financing sources and their cost.

Residential construction is subject to legal provisions such as land laws, contracts, sale laws, planning and construction laws, the Israel Lands Administration Law, decisions and procedures of the Israel Lands Administration, various outline plans, legal requirements relating to quality of the environment, etc. Activity in the sector requires initiating a variety of planning and/or legal processes for licensing, receipt of building permits, changing the designation of urban buildings plans (UBPs), payment of permit fees, betterment levies, etc. Residential construction is further subject to legislation in the area of land taxation and mortgages. For further details, see Section 8.6.16 of this part.

Furthermore, in recent years and especially in 2009, there has been a marked trend of increase in the purchase of apartments as an investment (whether new or old apartments) by well-off private investors.

<u>Major entry and exit barriers of the residential construction segment</u>

The entry barriers in the residential construction segment are: (1) goodwill, proven experience and quality manpower; (2) availability of land at the desired location and price, economic feasibility and expected rates of return; (3) need for financing and a lending banker and equity requirements; (4) financial strength.

The exit barriers in the residential construction segment are: (1) long-term contracts with land owners and/or other real estate companies that Kardan Real Estate has entered into to execute various projects, which limit the dissolution of the partnership between the parties; (2) commitment to Kardan Real Estate warranty, as reflected in guarantees provided to project buyers under the Housing Sale Law (Ensuring Home Buyers' Investment), 5735-1974 ("**Ensuring Investment Sale Law**"), as well as in maintenance warranties; (3) the extended time it may take to dispose of real estate properties; (4) long-term contractual commitments to government authorities.

<u>Substitutes for the products of the business segment</u>

"Second-hand" apartments and self-construction housing units provide the main substitute for the purchase of new apartments. Apartment rentals for various periods provide an additional substitute for the purchase of apartments.

[C] Data regarding projects in the housing segment[158]

Project Name	Project Location	No. of Building/ Buildings	Kardan RE's Share	Total Units in Stage	Number of Units for which Cumulative Income Recognized in the Reporting Periods	Revenue Carried to Comprehensive Profit (Loss) (NIS Thousands)			Cost Carried to Comprehensive Profit (Loss) (NIS Thousands)		
						2009	2008	2007	2009	2008	2007
Achuzat Hanassi[159]	Rehovot	208-212	42.18%[160]	65	64	12,018	17,425	-	9,760	14,945	-
		303-304		128	23	361	98	1,397	255	288	1,270
		305-307		200	199	28,180	24,265	3,189	23,995	21,865	3,248
		310		99	97	929	5,596	29,404	277	4,924	26,969
Sun Hills[161]	Beit Shemesh	1-6	100%	72	68	60,646	-	-	49,537	-	-
Nofei Hashemesh[162]	Beit Shemesh	1-36	50%[163]	36	29	14,243	5,494	-	15,673	5,050	-
Holyland[164]	Jerusalem	10-12	30%[165]	222	103	-	-	32,961	-	-	31,960
		16		78	60	26,488	-	-	25,257	-	-

158 Data on cost carried and revenues carried reflect the share of Kardan Real Estate. Furthermore, the data relating to expected costs in projects include attributed costs in respect of overheads of Kardan Real Estate and financing costs.

159 A project for the construction of a residential neighborhood on private land, including 897 housing units in 22 buildings (and 28 cottages) and 3,000 square meters of commercial areas. In this project, as of the reporting date, construction was completed on 704 housing units (in 20 buildings (and 28 cottages)), and an additional building was constructed as detailed in Section 8.6.8[C][3] of this part. Likewise, an additional building and a commercial area are in the planning stages (see Section 8.6.8[C][5] of this part.

160 Kardan Real Estate together with a partner (50%) ("**the entrepreneurs**") acquired 30% of the project, and serve in the remaining 70% as executing contractor (through a subcontractor) for the land owners, in consideration for 72.67% of the proceeds from the sale of the apartments. Consequently, the entrepreneurs are entitled to 84.36% (Kardan Real Estate's share – 42.18%).

161 Kardan Real Estate won a tender of the Israel Lands Administration and the Ministry of Housing for the purchase of land for the construction of 69 housing units. In the framework of a planning change, Kardan Real Estate added 3 housing units. A total of 72 units were built.

162 A project planned, as of the reporting date, for the construction of a residential neighborhood on ILA land consisting of 188 private homes, 192 high-density apartments and 700 square meters of commercial areas. As of the reporting date, construction has been completed on 36 private homes.

163 Kardan Real Estate holds 50% of Nofei Hashemesh BS Ltd. ("**Nofei Hashemesh**"), which holds the land. Yesodot Zur Yozmot (1995) Ltd. ("**Yesodot Zur**"), which is the additional shareholder in Nofei Hashemesh, holds a preferred share that gives it the right to receive 50% of any profit above NIS 66,600 thousand, linked to the CPI. In other words, up to this amount the profits will be divided among the shareholders according to the ratio of their holdings at the time of the division, while profits above this amount will be divided in such a manner that Yesodot Zur will first be entitled to 50% of the excess amount and the remaining 50% will be divided among the shareholders. In February 2009, in light of Yesodot Zur's announcement that it would not be able to transfer its proportionate share, based on its holdings in Nofei Hashemesh, of the financing required by Nofei Hashemesh, Kardan Real Estate entered into an agreement with Yesodot Zur, the substance of which was the provision of NIS 22,000 thousand to Nofei Hashemesh as a shareholders' loan. In February 2010 Yesodot Zur repaid this loan. For further details, see section 8.6.13[J][2] of this part. For details regarding shareholders' loans provided by Kardan Real Estate to Nofei Hashemesh, see Section 8.6.17[B] of this part. As of the reporting date, Kardan Real Estate and Yesodot Zur are working to change the UBP applying to the land, so as to increase to 590 the total number of housing units that can be build on the land. Concurrently, Yesodot Zur and Kardan Real Estate are examining the possibility of disposing of the land on which no housing units have been built yet (Stage A, which is already a built and inhabited stage, includes 36 private houses).

164 In December 1999, Holyland acquired rights in land for the construction of a project, in the framework of a transaction consisting in part of cash and in part of receipts (the amount of the proceeds payable to the sellers of the rights in the land was set at 18.5% of the proceeds from sales of the apartments to be built in the project, up to 2,700 dollars per square meter ("**the basic receipts**"), and at 25% of the receipts to be collected beyond 2,700 dollars per square meter with respect to receipts beyond the basic receipts (the amount of 2,700 dollars is linked one half to the dollar and one half to the consumer price index)). In this project, a residential neighborhood is being built on private land that is planned to included a total of 969 housing units in 12 buildings (out of which construction has been completed on 6 buildings, 2 buildings are under construction and 4 additional buildings are in the planning stages) ("**the residential compound**"). In addition, the project includes 50% of the land adjacent to the residential compound (50% of the rights in this land are held by a third party), on which it is possible to construct 13,700 square meters (Holyland's share) ("**the hotel compound**"). The construction of 69 housing units out of the 969 units included in the residential compound, as stated, depends on the approval of the UBP which Holyland is advancing (see Section 8.6.8[C][6] of this part) for the migration of construction rights from the hotel compound to the residential compound (migration of the construction rights, as stated, from the hotel compound to the residential compound was regulated in a series of agreements signed between Holyland and its former partner in the hotel compound). In this project, as of the reporting date, construction has been completed on 415 housing units. A caveat is registered on the rights in the aforesaid land concerning an antiquities site. Kardan Real Estate conducted exploration and rescue excavations on the land in collaboration with the Hevra Kadisha burial society and the Antiquities Authority, and accordingly, it received the Antiquities Authority's approval for carrying out the construction in stages which have been and are in stages of being built.

165 The investment in Holyland is presented in Kardan Real Estate's books by the equity method. The amounts in all the tables in this Section 8.6.8[C] represent Kardan Real Estate's share in Holyland (30%).

[1] Below is a summary of data concerning projects that were completed between 2007 and 2009 (inclusive) and carried to the comprehensive statement of income (loss) of Kardan Real Estate (*):

Additional data concerning projects completed between 2007 and 2009 (inclusive) and carried to the comprehensive statements of income (loss) of Kardan Real Estate(*):

Project Name	**Building No.**	**Share of Kardan RE**	**Share of Kardan RE in Gross Profit (Loss)[166]**			**Gross Profit (Loss) Rate**		
			2009	**2008**	**2007**	**2009**	**2008**	**2007**
Achuzat Hanassi (Rehovot)	208-212	42.18%	2,259	2,480	-	18.8%	14.2%	-
	303-304		106	(190)	127	29.4%	(193.9%)	9.1%
	305-307		4,185	2,400	(59)	14.9%	9.9%	(1.9%)
	310		652	672	2,435	70.2%	12.0%	8.3%
Sun Hills (Beit Shemesh)	1-6	100%	11,109	-	-	18.3%	-	-
Nofei Hashemesh (Beit Shemesh)	1-36	50%	(1,430)	444	-	(10%)	8.1%	-
Holyland (Jerusalem)	10-12	30%	-	-	1,001	-	-	3.0%
	16		1,231	-	-	4.6%	-	-

(*) The data relating to expected costs in the projects include attributed costs in respect of Kardan Real Estate's overheads and financing costs.

[2] Below are details of the inventory of apartments on which construction was completed by December 31, 2009 and which were still not sold by Kardan Real Estate (*):

Stage in the Project	**Total Apartments in the Stage**	**Share of Kardan RE**	**Inventory of Unsold Apartments as of December 31, 2009**	**Number of Apartments Not Delivered as of December 31, 2009**	**Unrecognized Gross Profit (NIS Thousands) (Share of Kardan RE)**	**Unrecognized Gross Profit Rate**
Holyland Building 16	78	30%	8	18	2,470	19.6%
Achuzat Hanassi Buildings 211 & 212	26	42.18%	1	1	468	48.5%
Nofei Hashemesh	36	50%	5	7	187	4%
Total	212	-	14	26	3,125	-

(*) The data relating to expected costs in the projects include attributed costs in respect of Kardan Real Estate's overheads and financing costs.

166 The gross profit rate appearing in the tables is the rate of profit from revenues.

[3] Below is a summary of data in projects which are being executed by Kardan Real Estate as of December 31, 2009 (*):[167]

General Data		Description	Gross Square Meters for Construction		Share of Kardan RE	Accumulated Cost				Rate of Project Completion (%) as of December 31, 2009	Project Starting Date	Expected Completion Date	No. of Sold Units as of December 31, 2009	No. of Unsold Units as of December 31, 2009	No. of Unsold Units after December 31, 2009 and up to the Reporting Date
Project Name	Location		No. of Units	Average Square Meters per Unit		Land and Development	Construction Costs	Other	Total Accumulated Costs						
Achuzat Hanassi Building 311	Rehovot	Tower[168]	99	142	42.18%[169]	4,735	7,735	2,091	14,561	28.6%	2008	2011	71	28	6
Holyland Tower 6	Jerusalem	Tower[170]	143	143	30%	30,797	27,057	26,863	84,717	88.3%	2007	2010	76	67	1
Holyland Building 17	Jerusalem	Building[171]	84	140	30%	10,186	14,840	9,674	34,700	94.6%	2007	2010	33	51	3
Notan Stage A[172]	Herzliya	Two buildings[173]	46	132	50%	9,244	1,439	5,147	15,830	10.5%	2009	2011	43	3	1

(*) The data relating to expected costs in the projects include attributed costs in respect of Kardan Real Estate's overheads and financing costs.

167 **The data included in this table regarding the projects' expected completion time constitute forward-looking information as defined in the Securities Law, based on assessments of Kardan Real Estate's management which rely on forecasts and/or work plans of Kardan Real Estate and on its agreements with executing contractors. These assessments might not be realized, wholly or partly, or may be realized in a different manner than anticipated, including in a material manner, due to the executing contractors' failure to comply with their commitments to Kardan Real Estate, changes in apartment prices in a certain area or in the entire market, the economic situation in Israel (including financing difficulties, toughening of conditions for granting mortgages, reduction in sales due to a decline in demand and contraction in sales to foreign residents) and/or realization of all or part of the risks factors detailed in Section 8.6.22 of this part.**

168 A tower that is being built as a stage in the Achuzat Hanassi project. In this stage, 99 housing units are being built. For details regarding the Achuzat Hanassi project, see Section 8.6.8[C] of this part.

169 See Section 8.6.8[C][1] of this part regarding Kardan Real Estate's share in the project.

170 A tower that is being built as a stage in the Holyland project. In this stage, 143 units are being built. For further details regarding the Holyland project, see Section 8.6.8[C][1] of this part.

171 A tower that is being built as a stage in the Holyland project. In this stage, 84 units are being built. For further details regarding the Holyland project, see Section 8.6.8[C][1] of this part.

172 The project is being built in a joint venture with another entrepreneur, in equal parts. As of the reporting date, an appeal is pending before the Supreme Court in connection with a UBP applying to the land on which the project is being constructed. According to the appellants, the rights of the owners of a lot adjacent to the land on which the aforesaid project is being built were harmed in the process of approval of the aforesaid UBP, and they are entitled, for this reason, to balancing payments in respect of the harm caused to them. Under the agreement for the purchase of the rights in the land, the seller committed to Kardan Real Estate and the other entrepreneur that if the contentions of the appellants, as stated, would be accepted, it would bear the full amount of the balancing payments adjudicated by the court. As security for this payment, amounts from the consideration have been deposited in trust until a final judgment is rendered in the matter. A building permit was issued for Stage A and construction works were begun. For details regarding a dispute between Kardan Real Estate and the additional entrepreneur regarding the interest rate to which Kardan Real Estate is entitled in connection with its excess share in the amount of equity provided for the project and in connection with the identity of the legal entity that owes this interest (the other entrepreneur or the joint venture), see Section 8.6.18[D] of this part.

173 Two buildings that are being built as a stage in the Notan project. In this stage, 46 units are being built out of 94 planned units in this project (the UBP applying to the land permits the construction of 86 units out of the 94 planned units in the project, and the construction of an additional 8 units, in the second stage, will be enabled if and when the UBP which Kardan Real Estate and its partner in the land are advancing, as of the reporting date, is approved).

Below are expected data in projects which Kardan Real Estate is executing as of December 31, 2009 (*): [174]

Project Name	Expected Revenues (NIS Thousands)					Expected Costs (NIS Thousands)			Expected Gross Profit (NIS Thousands)	Expected Gross Profit Rate (%)	Expected Completion Date
	Advances up to December 31, 2009	Balance Receivable for Sold Apartments	Total for Contracts Signed up to December 31, 2009	Inventory Value as of December 31, 2009	Total Expected Revenues	Costs actually accumulated up to December 31, 2009 (NIS Thousands)	Costs Payable up to Depletion of Inventory	Total Expected Costs			
Achuzat Hanassi 311	14,620	19,544	34,164	15,697	49,861	14,560	23,805	38,365	11,496	23.1%	2011
Holyland Tower 6	39,853	3,262	43,115	54,137	97,252	84,717	9,455	94,172	3,080	3.2%	2010
Holyland Building 17	9,835	7,115	16,950	29,722	46,672	34,700	5,071	39,771	6,901	14.8%	2010
Notan Stage A	15,281	18,699	33,980	3,625	37,605	15,830	15,642	31,472	6,133	16.3%	2011
Total	79,589	48,620	128,209	103,181	231,390	149,807	53,973	203,780	27,610	-	-

(*) The data relating to expected costs in the projects include attributed costs in respect of Kardan Real Estate's overheads and financing costs.

174 **The data included in this table constitute forward-looking information as defined in the Securities Law, based on assessments of Kardan Real Estate's management which rely on prices of apartments that were already sold in the project, the market situation, forecasts and/or work plans of Kardan Real Estate, construction costs and various agreements that were signed in connection therewith with contractors and consultants. These assessments might not be realized, wholly or partly, or may be realized in a different manner than anticipated, including in a material manner, due to changes in apartment prices in a certain area or in the entire market, the economic situation in Israel (including financing difficulties, toughening of conditions for granting mortgages, reduction in sales due to a decline in demand and contraction in sales to foreign residents) and/or realization of all or part of the risks factors detailed in Section 8.6.22 of this part.**

[4] Below are data concerning bank lending conditions in connection with projects which are being executed by Kardan Real Estate as of December 31, 2009:

Project Name	Location	Financing Entity	Amount of Equity Set in the Loan Agreement (NIS Thousands)	Pledged Assets	Execution Conditions Set in the Loan Agreement		Actual Compliance with the Quantitative and/or Monetary Execution Conditions	Other Main Conditions of the Loan Agreement	Breaches of the Loan Agreement	Credit Utilized as of December 31, 2009 (NIS Thousands)	Balance Available for Utilization (NIS Thousands)
					Quantitative Execution Conditions	Monetary Execution Conditions					
Achuzat Hanassi – 311	Rehovot	Bank Hapoalim	No investment of equity is required for these stages, since the expected surpluses in the project together with the value of the land reserves will be credited on account of equity.	There is a first mortgage for an unlimited amount on the project's lands. A floating lien on all the rights in the project and on rights under an agreement with the construction contractors, and a lien on sale agreements. A lien on the insurance rights, materials, equipment, suppliers and service providers, purchasers, merchants and rights in bank accounts, including future sale agreements.	Compliance with sales of a certain quantity of units per quarter.	Compliance with selling prices and expense budget.	Yes	Mortgage on all the rights in the land. The receipts are transferred to the loan account. In case of realization of the securities, there is an undertaking not to pledge or mortgage any existing right of the companies holding the project up to December 2011. Joint and several undertaking with the other partners in the project.	-	-	50,000
Holyland 6 and 17	Jerusalem	Bank Leumi	Land – 25%; construction – 20%, no investment of equity is required for these stages, since the expected surpluses in the project together with the value of the land reserves will be credited on account of equity.	There is a first mortgage for an unlimited amount on the project's lands. First floating lien for an unlimited amount on all the assets of Holyland and on the project, including equipment, machinery, inventory and receivables. First fixed lien on the unpaid share capital and on the goodwill, lien on rights towards purchasers, lien on rights towards construction contractors, planners and architects, and lien on VAT refunds and rights, proceeds, earnings and	Building 6 – advance sales of a quantity of units and compliance with a quantity of units per quarter. Building 17 – advance sales of a quantity of units and compliance with a quantity of	Compliance with selling prices and expense budget.	Cumulative arrears in sales target.	Guarantee for an unlimited amount of Kardan Real Estate and its partners in the land, provide the bank is able to recover only up to the limit of their proportionate share in Holyland. The start of a new building and its inclusion in the bank loan is subject to the lending bank's approval.	[175]	232,331	67,669

175 Under the loan agreement for the Holyland project, the bank may demand immediate repayment of the credit provided for the project, among other, on the following causes: (1) If execution of the project was not begun, or was terminated, and Holyland and/or anyone on its behalf did not comply, within 30 days, with a written instruction of the bank or the inspector on its behalf to begin or continue the construction or to withdraw from the execution of the construction in any other way; (2) If the bank believes that the pace of execution of the project is significantly too slow to ensure its completion within the times that were set, and Holyland did not comply, within 14 days, to the satisfaction of the bank and the inspector, with a written instruction of the bank or the inspector on its behalf, requiring it to take the measures mentioned in that notice for the purpose of completing the project on schedule; (3) If the bank believes that the cumulative rate of sales is slow in a manner that deviates significantly from the forecast of sales and receipts ("**rate of sales cause**"); (4) In case of a significant deviation from the technical specification, the plans and the details of the units in the project, without receiving the bank's prior written agreement, where such deviation was not corrected within 14 days from when Holyland was required to do so; (5) If the bank and/or the inspector believe that the quality of execution of the project is poor and does not conform to the construction level intended for the project, and after a warning did not yield desired results; and (6) If Holyland breaches or dos not fulfill any one of its material undertakings towards the bank, or it becomes apparent that a declaration made by Holyland to the bank or a confirmation on its behalf are incorrect or inaccurate, subject to the sending of 30 days' prior notice to Holyland. As of the date of the report, no notice was received from the bank and/or the bank's inspector that it exercised or intended to exercise its discretion in connection with the deviation from the rate of sales, and/or that the bank was demanded to accelerate the rate of sales. In February 2010, a letter was received from the bank giving notice that up to the date of the letter it had decided not to demand immediate repayment of the credit on the rate of sales cause and under the circumstances known as of the date of the letter, and that as long as there were no other cause for immediate repayment under the loan agreement, the bank did not intend to demand immediate repayment of the credit up to October 1, 2010 on that cause. Furthermore, the loan agreement provided that the construction of the Holyland project, including construction of all the stages in the residential compound as well as the entire hotel compound (as defined in Section 8.6.8[C][1] of this part) (construction of which has not begun) must be completed not later than at the end of ten years from the constructions starting date. The construction works in the project began in the course of 2001. In Kardan Real Estate's assessment, the construction of the project will not be completed by the end of ten years from the work commencement date.

Project Name	Location	Financing Entity	Amount of Equity Set in the Loan Agreement (NIS Thousands)	Pledged Assets	Execution Conditions Set in the Loan Agreement		Actual Compliance with the Quantitative and/or Monetary Execution Conditions	Other Main Conditions of the Loan Agreement	Breaches of the Loan Agreement	Credit Utilized as of December 31, 2009 (NIS Thousands)	Balance Available for Utilization (NIS Thousands)
					Quantitative Execution Conditions	Monetary Execution Conditions					
				revenue in respect of accounts and deposits.	units per quarter.						
Notan	Herzliya	Bank Hapoalim	NIS 8,200 thousand	Fixed lien on all the contractual rights of Kardan Real Estate. First lien for an unlimited amount on all the rights in the product built or to be built on the land. First mortgage for an unlimited amount on all the rights in the land, floating lien on all rights of Kardan Real Estate to receive monies from apartment buyers, floating lien on all the rights in the project, fixed lien and assignment by way of a lien on all rights of Kardan Real Estate under the agreement with the construction contractor, lien on deposits and lien on sale agreements.	Advance sales of a certain quantity of units for a cumulative amount, excluding VAT, not being less than a designated amount. Advance sales of a quantity of units and compliance with a quantity of units per quarter.	Compliance with selling prices and expense budget.	Yes	Not to pledge and/or mortgage any right in the project, not to withdraw surpluses except with the bank's agreement, not to use monies other than for purposes of the project.[176] The undertaking pursuant to the agreement is made jointly and severally with the partners in the project.	-	15,577	19,423
Total	-		-	-	-	-	-	-	-	247,908	137,092

176 Under the loan agreement, Kardan Real Estate and its partner in the project undertook that by September 2010 they would receive a building permit for Stage B of the Notan project, and that the permit would be given for at least 46 units. As of the date of the report, there is a valid UBP for 40 units, and Kardan Real Estate is acting to change this UBP to include the construction of a total of 48 units and it is also acting to receive a building permit, as stated.

[5] Projects in planning which Kardan Real Estate had not begun to execute as of December 31, 2009 (financial data in NIS thousands relating to Kardan Real Estate's share in the project):[177]

Project	Location	Description	Share of Kardan RE	Date of Contract for Acquisition of the Rights in the Land	Units in the Project under the Valid UBP	Type of Rights in the Land[178]	Cost of Land on the Books as of December 31, 2009	Total Estimated Cost of the Project Including Land	Expected Revenues	Expected Gross Profit Rate	Year of Expected Start of Construction	Expected Duration of Construction in Years	Statutory Planning Status
Achuzat Hanassi Stage K (Building 312)[179]	Rehovot	Building	42.18% [180]	February 2000	88	Ownership	5,455	40,766	47,364	13.9%	2010	2.5	Valid UBP. An application was submitted for a UBP for the migration of rights from a commercial center to apartments (addition of 8 apartments)
Holyland Building 7	Jerusalem	Tower	30%	December 1999	129[181]	Ownership	43,667	91,379	98,481	7.2%	2012	3	Valid UBP[182]
Holyland 13-14		Two buildings	30%	December 1999	126	Ownership	21,226	67,992	75,354	9.8%	2015	3	
Notan Stage B[183]	Herzliya	Two buildings	50%	April 2007	40	Ownership	9,390	30,864	41,696	26%	2010	2	Valid UBP for 40 apartments. A UBP was submitted in the framework of which an addition of 8 apartments was requested.

177 **The data included in this table constitute forward-looking information as defined in the Securities Law, based on assessments of Kardan Real Estate's management which rely on the selling prices in the project, the market situation, forecasts and/or work plans of Kardan Real Estate, construction costs and various agreements that were signed in connection therewith. These assessments might not be realized, wholly or partly, or may be realized in a different manner than anticipated, including in a material manner, due to changes in apartment prices in a certain area or in the entire market, the economic situation in Israel (including financing difficulties, toughening of conditions for granting mortgages, reduction in sales due to a decline in demand and contraction in sales to foreign residents) and/or realization of all or part of the risks factors detailed in Section 8.6.22 of this part.**

178 This refers to the type of rights which Kardan Real Estate acquired. These rights are not necessarily registered in Kardan Real Estate's name as of the reporting date.

179 See explanation in connection with the project in the footnote in Section 8.6.8[C][1] of this part.

180 See explanation in connection with Kardan Real Estate's share in the project in the footnote in Section 8.6.8[C][1] of this part.

181 The plot has valid rights for the construction of 160 units. However, Holyland plans to build 129 units that utilize all the rights in square meters given for construction on the plot.

182 Holyland is considering the rezoning of the existing UBP, which is partly, as of the reporting date, for hotel-keeping and the implications of such a rezoning.

183 See explanation in connection with the project in Section 8.6.8[C][3] of this part.

Project		Location	Description	Share of Kardan RE	Date of Contract for Acquisition of the Rights in the Land	Units in the Project under the Valid UBP	Type of Rights in the Land[184]	Cost of Land on the Books as of December 31, 2009	Total Estimated Cost of the Project Including Land	Expected Revenues	Expected Gross Profit Rate	Year of Expected Start of Construction	Expected Duration of Construction in Years	Statutory Planning Status
Andromeda Hill[185]	Stage A+B	Jaffa	Residential buildings and 900 square meters for commercial use	50%	January 2008	66	Lease	28,534	83,976	99,477	15.6%	2011	2.5	Valid UBP
	Stage C+D					45		20,503	64,821	80,904	19.9%	2012	3	
Ramat Eliashiv[186]	Stage A+B	Lod	9 buildings	70% [187]	September 2009	168	Development agreement	9,326	79,414	89,612	11.4%	2010	2	Valid UBP
	Stage C+D		9 buildings and 300 square meters for commercial use			184		7,926	82,948	98,628	15.9%	2011	3	Valid UBP

184 This refers to the type of rights which Kardan Real Estate acquired. These rights are not necessarily registered in Kardan Real Estate's name as of the reporting date.

185 Project for the construction of a residential neighborhood with 111 housing units in two stages. In January 2008, Kardan Real Estate contracted with a third party for the purchase of one half of the rights of the third party in land areas for housing, commerce and parking in Andromeda Hill in Jaffa. Concurrently, an application was submitted by the third party to change the UBP so as to increase the building rights in connection with the land (in this footnote: "**the new UBP**"). In consideration for the aforesaid rights, Kardan Real Estate undertook to pay a sum of NIS 50,122 thousand (this amount does not include a sum of NIS 25,300 thousand in respect of building rights that were added as a result of the changes in the new UBP, which Kardan Real Estate undertook to purchase in the framework of the agreement for the purchase of the land, except if the seller of the land would decide not to sell the additional rights, subject to the results of an examination of the scope of liability for betterment levies that would be payable by it on the said building rights. As of the reporting date, the seller requested to examine the scope of the aforesaid liability, within the times set in the agreement). One half of the amount of the consideration was transferred to the seller after a caveat was recorded on the land in Kardan Real Estate's favor and the mortgage registered on the land was deleted. A second installment of NIS 14,285 thousand was paid in such a manner that one half was transferred to the seller and one half to a trust. The balance of the consideration in the amount of NIS 11,278 thousand will be paid at the earlier of: (1) within 30 days from the signature of the agreement, as stated; (2) from the date of approval of the new UBP; (3) within six months from he date of rejection of the new UBP; (4) if Kardan Real Estate decides to pay before a decision is reached regarding the UBP. A condition for effecting payment of the balance of the consideration, as stated, is that it will be possible on that date to register a mortgage on the asset. As of the date of the report, this condition has not been implemented. Concurrently, the parties signed a partnership agreement for the joint planning and construction of a residential project including, among others, common and public areas, to be jointly owned by the parties. Under this agreement, all the expenses and obligations will be borne by the parties jointly, such that each party will be responsible for one half of the expenses and obligations. Furthermore, the parties are entitled to the project's management fees at variable rates. A caveat is registered on the aforesaid land concerning an antiquities site. At the same time, Kardan Real Estate purchased the rights in the aforesaid land after most of the excavation works required for the project's construction were completed and an approval was received from the Antiquities Authority to continue work in the project, after exploration and rescue excavations were carried out in collaboration with the Hevra Kadisha burial society and the Antiquities Authority.

186 Project for the planned construction of 352 housing units (utilizing the full construction rights under the UBP) in several residential buildings on ILA land as well as 300 square meters of commercial space. Pursuant to a tender published by the ILA and the Ministry of Housing and Construction, which was won by Kardan Real Estate, a development agreement was signed in September 2009. In accordance with the terms of the tender, prior to signing the development agreement, Kardan Israel entered into evacuation agreements with some of the families that use of land on which it is intended to construct the project, and it provided financial guarantees for the execution of development works and completion of the evacuations. The development agreement was set for a period of 66 months, after which Kardan Real Estate, of the one part, and the ILA and the Ministry of Construction and Housing, of the other part, are to enter into a lease agreement for a period of 98 years with an option for a further lease period of 98 years, subject to the conditions set in the tender documents. In Kardan Real Estate's assessment, the costs of evacuating the existing tenants and the land development costs amount to NIS 35,000 thousand out of the total estimated cost for the project as noted in the table. **This assessment constitutes forward-looking information as defined in the Securities Law, that relies on forecasts and work plans of Kardan Real Estate. This assessment might not be realized, wholly or partly, or may be realized in a different manner than anticipated, including in a material manner, due to an increase in the construction inputs used for the land development and/or problems arising in the evacuation of the families and/or realization of all or part of the risks factors detailed in Section 8.6.22 of this part.** As of the date of the report, Kardan Real Estate carried out some demolition work on the land as part of the development work, in coordination with the Lod municipality.

187 In March 2009, Kardan Real Estate entered into an agreement of principles with Mesika Hasson 2002 Ltd. ("**Mesika**") (a company holding, as of the date of the report, 25% of the issued share capital of El-Har, as detailed in Section 8.6.10 of this part), whereby Kardan Real Estate and Mesika will establish a joint venture in the framework of which they will erect the project on the land, if and to the extent the Kardan Real Estate wins the tender, all subject to the approval of the ILA and the Ministry of Construction and Housing and in accordance with the tender documents (in this footnote: "**the agreement of principles**"). As of the date of the report, the parties have still not applied to the ILA to approve Mesika's inclusion in the joint venture, and the date defined in the agreement of principles as the final date for signing a detailed agreement has expired. On the date of the report the parties are examining the way in which it will be possible to maintain the joint venture. If and to the extent that Mesika's inclusion is approved, as stated, Kardan Real Estate's share will be 70%.

Project		Location	Description	Share of Kardan RE	Date of Contract for Acquisition of the Rights in the Land	Units in the Project under the Valid UBP	Type of Rights in the Land[188]	Cost of Land on the Books as of December 31, 2009	Total Estimated Cost of the Project Including Land	Expected Revenues	Expected Gross Profit Rate	Year of Expected Start of Construction	Expected Duration of Construction in Years	Statutory Planning Status
Em Hamoshavot[189]	**Stage A**	Petach Tikva	Two buildings	100%	June 2009	200	Owner-ship	33,977	139,054	164,919	15.7%	2010	3.5	Valid UBP. There is a building permit for two buildings.
	Stage B		One building			77		252	59,734	71,195	16.1%	2012	2	In process of changing the UBP for increasing the number of housing units by 15.
Hasar Moshe[190]		Ramat Gan	Three buildings	100%	June 2009	84[191]	Owner-ship	23,734	108,639	127,766	15%	2010	3.5	Valid UBP. Kardan Real Estate plans to submit a UBP for the addition of 9 units.

(*) The data relating to expected costs in the projects include attributed costs in respect of Kardan Real Estate's overheads and financing costs.

188 This refers to the type of rights which Kardan Real Estate acquired. These rights are not necessarily registered in Kardan Real Estate's name as of the reporting date.

189 Project for the construction of 292 housing units in three buildings ("**Em Hamoshavot project**") (the construction of 15 units out of the said 292 units depends on the approval of the UBP change process which Kardan Real Estate is advancing (as stated in Section 8.6.8[C][5] of this part. In June 2009, Kardan Real Estate entered into an proceeds transaction with N. Shaked Ltd., which holds jointly with the receiver of Tzamarot Bonei Haaretz Ltd., from the Hefziba Group ("**Bonei Haaretz**"), ownership rights in three plots located in the Em Hamoshavot neighborhood of Petach Tikva, for the purchase of those rights. As of the date of the report, there is a building permit for two buildings, while with respect to the third building the sellers have begun a UBP change process for maximum utilization of the land. In the framework of the series of agreements signed between Kardan Real Estate and the sellers, as stated, contractual relations were established between Kardan and the buyers in one of the buildings who had purchased apartments from Bonei Haaretz and from N. Shaked Ltd. Under this series of agreements, Kardan Real Estate will receive payment for the construction of the units for the aforesaid buyers from Bonei Haaretz and N. Shaked ltd (by way of offsetting against monies due to them from Kardan Real Estate) and from the buyers of the said apartments.

190 Project for the construction of three buildings containing 84 housing units.

191 In the framework of the transaction for the purchase of the rights in the land on which the project is to be erected, and against, among others, the evacuation of the land, Kardan Real Estate has undertaking to provide to individuals who were using the land on the date of the agreement, 15 apartment out of all the apartments in the project, in accordance with evacuation agreements signed with them. In addition, Kardan Real Estate will bear the costs of the residents' rent for the period during which the project is being built.

[6] Below is a summary of data on the land reserves owned by Kardan Real Estate as of December 31, 2009 and as of the date of the report, which Kardan Real Estate has designated for residential construction (*):

Project	Location	Share of Kardan RE	Date of Contract for Acquisition of the Rights in the Land	No. of Units in the Project under the Valid UBP		Additional Units under the Plan	Type of Rights[192]	Cost of Land on the Books as of December 31, 2009 (NIS Thousands)	Total Estimated Cost of the Project Including Land (NIS Thousands)[193]	Statutory Planning Status
				Including Owners' Share in Combination Deal	Excluding Owners' Share in Combination Deal					
Beer Yaakov[194]	Beer Yaakov	100%	May 2009	365	296	43[195]	Owner-ship	13,850	292,435	Valid outline UBP
Holyland 15	Jerusalem	30%	December 1999	3	-	69	Owner-ship	12,884	39,427	A UBP was submitted to convert areas zoned for hotels to housing, to enable the construction of an additional 69 units.
Nofei Hashemesh Stage B	Beit Shemesh	50%	July 2006	344	-	210	Owner-ship	45,111	157,814	Valid UBP for 192 units in high-density construction and 188 private homes, out of which the construction of 36 private homes was completed. A UBP has been submitted for increasing the number of high-density construction units from 192 to 278 units.

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(*) The data relating to expected costs in the projects include attributed costs in respect of Kardan Real Estate's overheads and financing costs.

192 This refers to the type of rights which Kardan Real Estate acquired. These rights are not necessarily registered in Kardan Real Estate's name as of the reporting date.

193 **These data constitute forward-looking information as defined in the Securities Law, based on forecasts and/or work plans of Kardan Real Estate. These assessments might not be realized, wholly or partly, or may be realized in a different manner than anticipated, including in a material manner, due to changes in apartment prices in a certain area or in the entire market, the economic situation in Israel (including financing difficulties, toughening of conditions for granting mortgages, reduction in sales due to a decline in demand and contraction in sales to foreign residents) and/or realization of all or part of the risks factors detailed in Section 8.6.22 of this part.**

194 The land was purchased in a combination transaction, in the framework of which Kardan Real Estate undertook to provide to the land owner construction services for 19% of all the housing units that will be built in the project. In consideration for the fulfillment of its undertakings, Kardan Real Estate will receive 81% of all the housing units. The agreement provides that Kardan Real Estate is permitted not to utilize construction rights on the land up to a total of 8%, subject to feasibility considerations, and in such a case, the surplus building rights that are not utilized by Kardan Real Estate will be retained by the land owner. It was provided in the combination agreement that Kardan Real Estate would sere as guarantor for a credit facility received by the land owner from a banking institution on a scope of NIS 18,500 thousand, and it would bear the costs of interest and linkage in respect of a sum of NIS 15,500 thousand out of the aforesaid credit facility. Originally it had been agreed that the said credit facility would be repaid from the first receipts received in respect of the land owner's housing units. However, the banking institution demanded that the loan principal be repaid by the land owner in December 2011 and that the interest be paid by him on a quarterly basis up to the repayment of the loan. In light of the foregoing, Kardan Real Estate and the land owner entered into an agreement, whereby Kardan Real Estate agreed to bear on behalf of the land owner the interest payments on an additional loan amount of NIS 3,000 thousand (in this footnote: "**the additional loan amount**"), subject to payment of the said amount by the land owner to Kardan Real Estate at a later stage (out of the receipts in respect of the land owner's units). The land owner's rights were pledged as security for his undertakings towards the banking institution, and they will also be pledge, subject to the aforesaid pledged in favor of the banking institution, as security for its undertakings towards Kardan Real Estate, as follows: (1) Reimbursement of amounts to be paid by Kardan Real Estate to the banking institution pursuant to its guarantees to it, as stated; (2) Reimbursement of interest amounts to be paid by it on the additional loan amount. As of the date of the report, the aforesaid pledge in favor of Kardan Real Estate had not been registered, and Kardan Real Estate is acting for registration thereof (as of the date of the report, a caveat is registered on the seller's rights in the land in favor of Kardan Real Estate). Furthermore, Kardan Real Estate has undertaking to pay the local committee the betterment level that will apply for the betterment of the land. The entry of the agreement into effect was conditioned on the cancellation of an earlier agreement between the seller of the land and Resido PB Ltd. For further details regarding this agreement and an additional agreement in connection with this land, see Section 8.6.8[D] of this part. Furthermore, in May 2009 Kardan Real Estate entered into an agreement with the Beer Yaakov local council that regulates the payment of development fees on the land, the advancement of a detailed plan for rezoning from agriculture to housing and the execution of development work. As of the date of the report, the outline plan zoning the land for residential construction was approved for validation. The receipt of building permits is conditional on the approval of a detailed plan by the Beer Yaakov local council.

195 In any addition of housing units, the owner will be entitled to its share (19%) of the apartments.

[7] Below is a summary of data of suspended projects as of December 31, 2009 and as of the date of the report, which Kardan Real Estate has designated for residential construction (*):

Project	Location	Share of Kardan RE	Date of Contract for Acquisition of the Rights in the Land	No. of Units in the Project under the Valid UBP		No. of Units Kardan Real Estate Wishes to Include in the Project	Type of Rights[196]	Cost of Land on the Books as of December 31, 2009 (NIS Thousands)	Total Estimated Cost of the Project Including Land (NIS Thousands)[197]	Statutory Planning Status
				Including Owners' Share in Combination Deal	Excluding Owners' Share in Combination Deal					
Ganei Tikva[198]	Ganei Tikva	100%	November 2009	-	-	64	Ownership	415	57,613	Agricultural land. Kardan Real Estate submitted a UBP for the construction of 64 housing units, which was approved by the local committee and forwarded for approval to the district committee. Owners share – 38% (22 units)
Tahal House[199]	Tel Aviv	100%	February 2010	37	37	80	Lease	-	72,612	Residential UBP. Kardan Real Estate intends to examine planning programs for the land.

(*) The data relating to expected costs in the projects include attributed costs in respect of Kardan Real Estate's overheads and financing costs.

196 This refers to the type of rights which Kardan Real Estate acquired. These rights are not necessarily registered in Kardan Real Estate's name as of the reporting date.

197 **These data constitute forward-looking information as defined in the Securities Law, based on forecasts and/or work plans of Kardan Real Estate. These assessments might not be realized, wholly or partly, or may be realized in a different manner than anticipated, including in a material manner, due to changes in apartment prices in a certain area or in the entire market, the economic situation in Israel (including financing difficulties, toughening of conditions for granting mortgages, reduction in sales due to a decline in demand and contraction in sales to foreign residents) and/or realization of all or part of the risks factors detailed in Section 8.6.22 of this part.**

198 For a description of the transaction, see Section 8.6.8[E] of this part.

199 For details see Section 8.6.8[E] of this part.

[D] Additional details regarding previous contracts in relation to land in Beer Yaakov

in January 2007, Kardan Real Estate signed a letter of principles (“**the original agreement of principles”)** with Resido PB Ltd. (“**Resido**”), whereby Kardan Real Estate would purchase half of Resido’s rights to a construction project in Beer Yaakov (in this section: “the **project**”). The original agreement of principles specified that in consideration for its share in the project, Kardan Real Estate will pay Resido on different dates, an aggregate amount of up to NIS 30,000 thousand, of which. Kardan Real Estate paid Resido, shortly after the date of execution of the original agreement of principles, NIS 12,300 thousand. The completion of the transaction was conditional on various suspending conditions, including the execution of a detailed agreement between the parties.

Since the aforesaid suspending conditions were not fulfilled and a detailed agreement was not signed, in September 2008, a new agreement was signed between Kardan Real Estate and Resido whereby Resido has undertaken to repay to Kardan Real Estate all the monies paid to Resido by Kardan Real Estate in connection with the original agreement of principles, together with interest and linkage differences (in this section: "**the new agreement**"). In the framework of the agreements, Kardan Real Estate received from Resido and its related companies an assignment of rights to receive monies to which Milomor Ltd. (the parent company of Resido) (“**Milomor**”) and its related company are entitled or will be entitled from the Beer Yaakov local council (in this section: **“the council”)**, in respect of the construction works executed or to be executed by Milomor and its related company as aforesaid for the council, and also, Kardan Real Estate was given a lien on the monies to which Milomor and its related company are entitled and/or will be entitled from the council.

In May 2009, Kardan Real Estate and the Resido's special administrator entered into an additional agreement, whereby Resido (through the special administrator) agreed to waive all its rights in connection with the land, on condition that it would be compensated for a part of the investments made by it in the past in the development of the land, in such a manner that Resido will receive, out of the receipts in respect of apartments that will be sold by Kardan Real Estate in the project, beyond the basic price for each built square meter, a consideration according to a set formula. In July 2009 the agreement was approved by the court.

In the framework of an agreement of Kardan Real Estate with the council (see Section8.6.8[C][6] of this part), the council approved, unconditionally, the assignment of the right received by Kardan Real Estate from Milomor as security for Resido's debt. The council's approval allows Kardan Real Estate to pay the development imposts it will owe the council, by way of offsetting the full amount of Resido's debt against the development impost payments.

[E] Uncompleted transactions

Kardan Towers – site adjacent to Kardan House

In February 2007, Kardan Real Estate signed an agreement with a third party for the purchase of its rights in the site at 150 and 152 Menachem Begin St., Tel Aviv (“**site adjacent to Kardan House**”). The said site is subject to a UBP that allows construction on a scope of 39,700 square meters, out of which 8,822 square meters are designated for housing. As of the date of the report, Kardan Real Estate is examining various programs for developing the land at this site. For further details see Section 8.6.9[D] of this part.

Ganei Tikva – combination deal

In November 2009, Kardan Real Estate entered into a combination agreement with a group of owners of rights in land in Ganei Tikva, whereby the owners undertook to sell to Kardan Real Estate 62% of their rights in the said land, in consideration for the performance of Kardan Real Estate's undertakings to handle vis-à-vis the competent authorities all the planning processes, including rezoning of the land from agriculture to high-density housing (in this section: "**the new UBP**"), receipt of building permits, erection of the project and delivery of units to the owners, such that the cumulative value of the rights in the said units will be 38% of the aforesaid rights (22 units). The aforesaid agreement was conditioned on the final approval of the UBP within 30 days from the date of execution of the agreement (in this section: "**the suspending condition**"), and in accordance with the timetables specified in the agreement. In February 2010, the local committee approved the UBP submitted by Kardan Real Estate, and the UBP was referred for approval to the district committee. For details regarding the project Kardan Real Estate plans to construct on the land, subject to fulfillment of the suspending condition described above, see Section 8.6.8[C][7] of this section.

Tahal transaction – proceeds transaction

In February 2010, Kardan Real Estate entered into an agreement with Tahal Water Planning for Israel Ltd., a company held by Tahal Consulting Engineers Ltd. (a company wholly owned, indirectly, by Kardan NV, which is the controlling shareholder, indirectly, in Kardan Real Estate) ("**Tahal**"), for the acquisition of Tahal's leasehold rights in a building located on Ibn Gvirol St. in Tel Aviv, which serves, as of the date of the report, as Tahal's offices (in this section: "**the property**"), and concurrently, into an agreement whereby Tahal will lease an area of 5,365 square meters (and a balcony area of 115 square meters) as well as 38 regular parking spaces and 15 double parking spaces, in Kardan House Stage B, to which Tahal will relocate its offices (in this section: "**the leasehold**") (in this section: "**the leasehold**" and "**the lease transaction**" as the case may be).

Under an agreement executed between the parties in connection with the proceeds transaction, Kardan Real Estate will receive possession of the property and rebuild or renew from the foundations all the built areas on the property, after completion of the suspending conditions for the existence of the proceeds transaction, including the receipt of a building permit, approval of bank financing for the project, entry into effect of the lease transaction agreement and receipt of approvals from the competent organs of Kardan NV, Kardan Israel and/or Kardan Real Estate and Tahal, which have not all been fulfilled as of the date of the report. The units to be built in the framework of the transaction will be marked and sold by Kardan Real Estate, and Tahal will be entitled to receive 50% of the proceeds to be received for the sold units, net of certain amounts, as specified in the agreement signed between the parties in connection with the proceeds transaction. As of the date of the report, 37 housing units may be built on the property, however Kardan Real Estate is examining various planning programs.

It was further agreed that Kardan Real Estate would make available to Tahal, following the approval of the transaction by the aforesaid competent organs, a loan on account of the proceeds that will be due to it in connection with the proceeds transaction, for financing a part of the costs arising from the lease transaction, including the rental fees, to be provided in installments over a maximum period of 5 years and on for a maximum cumulative amount of NIS 40 million.

The lease agreement was also conditioned on several suspending conditions, among others, the approval of the proceeds transaction and the lease transaction by the competent organs of Kardan NV, Kardan Israel and/or Kardan Real Estate and Tahal (the parties agreed that if this condition is not fulfilled, Tahal will be able to give notice of its wish to maintain the lease agreement in force, in spite of the nonfulfillment of this condition), and the receipt of approval from Migdal. As of the prospectus date, the aforesaid suspending conditions have not been fully fulfilled.

It was agreed between the parties to the lease agreement that the leasehold would be handed over to Tahal in envelope condition. The period of the lease was set at five years from the lease commencement date ("**the first period**"), and Tahal was given an option to extend the lease period for an additional period of five years, subject to prior written notice as well as Tahal's compliance with all the lease conditions ("**the second period**"). In accordance with the agreement, the rental fees for the leasehold will stand at NIS 65 per square meter, subject to adjustments in the first lease period, while in the second lease period the rental fees will be increased by 10% of the amount of the rental fees paid for the last month of the first lease period, subject to adjustments.

[F] Segmenting of project revenues

Below are data regarding revenues from projects accounting for 10% or more of the total revenues:

Project (Stage)	2009		2008		2007	
	Revenue (NIS Thousands)	**Percentage from Total Revenues**	**Revenue (NIS Thousands)**	**Percentage from Total Revenues**	**Revenue (NIS Thousands)**	**Percentage from Total Revenues)**
Achuzat Hanassi (208-212)	12,018	8.4%	17,425	33.0%	-	-
Achuzat Hanassi (305-307)	28,180	19.7%	24,265	45.9%	3,189	4.8%
Achuzat Hanassi (310)	929	0.6%	5,596	10.6%	29,404	43.9%
Sun Hills (1-6)	60,646	42.5%	-	-	-	-
Nofei Hashemesh (1-36)	14,243	10%	5,494	10.4%	-	-
Holyland (16)	26,488	18.5%	-	-	-	-
Holyland (10-12)	-	-	-	-	32,961	49.2%

[G] Customers

Housing units in various projects are sold to private customers, thereby precluding dependency on any single customer or a limited number of customers. Kardan Real Estate has diverse customers with different socioeconomic characteristics. In some of the projects, the target audience can be characterized as young couples, as customers seeking improved housing, as investors, as foreign residents and as members of the national-religious population sector.

Kardan Real Estate contracts with its customers through sale agreements at the usual terms for apartment sale transactions from a contractor, but the contents of which may vary according to the apartment that is being purchased, its price, special sale stipulations, where relevant, and the various legal provisions, including the provisions of the Sale (Apartments) Law, 5733-1973 ("**the Apartments Sale Law**") and the Sale (Apartments) (Ensuring Home Buyers' Investments) Law, 5735-1974 ("**the Ensuring Investments Sale Law**").

[H] Marketing and distribution

Sale of housing units in various projects is carried out by sales staff including advertising on different media (television, the press, billboards, Internet, promotion and sales activities to target population) as well as participation in housing fairs in Israel and overseas. Marketing activities are executed by Kardan Real Estate staff and external marketers. In all the projects in which Kardan Israel is involved, a sales office is set up in which marketing information is provided to potential buyers and sales aids are put up. In some projects, there is even a "model apartment" that serves as a sales tool.

In some projects, Kardan Real Estate enters into agreements with external marketers for the sale of the apartments in the projects. The commission for sales is calculated as a percentage of the proceeds.

[I] Order backlog

The order backlog includes revenues from sale transactions in projects in execution that were signed before December 2009 and not yet recognized as income in Kardan Israel's comprehensive statement of income.

Below are details regarding Kardan Real Estate's order backlog in the residential construction segment as of December 31, 2009, by quarter (NIS thousands):

Period of Recognition of Expected Income	Order Backlog as of the Reporting Date	Order Backlog as of December 31, 2009	Order Backlog as of December 31, 2008
Q1 2009	-	-	31,177
Q2 2009	-	-	17,247
Q3 2009	-	-	11,247
Q4 2009	-	-	11,247
Total 2010	**-**	**-**	**70,918**
Q1 2010	3,632	5,556	-
Q2 2010	38,699	32,412	-
Q3 2010	53,737	53,084	30,482
Q4 2010	22,533	21,881	30,482
Total 2010	**118,601**	**112,933**	**60,964**
Total 2011	**72,040**	**67,321**	**5,987**
Total 2012	**114,632**	**72,598**	**-**
Total	**305,273**	**252,852**	**137,869**

The data relating to expected recognition of income from the order backlog are an estimate only, which is based on past experience and planned timetables according to the different agreements. Changes in these basic assumptions that led to the aforesaid estimate could significantly change Kardan Real Estate's estimate regarding expected recognition of income from the order backlog as compared to the data presented above.

[J] Competition

The residential construction sector in Israel is characterized by great decentralization and fierce competition. The number of large construction companies is limited, but in areas where Kardan Real Estate operates there are mainly medium and small companies, contractors and small and local private entrepreneurs.

In addition, in recent years, mainly in light of increases in apartment prices in high-demand areas and mainly in the center of the country, there has been a notable trend of entry of purchasing groups into activity in Israel's residential construction sector. This trend, coupled with a shortage of land for residential construction, has pushed up prices of land for residential construction, especially in the high-demand areas. In addition, the specialized, onetime purchasing groups are considered to be a competing force, since the prices of the apartments offered by these groups, on the date of execution of the agreements, are more attractive than the prices of the apartments offered by the specialist real estate companies, such as Kardan Real Estate, in view of the direct mobilization and engagement with the land owners and service providers, including the head contractor.

Direct competition in projects of Kardan Real Estate stems primarily from entrepreneurial construction on sites adjacent or having similar characteristics to the specific project. Competition is also presented by second-hand apartments which are offered for sale in geographical proximity to areas in which these aforesaid projects are carried out or in areas which could serve as a suitable substitute for areas in which Kardan Real Estate builds.

Beyond the competition over potential apartment buyers, competition in the residential construction sector also focuses on the stage of location of lands suitable for the execution of projects.

In Kardan Real Estate's assessment, its principal competitors, as of the date of the report, apart from specialized, onetime purchasing groups (such as BSR Israel Real Estate) are Shikun Ubinuy, Africa Israel Residences, Azorim, Ashdar, Tidhar, Gindi Holdings, YH Damari and Neve Gad. These companies have existing competition potential in the market.

In the assessment of Kardan Real Estate, its financial strength, its access to capital in the bank and nonbank markets, its goodwill, the broad deployment of its projects and the strict planning of the construction of residential buildings and neighborhoods, give it advantages over its competitors in the field. Kardan Real Estate's financial strength is also an advantage in the competition over potential apartment buyers during periods of recession, in light of the buyers' fears, as stated, of collapse of a real estate company that lacks financial strength.

As of the date of the report, Kardan Real Estate is unable to assess its share of the overall residential construction market in Israel.

[K] Suppliers

The major suppliers of Kardan Real Estate are the execution contractors. Kardan Real Estate enters into engagements with contractors generally via turnkey agreements, in which framework the contractor is under obligation to build the project at a final and agreed price, according to plans and specifications, up to the completion of construction and delivery of the key to the end customer – the apartment purchaser. In this framework, Kardan Real Estate enters into engagements with execution contractors, generally large execution companies, as a chief contractor. The consideration is paid according to the progress made in the construction works and under the prevailing credit terms in the sector.

In the framework of the agreement with the chief contractor, the contractor is generally obligated to repair all deficiencies during the maintenance and warranty period and to bear the full liability for said repairs also after the maintenance period. The contractor general puts up a performance guarantee at a rate ranging between 5% and 10% of the construction cost of the entire project, replaced by him with a quality guarantee at a rate of 5% upon completion of the construction works. The performance guarantee is given as security for the execution of the works by the contractor, while the quality guarantee is given for a period that varies from agreement to agreement, generally between three and five years, and serves as security for the execution of construction deficiency repairs and payment for damages that could be caused to Kardan Real Estate by the chief contractor or its designee in connection with the project's construction. In addition, Kardan Real Estate at times insures the project with appropriate insurance policies, and debits the contractors with the insurance cost.

Today, Kardan Real Estate carries out all the projects in which it is involved through execution companies most of which have an "unlimited" classification, suited to large-scale work, some of them the largest in the economy. In general, Kardan Real Estate is not dependent on any one supplier and reckons that it will be able to find a substitute of suitable quality and price for its suppliers.

Following is a breakdown of the payments (in NIS thousands) to major suppliers (execution contractors):

Supplier	2009		2008		2007	
	Payments for Period (in NIS thousands)	Percentage of Total Purchases	Payments for Period (in NIS thousands)	Percentage of Total Purchases	Payments for Period (in NIS thousands)	Percentage of Total Purchases
Danya Cebus Ltd.	12,971	31.1%	10,464	15.3%	6,343	16.7%
U. Dori Engineering Works Corp Ltd	10,413	25%	14,487	21.2%	6,451	17%
Tidhar Construction Ltd.	4,873	11.7%	8,883	13%	8,347	22%
Z. Landau Contracting & Engineering	2,827	6.8%	20,411	29.9%	3,110	8.2%
Contractor E	1,305	3.1%	7,060	10.3%	6,927	18.3%
Contractor F	50	0.1%	523	0.8%	4,511	11.9%
Contractor G	4,808	11.5%	3,478	5.1%	-	-

[L] Financing

The activity of Kardan Real Estate in the residential sector is financed by equity, shareholder's loans, receipts from apartment purchasers and bank credit. The major part of the credit extended for Kardan Real Estate's activity in the residential sector is provided through bank financing agreements, under which the banks put up credit facilities for project execution, guarantees for apartment purchasers in various projects and limits for general guarantees (execution of development works, clearing works, tenders, etc.)

For main details regarding financing agreements for underway projects, see Section 8.6.8 [C][4] in this part.

As of December 31, 2009, the share of the Kardan Real Estate Group (in respect of Kardan Real Estate's share in joint transactions) in Sale Law guarantees for apartment buyers totaled NIS 143,000 thousand[200]. For details see also Section 8.6.13[G] in this part.

8.6.9 Income-Producing Properties

[L] General

In the income-producing properties segment, Kardan Real Estate engages in the identification, initiation and development of office buildings and commercial areas that are sold or rented out. The projects are run by Kardan Real Estate on its own or through companies or via joint transactions with other partners. As of the report date Kardan Real Estate holds the rights in two income-producing properties in a rental area covering a total of 9,152 sq.m. in the Gush Dan (Dan Bloc) metropolitan area, 7,724 sq.m. of which (84.4%) are rented as of the report

[200] The above amounts do not include the share of Kardan Real Estate in Sale Law guarantees for apartment buyers given to buyers of Holyland apartments totaling NIS 66,000 thousand as of December 31, 2009.

date. Likewise, Kardan Real Estate holds the rights in Tel Aviv land real estate, covering 16,067 sq.m., which is currently in the stages of construction.

[M] General Information on the Area of Activity

Following is a description of trends, events and developments that influence and are likely to influence Kardan Real Estate activity in the income-producing properties segment, beyond the factors influencing overall real estate activity in Israel (as detailed in Section 8.6.7 herein):

Structure of Area of Activity and the Changes Taking Place Therein – The income-producing properties segment in Israel is marked by strong competition. The numerous entities operating in this segment engage in the initiation, construction, rental, betterment and sale of income-producing real estate areas, and include large, longstanding and leading companies holding large-scale properties as well as small, local land developers operating in the segment in specific geographical regions or involved in an individual project.

Recent years have seen the entry of real estate investment trusts ("**REITs**") into the income-producing properties market, as well as other institutional bodies such as pension funds, insurance companies and provident funds. Entry of said bodies contributes to a selective increase in the value of the properties and lowers the rental fees of anchor tenants, which are favored by said bodies.

The factors affecting the demand and occupancy rates in the office and business sector are, inter alia, location of the property, construction quality and structure age, parking, rent conditions and rental rates, level of maintenance services, municipal tax rates, proximity to traffic arteries and public transportation, general business environment and proximity to anchor entities and to manpower sources.

The years 2004 to 2007, following a recession period, saw a gradual recovery in the operating parameters of income-producing properties, including property occupancy and rental rates, coupled with an improvement in economic data, which peaked in the course of 2007. In the first quarter of 2008, the rental real estate market was still brisk and rental real estate prices rose. During the second quarter, demand slowed significantly, but, at this stage, sale and rental prices did not go down[201]. In the third and fourth quarters of 2008 and concurrent with the start of the global economic crisis (see Section 8.6.7 herein) there was a downturn in the scope of transactions, a decline in demand for areas and a drop in prices in the sector, stemming from excess supply, also due to large and costly areas being vacated, owing, among other things, to streamlining processes and a slowdown that occurred among the renters (dismissals, relocation to the peripheral areas, multinational firms cutting back the scope of their activity in Israel, and the like). From the start of 2009 until the report date there was no significant turn in this trend and relative stability was recorded. In a segmentation of the rental property market by sectors, while in the commercial centers sector, the first half of 2009, just like 2008, was marked by a 5% to 10% fall in revenue per sq.m., in the office lease sector in the major demand areas and

[201] The data are taken from a Maalot survey from 2007, on the topic "2007 A Peak Year for Real Estate Issues and the Peak Is Behind Us" and from the NTM – Collirs International Report for Offices and Industry in the Center of the Country, Sheets 22-23, 2008.

mainly in Tel Aviv, during 2009, there was an accumulative slump of over 20% in the rental fees sought. The uncertainly in the office sector in the major demand areas resulted in a slowdown in the development of new projects, particularly in projects with speculative features, without predesignated renters.[202]

<u>Major Entry and Exit Barriers in the Income-Producing Properties Segment</u> – The entry barriers in the income-producing properties segment area: (1) Financial robustness and the need for high equity for investment in properties at relatively low cost; (2) Knowledge and experience in planning, managing and executing projects in the income-producing properties segment.

Exit barriers in the income-producing properties segment are: (1) Disposal of real estate properties is not a rapid process and could take a long time, since the spotting of buyers depends, inter alia, on the economic situation and the availability of credit sources, as well as the buyers' desire for attractive return levels; (2) Long-term liabilities with financing entities.

<u>Alternatives for Services in the Area of Activity</u>

Kardan Real Estate customers can find other vacant-for-rent real estate areas in geographical areas in which Kardan Real Estate operates. Another alternative is the acquisition of office space in office buildings.

[202] The data is taken from a Maalot survey from November 11, 2009, on the topic "Exposure to Value Impairment, Reduction in Bond-Raising Scope and Implications of Debt Arrangements – The Current Challenge for Income-Producing Real Estate Companies."

[N] Following is a summary of the data regarding projects in the income-producing properties segment:

[1] Summary of data regarding Kardan Real Estate rental projects as of the report date:

Project Name and Location	Share of Kardan Real Estate	Type of Legal Rights in the Property	Total Land Area in the Project (Square Meters)	Rental Area in the Projects and Its Uses – Share of Kardan Real Estate (Square Meters)	Book Value	Weighted Annual Estimated Rate of Return on Fair Value[203]		
						2009	2008	2007
Kardan House (Tel Aviv) Stage A[204]	100%[205]	Lease	2,915[206]	Offices and commerce 2,765 square meters Parking lot 112 parking spaces[207]	33,000	7.2%	6.7%	5.9%
Building M-1 (Rishon Lezion Industrial Area)[208]	70.75%	Ownership	17,943	3,813 square meters and 240 parking spaces, most of which were made available to the lessees under the agreements with them[209]	29,440	8%	7.8%	7.2%
Kfar Saba (Industrial Area)[210]	100%	Lease	9,283	6,387 square meters used, as of the reporting date, for offices, halls and warehouses	16,750	8.2%	11.1%	7.8%

203 The calculation was performed on basis of net operating income (NOI) – net operating income from the lease of buildings disregarding fair value adjustments.

204 For details regarding Kardan House Stage B, which is under construction, see Section 8.6.9[C][9] of this part.

205 In Kardan Real Estate's books, the property and revenues therefrom appear at a rate of 100%, since the accounting conditions for recognizing a sale to third parties have not been fulfilled. For a description of the transaction between Kardan Real Estate and third parties for the sale of one half of Kardan Real Estate's rights in all the areas built and to be built in Kardan House, see Section 8.6.17[A] of this part.

206 This figure includes part of a plot of 70 square meters the rights in which were acquired by Kardan Real Estate for the utilization of the building rights under the UBP.

207 The parking lot is managed by Mekdan.

208 In December 2009, Kardan Real Estate sold its rights in this property. For further details regarding this transaction, see Section 8.6.2[4] of this part.

209 The rights in the land were acquired in a combination transaction, inter alia with UMI. Kardan Real Estate's share in the project was 13,130 square meters, out of which it sold up to the date of sale of its rights in the property 9,317 square meters. The remainder of the land is designated for rental. Following delivery of the areas in kind, in the framework of the combination transaction, Kardan Real Estate and Hamizrach were left with a total of 15,000 square meters which were managed through a joint venture, in which framework Kardan Real Estate managed the property in return for a monthly fee, up to the sale of the rights in the property as described in Section 8.6.2[4] of this part. The parking lot in this building is managed by Mekdan. Between the land owners prior to completion of the combination transaction (in this footnote: "**the original land owners**") and the entrepreneurs (Kardan Real Estate, UMI and Hamizrach) (in this footnote: "**the entrepreneurs**"), an agreement was signed in 2003 pursuant to which the entrepreneurs conveyed to the original land owners a right to use of their construction rights, it being specified that the original land owners would try to advance a plan for the granting of additional construction rights, such that the entrepreneurs rights would be returned to them. It was further agreed that in case of failure to advance the aforesaid plan, Kardan Real Estate would be entitled to an additional consideration according to a formula set in the agreement between the parties. On the other hand, the original landowners reserved any contentions they had in connection with compensation they contend is due to them in respect of the original combination transaction, including a lack of specifications, delays in delivery and the like.

210 Under the UBP, the land is zoned for light industry and commerce, and a four-story building may be erected on it with a total area of 17,403 square meters, as well as an underground parking lot. In order to erect such a structure, it will be necessary to demolish the structures built on the land. Kardan Real Estate intends to advance a UBP that will allow construction on a scope of 17,403 square meters designated for commerce and offices. In February 2010, Kardan Real Estate concluded a memorandum of understanding with a third party (in this footnote: "**the lessee**"), whereby, subject to the execution of a detailed agreement within 45 days from the date of signature of the memorandum of understanding, the lessee would lease 3,500 square meters (in envelope condition) in a building to be built on the land, as well as parking spaces attached to the leasehold, for a period of five years plus thee option periods of five years each. The memorandum of understanding specifies that the detailed agreement shall stipulate that if a building permit is not issued within 18 months from the date of execution of the detailed agreement, the lessee will be entitled to cancel the detailed agreement, and that the date of delivery of possession of the leasehold shall be not later than 18 months after the date of receipt of a building permit for constructing the building. The parties agreed on a rental fee of NIS 68 per square meter (and the memorandum of understanding includes a mechanism for increasing the rental fee in the option period). As of the date of the report, a detailed agreement has not been signed and there is no certainty that one will in fact be signed.

[2] Below are further data regarding net operating profit (NOI)[211] in respect of Kardan Real Estate assets (NIS thousands)

Property	2009					2008					2007				
	Operating Profit and Impairments before Fair Value Adjustments	Operating Profit (Loss)	Expenses (Income)	Rental Fees (NIS Thousands)	No. of Operating Months	Operating Profit and Impairments before Fair Value Adjustments	Operating Profit (Loss)	Expenses (Income)	Rental Fees (NIS Thousands)	No. of Operating Months	Operating Profit and Impairments before Fair Value Adjustments	Operating Profit (Loss)	Expenses (Income)	Rental Fees (NIS Thousands)	No. of Operating Months
Kardan House Stage A[212]	2,373	(1,627)	4,110	2,483	12	2,461	2,461	49	2,510	12	2,177	3,875	(1,678)	2,197	12
Building M-1 (share of Kardan RE)[213]	2,358	4,774	(2,336)	2,438	12	2,106	(472)	2,650	2,178	12	2,259	2,259	168	2,427	12
Kfar Saba	1,379	5,881	(4,502)	1,379	12	1,358	1,358	(33)	1.325	12	956	956	26	982	12

211 Net operating income – net operating income from the lease of buildings disregarding fair value adjustments.

212 For details regarding Kardan House Stage B, which is under construction, see Section 8.6.9[C][9] of this part.

213 In December 2009, Kardan Real Estate sold its rights in this property. For further details regarding this transaction, see Section 8.6.2[4] of this part.

[3] Below are further data regarding Kardan Real Estate income-producing properties, as of December 31, 2009:

Property	Leasehold Area (%) on the Date of the Report	Revenue from Principal Lessees (NIS Thousands)	Revenue (NIS Thousands)	Contract End Date – Principal Lessees	Principal Lessees	No. of Lessees	Occupancy Rate of Principal Lessees (%)	Area Leased by Principal Lessees (Square Meters)	Leasehold Area (%)	Leasehold Area (Square Meters)	Remaining Area Designated for Leasing (Square Meters)	Land Area (Square Meters)	Cost of Purchase (NIS Thousands)	Purchase Date
Kardan House Stage A[216]	55%	883	2,483	January 2010[215]	Kardan Israel	9	32%	877	85%	2,351	2,765	2,915[214]	47,286	July 1988
Building M-1 (Kardan RE's share)[217]	N/A	N/A	2,438	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	32,569	June 1994
Kfar Saba	63%	479	1,379	February 2010[218]	TransElectrric Ltd.	9	34%	2,200	97%	6,214	6,387	9,283	20,194	June 1991

214 This figure includes part of a plot of 70 square meters the rights in which were acquired by Kardan Real Estate for the utilization of the building rights under the UBP.

215 The lease agreement has expired. Pursuant to an oral understanding with the aforesaid lessee, the terms of the lease will continue to apply.

216 For details regarding Kardan House Stage B, which is under construction, see Section 8.6.9[C][9] of this part.

217 In December 2009, Kardan Real Estate sold its rights in this property. For further details regarding this transaction, see Section 8.6.2[4] of this part.

218 The lease agreement expired in February 2010. For details regarding a memorandum of understanding from February 2010 into which Kardan Real Estate entered with a third party for the lease of parking spaces and areas in a building which Kardan Real Estate plans to construct on this land, see Section 8.6.9[C][1] of this part.

[4] Below are main data regarding rental areas:

Property Name	Average Rental Fee per Square Meters[219]			Rental Income (NIS Thousands)			Average Occupancy (%)			Occupancy as of the Reporting Date (%)	Occupancy as of December 31, 2009 (%)
	2009	2008	2007	2009	2008	2007	2009	2008	2007		
Kardan House Stage A[220]	71	75.7	66.2	2,483	2,510	2,197	85%	100%	100%	55%	85%
M-1 Building[221]	53.3	45.6	47.8	2,438	2,178	2,427	97%	98%	98%	N/A	N/A
Kfar Saba	18.5	17.6	13.1	1,379	1,325	982	98%	98%	98%	63%	97%
Total	-	-	-	6,300	6,013	5,606	-	-	-	-	-

[5] Information and financial data regarding Kardan Real Estate rental areas:

Property	Uses	Rental Area Owned by Kardan Real Estate (Square Meters)	Annual Average Revenues per Square Meter from Rent[222]			Financing Balance as of December 31, 2009 (NIS Thousands)	Interest on Financing as of December 31, 2009	Securities (NIS Thousands)	Rental Fee Differs Significantly from the Market Price
			2009	2008	2007				
Kardan House Stage A[224]	Offices and commerce 2,765 square meters. Parking lot – 112 parking spaces	2,765	860	907.8	794.6	952	Linked to the CPI and bearing 5.8% fixed interest	[223]	No
Building M-11[225]	Offices and commerce 3,813 square meters and 240 parking spaces, most of which were made available to the lessees under the agreements with them	3,813	639.4	547.5	573.9	N/A	N/A	N/A	N/A
Kfar Saba	Offices and light industry 6,387 square meters	6,387	220.3	211.7	156.9	7,557	Variable interest at a rate of 3%	[226]	No

219 Excluding unoccupied areas.

220 For details regarding Kardan House Stage B, which is under construction, see Section 8.6.9[C][9] of this part.

221 In December 2009, Kardan Real Estate sold its right in this property. For further details regarding this transaction, see Section 8.6.2[4] of this part.

222 Excluding unoccupied areas.

223 A floating lien on land and liens on earnings thereon, on insurance rights, on compensation and indemnity to third parties, on rights to receive monies from buyers and lessees and from third parties in connection with the land and on lease rights in the land.

224 For details regarding Kardan House Stage B, which is under construction, see Section 8.6.9[C][9] of this part.

225 In December 2009, Kardan Real Estate sold its right in this property. For further details regarding this transaction, see Section 8.6.2[4] of this part.

226 Liens on rights in the land and on Kardan Real Estate's rights in the lease agreements.

[6] Below are information and data regarding Kardan Real Estate Properties:

Property Name	Special Legal Restrictions	Utilized Construction Rights (%)	Utilized Construction Rights (Main Area and Additional Area in Square Meters)	Construction Rights in Entire Project According to Existing UBP (Main Area in Square Meters)	Liens	Rights Registration Status	Lease Extension Period (Years)	Lease Period End Year	Type of Legal Rights
Kardan House Stage A[228]	None	100	2,765	2,765 square meters	[227]	In registration processes	None	2057	Lease
Kfar Saba	None	57	6,387	11,176 square meters	[229]	Registered	None	2031-2032	Lease

227 Floating lien on the land and liens on insurance rights, on rights to receive monies from buyers and lessees and on lease rights in the land.

228 For details regarding Kardan House Stage B, which is under construction, see Section 8.6.9[C][9] of this part.

229 Liens on rights in the land and on Kardan Real Estate's rights in the lease agreements.

[7] Below is a summary of data regarding valuations of leased properties and a property under construction of Kardan Real Estate:

Property Name	Last Valuation Date	Source of Change in Value	Discount Rate (%)[231]			Average Rental Fee per Square Meter (NIS)			Value (NIS Thousands)			Appraising Entity[230]	Valuation Method
			December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2009	December 31, 2008	December 31, 2007		
Kardan House Stage A[234]	September 30, 2009	Changes in discount rates and in rental fees[233]	8.91%	9.81%	8.00%	70	70	75	33,000 [232]	37,000	37,000	Eng. Yosef Zarnitski – 2009, 2008 and 2007	Weighting of comparison and CDF methods
Kardan House Stage B[236]	September 30, 2009	-	-	-	-	-	-	-	129,898[235]	-	-	Eng. Yosef Zarnitski	Extrapolation
Building M-1 (share of Kardan Real Estate)[238]	September 30, 2009	[237]	N/A	8.73%	(*)	N/A	N/A	57	N/A	27,024	(*)	Eng. Yosef Zarnitski	DCF
Kfar Saba	September 30, 2009	[239]	9%	9.50%	-	18	18	13	16,750	12,460	12,400	Eng. Yosef Zarnitski – 2009, Omda – 2007-2008	In 2009 – combination of income capitalization method and value of land as vacant after 5 yaers; in 2008 – DCF; in 2007 – comparison method

(*) The property was classified in accounting terms as inventory – no valuations were made in that year.

230 All the appraisers in this table are independent appraisers. It is noted that Eng. Zarnitski is an inspector on behalf of the bank that granted Holyland a credit facility for financing the construction of the Holyland project.

231 The discount rate is a weighted rate.

232 The value of the property as appraised by an appraiser is NIS 36,200 thousand. The portion attributed to the investment properties item is NIS 33,000 thousand, and the balance is attributed to areas serving as fixed assets not presented at fair value.

233 Standard parking spaces and surpluses were transferred from Stage A of Kardan House to Stage B.

234 For details regarding Kardan House Stage B, which is under construction, see Section 8.6.9[C][9] of this part.

235 The valuation was given on November 3, 2009. The value of the property is as assessed by the appraiser. Said valuation was NIS 118,150 thousand. The estimate of the value of the property as completed and suitable rent for the property in envelope condition remains unchanged. The only change is the advancement of investments in the construction process in the elapsed period. This estimate is based, inter alia, on a letter which Kardan Real Estate's management received from the aforesaid appraiser.

236 In the aforesaid valuation it was noted that a lease agreement was signed with respect to a part of the areas in Kardan House Stage B. Said lease agreement was cancelled with the parties' agreement. For details regarding another agreement, which is conditional on suspending conditions, signed between Kardan Real Estate and Tahal for the lease of areas in Kardan House Stage B, see Section 8.6.8[E] of this part. Also, for further details regarding an agreement between Kardan Real Estate and Kardan Israel from February 2010 in connection with areas in Kardan House Stage B, see Section 8.6.17[A] of this part.

237 Increase in the annual net operating income (NOI) actually received.

238 In December 2009, Kardan Real Estate sold its rights in this property. For further details regarding the aforesaid transaction, see Section 8.6.2[4] of this part.

239 A commercial awakening in this area. The increase in value stems from shortening of the period of interim use under the industrial designation up to realization of rights to commercial and office use and from a change in the discount rate.

[8] Below are data regarding unoccupied areas as of the reporting date:

Property Name	Percentage of Unoccupied Areas	Total Unoccupied Areas (Square Meters)	Book Value	Period in which the Area is Unoccupied (Years)	Total Costs of Maintenance of Unoccupied Areas (NIS Thousands)
Kardan House[241]	45%	1,255 [240]	16,431	0.25	602
Kfar Saba	37%	2,373	6,223	0.65	570

[9] Below is a summary of data regarding projects in the segment of income-producing properties under construction:[242]

Project Name	Share of Kardan Real Estate	Original Cost of Land (NIS Thousands)	Type of Right	Lease Period (Years/ End Year	Construction Rights under the UBP (Gross Square Meters)	Project Description			Construction Starting Date	Planned Completion Date	Book Value as of December 31, 2009 (NIS Thousands)	Estimate of Project Completion Cost (NIS Thousands)	Monetary Value Including Estimated (NIS Thousands)
						Land Area (Gross Square Meters)	Net Rental Area (Square Meters)	Designation and Other Details					
Kardan House Stage B (Tel Aviv – built above the office building called Kardan House Stage A [243], [244], [245], [246]	50%	16,914	Lease	Until 2017	18,898	3,612	11,906	Offices and commerce	March 2008	April 2010	129,898	38,406	168,304

240 A portion of the areas (400 square meters) are areas on the ground floor of Kardan House from which lessees were vacated to enable the performance of the construction work on Kardan House Stage B. The remaining areas were vacated by a lessee in February 2010. For details regarding the sale of one half of Kardan Real Estate's rights in the Kardan House project to Migdal Insurance Company Ltd. and New Makefet Pension and Provident Fund Management Ltd., see Section 8.6.17[A] of this part. As of the date of the report, the conditions for the accounting recognition of the aforesaid sale were not fulfilled.

241 For details regarding Kardan House Stage B, which is under construction, see Section 8.6.9[C][9] of this part.

242 In the project under construction described in this section, no income has been recognized yet. **The data in the table relating to a planned completion date, estimate of the project completion cost and total estimated monetary value forward-looking information as defined in the Securities Law, based on agreements into which Kardan Real Estate entered with contractors, the Kardan Real Estate management's experience and construction input costs on the date of the estimate. Said estimate might not be realized, wholly or partly, or may be realized in a different manner than anticipated, including in a material manner, due to changes in the factors on which the estimates are based, delays in the project execution timetables and/or realization of all or part of the risks factors detailed in Section 8.6.22 of this part.**

243 In an agreement to provide financing, as stated, Kardan Real Estate undertook not to deviate significantly from the level of prices of the rental units fixed in the agreement (70 NIS per square meter). Following the completion of project construction, Kardan Real Estate's management intends to act to enter into a loan agreement in place of the construction loan agreement. As of the date of the report, there is no certainty that Kardan Real Estate will in fact enter into such an agreement. Furthermore, as of the date of the report, Kardan Real Estate has undertaking towards the aforesaid bank to provide additional equity for the project in an amount of NIS 8,200 thousand, up to project completion.

244 Under a series of agreements into which Kardan Real Estate entered in 1998 with a company which owned part of the land ("**the seller**"), Kardan Real Estate undertook that if construction additions are built in Stage B of the project, the seller will be entitled to additional areas, on the fifth office floor, amounting to 4% of the "gross" areas (main areas and service areas), and to an additional five parking spaces in the building's parking lot. In January 2010, the parties entered into an agreement entitling the seller to receive areas on a scope of 340 square meters (main area) and a proportionate part of the common property. In accordance with the undertakings towards the seller, Kardan Real Estate furnished to the seller a bank guarantee for NIS 4,700 thousand, which was deposited in trust with Kardan Real Estate's attorney up to the registration of a new mortgage, for an unlimited amount, in favor of the project's lending bank, and the seller was likewise given a guarantee of Kardan Israel up to the release of the aforesaid bank guarantee. Under the provisions of the agreement, on completion of construction of the shell and registration of the mortgage, Kardan Real Estate may reduce the amount of the guarantee to NIS 1,600 thousand. As of the date of the report, the aforesaid mortgage was registered, and Kardan Real Estate is acting to reduce the amount of the guarantee and thereafter to release it to the seller.

245 For details regarding an agreement, which is conditioned on suspending conditions, signed between Kardan Real Estate and Tahal for the lease of a part of the areas in Kardan House Stage B, see Section 8.6.8[E] of this part. Also, for further details regarding an agreement between Kardan Real Estate and Kardan Israel from February 2010 in connection with areas in Kardan House Stage B, see Section 8.6.17[A] of this part. As stated in Section 18.6.9[C][7] of this part, in the footnote relating to Kardan House Stage B, another lease agreement that was signed with a lessee with respect to some of the areas in Kardan House Stage B, was cancelled prior to the date of the report, with the parties' agreement. For further details regarding Kardan House Stage B, see Section 8.6.17[A] of this part.

246 In a process for the receipt of municipal permits for expanding the parking lot in the Kardan House Stage B project, Kardan Real Estate must also receive the approval of the Tel Aviv municipality's environment department (in this footnote: "**the municipality**"). The municipality conducted a gas monitoring test in the parking lot existing in the project (as part of Kardan House Stage A), in which various gases were found to be present above the permitted level, despite the fact that, previously, the walls of the parking lot had been lined and the lower floors of the parking lot had been sealed against water. In consequence of the findings of monitoring test, Kardan Real Estate was required to present a planning solution for strengthening the ventilation system in the parking lot. Such a plan was presented by an expert on behalf of Kardan Real Estate and approved by the municipality. The municipality's approval was conditioned on the performance of a repeat monitoring test and on compliance with the requirements, as a condition for receiving Form 4. As of the date of the report, Kardan Real Estate is carrying out the work according to the planning solution presented, as stated. Immediately prior to receipt of Form 4, a test will be performed, if and to the extent it is required by the municipality.

[D} Planned Project and Uncompleted Transaction

Rights in land within compound adjoining the Beit Dagan Meteorological Station - In 2006 Kardan Real Estate acquired, together with two other companies (in equal parts), from various landowners, tracts covering 135,000 sq.m., in the compound adjacent to the Beit Dagan Meteorological Station.[247] The overall acquisition cost is 5,800 thousand dollars (Kardan Real Estate's share is approx. one third of this amount). Likewise, the companies signed a collaboration agreement with another company possessing a similar amount of land within the compound. The collaboration agreement stipulates, inter alia, that the parties will act jointly for betterment, planning, development and promotion of the land. The companies are working to promote an urban building plan (UBP) for the compound according to the uses permitted in the National Outline Plan, which include, among other things, offices, commerce and road services. Also, the companies are operating to advance the clearing away of a security installation from a compound adjacent to the compound, in order to remove a preclusion to using part of the compound, and thereby a possibility to utilize rights under the UBP. In March 2008, a discussion was held at the local committee and said UBP was recommended for approval by the district committee. Subsequently, a discussion was held at the District Planner's, following which it was agreed to make several amendments to the UBP, most of them having to do with customization of the permitted uses in accordance with the National Outline Plan, expansion of the area of some of the offered lots and lowering of the height of two structures proposed in the UBP. An amended UBP containing said corrections was forwarded to the District Planning Office for a continuation of the approval processes. At the same time, the Administration circulated a summary of a meeting held at the Central District Administration concerning its inclusion in a plan for an area of 27,000 sq.m. owned by the State. The Administration approved in September 2009 its participation in the cost of removing the security facility, according to its proportion of said UBP area. In January 2010 a meeting was held at the steering committee of the District Committee, which expressed its objections to the plan, due to the development of the area specified therein being located away from the city of Rishon Lezion and owing to the absence of adequate transportation solutions in the framework of said UBP. In view of the foregoing, the companies are negotiating with municipal officials and other planning officials to obtain their consent to submit the UBP the District Committee plenary. Likewise, it was agreed with the Rishon Lezion municipality to deduct the security facility clearance expenses from the betterment payments to be defrayed in respect of the UBP. Kardan Real Estate and its said partners plan to promote said project if and to the extent said UBP is approved. As of the report date, Kardan Real Estate is unable to assess the construction project's commencement date and Kardan Real Estate and its partners are studying alternative programs for the land.

Kardan Towers – Compound Adjacent to Kardan House – In February 2007, Kardan Real Estate signed an agreement with a third party (in this section: "**the seller**") to purchase its rights

247 Kardan Real Estate's part totals 45,000 sq.m., of which 31,500 sq.m. are owned and the rest is leased. The lease period as per the lease agreement signed with Israel Lands Administration in respect of three parcels in said land ended in March 2003. As of the report date, Kardan Real Estate is working to extend the lease periods for said parcels.

in the compound on 150 and 152 Menachem Begin St., Tel Aviv (in this section: "**the object of sale**"). The object of sale is located next to Kardan House, in which, as of the report date, work is being carried out in connection with construction stage B of Kardan House, as stated in Section 8.6.9[C][9] herein. The area of the purchased lot is 5,000 sq.m. The object of sale includes rights to the land under a development agreement with the Administration and agreements with the Tel Aviv Municipality and Netivei Ayalon. Likewise, the object of sale includes four underground parking levels constructed on the lot, regarding which there exist building irregularities that are currently going through final settlement proceedings with the Tel Aviv Municipality, which must be signed by the Administration. The agreement stipulates that in consideration of the acquisition of the aforesaid rights, Kardan Real Estate will pay the seller a total of NIS 83,200 thousand, subject to adjustments prescribed in the agreement (in this section: "**the consideration**"), of which NIS 31,000 thousand were paid at the time of signing the transaction. The balance of the consideration is to be paid at the time of furnishing the Administration's approval for the extension of the development agreement term, approval for the transfer of rights to Kardan Real Estate and completion of a bank lending agreement for the transaction. In the agreement, Kardan Real Estate undertook to finance for the seller tax payments it is subject to in respect of the sale, out of the consideration coming to it (as of the report date, Kardan Real Estate paid the seller a total of NIS 4,600 thousand for covering tax payments applying to it in connection with the transaction).

The compound is subject to a UBP (in this section : "**the new** UBP") that allows construction on the scope of 39,700 sq.m. gross, for office, commercial and residential purposes.[248] To realize all the rights under the new UBP, Kardan Real Estate will have to bear additional costs entailed, inter alia, in signing an agreement with the Administration and with the Tel Aviv Municipality and in signing various development and/or lease agreements. The agreement prescribes a consideration adjustment mechanism whereby if the total of the aforementioned additional costs to be borne by Kardan Real Estate is lower than NIS 69,000 thousand, the difference will be added to the sum of the consideration being paid to the seller, and if total costs exceed NIS 69,000 thousand, the consideration will decrease by 30% of any amount in excess of the aforesaid total. Completion of the transaction is contingent on the Administration's approval of the transfer of rights under the development agreement to Kardan Real Estate and extension of the development agreement's validity. As per the agreement, the handling of obtaining said approvals was placed under the responsibility of Kardan Real Estate for a period of up to ten months starting from April 1, 2008. In effect, up to the report date, the parties have been extending by consent, from time to time, the periods for obtaining said approvals.

In September 2008, an Administration notice was received along with an assessment, whereby the Administration will give its consent to extending the development agreement period until August 13, 2011, subject to the payment of NIS 86,000 thousand plus VAT (and plus revaluation differences) (where this sum also includes the lease consideration of an adjoining parcel that Kardan Real Estate needs to buy in order to realize the rights in the new UBP), which as already mentioned will be borne by Kardan Real Estate, save a total of NIS 5,400 thousand plus VAT

248 For further details see also Section 8.6.8[E] in this part.

(and plus revaluation differences) which will be borne by the seller. Since more than six months elapsed from said assessment's preparation until its receipt by Kardan Real Estate, a period of time in which significant changes took place in the real estate market, which Kardan Real Estate estimates could very well reduce the assessment, Kardan Real Estate and the seller applied to the Administration for an assessment adjustment and in August 2009, an adjusted assessment arrived for the payment of NIS 87,000 thousand plus VAT (and plus revaluation differences) (where said amount includes the lease consideration for said adjacent parcel and reflects the portion of Kardan Real Estate after reduction of the amount to be borne by the seller as stated) (in this section: "**the adjusted assessment**"). Kardan Real Estate and the seller filed an objection in respect of the adjusted assessment, and on February 25, 2010 a final assessment was issued that reduced the amount of the adjusted assessment by NIS 6,300 thousand. As of the report date, the aforesaid assessment had not been paid.

As of the report date, Kardan Real Estate is studying various programs for land development (offices, commerce, housing and/or a combination thereof). For details see also Section 8.6.8[E] in this part. Likewise, as of the report date, Kardan Real Estate is conducting negotiations with a large organization for the sale of between 10 to 15 thousand sq.m. in one of the structures that Kardan Real Estate plans to construct on the land. At this stage, consent has yet to be formulated on substantive matters, including with regard to the price and technical specification. In view of the foregoing, there is no certainty that said negotiations will crystallize into a binding agreement.

[E] Segmentation of Revenues

Following is a distribution of revenues in the income-producing properties segment by project (in NIS thousands):

	2009	2008	2007
M-1 Building[249]	2,438	2,178	2,427
Kardan House – State A	2,483	2,510	2,197
Kfar Saba	1,379	1,325	982
Rental income from sold properties[252]	-	[251]495	[250]687
Income from renting out equipment from the area of construction works execution	462	454	-
Total	**6,762**	**6,962**	**6,293**
Sale of space in the M-1 Building[253] and in Kardan House	-	788	2,250
Total sale and rental income	6,762	7,750	8,543
Percentage of total income in Kardan Real Estate	2.89%	4.10%	7.7%

249 In December 2009 Kardan Real Estate sold its rights in this property. For further details on said transaction see Section 8.6.2[4] in this part.

250 The data include revenues from an office building owned by El-Har and sold in June 2008.

251 The data include revenues from an office building owned by El-Har and sold in June 2008.

252 These data include, inter alia, net income from the Herzliya parking lot (Lev Ha'ir) after maintenance costs. Kardan Real Estate's holdings in the land (83%) were sold to a third party in July 2008 for NIS 4,600 thousand. Said sale's impact on Kardan Real Estate's profits was immaterial.

253 In December 2009, Kardan Real Estate sold its rights in this property. For further details regarding said transaction see Section 8.6.2[4] in this part. The data do not include said transaction.

[F] Customers

Kardan Real Estate's customers are corporations and businesspeople that enter into rental agreements with Kardan Real Estate for commercial, office and parking space of various sizes and for medium and long periods. Kardan Real Estate's policy is, insofar as possible, to enter into agreements with established lessees, and insofar as possible, for long rental periods. Kardan Real Estate estimates that it is not dependent on any one customer.

Kardan Real Estate customers include companies related to Kardan Real Estate controlling shareholders.

The rental agreements that Kardan Real Estate signs with its customers are unprotected tenancy agreements. The lessees are generally granted an option to extend the original rental period. In specific cases varying rental fees are set for the additional period (adjustment mechanism).

The basic rental agreements include, inter alia, provisions regarding the following: (1) Rental fees in respect of the leasehold, set according to leasehold size in sq.m., which are stated in most cases in NIS and are linked to the consumer price index; (2) Provisions regarding leasehold maintenance, where some of the agreements contain provisions regarding payment of management fees in respect of leasehold maintenance; (3) Provisions regarding payments in respect of fees, taxes, and duties as well as mandatory payments applying to the lessee; (4) Provisions concerning the rental period and purpose of rental; (5) Provisions concerning the furnishing of collateral to Kardan Real Estate, such as guarantees (personal or bank-issued) of third parties or related to the lessee, assignments, etc.; (6) Provisions regarding the transfer of property rights; (7) Provisions regarding changes made to leasehold; and (8) Provisions regarding the liability of the lessees for any damage caused to the leasehold and/or any person, bodily or property related and insurance in respect thereof.

[G] Marketing and Distribution

Kardan Real Estate markets rental space through real estate brokerage offices specializing in the marketing of rental space and through marketing companies. Kardan Real Estate is not dependent on any one marketer.

[H] Order Backlog

Following are details regarding the order backlog of Kardan Real Estate in the income-producing properties segment as of December 31, 2009 (in NIS thousands):

Expected Income Recognition Period	Order Backlog Immediately before the Report Date[254]	Order Backlog as of December 31, 2009	Order Backlog as of December 31, 2008
Q1 2009	-	-	1,632

254 The calculation of the order backlog as of the report date took into account income of Kardan Real Estate in connection with three agreements which were signed between Kardan Real Estate and Kardan Israel, Taladium Holdings (1987) Ltd. and Tahal, for a total of NIS 3,379, 146 and 12,040 thousand, respectively, for the entire backlog period specified above. These agreements are conditional, inter alia, on Migdal's approval, and therefore, as of the report date, they are not binding and Kardan Real Estate is acting to receive Migdal's approval, as stated.

Q2 2009	-	-	1,580
Q3 2009	-	-	1,565
Q4 2009	-	-	1,553
Q1 2010	526	745	1,172
Q2 2010	507	379	1,017
Q3 2010	1,035	275	938
Q4 2010	985	257	857
Total 2010	3,053	1,656	3,984
Total 2011	3,617	612	1,795
Total 2012	3,152	55	304
Total 2013	3,113	-	53
Total 2012	3,113	-	-
Total 2013	1,468	-	-
Total	17,516	2,323	12,466

The decrease in the order backlog between December 31, 2008 and December 31, 2009 stems mainly from the sale of Building M-1. The increase in the order backlog between December 31, 2009 and the report date stems mainly from Kardan Real Estate's entry into lease agreements, as detailed in the footnote in Section this 8.6.9[H].

That stated in this section is forward-looking information, within the meaning of this term in the Securities Law, based on the assessments of Kardan Real Estate's management. These assessments might not be realized, in whole or in part, or be realized differently than anticipated. Factors likely to influence in this regard are, inter alia, the compliance of the lessees' with whom Kardan has signed rental agreements in respect of its properties; the character of the environment in which the property is located and the extent of costs borne by the lessee (e.g. municipal property tax, management fees in the building, and the like) and/or due to the realization of all or part of the risk factors described in Section 8.6.22 in this part.

[I] Competition

Kardan Real Estate is exposed to competition from numerous companies that engage in the development of income-producing real estate. For the most part, competition is focused on the spotting of land for purposes of promotion, development, construction, rental and/or sale, and in later sages, also on the spotting of lessees. As already stated, recent years have seen the entry REITs and other institutional bodies such as pension funds, insurance companies and provident funds, into the income-producing properties market. The entry of said bodies contributes to the selective rise in the properties' value, especially given the availability of credit sources characterizing the said bodies and lowers the rental fees of the anchor tenants favored by said bodies, thereby intensifying the competition. The existence of considerable office and commercial spaces in areas where Kardan Real Estate income-producing properties are located could have a material detrimental effect on Kardan Real Estate's ability to rent out vacant areas and to maintain at the same time the level of rental fees it charges. As of the report date, Kardan Real Estate is unable to assess its share in the income-producing properties market.

[J] Suppliers

See Section 8.6.8[K] in this part.

The maintenance of Kardan Real Estate income-producing properties is managed in most cases by Mekdan.

[K] Real Estate Investment Trust (REIT)

Kardan Real Estate is collaborating with Farsida Ltd. ("**Farsida**") to set up a REIT (in this section: "**the fund**") that will exploit opportunities to invest in income-producing properties in Israel, to be designated "Kardan REIT." Kardan Real Estate and Farsida plan to invest a total of NIS 50,000 thousand in said fund (such that their share in said investment will be NIS 30,000 thousand and NIS 20,000 thousand, respectively) and to recruit initial investors for investment in the fund. Kardan Real Estate and Farsida plan to allow investors in the fund to benefit from the advantages in REIT income-producing real estate investment management, including a current dividend return, risk diversification, expertise in the selection and management of the properties and tradeability after the listing of the fund's shares on the stock exchange, as well as to enable investors to take advantage of the tax breaks embodied in a REIT investment, and to this end, the fund will act, to the extent it is set up, in compliance with the provisions of the Income Tax Ordinance.

As of the report date, an agreement has yet to be signed between Kardan Real Estate and Farsida with regard to the establishment of the fund and/or with regard to the mode of management of the fund-held properties. Likewise, as of the report date, Kardan Real Estate and Farsida turned to a limited number of prospective investors to invest in the fund, but as of the report date no agreements have been signed with them. In view of the foregoing, there is no certainly that said fund will indeed be set up.

8.6.10 Construction Works Execution Segment

General

Kardan Real Estate's activity in the construction works execution segment is carried out through El-Har. Half of El-Har's issued capital is held by Kardan Real Estate. The rest of El-Har's shareholders are Benhar Investments Ltd. ("**Benhar**") (25%) and Mesika (25%) (all together: "**El-Har shareholders**").[255] Kardan NV consolidates within its statements El-Har's financial statements.[256]

El-Har engages, directly and through affiliate companies, in the provision of execution contractor services for the erection of residential buildings of saturated construction, single

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[255] Benhar is a company wholly owned by Benjamin Harel, Co-Chairman of El-Har's Board of Directors. Mesika is a company jointly owned by Yossi Mesika and Nachum Lagenthal, who serves as a director at El-Har.

[256] El-Har's activity is immaterial to Kardan NV. El-Har is classified in Kardan NV's financial statements under the "others" segment. For further details regarding Kardan NV's business segments, see Note 35 to the financial statements.

floor residential houses, as well as non-residential buildings, such as hospitals, office buildings, public buildings, hotels, industrial and commercial buildings, all in Israel, and execution of the infrastructure and development works related to the projects it carries out. In October 2009, El-Har entered into an agreement with the trustee determined under a Tel Aviv District Court order in the framework of the bankruptcy case of Ramet Ltd. ("**Ramet**") (with a freeze on proceedings) ("**the trustee**"), whereby El-Har acquired 100% of Ramet's share capital for a total of NIS 8,000 thousand, of which a total of NIS 5,000 thousand was paid on the date of the transaction's completion and of which a total of NIS 3,000 thousand is to be paid in eight quarterly payment of NIS 375 thousand each. Ramet is a longstanding construction company that engages in the building and engineering of complex civil engineering enterprises such as tunnels, bridges, interchanges, land leveling and paving (infrastructures), as well as the construction of residential, industrial and commercial projects and public buildings. After completion of the acquisition of Ramet's shares, El-Har started construction works in the infrastructures sector. As of the report date, El-Har is carrying out 8 projects in Israel. In 2008 El-Har entered the Romanian market. As of the report date, El-Har's scope of activity in Romania is immaterial.

<u>El-Har Shareholders Agreement</u>

In March 2007, El-Har's shareholders entered into an agreement amongst themselves, which lays down various provisions regarding their holdings and the management of El-Har. Among other things, the agreement provides that up to six directors will serve at El-Har, with each shareholder having the right to appoint one director for every 16% of El-Har's issued share capital held by him. As of the report date, five directors serve at El-Har, three of them on behalf of Kardan Real Estate. As per the agreement, the persons serving as co-chairmen of the Board of Directors are one of the directors appointed by Kardan Real Estate – as of the report date, Eitan Soroka, Chairman of the Board of Directors of Kardan Real Estate ("**Soroka**"), and Mr. Benjamin Harel ("**Harel**"). Likewise, the agreement vests the parties with the right of first refusal on the acquisition of the shares of either party that seeks to sell its holdings in El-Har or, if they do not exercise said right of refusal, the right to join said sale under the same terms with respect to all their shares.

The El-Har shareholders further agreed to refrain from holding rights directly and/or indirectly in corporations engaged in construction works in Israel as long as they are shareholders in El-Har.

El-Har shareholders granted the Board Chairman, who is one of the shareholders (Harel), an option exercisable upon the termination of his work at El-Har for whatever reason, for a period of a year, to order the other shareholders to buy his holdings (via Benhar) in El-Har (each according to his proportion of El-Har shares), at a cost of NIS 9,000 thousand plus linkage differentials and cumulative annual interest, at a rate of 5%, starting from March 2007 (less dividends and bonuses). It was further provided that Harel's work at the company is terminated for whatever reason, save in the case in which he realizes said right, the other shareholders will have the right to buy the shares of the Board Chairman at the aforesaid price. If the Board Chairman is dismissed from his post at El-Har, and at the time El-Har's value exceeds NIS 54,000 thousand, according to the valuation of a CPA whose identity was determined in the agreement, the exercise price will be 85% of the value of his stake in El-Har shares. Said options will be cancelled upon a public offering of El-Har shares.

Issues Common to all of Kardan Real Estate's Areas of Activity and Additional Details

8.6.11 Human Capital

As of December 31, 2009, Kardan Real Estate employed 18 workers, two of them senior management workers. In 2008 Kardan Real Estate employed 17 workers, two of them belonging to the senior management.

On January 21, 2010, a new collective agreement was drawn up and signed between the Association of Contractors and Builders in Israel and the New Histadrut – General Federation of Labor in Israel, which regulates the employment conditions in the sectors of construction, infrastructures, mechanical engineering equipment, public works and renovations. This collective agreement will come into force at the time an extension order is issued, extending its provisions. As of the report date, such an extension order has not yet been issued.

Officers and Senior Management Employees

[1] The officers and senior management of Kardan Real Estate are employed under personal contracts for a monthly salary.

[2] In February 2010, Kardan Real Estate's Board of Directors approved in principle a plan for the allocation of Kardan Real Estate options to its executives and workers, whose coming into force was made conditional on a public offering of Kardan Real Estate shares and the listing thereof on the stock exchange, on the order of 12,570,306 options exercisable into up to 12,570,306 ordinary shares of Kardan Real Estate (in this section: "**the options**"). Likewise, the Kardan Real Estate's Board approved, in principle, in the framework of its said decision, that under said option plan (and from said quantity of 12,570,306 options) Kardan Real Estate will allocate 9,637,233 options for the purchase of up to 9,637,233 ordinary shares of Kardan Real Estate (subject to adjustments), of which will go to the Board Chairman of Kardan Real

Estate – 3,352,082 options,[257] to the CEO of Kardan Real Estate – 2,933,071 options, and to each of the five workers that are senior officers at Kardan Real Estate, which are not interested parties therein and will not be interested parties therein after said allocation – 670,416 options. The remaining options (2,933073 options) will be left in a reserve for future distribution, under any law.

8.6.12 Working Capital

As of December 31, 2009, Kardan Real Estate has a working capital deficit of NIS 23,000 thousand. Kardan Real Estate's management is of the opinion that it is able to assign some of the long-term loans and to continue receiving additional financing from banks or from Kardan Israel (including the provision of guarantees) for the payment of its obligations and for the continued activity of Kardan Real Estate, inter alia, in light of a letter received by Kardan Real Estate on December 16, 2009 from Kardan Israel, in which the latter undertakes to support Kardan Real Estate, if necessary, during the 15-month period from the date of the letter's receipt (this undertaking does not bind Kardan Israel to third parties), an investment in Kardan Real Estate's equity made by Clal in February 2010 (see Section 8.6.4[1] of this part), and a public offering of shares and debentures (Series 1) held by Kardan Real Estate in March 2010 (see Section 8.6.4[4] of this part).

Suppliers' Credit

Kardan Real Estate receives from its supplier in the residential construction sector credit of up to 45 days from the end of the month of work execution (current+45). The average amount of suppliers' credit, in each of the years 2009, 2008 and 2007, totaled NIS 7,422 thousand, NIS 7,951 thousand and NIS 6,096 thousand, respectively.

Customers' Credit

There is no customers credit in the residential segment and income-producing properties segment.

In the sale agreements signed by Kardan Real Estate in this area of activity, the consideration for the purchase of housing units is paid according to the construction progress rate and the delivery of possession to the purchaser is contingent on the payment of the full consideration.

There is no customers' credit in the income-producing properties segment. In the rental agreements Kardan Real Estate enters into, the lessees prepay the rental fees.

8.6.13 Financing

[A] Kardan Real Estate finances its operations with equity, receipts from apartment buyers and lessees and with bank and non-bank credit, as well as with shareholders loans as detailed below. For details regarding the letter of support delivered by Kardan Israel to Kardan Real Estate, see Section 8.6.12 in this part.

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257 The General Meeting of Kardan Real Estate from February 2010 approved the allocation of options to the Board Chairman of Kardan Real Estate as stated.

[B] As per the agreement signed between Kardan Real Estate and a subsidiary wholly owned by Kardan Israel (in this section: "**the subsidiary**") in November 2006 (in this section: "**the framework agreement**"), the subsidiary provided loans to Kardan Real Estate from time to time and according to the needs of Kardan Real Estate, totaling NIS 90,000 thousand. The credit line was increased from time to time by various amounts. On September 30, 2009, Kardan Real Estate issued 79,565,135 ordinary Kardan Real Estate shares to Kardan Israel, against an investment of NIS 120,000 thousand in Kardan Real Estate's equity, by way of conversion of a portion of the shareholders' loans provided as aforesaid. As of December 31, 2009, the balance of the loan stood at NIS 116,778 thousand. On February 14, 2010, Kardan Real Estate issued to Kardan Israel 13,027,747 ordinary Kardan Real Estate shares, against capitalization of an additional NIS 111,300 thousand out of the loan.

In respect of the loans provided by the subsidiary to Kardan Real Estate, as stated above, according to said framework agreement, interest expenses were charged to Kardan Real Estate's books in 2009 totaling NIS 17,545 thousand. Said interest expenses accrued to the loan amounts borrowed by Kardan Real Estate from the subsidiary.

After said investments, the balance of the loan provided by Kardan Israel to Kardan Real Estate stood at NIS 20,000 thousand (in this section: "**the remaining loan**").

In February 2010, an agreement was signed between Kardan Real Estate and Kardan Israel, replacing the framework agreement and formalizing the terms of the remaining loan. As per the agreement, the remaining loan will bear annual interest at the weighted interest rate borne by the loans taken by Kardan Israel from various bank and non-bank sources plus 0.25%, to be adjusted every six months. The remaining loan principal will be linked to the price index for December 2009, and will be payable in two equal installments on June 30 of the years 2013 and 2014. Interest on the remaining loan will be defrayed in semiannual payments starting from June 30, 2010 until repayment of the remaining loan.

[C] Following is a breakdown of the credit composition and average and effective interest rates thereon as of December 31, 2009 and as of the reporting date:

		Long-Term Loans						Short-Term Loans and Current Maturities of Long-Term Loans					
		Amount (in NIS thousands) as of the Report Date	**Average Interest Rate as of the Report Date (%)**	**Effective Interest Rate as of the Report Date (%)**	**Amount (in NIS thousands) as of Dec. 31, 2009**	**Average Interest Rate as of Dec.31, 2009 (%)**	**Effective Interest Rate as of Dec.31, 2009 (%)**	**Amount (in NIS thousands) as of the Report Date**	**Average Interest Rate as of the Report Date (%)**	**Effective Interest Rate as of the Report Date (%)**	**Amount (in NIS thousands) as of Dec.31, 2009**	**Average Interest Rate as of Dec.31, 2009 (%)**	**Effective Interest Rate as of Dec.31, 2009 (%)**
Bank sources	**Index-linked financing**	-	-	-	-	-	-	475	5.8%	5.8%	952	5.8%	5.9%
	Shekel-denominated financing at fixed interest	-	-	-	-	-	-	-	-	-	-	-	-
	Shekel-denominated financing at variable interest	-	-	-	-	-	-	203,735	3.11%	3.12%	186,823	2.9%	3.16%
Non-bank sources	**Index-linked debentures**	-	-	-	-	-	-	-	-	-	-	-	-
	Loans from related parties	20,106	6.22%	6.32%	116,758	5.33%	5.4%	-	-	-	-	-	-
Total		20,106	6.22%	6.33%	**116,753**	**5.33%**	**5.4%**	204,210	3.11%	3.13%	**187,775**	**2.91%**	**3.17%**

From the credit balances above, a total of NIS 179,305 thousand as of December 31, 2009 is identifiable credit that financed the acquisition and construction of residential projects and rental structures.

The amounts in the table do not include credit amounts provided by a bank in Israel to Holyland, in which Kardan Real Estate's share as of the reporting date and as of December 31, 2009 totals NIS 70,092 and NIS 69,699 thousand, respectively.

For details regarding bank financing agreements in connection with projects in the housing sector which Kardan Real Estate is executing as of December 31, 2009, see Section 8.6.8[C][4] of this part.

[D] Financial Covenants

During the months September to November 2009, Kardan Real Estate entered into agreements with three banks in Israel for providing credit lines to Kardan Real Estate for the construction of the Em Hamoshavot Project, Hasar Moshe Project and Ramat Eliashiv Project – see Section 8.6.8[C][5] in this part).

In the agreements Kardan Real Estate undertook, inter alia, as follows: (1) An undertaking that the tangible equity of Kardan Real Estate in its financial statements (solo) will not fall below 20%; (2) An undertaking not to distribute profits and/or dividends in such manner as to cause Kardan Real Estate to not meet its obligations as stated in Section (3); (4) An undertaking to not record a floating lien on its assets in favor of any other bank without the bank's consent; (5) That there will be no change in the control in Kardan Real Estate, unless the bank's consent is obtained; (6) Not to institute any proceedings to carry out a merger with another corporation without receiving the bank's consent; (7) Not to take any action whose outcome is the acquisition of the bulk of Kardan Real Estate's assets by an individual or other corporation or the sale of shares that will give said buyer control in Kardan Real Estate, without receiving the bank's consent.

Kardan Real Estate's remaining debt to the aforesaid banks stands, as of the report date, at NIS 221,466 thousand (and also NIS 121,936 thousand in respect of Sale Law guarantees, and also NIS 76,816 thousand in respect of other guarantees). As of December 31, 2009 and as of the report date, Kardan Real Estate meets all its financial obligations as stated (based on its financial statements as of December 31, 2009).

[E] Following are details on Kardan Real Estate's credit balances at variable interest (in NIS thousands)

Change mechanism	Immediately prior to report publication date			2009		
	Credit amount	**Interest range in %**	**Weighted average interest rate**	**Credit amount as of Dec. 31**	**Interest range in %**	**Weighted average interest rate**
Prime	203,735	2.9%-4.25%	3.11%	186,823	2.65%-4%	2.9%

[F] Kardan Israel Guarantees in Favor of Kardan Real Estate

As of the reporting date, Kardan Israel guarantees Kardan Real Estate's obligations to a third party in an amount of NIS 4,700 thousand. Additionally, Kardan Israel is guarantor under various performance guarantees for obligations of Kardan Real Estate which are not quantifiable.

[G] Guarantees Provided by Kardan Real Estate

[1] Kardan Real Estate provided guarantees in favor of banks in Israel for purposes of extending credit facilities for El-Har's activity, according to its proportion in El-Har's holdings. As of December 31, 2009, and as of the report date, Kardan Real Estate's portion in the guarantees provided in favor of El-Har's credit lines totals NIS 34,000 thousand and NIS 34,000 thousand, respectively.

[2] As security for payment of the remaining consideration for the transaction in which El-Har acquired Ramet's full issued capital, Kardan Real Estate provided, in February 2010, a guarantee in the amount of NIS 2,000 thousand. As security for the indemnification of Kardan Real Estate, in the event the trustee exercises the guarantee given to it by Kardan Real Estate, Kardan Real Estate was given guarantees by other El-Har shareholders, Benhar and Mesika, in the amount of NIS 500 thousand, each. In respect of said guarantee, Kardan Real Estate is entitled to a quarterly commission from El-Har of 2.5% of the outstanding balance for which said guarantee was given.

[3] In addition, the Kardan Real Estate Group provided bank guarantees to apartment buyers according to the Sale Law, as well as performance guarantees that totaled, as of December 31, 2009, NIS 143,000 thousand.

[4] Kardan Real Estate, along with other Holyland shareholders, each according to his proportion, furnished a guarantee for an unlimited amount in favor of a bank, as security for the repayment of credit received by Holyland, whose balance as of December 31, 2009 and as of the report date (including guarantees in the amount of NIS 231,731 thousand and NIS 242,501 thousand, respectively), stands at NIS 464,062 thousand and NIS 472,190 thousand, respectively, and Kardan Real Estate's portion from said total is NIS 139,219 thousand and NIS 141,657 thousand, respectively.

[5] Kardan Real Estate, jointly and severally with another shareholder in Nofei Hashemesh provided a guarantee for an unlimited amount, in favor of a bank, as security for the repayment of credit

received by Nofei Hashemesh, whose balance as of December 31, 2009 and as of the report date (including guarantees totaling NIS 51,536 thousand and NIS 54,171 thousand, respectively) stands at NIS 109,776 thousand and NIS 110,453 thousand, respectively. For details regarding the holding in Nofei Hashemesh, see Section 8.6.8[C][1] in this part.

[6] In September 2009, in accordance with its obligations under a combination agreement it signed with the landowner (detailed in Section 8.6.8[C][6] in this part), Kardan Real Estate provided guarantees for credit received by said landowner from a bank in the amount of NIS 18,500 thousand (principal only) plus interest and linkage differentials that will apply to said credit. For further details see Section 8.6.8[C][6] in this part.

[H] Liens

Kardan Real Estate encumbers under floating and fixed liens its real estate assets, the revenues and rights from the projects and from rental fees, including insurance rights, joint transaction rights and receipts in respect thereof, rights in agreements with job orderers and shares of companies held in favor of the lending banks of the various projects. Total obligations of Kardan Real Estate secured by said liens, as of December 31, 2009 and as of the report date stands at NIS 257,474 thousand and NIS 266,798 thousand, respectively.

[I] Shareholders Loans Provided by Kardan Real Estate

[1] Kardan Real Estate provided a shareholders loan to Holyland. The loan's balance, as of December 31, 2009 and as of the report date, stood at NIS 63,815 thousand and NIS 63,960 thousand, respectively. The loan is index-linked and bears 4% interest. The payback date for said loan has not yet been set. The other Holyland shareholders also provided shareholders loans as aforesaid, in proportion to their respective holdings.

[2] Kardan Real Estate provided a shareholders loan to Nofei Hashemesh, whose balance as of December 31, 2009 and as of the report date, stood at NIS 30,187 thousand and NIS 24,758 thousand, respectively. Of said total of NIS 24,758 thousand, the amount of NIS 14,536 thousand is not index-linked and does not bear interest, and the amount of NIS 10,402 thousand is unlinked and bears variable interest whose rate right before the report date was 1.875%. In February 2009, Kardan Real Estate entered into an agreement with Yesodot Zur, which essentially provides for the granting of a further NIS 22,000 thousand in equal parts to Nofei HaShemesh as a shareholders' loan, in which framework Kardan Real Estate gave Nofei HaShemesh (in respect of Yesodot Zur's portion) NIS 5,000 thousand. In February 2010 Yesodot Zur repaid said loan given to it by Kardan Real Estate (a total of NIS 5,000 thousand plus interest amounting to NIS 642 thousand). For details regarding said agreement see Section 8.6.17[B] in this part.

[J] Debentures

On March 21, 2010, Kardan Real Estate issued 80,867,000 registered debentures (Series 1), convertible to Kardan Real Estate shares, bearing annual interest of 5.70% and linked (principal and interest) to the consumer price index announced for January 2010, in consideration for a total of NIS 83,374,000, which were listed for trading on the Tel Aviv

Stock Exchange on March 21, 2010. The interest on debentures (Series 1) is payable in semiannual installments on September 30 in each of years 2010 until 2013 (inclusive) and on March 30 in each of the year 2011 until 2014 (inclusive). Debentures (Series 1) are convertible to ordinary registered shares of Kardan Real Estate of NIS 1 par value each, in any trading day, starting from the date of their listing on the stock exchange until March 14, 2014 (inclusive), such that in said period, each NIS 3.884 par value of debentures (Series 1) will be convertible to one ordinary share of NIS 1 par value of Kardan Real Estate (subject to adjustments). As of the report date, no debentures (Series 1) were converted to Kardan Real Estate shares. Likewise, no collateral was provided as security for the rights of the holders of debentures (Series 1).

8.6.14 Tax

Kardan Real Estate is subject to Israel's tax laws.

In July 2008, Kardan Real Estate was issued tax assessments for the years 2004 and 2005, according to which it was required to pay tax amounts (including accrued interest and linkage differentials) totaling NIS 6,900 thousand. Kardan Real Estate filed an objection to these assessments, and in July 2009 an assessments agreement was signed between Kardan Real Estate and the tax authorities, whereby Kardan Real Estate is to pay a further tax of NIS 1,000 thousand and its carried forward losses will be reduced by NIS 11,000 thousand.

In September 2008, Kardan Real Estate was issued a land appreciation tax assessment in respect of the sale of half its rights in Kardan House (as detailed in Section 8.6.17[A] in this part), whereby Kardan Real Estate is required to pay land appreciation tax amounting to NIS 13,500 thousand. Kardan Real Estate disputes the tax authorities position and filed an objection in respect of this assessment. Kardan Real Estate contends that it incurred a loss in respect of said transaction. As of the report date, the parties, Kardan Real Estate and the tax authorities, are holding discussions regarding said assessment.

As of December 31, 2009, Kardan Real Estate has unutilized tax losses and temporary differences totaling NIS 21,000 thousand.

8.6.15 Environmental Protection

Kardan Real Estate is required, among other things, in the framework of project construction permits, to meet various environmental conditions associated with environmental quality, such as noise, pollution, soil damage, etc., which are generally regulated in the framework of the UBP and/or the construction permits. For the most part, the costs entailed in the implementation of the requirements are immaterial for Kardan Real Estate, and it meets these requirements. For further details see Section 8.6.9[C][9] in this part.

8.6.16 Restrictions on and Supervision of the Kardan Real Estate Group's Activity

The Kardan Real Estate Group's operation is subject to the laws and regulations in the realms of real estate law and planning and construction law, inter alia, in its activity seeking rezoning and the receipt of approvals and construction permits. Likewise, Kardan Real Estate's operation is subject to the decisions and procedures of the Israel Land Administration in connection with rezoning and utilization of land rights, as well as to the provisions of contracts with the Administration. In addition, Kardan Real Estate could be subject to the duty of paying leasing fees, capitalization fees, permit fees, consent fees, etc.

In the residential construction segment, Kardan Real Estate is subject, inter alia, to the provisions of the Ensuring Investments Sale Law, and in the income-producing properties segment, Kardan Real Estate is subject, inter alia, to the provisions of the Hire and Loan Law, 5731-1971.

8.6.17 Material Agreements not in the Ordinary Course of Business of Kardan Real Estate

[A] In February 2008, Kardan Real Estate entered with Migdal Insurance Company Ltd. and New Makefet Pension and Provident Funds Management Ltd. ("**Migdal**") into a transaction for the sale of half the rights of Kardan Real Estate in all the built-up areas and areas to be built up in Kardan House, located on Menachem Begin St., Tel Aviv (Kardan House Stage A and Stage B) (in this section: "**the project**"), for the sum of NIS 119, 208 thousand plus VAT and index-linkage, subject to adjustments as detailed below (in this section: "**the consideration**"). Until the report date, Migdal paid Kardan Real Estate the sum of NIS 16,700 thousand out of the full consideration, and an additional sum of NIS 1,200 thousand is placed, as of the report date, in a trust until the fulfillment of the suspending conditions prescribed in the agreement, including the registration of some of the leasing rights in Migdal's name. Said amounts account for 15% of the total consideration. The remainder of the consideration will be paid by Migdal upon completion of Kardan House Construction Stage B and the renting out of areas to be built. Kardan Real Estate undertakes to complete the construction within 24 months from the date of receiving the building permit for the construction of Kardan House Stage B by Kardan Real Estate, which was obtained in March 2008. Under the agreement, Kardan Real Estate may overrun this deadline by six months. In the agreement it is stipulated that in the event that 3 years after the completion of construction (receipt of Form 4 and an occupancy certificate) or 30 days after the date on which all project areas have been rented out, whichever the earlier, the return yielded by the sold property deviates from the range of 6.62%–8% of the consideration, Migdal or Kardan Real Estate will pay one another such sums as will increase the consideration (to 6.62%) or decrease it (to 8%), as the case may be.

According to the agreement, Migdal will receive possession of parts of the project (Stage A and Stage B) and pay the consideration due from it in respect of those parts, on the date that rental agreements are signed with regard to said parts and the rental period begins. Delivery of first possession shall be after the renting out of no less than 5,000 sq.m. in the project. Delivery of possession in the parking lot shall be according to Migdal's decision and no later than from the renting out of 90% of the office space in the project and/or the record date, whichever the earlier. Likewise, it was stipulated that if by the record date set, not all parts of the object of sale are rented out, the transaction will be completed (36 months after the date of receiving the project occupancy form) ("**consideration adjustment date**"). The agreement was made conditional on suspending conditions that were satisfied and came into force.

Construction began in the course of the first quarter of 2008 and is expected to be completed in April 2010. In February 2010, Kardan Real Estate and Tahal (as defined in Section 8.6.8[E] in this part) entered into an agreement for the rental of an area covering 5,300 sq.m. out of the areas in Stage B to Tahal, at the same time entering into another agreement for the sale of Tahal's leasing rights in a real estate property in Tel Aviv. Said agreements were made conditional on several suspending conditions, which have not yet been fully satisfied as of the report date. For further details see Section 8.6.8[E] in this part.

In February 2010 Kardan Israel and Kardan Real Estate signed a rental agreement whereby Kardan Israel rented from Kardan Real Estate areas covering 1,450 sq.m. in Kardan House for a period of five years, with an option for extending the rental period by an additional five years.

As of the report date, no additional rental agreements have been signed for the rental of space in Kardan House Stage B, given the market situation recently, which is marked by low demand, a decrease in rental fees and difficulty in renting out properties. In the estimation of Kardan Real Estate's management, by the time of accounting with Migdal most of the space in the building will be rented. Additionally, the agreement gives Kardan Real Estate the option to rent the areas itself and to sublet them. For further details regarding Kardan House Project Stage B, see Section 8.6.9[C][9] in this part.

The foregoing in connection with the completion of construction of the Kardan House Project Stage B and in connection with Kardan Real Estate's estimation regarding the rental of areas as aforesaid is forward-looking information, as defined in the Securities Law, which is based on the assessments of Kardan Real Estate's management. These assessments might not be realized, in whole or in part, or be realized differently, including materially, from that anticipated, as a result of the prolongation of the project's execution due to engineering reasons and/or the realization of all or part of the risk factors detailed in Section 8.6.22 in this part.

[B] In February 2009, in light of the notification from Yesodot Zur (a private company held by a third party that is not related to Kardan Real Estate or to interested parties therein) that it would not be able to transfer its proportionate share, based on its holdings in Nofei Hashemesh, in the financing needed by Nofei Hashemesh, Kardan Real Estate entered into an agreement with Yesodot Zur, whereby a sum of up to NIS 22,000 thousand would be provided to Nofei Hashemesh in the form of a shareholders loan, from which amount Kardan Real Estate would give Nofei Hashemesh a total of up to NIS 11,000 thousand as a loan for Yesodot Zur (in respect of its share in the loan provided to Nofei Hashemesh).

In February 2010, Yesodot Zur repaid said loan (a total of NIS 5,000 thousand plus interest amounting to NIS 642 thousand), and the lien on Yesodot Zur's shares in Nofei Hashemesh recorded in favor of Kardan Real Estate was lifted.

[C] For details regarding an agreement signed between Kardan Real Estate and Tahal for a proceeds transaction in connection with a real estate property located on Ibn Gvirol St., Tel Aviv, serving, as of the report date, as Tahal's offices, and for a rental transaction in connection with Kardan House Stage B, see Section 8.6.8[E] in this part.

[D] For details regarding an agreement entered into by Kardan Israel, Kardan Real Estate and Clal Insurance in connection with a private placement of Kardan Real Estate shares issue to Clal Insurance, see Section 8.6.4[1] in this part.

8.6.18 Legal Proceedings

[A] In January 2006 a lawsuit was filed with the Tel Aviv District Court against Kardan Real Estate and six other defendants by a shareholder (in this section: "**the Plaintiff**") in the company Ganei Hanassi Rishon Ltd. ("**Ganei Hanassi**") that holds land in Rehovot, which sold part of the land (30%) to one of the defendants (in this section: "**Defendant 1**") in 1999. In 2000 Kardan Real Estate purchased half the rights (15%) of Defendant 1, including half of the rights and obligations associated with the sale of the land to Defendant 1 by Ganei Hanassi, under the sale agreement signed between them in 1999 (in this section: "**the sale agreement**"). Likewise, in November 2002, Kardan Real Estate entered into an agreement with Ganei Hanassi and Defendant 1, whereby in consideration for the assistance of Defendant 1 in advancing an application filed with the local authority for the addition of units in the aforesaid project, Defendant 1 will be paid amounts stated in the agreement ("**Sheves agreement**"). The Plaintiff contended that the consideration paid to Ganei Hanassi under the sale agreement was significantly lower than the market value of the land, due to the fact that Defendant 1 and other defendants (not including Kardan Real Estate) deceived Ganei Hanassi. Likewise, the Plaintiff alleges that the purpose of the Sheves agreement was obtaining the support of Defendant 1 for the wrongful acts of Kardan Real Estate. The Plaintiff is trying to establish against Kardan Real Estate, causes of fraud, deception, misrepresentation, bad faith and breach of statutory duty, primarily in respect of the adoption of the sale agreement by it. The Plaintiff is claiming a total of $1,850 thousand from all the defendants, jointly and severally, and declaratory relief stating that the sale agreement from 1999 and the agreement for the acquisition of half the rights by Kardan Real Estate from 2000, are void. In the opinion of Kardan Real Estate's legal advisers, Kardan Real Estate has good defense arguments and therefore no provision has been included in its financial statements in respect of this claim.

[B] As stated in Section 8.6.8[D] in this part, in September 2008, an agreement was signed between Kardan Real Estate and Resido (in this section: "**the new agreement**"), in which framework Resido undertook to return to Kardan Real Estate all the monies the latter paid to Resido in connection with the original agreement of principles (NIS 12,300 thousand), plus interest and linkage ("**Resido's debt**"). However, shortly thereafter, the Tel Aviv District Court gave a freeze order to Resido, Milomor and other related companies. Likewise, checks given by Resido to Kardan Real Estate on account of repayment of Resido's debt were not honored. In January 2009, the Tel Aviv District Court approved a creditors' composition agreement with regard to Milomor, Resido and their related companies, whereby the secured creditors (among them Kardan Real Estate) will have their debt rescheduled at prime interest up to the disposal of the encumbered asset in their favor.

As stated in Section 8.6.8[D] in this part, Kardan Real Estate was given several collaterals as security for the repayment of Resido's debt, among them an assignment of right by way of lien for receiving a total of NIS 12,300 thousand due Milomor and a related company of Milomor, from the Beer Yaakov Local Council, and a personal guarantee from Resido's controlling shareholder. In the agreement between Kardan Real Estate and the Council (see Section 8.6.8[C][6] in this part), the Council approved unconditionally the assignment of right received by Kardan Real Estate from Milomor as collateral for securing Resido's debt. The Council's approval enables Kardan Real Estate to pay the development imposts it will owe the Council, by way of offsetting the full amount of Resido's debt against the development impost payments. Likewise, in May 2009, Kardan Real Estate and Resido's special administrator signed a compensation agreement as detailed in Section 8.6.8[D] in this part.

In view of the existence of said collaterals and based on Resido's creditors' composition agreement, which was approved by the Tel Aviv District Court, and based on the agreement between Kardan Real Estate and the Council, Kardan Real Estate estimates that Resido's debt will be repaid out of the payments Kardan Real Estate will be required to pay the Council, by way of offset.

Kardan Real Estate's assessment that Resido's debt will be repaid, including partially, by the Council, through the offset of development impost payments, is forward-looking information based on the assessments of Kardan Real Estate's management regarding the Council's fulfillment of its undertakings toward Kardan Real Estate for the repayment of monies it owes Milomor and its related companies. Kardan Real Estate's assessment might not be realized, in whole or in part, if the Beer Yaakov Local Council does not meet its obligations.

[C] Kardan Real Estate and its partner in the land in the Achuzat Hanassi project in Rehovot (in this section: "**the entrepreneurs**") are involved in a dispute with the land owner (as detailed in Section 8.6.8[C][1] of this part), relating to the construction of a commercial center in the aforesaid project. According to the land owner, under previous agreements, the parties (the entrepreneurs and the land owner) should have dissolved the partnership in the land designated for the construction of the commercial center, since construction thereof did not begin at the times set between the parties. According to the entrepreneurs, the land owner is not entitled to any compensation, since the commercial center was not built owing to consensual acts of the parties for the approval of the UBP. The parties recently agreed to conduct an arbitration in the matter, and an arbitration session was held in which a timetable was set for the submission of pleadings and for the continuation of the litigation. In view of the early stage in this proceeding, and given that no statement of claim or demand has been received as yet and the land owner's claims or the reliefs demanded by him have still not been clarified, Kardan Real Estate and its legal advisers are unable to assess at this stage the monetary significance of the aforesaid.

[D] A dispute has arisen between Kardan Real Estate and its partner in the Notan project regarding the interest rate to which Kardan Real Estate is entitled in connection with its excess share of equity that was provided for financing the project, by reason of the question of who should bear the interest expenses in respect of the said excess share of equity (the partner or the joint venture). According to Kardan, owing to the excess equity it provided, a difference of NIS 1,000 was created in its favor, which its partner in the project must reimburse to it. The partnership agreement established an arbitration mechanism, and if the parties fail to settle their disagreement with each other, they will submit the matter to arbitration. As of the date of the report, the parties agree on the identity of the arbitrator who will be appointed by them to adjudicate the dispute, but the arbitrator has still not given notice of his agreement to arbitrate the matter, nor has either of the parties submitting pleadings in the matter. Consequently, it is difficult to assess the prospects of Kardan Real Estate's demands in this regard.

[E] In September 2008, Habas H.Z. Credit (1994) Ltd. and Habas Shikun Dan Ltd. (in this section: "**the plaintiffs**") filed a claim for NIS 43,000 (the plaintiffs deducted from this amount a sum of NIS 7,500 thousand in respect of a lien, approved accounts and works executed by El-Har) in the Central District Court, against El-Har, in respect of legal and other disputes relating to the execution of shell work and accompanying works in a residential building at 1 Rothschild Blvd. in Tel Aviv (in this section: "**the project**"). According to the plaintiffs, inter alia, El-Har stopped the construction unilaterally, which caused them heavy monetary losses, to which was added an amount consisting of compensation, overheads and other expenses caused, prima facie, to the plaintiffs. In November 2008, El-Har submitted a statement of defense and statement of counterclaim. El-Har maintained that it did not breach the contract with the plaintiffs, that it was forced to cancel the contract and stop the construction works because of the plaintiffs' fundamental breach of the agreement between them, inter alia in that the construction execution plans did not conform to the effective building permits, and that the plaintiffs had deducted amounts from the consideration due to El-Har all through the project. In the statement of counterclaim El-Har sues for NIS 28,000 thousand in respect of damages it sustained due to the plaintiffs' breach of the agreement and failure to pay for works which it had executed. Based on an opinion of El-Har's legal advisers, at this preliminary stage it is difficult to assess the prospects of the claim, however, it can be estimated that El-Har has good defense arguments and that the claim's chances are less than 50%. In January 2009 Habas submitted a statement of defense against the counterclaim, after which El-Har submitted a statement of reply in the counterclaim. Based on an opinion of El-Har's legal advisers, it is difficult to estimate assess the prospects of the counterclaim, however it can be estimated that El-Har has good arguments and that the counterclaim's chances are higher than 50%.

As of the date of the report, the case is in a process of agreed mediation. El-Har's legal advisers believe there are good chances that the mediation process will end the legal proceedings (both Habas's claim and El-Har's counterclaim) by way of a compromise. El-Har has not made a provision for the claim in its financial statements, and the balance of revenue receivable in respect of the project according to El-Har's financial statements as of December 31, 2009 amounts to NIS 7,500 thousand.

For further details regarding the aforesaid proceeding, see Note 34[C][3] to the financial statements.

8.6.19 Business targets and strategy

Kardan Real Estate's activity in recent years has been adapted to the market situation and to the level of demand in the real estate sector. Kardan Real Estate's management intends to act in order to position the Company as a leader in residential construction, while planning, executing and marketing projects efficiently and rendering its customer high-quality service.

At the peak of the global economic crisis, Kardan Real Estate mobilized to cope with the new market situation, taking the necessary steps to meet its performance targets, while examining attractive investment opportunities for the development of its business. In the past months, concurrently with the relative easing of the conditions for bank financing, and the market assessments that the global economic crisis has peaked, and in view of new real estate investment opportunities the Company was able to locate, the Kardan Real Estate has intensified its activity.

In the residential construction segment, Kardan Real Estate intends to continue developing the existing properties in respect of which it entered into development agreements and to expand its operations, locating potential land plots for the development of residential real estate, on its own and together with partners. In addition, Kardan Real Estate plans to continue seeking out opportunities for acquiring companies with land reserves – all of the above, while making a thorough and meticulous examination of the economic situation and taking into account the economic implications and trends in demand. Project construction is expected to be carried out in stages, in order to reduce the unsold inventory of residential apartments and adjust it to the trends in demand.

In the income-producing properties segment, Kardan Real Estate intends to continue locating land plots for the construction of properties for sale/rental, simultaneously continuing to improve and manage the properties held by it today, while making a thorough and meticulous examination of the economic situation and taking into account the economic implications and trends in demand. Kardan Real Estate's policy does not require that it hold onto its income-producing properties, and it sells areas from the properties as the opportunity arises and based on the level of demand.

8.6.20 Projected development in the coming year

Kardan Real Estate's management intends in the coming year to develop the existing projects in accordance with the management work plan and the situation in the market.

For details regarding the REIT fund which Kardan Real Estate plans to establish together with a third party, see Section 8.6.9]K] of this part.

The intentions of Kardan Real Estate's management constitute forward-looking information, within the meaning of this term in the Securities Law, based on the assessments of Kardan Real Estate's management and its understanding of the Israeli real estate market. These intentions might not be realized, in whole or in part, or be realized differently than anticipated, including in a material manner, due to incorrect assessments,

unforeseen changes in the Israeli real estate market and/or realization of all or part of the risk factors described in Section 8.6.22 of this part.

8.6.21 Material investments

[A] Mekdan

As of the date of the report, Kardan Real Estate holds 40% of the issued share capital of Mekdan, a private incorporated in Israel in 1995. The additional shareholders are Pakad Maintenance Services (1996) Ltd. (a member of the Shikun Ubinuy Group, held, indirectly, 100% by Shikun Ubinuy Ltd.), which holds 40% of the share capital, and Mr. Yossi Kanetti, the CEO of Mekdan, who holds 20% of the share capital of Mekdan. For details regarding a transaction in which Kardan Real Estate acquired 40% of the share capital of Mekdan, see Section 8.6.2[3] of this part.

Mekdan engages, directly and through subsidiaries, in the management and maintenance of office buildings, commercial centers and shopping malls, residential buildings, industrial parks, industrial buildings and parking lots. In addition, Mekdan provides consulting and support services to entrepreneurs in the planning and construction stages of projects, in connection with the management and maintenance of properties. Mekdan has holdings in companies in Eastern Europe (Hungary, Bulgaria and Romania), through which it manages and maintains several properties in Eastern Europe. Mekdan's activity not material to Kardan NV and is presented in its financial statements under the "Others" segment. Starting from the financial statements as of December 31, 2009, Kardan Real Estate presents Mekdan's results by the equity method.

[B] Holyland

Kardan Real Estate holds 30% of the issued share capital of Holyland, a private company incorporated and registered in Israel in 1999. The other shareholders of Holyland are Polar Real Estate Ltd. ("**Polar**") (60%) and Leumi Mortgage Bank Ltd. ("**BLL**") (10%), which are not related to Kardan Real Estate or its controlling shareholders. Holyland is engaged in the construction of a residential project in Jerusalem. For details regarding the said project, see the tables in Section 8.6.8[C] of this part.

8.6.22 Discussion of risk factors

The activity of the Kardan Real Estate Group is characterized by the following risk factors:

Macro risks

[A] **Changes and/or deterioration in the economic situation, economic slowdown and economic uncertainty** – Changes and/or a deterioration in the economic situation in Israel, such as a decline in the national growth rate, a rise in unemployment rates and a drop in per-capita growth, could cause a decline in real estate activity in Israel and weaken demand. Such weakening of demand could result in increased competition, fewer housing starts and reduced profits, adversely affecting the financial results of the Kardan Real Estate Group.

[B] **Changes and/or deterioration in Israel's political and security situation –** Israel's political and security situation has a direct impact on the real estate sector, reflected in a decrease in demand for housing units and increase in construction costs. The security situation could cause a shortage in raw materials coming from the West Bank (mainly stone), as well as a temporary shortage in manpower due to frequent call-up of the military reserve forces without advance warning. In light of the above, changes and/or a deterioration in Israel's security situation could cause a decrease in profit and in demand.

[C] **Population growth rate and immigration and balance of emigration –** A decrease in the birth rate, a decline in immigration to Israel and/or a rise in emigration from Israel could reduce demand for housing units, in the first stage, and in the second stage also cause demand for commercial and public projects to contract, adversely affecting the results of the Kardan Real Estate Group..

[D] **Fluctuations in the Consumer Price Index, in interest rates and in foreign currency exchange rates –** Kardan Real Estate finances a substantial part of its business operations by loans linked to the CPI and unlinked shekel loans. Its rental income is also linked to the CPI. Furthermore, some expenses in the construction segment, such as raw materials purchases, construction equipment imports, employment of foreign workers, etc., are denominated in a foreign currency (mainly the dollar and the euro). Therefore, significant fluctuations in the CPI, in the interest rates prevailing in the banks and in the foreign currency exchange rates could impact on the costs and revenues and the financial obligations of the Kardan Real Estate Group.

[E] **Fluctuations in demand –** Fluctuations in demand due to a decrease in the growth rate of households, fluctuations in interest, fluctuations in the dollar exchange rate, changes in the terms of bank mortgages, as well as expectations for changes in housing prices and in the return on housing prices, impact on the activity of the Kardan Real Estate Group.

[F] **Global economic crises –** As stated, during 2008 there was a significant deterioration in global financial markets, which persisted during the first half of 2009, causing a real worldwide economic crisis. As of the date of the report, it is unclear if the direct economic repercussions of this crisis have been exhausted, however assessments are that the global economic crisis has peaked. For further details regarding the global economic crisis, see Section 8.6.7 of this part. Kardan Real Estate is affected, and could be affected also in the future, by these developments, including by way of reduction of financing sources, difficulty in obtaining bank financing, inability of entrepreneurs to obtain refinancing for their projects, increase in financing expenses, decrease in customer demand, drop in prices and impairment of the financial strength of buyers and lessees as well as subcontractors. Further tightening of credit provision policies of financing entities, an increase in financing costs and intensification of the injury to household income and economic activity in the business sector could affect the revenues and financial obligations of the Kardan Real Estate Group and impair its financial results.

Sectoral risks

[G] **Regulatory changes –** Changes in legal requirements and the setting of additional requirements could expose the Kardan Real Estate Group to unforeseen expenses and prolong the time to completion of projects.

[H] **Material changes in construction costs and in the building inputs index –** Material changes in the cost of construction and the building inputs index are liable to affect the cost of construction of residential projects and income from the sale of apartments, and as a result, could affect the income of the Kardan Real Estate Group. In addition, an exceptional increase in raw material prices during the project which does not significantly affect the construction index basket, but which does affect the project expenses due to substantial use of said raw material in the project, will lead to erosion of profitability of the project and will adversely affect the financial results of El Har.

[I] **Availability and cost of financing sources –** Exposure to effects arising from the decrease or restriction of banking credit extended to the real estate sector and tougher financing conditions reflected, inter alia, in equity, amount of collateral required for entry into new projects and financing costs, could expose the Kardan Real Estate Group to difficulties in the execution and completion of projects.

[J] **Land availability –** Kardan Real Estate’s entry into new project depends on the location of potential land and government and ILA policy.

[K] **Financial strength of buyers and lessees and payment morality of customers –** As a company whose income partly depends on house buyers and/or lessees with whom it contracts, Kardan Real Estate is exposed to risk due to deterioration in the financial strength of buyers and lessees, which could have an adverse effect on its financial results. In addition, failure by customers to meet terms of payment in execution agreements is liable to adversely affect the business results of El Har, and indirectly also the business results of Kardan Real Estate.

[L] **Maintenance cost for income-producing properties –** Regarding income-producing properties, Kardan Real Estate could incur maintenance costs for property it is unable to rent out.

[M] **Financial strength of suppliers -** A deterioration in the financial strength of subcontractors (construction contractors), which are the main suppliers of the Kardan Real Estate Group, is liable to adversely affect the Group's results, primarily in light of the additional costs involved in the replacement of a construction contractor before the completion of construction of the project.

[N] **Government policies regarding construction –** Government policies concerning construction, availability of foreign workers and suitably qualified professionals, marketing of land owned by the ILA and the pace of planning and licensing procedures for projects, affect the timetable for project completion, all of which impact the business of the Kardan Real Estate Group. The Group's business is also affected by the policy on freeing up land for construction.

[O] **Availability of manpower –** A shortage of manpower which is affected by the government's allocation policy in terms of foreign workers and by the security situation in Israel, specifically with regard to Palestinians, may cause an increase in wages and extend the period of execution of projects, impacting negatively on the operations and results of the Kardan Real Estate Group. In addition, there are difficulties in recruiting skilled workers in construction.

[P] **Availability of raw materials and fluctuations in raw material prices** - Raw material shortages, due to deterioration in the security and/or political situation, labor disputes at the ports, demand in excess of supply, as well as sharp increases in raw materials price and events which influence the ability to import raw materials to Israel, could adversely affect activity in the construction sector in general, and in the residential construction sector in particular, resulting in delays in the construction and delivery of projects.

[Q] **Changes in work conditions –** Regulatory changes in salary conditions and/or collective agreements in the construction sector could adversely affect business results of the Kardan Real Estate Group. As stated in Section 8.6.7 of this section, in recent years the government has instituted a policy of reduced employment of foreign workers, including by increasing the costs of their employment through the collection of various fees and levies. The government is liable to impose additional taxes and levies or increase their amount.

[R] **Cancellation and/or reduction of volume of projects –** Cancellation of planned projects in the field of construction work due to disputes with the ILA, legal proceedings or the geopolitical/economic situation are liable to adversely affect the financial results of the Kardan Real Estate Group and specifically El-Har. On the background of the economic crisis, El-Har has suspended two projects and there may be a reduction in the scope of projects and even the suspension of additional projects by customers due to difficulty in obtaining bank loans for developers or financial difficulties. While some of the execution agreements include a clause compensating El-Har in the event that the customer cancels or suspends the construction of the project, the cancelation of several projects could nonetheless materially hurt El-Har's business activity and results.

[S] **New projects –** As a general rule, El-Har executes and completes construction works in projects within a period of 8 to 18 months, reflected in an order backlog of El-Har that is short term. Consequently, El-Har's rate of penetration of new projects affects its financial results. Thus, if El-Har is unable to enter into new contracts for construction work in additional projects, this could impact negatively on its financial results, and indirectly on the financial results of Kardan Real Estate.

[T] **Administrative delays by authorities –** Delays in issuing building permits and occupancy approvals stemming protracted proceedings of the authorities in projects of the Kardan Real Estate Group as well as projects executed by El-Har, could impair the Group's business results.

[U] **Purchasing groups –** The increase in activity of purchasing groups in the field of residential construction (see also Section 8.6.8[J] of this part could escalate competition in this field, increase the prices of land available for construction and intensify competition over potential apartment buyers, affecting the financial results of the Kardan Real Estate Group.

[V] **Failure to comply with financial covenants and obligations pursuant to financing agreements –** In the framework of agreements for financing projects that are executed by the Kardan Real Estate Group, the bank financing the project is given supervisory and control powers with respect to compliance with timetables and other targets in connection with the project, as well as authority to intervene in the current management of the project where the project fails to conform to the business plans that were set. In case of noncompliance with the provisions of the financing agreement with respect to the targets included in the project's business plan, failure to meet commitments to the bank, including financial covenants, the transfer of control to partners in the project without the bank's approval, or on the occurrence of an event that could adversely affect the execution of the project and in other cases enumerated in financing agreements, the bank may demand the immediate repayment of the loan, and it may use any collateral it was given in connection with the financing agreement. The exercise of these powers by the banks with which the Kardan Real Estate Group is or will be connected, could adversely affect its financial results and ability to meet its obligations.

Extraordinary risks

[W] **Legal proceedings –** If the court rules against El-Har in material legal proceedings or accepts the counterclaims of defendants, El-Har's income will be adversely affected.

[X] **Construction defects –** In the event that serious construction defects are discovered, this could hurt the profitability and reputation of the Kardan Real Estate Group.

[Y] **Partial insurance cover –** El-Har does not insure a part of the enginerring and mechanical equipment held by it against theft and/or damage that could be caused to this equipment due to fire or breakdown. Significant damage to this equipment could cause expenses in significant amounts, hinder El-Har's current operations and even impair its business results. El-Har's management estimates, based on insurance advice it received from its insurance consultants, as well as on past experience of the El-Har management, that the exposure due to the aforesaid lack of insurance cover against the risks of theft or damage that could be caused to the equipment is low.

Section in This Part	**Risk Factors**	**Degree of Impact of the Risk**		
		Strong Impact	**Medium Impact**	**Minor Impact**
	Macro risks			
8.6.22[A]	Changes and/or deterioration in the economic situation, economic slowdown and economic uncertainty	X		
8.6.22[B]	Changes and/or deterioration in Israel's political or security situation	X		
8.6.22[C]	Population growth rate and immigration and balance of emigration			X
8.6.22[D]	Fluctuations in the Consumer Price Index, in interest rates and in foreign currency exchange rates		X	

8.6.22[E]	Fluctuations in demand	X		
8.6.22[F]	Global economic crisis	X		
	Sectoral risks			
8.6.22[G]	Regulatory changes		X	
8.6.22[H]	Material changes in construction costs and in the building inputs index		X	
8.6.22[I]	Availability and cost of financing sources	X		
8.6.22[J]	Land availability		X	
8.6.22[K]	Financial strength of buyers and lessees and payment morality of customers		X	
8.6.22[L]	Maintenance cost for income-producing properties			X
8.6.22[M]	Financial strength of suppliers		X	
8.6.22[N]	Government policies regarding construction		X	
8.6.22[O]	Availability of manpower		X	
8.6.22[P]	Availability of raw materials and fluctuations in raw material prices		X	
8.6.22[Q]	Changes in work conditions			X
8.6.22[R]	Cancellation and/or reduction of volume of projects	X		
8.6.22[S]	New projects			X
8.6.22[T]	Administrative delays by authorities		X	
8.6.22[U]	Purchasing groups		X	
8.6.22[V]	Failure to comply with financial covenants and obligations pursuant to financing agreements		X	
	Extraordinary risks			
8.6.22[W]	Legal proceedings	X		
8.6.22[X]	Construction defects			X
8.6.22[Y]	Partial insurance cover			X

9. A Description of the Financial Services Segments – The Retail Banking and Credit Segment and the Insurance and Pension Segment

9.1 Kardan NV's financial activity is performed and coordinated under the KFS Group and divided into two business segments, each one carried out through a separate company, as follows:

- Financial Services Segment – Retail Banking and Credit, including leasing, mortgages and asset management ("**Retail Banking and Credit Segment"),** carried out by the TBIF group.

- Financial Services Segment– Insurance and Pension, ("**Insurance and Pension Segment"),** carried out by the TBIH group.

KFS is a private company incorporated in the Netherlands, which provides financial services in the Central-Eastern European countries, in countries of the former Soviet Union, and in Turkey, through subsidiaries and related companies. As of the date of the report, Kardan NV holds approximately 98.6% of the issued capital of KFS. As of the date of the report, KFS holds approximately 90.38% of the issued capital of TBIF which is active in the Retail Banking and Credit Segment and 40% of the issued capital of TBIH which is active in the Pension and Insurance Segment.

TBIH is a Dutch holding company active in the Insurance and Pension Segment in Central-Eastern Europe, in countries of the former Soviet Union, and in Turkey.

TBIF is a holding company operating in the Retail Banking and Credit Segment in Central-Eastern Europe and in countries of the former Soviet Union.

Kardan NV fully consolidates the financial statements of KFS and KFS fully consolidates the financial statements of TBIF and proportionately consolidates the financial statements of TBIH.

9.2 Following are details regarding the investment of Kardan NV in KFS as of December 31, 2009:

Holding Rate (in percent)	Investment Sum in Kardan NV Books (in Millions of Euros)	The percentage that constitutes the investment sum in the affiliate company out of the total equity attributable to the owners of Kardan NV		Contribution to the net profit attributable to the owners of Kardan NV in 2009 (in Millions of Euros)
98.6%	114	39%		(10)

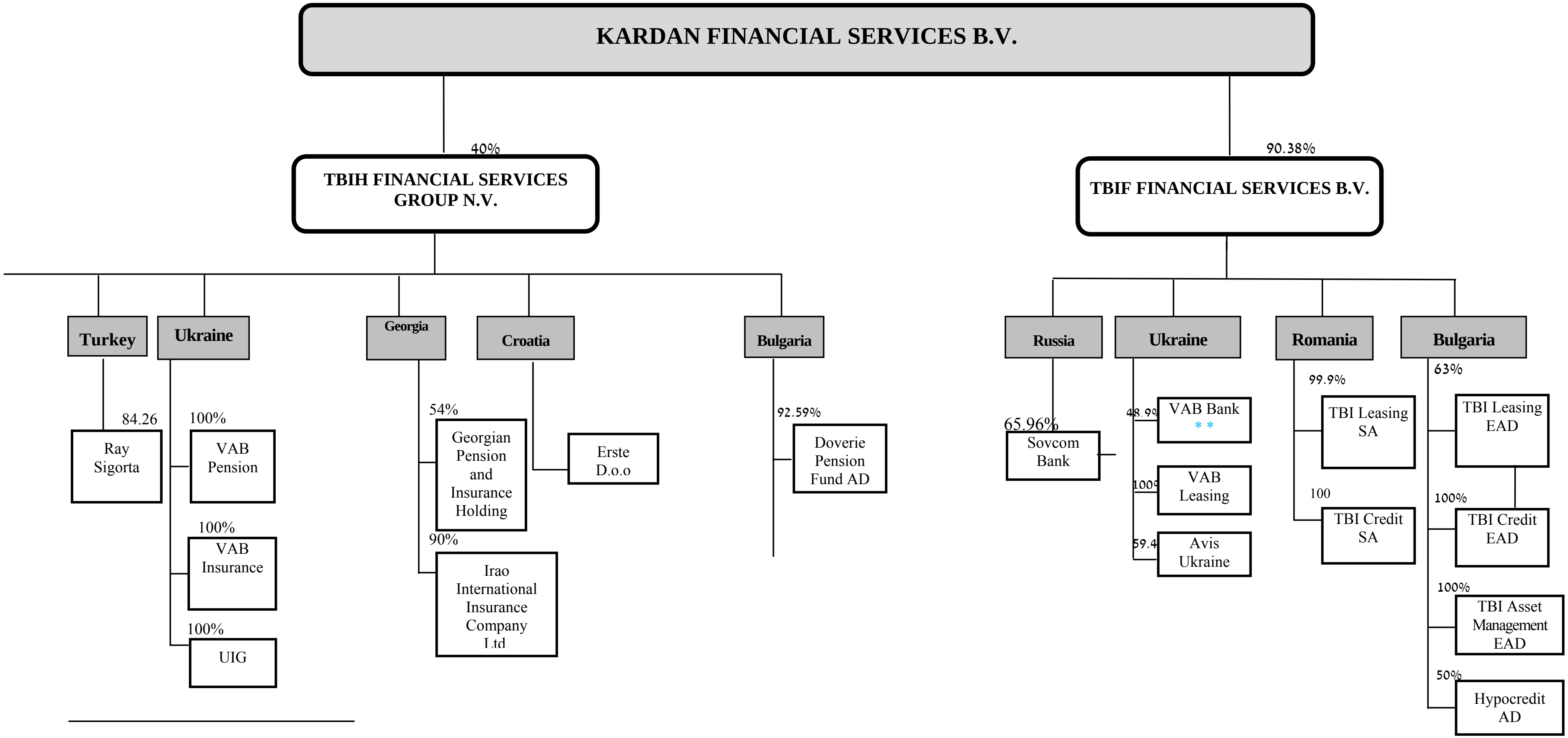
9.3 Following are details out of the financial statements of KFS, TBIH, and TBIF as of December 31, 2009 (the sums in millions of euros):

	Revenue			**Net profit (loss) attributable to the owners of the affiliate**			**Equity attributable to the owners of the affiliate company**			**Total Assets**			**Accountancy Presentation in the books of Kardan NV**
	In 2009	**In 2008**	**In 2007**	**In 2009**	**In 2008**	**In 2007**	**As of December 31 2009**	**As of December 31 2008**		**As of December 31 2009**	**As of December 31 2008**		
KFS	308	349	261	(6)	(40)	39	94	108	1	1,724	1,741		Full Consolidation
TBIF	207	142	90	(23)	(60)	10.8	78	96		1,428	1,380		Full Consolidation
TBIH[258]	158	174	262	33	(15)	72.5	140	111		495	675		Proportionate Consolidation

9.4 For the description of material transactions made by Kardan NV and/or subsidiaries and related companies in the Retail Banking and Credit Segment and in the Insurance and Pension Segment in 2009 see Note 5c of the financial statements.

[258] The data indicate 100% of TBIH, which is held at a rate of 40% by KFS and is consolidated in a relative consolidation.

Following is the structure of KFS's main holdings in subsidiaries and related companies as of the date of the report:*



* The diagram does not include companies which are inactive and companies that are immaterial to KFS, TBIF and TBIH. All companies appearing in the diagram are subsidiaries and related companies of KFS, TBIH, and TBIF.

** In December 2009 TBIF converted loans it had granted the bank into capital. The conversion is subject to receiving various approvals. After the conversion is performed, its holdings in the bank will grow. For additional details see Section 9.6.1.[b] of the report.

9.5 Structural Changes and Share Transactions of KFS, TBIF, and TBIH

9.5.1 KFS

[A] The Reorganization of KFS's Holdings (“the Reorganization”)

In August 2006, an agreement was signed between Kardan NV and Wiener Stadtische Versicherung AG, presently Vienna Insurance Group ("**VIG**"), according to which Kardan NV acquired, in April 2007, all of VIG's holdings in KFS issued capital (approximately 40%). Concurrently, TBIH transferred all of its holdings in TBIF's issued capital at the time (about 89.4%) to KFS and VIG acquired from KFS 60% of TBIH issued capital, so that after the transaction is complete, KFS possesses the remaining 40% of TBIH issued capital. This transaction reflected KFS value of approximately EUR 210 million after the investment, approximately EUR 267 million to TBIH (post-transaction, without TBIF activity) and the value of approximately EUR 175 million to TBIF (post-transaction).

VIG is a leading Austrian insurance company, operating in approximately 23 countries, with a focus on Central and Eastern Europe. VIG's stock is traded on the Vienna Stock Exchange at a market value of approximately EUR 4.9 billion as of March 18, 2010.

According to the shareholders agreement in TBIH, as amended in December 2008, KFS was granted joint control of TBIH with VIG until 2010 or until two years after acquisitions of additional businesses by TBIH for a total sum of EUR 428 million through self-financing or financing supplied or organized by VIG, the sooner of the two. Within a new amendment of the shareholders agreement of December 2009, the joint control of TBIH by KFS and VIG was cancelled, subject to obtaining regulatory and other approvals, which have not yet been received as of the date of the report.

The Reorganization agreement stated that in the event that on December 31, 2010, the value of TBIH businesses in Georgia[259], existing before the transaction and also all of TBIH businesses in Turkey, will be greater than their agreed value for the purpose of the transaction with the addition of the TBIH investments in those businesses, including costs incurred to TBIH in connection with financing such businesses[260], after the transaction, then VIG will invest as a premium on the TBIH share capital (without reducing KFS' holdings) a sum equaling the

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[259] Within the amendment of the TBIH shareholders agreement of December 2008 (as set forth in Section 9.16.1 of this part), it was determined that the said arrangement will not apply regarding the value of TBIH’s businesses in Russia and Ukraine which existed before the transaction and which was included (in addition to the value of TBIH’s businesses in Georgia as aforesaid) in the calculation according to TBIH’s shareholders agreement, was removed.

[260] Financing costs were added as part of the amendment to the TBIH shareholder agreement in December 2008 (as set forth in Section 9.16.1 of this part).

difference between the values multiplied by the rate of the VIG holdings in TBIH multiplied by 40%.

As part of this transaction, Kardan NV granted the KFS minority shareholders Put options to demand of Kardan NV to acquire their holdings in KFS. Details regarding the exercising of options, including the price agreed upon for their realization, see section 9.5.1 [d] of this Part.

As of the date of the report, KFS minority shareholders are entitled to sell their shares to Kardan NV under the following conditions: (1) regarding shares which constitute 1.25% of Kfs's capital, an option that can be exercised up to December 31, 2012 at a price that will be agreed upon, or in the absence of agreement – at a price that will be determined by an external assessor, but not less than a value of approximately EUR 151 million with the addition of Euribor rate interest plus 3.5% from April 6, 2006 and up to April 16, 2007, and with the addition of capital increments as much as they occur, and also the capital increment made by the minority shareholders under the Reorganization; (2) regarding shares which constitute 0.12% of KFS's capital, an option that can be exercised up to December 31, 2010 (with a possibility of bringing the exercise forward if the option holders or entities connected with them stop providing the KFS Group with services) at a price that will be agreed upon, or in the absence of agreement – at a price that will be determined by an external assessor. Regarding these shares, the minority shareholders have granted Kardan NV Call options to acquire the shares under the same terms for a period of 60 days after the expiry of the Put options.

[B] <u>Allocating KFS Shares to Israel Discount Bank Ltd., and Their Acquisition by Kardan NV</u>

In the month of November 2007, KFS allocated to a subsidiary in full ownership of Israel Discount Bank Ltd. (Israel Discount Bank Ltd. and the subsidiary – hereafter in this Section "**Discount Bank**"), 11% of the KFS share capital in return for a sum of EUR 55.6 million. The said allocation reflected a company value of EUR 505.6 million (post-investment) for KFS. Following the completion of the transaction as said, the holdings of Kardan NV were reduced from 89.8% to 80% of the issued and paid up capital of KFS. Concurrently, KFS shareholders invested a total of EUR 20 million, out of which EUR 19 million were invested by Kardan NV by converting a shareholders' loan into KFS shares (see Section 9.13.1[D] of this Part).

Additionally, a loan agreement was signed with Discount Bank, pursuant to which Discount Bank will grant KFS a line of credit of up to EUR 175 million, for periods of between 6 and 11 years, against various securities as follows: attachment of KFS holdings to TBIH; attachment of 49% of KFS's holdings to TBIF; attachment of rights to repay the shareholder loans that KFS granted TBIF; attachment of KFS's right according to the Put option it was granted in the shareholders agreement with TBIH (as detailed in Section 9.16.1[A] of this part) and Kardan NV's guarantee in the sum of EUR 50 million which may only be realized in the event that the said Put option ("**the Collateral**") cannot be implemented. In addition, Kardan NV undertook vis-a-vis Discount Bank to remain within the financial conditions (Covenants) as described in Section 16.4[B] of this part. In addition, KFS undertook vis-à-vis Discount Bank to meet certain Covenants with regard thereto and with regard to TBIF and TBIH. For details of the said Covenants, see Section 9.13.1[E] of this part. As of the date of the report, KFS utilized the entire line of credit (EUR 175 million) against the aforementioned Collateral. In addition, in accordance with the loan agreement, Discount Bank granted KFS an additional line of credit of up to EUR 50 million for a period of 11 years and this against a Kardan NV guarantee for a sum of EUR 50 million, which could be revoked[261] according to certain conditions determined in the loan agreement ("**Additional Line of Credit**"). KFS made use of the allocation funds and the said credit to develop and expand its businesses, mainly in the Retail Banking and Credit Segment, and for recycling loans. In March 2009, an agreement was signed between KFS and Discount Bank, according to which KFS repaid the bank approximately EUR 50 million, from the line of credit extended to the company and within the framework of which the financial covenants were updated. For further details see Sections 9.13.1[D] and 16.4 of this part.

In March 2009, Kardan NV entered a contractual relationship with Discount Bank, according to which Kardan NV acquired all Discount Bank’s holdings in KFS shares that constitute 11% of the share capital of KFS, in return for the sum of EUR 38.5 million, of which EUR 30 million were paid at the time of signing of the agreement and a sum of EUR 8.5 million (without interest) will be paid at the end of seven years from the date of completion of the transaction. The transaction reflected a value of EUR 350 million for KFS, post-transaction. In addition, Discount Bank was vested with an option to acquire shares in the rate of 5% of the share capital of KFS and this for a period of six years beginning from the date of signing of the agreement. The price of exercising the mentioned option will be derived from the value of KFS in the sum of approximately EUR 386 million plus 5% per year which will accumulate starting with the third year from the date of signing the agreement (subject to adjustments that were determined in the agreement).

Upon completion of the transaction, in March 2009, Kardan NV held approximately 95.7% of the issued and paid up capital of KFS, and the balance of KFS shares were held by executives in the KFS Group

[261] As of the date of the report, the feasibility of revoking of this guarantee is low.

[C] In December 2007, Kardan NV converted an amount of approximately EUR 19 million out of a loan it provided to KFS in KFS's share capital, against issuance of approximately 4% of KFS's share capital (on the date of issuance), such that, following such investment, Kardan NV held approximately 89.8% of KFS's issued capital. For details regarding the loan which Kardan NV provided to KFS, see Section 9.13.1[C] of this part.

[D] In July 2008, a minority shareholder exercised his right, as set forth in Section 9.5.1[A] of this part, and Kardan NV acquired from this minority 4.4% of KFS's issued capital, at a price of approximately EUR 12 per share, for an aggregate consideration of EUR 1.4 million. The transaction reflected a company value of approximately EUR 505 million for KFS, after the transaction

In January 2009, minority shareholders exercised their right as set forth in Section 9.5.1[A] of this part and Kardan NV acquired approximately 4.3% of KFS's issued capital from them, at a price of approximately EUR 5.8 per share, for an aggregate consideration of EUR 10.6 million. The transaction reflected a company value of approximately EUR 242 million for KFS, after the transaction.

[E] In May and July 2009, the minority shareholders exercised their right as set forth in Section 9.5.1[A] of this part and Kardan NV acquired approximately 2.9% of KFS's issued capital from them, at an average price of approximately EUR 5.4 per share (between 5.1 and 5.8 per share) for an aggregate consideration of approximately EUR 6.6 million. The transaction reflected a company value of approximately EUR 227 million for KFS, after the transaction. Following said acquisition, as of the date of the report, Kardan NV holds approximately 98.6% of the issued capital of KFS.

[F] Allocation of shares for KFS executives and consultants – for details see Sections 9.12.3 and 9.12.4 of this part.

9.5.2 <u>TBIF</u>

[A] In March 2008, KFS converted an amount of approximately EUR 36 million from the balance of the shareholder loans it granted to TBIF (as set forth in Section 9.13.2[F] of this part) into TBIF shares. Concurrently, KFS assigned the right to repay loans that it granted to TBIF in the amount of approximately EUR 4 million, to a management company fully owned by the TBIF CEO ("**the CEO Company**"). The CEO Company converted this amount against an allocation of TBIF shares. TBIF allocated to KFS and the CEO Company shares pro rata to their holdings prior to the said investments, in such a way that following the allocation of shares to KFS and the CEO Company, TBIF's holdings remained at identical rates, i.e. unchanged. The allocation of shares reflected a value of EUR 440 million for TBIF (post-transaction). Concurrently and in accordance with KFS's agreement with the CEO Company, KFS granted a loan of EUR 4 million to the CEO Company with the same terms as the Non-Recourse loan that KFS granted to the CEO Company (for further details see Section 9.12.5[B] of this part).

[B] In September 2008, KFS converted an amount of approximately EUR 13.6 million out of the remainder of the shareholder loans provided to TBIF (as set forth in Section 9.13.2[F] of this part) into a premium of shares of TBIF. Concurrently, KFS assigned the loan repayment right in the amount of approximately EUR 1.4 million, which it had provided to TBIF, to the CEO Company, in terms identical to the Non-Recourse loan that KFS provided to the CEO Company (for additional details, see Section 9.12.5[B] of this part). The CEO Company converted such amount against a premium of shares of TBIF. In December 2008, and against the premiums of TBIF shares as aforesaid, TBIF issued KFS and the CEO Company shares pro rata to their holdings prior to such investments, such that subsequent to the aforementioned issuance of shares to KFS and the CEO Company, their holdings in TBIF remained identical, i.e. unchanged. The share issuance reflected a value of EUR 426 million (post-investment) for TBIF.

[C] In November 2009 KFS converted an amount of approximately EUR 4.5 million from the balance of the shareholder loans it granted to TBIF (as set forth in Section 9.13.2[F] of this part) into TBIF shares. Concurrently, KFS assigned the right to repay loans that it granted to TBIF in the amount of approximately EUR 0.5 million, to the CEO Company, under the same terms as the Non-Recourse loan that KFS granted the CEO Company (for additional details see Section 9.12.5[B] of this part). The CEO Company converted this amount against a premium for TBIF shares. After this conversion, KFS's and the CEO Company's holdings in TBIF remained at the same rates, that is without change.

[D] In December 2009 KFS converted an amount of approximately EUR 5 million from the remainder of the shareholder loans granted to TBIF (as detailed in section 9.13.2 [F] of this Part) against the premium of TBIF shares. Following this conversion KFS's holdings and the CEO Company's holdings in TBIF remained at the same rates, that is without change..

9.6 <u>Acquisition, Selling or Transfers of Assets of a Material Scale outside the Ordinary Course of Business [262]</u>

9.6.1 <u>TBIF</u>

[A] <u>Acquiring Banking Operations in Russia</u> - In September 2007, TBIF acquired 50% of the share capital of Sovcom Bank, a regional bank in Russia (hereafter in this Section: "**the Bank**") for a total amount of approximately EUR 40 million, of which approximately EUR 14 million in cash and approximately EUR 26 million

[262] The additional parties in all transactions described in section 9.6 are not related to Kardan NV unless explicitly indicated otherwise.

in an assignment of TBIF rights for payment of loans (Receivables) from its activity in Russia and transfer of TBIF's entire holdings (100%) in the retail credit company, Arka Finance ("**Arka**") to the Bank. Under this acquisition transaction, TBIF activity in the Retail Banking and Credit Segment in Russia was integrated into the Bank's activity. The transaction reflected a value of approximately EUR 52 million, and approximately EUR 104 million after the investment (including holding in Arka), for the Bank. Furthermore, in the agreement between the parties it was determined that in the event of disagreements between the parties regarding the Bank's budget approval or appointment of senior executives in the Bank two years after the completion of the transaction, or in case of disagreements regarding the allocation of the Bank shares to third parties, selling the Bank, or issuing it after 4.5 years of the date of the transaction completion, each party would be entitled to set a BMBY mechanism in motion.[263] In case of a change in control over TBIF (whereas joint control is not considered a change in control), should the change in control occur before three years have passed since the date of the transaction completion, the other party may acquire the TBIF shares in the Bank for a fair price, and should the change of control occur later than three years from the date of the transaction completion, the other party will be entitled to set a BMBY mechanism in motion. In accordance with its undertaking under the agreement, in March 2008, TBIF completed a transaction with the rest of the shareholders in the Bank, according to which TBIF invested approximately EUR 29 million (including conversion of a shareholders loan in the amount of approximately EUR 4 million into shares), in exchange for allocation of shares, which resulted, after such investment, in TBIF holding approximately 59% of the Bank's share capital.

In June 2008, TBIF purchased from the other shareholder of the Bank 1% of the share capital of the Bank in return for an amount of approximately EUR 1.7 million. The transaction reflected the Bank's value of approximately EUR 170 million after the investment.

In June 2008, option agreements were signed between the Bank's additional shareholders (the "**Additional Shareholders**") and TBIF, pursuant to which TBIF has options to acquire shares in the Bank.

The option agreements determined that in the event TBIF does not exercise all of the options granted, by December 3 2009, the Additional Shareholders shall be entitled, as of January 1 2010, to acquire the amount of shares of the Bank that would reduce TBIF's holding to 50% of the Bank's share capital at a price to be calculated in accordance with the formula determined in the agreement and

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[263] The BMBY (Buy Me Buy You) mechanism is a mechanism for breaking a partnership, according to which the first party offers to acquire the second party's share for a sum of funds specified in the offer. The second party may accept the offer and sell its share or alternately refuse the offer and acquire the first party's share for the same sum specified in the offer.

subject to receipt of the required regulatory approvals. The said shareholders are entitled to exercise the said option by giving an exercise notice up to March 3, 2010 and to complete the acquisition up to September 2010. The parties are in contact regarding the exercise of the option, and for this purpose the additional shareholders have been given an extension for exercising the option up to April 9,, 2010.

During 2009 and 2008, TBIF performed a number of transactions of acquisitions and sales of the Bank's shares in the total amount of approximately EUR 12.3 million and, as of the date of the report, TBIF holds approximately 65.96% of the Bank's issued share capital.

In 2008, the Bank purchased the whole issued share capital of Credit Island, a Russian retail credit company, in return for the total amount of approximately EUR 1.9 million, and the whole issued capital of Nika Consumer Finance, another Russian retail credit company, in return for the total amount of approximately EUR 4.4 million.

During the third quarter of 2009, after integrating Arka's activity with the Bank's activity as stated above, the Bank sold all its holdings in Arka Insurance Company (which was a subsidiary fully owned by Arka), which also held the Regional Credit Bank, and through which the credit activity of Arka's clients was carried out, and this in consideration of the sum of approximately EUR 24 million.

[B] Increasing the Investment in the Banking Activity in Ukraine – TBIF holds the VAB Bank in Ukraine (in this Section "**the Bank**"). During 2008 the National Bank of Ukraine ("**NBU**"), with the aid of the International Monetary Fund ("**the Monetary Fund**"), provided loans to some of the banks in Ukraine. Within this framework, during the last quarter of 2008, the Bank was provided with a loan in the sum of approximately UAH 970 million (that were approximately EUR 90 million at the date of the provision of the loan), with repayment date at the end of 2009. Discussions were conducted during the last quarter of 2009 between the Bank and the NBU regarding the extension of the loan repayment date. Following the discussions, the Bank's office received a letter in which the NBU confirmed its agreement to postponing the repayment date of approximately UAH 926 million out of the loan principal (approximately 95% of the sum of the loan) to the last quarter of 2010. Postponing the loan repayment date was possible, inter alia, due to the Bank meeting the capital requirements as required by the NBU and the Monetary Fund. For this purpose, the General Assembly of the Bank approved a capital increment in the sum of approximately EUR 42 million (approximately 60 million dollars). TBIF invested approximately EUR 12.5 million in the Bank's capital, by way of converting loans it had provided the Bank in the past into capital. Following said investment in the bank's capital and after obtaining the NBU's approval in the Ukraine for the said capital increase in March 2010, TBIF holds 63% of the bank's issued capital.

Additionally, in November 2009, TBIF entered into an agreement with the additional central shareholder group of the Bank (“**the Selling Group**”), according to which TBIF could purchase Bank shares from the Selling Group, in a manner that would increase TBIF’s holdings in the Bank from approximately 63% up to approximately 98%. The consummation of the transaction is subject to the fulfillment of various condition precedents, to TBIF’s satisfaction, and to regulatory approvals. The cost of acquisition of said shares, if and as far as they will be acquired, is expected to reach up to a sum of approximately EUR 24.2 million. The precise cost of the acquisition shall be determined according to certain market conditions, as will be at the date of consummation of the transaction. According to the transactions terms, TBIF is committed, if and as far as the said share acquisition will be completed, to act towards arranging new financing sources for the Bank, for the repayment of loans provided by the Selling Group to the Bank, to the extent of approximately EUR 11.6 million and this during 12 months from the date of completion of the sale. In addition, after completion of the transaction, if and as far as it will be completed, the Selling Group may be entitled to payments from the Bank in sums of up to 3 million dollars, which are stipulated by the pace of the Bank collecting certain debts as detailed in the Agreement. TBIF’s decision regarding the completion of the transaction is expected during the second quarter of 2010.

[C] Acquisition of Leasing Operations in Ukraine - In February 2008, TBIF together with Dan Vehicle, acquired 90% of the share capital of VIP Enterprise Rent Foreign, ("**VIP**") (at a ratio of 66% by TBIF and 34% by Dan Vehicle), for a consideration of EUR 10 million, which reflected a value of approximately EUR 11 million (post-investment) for VIP. VIP is a holding company holding a Ukrainian company which provides leasing and car rental services in Ukraine under the brand name "AVIS". As part of the transaction, the seller was given the option to sell his remaining holdings and TBIF and Dan Vehicle were given the option to acquire the remaining holdings, during the period between July 2010 and June 2011, for EUR 1.5 million. As of the date of the report, the seller has announced his intention to exercise the option on July 1, 2010. According to the franchise conditions of the Ukrainian affiliate company of VIP regarding the AVIS brand name, given to it by Avis Europe Holdings Limited, TBIF is not entitled to be involved in the operating lease of vehicles and vehicle rental which is not through AVIS, except in Bulgaria, Romania, Russia and Turkey. Furthermore, TBIF and Dan Vehicle have undertaken to offer VIP the possibility of participating in every business opportunity related to operating lease activity and short-term vehicle rental in Eastern Europe and they also undertook not to compete with existing and future businesses of VIP in markets where it operated at the time the agreement was signed and in markets in which it will operate in the future.

In December 2008 TBIF acquired 100% of the share capital of VAB Leasing, a company that prior to the said acquisition was fully owned by VAB Bank, for a sum of approximately EUR 6 million. VAB Leasing deals with providing leasing and vehicle rental services in Ukraine. It was determined in the said acquisition agreement (as was amended in April 2009) that VAB Bank may buy back the holdings in VAB Leasing during a period of 24 months after the signing of the agreement for a sum of EUR 6 million plus yearly interest at a rate of 9.75%. As of the date of the report, VAB Bank has not yet exercised its right to buy back the holdings in VAB Leasing as aforesaid.

9.6.2 TBIH

[A] Acquisition of Insurance Operations in Turkey - In June 2007, TBIH acquired 74.3% of the issued capital of Ray Sigorta A.S, a Turkish company which deals primarily in elementary insurance, whose shares are traded on the Istanbul stock exchange ("**Ray Sigorta**"), from a Turkish company, and as part of a tender offer from additional shareholders, for a consideration of approximately EUR 79 million, which reflected a value of approximately EUR 107 million for Ray Sigorta (post-transaction). As part of the acquisition, the seller was given the option of selling the remainder of its holdings (20%) in Ray Sigorta to TBIH during the years 2010-2011 for the price of the acquisition with Libor rate interest ("**the Option**"). In addition, TBIH undertook to increase Ray Sigorta's capital in sums required for meeting the regulatory requirements which apply to it, and accordingly, TBIH invested in Ray Sigorta in the years 2009, 2008 and 2007 an amount of approximately EUR 7.3 million, approximately EUR 5 million, and approximately EUR 11 million, respectively. Said capital increments were carried out by way of issuance performed by Ray Sigorta (to all the shareholders thereof, pro rata to their holdings) such that after the said issuance, TBIH held 74.3% of Ray Sigorta's issued capital.

According to the aforesaid, in September 2009, TBIH acquired 10% of the shares of the Ray Sigorta company in consideration of the sum of approximately 19.8 million dollars (approximately EUR 13.9 million). The said consideration reflected a value of approximately EUR 139 million for Ray Sigorta. Following the transaction, TBIH's rate of holdings in Ray Sigorta grew to approximately 84.3%.

[B] The Acquisition of Insurance Operations in Ukraine – In February 2008, TBIH acquired 62% of the issued capital of the Ukrainian Insurance Group ("**UIG**") from a third party for a consideration of approximately USD 46.5 million (approximately EUR 33.5 million), which reflected a value of approximately EUR 54 million (post-investment) for UIG. UIG is an insurance company operating in Ukraine.

In December 2009, the minority exercised an option granted it according to the agreement and sold 38% of the issued capital of UIG to TBIH, in consideration of

14 million dollars (approximately EUR 10 million). Upon consummation of the transaction and as of the date of the report TBIH holds 100% of the issued capital of UIG.

[C] The Sale of a Romanian Pension Fund Management Company Activity - In September 2008, TBIH entered into an agreement with a Romanian bank for the sale of its entire holdings (90%) in the pension fund management company which was formed by TBIH and Omniasig Insurance Group S.A. ("Omniasig") in 2007 in Romania, for a consideration of approximately EUR 12 million, subject to adjustments to be made on the closing date. The transaction was dependent on receiving regulatory approvals in Romania and was consummated in September 2009. Due to the sale, TBIH recorded an income of approximately EUR 11.4 million.

[D] Sale of Life Insurance Activity in Romania - In September 2009, TBIH sold to Omniasig its part (49.99%) in the Omniasig Asigurari de Viata company **("Omniasig** Life") in consideration of the sum of EUR 1.25 million. Following the completion of the transaction, TBIH recorded in its financial statements a loss of approximately EUR 0.6 million. After completion of this transaction, TBIH is no longer active in Romania.

The profit Kardan NV derived from selling Omniasig (as said in Section 9.6.3[C] of this part) and from selling Omniasig Life as stated in this Section above amounted to approximately EUR 4 million.

[E] Selling the Pension Activity in Russia – In May 2009 TBIH sold its holdings in the NPF Victoria Fund pension fund in Russia in return for a sum of approximately 150 thousand dollars. With the completion of this transaction, TBIH no longer has any activity in Russia.

[F] Integrating the Insurance Activity in Croatia – Within the framework of the TBIH shareholders agreement (see Section 9.16.1[A] of this part), it was agreed, among others, that TBIH and VIG will combine the insurance activities in Croatia that are held by each one of them. In May 2008, following said agreement, TBIH sold 77% of its holdings in the Croatian insurance company Helios Insurance Company ("**Helios**"), which was wholly owned by TBIH before the transaction, to VIG, and concurrently TBIH purchased 23% of VIG's holdings in the Croatian insurance company Kvarner Vienna Insurance Group ("**Kvarner**"), which prior to the transaction was held by VIG at a rate of 99%, so that after the transaction Helios was held by VIG at a rate of 77% and Kvarner was held by VIG at a rate of 76% (1% was held by the minority), and each of the companies Helios and Kvarner were held at a rate of 23% by TBIH. IN December 2008, TBIH and VIG entered an agreement to sell all TBIH's holdings in Helios and Kvarner to VIG. For details regarding said agreement see Section 9.6.3[F] of this part.

[G] The Sale of TBIH's Holdings in Insurance Companies Operating in Bulgaria, Albania, Macedonia, Kosovo and Croatia - in December 2008, TBIH, KFS and VIG entered into an agreement pursuant to which TBIH would sell VIG its holdings in the Bulgarian insurance company, Bulstrad Insurance and Reinsurance PLC ("**Bulstrad**") (approximately 97% of its issued capital), in the Albanian insurance company – Sigma Albania Sh (“**Sigma**”) (approximately 87% of its issued capital)[264], and in the Croatian insurance companies, Helios and Kvarner (23% of the issued capital of each of the companies), for an aggregate consideration of approximately EUR 197 million, of which EUR 100 million would be used for repayment of the shareholders loan which VIG provided to TBIH (see Section 9.13.3[B] of this part) and a mutual waiver by KFS, Veskotir and TBIH of their rights and obligations in connection with the loan and the option granted as part of the acquisition in June 2008 of the holdings in Russian Insurance Fund (“**RIC**”). VIG paid TBIH the full consideration for the acquisition of its holdings in the said companies. In 2008, TBIH completed the sale of holdings in Helios and Kvarner (the companies that are active in Croatia) and the sale of approximately half of the holdings in Bulstrad (which is active in Bulgaria). In 2009, the sale of TBIH’s holdings in Sigma was completed. In the fourth quarter of 2008 TBIH recorded a capital gain in the sum of approximately EUR 61 million, as a result of sale of said insurance activities. In June 2009 the sale of the said remaining holdings was completed, as a result of which TBIH registered an additional capital gain of approximately EUR 56 million in the second quarter of 2009. Kardan NV's portion of the profit, which TBIH recorded in the fourth quarter of 2008, was the sum of approximately EUR 18 million. Kardan NV’s share of the additional profit, which was recorded as aforementioned in the second quarter of 2009, was approximately EUR 16 million

[H] Increasing Holdings in Insurance and Pension Activities in Ukraine – In February 2009, TBIH acquired 38% of the issued capital of UPIH B.V. (“**UPIH**”) in return for EUR 3.5 million. UPIH is a holding company that holds the Ukrainian insurance and pension companies VAB Insurance and VAB Pension. Upon completion of the transaction in February 2009 and as of the date of this report, TBIH holds approximately 100% of the issued capital of UPIH. The transaction reflected a value of approximately EUR 9 million for UPIH.

[I] Acquisition of Insurance and Pension Activity in Georgia – In June 2009, TBIH and TBC Bank (“**TBC**”) contracted in an agreement according to which TBC will sell all its holdings (50%) in the Georgian pension and insurance company GPIH B.V. (“**GPIH**”) to TBIH, in return for approximately 1 million dollars

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264 On the date of the contracting of the agreement, TBIH held 75% of Sigma’s issued capital. Sigma’s shares which were sold to VIG included, in addition to the said shares, shares at a rate of 12% of Sigma’s issued capital which were acquired by TBIH at VIG's request, after the date of execution of the agreement, and which were not taken into account under the consideration set in the sale agreement. In accordance with the parties' agreement, VIG returned to TBIH, without relation to the aforesaid consideration, the sum it invested in order to acquire said shares

(approximately EUR 0.7 million). Additionally, TBIH and GP Alliance N.V. ("**GPA**") contracted in an agreement, according to which TBIH will sell approximately 40% of GPIH shares it holds to GPA, in return for 675 thousand dollars (approximately EUR 0.5 million) ("**Acquisition Price**"). Concurrently, TBIH and GPA contracted in a loan agreement according to which TBIH provided GPA with a loan in the sum of approximately 3 million dollars (approximately EUR 2.1 million) from which the Acquisition Price was offset. The said loan bears interest at a rate of approximately 12% and is to be repaid (principal and accrued interest) on December 31, 2011. Upon completion of said acquisition transactions and as of the date of the report, TBIH holds 60% of the issued share capital of GPIH.

9.7 Dividends

9.7.1 KFS

Since its establishment, KFS did not distribute or declare dividends. As part of the Reorganization in 2007, KFS made a buyback of its shares for an amount of approximately EUR 48.8 million and a capital reduction in the amount of approximately EUR 72.7 million. The shareholders in KFS passed their rights for these payments to VIG as part of the return for the acquisition of 40% of KFS from VIG[265]. These sums were paid to VIG in a method of offsetting the acquisition price of 60% in TBIH by VIG.

In the framework of agreements with Bank Discount It was determined that KFS is not entitled to distribute dividends without the authorization of Bank Discount, unless a number of terms are met, the principle terms being: repayment of a loan in the amount of at least EUR 125 million and taking into consideration the financial covenants as set forth in Section 9.13.1[E] of the report.

According to the provisions of the Dutch Law, as of December 31, 2009, KFS has distributable profits in the sum of approximately EURO 78.1 million.

9.7.2 TBIF

Since its establishment, TBIF has not distributed dividends and has not declared the distribution of dividends.

In the loan agreements between TBIF and the Dutch bank Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V **("FMO"**), TBIF undertook to maintain certain financial ratios, which may be affected by dividend distribution. For details on the said loan agreements, see Section 9.13.2[B] of this part.

265 In April 2006, VIG acquired 40% of KFS' shares, by way of issuance and acquisition from the minority shareholders of KFS.

According to the provisions of the Dutch Law, as of December 31, 2009, TBIF has a balance of distributable profits in the sum of approximately EUR4.8 million.

9.7.3 TBIH

In 2007, as part of the Reorganization, TBIH declared a dividend in the amount of approximately EUR 98.3 million and reduced its capital in the amount of approximately EUR 57.7 million. In addition, KFS, which was the only shareholder of TBIH, acquired from TBIH all its holdings in TBIF in return for an amount of approximately EUR 156 million. The dividend and capital reduction were paid by way of offset against the acquisition price.

Other than the foregoing, TBIH has not distributed or declared dividends since its establishment and up to the date of the report.

As part of the Reorganization transaction, the agreement between Kardan NV and VIG set an obligatory policy for distribution of profits through repayment of shareholders loans and dividend distribution, for a sum which is the lesser between: (a) 50% of the net profit of TBIH according to its financial statements; and (b) 100% of the cash balance, as determined by the board of directors, after the payment of expenses (including interest expenses) and consideration of the future capital and liquidity needs of TBIH and its subsidiaries and financial covenants to creditors. As part of the amendment to the TBIH shareholder agreement in December 2008 (see Section 9.16.1[A] of this part), KFS and VIG agreed that with respect to 2008, an amount of approximately EUR 100 million of the proceeds from the sale of TBIH's holdings in a number of insurance companies to VIG (see Section 9.6.2[G] of this part) would be utilized toward repayment of the shareholder loans which TBIH received from VIG.

According to the provisions of the Dutch Law, as of December 31, 2009, TBIH has distributable profits in the sum of approximately EUR 139.8million.

9.8 Financial Information

9.8.1 Following are the financial data of KFS according to a division into the Retail Banking and Credit Segment[266] and the Insurance and Pension Segment[267] (in millions of euros)[268]:

	2009			2008			2007		
	Insurance and Pension	**Retail Banking and Credit**	**Adjustments to Consolidated / Other**	**Insurance and Pension**	**Retail Banking and Credit**	**Adjustments to Consolidated / Other**	**Insurance and Pension**	**Retail Banking and Credit**	**Adjustments to Consolidated / Other**
Revenues/ Premiums	63.6	206.0	37.4	64.4	141.6	142.8	26.1	94.4	84.7
Expenses	71.6	236.0	34.9	61.1	165.7	162.5	27.7	86.8	47.4
Operative Profit (loss)	(8.0)	(29.4)	2.5	3.3	(24.1)	(19.7)	(1.6)	7.6	37.3
Operations that have been terminated[269]	24.5			(1.0)	-	-	1.0	-	-
Assets Ascribed to the Segment in the Company Only Statement of Financial Position for December 31	198.0	1,427.9	98.5	269.4	1,379.3	93.2	318.0	1,072.4	115.2
Management Assets / Credit Portfolio for December 31	429.2	1,423.8		305.1	1,448.1	-	297.3	1,232.6	-
Total Liabilities Ascribed to the Segment in the Company only Statement of Financial Position for December 31	85.3	662.4		144.6	633.3-	38.0	162.7	508.6	62.2

The changes in KFS's financial results and assets between the years 2007 and 2009 can be attributed to the following factors:

[A] In the accounting point of view – changes in the KFS holding rate in TBIF and in TBIH and in the method of consolidation of their accounting systems

Up until the end of the first quarter of 2007, KFS consolidated TBIH's financial statements in a full consolidation (at an average of 60%) and TBIH consolidated TBIF's financial statements in a complete consolidation. Beginning in the second

266 Revenue in the Retail Banking and Credit Segment includes net interest revenue, plus commission revenue, asset management services, and other revenues.

267 Revenue in the Insurance and Pension Segment includes net revenue in the insurance segment (premiums, net after reinsurance), in addition to revenue from investments and management fees of the pension funds management companies.

268 The datum "Adjustments to Consolidated/Other" for the years 2007-2009 includes primarily capital gains, revenue and financing expenditure, management and general expenditure and other expenditure, including revenue and expenditure related to fair value of options and goodwill decrease expenditure (relevant solely to the years 2008 and 2009, and constitute approximately EUR 1 million of the sum and approximately EUR 66 million of the sum, respectively).

269 The datum is presented after tax and includes the ongoing results of the insurance operations in Croatia and Bulgaria for 2007, the ongoing results of the insurance operations in Russia, Albania, Croatia and Bulgaria for 2008 and the capital gain or loss from selling the insurance operations in Russia, Croatia and Bulgaria in 2008. In addition, the datum for 2009 includes the ongoing results and the capital gain or loss from the sale of the insurance activities in Bulgaria and Albania and the pension activities in Russia and Romania.

quarter of 2007 and as of the date of the report, KFS is consolidating TBIH's financial statements in a proportionate consolidation (40%) and TBIF's financial statements in a complete consolidation.

[B] In the business aspect – changes in results and assets of TBIF and TBIH, as detailed below:

[1] Retail Banking and Credit Segment –in 2008 and 2009 the KFS Group went into the red, mainly due to the effect of the global economic crisis and its implications on Russia and Ukraine, mainly in the fourth quarter of 2008 and during the first half of 2009. The scope of the credit portfolio in 2009 decreased in comparison with 2008 by approximately 20%, due to a reduction in the companies' activities during 2009, due to the effect of the global economic crisis. In contrast, the total assets increased in 2009 in comparison with 2008, mainly due to the increase of investments in securities that offset the decrease in the client credit portfolio scope.

[2] Insurance and Pension Segment – in 2008 there was a rising course in revenues, a course stemming mainly from the acquisition of new companies in Turkey and Ukraine. In 2009 there was a declining course in revenues as a result of the sale of a number of companies, but an increase in profits, due to the capital gains from the sale of these companies. The scope of assets decreased between the years 2007 and 2009 and this was principally due to the sale of insurance activities in Russia and Croatia. The insurance and pension activities include a separate presentation of "Operations that have been terminated". According to the financial reporting standard IFRS-5, results due to activities intended to be sold (in this case related to sale of insurance activities in Bulgaria, Albania and Croatia and sale of pension activity in Romania (as described in Section 9.6.2[G] of this part) and related to sale of the insurance activity in Russiaare displayed in a separate line in the profit and loss statement. This Section includes the results of the insurance activities in Bulgaria for 2009, 2008 and 2007, in Croatia for 2007 and 2008 and the results of the insurance activities in Russia for 2008 and Albania for 2008 and 2009 and the pension activities in Romania and Russia for 2009. For further explanations regarding the results of KFS activity and its assets, see Section 1.4 of the board of director's report.

9.8.2 Following are financial data by geographical distribution in each of the years 2009, 2008 and 2007 (in millions of euros):

		Bulgaria	Romania	Slovakia	Croatia	Serbia	Russia	Ukraine	Georgia	Turkey	Albania Macedonia and Kosovo[270]	Other	Total
Revenues / Premiums													
	2009	26.9	38.1	1			131.9	8.2	2.6	6.2		22.8	306.7
	2008	27	44.5	0.8		-	108.6	60.8	6.1	36.0	-	65.1	348.9
	2007	17.4	23.4	0.3	-	-	32.9	25.2	3.4	17.8	-	84.7	205.1
Expenses													
	2009	25.9	34.6	1			130.2	69.3	11.2	9.1	-	41.2	341.6
	2008	22.6	42.3	0.8	(0.9)	-	135.0	94.6	4.5	30.4	-	61.4	390.7
	2007	15.1	21.2	0.7	(0.8)	-	27.5	26.8	3.4	17.3	-	50.7	161.9
Profit (loss)													
	2009	1.0	3.5				1.7	(21.1)	1.4	-(2.9)	-	(18.4)	(34.9)
	2008	4.3	2.2		0.9	-	(26.4)	(33.8)	1.6	5.7	-	3.7	(41.8)
	2007	2.3	2.2	(0.4)	0/8	-	5.4	(1.6)		0.5	-	34.0	43.2
Operations that have been Terminated	2009	19.6	4.9	-	-	-	-	-	-	-	-	-	24.6
	2008	18.5	(0.6)		2.0		(21.3)				0.5		(1.0)
	2007	0.7			0.3.								1.0
Total Assets as of December 31													
	2009	165	134.2		-	-	805.7	351	18.0	100.3	-	150.1	1,724.4
	2008	240.6	193.2	0.0		-	642.8	384.2	8.4	111.3	21.1	140.3	1,741.9
	2007	189.7	182.6	1.6	34.2	-	278.2	451.8	4.7	103.6	16.5	242.7	1,505.6
Management Assets / Credit Portfolio for December 31													
	2009	1,854.2	950.5	114.4		211.1	333.5	244.3	0.4	-	-	-	1,854.2
	2008	269.7	642.4	36.7	159.3	-	362.4	282.7		-	-	-	1,753.2
	2007	703.1	164.9	31.7	144.7	-	178.9	306.4	0.2	-	-	-	1,529.9

270 The operations in Macedonia and Kosovo are of insignificant scope, coordinated through an Albanian insurance company, which has a subsidiary in Macedonia and a branch in Kosovo. Therefore, the data presented are of the Albanian company. For details regarding TBIH's execution of an agreement for the sale of the Albanian insurance company, see Section 9.6.3[f] of the report.

9.9 General Environment and Influence of External Factors

The KFS Group's primary businesses, in the Retail Banking and Credit Segment as well as the Insurance and Pension Segment, are conducted in countries where the financial services sector has enjoyed rapid growth in recent years, until the beginning of the global economic crisis (as detailed hereunder) (Russia, Ukraine, Georgia, Croatia and Turkey) and in countries that have entered the European Union in recent years: Bulgaria (2007), Romania (2007) and Slovakia (2004) which also enjoyed rapid growth.

Global Economic Crisis

During 2008 there was a significant deterioration of global financial markets which continued in the first half of 2009, causing a genuine global economic crisis. As of the date of the report, it is unclear whether the direct economic implications of the said crisis have been exhausted, but it is estimated that the peak of the global economic crisis has passed. For further details about the global economic crisis, see Section 6 of this part. The global economic crisis also harmed the economy in countries in which KFS operates, particularly the economy of Ukraine, which in the second half of 2009 recorded negative growth of approximately 14%, had its credit rating reduced and experienced a drop of nearly 5% of the value of the local Ukrainian currency relative to the dollar and since the start of the global economic crisis has recorded a negative growth of 64%. In light of the situation in the Ukrainian economy, an emergency helpline in the sum of approximately EUR 16 billion was approved for Ukraine in 2008 by the International Monetary Fund (see Section 9.10.2[A] of this part) out of which approximately EUR 10 million were transferred near the date of the report. In November 2009 the managing director of the International Monetary Fund announced that the additional payment of approximately 3.8 billion dollars would be postponed till after the presidential elections that took place in February 2010 and after meeting certain obligations towards the International Monetary Fund. As of the date of the report, this payment has not yet been transferred.

As of the date of the report, the Russian economy shows signs of recovery and of emerging out of the economic crisis, with a growth of approximately 2% in the fourth quarter of 2009. The Ruble has strengthened in comparison with the dollar in the last three quarters of 2009 and the debentures market has displayed strong performances mainly as a result of the rise in the price of oil. Additionally, a decrease in the unemployment rate can be seen in Russia.

At the end of 2009, presidential elections were held in Romania in a very unstable political environment. The local currency reacted immediately by strengthening approximately 10% compared to the euro and this is a clear indication that the business environment and especially foreign entities see these elections as a significant step towards economic recovery. Following the elections, in February 2010, the International Monetary Fund announced that it would transfer Dollars 3.3 billion (approximately EUR 2.4 billion) as part of an aid package in the sum of Dollars 27.2 billion (EUR 20 million) that was promised to Romania.

The Credit sector in Bulgaria has not yet recovered from the Global economic crisis, and a growth in unemployment rate has become evident in the past year..On the other hand, Bulgaria is one of the few countries in Eastern and Central Europe that have not applied for aid from the International Monetary Fund and is maintaining a stable and relatively low budget. These data are a good indication of the country's strength.

The crisis in the Retail Banking and Credit sector in the various countries KFS operates in is manifest in a number of ways, including difficulties in drawing new financing or obtaining renewed financing for the existing wholesale financing; risk of the deposit owners requesting to withdraw their deposits, following which the banks are required to maintain a high level of liquidity, although this risk has decreased during 2009 in comparison with 2008; deterioration in the financial position of individuals and companies which is expressed in a decrease in the scope of loans, and a significant growth in the non-payment rate of bank loans. As a result of these developments and as a result of the deterioration of the status of certain banks, several banks have been nationalized in the countries in which KFS operates.

Starting from the fourth quarter of 2008, the activities of the KFS Group companies decelerated. The deceleration is manifested in a substantial erosion of the profitability and recording losses in the companies operating in the various countries, particularly in Russia and Ukraine. Such erosion originated primarily in the decrease in the quality of credit portfolios, which require provisions for doubtful debt. The erosion of credit portfolio quality resulted from a rise in unemployment rates, a decrease in the purchasing power of the local currency and economic deceleration in the markets. As of December 31, 2009, the credit portfolio of the TBIF Group companies amounted to approximately EUR 1.04 billion, compared with approximately EUR 1.25 billion as of December 31, 2008. The decrease is attributed to the absence of new financial sources to finance new loans and the TBIF Group's decision to restrict credit in response to the uncertain condition of the market. In the second quarter of 2009, a stabilization course can be discerned in the clients' credit portfolios in the various countries of activity, and it is also possible to recognize an increase in the clients' credit in the Russian Bank as a result of the decrease in the rate of provision for the doubtful debts and an increase in new credit in comparison to previous quarters.

In comparison with the banking and credit sector, the insurance and pension market suffered less from the financial crisis of the global economy. In the insurance and pension market, the economic slowdown was manifested mainly in the decrease in the scope of premiums as a result of a reduction in the scope of the banks' credit providing activities, which affected the pace of the purchase and insurance of new cars, industrial equipment and mortgages. Additionally, as a result of the decrease in the interest rates from deposits and debentures, a decrease in revenues from investments in comparison to the past occurred in the insurance and pension market.

The aforementioned market developments and turmoil may adversely and substantially affect the business results of the KFS Group, as set forth in Section 9.19.2 of this part.

The data and analysis presented in this Section below are based on external information. Kardan NV is not responsible for the quality or accuracy of the data presented in this Section below. Furthermore, the information in this Section below, including references to the projections and estimates regarding the market conditions in the future, is all forward-looking information, as defined in the Securities Act, which may not become realized, in full or in part, or may be realized in a different manner, including materially differently than is expected, as a result of EU policy, economic conditions and economic or other policies of relevant countries including as a result of the direct and/or indirect implications of the global economic crisis.

Following are primary macro-economic indicators of the KFS Group target countries as of the date of the report for 2009:[271]

	Bulgaria	Romania	Ukraine	Russia	Croatia	Georgia	Turkey
GNP (billions of dollars)[272]	690.4	256.3	294.3	2,100	79.2	20.8	859.8
GNP growth (%)	(4.9)	(6.9)	(14.1)	(7.9)	(5.2)	(4.9)	(5.8)
GNP per person (in dollars)	12,600	11,500	6,400	15,200	17,600	4,500	11,200
Inflation Rate (%)	1.6	5.0	16.5	11.9	2.4	1.0	6.5
Population (in millions)	7.2	22.2	45.7	140.0	4.4	4.6	76.8
Unemployment rate (%) average	9.1	7.6	4.8	8.9	16.1	13.6	14.5

In the years that preceded the period of the global economy crisis, the countries in which the KFS Group is active were characterized by the following features: changes in legislation towards legislation that stands up to the European standards, in order to enable countries to integrate in the future with Western Europe,privatization processes, and capital market reforms. These and additional trends that characterized the years before the start of the crisis (an ongoing growth in the GNP, a growth in foreign investments and a growth in revenues) contributed to the development of market economies and served as fruitful grounds for private investments, including in the financial services segment. Notwithstanding, due to the global economy crisis, these trends did not

271 Source: world fact book, CIA from July 2009

272 GNP data is presented according to purchasing power parity method.

characterize the latest period, and Kardan NV estimates that the processes described here have not been fully exhausted, and they will continue to characterize the markets where KFS operates, after the markets become stabilized in the future.

The aforementioned assessments are forward looking information, as defined in the Securities Law, that are based on the assessments of KFS's management and on speculations that are prevalent in the markets. The said assessments might not be realized, in part or in full, or may be realized differently, including materially differently, than is expected, as a result of the financial recovery in Eastern European countries being slower in relation to the Western Countries' economies, as a result of political upset in the countries where the KFS Group operates and/or the realization of all or part of the risk factors detailed in Section 9.19 of this part.

9.10 Retail Banking and Credit Segment Description

9.10.1 KFS's operations in the Retail Banking and Credit Segment are coordinated under TBIF. TBIF is a holding company active in the financial services segment in the former Soviet Union countries and Central-Eastern Europe, which include Retail Banking and Credit, including leasing, mortgages, and asset management. TBIF was established at the end of 2001 as a subsidiary wholly owned by TBIH, out of the strategic viewpoint that information and client base achieved by TBIH in the Insurance and Pension Segment should be leveraged to additional financial services. In light of the development that has commenced in the Retail Banking and Credit Segment in the countries in which TBIF has been active since its establishment (as set forth in Section 9.10.2[A] of this part), KFS has decided to strategically focus on the Retail Banking and Credit Segment. Consequently, in April 2007, the Reorganization of the KFS Group was completed, such that TBIH transferred its holdings in TBIF to KFS (see Section 9.5.1[A] of this part). As of the date of the report, TBIF is held at a rate of 90.38% by KFS.

Following are details regarding TBIF's operations by country, as of the date of the report:[273]

Russia – Operations in the banking, retail credit, leasing and mortgages segment under the brand name of "Sovcom Bank".

Ukraine – Banking operations under the VAB brand name, that include retail and corporate banking, finance leasing and mortgages, and operating lease and car rental operations under the "Avis" brand name.[274]

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[273] Up to the first quarter of 2009, TBIF operated in asset management activity in Slovakia. This activity was sold on the same date to a third party

[274] During 2008, TBIF carried out asset management activity in Ukraine in immaterial scopes. In 2009 it was decided to liquidate the relevant compny, and therefore no such activity was carried out.

Bulgaria – Activity in the off-bank loan services segment, activity in the mortgages segment and holding companies of retail credit, leasing and asset management under the brand name “TBI”.

Romania – Leasing and retail credit operations under the brand name "TBI".

Following is a table of TBIF operations displayed according to geographical distribution, as of the date of the report:

	Bulgaria	**Romania**	**Ukraine***	**Russia****
Banking			**V**	**V**
Retail Credit	**V**	**V**	**V**	**V**
Leasing	**V**	**V**	**V**	**V**
Mortgages[275]	**V**		**V**	**V**
Asset Management	**V**			

(*) All activities described in Ukraine, except for the operating lease, are carried out through VAB Bank.

(**) All activities described in Russia are carried out through Sovcom Bank.

9.10.2 General Information on the Business Segment

[A] General

Banking, retail credit, leasing and mortgages

After the fall of the Communist regimes, the banking and finance markets in the countries of Eastern Europe underwent a period of instability.

As of 2000, the business environment stabilized and along with economic growth and a growing likeness to the criteria of Western Europe, the banking and finance market began developing. The factors that contributed to this development are, inter alia, the privatization of government-owned banks and the entry of international entities from the banking segment.

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

Despite the aforesaid, the rates at which households use credit in Eastern European countries, especially in countries in which TBIF is active, are significantly lower from the penetration rates in the West.

There is a neutral trend in the interest margins in the markets where TBIF is active, but the margins are still higher than the margins in Western Europe. While a decrease in the interest margins can be seen in Ukraine’s banking market, a

275 The mortgage operations in Russia and Ukraine are conducted through the banks in those countries, as opposed to the mortgage operations in Bulgaria, which are conducted through a separate company.

recovery and increase in the interest margins can be seen in the rest of the markets where TBIF is active.

In Eastern European markets there is significant potential stemming from the low level of penetration of products and the low level of disposable income per person. Due to the global economic crisis starting from the fourth quarter of 2008 and during 2009such potential was adversely affected. The KFS Group estimates that in the mid to long term, penetration rates of the financing products will increase as a result of the renewed macro-economic development of the markets, increase in disposable income and changes in the consumer culture.

The aforesaid regarding the potential in Eastern European markets and regarding the projection that penetration rates of financing products will grow is forward-looking information, as defined in the Securities Act and which may not become realized, in full or in part, or realized in a different manner, including materially differently, than is expected, including as a result of the direct and/or indirect implications of the global economic crisis, the absence of growth in disposable income and the absence of a shift in the culture of consumption and/or the realization of all or part of the risk factors set forth in Section 9.19 of this part.

Asset Management (Bulgaria)

In Bulgaria a high rate of the capital is still held in cash and money deposits. The experience in Western Europe points to the fact that there is a trend of development of investments in other financial tools. A similar trend has commenced in Bulgaria, which has focused on simple financial tools (such as debentures, simple trust funds and the like) but at this point in time, its scope is low. It is to be noted that in Bulgaria, complex financial tools such as those customary in Western Europe and the U.S.A. did not develop. Such complex financial tools were revealed as problematic at the start of the global economy crisis. If the trend of reallocation of capital in Eastern Europe from standard bank cash and money deposits to other tools such as debentures, shares, etc. continues, said trend is expected to benefit asset management companies in the private and institutional segments. Furthermore, the development of institutional players like pension funds and insurance companies also contribute to the development of asset management companies.

Additionally, in the private segment, the rise in disposable income per person also contributes to the development of the asset management market. The above-described trends, which constitute the growth engine of the asset management activity, are dependent on the macro-economic situation. The implications of the global economic crisis may delay, stop and even cause a withdrawal thereof.

Restrictions, Legislation, Standardization and Special Constraints

Banking – the banking branch is subject to very broad regulation in Russia and Ukraine, in spite of the fact that the scope of the regulation and the extent of the regulators influence have not yet reached the level customary in the west. Every year shows improvement and the regulation is developing. Local laws, based on Western European legislation, oblige receiving licensing for banking activity and complying with certain requirements concerning the initial capital and initial liquidity. The banks of the TBIF Group hold all the required licenses and maintain the local regulatory requirements. TBIF's banking activity in Russia and Ukraine is subject to the instructions and directives of the local central banks.

The principal regulation of the banking segment in Russia is the central bank law. The Russian central bank (The Central Bank of Russia) is the body that supervises the banking segment in the country. The central bank is responsible for granting and removing licenses to engage in the banking segment and determining modes of operation and accounting ruled that apply to the field. Additionally, the central bank deals with providing aid credit to financial institutions in times of crisis. As of the date of the report, the amount of the aid the Russian central bank has provided the Russian banking system stands at approximately RUB 427 billion (approximately EUR 10.7 billion), out of which RUB 89 billion (approximately EUR 3 billion) without collateral. The Russian government committed to providing additional aid sources for the Russian banking system, if the need arises. The central bank sets laws regarding the manner of investment of the bank sources, among them recruiting sources, opening accounts and activities in foreign currency. The Russian central bank also determines certain initial ratios the banks must meet as regards capital, liquidity and credit spread. Additionally, the Russian central bank determines reporting requirements from banking entities: the types of reports are numerous and the time to report lies between daily, weekly, monthly, quarterly and annual reports.

The central bank has the right to carry out an annual audit in the banks. From 2004 there exists a deposit insurance law in Russia, according to which in case a bank is bankrupt, the depositors will be compensated for their deposits. Starting from 2008, a ceiling was set according to which every depositor is insured up to a sum of approximately RUB 700 thousand (approximately EUR 17.5 thousand).

In Ukraine, the principal regulation regarding the banking segment is the Ukrainian central bank law and the banking operations law. Additionally, the banking activity in the country is affected by legal acts set by the central bank (National Bank of Ukraine). These acts relate to subjects such as receiving a banking license, opening branches and departments within the bank, creating provisions due to doubtful debts, provisions regarding bank transfers in local currency, provisions regarding opening foreign currency accounts and provisions about deposits. The Ukraine central bank is the main regulatory entity responsible for the monetary stability of the country and stability of the banking system. The central bank implements its goals in two levels: in the administrative level –

granting licenses for banking activity, determining the operative requirements of the banks, enforcing sanctions on banks that do not meet the requirements and ongoing supervision of the banking system; and on the level of determining the norms of the banking system – determining the level of capital required of a bank, including minimal capital and capital ratios, determining liquidation ratios, determining the level of allocations required of the banks, determining the manners of investing and determining the policy in the interest segment.

As a response to the international financial crisis and its impact on Ukraine in October 2008, the International Monetary Fund approved a helpline to the Ukraine government in the sum of approximately 16 million dollars which was aimed at stabilizing the financial system. In practice the aid was granted to Ukraine in a number of stages, the last of which was approved in July 2009. The balance of the helpline stood at approximately 6 billion additional dollars. In November 2009, the managing director of the International Monetary Fund announced that Ukraine will receive an additional payment of approximately 3.8 billion dollars after the presidential elections that took place in February, 2010, and after meeting certain obligations Ukraine had towards the International Monetary Fund. As of the date of the report, the additional aid has not yet been transferred. According to the law from 2001, a Deposit Insurance Fund was set up in Ukraine, its aim to repay deposits of clients of banks that are in the process of liquidation and cannot settle their obligations to the depositors. The compensation ceiling stands at UAH 150,000 (approximately EUR 14 thousand). In December 2008, the Ukrainian central bank determined that banks are allowed not to release client deposits whose payment date has not yet been reached. This step was meant to stabilize the country’s deposit system in light of the crisis. In April 2009, for the first time since the crisis began, stabilization in the public deposits in the Ukrainian banking system was seen, and in May 2009 the central bank allowed to release deposits according to the clients’ demands.

Off- bank related finance – TBIF's off-bank financing activity (retail credit and leasing) in Romania is regulated and supervised by the National Bank of Romania, which applies stringent supervision. In Bulgaria, the areas of retail credit and leasing are regulated by law, pursuant to which there is a duty to report to the Bulgarian National Bank. These areas are supervised by the Central Bank of Bulgaria. In other countries in which TBIF is active in the Retail Banking and Credit Segment (Russia and Ukraine), only bodies that possess a license to engage in banking are permitted to operate in the retail credit segment. The members of the TBIF group in Russia and Ukraine have a license to engage in banking.

Asset Management (Bulgaria) - In the asset management segment there is regulation that relates to minimal capital requirements and manners of investment. The segment is supervised by the capital market supervisor in the various countries and the regulation has been adapted to that practiced in the European Union.

Changes in volume and profitability of operations in the segment

Due to the global economic crisis, the banking, asset management and off-bank financing markets underwent changes which are expressed, inter alia, in difficulties in securing new financial sources (including recycling existing sources of financing) in an increase in the costs of securing the financing required for such activity and in an increase in arrears in client debt payment.

In addition to the foregoing, in the banking activity, there was an increase in the scope of client deposit withdrawals which caused a decrease in the scope of deposits in the activity of the banks in the TBIF Group. In Russia, the trend that started in the last quarter of 2008 was halted in the first quarter of 2009 and in Ukraine this trend was halted in the second half of 2009. As of the date of the report an increase in the scope of deposits can actually be seen. The total deposits in banking activity in Russia and Ukraine as of December 31, 2009 amounted to approximately EUR 501.8 million and approximately EUR 125.2 million, respectively, compared with approximately EUR 407.6 million and approximately EUR 347.8 million as of December 31, 2008, respectively. For details regarding bank client deposit withdrawals as a risk factor, see Section 9.19.1of this part.

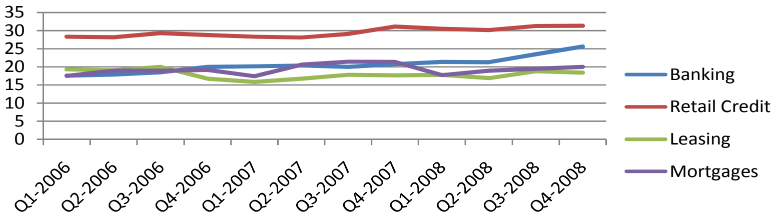
In addition, during the global economic crisis, governments and central banks of various countries have begun to intervene in the banking market by infusing funds into banks, due to lack of financial sources. In certain instances of bank insolvency, the banks were nationalized by the country, primarily as a last resort.

Furthermore, during the global economic crisis, the banks' rating by international rating agencies was adversely affected due to both their weakened financial stability and the downgrading of the general ratings of countries in which the banks operate. For details about the lowering of the credit rating of the debentures issued by VAB Bank, see Section 9.13.2[D] of this part.

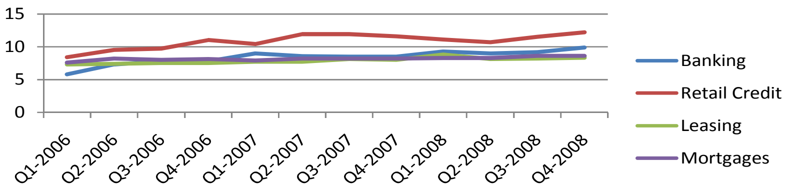
Following are a number of indicators regarding TBIF activity:

The return rates on the loans portfolio and the cost of financing the activity

The return rates[276] on the loans portfolio of TBIF subsidiaries is displayed below:



The rate of the financing cost[277] of TBIF subsidiaries' activities is displayed below:



Provision for Doubtful Debts

The provision for doubtful debts in TBIF is examined every quarter. The policy of TBIF and its subsidiaries is to examine whether there exists an indication of a decrease in the fair value of client liability for a certain loan or a group of loans. The manner of examining the damage to fair value is different in cases of retail credit loans which are usually many loans in small scopes that were provided without collateral, and in cases of bank loans, leasing loans or mortgages that are backed by collaterals

In the case of retail credit loans, the policy is to assemble loans in groups that have similar characteristics based on the internal debt quality grading system of each of TBIF's subsidiaries, which takes into account different risk characteristics such as existing arrears, the depth of arrears and the type of loan. Regarding these groups, the expected future cash flow from the loan is examined. The flow is examined

276 The portfolio return depicted in the graph reflects the average quarterly revenue of the loans portfolio of the activities. The portfolio return takes into account the interest revenue of the activities and commissions and other revenues directly related to the activity

277 The rate of the Financing cost includes loans from banking bodies, deposits and shareowners.

according to the original terms of the loan and also on the basis of the historical experience of the company as regards rates of repayment and adjustments derived from the present market situation.

In the case of bank loans, leasing loans and mortgages, which are backed by collaterals, TBIF's subsidiaries have the following policy: Loans of a significant scope that are in arrears are examined individually. The examination is intended to determine the fair value of the asset as opposed to the book value, and accordingly to determine if there is an indication of a decrease in value, and its scope. Within this are examined, inter alia, the following parameters: the conditions of the loan, scope of the debt in arrears, reason for the arrears in repaying the debt, borrower's solvency, scope of the collaterals and their fair value, and so on. Regarding loans that are backed by collaterals and each separate loan does not have a significant scope, the approach is of a collective examination of the loans similar to that of the retail credit loans, although in said case the collateral component is also taken into account.

Following is a table showing the percentage of loans in arrears[278] out of the total credit portfolio and the scope of provision for doubtful debts out of the total credit portfolio (in millions of euros):

		Banking		**Retail Credit**		**Lease**			**Mortgages**
		Russia	**Ukraine**	**Bulgaria**	**Romania**	**Ukraine**	**Bulgaria**	**Romania**	**Bulgaria**
Percentage of Loans in Arrears out of the Total Credit Portfolio	**2009**	6.8%	16.1%	15.7%	11.9%	7.9%	16.2%	1.4%	2.0%
	2008	5%	6%	4.4%	4.5%	0.6%	4.3%	0.4%	0.4%
	2007	2.8%	2.1%	1.9%	1.1%	0.6%	2.3%	0.3%	0.3%
Percentage of Provision for Doubtful Debts out of the Total Credit Portfolio	**2009**	13.7%	14.6%	8.2%	13.5%	15.1%	4.2%	4.9%	10.5%
	2008	10.3%	6.1%	2.4%	4.7%	1.9%	1.9%	1.9%	2.8%
	2007	4.8%	2%	[279]	1.3%	0.5%	1%	0.5%	
Expenses due to Provision in Financial Statements of TBIF	**2009**	69.6	23.5	6.8	5.8	1.9	0.9	1.0	0.9
	2008	20.0	18.3	1.4	2.8	0.3	0.5	1.9	0.4
	2007	9.5	2.7		1.6		0.2	0.7	

As of the date of the report, TBIF is in contact with the Ukrainian central bank regarding turnover of the loans provided by it. Additionally, VAB Bank is making a business effort to stabilize its deposit inventory

278 Loans in arrears are loans in which the borrower is in arrears on payments according to the loan agreement for a period of more than 90 days.

279 Provision for doubtful debts was not executed because credit insurance for the portfolio risk was bought.

Critical Success Factors

Success factors in the Retail Banking and Credit Segments are as follows:

- Early identification of target countries at the stages in which the level of penetration of banking and lending products is low.
- The establishment of a broad marketing setup that includes branches, ATMs and a presence in points of sale on retail products (electrical product market chains, furniture, malls, etc.).
- The existence of a proven loans underwriting system (debtor examination) that enables the rejection of debtors at high-risk levels.
- Attainment of financial sources at competitive prices that enable growth of loans portfolios.
- Development of an efficient client service system that responds quickly to client needs.
- Development of products tailored to client.
- Recruitment and maintenance of professional, managerial human resources in countries of operation.
- The companies of the TBIF Group are managed by local management which enjoys the support of know-how and accumulated experience of TBIF in the various branches of activity.

Main Barriers of Entry

Banking – Capacity to attain financial sources to purchase banks. In recent years and up to the second half of 2008, there was continued growth registered in the value of banks in countries where TBIF operates. Additionally, in countries which joined the European Union and in which the TBIF Group operates (Bulgaria and Romania), not many banks were up for sale during 2007 to 2009. Despite the existing option to attain a banking license independently and establish a bank in these countries, this option requires significant investments, primarily in order to establish branches at a high distribution, which is necessary for the existence of a retail bank. Furthermore, after acquisition of the bank, it is necessary to attain financial sources at competitive prices that will enable the growth and liquidity of the bank. In light of the global economic crisis, the entry barrier related to the high price of a bank acquisition was removed, due to the price decrease characterizing the market. However, the barrier relating to securing financial sources for continued support of banking activity and growth will continue to constitute an entry barrier in the future as well.

Retail Credit, Leasing and Mortgages – Ability to attain inexpensive financial sources at significant levels and the ability to get a foothold in market chains, stores and product importers. The attainment of cooperation with market chains is very important in the retail credit segment, since the physical presence (counters) in points of sale constitutes a competitive advantage that enables provision of a swift and expedient service.

Asset Management – The regulatory requirements and market structure facilitate profitability only for large asset portfolios, and thus it is difficult to penetrate the market. In addition, professionalism in the asset management segment is required.

<u>Substitute products in the activity segment and changes in them.</u>

The products that substitute those in the banking and loans segment are the use of money and cash. The low penetration rates of loans (bank and off-bank loans) and deposits in countries where TBIF operates, testifies to the fact that the use of cash as an alternative means for more advanced financial services is still common.

<u>Competition structure and change in the activity segment</u>

Banking – The primary competitors in the banking segment in Central-Eastern Europe and in the countries of the former Soviet Union are international banks (primarily European), which purchased banking operations in Russia and Ukraine and local banks that have not yet changed to ownership by 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 up) in other Eastern European countries.[280] In Russia and 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.[281] 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 terms, which are 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 economics 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.

The aforesaid estimates regarding the rise in the number of international entities and the rise in consolidation processes between large banks in the long

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[280] Based on data of the central banks of the aforementioned countries. .

[281] Based on data of the central banks of the aforementioned countries.

term, assessments regarding the market consolidation and integration of government factors therein in the short and medium-term, as well as estimates regarding the partial removal of an entry barrier that is connected to the high bank acquisition price, is forward-looking information, as defined in the Securities Act, based on processes that occurred in other Eastern European markets in which TBIF is not active in the branch of banking, on market surveys and on KFS management's knowledge of the banking market and KFS's management's estimations regarding market development in light of the implications of the global economic crisis. These estimates may not become realized, in part or in full, or be realized in a different manner, including materially differently than is expected, as a result of change in the trend of development in Eastern European markets and/or due to changes in policies of international entities in the region including as a result of the direct and/or indirect implications of the global economic crisis.

Retail Leasing and Financing – The primary competitors in this segment are bank-related entities (or bank subsidiaries) and off-bank entities in the various countries. The advantage of the bank-related entities is generally in the competitive interest rates offered. The advantage of off-bank entities is in 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.

[B] Products and Services

[1] **Banking** – As of 2004, TBIF reached a strategic decision to enter the activity of retail banking, out of the perspective that there is a clear synergy between this activity and that of retail credit, leasing and mortgages, and due to the fact that banks, as opposed to non-bank entities, can utilize clients' money managed in the framework of deposits as a source of finance in order to grant loans to clients, and they have no need to rely exclusively on recruiting other sources of finance. The TBIF Group focused primarily on broadening the retail banking operations, including the development of a chain of branches in all of its countries of operation, including peripheral cities for which TBIF enjoys a relative advantage due to it being one of the first entities that offer various financing services. As a result of the global economic crisis, TBIF halted its aforementioned expansion course and even decreased the scope of its said activity, with the view that in the present economic situation, its existing banking activity is sufficient and even surplus. The services TBIF provides in the banking segment are standard banking services to both private clients and businesses. These services include managing deposits and accounts, money transfers, providing loans, ATM services, credit cards, etc. The banks in Russia and Ukraine issue international Visa and MasterCard credit cards as well as credit cards of local companies.

Following are a number of indicators regarding banking, retail credit and leasing activities in Russia and banking and retail credit activity in Ukraine:[282] [283]

Country	**Russia**			**Ukraine**	
Company	Sovcombank, Regional Credit Bank			VAB Bank	
Activity	Banking	Retail credit	Leasing	Banking	Retail credit
Total Loan Portfolio for December 31, 2009 (in millions of euros)	374.7			260.6	
Total Loan Portfolio for December 31, 2008 (in millions of euros)	191.9	151.1	17.8	253.7	9.4
Total Loan Portfolio for December 31, 2007 (in millions of euros)	97.7	76.6	3.3	281.9	17.3
Total deposits as at December 31, 2009(in millions of euros)	501.8			125.3	
Total deposits as at December 31, 2008 (in millions of euros)	407.6	-	-	170.3	-
Total deposits as at December 31, 2007 (in millions of euros)	177.5	-	-	244.9	-
Percentage of past-due loans[284] out of the credit portfolio in 2009	6.8%			16.1%	
Percentage of past-due loans out of the credit portfolio in 2008	5%			6%	
Percentage of past-due loans out of the credit portfolio in 2007	2.8%			2.1%	
Number of branches and points of sale[285] as of December 31, 2009	123 branches and 562 points of sale			144 branches	
Number of automated teller machines as of December 31, 2009	69			256	
Number of credit cards as of December 31, 2009	121,420			709,409	

[2] **Retail Credit** – Retail credit is supplied by TBIF subsidiaries through approximately 5,550 branches and representative offices in branches of retail stores and in different points of sale all over the countries in which they operate, as of the date of the report. Clients can receive credit from TBIF subsidiaries after filling out a questionnaire and a review of their eligibility for a loan by one of the company representatives. TBIF's competitive advantage in this segment is its ability to provide loans through an expeditious process. The retail credit provided by TBIF subsidiaries is generally for electrical appliances and furniture. The TBIF

282 The data provided in this table also includes data regarding the retail credit and leasing activities in Russia and retail credit activity in Ukraine, due to the fact that such activities are consolidated and actually carried out in the same bank or the same brand name. The retail credit and leasing activities in Russia are performed by means of affiliate companies held by the banks themselves. In Ukraine, retail credit activity is carried out by means of affiliate companies held by the banks themselves; however, the leasing activity is performed by affiliate companies held by TBIF. For indicators relating to retail credit and leasing activities in other countries in which TBIF operates, see Sections 9.10.2[b][2] and 9.10.2[b][3] of this part, respectively. For indicators relating to the leasing activity in Ukraine, see Section 9.10.2[b][3] of this part.

283 The data for total loan portfolio and total deposits as of December 31 for the years 2007 – 2009 reflect the balance of the loan portfolio and total deposits portfolio, as appears in the financial statements of TBIF in the following manner: Ukraine – approximately 49% in each year from 2007 to 2009; and Russia – approximately 50% in 2007, approximately 100% in 2008 and in 2009.

284 The past-due loans are loans in which the borrower is in arrears regarding payments according to the loan agreement for a period of more than 90 days.

285 The points of sale serve the retail credit and leasing activity in Russia and the retail credit activity in Ukraine.

Group offers its clients the option to purchase these products with credit (the average transaction is approximately EUR 350) for a period of up to 60 months (the average period is approximately 27 months). The agreement is between the client and the TBIF subsidiaries.

In addition to providing retail credit at points of sale, the TBIF Group operates in the credit card segment. TBIF received a franchise to issue MasterCard credit cards in Romania and Bulgaria. This franchise facilitates the issuing of credit cards that are accepted at all MasterCard points of sale in Romania and Bulgaria and outside these countries, which gives TBI Credit in Romania and TBI Credit in Bulgaria a competitive advantage over other companies that only issue local credit cards and whose use is restricted to a limited number of points of sale in Romania.

Following are a number of indicators regarding retail credit activity (for indicators regarding the retail credit activity in Russia and Ukraine, see Section 9.10.2[B][1] of this part):

Country	**Bulgaria**	**Romania**
Company	**TBI Credit EAD**	**TBI Credit SA**
Total Loan Portfolio for December 31, 2009 (in millions of euros)[286]	34.3	63.1
Total Loan Portfolio for December 31, 2008 (in millions of euros)	78.6	90.2
Total Loan Portfolio for December 31, 2007 (in millions of euros)	57.4	83.3
Percentage of past-due loans[287] out of the credit portfolio in 2009	15.7%	11.9%
Percentage of past-due loans out of the credit portfolio in 2008	4.5%	4.5%%
Percentage of past-due loans out of the credit portfolio in 2007	1.1%	1.1%
Number of branches and points of sale as of December 31, 2009	150 branches and_points of sale and presence in 3,892 stores	92 branches and points of sale and presence in 1,400stores
Number of credit cards as of December 31, 2009	94,273	38,677

[3] **Leasing** – Leasing operations are performed through a network of approximately 36 points of sale. The credit provided to clients is usually for purchase of new cars and equipment and is provided primarily through financial leasing. A standard transaction stands at approximately EUR 12 thousand for a maximum period of 5 years (the average period is 1.5 years).

In February 2008, TBIF, together with Dan Vehicle, acquired a company operating in the operating lease and car rental sector in Ukraine under the international AVIS brand

286 The data for total loan portfolio as of December 31 for the years 2007 – 2009 reflect TBIF's segment (100%).

287 The past-due loans are loans in which the borrower is in arrears regarding payments in accordance with the loan agreement for a period of more than 90 days.

name (see Section 9.6.1[G] of this part). In addition, the TBIF Group operates in the finance leasing sector in Ukraine using the existing platform of the "VAB" brand name).[288] Furthermore, TBIF is operating in the operating lease sector in Bulgaria and Romania on the basis of the existing platform of the "TBI" brand name. As of December 31, 2009, approximately 50% of TBIF's loan portfolios in the leasing segment are for the purpose of purchasing new cars; approximately 12% are for the purposes of purchasing second-hand cars; approximately 33% for purchasing equipment and approximately 5% for purchasing other products. As of December 31, 2009, approximately 1% of TBIF's leasing portfolio is within the framework of operating lease.

Following are a number of indicators regarding leasing activity (for indicators with regard to the leasing activity in Russia, see Section 9.10.2[B][1] of this part):

Country	**Ukraine[289]**		**Bulgaria**	**Romania**
Company	Avis	VAB Leasing	TBI Leasing EAD	TBI Leasing SA
Total Loan Portfolio for December 31, 2009 (in millions of euros) [290]	4.0	16.9	34.3__	51.3__
Total Loan Portfolio for December 31, 2008(in millions of euros)	5.8	12.6	39.2	81.6
Total Loan Portfolio for December 31, 2007(in millions of euros)	Not applicable	6.5	27.9	81.6
Percentage of past-due loans[291] out of the credit portfolio in 2009	-	7.9%	16.2%_	1.4%__
Percentage of past-due loans out of the credit portfolio in 2008	–	–	4.3%	0.4%
Percentage of past-due loans out of the credit portfolio in 2007	Not applicable	0.6%	2.3%	0.3%
Number of Branches as of December 31, 2009	8	7	14	7

[4] **Asset Management** – The TBIF Group asset management companies provide services both to the pension funds of the TBIH Group and to external entities. The services provided are the management of assets for institutional and private bodies, asset management for high net-worth individuals, managing trust funds and brokerages.

288 Up to the date of acquisition of said finance leasing activity by TBIF, during 2008, this activity was owned by VAB. As of the date of the report, TBIF holds the whole share capital of the companies through which the finance leasing activity is operated in Ukraine..

289 Leasing activity in Ukraine is presented in this table due to the fact that it is performed through affiliate companies directly held by TBIF (see also the footnote in Section 9.10.1[b][1] of this part).

290 The data for total loan portfolio as of December 31 for the years 2007 – 2009 reflect TBIF's segment.

291 The past-due loans are loans in which the borrower is in arrears regarding payments in accordance with the loan agreement for a period of more than 90 days.

Following are a number of indicators regarding asset management activity:

	Bulgaria	Slovakia
Company	TBI Asset Management & TBI Invest	Sympatia Finance
Scope of Asset Management Portfolio for December 31, 2009 (in millions of euros)	631.6	[292]
Scope of Asset Management Portfolio for December 31, 2008 (in millions of euros)	466.7	36.7
Scope of Asset Management Portfolio for December 31, 2007 (in millions of euros)	457.6	31.7
Products	Asset management for institutional and private bodies, brokerages and trust funds.	Asset management for institutional and private bodies, brokerages.

[5] **Mortgages** – The TBIF Group's mortgage company in Bulgaria grants credit for the purchase of private residences, assets for commercial use and real estate. In Russia and Ukraine mortgages are marketed as an additional product provided by the TBIF Group banks. As of December 31, for the years 2009, 2008 and 2007, the Bulgarian mortgage companies' loan portfolios stand at a total of approximately EUR 22. approximately EUR 24.7, approximately EUR 19.9 million, respectively.

[6] Following is the distribution of revenues in the Retail Banking and Credit Segment divided into services (in millions of euros): [293] [294]

	Year	Banking[295]	Retail Credit	Leasing	Mortgages	Asset Management	Other	Total
Revenues	**2009**	152.0	29.4	23.6	1.6	1.0	(1.3)	206.4
	2008	88.1	28.3	24.4	1.2	1.7	(2.1)	141.6
	2007	54.6	25.8	9.4	1.2	2.5	0.8	94.4
Profit (loss) before taxes	**2009**	(24.0)	(3.1)	3.4	0.3		(6.0)	(29.4)
	2008	(17.4)	(0.8)	2.6	0.2	(0.4)	(44.1)	(59.9)
	2007	3.3	3.4	0.3	0.7	0.1	(0.1)	7.5

The increase in revenues in 2009, in comparison to 2008, derives mainly from the growth in the financing revenues of the banking activity in Russia, as a result of successful investments in Government debentures. In 2009, an increase in

292 For details regarding the sale of activity in Slovakia, see the footnote in Section 9.10.1 of this part.

293 The revenues include net interest revenues plus revenues from commissions, asset management services and other revenues.

294 The data concerning the banks' operations in Ukraine and Russia are presented under the heading "Banking" and not under the heading "Retail Credit" and "Leasing", as suitable, according to the manner in which the data are presented in TBIF's management report.

295 Includes retail credit and (finance) leasing in Russia and Ukraine.

revenues in the retail credit segment can actually be seen, despite the decrease in the scope of the credit portfolio, as a result of the streamlining process performed in these companies and changes performed in the composition of the credit portfolio. A decrease in revenues can be seen in the rest of the activity segments, as a result of the reduction of the activity in light of the global economic crisis. In comparison to the increase of revenues in the retail credit and banking services, a decrease in profitability can be seen, except for the lease and mortgage services, as a result of a considerable growth in the percentage of provisions for doubtful debts (see table presenting the percentage of loans in arrears out of the total credit portfolio and the scope of provision for doubtful debts out of the the total credit portfolio (in millions of euro) in Section 9.10.2[A] of this part).

The increase in revenues between 2007 and 2008 derived mainly from an increase in banking services and retail credit services. The year 2008 was characterized by a growth in revenues in comparison with 2007 (apart from the asset management and mortgage activities). The growth in revenues stemmed from the fact that despite the global economic crisis, the companies achieved growth in their scope of operations during the first three quarters of 2008 and the decrease in the scope of the credit portfolio was manifested principally in the fourth quarter of 2008. In contrast with the rise in revenues, there was a drop in profitability in all operating sectors, apart from leasing. Losses were recorded in 2008 in the banking, retail credit and asset management segments. Most of the losses stemmed from the banking activity in Russia and Ukraine and originate from the deterioration of the credit portfolio's quality, which was revealed in increased provisions for doubtful debts. Additionally, in 2008, a significant amortization of the goodwill balances and the balance of other intangible assets was executed, which was attributed to the banking activity in Russia and Ukraine.

[C] Marketing and Distribution

TBIF subsidiaries' marketing and distribution operations are conducted at the points of sales (branches or presence at counters of market chains) through posters, initiated approaches to clients and responding to their needs. The marketing in Bulgaria and Romania is conducted through a client service "call center." In addition, TBIF advertises its products through promotional sales in the newspapers and on billboards.

TBIF is aware of the importance of the branding of its subsidiaries and has employed the services of western branding consultants for this. The bank and the other subsidiaries in Ukraine have been branded under the brand name VAB. The leasing and retail credit operations in Romania and the leasing, retail credit and asset management operations in Bulgaria are all branded under the TBI brand name, which is among the first brands in the off-bank financing segment in these countries. The banking, retail credit and leasing activity in Russia have been branded under the brand name "Sovcombank".

Banking – TBIF worked to expand the retail operations of the bank in Ukraine between 2006 and the end of 2008. During such period, the bank branch and points of sale structure in Ukraine and Russia was significantly expanded. In Russia, the dispersal of branches focused primarily on medium and small-size cities, in which competition, as of the date of the report, is relatively low in relation to the big cities. As of the date of the report, and as a result of the implications of the global economic crisis, the expansion activity was halted, and there was even a decrease in the number of points of sale.

Retail Credit – The retail credit products are distributed mainly to private consumers who purchase products in stores in the countries or who approach credit companies via the branches of retail credit companies or the TBIF Group's branches. The emphasis in the marketing and distribution segment is placed on the achievement of broad national distribution, a strong and recognized brand and swift and efficient service. The competitors in the segment are banks and off-bank companies. The advantage of TBIF credit companies over the competitors, especially the bank competitors, is their ability to provide swift service to clients at points of sale.

Leasing – The marketing and distribution strategy for leasing services is based on the relationship between leasing companies and car and equipment suppliers, as well as the distribution structure of the leasing companies themselves and the TBIF Group's companies, through which contact with leasing companies can be achieved. The companies offer a swift and expedient service that is tailored to the personal needs of the clients.

Asset Management – The primary marketing and distribution structure in the asset management segment is currently focused on direct marketing vis-à-vis institutional bodies and the big companies in the markets. If a rise occurs in the demand for products by private individuals, the marketing structure will be tailored for a more aggressive approach to the private sector.

In 2009 and 2008, the TBIF Group adapted its scope of activity to the global economic crisis, inter alia by closing bank branches and points of sale that have no economic justification.

[D] Seasonality

In the retail credit segment, there is an element of seasonality that stems from the tendency to purchase products primarily during the holidays, in the last quarter of each year. The fourth quarter of 2008 and 2009 did not reflect such trend. In the fourth quarter of 2009 the scope of the credit portfolio dropped at a rate of approximately 5.5% in comparison to the third quarter of 2009. In the fourth quarter of 2008 the scope of the credit portfolio dropped by approximately 20% in comparison with third quarter of 2008. This phenomenon is ascribed to the global economic crisis and its repercussions on the activities of TBIF.

[E] Competition

TBIF's competitors in the various countries are primarily banks and financial institutions, both local and international. The main steps taken by TBIF to deal with this competition are to provide professional service and quick responses. In addition, within the framework of the banking activities in Russia and Ukraine, TBIF is working to address all client needs at all points of sales, by supplying "classic" banking products such as checking and savings accounts alongside other financial services such as leasing, retail credit, mortgages and asset management services. Furthermore, the TBIF Group concentrated its operations in Russia and Ukraine on developing the layout of bank branches both in terms of their location and appearance.

[1] Following are a number of indicators regarding the competition in Retail Banking and Credit and leasing activities in Russia and Retail Banking and Credit activities in Ukraine: [296]

Country	**Russia**	**Ukraine**
Activity	Retail Banking, and Credit, Leasing	Retail Banking and Credit
Company	Sovcombank. Regional Credit Bank	VAB Bank
Partners	Local entrepreneurs and managers	Local entrepreneurs and managers
Primary Competition	Sberbank VTB Gazprombank	Privatbank Raiffeisen Bank Avaloschadbank Oschadbank Svedbank
Market Share	0.1%	0.8%
Market Rating	5	2

[2] Following are a number of indicators regarding the competition in retail credit activity in countries where the TBIF Group is active[297]:

Country	**Romania**	**Bulgaria**
Company	TBI Credit SA	TBI Credit EAD
Partners	-	-
Primary Competition	Cetelem, BRD Finance, EFG retail	BNP Paribas, Personal Finances, Unicredit Consumer Finance
Market Share	About 10%__	About 35%
Market Rating	5	2

[3] Following are a number of indicators regarding the competition in leasing activity in countries where the TBIF Group is active, with the exception of Russia (for

[296] The data in the table are as of December 2009. The data regarding the market share and market rating in the Russian and Ukrainian banking activity are according to the Russian and the Ukrainian Central Banks as they appear in the following internet websites, respectively: www.finance.ua ,www.rbc.ru..For indicators regarding competition in leasing activity in Ukraine, see Section 9.10.2[e][3] of this part.

[297] The data in the table are as of December 2009. The data regarding the market share and market rating in Bulgaria and Romania are according to the estimates of the TBIF management.

indicators regarding competition in the leasing activity in Russia, see Section 9.10.2[E][1] of this part): [298]

Country	**Ukraine**[299]		**Romania**	**Bulgaria**
Company	VAB Leasing	Avis	TBI Leasing SA	TBI Leasing AD
Partners	-	Dan Vehicle and local entrepreneurs	-	-
Primary Competition	Unicredit Leasing, JFC Eurofinance, Ukrtransleasing	ALD, Ilta, Sixt and Euroleasing	Alpha, BCR, Sogolease, Afin	EFG Leasing, Interlease, Afin
Market Share	1.7%	15.95%	1.9%__	1.5%__
Market Rating	10	3	25	13

[F] Intangible Assets

Following are a list of the main trademarks that TBIF utilizes: "TBI" in Bulgaria and Romania; "VAB" in Ukraine; and "Sovcombank" in Russia. The trademarks are registered in the names of the companies from the TBIF Group and are owned by them.

As said in Section 9.6.1 [**C**] of this part, TBIF and Dan Vehicle acquired 90% of the share capital of the holding company that holds the Ukrainian company providing leasing and car rental services in Ukraine under the "AVIS" brand. The Ukrainian company has a franchise for the use of the "AVIS" brand which was awarded to it by Avis Europe Holdings Limited.

9.11 Description of the Insurance and Pension Segment

9.11.1 KFS's operations in the Insurance and Pension Segment are coordinated under the TBIH Group. TBIH is a holdings company that operates in the Insurance and Pension Segment in Central-Eastern Europe, in the countries of the former Soviet Union and in Turkey.

Following are details regarding the TBIH Group's operations by countries as of the date of the report:[300]

Bulgaria – Bulgaria is the country in which TBIH first began its operations with the establishment of the first pension fund in the country. As of the date of the

[298] The data in the table are as of December 2009. The data regarding the market share and market rating of VAB Leasing and AVIS in Ukraine are according to the State Financing Ukrainian Union of Lessors; the data regarding the market share and market rating in Romania and Bulgaria are according to the estimates of TBIF's management..

[299] The leasing activity in Ukraine is presented in this table due to the fact that it is carried out through the affiliate companies held by TBIF (also see footnote in Section 9.10.1[b][1] of this part).

[300] In September 2009 TBIH sold its life insurance activity in Romania. In may 2009 TBIH sold its holdings in the NPF Victoria Fund pension fund in Russia. In December 2008 TBIH sold its holdings in elementary and life insurance companies in Croatia and its holdings in an insurance company operating in Albania, Macedonia and Kosovo. Upon completion of the sales and as of the date of the report, TBIH no longer has any activity in Romania, Russia, Croatia, Albania, Macedonia and Kosovo.

report, there is activity in both voluntary and mandatory pension.[301] From February 2009, TBIH holds approximately 92.3% of the issued capital of Doverie, which holds three pension funds in Bulgaria under the brand name Doverie (two mandatory funds and one voluntary fund).

Turkey – Elementary insurance and health insurance activity.

Ukraine – Voluntary pension and general insurance activity.[302]

Georgia – Elementary insurance, health insurance and voluntary pension activities.

Following is an outline of TBIH operations by geographical distribution, as of the date of the report:

	Bulgaria		Ukraine			Georgia	Turkey
Voluntary Pension	**V**		**V**			**V**	
Mandatory Pension	**V**						
Elementary Insurance			**V**			**V**	**V**
Health Insurance						**V**	**V**

As of the date of the report, small-scale pension activity exists in Ukraine and Georgia, and this is in light of the reforms that were expected in the mandatory pensions segment and were dissolved, inter alia, in TBIH's estimation, due to the deceleration in global markets. In light of the foregoing, TBIH's material pension activity is its activity in Bulgaria, with respect to three pension funds under the Doverie brand (two mandatory funds and one voluntary fund).

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301 In June 2009 a transaction was completed in which TBIH sold its holdings in an insurance company active in the elementary insurance, life insurance and health insurance segments in Bulgaria.

302 In the past, TBIH carried out insignificant reinsurance and life insurance activities in Ukraine. During 2009 and 2008 such activity was sold for an immaterial amount.

[1] Following is the revenue distribution in the Insurance and Pension Segment divided by services (in millions of Euros):[303][304]

	Year	Insurance	Pension	Total
Revenues	**2009**	**79.1**	4.6	**83.7**
	2008	**89.5**	4.0	**93.5**
	2007	**48.9**	4.5	**53.4**
Profit (loss) before taxes	**2009**	**(2.2)**	1.4	**(0.8)**
	2008	**2.0**	(0.7)	**1.3**
	2007	**0.4**	(2.4)	**(2.0)**

9.11.2 General Information on the Business Segment

[A] General

Pension

As of the beginning of the 1990s, the economies of Eastern European countries that were part of the former communist bloc underwent significant change in their pension structures. The pension reforms in these countries constitute an answer for the sparse national insurance deposit base (due to the aging of the population), which constitutes a source for the guaranteed income of retirees and the difficulty the governmental pension system faces in trying to meet future pension obligations. The reforms instated in Eastern Europe reflect the neglect of national insurance as an only source for pension funds and a transition to systems that include two additional levels of pension:

Mandatory Pension – A pension structure that obligates every employer to allocate money 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.

In accordance with the reforms, the pension funds that were established after acquiring the relevant licenses from the country, are Defined Contribution (DC) funds, in which members will benefit from pension payments in accordance with the savings they have deposited and the returns accrued on them throughout their

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303 The revenues include net revenue sand interest plus revenues from commissions, asset management services and other revenues.

304 The data relating to the activities carried out by the banks in Ukraine and in Russia are presented under the heading "banking" and not under the heading "retail credit" and "lease", as the case may be, according to the way in which the data are presented in the management reports of TBIF.

years of employment (similar to the new pension funds in Israel). This structure reduces the exposure of pension funds and pension fund management companies to actuarial deficits, as opposed to Defined Benefits (DB) pension funds which guarantee pensions at permanent amounts without any reliance on the returns attained, and which are thus exposed to significant actuarial deficits (similar to the old version of pension funds in Israel).

Following are unique features of the operations regarding the pension segment:

[1] <u>The Scope of Assets under Pension Fund Management:</u>

The assets under pension fund management are growing due to the accumulation of ongoing deposits (unless a decline in membership occurs or a cessation, including a decline, in members' deposits in the fund), an increase in salary that constitutes the basis for mandatory deposits and an increase in the demand for mandatory deposits as a percentage of salary. In light of the fact that the age of most of the mandatory pension fund members in Eastern European countries ranges between 16 to 45, the growth in asset capacity is expected to continue to grow in the coming years, although not the same as in previous years. Notwithstanding the foregoing, during periods of economic deceleration, wage downtrends and increased unemployment rates may occur, which are likely to adversely affect the volume of assets managed by the pension funds, and may result in a halt in the growth of asset volume or even a decrease therein.

The aforesaid information regarding the expectation of growth in the scope of assets is forward-looking information, as defined by the Securities Act, which is based on TBIH's knowledge and experience in the branch of pension funds. This estimate may not become realized, in full or in part, or be realized in a different manner, including materially differently than is expected, if legislation is actually updated regarding mandatory deposits and/or due to a delay or slowdown in the macroeconomic development of markets that would prevent or delay growth in the scope of assets, including as a result of the direct and/or indirect implications of the global economic crisis.

[2] <u>Revenues of Pension Fund Management Companies:</u>

Revenues of management companies are determined as a rate of ongoing deposits of members and a rate of accrued assets of members, and in certain cases, also as a rate of return on managed assets. These revenues increase with the growth in the amounts of current deposits by members and with an increase in the volume of assets in pension funds. During periods of economic deceleration, wage downtrends and increased unemployment rates may occur, and consequently a decrease in the value of the assets managed by the fund. These trends are likely to adversely affect pension fund revenues, and may result in a halt in revenue growth or even a decrease therein.

[3] Member Acquisition Costs:

The process of attaining members in pension funds is one that demands significant investments, especially at the beginning stages of the fund's establishment. The investments relate to the establishment of a broad branch structure, the payment of commissions to agents that recruit new members to the fund as well as advertising costs and the branding of the fund. The accounting guidelines do not allow capitalization of these costs or their reduction over time. The immediate recognition of these member acquisition costs is expressed in losses in the first years of the fund activities.

Insurance

The insurance penetration rate (GNP partial insurance cost) 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 Central-Eastern European countries ranges between 1.2% and 6.4%,[305] as opposed to Western countries, where the insurance penetration rate ranges between 2.7% to 13.8%[306]. 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 macro-economic situation, which resulted in an increase in disposable income and consumption of insurance products at rates near to those of the West with a change in the consumer conception regarding the advantages of insurance; and 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 a car, independent professions and construction.

[305] Based on data from CEA Insurance Statistics , that was published in October 2009

[306] Based on data from Insurance in Emerging Markets that was published by Swiss Re Report in October 2007.

- Increase in awareness of voluntary insurance due to exposure to mandatory insurance products.

- The life insurance rate in Central-Eastern Europe, out of the whole insurance segment, is low in comparison with the West. There's a growth in proportion of life insurance out of the whole insurance segment. Continued growth to western levels may positively affect the profitability of insurance companies.

Legislative Constraints and Regulation

The pension branch is naturally rich in legislation, and this stems from the need to safeguard members' monies. The countries in which the TBIH Group is active vary with respect to legislation in this matter, but in all of them the law focuses on the following issues: the minimal capital required for establishing a pension fund or a management company, constrictions imposed on investing members' monies, collecting managing fees, reserves, taxation on deposits and withdrawals, and transition from one fund to another. The pension funds are under the supervision of the Supervisor of the capital market in each of the countries.

The Insurance branch is subject to extensive regulation in the countries in which the TBIH Group is active, although the extent of regulation and degree of influence exerted by regulators in some of the countries in which TBIH is active are not as yet as high as in western countries (Solvency I)[307]. It should be noted that with every passing year, the countries where TBIH is active show improvement in that area. Changes in the regulatory requirements have occurred in Turkey and as a result, the level of capital is determined according to the various risks. In Ukraine, the regulatory requirements are similar to those of Solvency I, and they are primarily derived from premium ratios and claims regarding capital. In Georgia, the customary capital requirements are related to a minimal capital level which is determined by the local regulation, and Western

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307 As a result of the Treaty on European Union ("**Maastricht Treaty**") going into effect in 1993, the adoption of principles to deepen the inner homogenous market (the right of establishment and the right to operate a service across borders), and the change into a mother country supervision principle in the financial services segment, a harmonization process and strengthening of the supervision rules in the insurance segment in the member countries of the European Union were required. In 2002 the European Union published two directives, together named Solvency I, that deal with the assurance of the capability of insurance companies throughout the union to meet with their obligations towards their policyholders. This being done through strengthening the requirements of "the safety margin" of life insurance and general insurance businesses, which were determined in the "first generation" directives of the 1970's (a directive regarding general insurance businesses and a directive regarding life insurance businesses), as an intermediate stage until the implementation of Solvency II, which includes, as stated below, a wider perspective of the risks the insurance company is exposed to. The capital requirements set in Solvency I are similar to those customary in Israel and do not take into account all the risks the insurance company is exposed to and the reciprocal relations between them, particularly risks related to assets held for liabilities and market risks regarding the lack of correlation between assets and obligations. However, the requirements partially take into consideration the transfer of risks to the reinsurers and do not enable a full decrease of the capital requirements due to transfer of the risks to the reinsurers.

European level standards have not yet been set. Western Europe, Israel and the U.S.A., as part of a course of increasing the capital requirements of insurance companies and improving the mechanism of determining the required capital according to specific characteristics of companies' insurance portfolio composition, intend to introduce the Solvency II[308]. According to the Solvency II, the insurance companies will be required to maintain capital levels in accordance with different risks scenarios. Based on public publications, it is expected that Solvency II will be introduced I 2012 in Western Europe and in Israel and later on in the U.S.A. as well, and that it will cause an increase in the capital requirements of the companies. Additionally, it is expected to mainly influence the life insurance segment and less influence the elementary insurance segment. In this context it is to be noted that TBIH is mainly active in the elementary insurance segment.

Decisions regarding the implementation of Solvency II have not yet been made in the countries in which TBIH operates. In light of this fact, and based on the expectancy that implementation of Solvency II will only be carried out in a number of years in the West, it is the estimation of KFS that the possible influence of implementing these regulations is distant and cannot be assessed at the present time.

The Groups' activity in the insurance segment is subject to the provisions of the general laws of each country and to the provisions applicable to the insurance field in particular, such as: insurance laws, minimal capital, reporting to the insurance supervisor, the mode of calculating the insurance reserves, etc.

Additionally, the insurance activity in each country is subject to the supervision of the insurance businesses supervisory body. The supervisor is responsible, inter alia, to examine the functioning of the insurance companies according to the various laws including minimal capital and modes of investment, and granting and revoking insurance licenses.

The TBIH Group companies hold all the licenses required for their activities.

As part of the obligations of Turkey to integrate with the European Union, Turkey being the main country in which TBIH is active in the insurance segment, changes have occurred in the insurance laws in recent years. A new insurance law went into effect in 2007. With the law becoming effective, the UT (The

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308 In July 2007 the European Union adopted the proposed text of the Solvency II Directive ("**the Directive**"). The Directive constitutes a fundamental and comprehensive change of the regulation regarding assurance of solvency and adequate capital of the insurance companies in the European Union countries. Its goal is to improve the protection of the policy owners' monies, deepen the integration between the markets and increase the competitiveness in the segment. The Directive includes a comprehensive examination of the risks the insurance companies are exposed to, and determining standards to manage and measure them, while expressing the risks involved in their activity in the capital allocation. Additionally, the Directive focuses on internal supervision and control activities, market discipline, disclosure and reporting.

Undersecretariat of Treasury of the Prime Ministry) has become the main regulator in the insurance field in Turkey. This body has also started setting regulations. The new law relates to subjects connected to transparency of information presented by the insurance company to the client. Additionally, the law defines the requirements of the insurance companies' shareholders regarding financial robustness and determines conditions based on which the license granted to the company to deal with insurance can be revoked. The law details minimal capital requirements for the company in general and also for the branch the company is opening. The law also touches upon technical issue in the insurance segment (reserves, investments and so on) and on the necessity to establish an inner supervision and risk management system in the insurance company. The law regulates which insurance products are mandatory in the country, for example third party car insurance, professional liability insurance and earthquake insurance. There is a fund in Turkey for compensation for injured people and damages as a result of earthquakes. The fund is owned by all the insurance companies which transfer to it a premium in the sum of their relative part in the policy and this in addition to the reinsurance coverage the companies purchase in the matter.

In addition, local laws specify the composition of the investment portfolios required of insurance companies so as to secure their insurance reserves, including the maximum amount permissible for each kind of investment, as a percentage with respect to reserves. These laws allow investment outside the country in question, to some extent, and compel a certain rate of investment in government debentures.

The TBIH Group companies comply with the relevant investment regulations.

In Turkey, in which the TBIH Group operates, car owners are required by law to purchase third party insurance to cover personal and property damages, and the minimal coverage amounts are determined by governmental authorities. The prices of these insurance products are set by law, and in some cases, so are the commissions agents may charge. In these countries, those practicing certain free trades are required to purchase professional liability insurance.

In 2008 and 2009, the insurance companies and pension funds in some of the markets in which TBIH operates suffered from a drop in revenues from investments and, in certain cases, even losses. This type of damage to profitability is the result of periodicity in the capital market.

Changes in the Scope of Activity in the Segment and in its Profitability

For details regarding the changes in the scope of activity and profitability see section 9.9 of this part.

Success Factors in the Insurance and Pension Segment

TBIH's success factors in the Insurance and Pension Segment are:

- Early identification of target countries, before or at the onset of pension reforms or awakening of the insurance market, and operating as one of the market's initial players.
- Setting up an extensive marketing array, deploying branches and a widespread network of agents throughout each country.
- Establishing good relations with employers.
- A strong and steadfast relation with international banks.
- Positioning a strong brand recognized by the general public and emanating reliability.
- Professional asset management structure or underwriting.
- Efficient IT system and emphasis on member or client service.

Main Entry and Exit Barriers

In pension related activity - it is very important to enroll members in the initial stage of the opening market soon after the reform (mandatory or voluntary). The pension plans segment is by nature one where contracting with clients (members) is long term. Frequent transition between funds is not common in the countries in which TBIH operates. Hence, the chief entrance block is the high member acquisition costs in a mature market (after the reform). Consequently, in developed pension markets which have undergone a mandatory pension reform, entrance of new authorities by means of establishing a new pension fund and acquiring a significant market share in a mature market is rare. Entrance of new authorities and exit of existing ones is usually done through full or partial purchase of existing pension funds. In addition, there is also a trend of market consolidation, which stems from mergers of existing funds, in order to benefit from the economics of scale.

In insurance activity –The more the insurance market is developed, the harder it is for new players to enter it because of the cost involved in acquiring a market share. In recent years, the insurance market has seen a trend toward consolidation, as opposed to the trend of the appearance of new players. Another barrier to entry is minimum requisite capital required of insurance companies. The threshold requirements, however, limit mostly local players.

Structure of Competition

The competition in the pension fund activity in Central-Eastern Europe 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.

Similar to the competition in the pension fund operations, the TBIH Group's competitors in the insurance segment in the countries of Central-Eastern Europe and the former Soviet Union are primarily international entities (originating in the European Union) which had acquired insurance businesses in these areas, although local entities exist as well, at a lower rate. In some countries, the government still has a controlling block in insurance companies. The majority of competitors in the Central-Eastern European 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.

The tendency towards international ownership in these markets, , is motivated primarily by the need for knowledge, expertise and strong brands in a developing market; the need for consolidation in countries with numerous small bodies; and by increasingly stringent regulatory requirements, including with respect to minimum capital requirements, 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.

[B] <u>Products and Services</u>

[1] <u>Pension Funds</u>

Following is a graph depicting the growth in the number of members in all TBIH pension funds from 2007 until 2009 (year's end):

In 2007 and 2008, the number of members grew in all the pension funds of TBIH. There was a reduction in the number of members in 2009 which stemmed mainly from the sale of TBIH's pension activities in Russia and Romania during this year. TBIH has one pension fund in each of the countries in which it is active in the pension segment (Ukraine and Georgia), save Bulgaria, where there are three TBIH Group funds working under the Doverie brand name (two mandatory funds and one voluntary fund).

The three pension funds of the TBIH Group in Bulgaria, which are managed under the Doverie brand name, constitute TBIH's primary pension activity. Below are various indicators regarding the funds, as of December 31, 2009:

	Mandatory	**Voluntary**
Total Assets under management (in millions of euros)	541.9	
Number of Members	1,128,581	162,726
Rate of Deposit Relative to Average Salary	5.5%	4.5%-5%
Deposits Management Fee	5%	3%
Asset Management Fee	1%	10% of yield

As of the date of the report, the total managed assets and the number of members in TBIH's remaining pension funds are approximately EUR 530 million and approximately 380 thousand members, respectively.

In 2009, 2008 and 2007, the total benefits paid to the pension funds held by TBIH (with the exception of the pension funds in Bulgaria) amounted to approximately EUR 85 million, approximately EUR 81 million and approximately EUR 68.6 million, respectively.

[2] Insurance Companies

Following is a table outlining various indicators regarding the TBIH Group insurance companies: [309]

Country	Country	Ukraine		Turkey	Georgia		
Company	**Company**	**VAB Insurance**	**UIG**	**Ray Sigorta**	**IRAO**	**GPIH**	
Segment	**Segment**	Elementary [310]	Elementary	Elementary	Elementary	Elementary and health	
Branches and points of sale as of the date of the report	**Branches and points of sale as of the date of the report**	37	104	9	48	20	37
Agents and brokers as of the date of the report	**Agents and brokers as of the date of the report**	33	451	670	116	62	33
Partners as of the date of the report	**Partners as of the date of the report**			Dogan (10%) and Public (5.8%)	Local partners	TBC (the largest private bank in Georgia	
Competition	**Competition**	Oranta, Axa, Providna, INGO, Uniqa, Universalnaya		Axa, Anadolo, Allianz, Basak, Proupama	Aldagi, BCI, Imedi-L, IC Group		
Premiums in 2008 (millions of euros)	**Premiums in 2009 (millions of euros)**	4.4	35	114	51		—

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[309] The data source regarding the market share and rating as of December 31, 2009 is the Supervisor of Insurance in the various countries and TBIH estimates.

[310] For details regarding life insurance activity which has been halted see footnote of Section 9.11.1. of this part.

Premiums in 2007 (millions of euros)	**Premiums in 2008 (millions of euros)**	9.8	41.2	140.3	28.8		
Premiums in 2006 (millions of euros)	**Premiums in 2007 (millions of euros)**	6.7	Irrelevant[311]	82.9[312]	8.2		
Market share as of December 2008	**Market share as of December 2009**	0.5%	5%	2.4%	14%	19%	0.5%
Market rating as of December 2008	**Market rating as of December 2008**	51	6	13	4	2	51

The insurance activity carried out by TBIH is divided into two as described hereunder:

Elementary Insurance – as in western countries, car insurance constitutes a significant portion of the elementary insurance market. In Turkey and Ukraine, car insurance is mandatory. The TBIH Group's products in the car insurance segment include compulsory vehicle insurance, vehicle property insurance, and vehicle insurance for motorists driving in foreign countries (Green Card). In addition, the TBIH Group offers property, household, marine, aviation, transportation and health insurance.

Health Insurance – TBIH's activity in the health insurance segment is of an insignificant scope.

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311 The insurance activity carried out in Ukraine through UIG was only purchased in February 2008 (see Section 9.6.3[b] of this part).

312 Acquisition of the Ray Sigorta insurance company was completed in June 2007, and therefore the premiums are for the second half of 2007.

[C] **Segmentation of Revenue from Products**

[1] Pension

Following are data pertaining to activities in pension funds, segmented by voluntary and mandatory funds (in millions of euros):

		Voluntary	Mandatory	Total
Revenue from management fee				
	2009	0.6	4.0	4.6
	2008	0.6	3.4	4.0
	2007	0.6	3.9	4.5
Profit (loss) from pension businesses[313]				
	2009	0.2	1.2	1.4
	2008	(1.6)	0.9	(0.7)
	2007	(0.6)	(1.8)	(2.4)
Number of members				
	2009	308,509	1,362,464	1,670,973
	2008	317,542	1,504,369	1,821,911
	2007	285,211	1,429,205	1,714, 416
Assets under management				
	2009	51.6	1,021.5	1073.1
	2008	48.3	716.	809.3
	2007	59.1	684.1	743.2

An increase in the profits of the pension funds can be seen in 2008 and 2009, stemming mainly from an increase in profit of Bulgaria's pension funds ("**Doverie**"). The decrease in the number of members in 2009 results from the sale of the pension activity in Romania and Russia,as stated in Sections 9.6.2[C] and 9.6.2[E] of this part.

[2] Insurance

Following are financial data pertaining to the elementary insurance activity, (the health insurance segment is insignificant, and hence it is not specified separately) that reflect TBIH's full insurance activity while disregarding the method of consolidation with KFS, namely reflect 100% of its activity and not KFS's part (40%). (Data presented in millions of euros):

313 Including expenses related to recruiting members in the amount of approximately EUR ___ , 2.6 and 2.9 million in each of the years 2009, 2008 and 2007, respectively.

	2009	2008	2007
Insurance premiums, gross	197.8	223.7	105.1
Premiums less reinsurance	130.3	148.1	58.9
Profit (loss) before tax	(5.4)	4.9	1.0
Activities that were terminated[314]	56.0	16.1	38.9
Total insurance related liabilities, gross	179.2	171.3	342.2

The increase in premiums in 2008, in comparison to 2007, stemmed mainly from the first consolidation of Ray Sigorta's insurance company in Turkey beginning from mid-year 2007 and from the first consolidation of the insurance company UIG in Ukraine in 2008, and also from a growth in premiums of the rest of the insurance companies. The decrease in premiums in 2009, in comparison to 2008, stems mainly from the weakening of the exchange rates of the Ukrainian currency (37%) and the Turkish currency (13%) in comparison to the rate of the euro. In 2009, the improvement in the results of all of the companies continued, except for the Turkish insurance company where a significant drop in the profits occurred, which characterized the whole Turkish insurance market.

Activities terminated by TBIH in 2007 include the results of Bulstrad (the Bulgarian insurance company) and Helios (the Croatian insurance company). The contribution of activities terminated in 2008 in the sum of approximately EUR 16.6 million is comprised of ongoing losses of the insurance activities, mainly in the insurance activity in Russia (RIC), insurance activity in Bulgaria and insurance activity in Croatia, with the set off of capital gains stemming from the sale of holdings in the Bulgarian insurance company (Bulstrad), the sale of the Croatian insurance company (Helios) and loss of capital from the sale of the insurance company in Russia (RIC). In 2009, all the profit from the terminated activity stems from the capital gain from the completion of the sale of the insurance activity in Bulgaria. In KFS, the contribution of the terminated activities to the net loss in 2009 stands at approximately EUR 24.5 million.

[314] The figure is presented after tax. For details regarding halted activities see Section 9.8.1[b][2] of this part.

[D] Marketing, distribution and competition

[1] Pension

Following are details of several branches, partners and competitors of the pension funds in Bulgaria, as of December 31 of each of 2009, 2008 and 2007:

Partners	CITUB (the largest trade union in Bulgaria)
Competitors	Allianz, ING, OTP (DSK-Rodina), Chimimport
Market share for 2009	33%
Market share for 2008	34%
Market share for 2007	37%
Market rating for 2009	#1
Market rating for 2008	#1
Market rating for 2007	#1
Total benefits for 2009 (in millions of euros)	130.4
Total benefits for 2008 (in millions of euros)	122.9
Total benefits for 2007[315] (in millions of euros)	110.1

TBIH's marketing strategy is based on marketing systems with branches spread nationwide and with extensive arrays of agents. Members' enlistment is usually done by the pension fund or its agents contacting employers or figures of influence therein. Nationwide marketing systems make it possible to reach significant market shares. In addition, TBIH has developed a familiar local brand in Bulgaria, Doverie, which successfully competes with well known international brands. In east European countries, local, rather than international, familiarity with brands is very important.

In most pension funds, TBIH chose to add to its activities local partners that are players in the relevant labor or financial markets, such as banks and workers' unions. Associating with such organizations is important because they know the local markets and have connections with employers in those economies.

[2] Insurance

The marketing and distribution array of the TBIH Group is based on TBIH employees, an extensive chain of branches, agents and brokers. Agents' activity is particularly important in the vehicle insurance segment, and the agents are paid commissions upon conscripting clients for insurance companies. Additionally, there is a trend in these markets of developing brokerage as part of the marketing array. Brokers are businesses which provide clients with comprehensive solutions and assist them in selecting the insurance company best fitting their needs, having examined several insurance companies. Brokers usually approach companies rather than private consumers.

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315 The employee's and employer's payments to the pension fund are made in accordance with the employee's wages.

[E] Seasonality

In the compulsory vehicle insurance department of the elementary insurance segment, seasonality has an effect and consequently, a substantial portion of yearly sales is transacted in January.

[F] Intangible Assets

The main trademarks that TBIH uses as of the date of the report are: Doverie (Bulgarian pension), Ray (insurance in Turkey), VAB (insurance and pension in Ukraine), UIG (insurance in Ukraine), GPIH and Irao (insurance in Georgia). The trademarks are registered in the names of the companies of the TBIH Group and are owned by them. For details regarding the sums that have been accepted in the Financial Statements for intangible assets in Turkey in the total sum of approximately EUR 4.4 million, see note 13 of the Financial Statements.

[G] Suppliers

The TBIH Group's insurance companies are connected in a reinsurance policy in order to reduce the insurance risks they take upon themselves in most of the insurance sectors they operate in as direct insurers. Through the reinsurance, the insurance company shares its risks with other insurance companies and reduce s its exposure. The acquired protection is against catastrophe risks and isolated risks.

The types of main reinsurance contracts are: (1) **Treaty** – an annual agreement with a reinsurer or a group of reinsurers, in which the reinsurer is committed to participate in the risks, usually in a certain sector; (2) **Facultative insurance** – specific reinsurance – facultative insurance, is acquired for specific businesses (generally with large business clients) in which the liability limits exceed the Treaty limits or that for other reasons it is not possible to have it in this framework; (3) **Pro rata reinsurance** – the reinsurer’s participation in the risk is defined in advance according to hid proportional part in the premium and he participates in the same rate he took upon himself in paying the damage. There are two main types of pro rata reinsurance: (a) a Quota Share type of contract – a pro rata reinsurance agreement according to which the reinsurers agree to accept a permanent part of all insurances of a certain type that the direct insurers accepted. The reinsurer receives a proportional part of the net premium that the direct insurer receives and they share all the damages and expenses in the same proportion; and (b) Surplus contract – a type of proportional contract in which the direct insurer bears the risk in a first layer which he determines (retention) and the reinsurer bears a proportional part above this layer, according to an agreed capacity; (4) **Excess of Loss (XOL) reinsurance** – a non proportional reinsurance agreement, according to which the reinsurer takes upon himself the layer agreed upon in advance and participates in paying for the damage only if the damage belongs to the same layer. In contracts of this type the sharing of risk is not proportional and the reinsurer's participation depends on the level of damage.

In general, the reinsurers' part in the premiums of TBIH's activity is not big because the policies contain, unlike the West and Israel, a limit of the sum of the risk towards the policyholder, including bodily injury. Therefore, most of TBIH's insurance is of the XOL type to cover catastrophes in the property sectors and also facultative reinsurances that are for big businesses or that the company was compelled to make them due to local regulation provisions.

Regarding the TBIH Group activity-

In the Turkish car sectors (bodily injury and property damages) there is a Quota Share type of pro rata reinsurance at a rate of approximately 15% from an international reinsurer. In Ukraine, there is a facultative reinsurance for expensive cars only by local reinsurers, by the power of regulatory provisions, and in Georgia there are few facultative reinsurances.

In fire, property and other sectors that constitute approximately 36% of the premiums of the TBIH Group in 2008, the cover is in an XOL reinsurance for catastrophes, and the following additional insurance types also exist: surplus reinsurance mainly in Turkey, Quota Share reinsurance and facultative reinsurance for big transactions.

The principal commissions received in the TBIH Group from the reinsurers – commissions are not received from reinsurance that is not pro rata (on the basis of XOL). In pro rata insurance commissions are received from reinsurers, calculated according to a certain rate of the comprehensive premium. All the commissions are flat and there are no agreements of commissions graded according to the portfolio's profitability.

The limitations of each policy are determined according to the type of product insured. TBIH acquires its own reinsurance from leading, top grade international reinsurance companies, including from a VIG subsidiary that deals in reinsurance and is graded A+ by Standard and Poor's, and also from local insurers according to the provisions of the local regulator (See below a table grading the principal reinsurers of TBIH). Reinsurance companies that insure the TBIH Group's risk in the insurance branch are chosen according to the management policy of each one of the companies in the TBIH Group and after obtaining VIG's opinion regarding the quality of the reinsurer and the cost of the insurance. The reinsurance agreements of TBIH in the various insurance sectors are prepared on an annual basis with different reinsurers. The relative part of each reinsurer in each of the insurance sectors can change from year to year and from sector to sector, and this is according to the business policy of TBIH and its subsidiaries and the nature of the insured businesses.

Reinsurance coverage is determined separately for each branch of insurance according to the exposure of the subsidiaries of TBIH and prior claims. In branches with a high level of exposure, such as aviation and marine insurance, the companies implement reinsurance coverage that limits the exposure to a single claim or event. In other branches, such as the vehicle branch, the reinsurance coverage is more limited. TBIH's reinsurance expenses in 2009, 2008 and 2007 were in the sum of approximately EUR 67 million, approximately EUR 75 million and approximately EUR 46 million, respectively.

Following are data regarding reinsurers, their grading and the rate out of the total reinsurance expenses of TBIH:

Reinsurer	Grading	The rate out of the Total Reinsurance Expenses of TBIH
HANNOVER RE	AA-	22%
MILLI RE	B++	13%
SWISS RE	A	8%
SCOR RE	A-	5%
ALLIANZ GLOBAL CORPORATE	A+	4%
EVEREST RE	A+	4%
VIG RE	A+	4%
AXA CORPORATE SOLUTION	AA(-)	3%
MAPFRE	A+	2%
DELVAG	A-	2%
HDI GERLING	A	2%
CCR	AAA	1%
LABUAN RE	A-	1%
SAVA RE	A(-)	1%

Topics Common to the Insurance and Pension and the Retail Banking and Credit Segments, and Additional Details

9.12 Human Capital

9.12.1 As of December 31 in 2009 and 2008, the KFS Group employed 8,667 and 12,496 employees, respectively. KFS, TBIF and TBIH headquarters, located in Amsterdam, the Netherlands, are made up of employees and consultants who engage in management duties primarily according to countries. All the other KFS Group employees are locally employed in the various countries of activity. The decrease in the number of employees between the years 2008 and 2009 stem from the implementation of the KFS Group efficiency plan which included the closing and merging of branches and sale of a number of companies.

Following is the allocation of the KFS Group employees as of December 31 in 2008 and 2009 according to countries and activity sectors.

Following is the distribution of the KFS Group employees as of December 31 of 2009 and 2008 by countries and segments of activity:

As of December 31, 2009:

	the Netherlands[316]	Bulgaria	Romania	Croatia	Slovakia	Georgia	Russia	Ukraine	Turkey	Albania[317]	Total
Retail Banking and Credit	2	904	405				3,096	2,328			6,735
Insurance and Pension	6	231		15		572		854	258		1,936
Headquarters	3	1				1		1	1		7
Total	11	1,136	405	15		573	3,096	3,183	259		8,678

As of December 31, 2008:

	the Netherlands	Bulgaria	Romania	Croatia	Slovakia	Georgia	Russia	Ukraine	Turkey	Albania	Total
Retail Banking and Credit	2	1,063	640	0	13	0	4,500	3,183			9,401
Insurance and Pension	3	763	368	17	0	415	6	1,083	259	165	3,079
Headquarters	2	8	1	0	0	1	1	1	1	1	16
Total	**7**	**1,834**	**1,009**	**17**	**13**	**416**	**4,507**	**4,267**	**260**	**166**	**12,496**

9.12.2 Employees' training is done independently by each company in the group, while assimilating tools and knowledge accrued in the headquarters of KFS, TBIF and TBIH. As for financial statements, KFS holds intensive trainings for executives in every country in which it operates.

9.12.3 In the second quarter of 2007, as part of the Reorganization transaction, KFS executives and consultants were allocated 865,519 KFS shares which constituted, at the date of allocation, 2% of KFS's issued and paid-up share capital, in return for a total of EUR 5.2 million (6 euro per share). For details regarding the realization of part of the shares allocated as mentioned, see Sections 9.5.1[D] and 9.5.1[E] of this part.

9.12.4 In December 2007 and in the first quarter of 2008, the executives and one additional employee in the KFS Group were allocated 107,190 KFS shares, which constituted at the date of allocation approximately 0.2% and approximately 0.1% of KFS's share capital, respectively, in return for a total of approximately EUR 800 thousand (EUR

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316 Employees of the headquarters of KFS, TBIF and TBIH (see Section 9.12.1 of this part). The foregoing is also correct with respect to the distribution of employees in 2008.

317 In 2008, including Macedonia and Kosovo.

12 and EUR 0.36 per share, respectively). For details regarding the realization of part of the shares allocated as mentioned, see Sections 9.5.1[D] of this part.

9.12.5 TBIF

[A] TBIF and its' affiliate companies offered the senior employees and service providers various options to purchase TBIF shares and shares of its' affiliate companies. For further details see Note 23b of the financial statements.

[B] As part of the transaction consummated in September 2006 (prior to completion of the Reorganization), pursuant to which TBIH purchased 4.38% of TBIF's share capital from the CEO Company (as defined in section 9.5.2[A] of this part) for an aggregate consideration of EUR 9 million, and with respect to the shares remaining in the CEO Company's possession (10.62% from TBIF, as of the date of execution of the agreement), the CEO Company was granted protection from dilutions until the total amount of KFS shareholders' investments (including loans and guarantees) reaches EUR 172.5 million[318]. In addition, the CEO Company was granted Put options enabling the CEO company to sell its holdings in TBIF (9.62%, as of the date of the report) to KFS, and KFS was granted a Call option, conferring it with the right to purchase the CEO Company's shares in TBIF in three equal portions for a period of three years, commencing June 30 of each of 2008, 2009 and 2010, should the KFS and TBIF options not be registered for trade. In 2007 the agreement was amended so that KFS was granted the right to pay the exercise price in cash and/or Kardan NV shares, on condition that if at the end of the year following the realization of the option, the market value of the Kardan NV shares received by the CEO Company, was lower than the exercise price, Kardan NV would pay the difference in cash (the option to exercise the first tranche and the second tranche has not been exercised as of the date of the report). The agreement provided that the exercise price of the option would be determined on the basis of material transactions in shares of TBIF in the year preceding the exercise date or in accordance with a valuation on the date of exercise, but would not be less than the valuation price determined, if at all, in the KFS Group's agreements with third parties. In case of change of control in KFS, the CEO Company will be entitled to exchange its shares for KFS shares and participate in the change of control transaction. In addition, if KFS shares are registered for trading, the CEO Company will be entitled to exchange its shares for KFS shares.

As part of the transaction, the CEO's Company received a EUR 7.6 million non-recourse loan from TBIH, with a Euribor annual interest plus 3%, to be repaid (principal and interest) at the sale of the CEO Company's shares in TBIF and from the intake received for the sale, or within 18 months from the CEO's termination of employment at TBIF. TBIF shares held by the CEO's Company are mortgaged against

[318] In 2007 the agreement was amended so that the loans or guarantees granted by KFS to TBIF utilized by TBIF for ongoing loans to their subsidiaries. The calculations would not include the investment ceiling of Euro 172 million as said.

the loan. As part of the Reorganization transaction, the right to repayment of the loan was assigned from TBIH to KFS, against payment thereof by KFS.

In December 2007, KFS purchased 1% of TBIF's share capital from the CEO's company. At the same time, the agreement with the CEO's company was amended to entitle KFS to pay the proceeds for realizing the option provided to it by cash and/or by Kardan NV shares (should KFS choose to realize the option through Kardan NV shares, a price modification will be conducted, so that if a year after realizing the option, the market value of Kardan NV shares which the CEO's company received within the agreement, is lower than the realization price, KFS will pay the CEO Company the difference in cash). In addition, KFS has undertaken, as part of its agreement with the CEO Company, that in the circumstances detailed in the agreement, it will give out further loans to the CEO's Company in order to enable it to keep its part in TBIF. Furthermore, KFS and the CEO's Company have signed a voting agreement, according to which, in case KFS holds 50% or less of the TBIF voting power, the CEO Company will vote in the TBIF general assembly as KFS instructs it to. As of the date of the report, the CEO Company holds 9.62% of TBIF's issued capital.

The remainder of the CEO Company's debt to KFS under the terms of the loans set forth in this Section and additional loans provided to the CEO Company, as set forth in Sections 9.5.2[B] and 9.5.2[C] amount to approximately EUR 15 million as of December 31, 2009.

9.12.6 TBIH

[A] TBIH and its affiliate companies granted senior employees various options, in the past, to acquire shares in TBIH's affiliate companies.

9.13 Financing

9.13.1 KFS

[A] KFS finances its activities by means of its equity, as well as by loans. Most of the credit serves the Banking and Retail Credit Segment coordinated under TBIF.

[B] In March 2007, Kardan NV extended to KFS a credit line in the sum of EUR 60 million to finance TBIF operations. The loan is for three years and it incurs a yearly interest rate of EURIBOR plus 2.875%. By the end of the first quarter of 2008, the entire credit line has been used and out of this sum, in December 2007, Kardan NV converted a total of EUR 19 million of the loan against issuance of KFS shares at a rate of 4% of KFS's issued capital (at the time of issuance), such that after the issuance, Kardan NV held approximately 89.8% of KFS's issued capital. As of December 31, 2009, the loan balance stood at a total of approximately EUR 28 million. Furthermore, in March 2009 Kardan NV provided KFS with an additional loan for financing TBIF operations in an aggregate amount of EUR 20 million at an interest rate of Euribor plus 2.875%. As of December 31, 2009, the balance of the additional loan stood at approximately EUR 11. Additionally, Kardan NV provided a loan for the repayment of part of the loan extended to KFS by Bank Discount, as described in sections 9.5.1[b] and 9.1.3.1 [d] of this Part, in the amount of EUR 73 million. As of December 31, 2009, the balance of the additional loan stood at approximately EUR 73 million.

[C] Following is a table specifying the composition of the loan balance of KFS (without subsidiaries) as of December 31, 2009 (in millions of euros):

	Loan balance as at December 31, 2009	Average interest rates for 2009	Effective interest rates for 2009
Long term loans			
From banks	180	3.5%	4.8%
Other	95	4.2%	4.3%
Total loans	**275**		

[D] As part of the loan agreement with Discount Bank, as detailed in Section 9.5.1[B] of this part, KFS had undertaken to meet covenants, whereby it shall preserve a ratio of total equity to the statement of financial position (balance) at a rate of no less than 28% of KFS's assets (according to KFS's non-consolidated financial statements) and a minimal total equity of EUR 125 million. KFS also undertook to meet covenants that concern TBIF and TBIH according to which the ratio of total equity to the statement of financial position (balance) in these companies will be maintained at no less that 10% of their assets (according to consolidated financial statements) and a minimum total equity of EUR 100 and EUR 110 million will be maintained, respectively. As stated in Section 9.5.1[B] of this part, on March 30' 2009 KFS and Bank Discount signed an agreement in which the financial covenants were updated so that the shareholders loans would be added to the calculation of the total equity value of TBIF and KFS, and other financial covenants were cancelled. As of December 31, 2009 and close to the date of the report and after the abovementioned update of the financial covenants, KFS is in compliance with all the financial covenants relating to said loans (based on its financial statements as of December 31, 2009). In addition, according to the said agreement, KFS has returned a sum of approximately EUR 50 million to Bank Discount within the allocated credit line, by means of the loan given by Kardan NV to KFS, as detailed in Section 9.13.1[C] of this part. Additionally, it was agreed in the said agreement that the sum out of the balance of the loan which is guaranteed by lien as detailed in Section 9.13.1[H] of this part will be updated, from the sum of EUR 100 million to the sum of EUR 125 million.

[E] Below are details regarding credit balances in variable interest (in millions of euros):

Variable Mechanism	2009		Near the date of publication of the report	
	Interest range in %	Credit as of December 31	Interest range in %	Credit amount
Euribor	Euribor + 2.9-2.5	[319] 233	Euribor + 2.9-2.5	242
Libor	Libor + 2.9-2.5	43	Libor + 2.9-2.5	43

[F] Mortgage of TBIH shares– In March 2008, all of KFS and TBIH holdings were put under lien to Discount Bank, namely 324,190 shares of TBIH which constitute 40% of TBIH issued capital, with respect to the loan that Discount Bank extended to KFS as detailed in Sections 9.5.1[B] and 9.13.1[E]of this part. As of December 31, 2009, and as of the date of the report, the remainder of the lien-secured debt amounted to EUR 125 million.

For details regarding the lien on KFS shares and additional financial undertakings, including with respect to Kardan NV's minimum holdings in KFS and KFS's minimum holdings in TBIH and TBIF, to secure the loan which Kardan NV received from an Israeli bank, see Section 16 of this part.

9.13.2 TBIF

[A] TBIF's operations are financed by means of shareholders' loans extended by KFS, and other loans from banking and other corporations which are extended primarily to subsidiaries of TBIF.

[B] According to loan agreements of September 2006, the Dutch bank FMO has given TBIF two unsecured loans totaling EUR 30 million, as follows: A loan of EUR 15 million outstanding in six equal semiannual installments as of March 2009. The loan bears interest at an average rate of Euribor plus 3.75%, paid every six months. In addition, according to the terms of loan FMO is entitled to a yearly payment of an amount equal to 6.5% of TBIF's pretax profit, up to a ceiling (including interest) of 12% of the average loan balance for that year.

A loan of EUR 15 million outstanding in ten equal semiannual installments as of March 2009. The loan bears a yearly interest at a rate of Euribor plus 3.5%, paid every six months.

As of December 31, 2009, the balance of the loans to FMO (principal and interest) stands at approximately EUR 22.4 million.

[319] Out of the said sum, a total of approximately EUR 50 million originates from a loan provided by Kardan NV to KFS in March 2009, which was used in full to repay part of the loan provided by Discount Bank, as described in Sections 9.5.1[B] and 9.13.1.[E] of this part. The rate of interest for the said loan has not yet been determined as of the date of the report.

[C] By signing the said loan agreements, TBIF has undertaken to maintain certain financial ratios concerning the level of capital and assets (capital to risk weighted assets ratio greater than 10%, original to total capital ratio (tier 1) equal or greater than 67%, and current to total assets ratio greater than 10%). As of December 31 2009 and as of the date of the report, TBIF is in compliance with the financial covenants related to this loan (based on its financial statements as of December 31, 2009).

[D] In May 2007, VAB Bank, a Ukrainian bank, held by TBIF at a rate of 63% completed a capital conscription of USD 125 million (approximately EUR 90 million) by issuing unsecured debentures stated in USD. For details regarding the transactions according to which TBIF's holding rate in the Vab Bank will increase, see Section 9.6.1[B] of this part. The debentures bear a yearly interest of 10.125%, calculated every six months. The debentures' term of repayment is three years since issuance. The debentures were rated Caa1 by Moody's. Until the first quarter of 2008, the said debentures were also rated by the rating company Fitch (CCC rating), but in light of the limited activity in the bank debentures market in Ukraine and the streamlining moves that VAB is taking, VAB decided to terminate its contractual arrangement with Fitch. VAB utilized the issuance proceeds to enlarge its loans portfolio. During March 2010 the Vab Bank made an offer to the debenture holders to extend the debentures' date of repayment and postpone it from June 2010 to June 2014, and in return the bank suggested increasing the interest rate to 10.5%. Additionally, debenture holders that have voted up to March 19, 2010 (the date of expiry) in favor of postponing the date of repayment as said, VAB Bank will repay, on the original date of repayment (June 2010) 10% of the principal of the debentures held by them.

[E] Various TBIF subsidiaries occasionally put liens on their credit portfolios appertaining to leasing, retail credit, and mortgage operations (receivables), benefiting the extenders of credit. As at December 31, 2009 and as of the date of the report, the balance of loans secured by such liens adds up to approximately EUR 381.3 million and approximately EUR 345.8 million, respectively.

[F] As of December 31, 2009 and at the time of report, the balance of the shareholders' loans extended by KFS to TBIF is, in total, approximately EUR 153 million and approximately EUR 156 million, respectively. For details regarding the conversion of part of the balance of the shareholders' loans extended to TBIF by KFS against an allocation of TBIF shares, see Sections 9.5.2 [A]-[C] of this part.

[G] Hereunder is a table listing the composition of TBIF's loans balance as of December 31, 2009 (in millions of euros)[320]

	Loans balance as at December 31, December 2009	Average Interest Rates for 2009	Effective Interest Rates for 2009
Short term loans			
Banks	186.0	7.8%	7.8%
Long term loans			
Banks	125.6	7.4%	8.1%
Other	35.2	2.5%	2.5%
Debentures	26.9	4.8%	4.8%
Total loans	373.7		

[H] Hereunder is a table of credit balances at variable interest rates (in millions of euros):

Variable Mechanism	2009		Near the date of publication of the report	
	Interest range in %	Credit as of December 31	Interest range in %	Total Credit
Euribor	Euribor + 4.9-2.05	89.3	4.9-2.05 Euribor +	83.0
Libor	Libor + 9.5-4.5	4.2	9.5-4.5Libor +	7.1
Robor 1M	Robor 1M + 3.5-3.0	11.9	Robor 1M + 3.5-3.0	10.7
Robor 3M	Robor 3M + 4.0-3.0	10.0	Robor 3M + 4.0-3.0	9.1
Robor 12M	Robor 12M + 7.0-5.0	1.6	Robor 12M + 7.0-5.0	1.4
Sofibor	Sofibor 1M + 3%	0.6	Sofibor 1M + 3%	0.4

[I] Within the framework of debenture recruits in countries of activity, some of TBIF's subsidiaries were rated as follows: VAB debentures were rated Caa1 by Moody's in September 2009; TBI Credit debentures in Bulgaria were rated by the local rating agency, NCRA, at bgA3 for the short term and bgP-2 for the long term; Sovcom Bank debentures were rated by Moody's local rating at Baa2.RU in.

[J] In October 2008 Sovcom Bank received access to a line of credit in the amount of RUB 2.8 billion (approximately EUR 70 million), which was provided by the Central Russian Bank, which provided lines of credit to banks with international rating. During 2009, Sovcombank used varioes amounts of credit according to its needs, and fully repaid them on November 13, 2009. As of December 31, 2009, the unused line of credit balance is approximately EUR 70 million.

[320] The data do not include shareholder loans which KFS provided to TBIF.

[K] In December 2008 the Central Ukraine Bank (NBU) provided VAB with a line of credit in the sum of approximately EUR 90 million. As of December 31 2009 all the said line of credit was used. During the fourth quarter of 2009 the NBU agreed to postpone the date of repayment of the line of credit of approximately EUR 81 million to the fourth quarter of 2010.

[L] As of December 31, 2009, some of the TBIF subsidiaries did not meet the covenants regarding different loans taken in the total amount (as of September 30, 2009) of approximately EUR 19 million (out of which 0.1 EUR million is to be repaid during 2010). The violations are related to liquidity ratios, the total capital and the sum of the loans portfolio regarding which the collection is late. In 2009 the said subsidiaries received waivers regarding the meeting of the covenants in connection with these loans. The said violations did not cause cross defaults regarding other loans in the KFS Group. After receiving the waivers, as of December 31, 2009 and as of the date of the report, all of TBIF's subsidiaries are in compliance with all the covenants regarding the loans they have taken.(based on the financial statements of each of TBIF's subsidiaries as of December 31, 2009).

9.13.3 <u>TBIH</u>

[A] As part of the shareholders' loans extended to TBIH by VIG from 2007 and up to 2009 (inclusive), at a total amount of approximately EUR 205 million, for financing the acquisition of new companies or further investment in existing subsidiaries, TBIH's holdings and rights in various subsidiaries were put under lien to the benefit of VIG, as follows: all of TBIH's holdings in Sigma, Ray Sigorta and Omniasig Life; 20% of TBIH's holdings in Bulstrad; and all rights related to the loan and option agreement executed between TBIH and KFS in connection with financing the acquisition of RIC. As of the date of the report, TBIH's holdings and rights in Ray Sigorta (74.2%) and UIG (62%), are pledged. As part of the transaction for the sale of the insurance companies, as set forth in Section 9.6.2[G] of this part, TBIH and VIG agreed that a sum of EUR 100 million out of the proceeds from the sale of the insurance companies would be utilized towards repayment of a portion of the shareholder loan provided by VIG. The remaining loans bear an interest of average Euribor rate plus 3.5%, to be paid every half year as of the fourth quarter of 2009. The loans will be repaid between 2010 and 2014. In accordance with the shareholders agreement between KFS and VIG, KFS has not extended shareholders' loans to TBIH. As of December 31 2009 and the date of the report, and after payment of the aforementioned amount of EUR 100 million within the transaction of the sale of the insurance companies, as set forth in Section 9.6.2[G] of this part, the remainder of the loans amounted to approximately EUR 117 million and EUR 137 million, respectively.

[C] Hereunder is a table specifying the composition of TBIH's loan balance as of December 31, 2009 (in millions of euros):

	Loans balance as at December 31, December 2009	**Average Interest Rates for 2009**	**Effective Interest Rates for 2009**
Long term loans			
Other	116.7	4.9%	5.62%
Total loans	**116.7**		

[D] Hereunder is a table of credit balances at variable interest rates (in millions of euros)

Variable Mechanism	**2009**		**Near the publication of the report**	
	Interest range in %	**Total Credit as of December 31**	**Interest range in %**	**Total Credit**
Euribor	Euribor + 3.5	116.7	Euribor + 3.5	117.5

9.14 Taxation

Each of the KFS Group companies is taxed according to the local tax laws of the country in which it operates. The Netherlands's tax laws, by the power of various treaties, apply to KFS, TBIF and TBIH, which are Dutch holding companies. For details about Dutch tax law and applicable treaties, see Section 16.1 of this part.

Hereunder are the companies' tax rates applicable in the countries of activity:

	Companies Tax Rate
Bulgaria	10%
Romania	16%
Croatia	20%
Georgia	25%
Russia	24%
Ukraine	25%[321]
Turkey	20%

KFS has tax assessments that are closed until 2005. KFS's accumulated loss for tax purposes, which has not yet been used, as of December 31, 2009, is a total of approximately EUR 74.8 million. KFS's tax credit that has not yet been used, as of December 31, 2009, is a total of approximately EUR 19.1 million.

[321] The corporate tax imposed on the activity in Ukraine (apart from the insurance activity). For the insurance activity, the tax is calculated as a function of the premiums and not as a percentage of the profit, and the tax rate in the said case is 3%.

TBIF has tax assessments that are closed until 2004. TBIF's accumulated loss for tax purposes, which has not yet been used, as of December 31, 2009, is a total of approximately EUR 8.1 million. TBIF's tax credit that has not yet been used, as of December 31, 2009, is a total of approximately EUR 2.1_ million

TBIH has tax assessments that are closed until 2005. TBIH's accumulated loss for tax purposes, which has not yet been used, as of December 31, 2009 is a total of approximately EUR 12.1 million. TBIH's tax credit that has not yet been used, as of December 31, 2009, is a total of approximately EUR 3.1_ million

The tax rates of part of the KFS Group subsidiaries differ from the statutory rate. This difference stems mainly from the differences between the assessment basis for tax requirements and the assessment basis for financial statements.

9.15 Insurance

The retail credit activity in Romania and Bulgaria is secured with credit insurance.

The insurance activity is partially secured with reinsurance. For further details, see Section 9.11.2[G] of this part.

9.16 Material Agreements

9.16.1 KFS

[A] TBIH shareholder agreement – in April 2007, upon completion of the Reorganization transaction, the TBIH shareholder agreement between KFS and VIG went into effect. In December 2008, the shareholder agreement was amended (in this Section, the "**Amendment**") concurrently with TBIH's and VIG's execution of an agreement for the sale of the insurance companies (for details, see Section 9.6.3[F] of this part). The agreement sets forth the composition of the management board and the supervising board of directors, as well as accepted share transfer arrangements. Pursuant to the agreement (including the Amendment), KFS received joint control of TBIH, along with VIG, until 2010 or until two years after acquisitions of and/or investments in new businesses by TBIH, at a total of EUR 428 million, through funding provided or organized by VIG – whichever is earlier.[322] In December 2009, the shareholders agreement was amended so that the joint control right of KFS of TBIH will expire upon receiving the required regulatory approvals (amongst others, approval of the Antitrust Authorities). As of the date of the report, the required approvals have not yet been received in Bulgaria and Turkey.

It was further determined that VIG would have Industrial leadership in the insurance segment, and shall appoint the chairman of the board and/or the

[322] Prior to the Amendment, this amount was EUR 275 million.

supervising board of directors in TBIH’s insurance subsidiaries, but the chairman will not have a decisive vote. In addition, KFS was given a Put option to sell its shares to VIG after April 5th, 2011 (including shares purchased by KFS in the allocation after signing the agreement) or a portion thereof, from time to time, provided that shares of TBIH are not registered for trading up to such time. The realization price will be the fair value of the shares (which, in the absence of any agreement, will be determined by an external evaluator). However, if the following conditions exist, the realization price will be the price derived from TBIH’s value in the Reorganization transaction(see Section 9.5.1[A] of this part), less the amounts TBIH pays its shareholders as a dividend, if at all, with an annual interest in a Libor rate with 2%. And these are the conditions: (A) the realization notice is provided no later than December 31, 2011; (B) the realization notice pertains to all of KFS's shares in TBIH; and (C) TBIH had not acquired new businesses in an investment of at least EUR 428 million.

In addition, the agreement provided that TBIH and VIG would integrate their insurance activity in Bulgaria and Croatia. In accordance with such agreement, in May 2008, a transaction in shares of the insurance companies that were active in Croatia was performed, as set forth in Section 9.6.2[F] of this part. With respect to the transaction in the shares of the insurance company in Bulgaria, an outline for the transaction between TBIH and VIG was agreed in May 2008, pursuant to which TBIH was to sell VIG 10.3% of its holdings in the Bulgarian holding company, TBI Bulgaria AD, which is wholly held by TBIH, and which holds approximately 97% of the Bulstrad insurance company and approximately 92% of the Doverie pension fund management company. Concurrently, VIG was to have sold Bulstrad its entire holdings in the Bulgarian insurance companies, Imoti and Imoti Life (99.88% and 99.96%, respectively). As set forth in Section 9.6.2[G] of this part, in December 2008, TBIH executed an agreement for the sale of its entire holdings in Bulstrad to VIG. Upon consummation of the sale, TBIH is not be a party to the above transaction outline.

[B] For the KFS Reorganization agreement which also includes options for minority shareholders valid at the date of the report – see Section 9.5.1[A] of this part.

[C] KFS shareholder agreement – in April 2007, as part of the KFS Reorganization transaction, the KFS shareholders signed a shareholder agreement, which replaced a renewed agreement from April 2006 between Kardan NV, VIG and the minority shareholders, which was cancelled after completion of the Reorganization transaction. Within the new agreement, the shareholders granted each other, inter alia:

A first right of refusal for KFS shares, as well as the right to join KFS share sales. In the event that the majority shareholder receives an offer to sell 100% of the KFS share capital, the minority shareholders have undertaken to join the sale, as long as the selling price is at least equal to KFS's value in the Reorganization transaction, with interest.

[D] KFS's agreement with the management company wholly owned by the TBIF CEO – see Section 9.12.5 [B] of this part.

[E] The agreement for the issuance of KFS shares to Discount Bank and the agreement for the acquisition of Discount Bank's holdings in KFS – for details see Section 9.5.1[B] of this part.

9.16.2 TBIF

[A] Agreement with the management company under complete ownership of TBIF's CEO – see Section 9.12.6[B] of this part.

[B] Shareholder loan agreements with KFS – see Section 9.5.2[A] of this part.

9.16.3 TBIH

Shareholder loan agreement with VIG – see Section 9.13.3[B] of this part.

9.17 Business Objectives and Strategy

KFS's strategy is to generate value for shareholders through activity in the financial sector of selected Central-Eastern European countries . KFS wishes to act as a leading financial services supplier in the countries in which it is active, and focuses on reaching significant growth in the medium-long run.

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

[1] Early penetration in countries that the KFS Group has identified as having significant business potential. The early identification is essential for achieving the "Land Grab" effect, and enables occupying a leading position in markets. There is great importance in entering these markets in the initial development stages because of the ability to obtain significant market shares in the stages in which the competition is relatively limited, through creating strong brands and establishing a broad array of branches.

[2] Development and expansion of the KFS Group's activity in the Retail Banking and Credit Segment and in the Insurance and Pension Segment in the target countries, while adapting the activity to the specific market, both through expanding the activities of the KFS Group companies and through establishing and acquiring new companies in countries where the KFS Group is active.

[3] Establishing new ventures in the segments of activity or acquiring controlling shares in existing companies and taking an active part in their management, along with partnership with international and local

bodies (banks, professional unions, funds, investment companies and local business people). The KFS Group has adopted, in certain cases of its activity in Russia and Ukraine, a model of business partnership based on joint control with local bodies. In such cases, the KFS Group is punctilious regarding shareholders agreements that define their rights in the joint management of the company which is the subject of the partnership as well as in share transactions in each of the aforementioned companies.

[4] Management by local professionals from Central-Eastern Europe: management, employees and suppliers. Management will be performed with coordination, supervision and super-management of the KFS, TBIH and TBIF headquarters, situated in the Netherlands.

[5] In the TBIH and TBIF headquarters, management is carried out both according to countries (a separate supervising manager for each country), and according to different segments of activity.

[6] Establishing an extensive marketing system in each target country: branches, points of sale and agents.

[7] Creating strong brands in the active countries. The KFS Group's entrance into markets in primary development stages creates a situation in which the local KFS Group brand is familiar, often even more than international brands, especially in cases of acquisition of veteran local companies with familiar brands, or companies with international brands.

[8] Attaining sources of finance and substantial financial resources for the continuation of the Group's investment activity and for supporting the continuing growth of the subsidiaries' scope of activity.

[9] Assimilation of Western quality management tools and technology in the KFS Group's companies.

The above principles remain intact under the shadow of the global economic crisis, which is also felt in countries in which the KFS Group operates, and they continue to guide the KFS Group in the medium and long-term. In the short term, and due to the global economic crisis and the effects thereof, the KFS Group continuously follows developments in the economic crisis in the markets and adapts its activity in accordance with changes, and also implements streamlining measures, by way of halting expansion of, and occasionally reducing, its segments of activity in order to adapt the activities of the KFS Group to the deceleration in the market and surviving the crisis, on the one hand, and preserving strategic assets (including branches, manpower, brands and clients) and liquidity, on the other hand.

9.18 Development Forecast for the Coming Year

9.18.1 KFS

During 2010 KFS intends to continue supporting TBIF's existing activity, by making financial sources available to it, with the aid and financing of Kardan NV as will be possible .

9.18.2 TBIF

TBIF focuses on Retail Banking and Credit activity in four countries: Ukraine, Russia, Romania and Bulgaria. The year 2010 is expected to be devoted towards focusing on existing business activity and adapting the scope of such activity to the economic situation and the variable market conditions in the said countries, which is likely to result in a decrease in the value of TBIF's credit portfolio, in some of the countries, reduce the number of branches through which TBIF operates, including reduced manpower strength, and may even harm its profitability and cause it to continue in the red. In addition, following the global economic crisis, TBIF has adopted a more stringent credit policy, out of a desire to maintain a higher level of liquidity and underwriting. This policy is being examined on an ongoing basis, in accordance with the financing sources at the disposal of TBIF and its affiliates and in accordance with the macroeconomic conditions in the countries in which TBIF operates.

The estimate regarding the forecast of decrease in the value of TBIF’s credit portfolio in said countries, the reduction of the number of branches through which TBIF operates, including reduced manpower strength, and even the harm to its profitability including causing it to move into the red, is forward looking information, as defined in the Securities Law, and is based on TBIF’s management assessments regarding the markets in which TBIF is active, and its own activity. This assessment might not be realized, in full or in part, or might be realized differently, including materially different, than is expected, as a result of changes in the macro economic situation, including as a result of the direct and/or indirect implications of the global economic crisis on the economy of the countries in which TBIF operates and the competition in the countries in which TBIF operates and/or the realization of all or part of the risk factors detailed in Section 9.19 of this part.

9.18.3 TBIH

TBIH plans to work toward continuing activity growth in the Insurance and Pension Segment through its existing subsidiaries. However, the scope of its activity in the year ahead will depend on macroeconomic developments in the markets in which it operates. TBIH will examine acquisitions that will contribute to expanding its holdings in the companies that it holds.

9.19 Risk Factors

The KFS Group's activity is characterized by the following risk factors:

Macro risks

9.19.1 The global economic crisis – During 2008, there was significant deterioration of the Global financial markets, which continued into the beginning of 2009, and caused a genuine global economic crisis. As of the date of the report, it is unclear whether the direct economic implications of the said crisis have been exhausted, but the estimates are that the peak of the global economic crisis has passed. For further details about the global economic crisis, see Section 6 of this part. For the implications of the global economic crisis on the activity of the KFS Group in 2009 and until the publication of the report, see Section 9.9 of this part. The crisis in the financial markets may have a negative effect on the TBIF Group's banking operations in Russia and Ukraine and on financing activity in Bulgaria and Romania that would be expressed in difficulties to pay or refinance liabilities. Stability of the banking activity's deposit base significantly depends on the stability of the markets and, in the present circumstances, there is increasing risk of deposit withdrawals which may jeopardize the liquidity position of the banks. Maintaining the scope of the deposit base may be manifested in an increase of the interest rates on said deposits, which will increase the financing expenses of the banks. The said developments are liable to have a negative effect on the TBIF Group's financial results. In addition, an increase in the unemployment rates and a drop in the purchasing power of the currency are liable to affect the quality of the credit portfolios, the financial results, the insurance companies' revenues from premiums and the pension funds' revenues from management fees and from profits on their investments.

9.19.2 The economic situation in the markets of Central-Eastern Europe, the countries of the former Soviet Union and Turkey – KFS's business strategy is based on its estimations regarding market trends and economic trends in Central-Eastern European countries, countries of the former Soviet Union and Turkey. Economic conditions in developing markets where KFS is active are difficult to forecast and are prone to fluctuations. The success and growth of KFS businesses depends on the continuance of economic growth in the countries and market where it is active. Economic deceleration in these countries might have a negative effect on KFS's results and on its chances of business expansion.

9.19.3 Investments in developing markets – the KFS Group operates in developing markets that are unstable and therefore it is exposed to risks stemming from operations in developing countries, including political and military risks. Political and security instability in countries where the KFS Group operates is liable to affect the markets in these countries, and, in consequence, to negatively impact KFS's activity and results.

Industry Risks - KFS

9.19.4 The regulatory environment of the banking, insurance, pension fund management and financial services in Central-Eastern Europe, countries of the former Soviet Union and Turkey is not as developed as is customary in Western countries – the banking, insurance, pension fund management and other financial industries are subject to legislation that is not yet developed at the level customary in western countries. In markets in Central-Eastern Europe, the countries of former Soviet Union and Turkey, the regulatory authorities and the courts are inexperienced, relatively to the west, in the application of regulations, and there is uncertainty as to their interpretation. In addition, there is much uncertainty regarding fines and punishments which the regulation authorities may enforce under these circumstances.

9.19.5 Approvals and licenses – Banking, insurance, pension fund management and other financial activity industries are subject to legislation and require approvals and licenses from various regulatory authorities. There is uncertainty as to the KFS Group’s ability to obtain and/or maintain such licenses and/or approvals required for its future activity. Applying for a new license and/or approval is a lengthy process. The relevant regulatory authorities may, at their discretion, impose additional requirements or deny any request for licenses and/or approvals. Failure to comply with the requirements for maintaining licenses and/or approvals, a breach of a term from the terms of a license and/or approval or failure to obtain approvals in the future, could affect the KFS Group's business and result in the KFS Group being unable to carry out its activities, in full or in part, and incurring penalties or fines.

9.19.6 Dependence on external financing and an increase in financing costs – Banks and credit companies are dependent on external financing sources in order to exist and develop. Difficulties in obtaining external financing will negatively impact the results of the banks and financing companies in the KFS Group, as well as their development. In addition, increasing financing costs may affect the ability of the KFS Group businesses to grow at the desired speed, which may negatively affect the KFS Group's financial results. The KFS Group has invested significant sums over the last years in establishing extensive sales networks in the countries of its operations. Lack of financing or increased cost of financing may affect the ability of the KFS Group to make use of its advantages in the sales networks it has established. Because the KFS Group operates in rapidly developing markets, inability to show growth of activity means loss of market share, in full or in part. For interest risks in the Retail Banking and Credit Segment, see Section 9.19.12 of this part.

9.19.7 Operational risks – the KFS Group works extensively in different segments, exposing it to operational risks such as risk of loss as a result of defective data processing methods, deficient coverage of reinsurers, human error, fraud and lack of proper control and inspection procedures. As part of the errors relating to the loan distribution segment, one might name the error of distributing loans to an entity or person which intends to deceive the company and refrain from paying its debt or is unable to repay its debt. As part of unique insurance operational errors, one might name errors which might occur in the process of adjusting reinsurance coverage to the coverage given to the insured. In addition, actuary errors have considerable implications on the suitability of the tariff and the insurance reserves. The KFS Group has several means for dealing with these risks, including a procedure and supervision system, intended to minimize the exposure to these risks as much as possible.

Industry Risks – The Retail Banking and Credit Segment

9.19.8 Competition – many of TBIF's competitors are connected to large international bodies and have much greater financial and technical resources than those of TBIF's subsidiaries, and can therefore devote more resources to development, promotion and product sales.

9.19.9 Credit risk – The credit portfolio is a material component of TBIF's statement of financial position, and, therefore, a worsening in borrower quality, borrowers' repayment ability or borrowers' ability to meet their liabilities may adversely affect the quality of the credit portfolio and TBIF. Furthermore, as the markets in which TBIF operates may swiftly change, TBIF is required to respond swiftly in adapting credit policies, and underwriting agreements executed by TBIF prior to such changes may fail to provide full protection due to the changes in credit payment ability.

9.19.10 Risk due to quality of securities – a worsening in the value of the securities provided for the credit may adversely affect the likelihood of collecting the credit. In markets with an economic deceleration, the value of the securities tends to erode and realization, if necessary, may be at a lower value, which may affect the TBIF Group's business, financial condition and financial results.

9.19.11 The absence of a central and accurate data base with respect to credit risks – accurate upfront and immediate examinations of credit risks for loans provided by the TBIF Group are difficult to make due to the lack of a central and accurate data base with respect to credit risks in the markets in which the TBIF Group operates. In general, applicants for credit from the TBIF Group do not have a clear credit history and, therefore, even though the TBIF Group undertakes scoring techniques and checks the creditworthiness of applicants, such checks do not always present a complete and accurate picture of the applicant's financial condition. In addition, the TBIF Group is often unable to independently confirm information provided by credit applicants regarding the total credit extended to the applicants by other entities, which may extend the clients' credit line beyond their ability. This could lead to credit risks and affect the businesses, financial condition and financial results of the TBIF Group.

9.19.12 Interest Risk – the results of the TBIF Group's activity may be affected by changes in interest rates and their possible influence on the asset values and liabilities of the TBIF Group.

9.19.13 Liquidity Risk – the results of TBIF's activity are exposed to a risk which may originate from the TBIF Group's or its subsidiaries' lack of ability to provide liquidity needs, in light of the existing uncertainty as to the availability and cost of sources and in light of the risk whereby TBIF's clients will withdraw their deposits at unexpected times and in unexpected amounts. TBIF is endeavoring to minimize this risk by providing loans and recruiting sources of capital linked to the same interest calculating mechanism.

9.19.14 Exchange Rate Risk – Fluctuations in the exchange rates of the various currencies used by TBIF in conducting its business may affect its business results and the erosion of its assets and equity, due to exchange rate fluctuations as a result of the difference between asset currency and liability currency.

9.19.15 Inflation Risk – Erosion of purchasing power of bank clients or retail credit companies may adversely affect the debt repayment ability of such clients.

9.19.16 Dependency on business relationships - The TBIF Group is dependent upon a number of its relationships with consumer retail outlets and car dealerships. Deterioration in these relationships is liable to adversely affect the businesses, financial condition and financial results of the TBIF Group. In its retail credit and leasing businesses, the TBIF Group's relative advantages are its ability to provide fast and simple credit, including granting credit approval at the points of sale. This service enables the TBIF Group to compete with other lenders who may offer lower interest rates than those offered by the TBIF Group. To provide this level of service, the TBIF Group relies upon its aforementioned relationships and the point of sale coverage. Whereas in the past, due to these relationships, the TBIF Group was the exclusive provider of credit for private clients at a number of points of sale, at present consumer retail outlets and car dealerships are generally no longer willing to grant retail credit service exclusivity to any single credit provider in the center. As aforementioned, deterioration in the aforementioned business relationships is liable to adversely affect the businesses, financial condition and financial results of the TBIF Group.

9.19.17 Results of the investments of TBIF's subsidiaries – TBIF's operational results are based on the results of the investments of TBIF's subsidiaries operating in the banking and asset management segment, which invest funds in financial assets in accordance with local regulatory restrictions in each of the countries in which TBIF operates. Fluctuations and decreases in the value of the said financial assets may affect the business, financial condition and financial results of the TBIF Group.

Industry Risks – Insurance and Pension Segment

9.19.18 External Factors' Effects on Frequency and Severity of Insurance Claims – external factors might affect the severity of claims, and as a result, the profitability of TBIH's insurance business. For example:

Weather changes, especially large natural disasters, might significantly decrease the number of insurance claims and also affect the reinsurers and the costs of reinsurance.

A rise in the crime rate might increase the number of insurance claims.

Inflation outbreaks or depreciation of the local currency might increase the cost of claims.

International economic deceleration, similarly to the current crisis in the global economy, or local economic deceleration, may cause many claims in industries which are sensitive to economic conditions.

It is to be noted that policy pricing is performed based on past experience and future forecasts, and is unpredictable due to the character of the activity.

9.19.19 Insurance Risks – incorrect pricing and actuary of the products' tariff as well as of the insurance reserves, might have a negative effect on the policies' profitability and on TBIH's business results. For further details see note 49e of the financial statements.

9.19.20 Success in the life insurance and pension markets is dependent inter alia, upon an increase in the residents' disposable income in the markets in which TBIH operates – the life insurance and pension products market in Central-Eastern Europe and the countries of the former Soviet Union can grow only if the disposable income of these markets' residents grows significantly. This might take a long time, and therefore TBIH might have to wait much longer than planned until its life insurance investments bear fruit.

The key to financial success in the pension market following suitable legislation in the voluntary and mandatory pension segments, is achieving a critical number of pension fund members (see Section 9.19.23 of this part) and a growth in the market's salary. An investment in a pension fund in a country where the salary will not grow through time, or where TBIH will not be able to achieve a critical number of pension fund members, might be lost.

9.19.21 Reinsurance recoverables may be lower than estimated – there is uncertainty involved in estimating the availability of reinsurance and the collectability of reinsurance recoverables. This uncertainty arises from a number of factors, including qualifying conditions for a reinsurance event (for example, whether losses meet the qualifying conditions of the reinsurance contracts) and the degree of the reinsurers' financial capacity and willingness to pay. Therefore the financial condition and strength of the reinsurer may affect the business results of the TBIH Group. Furthermore, the reinsurance cannot dismiss the first insurer from the responsibility to pay the insurance payments under the policies. TBIH insurance companies acquire their reinsurance in the international markets. The changes of the risks pricing and the reinsurance prices in the market may affect the profitability of these companies.

9.19.22 Insurance losses might be higher than TBIH's insurance reserves – this is a built-in risk in the insurance business, originating from the creation of insurance reserves, especially in industries with long-term futures, i.e. in cases when the claim can be submitted long after the policy has ended. Insurance reserves are calculated on the basis of the companies' estimations, which might later be discovered as erroneous. In this case, the reserves might be lower than the companies' actual loss.

9.19.23 Achieving a significant number of pension fund members in the pension market in periods in which a reform takes place – one of the pension funds' most significant success factors is reaching a significant number of members in the period of the mandatory reform. In this limited period (usually several months), employees of a certain age range which constitute the young work force, are obligated to choose a pension fund. If at the time of reform the pension fund does not have a significant number of members, local regulatory bodies may not authorize its activity, or there might not be economic rentability in operating a small fund. In this case there might be a need to sell the members to a different fund, and there is a risk of the investment not being fully returned.

9.19.24 TBIH's subsidiaries' investment results – TBIH's business results partly depend on the results of the investments of the subsidiaries engaging in the pension and insurance segment, which invest in financial assets .

Unique Risks

9.19.25 Capital raising - Insufficient access to capital sources may threaten the KFS Group's capacity to expand the scope of its activity in the future, harms its ability to execute its business model and its ability to meet certain increasing regulatory requirements pertaining to capital and threshold liquidity. The inability to meet regulatory requirements may adversely affect KFS' business results. Capital raising needs are determined by the aim to maintain the leverage ratios and the minimal capital requirements. Furthermore, the KFS Group will require large capital injections to finance the expansion of its future activity. Inability to raise such additional capital may jeopardize further growth of the KFS Group's operations. Thus the capacity to execute the KFS Group's activity and to reach its targets may be at risk if growth rates are lower than planned and financial results are negatively affected.

9.19.26 Exposure to Ukraine – due to the economic and political situation in Ukraine and TBIF's scope of investments in this country, TBIF has a unique exposure risk originating in this country. The banking activity in Ukraine is liable to risks that are related to the macro economic situation of Ukraine, risks which KFS cannot control, including risks originating in the continuing wear of the local currency and the continuing trend of withdrawal of bank deposits by the public, a trend which started in 2008 following the global economic crisis. That being said, it should be noted that as of the fourth quarter of 2009, withdrawal of deposits from the banks has stabilized and there has in fact been a certain increase of new deposits which continues into the first quarter of 2010., TBIF's ability to deal with the crisis in Ukraine depends, inter alia, on the ability and willingness of the Central Bank of Ukraine, international bodies and the International Monetary Fund to support the financial markets in Ukraine (see also Sections 9.9 and 9.10.2[A] of this part).

The following are KFS, TBIF and TBIH's estimations regarding the type and degree of the aforementioned risk factors on their businesses:

Section Number in This Part	**Risk Factor**	**Degree of Effect of Risk Factor**		
	Macro Risks	Major effect	Moderate effect	Minor effect
9.19.1	The global economic crisis	X		
9.19.2	The economic situation in the markets of Central-Eastern Europe, countries of the former Soviet Union and Turkey	X		
9.19.3	Investments in developing markets	X		
	Industry Risks			
9.19.4	The regulatory banking, insurance, pension fund management and financial services environment in Central-Eastern Europe, countries of the former Soviet Union and Turkey is not as developed as is customary in Western countries		X	
9.19.5	Approvals and licenses..		X	
9.19.6	Dependence on external financing and an increase in financing costs		X	
9.19.7	Operational Risks	X		
	Retail Banking and Credit Segment			
9.19.8	Competition	X		
9.19.9	Credit risk	X		
9.19.10	Risk due to quality of securities	X		
9.19.11	The absence of a central and accurate data base with respect to credit risks		X	
9.19.12	Interest risk	X		
9.19.13	Liquidity risk	X		
9.19.14	Exchange rate risk	X		
9.19.15	Inflation risk	X		
9.19.16	Dependency on business relationships		X	
9.19.17	Results of TBIF's subsidiaries' investments	X		
	Insurance and Pension Segment			
9.19.18	External factors' effects on frequency and		X	

	severity of insurance claim			
9.19.19	Insurance Risks		X	
9.19.20	Success in the life insurance market depends,, inter alia, on a raise in the residents' disposable income in the markets in which TBIH operates		X	
9.19.21	Reinsurance recoverables may be lower than estimated		X	
9.19.22	Insurance losses might be higher than TBIH's insurance reserves		X	
9.19.23	Success in the pension market depends, inter alia, on achieving a significant number of pension fund members during the period of the reform		X	
9.19.24	The results of the investments of the subsidiaries of TBIH		X	
	Unique Risks			
9.19.25	Capital raising	X		
9.19.26	Exposure to Ukraine	X		

KFS operates a financial risk management system, alongside a procedure and supervision system, in order to minimize or prevent as much as possible the exposure or the affect of the aforementioned factors on the activity. For further details see Note 49 of the financial statements.

10. Description of the Infrastructure Business –The Segments of Project Activity and Investment in Assets

10.1 General

Kardan NV operates in the infrastructure sector through Tahal International, a wholly owned subsidiary of Kardan NV, which was incorporated in the Netherlands in December 2007, and which is a holding company that wholly owns two subsidiaries, the Tahal Group and Tahal Assets. The consolidation of operations under Tahal International is carried out as part of the reorganization process in the infrastructures division, which commenced in 2007 and was completed in the course of 2008, as specified in section 10.4.1 of this part.

The Tahal Group (Tahal International, Tahal Group, Tahal Assets and subsidiaries and related companies) is a leading international engineering group, which specializes in water-related infrastructure projects. The operations in the infrastructures domain are divided into two areas of activity which are presented as business segments in the financial statements of Kardan NV – the Infrastructure – Project Activity segment and the Infrastructure – Investment in Assets segment. The operations in each one of the said domains are performed as follows:

The project activity segment – the activity is carried out through the Tahal Group, which is a wholly-owned subsidiary of Tahal International. The Tahal Group holds 100% of the issued capital of Tahal Consultant Engineers (hereinafter "**Tami**") which holds 99.9% of the issued capital of Israel Water Planning Ltd. (hereinafter "**Tahal**"). The Tahal Group, through related companies and subsidiaries, is engaged in the provision of engineering planning and water supervision services – waste water, water treatment, and landfills; energy; gas and agriculture, and also deals in the performance and establishment of projects in the fields of water resources and water supply, irrigation, desalination, waste water treatment and purification, environmental engineering, civil engineering, water supply, sewage systems, agriculture and geographical data systems and in the field of solid waste; the majority of which are water-related services. For a description of the business in the project activity segment, see section 10.9 of this part.

The Tahal Group is a private company, incorporated in the Netherlands in 1992.

Tahal is a private company incorporated in Israel in 1952. Until 1996 Tahal was owned by the state. In 1996, as part of a privatization by way of tender, Tahal was acquired by several private bodies, including Kardan Israel. Over the years, Kardan Israel has gradually increased its holdings in Tahal, acquiring the shares of the other shareholders and in April 2001 the acquisition was completed and 99.9% of Tahal's issued capital was held by Kardan NV. In light of the expansion of Tahal's overseas operations, Kardan Israel transferred its holdings in Tahal to the Tahal Group in March 2005.

The Investment in Assets Segment – the activity is carried out through Tahal Assets, a subsidiary fully owned by Tahal International. Tahal Assets is a holdings company investing in corporation which own income-yielding assets or initiating on its own infrastructure projects such as desalination facilities, municipal waterworks operational franchises, hydroelectric power plants, municipal authorities water and tax collection, and waterworks and sewage infrastructure maintenance. Tahal Assets is wholly owned by Tahal International. Tahal Assets is a private company incorporated in the Netherlands in December 2007. The business of investment in assets of Tahal Assets in Israel is coordinated under one company, wholly owned by Tahal Assets – Tahal Assets Israel Ltd. ("**Tahal Assets Israel**"). For a description of the business in the segment of investment in assets see section 10.10 of this part.

The activities in both segments are mainly performed in the countries in Eastern Europe, Asia, and Africa.

Kardan NV consolidates the financial statements of Tahal International, Tahal Group, and Tahal Assets.

10.2. Details of Holdings

10.2.1. Following are details on the holdings in Tahal International:

Holdings rate (in percentage)	**The investment in Kardan NV's books (in euro millions)**	**The percentage that constitutes the sum of the investment in Tahal International out of the total equity attributable to the equity holders of Kardan NV**	**Contribution to the net profit attributable to the equity owners of Kardan NV (in euro millions)**
100%	107*	36.5%	(1.3)

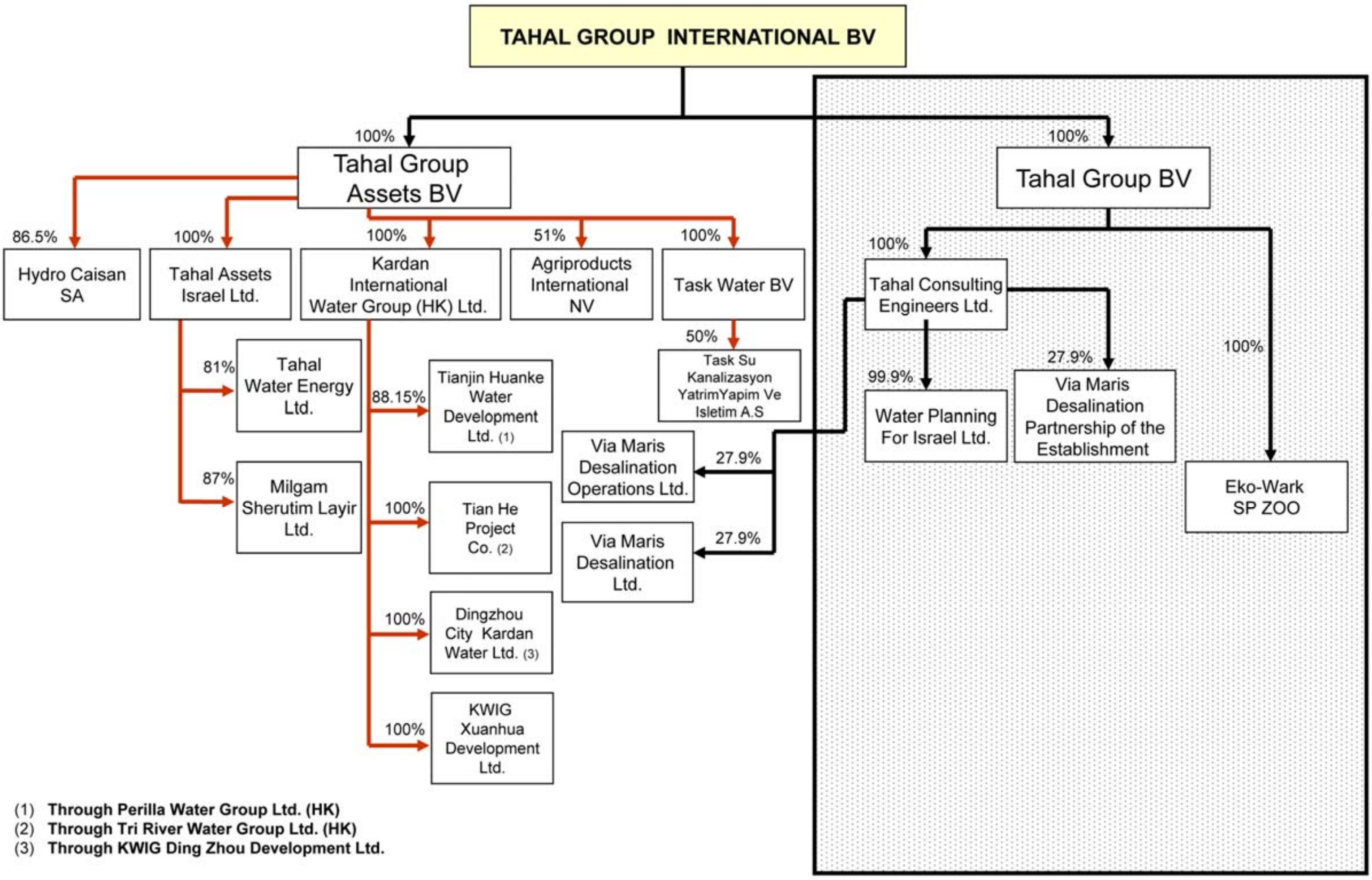
* Including shareholder loans in the sum of EUR 89 million.

10.2.2. Below are figures from the financial statements of Tahal International, Tahal Group and Tahal Assets as of December 31, 2009 (in euro millions):

Company	Revenues			Net profit attributable to the equity holders of the affiliate			Equity attributable to the equity holders of the affiliate		Total assets		Accounting reference in Kardan NV's books
	2009	2008	2007	2009	2008	2007	As of December 31, 2009	As of December 31, 2008	As of December 31, 2009	As of December 31, 2008	
Tahal International	152.3	124.5	73.9	2.0	(19.9)	(7.0)	21.8	7.2	271.1	237.9	Consolidated
Tahal Group	100.5	81.5	65.3	3.2	(4.2)	1.0	15.5	12.7	111.9	98.8	Consolidated
Tahal Assets	51.9	43.0	8.6	(0.4)	(12.6)	(8.0)	12.9	10.8	128.9	119.7	Consolidated

10.3 Chart of Holdings

Following is a chart of the main holdings of the Tahal Group in material subsidiaries and related companies as of the date of the report**:**



(1) **Through Perilla Water Group Ltd. (HK)**
(2) **Through Tri River Water Group Ltd. (HK)**
(3) **Through KWIG Ding Zhou Development Ltd.**

10.4 Structural Changes and Material Acquisitions

10.4.1 Until 2007, the Tahal Group[323] was primarily engaged in planning projects (the traditional business of Tahal Group) and execution projects. During 2007 the group commenced significant investments in the field of infrastructure, which created the need to reorganize the group.

During the fourth quarter of 2007, the Tahal Group commenced a reorganization process, which was completed during 2008 As part of the reorganization, the Tahal International was established and the Tahal Group's business was divided into two operating segments: (1) Project Activity – planning, execution, and establishment of infrastructure projects, executed by the Tahal Group, through subsidiaries and related companies (herein after **"the Project Companies", "the Tahal Group"**); and (2) Investment in Assets –investments in income-yielding assets in the field of infrastructure such as desalination facilities and their operation, acquiring municipal waterworks operational franchises, hydroelectric power plants, municipal authorities water and tax collection, and waterworks and sewage infrastructure maintenance, performed by Tahal Assets through its subsidiaries and related companies (the "**Asset Companies**") (the "**Tahal Assets Group**").

For the purpose of separating these two operating segments as aforesaid, during 2008 the Tahal Group transferred the holdings in the project companies, such that these were concentrated under Tahal Group, whereas the material holdings in companies which own income-yielding assets in the segment of investment in assets were transferred, such that they were concentrated under Tahal Assets.[324] Furthermore, during 2008, the holdings in Tahal Group and in Tahal Assets were transferred from Kardan NV and Tahal Group, respectively, to Tahal International, such that, as of the date of the report, Tahal International is wholly owned by Kardan NV, and the Tahal Group and Tahal Assets are wholly owned by Tahal International. For details regarding transfer of Tahal Group and Tahal Assets shares as part of the reorganization, see Section 10.5.1 of this part.

10.4.2. Material acquisitions in the project activity segment

In February 2007, an agreement for investment in stages was signed between Ekowark Sp. ZOO (hereinafter "**Ekowark**"), a company registered in Poland, and the Tahal Group. Ekowark operates in northwest Poland and in engaged in

323 Until 2007 the Tahal Group included Tahal Group and its subsidiaries and related companies. As stated above, Tahal International was incorporated in December 2007.

324 With the exception of the holdings in Via Maris Desalination Ltd., which is essentially an asset company, but which remained in the Tahal Group, as set forth in Section 10.10.2[f] of this part.

contractings work involving infrastructure (such as water and sewers). The investment in Ekowark was made in the framework of the Tahal Group's strategy to enter additional countries in Central-Eastern Europe as well as expanding the range of services the Tahal Group provides in the project activity segment. In the first phase of investment, the Tahal Group was allocated 33% of Ekowark's issued capital in return to a sum of about Euro 1.6 million. The agreement established a plan for the acquisition in stages, of the shares of Ekowark, which are held by the other shareholders with the intention that at the end of the process, Tahal Group will hold 100% of the issued shares of Ekowark. The said acquisition plan, which was implemented as detailed below, is based on the provision of loans by Tahal Group to Ekowark for the purpose of acquiring shares from the other shareholders, and the subsequent allocation of the acquired shares, in exchange for their par value, to Tahal Group. In accordance with the said acquisition outline, Ekowark acquired 39% of its issued capital and allocated it to the Tahal Group, so that after the allocation the Tahal Group held approximately 72% of Ekowark’s issued capital. For the acquisition of the said shares, the Tahal Group granted loans to Ekowark in the total sum of approximately Euro 2.1 million. In February, 2010 the Tahal Group granted Ekowark the loan in accordance with the acquisition outline in the sum of approximately Euros 1.1 million, which was used by Ekowark to buy back the balance of the issued capital from the other shareholders (28%). After acquiring the said shares, Ekowark reduced its issued capital accordingly, so that with the completion of the process and as of the date of the report, the Tahal Group holds 100% of Ekowark's issued capital. All said shareholder loans are expected to be paid off over the next five years according to the terms to be determined in the negotiations.

10.5. <u>Investments in the Equity and Transactions in Shares</u>

10.5.1 <u>Transfer of shares pursuant to the reorganization plan</u>

As part of the reorganization, in August 2008, all the shares of the Tahal Group were transferred from Kardan NV to Tahal International. In addition, all of Kardan NV's rights and obligations in the Tahal Group were assigned to Tahal International. Concurrently, the shares of the companies operating in the project activity segment were transferred to the Tahal Group, as set forth in Section 10.4.1 of this part.

As part of the reorganization, in August 2008, all of the shares of Tahal Assets were transferred from the Tahal Group to Tahal International, by way of distribution of a dividend in kind. Also, all of the obligation and rights of Tahal Group in Tahal Assets were assigned to Tahal International. At the same time, the shares of the companies active in the segment of investment in assets were transferred to Tahal Assets (with the exception of Via Maris Desalination Ltd.) as set forth in sub-paragraph 20.4.1 of this part.

The said transfers of assets were made in accordance with a valuation of the Tahal Group (including Tahal Assets, which, at that time, was held by Tahal Group) of some Euro 62 million. In light of accounting principles, and as a result of the transaction, from April 1, 2008 the net equity of Tahal International in the books increased by about Euro 14 million, representing the value of the assets transferred in the books of Tahal International.

10.5.2 In March of 2009, Kardan NV capitalized a total of Euro 9 million from the outstanding shareholders' loan it extended to Tahal International to invest in Tahal International's equity, which was carried as a premium on shares (for details regarding the balance of the shareholders' loans see Section 10.17.1[A] of this part).

10.6 Dividends

In 2008 and 2009 , neither Tahal International, the Tahal Group, nor Tahal Assets distributed dividends, apart from a distribution in kind of Tahal Assets by Tahal Group, to Tahal International, a part of the reorganization – as detailed in clause 10.5.1 in this part. That distribution did not require the court's approval.

On January 2010 Tahal International distributed to Kardan NV dividend in the amount of approximately Euro 13.3 Million. This dividend distribution was done further to a profit which resulted to Tahal International from sale Series A Debentures of Kardan NV, as detailed in Section 16.2[A] of this part.

Limitations on dividend distribution by Tami – a stipulation document signed on November 2006 between Tami and Tahal and the bank funding the Tahal Group operations, among others, limits the dividend distribution by Tami to a rate of no more than 50% of the distributable profits (see section 10.17.2[D] of this part). As of the date of the report, the Tahal Group is examining a number of banks for the possibility of contracting with one of them in a new financing agreement that will be suitable for the structure of the Tahal Group following the reorganization, including all matters relating to a new financial covenants document to be signed by the Tahal Group, which shall replace Tami's financial covenants. In this matter see section 10.17.2 of this part.

In addition, there are several restrictions on dividend distribution and/or use of dividend proceeds that apply to the Asset Companies (*inter alia*, the companies held by Kardan Water International Group[325] (HK) Ltd. and Tahal Assets Israel[326].

In accordance with Dutch legal provisions, as of December 31, 2009, with respect to Tahal International, Tahal Group and Tahal Assets, there is no distributable profit balance.

10.7 Financial information

Below are financial data for the Tahal Group by operating segments (in million Euros):

	2009				2008				2007			
	Project activity (Tahal Group)	**Investment in assets (Tahal Assets)**	**Unattributed activity**	**Total Tahal Group**	**Project activity (Tahal Group)**	**Investment in assets (Tahal Assets)**	**Unattributed activity**	**Total Tahal Group**	**Project activity (Tahal Group)**	**Investment in assets (Tahal Assets)**	**Unattributed activity**	**Total Tahal Group**
Revenues	100.5	51.9	(0.1)	152.3	81.5	43.0	-	124.5	65.3	8.6	-	73.9
Total costs	(93.8)	(49.2)	(0.4)	(143.4)	(85.3)	(46.3)	(1.1)	(132.8)	63.9	11.0	-	74.8
Operating Profit (loss)	6.7	2.7	(0.4)	8.9	(3.8)	(3.3)	(1.1)	(8.3)	1.5	(2.4)	-	(0.9)
Total assets as of December 31	111.9	128.9	30.2	271.1	98.8	119.7	19.4	237.9	56.0	97.0	8.6	161.6
Total liabilities as of December 31	93.6	120.6	37.0	251.1	81.1	106.2	-38.6	226.0	-			136.2

For an explanation of the results of the Tahal Group and its assets, see Section 1.4 of the Board of Directors' Report.

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325 For a description of the investment by Tahal Assets in Kardan Water International Group Ltd., see Section 10.10.2 [B] of this part; for details on the restrictions on dividend distribution by the companies held by the said company, see Section 10.17.3 [D](2) of this part.

326 For a description of the restrictions applying to Tahal Assets Israel in connection with the use of the dividend proceeds to be received from Milgam City Services Ltd., see Section 10.17.3 [D] (2) of this part.

10.8 General Environment and the Influence of External Factors

The global water market in which the Tahal Group operates (water transportation and supply, waste water processing, desalination, and water and sewage networks) is a market in continuous growth, among other reasons in light of the increasing severe shortage in drinking and irrigation water. As of the date of the report, water infrastructure markets around the world are strong and global demand continues to increase following population growth and industrial expansion. At the same time, supplies of fresh water around the world are declining as a result of pollution, depletion of underground aquifers[327] and climate change. According to a publication in the Global Water Intelligence magazine of July 2009, the value of the world's water economy grew in 2009 by 8.2% and totaled approximately Euro 360 billion (Dollar 501 billion) and it is expected to grow in the coming years at an annual rate of approximately 10% in the developing countries in comparison to an annual rate of 3%-5% in the developed countries. Many tender offers for projects are being issued as a result of incentive packages by governments around the world, however the primary difficulty is a shortage of financing to carry out the projects, for among other reasons, the restrictive loan policy of financial institutions and the erosion of the government credit market.

There are three primary factors affecting the growth in water consumption:

1. Climate changes – the water shortage is worsened because of climate changes.

2. Agriculture – the amount of water required for agriculture grows in direct correlation to population growth.

3. Urbanization – demand for water grows with urbanization, as in more developed places, there is greater demand for water for private and industrial uses.

The shortage in and demand for water are even more significant in developing countries, some of which in arid regions, and some facing a severe problem of access to drinking water and water quality.

The main operations of the Tahal Group in the fields of project activity and investment in assets take place in awakening markets that enjoy a rapid growth in infrastructure development and in countries which recently joined the EU. The original Tahal Group is primarily active in the countries of Eastern Europe, Asia, Africa, and Latin America.

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[327] Aquifer - underground water reservoirs.

As part of this strategy the Tahal Group is working, mainly in the segment of investment in assets through Tahal Assets, towards locating and utilizing business opportunities in the Chinese water market. Water shortages and water pollution in China have spurred substantial investment in the water segment in this country. In addition, as a result of the lack of balance between the fact that China is the place of residence of approximately 21% of the world's population and the fact that it possesses only approximately 7% of the earth's water resources, the water market in China is expected to grow at a 20% annual rate in the next several years, according to a report published by the Global Water Intelligence. Competition in the Chinese market is developing against the backdrop of the entry of new suppliers in the market and the transfer of ownership of various assets from the Chinese government to local and foreign private developers.

The increase of the activity of the Tahal Group in China and holding assets in this country exposes the Tahal Group to a state-political risk, which stems from the Chinese regulation that changes from time to time.

Improvement of and investment in infrastructure, and water infrastructure in particular, are mostly a requirement of international institutions (including the World Bank and the EU), institutions which provide financing to these countries for the purpose of executing projects in infrastructures.

Tahal Group capability to operate in the different countries in which it operates is directly influenced by the overall level of investment in the relevant country. Improvement of the economic – security atmosphere, governmental decisions on the allocation of development resources, or the encouragement of investments and industry may naturally have a positive effect on projects and Tahal Group activities in those countries.

The main success factors of the original Tahal Group are the knowledge and experience it has accumulated in the domains of infrastructure over its years of activity, as well as its ability to initiate projects in countries with a potential for obtaining work, joining partners in various countries in order to create a synergy between Tahal's abilities and its partners abilities (foreign companies), due to many years of activity of the Tahal Group in different parts of the world. In addition, the original Tahal Group is in constant and ongoing contact with banks and financing and insurance institutions in Israel and globally in order to identify financing sources for the projects.

In 2008, global financial markets recorded a marked downturn, which persisted into the first half of 2009, causing a severe universal economic crisis. As of the date of the report, it is not clear if the direct economic consequences of that crisis have played themselves out, but it is thought that the worst of the world economic crisis has passed. For additional details regarding the world economic crisis, see Section 6 of this part. It should be noted that the said crisis may also have a positive effect on Tahal Group since many governments worldwide, and international financing entities as well, are allocating bigger budgets than in the past to infrastructure projects, *inter alia* in order to lower the high unemployment rates, as part of dealing with the global economy crisis.

In contrast, because infrastructure development (both in the project activity segment and in the segment of investment in assets) require significant financing, and the global economic crisis has detrimentally affected credit markets and financial markets, as detailed in Section 6 of this part, Tahal Group could find it difficult or will delay the raising of necessary capital for the said projects, or that the capital will be raised on inferior terms than in the past. .

10.9 **Description of the Project Activity Segment**

10.9.1 General information on the field of activity

The Tahal Group, through subsidiaries and associated companies, provides engineering design and supervision services in the domains of water - sewage, water treatment and disposal; energy, gas and agriculture and executes and builds projects in water resources and supply, irrigation, desalination, effluents treatment and purification, environmental engineering, civil engineering, water supply, sewage systems, agriculture, and geographical information systems and in the field of solid waste. Two types of services are provided within this operating segment – execution projects and planning projects (see Section 10.9.2 of this part).

10.9.2 Products and Services

Within this operating segment, the services provided by the Tahal Group are divided into two types:

[A] Execution Projects

Execution projects usually include all the components of an infrastructure project, i.e. planning, acquisition and execution as well as organizing the export finance, if needed. In these projects the Tahal Group provides services such as planning and management, equipment acquisition, equipment installation, and civil engineering work, performed by the company or subcontractors on its behalf. In these projects, the Tahal Group is generally responsible for the project for the client in the Turn Key method.

The execution projects are usually in the areas of waterworks and sewage and include water resources, water supply, desalination, waste water treatment and purification, sewage systems, waste water purification facilities and agriculture.

[B] Planning Projects

This area of activity is the traditional business activity of the Tahal Group which constitutes its technological core. The Tahal Group is engaged in the provision of engineering planning, consulting and supervision services in the following domains: water supply, water treatments, dams and drainage, civil engineering, electricity, roads, environmental engineering, energy and gas, ware resources and national planning, hydrology, water desalination, agriculture and irrigation.

10.9.3 Breakdown of income

[A] Following is the breakdown of Tahal Group's income from the project activity segment, by execution projects and planning projects (in Euro, millions):

	2009		2008		2007	
	% of Total Income	**Income**	**% of Total Income**	**Income**	**% of Total Income**	**Income**
Execution Projects	68.1%	68.4	59.5%	48.5	67.7%	44.2
Planning Projects	31.9%	32.1	40.5%	33.0	32.3%	21.1
Total[328]	**100.0%**	**100.5**	**100%**	**81.5**	**100%**	**65.3**

[B] Following is a breakdown of Tahal Group's income from the project activity segment by geographical areas (in Euro, millions):

	2009		2008		2007	
	% of Total Income	**Income**	**% of Total Income**	**Income**	**% of Total Income**	**Income**
Eastern Europe	36.6%	36.5	49%	40.0	36.5%	23.8
Latin America	3.4%	3.4	8.5%	7.0	24.8%	16.2
Asia and Africa	60.4%	60.6	42.5%	34.5	38.7%	25.3
Total[329]	**100%**	**100.5**	**100%**	**81.5**	**100%**	**65.3**

328 Total income from sales only.

329 Total income from sales only .

Income from work based on execution contracts is recognized in accordance with the rate of completion method when the following conditions apply: the income is known or can be estimated; the income collection is predictable or certain; the execution costs are known and can be estimated. The completion rate is set according to the final engineering rate, all in accordance with generally accepted accounting principles.

The growth in revenues from execution projects in 2009 in comparison to 2008 stemmed from the entry into execution projects in Africa, including the project of building a water supply system in Angola, which is described in Section 10.9.4[A] of this part. This growth also provides an explanation for the increase in revenues from the region of Asia and Africa in 2009, in comparison to 2008. The growth in revenues from planning projects between 2007 and 2008 is a result of the growth in revenue from projects in Asia (particularly Israel) and Africa, whose income flow remained similar in 2009. The growth in revenues from operations in Eastern Europe between 2007 and 2008 relate to a project in St. Petersburg, Russia described in section 10.9.4[B] of this part - of which approximately 95% of the project's income was obtained in 2008. The termination of the project in 2009 caused a decrease in revenues from this region in 2009. The revenues from this project also prove an explanation of the growth in revenues from execution projects in 2008, as compared to 2007. The decline in revenues from Latin America from 2007 to 2008 stems from completion of the Dominican project in 2008, which was responsible for the major part of revenues from this region in 2007. For details regarding the Dominican project, see section 10.9.4[C] of this part. Additionally, in 2009, the Tahal Group did not engage in new projects in this region, which provides an explanation for the additional decrease in revenues from the region in 2009, as compared to 2008.

10.9.4 Material Projects

[A] Following are details regarding the material projects, the total income from which in 2009 constituted at least 10% of the overall income of the Tahal Group in 2009[330]:

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330 As a result of the growth in revenues of the Tahal Group in 2009, a number of projects that were described in Kardan NV's periodic report of 2008 as material projects whose comprehensive consideration expected of each of them constituted 10% or more of the total comprehensive revenue of the Tahal Group in 2008, and which started to infuse revenue in 2009, do not cross the 10% mark of the total comprehensive revenue of the Tahal group for 2009. As a result, data is not presented in this report regarding these projects. The said projects are Ekowark –Bialograd; Ekowark – Kolobrzeg; and Ekowark – Szczecinek. For information regarding the project of pumping of the Zambezi river waters in Botswana see Section 10.9.4[E][2] below.

Client	The project	Name of Company	Type of Project	Income in 2009 (Million Euros)	% of Income in 2009	Date of Commencing the Project	Scheduled Project Completion Date	Sales as a % of the total sales to be generated from the project as of December 31, 2009	Expected income in 2010 (Million Euros)	Expected Income as of 2011(Million Euros)
National water company of Angola (EPAL)[331]	Construction of a water distribution system of approximately 400 kms. in length	Tami	Turk-Key	20,036	19.9%	The first quarter of 2009	The third quarter of 2010	56.8%	15,232	

The estimates in the table as to the planned completion date and expected income from the project, constitute forward looking information, as defined in the Securities Law, which is based upon the contractual obligations vis-à-vis the said client, on the experience of the Tahal Group management in executing projects, construction input costs at the date of assessment including subcontractors' prices and the specific data of the project. These estimates might not be realized, in their entirety or in part, or may might be realized in a different, including materially different manner than expected, as a result of the client's budgetary constraints which will cause a delay in the completion of the project or halt the project, the direct and/or indirect implications of the global economic crisis and/or as a result of the realization of part or all of the risk factors detailed in Section 10.25 of the report.

[B] Following are details regarding material projects, the total revenues from which in 2008 constituted 10% or more of the total revenues of Tahal Group in 2008

Client	The project	Name of Company	Type of Project	Income in 2008 (Million Euros)	% of Income in 2008	Project Commencement Date	Project Completion Date	
Limited Liability Company Torgovy Dom	Supply, equipment, supervision, initial operation of	Tami	Equip. supply	14.3	17.6%	Second quarter 2008	April 2009	%

331 In February of 2008, Tami entered into an agreement with the national water company of Angola to develop an infrastructure project to supply water. In connection with the project, a water supply and distribution system will be built for seven neighborhoods south of the capital, Luanda. The project, which will extend over an approximate area of 1.43 million sq. meters, will include the design of a distribution system, installation of approximately 400 kms. of piping and the installation of about 140 access points for drinking water.

Razvitiye	equipment, warranty of equipment, supply of spare parts for water treatment plant in Russia-St. Petersburg (Yozenya)							

[C]Following are details regarding material projects, the total comprehensive proceeds for each of which are represents 10% or more of the total comprehensive proceeds of the Tahal Group in 2007:

Client[332]	**Nature of Project**	**Name of engaging Company**	**Type of Project**	**Proceeds in 2007 (in euro millions)**	**% of the total proceeds for 2007**	**Project Commencement Date**	**Project's Completion Date**	
Dominicana – Santo Domingo's Water Institute	Rehabilitation of the water systems of the city of Santo Domingo	Tami	Turn-Key	7.8	11.9%	First quarter of 2004	Third quarter of 2008	

[D] Following are the details regarding material projects in the project activity segment, the total expected proceeds for each of which represents 10% or more of the total income of the Tahal Group in 2009[333]:

Project Location (City and Country)	**Client**	**Nature of Project**	**Name of engaging Company**	**Type of Project**		**Project start date**	**Rate of progress as of December 31, 2009**	**Project's Planned Completion Date**	**Total proceeds from the Project according to contractual undertaking (in euro millions)**	**Total Income for 2009 (in euro millions)**
Romania Arad 1	Arad's Water Company	Expansion and rehabilitation of a sewage treatment plant	Tami	Planning - execution		September 2003	77.46%	June 2010	12.5	1.0
Romania Barshov 2	Barshov's Water Company	Rehabilitation of a water supply and sewage system	Tahal Romania	Planning - execution		November 2005	89.23%	May 2010	15	6.2
Serbia Makish	Belgrade's Water Company	Planning, acquisition and supervision of a water treatment plant	Tami	Planning - Supervision		October 2003	42.3%	December 2010	20.3	4.2
Ghana[334]	Ghana	Rehabilitation/expansion	Tahal	Turn-Key		Third	5.02%	Third	41.0	2.1

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332 The rate of completion is derived according to the revenue recognition in the financial statements of the contracting company.

333 For a description of additional projects, whose future proceeds, from each one, are material, and which are not described in the table of this Section, see: (a) Section 10.9.4 [A] of this part, regarding the project of constructing a water supply system in Angola, which was already material in 2009; and (b) Sections 10.9.4[E][1] and [3] of this part, regarding a project of constructing a water supply system, a settlement and providing agricultural development in the region of Quiminha in Angola, and a project of planning, constructing, expanding and upgrading drinking water systems in thre regions in Ghana, the contingent conditions for their execution have not yet been fulfilled.

	Water Company Ltd.	of the water supply system south of the Kpong in rural areas along the major route between Askombo-Tema and Akwapim Ridge	Group			quarter of 2009		quarter of 2012		
Ghana[335]	Ghana Water Company Ltd.	Rehabilitation/expansion of the water supply system north of the Kpong in rural areas along the major route between Askombo-Tema and Akwapim Ridge	Tami	Turn-Key		Third quarter of 2009	9.13&	Second quarter of 2012	13.7	1.3

The Tahal Group has a 100% share in all the projects.

The assessments in the table, regarding the planned completion dates of the different projects are forward-looking information, as defined in the Securities Law, based on Tahal Group management's estimates regarding its agreements with each client, agreements signed with subcontractors, the experience of the Tahal Group management in the execution of projects, a rise in construction input prices on the date of the assessment, including subcontractor prices, and the specific information for each project. The said estimations might not be realized, in their entirety or in part, or might be realized in a different, even significantly different manner than

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334 In December of 2007 the Tahal Group entered into an agreement with the national water company of Ghana for the planning and execution of a project involving rehabilitation and expansion of the water supply system to villages south of the Kpong area. Pursuant to the agreement, among other matters, a water purification plant and new water distribution systems in these communities will be planned and built. In March of 2008 a financing agreement was signed between the Ghanaian government and a European bank, which enabled the Tahal Group to conclude financing of approximately Euro 41 million in July of 2008. After all of the conditions precedent to carrying out the project were satisfied, Tami began carrying it out in practice in October 2009, and it is expected to be completed by October of 2012. In connection with the Tahal Group's contracts to rehabilitate and expand the water supply systems south of Kpong, Kardan NV committed that in the event the Tahal Group does not meet its obligations in connection with the project, Kardan NV would be obligated to perform them.

335 In December of 2007, Tami signed an amendment to the 2001 agreement with the Ghanaian national water company which was suspended by the client for lack of financing for planning and execution of the rehabilitation and expansion of the water distribution system for villages north of the Kpong area. Pursuant to the amended agreement, among other matters, a new water purification facility and water distribution systems in these communities will be planned and built. The amendment to the agreement enabled the Ghanaian government to obtain appropriate financing (with Tami's assistance) for the project and therefore in March of 2008 a financing agreement was signed between the Ghanaian government and an Israeli bank, which enabled Tami in November of 2008, to finalize financing for the project in the amount of approximately Euro 14 million. After all of the conditions precedent for the performance of the project were satisfied, Tami began its performance in practice in October of 2009 and is expected to complete it by April of 2012.

expected, as a result of clients' budget constraints which can cause a delay in the project's completion or to halting the project, as a result of the direct and/or indirect impact of the world economic crisis on the markets (such as stricter bank policy for providing project financing, stricter government policy with respect to investment in infrastructure development projects) and/or the realization of all or part of the risk factors described in Section 10.25 of this part.

[E] Following are details regarding material projects in the project activity segment, of which the contingent conditions for their execution have not yet been completely fulfilled, and the total consideration expected from each one of them constitutes 10% or more of the comprehensive income of the Tahal Group in 2009:

[1] **A project establishing a water supply system, building a settlement and providing agricultural development in the Quiminha area of Angola –** In January 2010, an agreement was signed between Tami and the Government of Angola (through the Office of Public Works) ("**the Angolan Government** ") for the execution of a turn-key project for the supply of drinking and irrigation water, building a settlement and providing agricultural development in the scope of approximately EUR 143 million (in this Section below, "**the Project**", "**the Project Agreement**" and "**the Consideration**", respectively) in the area of Quiminha – an agricultural area approximately 70 Km. south-east of Luanda, which is the capital of Angola. This is the biggest project in the history of the Tahal Group as a single contractor. Tami will build within the Project, for agricultural settlement purposes, 310 farmstead units that will include a family residence, 30 attached dunams (approximately 7.5 acres) with irrigation systems, agricultural development and a hen-house for each farmstead. In addition, Tami will build a logistics center for the residents, which will serve them for processing, conserving and marketing the produce. The Project will also include a common agricultural area of approximately 10,000 dunams (approximately 2,500 acres), and in addition, preparation of the area for 64 additional farmsteads of 100 dunams (approximately 25 acres) each. The beginning of the work on the Project is stipulated by the fulfillment of a number of conditions, including completion of the "financial closing" for the financing of the full Consideration by commercial banks and payment of an advance by the Government of Angola to Tami at a rate of 15% of the Consideration (approximately EUR 21.5 million). The balance of the consideration will be paid during a period of three years in current payments based on progress.

On the date of the signing of the Project Agreement, significant progress was also achieved towards completion of the financial closing for financing the full consideration, with the signing of two loan agreements between the Government of Angola and international commercial banks (in this Section: "**the Loan Agreements**"). The provision of the said loans is also stipulated by a number of preconditions, inter alia, issuing insurance policies that will insure the said banks against the risk that the Government of Angola will not repay the loans ("**the Insurance Policies**"). Tami's estimates that the Project is expected to begin during the first half of 2010, and the planned date of completion is July 2013. According Tami's contractual obligation, the execution of the Project is expected to last approximately 3 years and Tami will instruct the farmers for two more years. With the beginning of the performance works, Tami will have to provide performance bonds in the amount of 5% of the scope of the Project (approximately EUR 7.1 million).

The above mentioned estimates as to the actual closing of the transaction, the materialization and timing of the financial closing, the date of beginning the performance of the project, its' duration and planned completion date constitute forward looking information, as defined in the Securities Law, which is based upon the forecasts and estimates of the management of Tami, based on its experience and knowledge of the client, the area of activity and the difficulties involved in executing a financial closing. The said estimates might not be realized, in their entirety or in part, or might be realized in a different, including materially different manner than expected, as a result of political and economical changes in Angola, legislation changes related to the field of infrastructures in Angola, changes in policy and/or in the economic environment in which the financing banks operate, the direct and/or indirect implications of the global economic crisis and/or as a result of the realization of part or all of the risk factors detailed in Section 10.25 of this part.

[2] **A project of building infrastructure for the pumping of some of the water of the Zambezi River and transporting it to arid areas in the north of Botswana –** In May 2007 the Tahal Group entered an agreement on principles with the Government of Botswana (in this Section below, "**the Agreement on Principles**"), for the execution of a comprehensive project in the field of water and agriculture in Botswana (in this Section below, "**the Project**"). The Agreement on Principles is for a period of 15 years and it outlines the general principles of the performance of the Project, which will be composed of two stages as follows: (1) the first stage is a turn-key project for building an infrastructure to pump part of the water of the Zambezi River and transport it to arid areas in the North of Botswana for the purpose of irrigation and development of agricultural areas ("**the First Stage**"). The cost of the first stage is estimated at approximately Dollar 450 million (approximately EUR 320

million). The beginning of performance of the agreement, except for the agreement regarding the execution of feasibility studies as described below, is stipulated by the signing of an agreement by neighboring countries in the region regarding the division of the water of the Zambezi River ("**the Water Division Agreement**"), and the results of the said feasibility study. As of the date of the report, it is not possible to estimate if the said conditions will be fullfilled. Within the First Stage, an agreement was signed in February 2008 between the Government of Botswana and the Tahal Group, for the execution of a feasibility study and planning the Project ("**Feasibility Agreement**"), which is expected to last up to the end of 2010. The consideration according to the Feasibility Agreement will be paid according to milestones that were determined in the Feasibility Agreement and will amount to the sum of approximately EUR 8 million. Upon completion of the feasibility studies, the parties will agree upon the stages of performance and the consideration that will be received at every stage of the performance. The Botswana Government is entitled, by written notice, to end the Feasibility Agreement or to freeze the work, at any time; (2) the second stage of the said Project is the development of agricultural farms in areas whose water infrastructure will be built within the first stage ("**the Second Stage**"). The completion of said infrastructures will enable the start of the work and the development of the Second Stage. The cost of the Second Stage is estimated at approximately Dollar 300 million (approximately EUR 210 million).

The assessments regarding the cost of the project and the length of time to perform the feasibility study are forward-looking information, as defined in the Securities Law, based on the Tahal Group management's estimates on relying on information received from the Botswana Government and on the Tahal Group management's estimates from its experience and knowledge of similar projects and based on the prices of the raw materials required for the project, and the costs of employing sub contractors. The said estimations might not be realized, in their entirety or in part, or might be realized in a different, even significantly different manner than expected, as a result of political considerations, as a result of the direct and/or indirect impact of the world economic crisis (such as change in allocation of resources, difficulty in organizing a financing package, cancellations), difficulties of sub-contractors and failing to stay within timetables of sub-contractors and/or the realization of all or part of the risk factors described in Section 10.25 of this part.

[3] **A project of planning, construction, expansion and upgrading of the drinking water systems in three regions in Ghana –** In March 2010, close to

the date of the report, Tami contracted with the National Water Company of Ghana (below in this Section: "**the Agreement**" and "**the Client**", respectively) regarding the planning, construction, expansion and upgrading of the drinking water systems in three regions in Ghana (Kumawu, Konogo and Kuaho Ridge) in an effective financial amount of Dollar 110 million (approximately EUR 81.5 million). According to the Agreement, the financial consideration is Dollar 120 million (approximately EUR 89 million), but Tami has undertaken to grant the Client the sum of Dollar 10 million (approximately EUR 7.5 million), as discount, so that Tami's effective consideration will be Dollar 110 million (approximately EUR 81.5 million), as stated ("**the Consideration**"). The commencement of the work of the project is stipulated by the fulfillment of a number of contingent conditions, including the completion of the financial closing and payment of an advance by the Client to Tami in the amount of Dollar 18 million (approximately EUR 13.3 million). The completion of the project is expected to end within approximately 36 months from the date of starting the work.

The assessment regarding the period of time necessary for the completion of the project is forward-looking information, as defined in the Securities Law, based on Tami's management's estimates, relying on its experience and knowledge of the Client, executing projects in Ghana and the difficulties involved in carrying out financial closing. The said estimations might not be realized, in their entirety or in part, or might be realized in a different, even significantly different manner than expected, as a result of state, political and financial changes in Ghana, changes in policy and/or the financial environment in which the banks that engage in financing projects such as this project operate, the direct and/or indirect impact of the world economic crisis, difficulties of sub-contractors and failing to stay within timetables of sub-contractors and/or the realization of all or part of the risk factors described in Section 10.25 of this report.

10.9.5 Clients

The Tahal Group works in the project activity segment with a large number of clients in numerous countries. The Tahal Group's clients are mostly government authorities and local authorities in different countries. The average period of time for an execution project ranges between two to four years.

The payment schedule for the execution of a project usually includes an advance in a rate of 10%-15% of the cost of a project, which is paid – in some of the projects - upon signing the contract (against the provision of an advance payment guarantee accordingly). The other payments are spread over the term of execution of the project, according to milestones and objectives that are agreed upon with the client in the contract and which change from one project to the next. A final payment, at a rate usually ranging between 10% and 15% of the total cost of the work, is paid when the project is completed and delivered to the client, in exchange for delivery of a performance quality guarantee, which valid for the term of warranty and ranges between one and two years.

In agreements with clients, Tahal Group is required to complete the within a timeframe specified in the agreement. Failure to meet the timetable could lead to the payment of agreed compensation to the client on a daily basis up to a specific portion of the total proceeds. In order to reduce this exposure, Tahal Group makes it a practice, whenever possible, to enter into back-to-back agreements with its sub-contractors with regard to the payment of compensation for delays.

In many cases, agreements with clients include many provisions that are dictated by the clients within the documents of the project execution, including provisions regarding the cancellation of the project without reason, conditions of the required guarantees and the manner of collecting the payment. For details regarding the risks arising out of this see Section 10.27.6 of this part.

For details regarding material customers of Tahal Group the revenues from which accounted for more than 10% of the total revenues of Tahal Group in 2007 - 2009, see Sections 10.9.4[A], [B] and [C]of this part.

10.9.6 Order backlog

The following is Tahal Group's order backlog and a forecast for its execution for December 31, 2009 (in euro, million):

	Order Backlog		**Order Backlog for 2010**					**Forecasted execution of order backlog for the 2011**	**Forecasted execution of order backlog for 2012 and thereafter**
	Total order backlog for December 31, 2009	**% of total order backlog for December 31, 2009**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total for 2010**		
Europe	56.0	31%	8.6	11.0	8.1	8.9	36.6	15.6	3.9
America	2.2	1%	0.1	0.4	0.3	0.3	1.1	1.1	
Asia and Africa	123.2	68%	24.4	18.9	13.0	12.8	69.2	25.8	28.2
Total	**181.4**	**77%**	**33.1**	**30.3**	**21.4**	**22.1**	**106.9**	**42.4**	**321**

The following is Tahal Group's order backlog for December 31, 2008 (in euro millions):

	Order Backlog		Order Backlog for 2009					Forecasted execution of order backlog for the 2010	Forecasted execution of order backlog for 2011 and thereafter
	Total order backlog for December 31, 2008	% of total order backlog for December 31, 2008	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total for 2009		
Europe	71.9	31%	10.9	11.8	13	12.8	48.5	23.1	0.3
America	4.6	2%	0.8	1.1	0.5	0.7	3	0.8	0.8
Asia and Africa	158.8	67%	14.5	12.4	20.2	34.6	81.7	56.9	20.2
Total	**235.3**	**100%**	**26.2**	**25.3**	**33.7**	**48.1**	**133.3**	**80.8**	**21.2**

The conditions for recognizing an order for the execution of a project or for the supply of services by the Tahal Group and its addition to the order backlog are (1) a signed commercial contract and (2) receiving an advance payment from the client.

Estimates regarding order backlog realization are forward looking information, as these are defined by the Securities Law, which are based on the estimates of the Tahal Group in regard to the fulfillment of the undertakings of factors it has engaged. The said estimates might not be realized, in their entirety or in part, or might be realized in a different, including significantly different manner than expected, as a result of the non-fulfillment of the forecast regarding the rate of sales of the order backlog, as a result of budgetary constraints which may result in cancellation of orders, as a result of the direct and/or indirect impact of the world economic crisis and/or the realization of all and/or part of the risk factors detailed in section 10.25 of this part.

10.9.7 Product Quality Warranty

The Tahal Group is required to provide a warranty for the inspection period (usually lasting one year from the delivery day) for the projects it performs. In order to secure its obligations, Tahal Group usually provides the client with a guarantee for the inspection period (in rates ranging between 5% and 10% of the cost of the project).

As of December 31, 2009, the balance of guarantees provided to clients for the inspection period is immaterial.

10.10 **Description of the Segment of Investment in Assets**

10.10.1 General information on the field of activity

The activity of investment in assets focuses on investing in income-yielding infrastructure properties, such as desalination facilities and their operation, sewage treatment, water purification and purchasing of franchises for the operation of municipal water systems. Within this framework, business opportunities in the field of infrastructure are identified, companies and joint ventures are established to engage in activities that have a high demand in the infrastructure sector, and holdings in existing companies are purchased. In addition, the group takes part in tenders for franchises or for signing B.O.T[336] or B.O.O[337] agreements, followed by the construction and operation of desalination or sewage treatment facilities, operation of municipal water and sewage systems, operation of water supply systems, franchises for waste management sites, handling money collection for local authorities and more. The investment in this sector is primarily based on loans from financial corporation and capital infused by Tahal Group (for additional details see Sections 10.17 and 10.25 of this part).

As part of this activity, the Tahal Group strives to become a partner in the execution of projects in the said investments, while basing its activity on its technological-engineering core.

10.10.2 Significant investee companies and their activities

[A] **Task Su Kanalizatyon Yatiri, Yapim Ve Isletin A.S. ("Task")** is a holdings company which competes through its subsidiaries for franchises for the management of municipal water and sewage corporations in Turkey. Tahal Assets, through Task Water B.V ("**Task Water**"), holds 50% of the issued capital of Task. The balance of the interest in Task is held by a local partner. Until October of 2008, Tahal Assets held 33.33% of the issued capital of Task.

In October 2008 ("**Date of Completion**" in this sub section), Task Water and a second shareholder of Task in equal parts (16.7% each) completed the acquisition of an additional 33.3% of Task's issue capital from a third

336 A B.O.T (Build, Operate, Transfer) project is a project ordered by a public authority (country, municipality of government authority). A joint venture builds the project's facility at its own expense and operates it for an operating period defined in advance (usually between 15 to 25 years) and upon its termination, the developer returns the facility to said public authority. In a B.O.T project the developer's revenues are paid during the operating period by the commissioning entity or by users of the facility.

337 A B.O.O (Build, Operate, Own) project is similar to a B.O.T project, while after the completion of the operating period, the facility and the rights in it remain in the ownership of the developer.

shareholder in Task, who ceased to be a shareholder as a result of the acquisition. In consideration for the shares acquired by Task Water, Task Water paid Euro 2.25 million. In addition, Task Water undertook that within two years from the date of completion, it will pay Euro 1.65 million to the third shareholder, contingent on various conditions, including receipt of approval from the Ministry of the Interior regarding the Corlu franchise (as defined below) and its entry into force. Moreover, Task Water undertook to release the third shareholder from the guarantees totaling Euro 4.1 million. Until the date of the report, the Corlu franchise has not entered into force and the guarantees have not been released.

As of the date of this report, Task holds (through subsidiaries) four franchises: (1) A 35-year franchise (starting in 2006) for management of a municipal water and sewage corporation, which is responsible for the supply of water and sewage services to the local population and collecting payments from the residents for these services, in Gulluk, Turkey; (2) A 35-year BOT franchise agreement for the renovation and improvement of water systems and the local systems in medium municipal authorities (a population of up to 200,000) in the Corlu area in northern Turkey (the "**Corlu Franchise**"). The Corlu Franchise is subject to the approval of the Turkish Ministry of Interior Affairs, which on the date of drawing up this report has not been given; (3) A 29-year B.O.T agreement for planning, building and operating a sewage purification plant in the Dilovasi industrial zone in Turkey, including a commitment to a minimum amount of sewage. This sewage purification plant is in the stage of establishment Tahal Assets estimates that its construction will be completed in the second quarter of 2010; and (4) A 49-year franchise for operating the water and sewage industry in Kars, Turkey, which is subject to the approval of the Turkish Supreme Court and Ministry of Interior Affairs, which as of the date of drawing up of this report has not been given. Up to the date of this report, Tahal Assets, (through Task Water), invested Euro 9 million in the financing of Task’s activity. That amount includes the sum paid for an additional 16.7% of the issued capital of Task, as detailed above.

The said assessments regarding the date of completion of the plant in Divolasi is forward-looking information, as defined in the Securities Law. The said estimations might not be realized, in their entirety or in part, or might be realized in a different, even significantly different manner than expected, as a result of unexpected delays in the progress of the construction of the plant at Divolasi, the direct and/or indirect impact of the world economic crisis, and/or the realization of all or part of the risk factors described in Section 10.25 of this part.

[B] <u>Kardan Water International Group (HK) Ltd</u> **<u>("KWIG HK")</u>**

Tahal Assets' activity in the field of investment, operating and management of projects in the water and sewage infrastructure segment in China, during the fourth quarter of 2009 and the beginning of 2010, was coordinated under KWIG HK ("**the Reorganization in China**"). KWIG HK is a private company incorporated in Hong Kong and is fully owned (100%) by Tahal Assets. Up to October 2009, most of Tahal Assets activity in China was executed through Kardan Water International Group Ltd., which was incorporated in the Cayman Islands ("**KWIG Cayman**"). On the said date the holding of the total issued capital of Perilla Water Group Ltd. ("**Perilla**") and of Tri River Water Group Ltd. ("**Tri River**") was transferred from KWIG Cayman to KWIG HK ("**the Holdings Transfer from KWIG Cayman to KWIG HK**"), and their obligations towards KWIG Cayman were assigned to KWIG HK as well. In addition, the shareholder loans that Tahal Assets provided KWIG Cayman up to the said date were assigned from KWIG Cayman to KWIG HK, as described below. Perilla is a company that was incorporated in Hong Kong and holds the company of the project in the city of Tianjin (for detail see Section 10.10.2[B][1] of this part. Tri River was also incorporated in Honk Kong and it holds the company of the project in the city of Dazhou (for detail see Section 10.10.2[B][2] of this part). Additionally, the Tahal Assets holdings (100%) in the company of the project in the city of Dingzhou, within the Reorganization in China, were transferred to KWIG HK (for detail see Section 10.10.2[B][4] of this part).

KWIG Cayman was established in 2007 by the Tahal Group (66.6%) and local partners in China (33.3%) (the "**Local Partners**"). The holdings, rights and obligations of the Tahal Group in KWIG Cayman were transferred within the Reorganization in the Tahal Group to Tahal Assets. Prior to the date of the transfer of the holdings from KWIG Cayman to KWIG HK, Tahal Assets held approximately 90.9% of KWIG Cayman and the balance (9.1%) is held by the Local Partners. The increase in the rate of the holdings of Tahal assets from 66.6% in 2007 to 90.9% in 2009 was executed by Tahal Assets' responding to KWIG Cayman's demands to provide financing while the Local Partners are not participating in the provision of the financing and are diluted as a result of this.

The Tahal Group invested a total of approximately Euro 22.5 million in KWIG Cayman's capital, half in return for preferred shares, with preferential rights in the event of distribution of dividends and in the event of liquidation. In addition, the Tahal Group provided in practice and afterwards Tahal Assets provided KWIG Cayman with loans of up to Euro 13.8 million (hereinafter referred to in this section as **"Shareholders' Loans")** for 5 years and at an interest rate of

Euribor plus 2.2%. The said financing referred to in this section was provided to KWIG Cayman, according to its needs and the pace of investments it executed.

In October 2009, within the Reorganization in China, the balance of KWIG Cayman's obligations to Tahal Assets, in the sum of EUR 3.8 million, was transferred to KWIG HK. .

As of the date of the report, Tahal Assets has no obligation of any kind to provide KWIG HK with capital or additional shareholder loans.

For details of the restrictions on dividend distribution applicable to Perilla and Tri River in the projects detailed below, see section 10.17.3 [D][2] of this part.

<u>Projects held by KWIG HK</u>

[1] KWIG HK, through Perilla, holds 88.15% of Tianjin Huanke Water Development Ltd.'s ("**Huanke Water**") issued capital. The remaining shares of Huanke Water are held by a company owned by the Chinese Government. Huanke Water holds franchises for the operation of 6 active industrial sewage facilities: four of them in the city Tianjin and the other two in the Shandong province. The facilities were built by Huanke Water as part of the B.O.T projects, and the franchise agreements for their operation are for an average period of 22 years. According to the franchise agreements, the payments for facility operation will be collected from the municipal authority that signed the franchise, and the payment will be calculated according to the volume of treated sewage. The present capacity of all six facilities is about 200 thousand cubes a day, and KWIG HK plans to increase it during 2010 to 220 thousand cubes per day. The total revenue in respect of 200 thousand cubes of sewage is approximately Euro 7.5 million annually, and the total expected proceeds from sewage for approximately 220 thousand cubes is approximately Euros 8.5 million annually. As of the date of the report, three of the six facilities (in the cities of Boshan, Dagang and Hauntai) are being upgraded to comply with the highest water standard – CLASS I A (improved water quality). The amount of planned investment in the upgrade of all six facilities, until the end of the franchise term, totals Euro 10 million, while Huanke Water has undertaken to make an additional investment in some of the facilities, once the maximum output in said facilities has been reached. By of December 31, 2009, about Euro 16.5 million was invested in Huanke Water by KWIG Cayman and later on by KWIG HK, of which about Euro 12 million was invested in the cost of the acquisition of Huanke Water and about Euro 4.5 million as part of the said undertaking for an additional investment by Huanke Water. Huanke Water's revenues in 2009 (approximately EUR 11.8 million) constituted in this year more than 90% of the total income from projects performed through KWIG HK.

The aforementioned assessments regarding the plans to enlarge the facility, the expected revenue and the planned investment are forward-looking information, as defined in the Securities Law. These assessments might not be realized, in its entirety or in part, or might be realized in a different, including significantly different manner than expected, as a result of changes in market conditions, changes in legislation, privatization processes, changes in foreign investments in China, the direct and/or indirect implications of the global economic crisis and/or the realization of all or some of the risk factors described in Section 10.25 of this part.

[2] KWIG HK, through Tri River, holds 100% of Tian He Project Co's ("**Tian He**") shares. Tian He holds a 30 years B.O.O franchise, from the date of operation of the first phase of the project (as defined below), given by the local authorities in the city of Dazhou, in the Chinese province of Szechwan. The franchise is for operating a plant for water supply and industrial sewage purification in a new industrial park in the city (below in this Section: "**the Plant**"). The franchise agreement gives Tian He exclusivity in everything pertaining to sewage purification and water supply in the city's industrial zone. The project of constructing the Plant (below in this Section: "**the Project**") will be performed in three phases, according to demand. The first phase of the Project was completed in March 2010 with the beginning of the supply of natural gas to the area. The investment in the first phase of the project is estimated at about Euro 27 million of which, as of December 31, 2009, Euro 21 million has been invested. The maximum volume of sewage the Plant will be able to process following the completion of the first stage of this project is approximately 20 thousand cubes a day, and the expected water supply is approximately 100 thousand cubes a day. The total annual revenues from the Plant for 2010 and 2011 are expected to reach approximately Euro 2.5 million and Euro 4 million, respectively, and the Plant is expected to generate annual proceeds of about Euro 11 million when the maximal output of the first phase is be utilized. This gap between the expected revenues of 2010 and 2011 and the total revenues when utilizing maximal output of the first phase of the Project stems from delays in the preparation of the infrastructures of the industrial park, including the energy and gas supply infrastructures, which caused a delay in the entry of consumers into the industrial park. According to KWIG HK's forecasts, the utilization of the maximum output in the first stage will not be achieved earlier than 2013.

The estimations regarding the extent of expected investments in the project, the quantity of sewage and water the Plant will treat and the total proceeds expected in the first phase of the project, including the total proceeds from

maximum output and date of utilization of maximum output, are forward looking information, as defined in the Securities Law, which is based on technical and other estimations of the original Tahal Group regarding the building of facilities and other factors. The said estimations might not be realized, in its entirety or in part, or might be realized in a different, including significantly different manner than expected, as a result of one change or more in the factors used as their basis, including a change in the market situation in China, political and economic changes in China, legislation changes and standardization changes relating to the Chinese infrastructure industry, the direct and/or indirect implications of the global Economic crisis and/or the realization of all or part of the risk factors described in Section 10.25 of this part.

[3] In January of 2010, KWIG Xuanhua Development Ltd. ("**KWIG Xuanhua**"), a company fully owned by KWIG HK, won a tender to purchase a 30-year concession to operate a sewage purification plant in Zhangjiakou in Hebei province in China (in this Section below, **"the plant")**. At the conclusion of the period of the concession, the plant will be transferred to the local authority. The consideration that KWIG Xuanhua paid for this acquisition was Euro 28 million. KWIG HK's assessment is that this transaction is expected to take place by the 3rd quarter of 2010. The plant won the most prestigious prize in China in the field of construction and architecture and it is active and treats 80,000 cubic meters of sewage a day. The plant in its final form will be capable of treating up to 120,000 cubic meters of sewage a day. Within the framework of the tender, the local authority committed that the minimum quantity that will be treated at the plant in the first year will be 80,000 cubic meters a day, while that quantity will increase every year by 2,500 cubic meters per day up to the said maximum quantity. In addition, pursuant to the agreement of the sale of the drain water, KWIG Xuanhua was granted with the right to trade with the "treated water" produced in the course of the sewage purification process of 30,000 cubic meters per day, and sell them, among others, to the nearby power plant. Other than the power plant, KWIG HK's assessment is that the possibility exists of selling the balance of the output of "treated water" produced by the plant to additional industrial companies. KWIG Xuanhua's total revenue expected from the Plant in 2010 is expected to be EUR 1.6 million, and all this revenue will be received in the second half of this year (after completion of the transaction)

These assessments regarding the anticipated date of the completion of the acquisition transaction, the scope of treated water output of the plant, the expected revenue in 2010 and KWIG HK's outlook regarding the possibility of selling excess capacity of treated water to the power plant and

to industrial companies, as described above, are forward looking information, as defined in the Securities Law, which is based on the assessments of the management of KWIG HK and the Tahal Group based on their experience and familiarity with the market in China and on the terms of the tender known at the time of this report. The said estimations might not be realized, in their entirety or in part, or might be realized in a different, including significantly different manner than expected, as a result of unexpected changes in the market situation in China, political and economic changes in China, legislative changes and standardization changes relating to the Chinese infrastructure industry, changes in the terms of the acquisition before its completion, the direct and/or indirect implications of the global economic crisis and/or the realization of all or part of the risk factors described in Section 10.25 of this part.

[4] In October 2008, GTC Chinaestablished Dingzhou City Kardan Water Ltd. ("**Dingzhou**"),. a wholly-owned Chinese subsidiary, and the entire ownership in its share ownership was transferred to Tahal Assets in November of 2008. As aforesaid, Tahal Assets' holdings in DINGZHOU were passed during the first quarter of 2010 from Tahal Assets to KWIG HK, within the Reorganization in China. Dingzhou is engaged in an agreement with the local authority in Dingzhou for the execution of a B.O.T. project agreement for the construction and operation of a facility and the supply of equipment thereto for sewage treatment, in a scope of approximately 40,000 cubes per day, prior to the sale thereof to a local power station company. Pursuant to the agreement, the local authority undertook that the entire sewage quantity to be treated daily, as aforementioned, would be purchased by the power station for an amount determined in the agreement. The total estimated proceeds from the operation of the project, with respect to the aforementioned quantity of sewage, (after weighing the increase in Tariffs according to the agreement), is approximately Euro 3 million per year and the duration of the operation promised to Dingzhou pursuant to the agreements with the local authorities is 28 years. As of December 31, 2009, the entire investment cost for the project is estimated at approximately Euro 5 million. For the execution of the said investment in the Plant, Tahal Assets provided Dingzhou with a shareholders' loan in the amount of approximately Euro 1.9 million in 2008. The balance of the investment sum was received from bank loans.

The first stage of the project in which the plant can treat approximately 20,000 cubic meters of sewage ("**the first stage"**), was completed in November of 2009 and the plant started commercial operation of partial output in March of 2010 with the receipt of approval from the local authority. The annual total revenues from the plant are expected to be approximately Euro 0.5 to 0.7 million in 2010 and 2011, respectively. Full completion of the plant is expected in 2013.

The assessments regarding the expected proceeds, the investment cost and the date of completion of the facility is forward-looking information as defined in the Securities Law, and is based on the estimations of Tahal Assets' management regarding the construction of the facilities and increases in construction input prices, including subcontractor prices, on the date of the assessment. The said assessments might not be realized, in its entirety or in part, or might be realized in a different, including significantly different manner than expected, as a result of direct and/or indirect consequences of the global economic crisis, changes in the condition of the market in China, political and economic changes in China, changes in regulation relating to the infrastructure sector in China, the direct and/or indirect implications of the global economic crisis and/or the realization of all or part of the risk factors set forth in Section 10.25 of this part.

[C] **Milgam City Services Ltd. ("Milgam")** – Milgam provides different services to over 100 local authorities and municipal corporations in Israel. Milgam's activity is divided into two main types: (A) Management and operation of municipal water networks, and also the reading, treatment and replacement of water meters. For these types of activity, Milgam has execution contracts with local authorities and municipal water and sewer companies, and the proceeds are defined separately in each agreement. (B) The management and operation of the collection system for local authorities and municipal water and sewer companies, including preparation of assessments, debit production and the actual collection. Agreements in this industry are characterized in proceeds derived as a percentage of all actual collection. The length of engagement in both of Milgam's types of activity ranges between one year and ten years. In addition, Milgam operates in the parking services management domain[338], and also operates cellular parking activity as a franchise of the Local Government Economic Services Ltd., which operates cellular parking on a national level

338 The services in the field of parking management, which include management of parking tickets from the moment they are given up to the payment charge. According to this system, Milgam manages the relevant information systems of the local authorities. As of the date of the report, Milgam managed parking services in Tzfat, and the information systems for the parking management in Netanya and Rehovot.

under the brand name of Pango.[339] As of the date of the report, Milgam's activities in the parking segment are not material to Milgam.

Starting from September 2007, Tami held shares that represented about 91.5% of Milgam's issued and paid-in capital (approximately 79.2% in full dilution, at the time)..In December 2007, as part of the reorganization, the holdings of Tami and Milgam were transferred to Tahal Assets Israel.

In December of 2008, the chairman of the board of Milgam (in this section below "**Chairman of the Board**"), exercised an option that granted him by virtue of his employment agreement at Milgam the right to acquire through allocation of shares approximately 11.9% of the issued capital of Milgam fully diluted for NIS 8.59 for each share**.** The chairman of the board has a Put option to obligate Tahal Assets Israel to acquire these shares at a price of NIS 37.8 per share as long as he (or his authorized transferee) holds the shares. There is an agreement between the Chairman of the Board and Tahal Assets Israel which includes tag-along rights, rights of first refusal, and acceptable obligations in the event of the transfer of Milgam shares.

In January 2009, Tami exercised a call option to purchase the entire shares held by a shareholder of Milgam, (hereinafter in this Section: "**the Option Shares"**), based on a share price of NIS 37.8 per share, for an aggregate consideration of about NIS 5 million. In March of 2009, Tami transferred the assets to Tahal Assets Israel, with retroactive effect as of the date of exercising the option.

Further to this transfer and the exercise of the option by the Chairman of the Board, Tahal Assets Israel at the time of the report holds approximately 87% of Milgam shares. The Chairman of the Board, as said, holds approximately 11.9% of Milgam's shares, and the balance, approximately 1.3% of Milgam's shares are held by an additional shareholder. Milgam has an option, unlimited in time, to acquire these shares from the same shareholder at a share price of NIS 25.259.

As of December 31, 2009, Milgam's total assets amounted to NIS 135 million (Euro 25 million), in comparison to total assets of NIS 116.7 million (EUR 22 million) as of December 31, 2008. The total equity of Milgam as of December 31, 2009 is approximately NIS 58 million (Euro 11 million) in comparison to a total equity of NIS 55.7 million (EUR 10.5 million) as of December 31, 2008. In 2009, Milgam's revenues totaled NIS 152 million (Euro 28 million) in comparison to revenues of NIS 137 million (EUR 26.1) in 2008 and its net

[339] In July 2007, Milgam won the tender for the management of cellular parking in Israel for a period of 6.5 years. Winning this tender enabled Milgam to offer local authorities its services in the collection of parking fees through cellular phones. In order to provide such services, Milgam set up a company jointly with partners possessing the necessary technology. This company is under the control of Milgam.

profit from continuing operations totaled NIS 13.5 million (Euro 2.5 million) in comparison to a net profit of NIS 8.9 million (EUR 1.7 million) in 2008.

As part of a bank loans that Tahal Assets Israel received in September 2008 and June 2009, it pledged the entire shares of Milgam which it holds (approximately 87%). Moreover, the loan, in accordance with the terms of the loans imposes, various restrictions upon Tahal Assets Israel with respect to maintaining a minimum total equity of Milgam; maintaining different financial ratios by Milgam,; maintaining Tahal Assets Israel's control in Milgam; and restrictions on the use of dividend proceeds, management fees, or other funds distributed by Milgam to Tahal Assets Israel, such that any sum in excess of NIS 3 million per year will be directed as guarantee to repaying the loan. For details, see Section 10.17.3 [C] [1] of this part. As of December 31, 2009 and as of the date of the report, Tahal Assets Israel is meeting the financial ratios as aforementioned.

The amount that Tahal Assets Israel received from Milgam in 2009 as dividend and as management fees was a total amount of approximately EUR 2.07 million (approximately NIS 11.3 million). This total exceeds the threshold of NIS 3 million. Therefore in accordance with the conditions of the bank loans, any amount beyond that threshold will be used as security for repaying the loans to the bank.

In the first quarter of 2010, Milgam announced the distribution of dividends to all its shareholders in the sum of approximately EUR 2.3 million (approximately NIS 12 million), out of which Tahal Assets Israel share stood at approximately EUR 2 million (approximately NIS 10.5 million). Payment of the dividend sum to Tahal Assets Israel will be executed in stages during the year.

Close to the date of this report, Tahal Assets Israel received management fees from Milgam for 2010 of approximately Euro 0.3 million (NIS 1.5 million).

As of December 31, 2009, Milgam had a distributable profit balance of approximately Euro 6.12 million (NIS 33.3 million).

[D] **Hydro Caisan SA (“Hydro”)** – As of the date of the report, Tahal Assets holds 86.5% of the issued capital of Hydro, and the balance (13.5%) is held by private local developers in Panama (“**the Local Developers**”). Hydro, has a 50-year franchise for the operation of a hydraulic power plant in the Chiriqui Lake in Panama, of 60 megawatt (in this Section, “**the franchise**” and “**the Project**”, respectively). Hydro was awarded the Franchise in April 2007. The terms of the Franchise, *inter alia*, include an undertaking to meet certain timetables, in terms of both the commencement of the construction of the power plant and the completion of the power station’s construction. To guarantee Hydro’s undertakings under the Franchise agreement, including the supply of electricity according to timetables set in the Franchise, Hydro provided a bank guarantee in the amount of USD 240,000 (Euro 172,000). According to the terms of the franchise, which were amended in October 2009, the commencement of the construction of the power plant should begin in the third quarter of 2010 and the construction should be completed and the supply of electricity should start up until the third quarter of 2013 ("**Commercial Operation of the Project**"). The total investment in the Project is estimated at approximately Dollar 150 million (approximately EUR 112 million). In September 2008, Hydro won a tender for the sale of electricity. Following which, in October 2008, Hydro signed agreements governing the sale of some (approximately 22 megawatt) of the electricity it will produce to two electricity supply companies in Panama, for a period of 10 years commencing on January 1, 2013. To secure Hydro's obligation towards the electricity companies, Hydro received bank guarantees in a total amount of USD 1.25 million (Euro 0.9 million).

In September 2009, Hydro and its shareholders (Tahal Assets and the local developers) signed a memorandum of understanding with a Panamanian company (in this Section below, "**the Local Company**"), which engages, inter alia, in developing, construction and operation of hydroelectric power stations in Central America. Within the memorandum of understanding, the Local Company was granted the right to receive, by allocation, 50.1% of the share capital of Hydro ("**the Option**"), subject to the fulfillment of a number of contingent conditions, including receiving an approval to extend the dates for the beginning of execution of the work to construct a power station and their termination, and the Local Company's meeting a number of milestones. As of the date of the report, an approval to extend the dates as described above was received, and the Local Company met all the milestones it had to meet up to the date of the report. However, an official notice from the Local Company about exercising the option has not yet been received. If the Local Company exercises the option, the holdings of Tahal Assets and the local developers in Hydro will decrease, end in such case Tahal Asset's holding will be 43.25%. The consideration for the allocation of Hydro shares to the Local Company will be (a) an investment by the Local Company in Hydro in the sum of Dollar 6 million in cash or performing works for the Project in the said sum, and (b) changing 50.1% of the total guarantees Tahal Assets has provided regarding the Project (both the Franchise guarantee and the electricity supply guarantees). As of the date of the report, the Local Company has not yet provided notification regarding the exercise of the option, which it must provide up to the end of June, 2010. Additionally, according to the memorandum of understanding, in case the Local Company exercises the option and the commercial operating period of the project will start, Tahal Assets and the local developers will have a put option to oblige the Local Company to acquire their holdings in Hydro. The consideration Tahal Assets will receive for its holdings in Hydro, in case of exercise of the said option, is approximately Dollars 3.94 million (approximately EUR 2.8 million). In addition, the Local Company has a parallel call option to oblige Tahal Assets and the local developers to sell it their holdings in Hydro under the same conditions and at the same exercise price.

The said assessments of the Tahal Group regarding, the estimated scope of investment in the project, are forward-looking information as defined in the Securities Law, and are based on the assessments of the management of Tahal Assets, the management's experience in building projects and figures relating to the specific project. These assessments might not be realized, in whole or in part, or might be realized in a different, including significantly different manner than expected, as a result of delays in executing the agreements or in their becoming committing and obtaining approvals for performing the project, and as a result of changes in the definition of the project and the associated costs, as well as delays in the project's progress, the date of financial close for the project, the direct and/or indirect impact of the global economic crisis (such as stricter bank policy in providing project financing), and/or the realization of all or some of the risk factors set forth in section 10.25 of this part.

[E] **Via Maris Desalination Ltd. ("Via Maris") –**Tami holds 27.9% of Via Maris, which owns a 25-year franchise for a sea water desalination plant in Palmachim ("**Desalination Plant"**). The franchise for the desalination plant is a B.O.O agreement, signed in 2002, for the planning, funding, building, operation and maintenance of a sea water desalination plant with a capacity of 30 million cubic meters per year in Palmachim for a period of 25 years ("**the Franchise Agreement**"). In May 2007, the construction of the desalination facility was completed and it began selling water as planned. The cost of the investment recorded in the Via Maris books with the completion of the establishment of the plant for the construction of this project is at NIS 0.5 billion (about Euro 90 million). In 2008, Via Maris' revenues from the project amounted to approximately Euro 18 million, and in 2009 to approximately Euros 20 and the estimated revenues from the project in 2010 are approximately Euros 23 million.

In March 2009, following the procedure published by the State of Israel for expanding existing desalination facilities in Israel (in Ashkelon, Palmachim and Hadera), an amendment to the Franchise Agreement was signed between Via Maris and the State of Israel, regarding the expansion of the desalination plant ("**the Amendment of the Franchise Agreement**")[340]. According to the Amendment of the Franchise Agreement, the scope of the desalination plant will be expanded by 15 million cubic meters per year ("**the Expansion**"), so that it will stand at 45 million cubic meters per year. The price of the additional desalinated water that was produced by the desalination plant within the Expansion was set at NIS 2.6 per cubic meter, subject to adjustment and linkage provided for in the conditions of the franchise. According to the Amendment of the Franchise Agreement, Via Maris has undertaken to carry out the expansion in two stages: (1) in the first stage, which ended in March of 2009, an additional 5 million cubic meters of water is produced per year ("**stage A' of the Expansion**"); (2) in the second stage which is expected to end in July 2010, the facility will produce an additional 10 million cubic meters per year ("**stage B' of the Expansion**").

The cost of the required investment for the expansion is estimated at approximately $20 million (approximately Euro 14.3 million). To finance the required investment for the executing the Expansion, Via Maris in August of 2009 signed an amendment of the financing agreement which was signed with the same bank that provided the preferred financing (with preference over shareholder loans provided to Via Maris), for purposes of construction of the desalination plant ("**the Amendment of the Financing Agreement"**). According to the Amendment of the Financing Agreement, the bank committed to provide Via Maris with financing of 90% of the cost of the Expansion, and the balance will be financed by shareholders loans.

According to the Amendment of the Financing Agreement, Via Maris provided (through its shareholders) bank performance bonds in favor of the State of Israel of NIS 22.5 million, out of which NIS 5 million for Stage A' of the Expansion and NIS 17.5 million for Stage B' of the Expansion. After the completion of the expansion, Via Maris will be required, according to the Amendment of the Franchise Agreement, to change the bank performance guarantees with bank operating guarantees in the total sum of NIS 4.5 million, out of which NIS 1.5 million for Stage A' of the Expansion and NIS 3 million for Stage B' of the Expansion. As of the date of the report, following the completion of Stage A' of the Expansion, the bank performance bond of Stage A' was changed by a bank operating guarantee in the sum of NIS 1.5 million, and the bank performance bond of Stage B' of the Expansion is still in force up to the completion of this stage.

[340] The Amendment of the Franchise Agreement was amended once more in August 2009.

The above-stated assessments related to anticipated revenues from the desalination plant and the required sums for the expansion of the desalination plant and the date of completion of stage B' of the expansion are forward-looking statements as defined in the Securities Law and are based on Via Maris' forecasts and assessments. These assessments might not be realized in whole or in part or might be realized in a different, including significantly different manner than expected as a result of regulatory changes in the water economy, the direct and/or indirect implications of the global economic crisis and/or the occurrence of all or a portion of the risk factors described in Section 10.25 of this part.

Tami's holdings in Via Maris and in the operation company of the desalination plant (see chart in Section 10.3 of this part) were not transferred to Tahal Assets Israel as part of the reorganization. As of the date of the report, Tahal Group is examining the implications of the transfer of assets and at this stage the transfer is suspended. The holdings of Via Maris Desalination Joint Establishment will be left in the hands of the Tahal Group due to the nature of its business, which is execution activity.

[F] **<u>Agri Products International B.V ("Agri")</u>** – Agri is a Dutch company, which is engaged, through its subsidiaries, in the processing of agricultural produce. As of the date of the report, Tahal Assets held 51% of Agri's share capital. The remaining shares 49% were held by a group of partners. As of the date of the report Agri held 67% of the shares in Foodyard Holding A.D., a Bulgarian company that established as a factory for processing agricultural produce in Bulgaria ("**Foodyard")**. The remaining 33% shareholding in Foodyard is held by local partners. As of the date of the Report Foodyard held 71% of the shareholding of Mastfoods S.A., a Greek company that owns an active factory for processing agricultural produce in Greece ("**Mastfoods"**). The remaining shares of Mastfoods (29%) are held by local partners. As of the date of the report, the Bulgarian factory is not operational and is at the stage of closure and sale of equipment. Agri's revenues for 2009 amounted to Euro 5.77 million, mainly revenues of Mastfoods. Until 31 December 2009, Agri was provided with shareholders' loans in the amount of Euro 6.0 million by Tahal Assets and Karadn NV. The partners, both in Agri and Foodyard, did not provide their pro-rata share in the financing – as required by the resolutions of the boards of Agri and Foodyard - and, as a result, and in accordance with the provisions of the shareholders agreements in said companies, Tahal Assets and Agri are entitled, respectively, to dilute the pro-rata share of the other shareholders. As of the date of the report, the share capital has not been diluted.

[G] **<u>Tahal Water Energy Ltd</u>. ("Tahal Water Energy") –** a company established by the Tahal Group and a private Israeli partner, 81% of which is held by Tahal Assets Israel, which has engaged in the planning, construction and operating of a "pumped storage"[341] electricity power plant in Jordan Star (Kohav Hayarden) ("**the power plant**"). The activity of Tahal Water Energy marks the entry to a new area of private power plants in Israel. The power plant that Tahal Water Energy is planning to construct is expected to produce 300 megawatts of power and its estimated establishment cost is approximately $380 million dollars (Euro approximately 270 million) and its construction is expected to last about 3 to 4 years. The construction of the power plant will be self-financed and will also be funded by way of a project finance, i.e. financing by external parties (banks and financial institutions), which are repaid from the cash flow of the project for whose establishment the financing was provided. The establishment of the power plant is subject to directives and regulations in the area of electricity, including, *inter alia*, terms provided in a conditional license for pumped storage technology from the Electric Authority, granted to Tahal Water Energy ("**Permanent License"**) at a later stage pursuant to the Electricity Sector Law, 5756-1996.

In May of 2009, Tahal Water Energy received a conditional license to construct a power plant of 300 megawatts. The conditional license is in effect for a period of 6 years and is subject to the fulfillment of a number of benchmarks and cumulative conditions, including the signing of loan financing agreements for the project within 18 months of the receipt of the conditional license. As of the date of the report, Tahal Water Energy is meeting the benchmarks specified in the license. In addition, Tahal Water Energy has begun to examine possibilities for the required loan financing for the construction of the power plant.

In November of 2009, the Public Service Authority-Electricity ("**The Electricity Authority"**) published the tariff schedule for a private electricity producer using pumped storage technology. In general, two tariff schedules were established for available capacity, valid for 18 years from the start of the plant's operation. The first—for transactions for the acquisition by the administration of the supervisory, control and command system of overloads in transporting electricity in the national electricity network ("**the system administration**") (currently – the Israel Electricity Company Ltd.) of only available basic capacity from a power plant owner ("**changing availability**"); and the second

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341 Electricity production by water: the water is pumped and stored in an upper storage in times of low demand (nighttime hours) and channeled to the bottom storage to operate electricity turbines in times of peak(daytime hours). Pumped storage plants are an important tool, replacing expensive electricity production methods and making better exploitation and more efficient management of the electricity system possible.

for a transaction of providing the full dynamic and planning benefits of the power plant at the disposal of the system administration ("**fixed availability**"). As of the date of the report, the tariff arrangement relating to the fixed availability is limited to a maximal quota of scope of the installed cumulative supply of 450 megawatts by at least two different manufacturers ("**the maximal quota for fixed availability**"). The tariff arrangement regarding the fixed availability will be in effect for pumped storage producers that put the entire available regular capacity of the unit at the disposal of the system authority for at least six years..Tahal Water Energy has advised the authority of its intent to make its full plant supply (300 megawatts) available in connection with the fixed availability tariff arrangement (subject to concluding financing). As of the date of the report, a number of entities who have received a conditional license for the construction of a power plant with pumped storage technology are operating in Israel. In light of the competition between a number of entities with conditional licenses regarding the maximal quota for fixed availability, and in light of the uncertainty that Tahal Water Energy will attain financial closing regarding the financing of the project in general and to utilize to the fullest the maximal quota in particular, it is possible that Tahal Water Energy will not be one of the elements that will be provided with a permanent license. In this context it should be noted that the Electricity Authority is examining the possibility of increasing the maximal quota of fixed availability and in such case Tahal Water Energy's prospects of receiving a permanent license will grow.

The assessments by Tahal Water Energy related to the cost of the project, the period of its construction, the possibility that it will not receive a permanent license following the competition between a number of conditional license owners regarding the maximal quota for fixed availability, the possibility of increasing the quota of fixed availability and the effect of this increase on Tahal Water Energy's chances of receiving a permanent license, are forward-looking statements as defined in the Securities Law and are based on assessments by Tahal Water Energy management. These assessments might not be realized in whole or in part or might be realized in a different, including significantly different manner than expected as a result of changes in the availability of potential channels of financing, changes in the tariff regulation provisions published by the electricity authority, changes in building costs and construction delays due to regulatory and other delays, the direct and/or indirect implications of the global economic crisis and/or the occurrence of all or a portion of the risk factors described in Section 10.25 of this part.

10.10.3 Breakdown of Revenues

[A] Following are details on revenues from assets[342] of companies in the segment of investment in assets in 2009, 2008 and 2007 (data in euro millions):

	2009		2008		2007	
Investee company	**% of total income from the segment of investment in assets in 2009**	**Income**	**% of total income from the segment of investment in assets in 2008**	**Income**	**% of total income from the segment of investment in assets in 2007 [**	
Task	6.7%	3.5	5.4%	2.3	0.9%	0.1
Agri	10.7%	5.6	15.6%	6.7	39.4%	3.4
KWIG HK Group	29.2%	15.2	18.4%	7.9	-	-
Milgam[343]	53.4%	27.7	60.6%	26.1	59.7%	5.1
Total	**100.0%**	**51.9**	**100%**	**43.0**	**100%**	**8.6**

10.10.4 Order Backlog

The following is the order backlog of companies in the segment of investment in assets and the forecasted execution thereof as of December 31, 2009 (data in euro millions)[344]:

342 Revenues from sales only (less equity profits and other income).

343 Milgam is consolidated in Tahal Group's financial statements, starting from the fourth quarter of 2007.

344 According to the resolution of Tahal Assets' management, in case of anticipated revenues from income yielding properties, Tahal Assets recognizes the order backlog of sales for a period of 2 years only. Therefore the backlog presented in the table refers to revenues which are expected until the end of 2011.

The estimates regarding the order backlog are forward-looking information, as defined in the Securities Law, based on the estimates of the Tahal Assets regarding the fulfillment of the commitments by parties with which it has engaged. These estimates might not be realized or might be realized in a different, including

	Order Backlog		**Backlog Realization for The Year 2010**					**Backlog realization forecast for the Year 2011**
	Total Order Backlog For December 31st, 2009	**% of total order backlog for December 31st, 2009**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total for 2010**	
Task	15.3	15.7%	2.8	3.0	1.4	1.2	8.4	6.9
Milgam	53.3	54.6%	7.6	6.6	7.5	6.7	28.5	24.8
KWIG HK Group	29.0	29.7%	3.6	3.9	3.2	3.2	13.9	15.1
Total	**97.6**	**100%**	**14.0**	**13.5**	**12.1**	**11.2**	**50.8**	**46.8**

significantly different than expected due to the non-realization of forecasts on the pace of sales by the different companies, as a result of budgetary constraints that could lead to the cancellation of orders, as a result of the direct and/or indirect impact of the world economic crisis and/or the realization of all or some of the risk factors detailed in section 10.25 of this part.

The following is the order backlog of companies in the segment of investment in assets, as of December 31, 2008 (data in euro millions)[345]:

345 According to the resolution of Tahal Assets' management, in case of anticipated revenues from income yielding properties, Tahal Assets recognizes the order backlog of sales for a period of 2 years only. Therefore the backlog presented n the table refers to revenues which are expected until the end of 2010. Tahal Assets recognizes order backlogs from investments in companies operating projects only after the commencement of the execution stage of the project. In addition, Tahal Assets recognizes order backlog in cases where the cost of establishment is recognized as sales according to Standard IFTRIC – 12.

	Order Backlog		Backlog Realization for The Year 2009					Backlog realization forecast for the Year 2010
	Total Order Backlog For December 31st, 2008	% of total order backlog for December 31st, 2008	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total for 2009	
Task	**13.1**	**17.6%**	**1.5**	**1.6**	**5.0**	**3.9**	**11.9**	**1.2**
Milgam	**42.1**	**56.4%**	**6.8**	**6.2**	**6.7**	**6.3**	**26.0**	**16.1**
KWIG HK Group	**19.4**	**26%**	**2.8**	**3.6**	**3.0**	**1.8**	**11.1**	**8.3**
Total	**74.6**	**100%**	**11.0**	**11.4**	**14.7**	**12.0**	**49.0**	**25.6**

Common issues for the Project Activity Segment and the Segment of Investment in Assets Additional Details

10.11 Fixed assets and facilities

Below are details regarding the fixed assets and facilities in which the Tahal Group has leasehold interests:

The Site	Company holding interests in the asset	% of holding in the assets on or about the date of the report	Location	Interests in the asset	General details & notes
Agricultural produce processing plant	Agri[346]	34% direct and indirect holding by Tahal Assets	Bulgaria	Ownership	For details see section 10.10.2 [F] of this part
Agricultural produce processing plant	Agri through Mastfoods	24% sequenced holding by Tahal Assets	Greece	Ownership	For details see section 10.10.2 [F] of this part
Land & Buildings	Ekowark	100%	Poland	Ownership	Used for administrative purposes. For information on Ekowark see section 10.4.2 of this part
Land & the Tahal building on it, on an area of 3,300 sq.m. & 5,801 sq.m., respectively	Tahal	100%	Tel Aviv, Israel	leasehold	-Used for administrative purposes. See detailing regarding the transaction of this asset in this Section below
2 floors in an 11 story office building, of 680 sq.m. in overall area.	Tahal	100%	Haifa, Israel	leasehold	Used for investment real estate and for administrative purposes. The floors are partially leased to third parties.
Land on an area of 3,400 sq.m with warehouses in an area of 450 sq.m. .	Tahal	100%	Lod, Israel	Leasing	Investment real estate. The warehouses are leased to a third party, except for 100 sq.m., used by the Tahal Group.

In February 2010, Kardan Real Estate and Tahal contracted in an agreement to acquire lease rights of Tahal in the building situated at Ibn Gvirol Street in Tel-

[346] Through Foodyard Food, which is wholly owned by Foodyard.

Aviv and which serves, as of the date of the report, as Tahal's offices (in this Section: "**the Land**" and "**the Considerations Transaction**", respectively), and also in an agreement according to which Tahal will rent an office area of approximately 5,365 sq. m., additional service and parking areas in Kardan House (gross) from Kardan Real Estate for a period of 5 years with an option for an additional 5 years. Tahal is going to move its offices there, to Kardan House (in this Section: "**the Rental Transaction**"). The Considerations Transaction and the Rental Transaction are subject to the fulfillment of a number of contingent conditions, which have not yet been fulfilled in full as of the date of the report. For further details, see Section 8.6.8[E] of this part.

10.12 Marketing

Marketing activity, as well as project management and search of investments, is performed in the original Tahal Group by geographical responsibility division according to continents (Europe, America and Asia-Africa).

Some of the projects and investments are initiated by the Tahal Group, which identifies the necessity of the project to the customer or the investment to the Tahal Group according to the matter at hand, conducts financial feasibility studies, and sometimes organizes the funding solution for the project or the investment.

The Tahal Group's main success factors are active marketing through the identification and initiation of projects in countries with the potential of obtaining projects, joining partners from different countries in order to create synergy between Tahal's capabilities and those of its partners (foreign companies), financing and leverage resulting from independent sources of the Tahal Group, ability and access to financing sources and programs.

In addition, the original Tahal Group maintains continued relations with banks and financing and insurance institutions in Israel and worldwide in order to locate financing sources for projects.

The Tahal Group is not dependent on one person or entity with regards to marketing.

10.13 Competition

The original Tahal Group competes with international engineering companies, international companies performing extensive water infrastructure and water treatment companies, and with companies with holdings in the infrastructure industry.

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

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

For further details regarding the competition conditions in infrastructure areas, see Section 10.25.7 of this part.

10.14 Human Capital

10.14.1 The Tahal Group’s organization is based on its activity being divided into two business segments. In the project activity segment, the internal division is geographical (Europe, Latin America, Israel and Asia-Africa) (“**geographic division**”), and in the segment of investment in assets each company is managed by its own management, this in addition to the management and headquarters' departments of the Tahal Assets groups. In addition, in the project activity domain, an executive sector was established, which is an additional division of the Tahal Group's headquarters that operates parallel to the geographic division, and deals with all the aspects of executing projects.

10.14.2 The Tahal Group invests resources in training employees through professional training courses, in-house training, studies for advanced degrees and language courses.

10.14.3 Unique collective labor agreements apply to all Tahal Group's employees in Israel (as the term is defined in the collective agreements Tahal Group signed) (150 employees as of December 31, 2009, and 150 employees, as of this report). The said agreements regulate, *inter alia*, work procedures, work conditions including payments and various benefits, allocations and deductions, dismissal and retirement procedures (including determining a mechanism to settle disputes in cases in which the workers’ committee oppose the dismissal), basic rights and obligations, managing discipline offences, workers’ rights at retirement (increased compensation or early application). In addition, the permanent employees of Tahal in Israel are subject to a unique collective agreement pertaining to wages and overseas work conditions, which stipulates various conditions relating to employees that are sent to work overseas on behalf of the Tahal Group. The labor agreements with the other employees are personal work agreements.

10.14.4 The table below is a breakdown of Tahal Group employees, as of December 31, 2008 and 2009.[347]

Region	Number of employees as of December 31, 2008	Number of employees as of December 31, 2009
Israel	971	1,058
Eastern Europe	395	416
Latin America	17	17
Asia and Africa	298	424
Total	**1,681**	**1,915**

The increase in the number of employees in Israel in 2009 stemmed from an increase in the number of Milgam employees. The growth in the number of employees in East Europe stemmed as a result of the fact that on December 31, 2008, the employees of Task and Agri were not included in the employee work strength of the Tahal Group, and despite reductions in manpower in Romania, Serbia and Russia at a rate of 25%, which were performed in the beginning of 2009 due to the global economic crisis. The increase in the number of employees in Asia and Africa stemmed mainly from the increase in the number of employees of KWIG HK.

As of December 31, 2009, Tahal Group employed 931 people and Tahal Assets employed 984 people, and in total 1915 employees.

10.14.5 Options for Senior Executives

In March of 2009, the Executive Board, the Board of Directors and the General Meeting of Tahal International approved an option plan ("**the Plan**") for employees, directors, and consultants ("**the Offerees"**) and also approved the signing of agreements to grant options under the Plan for three Offerees, as detailed below.

The first Offeree is the Chairman of the Board of Tami who also serves as a member of the Supervisory Board of Tahal International. The Chairman of the Board of Tami was allocated with Tahal International options, convertible into shares, constituting 3% of Tahal, at an exercise price reflecting a value of $20 million (Euro 15.6 million) to Tahal International. Commencing on their issue date, which was June 16, 2009, and up to 31 December 2012, all the options can be exercised..

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347 Except for employees of Task and Agri who are not part of Tahal Group's workforce following a managerial resolution of Tahal Group's management.

The second Offeree is the CEO of Tami (**“the CEO”**) who also serves as a chairman of the Executive Board of Tahal International. The CEO of Tami was allocated with Tahal International options, convertible into shares, which constitute 3% of Tahal International's issued share capital after the allocation, at an exercise price reflecting a value of $40 million (Euro 30 million) to Tahal International. Under the terms of the agreement, the options were exercised in 4 (four) tranches, one quarter at the end of each year, starting on the date of the commencement of the CEO's employment at Tahal International. The exercise period starts on the date of entitlement for the exercise of any portion of the Options, as stated, and ends on December 31, 2012.

An additional offeree was allocated with Tahal International options, convertible to shares and constituting 0.5% of the issued share capital of Tahal International after the allocation, at a realization price reflecting a value of $40 million (Euro 30 million) for Tahal International. The options may be exercised in 4 (four) tranches, one quarter at the end of each year, starting on the date of this Offeree’s employment by Tahal International. The exercise period starts on the date of entitlement for the exercise of any portion of the options, as noted above, and ends on 31 December 2012.

The expense included in the financial statements of Tahal International for 2009 pertaining to the said options amounted to about Euro 160 thousand.

10.15 Suppliers

The original Tahal Group purchases equipment for projects in the field of infrastructure (such as pumps, valves, piping, electrical appliances, instrumentation and control systems) from a large number of suppliers in Israel and abroad. Tahal is not dependent on any specific supplier or any one product.

Tahal Group usually enters into agreements with independent subcontractors for the purpose of executing its projects. Tahal International's subsidiaries usually approach several leading local subcontractors in order to get offers for the execution of a project. The projects are usually carried out under the Turn Key method using one general contractor that enters into an agreement with the relevant subsidiary company for the purpose of executing the project. The head contractor enters into agreements with the subcontractors, according to which the latter work on portions of the project in such a way that the head contractor is directly responsible for the relevant subsidiary company for building the entire project. For information regarding the risks to the Tahal Group as a result of entering into agreement with subcontractors, amid the global economy crisis, see sections 10.8 and 10.25 of this part.

10.16 Working capital

Customer credit—the customer credit policies of the Tahal Group vary from project to project. On execution projects, Tahal Group operates under a system in which it receives down-payments from customers to avoid exposure (about 10% or more of the value of the project). The average number of credit days for clients in 2009, in practice, was 140. The average number of credit days for clients according to the contracts in 2009 was 60.

Supplier credit— in execution projects, Tahal Group generally uses a system of down payments as percentage of the project, usually at a lower rate than with customer credit. Tahal Group makes considerable purchase and supply of equipment to projects with letters of credit, with due dates later than the date of receipt of payment from the customer. The average number of credit days for suppliers in 2009 was 90.

The difference between the average credit days in practice and the average credit days according to the contracts and the average credit days for suppliers stemmed from arrears of payments, mainly of clients in East Europe and Africa.

10.17 Financing

10.17.1 Tahal International

Tahal International finances its activities primarily through shareholders' loans which it receives from the parent company, Kardan NV. The bulk of the shareholders' loans are needed for financing of Tahal Assets. Tahal International is exploring possibilities of diversifying its sources of financing, including through recruiting capital from private bodies as detailed below.

[A] Shareholders' loans

As of December 31, 2009, the total amount of loans provided by Kardan NV to the Tahal Group was Euro 89.4 million (and on the date of report – Euro 84 million). In March of 2009 and with retroactive effect as of December 31 2008, Kardan NV capitalized a sum of Euro 9 million from the balance of shareholders' loan it provided Tahal International for the shareholders' equity of Tahal International. For details see section 10.5.2 of this part.

For details regarding a loan of EUR 18 million that Kardan NV granted to Tahal International for the purpose of acquiring debentures (series A') of Kardan NV, see Section 16.2[A] of this part.

[B] Raising capital from private parties

In October of 2009, Tahal International began the process of raising up to Euro 70 million in capital from private investors. The purpose of raising the capital is to enable Tahal International to implement its growth plan in the coming years. The funds raised will serve to develop Tahal Assets’ operations, by realizing existing deals (Pipeline) in the field of investment in assets and its expansion as well as also serving to carry out strategic acquisitions for the purpose of the development and expansion of Tahal Assets’ operations. This comes against the backdrop of rapid growth of the global water economy and the business opportunities that this growth creates for Tahal Assets. The raising of capital will be carried out with the involvement of Poalim Capital Markets Ltd., through a private allocation, whereas following the execution of the allocation, the investors will hold minority shares in the company.

10.17.2 Tahal Group

Tahal Group finances its operations through its equity, approved bank credit lines and from positive surplus cash flows generated by the projects. Project activity purchases may be financed by Tahal Group through shareholders' loans.

As of the date of this report, the Tahal Group is examining the possibility of contracting with one of a number of banks regarding a new financing arrangement that will suit the new structure of the Tahal Group and the possible growth in its activity. The arrangement will *inter alia* cover credit facilities for the Tahal Group and Tami and their financial covenants.

[A] Shareholders' loans

As of December 31, 2009 and the date of the report, the outstanding shareholders' loan which Tahal International provided to Tahal Assets amounts to approximately EUR 16.4 million..

[B] Credit facilities

The following credit facilities are those of investee companies (primarily Tami) used by the Tahal Group; an approved credit facility for a total of $38 million (about Euro 25 million) and in addition, guarantees amounting to $95.8 million (about Euro 64 million). As of December 31, 2009, the credit facility was used in the sum of approximately Dollar 33 million (approximately EUR 22 million) and the guarantees were used in the sum approximately Dollar 84 million (approximately EUR 56 million). As stated, as part of negotiations with banks regarding a new financing arrangement (as detailed in section 10.16.4 [C] of the report), the credit facilities will be adjusted for the possible growth in Tahal Group's business.

[C] Tami

Tami's agreement with the financing banks require it to comply with several financial covenants.

As part of its financial covenants, Tami undertook to maintain each of the financial ratios based on its consolidated and audited financial statements. These ratios include:

[1] Tami's total minimum tangible capital (as defined in the stipulation document) will not at any time be less than NIS 32 million, linked to the consumer price index, starting from the price index published in July 2000.

[2] The total basic shareholders' capital will increase on January 1 of each year as of January 1, 2002 at rate of 4% of the total capital in the previous year[348].

[3] The ratio between the total current assets and the total current obligations will be greater than 0.8.

[4] The ratio of total tangible capital to total credit and loans from financial institutions will not be less than 27% at any time.

[5] The financial debt to operating profit ratio as defined in the document will be less than 3.75 and the average ratio of financial debt to operating profit based on Tami's last three consecutive annual financial statements will not exceed 3.5.

In addition, Tami has undertaken to Bank Leumi that the Tahal Group will remain its controlling shareholders and that its holdings in Tami will not be less than 60% fully diluted in the event of a sale and/or allocation of Tami's shares to a strategic investor with the bank's approval and that the holding in Tami will not be less than 51% fully diluted in the event that Tami's shares are issued.

Tami has further undertaken that Tami's dividend distribution would be limited to a rate that will not exceed 50% of Tami's net income from operating activity based on Tami's annual financial statements for the previous calendar year.

As of December 31, 2009 and the date of the report, Tami is satisfying all of its said financial obligations.

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[348] As of December 31, 2009, the total basic shareholders’ capital is approximately EUR 12.4 million.

As stated in this section above, the Tahal Group is conducting negotiations with a number of banks regarding a financing agreement, including with respect to Tami's compliance with the said financial covenants. Against this backdrop, a letter of intent was signed between Tami and a Bank, in May 2009, according to which the bank provides a line of short-term credit to Tami (up to May 15, 2010) in an amount of up to Euro 15 million. The interest conditions of the credit line are determined according to market prices at the date of the provision of the loan according to the type of currency and the period of credit. As of December 31, 2009, Tami has used a sum of approximately EUR 13.8 million out of the said credit line. In the context of the said letter of intent, Tami committed not to pay off current or future shareholders' loans given to it by the Tahal Group as long as Tami has not made its payments to the bank to which it is entitled according to the letter of intent. In addition, to secure Tami's obligations to the bank, Kardan NV provided a continuing guarantee for the benefit of the bank in the sum of Euro 15 million.

10.17.3 Tahal Assets

Tahal Assets – Regarding projects of investment and operation, Tahal Assets usually finances its investments through shareholders loans and/or through project finance, ensuring that the financing institutions will primarily depend on the asset's cash flow for the repayment of loans they provided for its establishment or purchase.

[A] Shareholders' loans

As of 31 December 2009, and on the date of the report, the outstanding shareholders' loan extended to Tahal Assets by Tahal International totaled Euro 39.2 million.

[B] Credit facilities

As of December 31 2009, an investee company of Tahal Assets (Milgam) had a credit facility of NIS 50 million (Euro 9.2 million).

[C] Loans from banks and other institutions

[1] In September 2008, Tahal Assets Israel received a bank loan in the amount of NIS 40 million (Euro 7.5 million) at an interest rate of prime plus 1.35% for a period of eight (8) years. As collateral for repayment of the loan, Tahal Assets Israel registered, a sole, exclusive and first-ranking lien in favor of the bank, on shares of Milgam which were held by it on the date of the loan. Tahal Assets Israel undertook that during the loan period, the capital of Milgam would not be less than NIS 34 million, the total capital report on financial condition (balance

sheet) to total assets will not be less than 30%, Milgam's total capital will not at any time, be less than the total debts to the bank, the ratio of Milgam's debts to financial institutions to EBITDA will not exceed 4. In addition, Tahal Assets Israel undertook that it would always maintain direct control of Milgam and, direct or indirect control in Mitar. Furthermore, Tahal Assets Israel undertook to the bank that all amounts in excess of NIS 3 million (about Euro 0.6 million) per annum that Milgam distributes as a dividend, as management fees, or any other distribution, to Tahal Assets Israel, will be used to repay the loan.[349] In June of 2009, Tahal Assets Israel received an additional loan from the bank in the amount of NIS 5 million (approximately Euro 950 thousand) at an interest rate of prime plus 2.15% per year for a period of seven years and six months. As security for repayment of the loan, Tahal Assets Israel encumbered additional shares which it acquired for the benefit of the bank after taking out the first loan, so that as of the date of the report, all of the shares of Milgam (approximately 87.5%)[350] which Tahal Assets Israel holds are encumbered for the benefit of the bank. Tahal Assets Israel’s obligations in connection with the first loan applied to Tahal Asset Israel also with respect to the additional loan. As of December 31, 2009, the loan balances to the bank stood at a sum of NIS 38.4million and NIS 7.06 million respectively. As of December 31, 2009 and close to the time of the report, Tahal Assets Israel is meeting the said financial obligations, based on its financial statements of December 31, 2009.

[2] In December 2008, Tri River (through which the KWIG HK holds Tian He, as described in section 10.10.2.[B] 2 of this part) and Perilla Water Group Ltd. (through which the KWIG HK owns Huanke Water, as described in section 10.10.2[B]1 of this part) received bank loans totaling USD 35 million each (about Euro 26.2 million) (including USD 12.4 million provided as of December 31, 2008 and the remainder was provided during January 2009), for a period of 6 years. Perillia's portion of the original amount of the loan was USD 17.9 million (approximately Euro 13.4 million) and the portion of Tri River was USD 17.1 milion (approximately Euro 12.4 million). As of December 31, 209, the balance of the loan is EUR 24.3 million (of which Perilla owes approximately Euro 12.4 million, and Tri River owes approximately Euro 11.9 million).

Under the loan agreement Tahal International undertook not to place a lien on the shares of Tahal Assets,; Tahal Assets created a negative lien in favor of the bank on the shares of KWIG Cayman, Perilla created a negative lien in favor of

349 For details on the distribution of dividends by Milgam in 2009 and close to the date of the report, see section 10.10.2 [D] of this part.

350 For details regarding the updated structure of holdings in Milgam, see Section 10.10.2 [D] of this part.

the bank on the shares of Huanke Water, KWIG Cayman and Tri River created a negative lien in favor of the lending bank on all their assets; Perilla and Tri River also undertook that any other loan or financing that the they received from the shareholders (other than certain amounts stipulated in the agreement) will be subordinated to the debts of Perilla and Tri River to the bank. Additionally, Perilla and Tri River undertook towards the bank not to distribute or pay any payment of their profits or capital, including payment of dividends, interest, management fees or any other type of payment to their shareholders, unless they meet and fulfill all their obligations towards the bank, without any arrears whatsoever and also on condition that paying dividends will not cause a violation of their obligations towards the bank. On the date of transfer of the holdings from KWIG Cayman to KWIG HK, which was performed with the bank's approval, KWIG HK took upon itself obligations identical to said KWIG Cayman obligations in favor of the bank. Additionally, Tahal Assets created a negative lien on KWIG HK shares in favor of the bank. Kardan NV provided an unlimited guarantee to the bank, in connection with the payment of the loan. Kardan NV has also undertaken to comply with different financial covenants, including: (1) the tangible equity attributed to the shareholders of Kardan NV will not be less than Euro 290 million; (2) the ratio of tangible equity attributed to the shareholders of Kardan NV to total assets, (unconsolidated) of Kardan NV will not be less than 30%; (3) the ratio of total tangible shareholders equity of Kardan NV to total assets (consolidated) will not be less than 12%; (4) and Kardan NV's control in KWIG Cayman and the corporations controlled by it will be maintained by all means of control. Commencing January 2010, and for a period of 18 months, the obligations described in sections (1) and (2) above have been changed with obligations according to which Kardan NV will maintain the higher of the following ratios: (1) the total tangible capital attributed to Kardan NV's shareholders will not be less than EUR 260 million; (2) the ratio between the tangible capital attributed to Kardan NV's shareholders, and the total of Kardan NV's statement of financial position will not be less than 27%. As of December 31, 2009, and close to the date of the report, Kardan NV is meeting its said financial obligations, based on its financial statements of December 31, 2009.

On the date of transfer of the holdings from KWIG Cayman to KWIG HK, Kardan NV's obligation as stated in Section 4 regarding the control of KWIG Cayman was adjusted, and it committed that Kardan NV's control of all the means of control in KWIG HK and the corporations controlled by it will be maintained.

[3] On December 2009 Tian He[351] entered into two loan agreements with the Bank of China for a total amount of RMB 146.64 million (approximately Euro 16 million). One of the loans is for a total amount of RMB 108.23 million (approximately Euro 11.6 million) and for a period of 9 years. The second loan is for a total amount of RMB 38.41 million (approximately Euro 4.2 million) and for a period of 6 years. The two loans bear interest at a rate equal to the official interest rate of the Central Bank of China (a variable interest rate, equal to 5.94% close to the time of the report), in addition to the payment of a one-time commission to the bank in the amount of RMB 4.5 million (approximately Euro 0.5 million). Tian He intends to use the major part of the total amount of the loans (approximately RMB 103 million, approximately Euro 11.3 million) for the repayment of a shareholders' loan provided to Tian He by Tri River, which in turn intends to use the proceeds received from Tian He to repay the loan mentioned in section 10.17.3[c][2] of this part, all with the consent of the bank which granted the loan to Tri River. As a guarantee for the repayment of the loans, the following securities were provided: (a) the encumbrance of Tian He's shares by Tri River; (b) the mortgaging of the land on which the Tian He's Plant (as defined in Section 10.10.2[B][2] of this part) is constructed; (c) the mortgaging of the facilities constructed as part of the project, which following the receipt of the governmental approvals for the finalization of their construction will be converted to mortgage over the constructed facilities; and (d) the encumbrance of the rights to collect proceeds from clients with whom Tian He has an engagement.

10.18 <u>Guarantees and Liens</u>

10.18.1 The total of amount of guarantees provided by Kardan NV to the Tahal Group as of December 31, 2009 is about Euro 63 million. Additionally, Kardan NV has provided companies in the Tahal Group with different performance guarantees.

10.18.2 <u>Tahal International</u>

Pursuant to the loan agreement with two subsidiaries wholly owned by KWIG HK - as described in section 10.17.3[C][2] of this part - Tahal International undertook not to pledge its shares in Tahal Assets.

10.18.3 <u>Tahal Group</u>

Tami and Tahal provided customers with bank guarantees totaling about Euro 59.6 million as of December 31, 2009, in respect of advances they received for

[351] For s description of the investment in Tian He, see section 10.10.2[B][2] of this part.

projects and the execution of work, for letters of credit as well as for investment in the Via Maris Project (see section 10.10.2[E] of this part).

The breakdown the Tahal Group's guarantees are as follows:

Type of guarantee	**Total guarantees as of December 31, 20098 (in euro millions)**
Guarantees for advance payments from customers	21
Performance and Tender Guarantees	33.2
Total	**54.2**

10.18.4 Tami has issued an irrevocable guarantee to Tahal in favor of Israeli banks to fulfill Tahal's obligations by using Tahal's real estate property (see section 10.11 of this part) as collateral or by any way to be agreed between the companies from time to time.

10.18.5 Tami, together with others, provided a guarantee unlimited in amount in favor of the State of Israel, to secure the liabilities of a subsidiary Via Maris, in connection with its compliance with the terms of the franchise vis-à-vis the State of Israel.

10.18.6 Tami and Tahal each created a floating charge on their assets in favor of a bank. In addition, Tahal pledged rights to the Tahal building in Tel Aviv[352] and a real-estate property in Haifa in favor of a bank (for a description of the real-estate properties, see section 10.11 of this part).

10.18.7 Tahal Assets

To secure the loan which Tahal Assets Israel received from the bank, Tahal Assets Israel created a first-ranking fixed lien in favor of the bank on all of its shares of Milgam.

10.19 Taxation

10.19.1 For a description of tax aspects related to holdings in companies incorporated in the Netherlands, see section 17.1 of this part.

10.19.2 Tami has four approval statements for "approved plans" accepted from the Investments Center that relate to the tax rates applicable to profits generated by several projects in respect of the exports share in these profits, and provide Tami a reduced tax rate of 25%. Some of the approval statements were provided for a period of two years which was extended from time to time, and some are

[352] Removing the said charge is a contingent condition to Considerations Transaction. For details regarding the transaction see Section 10.11 of this part.

provided for the entire duration of the project. As of the date of the report, activity has been concluded on three of the four projects. Final execution approvals were received for all the projects that ended during 2009.

10.19.3 As of December 2009, Tami has carryforward losses from previous years, which on December 31, 2009 totaled approximately Dollar 2.3 million (approximately EUR 1.6 million) which were created in previous years from ongoing operations. In 2009, Tami had losses for tax purposes that have not yet been declared in the amount of approximately Dollar 0.1 million (approximately EUR 0.1 million). Tahal has carryforward losses from previous years which on December 31, 2009 totaled approximately Dollar 1.5 million (approximately EUR 0.9 million). In 2009, Tahal had accumulated profits in the amount of approximately Dollar 1.9 million (approximately EUR 1.3 million).

10.19.4 Tami and Tahal have received final tax assessments for 2000. On October 31, 2005 they received tax assessments for the fiscal years 2001-2003 pursuant to which they are required to pay a tax supplement totaling approximately NIS 14.5 million (approximately Euro 2.7 million).

An agreement between Tami and Tahal and the tax authorities was signed in August 2009, which was validated as a verdict, regarding the assessments they received for 2001-2003, according to which Tami has to pay approximately NIS 1.4 million (approximately EUR 250 thousand) including linkage and interest differences.

10.19.5 During December 2008, both Tami and Tahal received tax assessments for the tax years 2004 to 2006 pursuant to Tami is required to pay an additional tax of about $0.9 million (Euro 0.6 million). Tami and Tahal filed appeals on said assessments. During 2009, discussions were held with the tax authorities regarding the assessment for 2004, and after an agreement was not reached, court ordered tax assessments were issued to Tami and Tahal in January 2010, according to which Tami is required to pay approximately NIS 4 million (approximately EUR 0.8 million). Tami and Tahal have appealed to the court regarding said assessments and as of the date of the report, there have been no deliberations in the matter.

10.20 The <u>Environment and Environmental Regulations</u>

The Tahal Group's activities are subject to environmental protection laws and regulations in the countries in which it operates and Tahal Group complies with these laws and regulations.

In addition, the Tahal Group operates in accordance with recognized quality standards in Israel and worldwide, and has an ISO 9001-2008 certification, which is an international and Israeli standard.

10.21 Restrictions and Supervision

The Tahal Group is subject to regulations and standards in the countries in which it operates regarding water-sewage, energy, gas and agriculture. Among others, the Tahal Group is subject to general requirements and different laws, including tender laws, environmental laws, planning and construction laws and local labor laws. The Tahal Group complies with regulations in the execution of projects in each of the countries in which a project is being carried out. The Tahal Group also complies with engineering standards as required in the execution of planning projects and general projects, and accordingly, with all the provisions of the laws and standards of Israel and in each of the countries in which a project is carried out.

10.22 Collaboration Agreements

The Tahal Group enters into business alliances in projects in Israel and worldwide with Israeli and foreign companies, and is a party to the establishment of joint venture for the purpose of participating in tenders in accordance with the format and threshold terms that are required in the various projects it executes.

In September 2009, an agreement was signed between Tahal Assets Israel and a French company Veolia Eau Compagnie General des Eaux. In the agreement, the parties agreed to establish a designated company (SPC), equally owned by the parties (50% each) (hereafter in this Section: "**the Designated Company**"), that will submit a bid in the tender published by the State of Israel in January 2009, for a B.O.T, project for the planning, financing, construction, operation and maintenance of a seawater desalination plant with a producing capacity of 150 million cubic meters per year in [Nahal] Soreq, for a period of 24 years and 11 months (**"the Tender"**). In October of 2009, the Designated Party submitted a bid in the context of the tender and in December 2009 the State of Israel announced that another bidder won the tender. The Designated Company is examining its further actions in light of that announcement of regarding the winning bid.

10.23 Insurance

The Tahal Group has an obligation to guarantee the quality of the services it provides. The Tahal Group is insured by a professional liability insurance up to $10 million (about Euro 7.15 million) per claim. Tahal Group's excess insurance stands at a total of $75,000 (about Euro 54,000) per claim. In 2009, Tahal Group did not make a provision for deductible amounts in connection with claims.

10.24 Business Strategy and Goals

The Tahal Group's strategy includes the following principles:

The continued increase of activity in the project activity segment, specifically through projects that include management, planning, purchase, establishment and at times, setting up the financial solution for the client (for example, in Turn Key projects), in addition to Tahal's operations in the field of engineering and supervision services.

The expansion of activity in the segment of investment in assets, through the acquisition of infrastructure assets in the water and sewage segments that have a significant rate of return for a length of time.

The aforesaid in this section constitutes the Tahal Group's plans and estimates and is forward-looking information, as defined in the Securities Law, which is based on Tahal Group's experience and familiarity with its business operations. These estimations might be realized, in its entirety or in part, or might be realized in a different, including significantly different manner than expected,, as a result of changes in the countries Tahal Group operates in, or changes in market condition, including due to the direct and/or indirect implications of the global economic crisis, and/or the realization of all or some of the risk factors detailed in section 10.25 of this part.

10.25 Risk Factors

The Tahal Group operations' involve the following risk factors:

Macro Risk-Factors

10.25.1 The **crisis in the world economy –** In 2008, global financial markets recorded a severe downturn which persisted into the first half of 2009 causing a global economic crisis. As of the date of the report, it is not clear if the direct economic implications of that crisis have played themselves out but the assessment is that the worst of the world economic crisis has passed. For additional details regarding the crisis in the world economy, see Section 6 of this part.

The Tahal Group, the value of its assets, its financial results, its total capital and its ability to dispose of assets, its business condition and the ability of the

Tahal Group to comply with the financial covenants vis-à-vis lenders and to secure financing for projects and holdings in the segment of investment in assets (including with respect to the terms of the financing) are exposed to negative consequences of the crisis, in the short, medium and long term. In addition, significant capital is required for infrastructure development projects relating to both the project activity segment and the segment of investment in assets. In light of the foregoing, the consequences of the global economic crisis is liable to materially affect the business and/or development results of the Tahal Group, due to the fact that the Tahal Group may be unable to raise the required capital for such projects or that the raised capital will be on less favorable terms than in the past.

10.25.2 **Investment in developing markets characterized by political instability –** The Tahal Group operates in developing and emerging markets in Asia, Africa, and Central-Eastern Europe, and is therefore exposed to the risks entailed in activities in developing countries (including governmental, regulatory, political and military risks, and local economy risks). It should be stated that some Eastern European countries are not part of the EU. Political and security instability in countries the Tahal Group operates in (including nationalization of property by the authorities and various regulatory changes) could affect markets in those countries, and therefore negatively affect Tahal Group activities, including the funding and outcome of activities.

10.25.3 **Cancellation of existing projects due to financing difficulties of the customer/supplier/subcontractor—As a result of** the crisis in the world economy, as detailed in section 6 of this part, the results and revenues of suppliers and contractors which the Tahal Group uses in the construction of its projects have been hurt. At the same time the policies of the local authorities and state authorities regarding investment in infrastructure underwent change and are liable to change again in the future, inter alia, by reduction of the investment in infrastructure. As a result, Tahal Group's customers could cancel projects already in progress, especially projects in which construction has not yet begun and/or tenders that Tahal Group had prepared. In addition, the suspension of activity by some subcontractors could also impact timetables and increase Tahal's expenditures as a result and in extreme cases lead to the cancellation of projects. Such cancellations could adversely affect Tahal Group’s business, its financial condition, and operating results.

Industry Risk Factors

10.25.4 **Execution risks** --Infrastructure development and construction projects are subject to various execution risks including the inability to complete the project construction on time, within budget or to the specifications and standards that have been set in the specific contract; delays in meeting project milestones or achieving commercial operation by the scheduled completion date resulting in increased financing costs, delayed payments from the client, the invocation of liquidated damages or penalty clauses by the client, or even in termination of the contract; inability to arrange for adequate financing on favorable terms as and when required to complete such projects; inability to recover the targeted return on investment if the assumptions contained in the feasibility studies for these projects do not materialize; unforeseen site and geological conditions which may make the site unsuitable for the project; and delays associated with the inability of the clients to complete acquisition of private land for such projects. The occurrence of any of the above mentioned risks could materially affect the Tahal Group's businesses, results of operations and financial condition.

10.25.5 **Limited ability to negotiate –** In the majority of cases, counterparties to most of the Tahal Group's infrastructure development and construction contracts are government entities and the Tahal Group only has a limited bargaining and stipulating ability regarding the existing standard terms of government contracts. Consequentially, many terms in the agreements entered into tend to favor the client and may adversely affect the Tahal Group, its business, financial position and financial results. . For example, infrastructure contracts may include provisions that enable the client to terminate the contract without cause after only providing a notice of termination. Performance guarantees are also common in contracts entered into by the Tahal Group. Such performance guarantees are typically unconditional, and forfeitable upon the client's demand. Within the context of Tahal Group's B.O.T. business, the nature of Tahal Group's contracts with various government entities is such that the Tahal Group has limited control over the terms relating to collection of fees for the infrastructure services and relating to the amount of the said fees. Collection of the fees and their amount are usually performed by the ordering governmental corporation and exposes the Tahal Group to said risks.

10.25.6 **Revenues of the Tahal Group as dependent upon winning tender offers -** The Tahal Group's business is substantially dependent on being awarded tenders for projects. Such projects are commissioned primarily by a limited number of government entities and funded by governments or international and multi-lateral development finance institutions. It is difficult to predict whether or when the Tahal Group will be awarded new tenders for additional projects, since many potential contracts involve a lengthy and complex bidding and selection process that may be affected by a number of factors, including changes in existing or assumed market conditions, financing arrangements, regulatory approvals and environmental matters. Because the Tahal Group's revenues are derived primarily from infrastructure development and construction contracts, a substantial portion of the Tahal Group's revenues, as well as its results of operations and cash flows can fluctuate materially from time to time depending on the timing of the awarding of contract. The Tahal Group's business is also significantly dependent on the Tahal Group obtaining additional contracts from and maintaining business relationships. Because of the nature of the Tahal Group's contracts, it sometimes commits resources to projects prior to receiving advances or other payments from the client in amounts sufficient to cover its expenditures. Delays in client payments may require the Tahal Group to make a working capital investment. Furthermore, infrastructure development and construction projects can become politicized. Any delay in providing the land in which the projects are planned to be constructed on by the relevant government may result in cost increases in the price of construction materials from original estimates given by the Tahal Group. Delays on the part of governments commissioning the projects may delay the financing necessary for the projects, which may affect the Tahal Group's ability to meet scheduled completion dates. If a client defaults in making its payments to the Tahal Group and/or if a client delays, cancels or fails to proceed towards completion of a project in which the Tahal Group has invested significant resources, this could have a material adverse effect on the Tahal Group's business, results of operations and financial condition.

10.25.7 **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 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 affecting the Tahal Group's financial results and financial situation is its ability to partner and collaborate with other companies as joint venture partners or co-sponsors. If the Tahal Group is unable to partner with other companies it may lose the opportunity to offer a bid and to participate in tenders for such projects. Some of the Tahal Group's competitors are larger than the Tahal Group and have superior financial resources. They may also benefit from greater economies of scale and operating efficiencies. Competitors may, whether through consolidation or growth, present more credible integrated and/or lower cost solutions than the Tahal Group. Consequentially, the Tahal Group may win fewer tenders. The Tahal Group's competitors with superior financial resources and greater economies of scale may be able to pre-qualify in their own right and/or attract a joint venture partner more easily than the Tahal Group. There is no certainty that the Tahal Group can continue to effectively compete in the future. Failure to compete effectively may have a detrimental effect on its business, financial condition and operating results of the Tahal Group.

10.25.8 **Capital requirements -** Infrastructure development projects or investment in assets are typically capital-intensive and require the provision of collateral. The Tahal Group's available financial resources may be inadequate for the projects and investment in assets. If the Tahal Group decides to meet these capital requirements through debt financing its interest obligations will increase and the Tahal Group may be subject to additional restrictive covenants that may affect its ability to undertake future infrastructure projects. Additionally, the Tahal Group cannot ensure that it will be able to raise adequate capital in a timely manner and on acceptable terms. The Tahal Group's inability to obtain adequate financing for the projects and the investment in assets may result in a delay, scaling back, or abandonment of existing or future projects.

10.25.9 **Approvals and licenses** - The Tahal Group requires certain statutory and regulatory approvals, licenses and permits. Applications for the above approvals, licenses and permits need to be made at the appropriate stages. Delays in obtaining approvals and/or licenses may result in cost increases in the price of construction materials that cannot generally be passed on to clients and may also materially affect its ability to mobilize equipment and labor. There can be no assurance that the relevant authorities will issue the Tahal Group the required approvals or licenses, or renewals thereof in a timely manner. Delays by such relevant authorities may delay financial closure within prescribed time limits, delay in locking in interest rates, or compliance with prescribed time limits for achieving the scheduled completion date for projects. As a result, the Tahal Group may not be able to execute its business plan. An inability to obtain or maintain approvals and/or licenses may adversely affect Tahal Group's operations. Regulatory approvals are often also subject to numerous conditions, some of which may require significant expenditure. Furthermore, approvals covering the same subject matter are often required at both the state and the local government level. If the Tahal Group fails to comply and/or a regulator claims that the Tahal

Group has not complied with certain conditions, the Tahal Group may not be able to commence or continue such projects.

10.25.10 **Delays in completing current contracts -** Failure to adhere to contractually agreed timelines could result in the Tahal Group being required to pay liquidated damages or penalty amounts, lead to forfeiture of security deposits, or performance guarantees being invoked. Delay in completing construction contracts could also result in the total cost of a construction contract to exceed the original estimates thereby resulting in reduced profits or losses. While most of the Tahal Group's infrastructure development projects and other construction projects have been completed within the specified completion schedules, there can be no assurance that the Tahal Group will be able to complete its current and future projects within specified schedules. Timely completion of these projects is subject to various execution risks as well as other matters, including securing financing and government approvals for such projects. For infrastructure development or in the award stage, the agreements or the letters of award also require that the Tahal Group achieves financial closure by a date specified in the relevant concession agreement or it may risk losing the project. Delays may also result in cost overruns, lower returns on capital and reduced revenue as well as failure to meet scheduled debt service payment dates.

10.25.11 **Exposure to risks in investing in turnkey contracts** - Some of the Tahal Group's construction projects are performed on a fixed-price or lump-sum basis. Under the terms and conditions of such fixed-price or lump-sum turnkey contracts the Tahal Group generally agrees a fixed price for providing engineering, procurement and construction services. The actual costs incurred by the Tahal Group may, however, vary from the assumptions underlying the Tahal Group's bid for several reasons including: unanticipated changes in engineering design of the project; inaccurate drawings and technical information provided by clients; design and construction conditions, site and geological conditions, resulting in delays and possible increased costs; inability by the client to obtain requisite environmental and other approvals for the project; delays associated with the delivery of equipment and materials to the project site; increases in construction equipment costs; delays caused by weather conditions; suppliers' or sub-contractors' failure to perform their obligations. Pursuant to certain contracts, the Tahal Group has agreed to provide execute projects at a rate specified in a so-called Bill of Quantity. Although the additional costs associated with additional work may not entirely be borne by the Tahal Group, the Tahal Group may bear the risks associated with costs exceeding the costs agreed. Unanticipated costs or delays in performance can result in increased costs. These variations may result in reduced profitability on projects, and depending on the size of a project, may also have a significant adverse effect on the Tahal Group’s results of operations.

10.25.12 **Insurance risks, warranty and compensation claims** -Infrastructure development projects and construction contracts are subject to various risks including: political, regulatory and legal risks that may adversely affect a project’s viability; changes in government and regulatory policies; delays in executing projects; the willingness and ability of consumers to pay for infrastructure services; the decrease or the rise of costs for construction materials; design and engineering defects; defective equipment; improper installation or operation of equipment; labor disturbances; terrorism and acts of war; inclement weather and natural disasters; industrial accidents; developments in the overall economic environment of the country in which the project is being constructed. While the Tahal Group is insured against loss due to the occurrence of accidents during the course of its projects, there can be no assurance that all risks are adequately insured, that a particular claim will be paid out of the Tahal Group's resources or that the Tahal Group will be able to procure adequate insurance coverage at reasonable rates in the future. Natural disasters may cause significant disruption to the Tahal Group’s operations, damage to the Tahal Group’s property and the environment. Consequentially, natural disasters could have a material adverse affect on the Tahal Group's business and operations. In addition, not all of the above risks may be insurable on commercially reasonable terms or at all. Although the Tahal Group believes that it has obtained sufficient insurance coverage, such insurance may not provide adequate coverage in certain circumstances. Furthermore, insurance claims are generally subject to deductibles, exclusions and limited coverage. The Tahal Group may bear damages for which it is not insured. The proceeds of any insurance claim may also be insufficient to cover the rebuilding costs. The Tahal Group may suffer material losses in excess of insurance proceeds which in turn may adversely affect its financial results and operations. The Tahal Group may be subject to claims resulting from defects arising from the planning and/or services provided by the Tahal Group within the project warranty periods. Actual or claimed defects in equipment and construction could give rise to claims, liabilities, costs and expenses, relating to loss of life, personal injury, damage to property or equipment and suspension of operations.

10.25.13 **Financial exposure in respect of the organization of financing packages –** in projects in which the Tahal group is a party to the organization of the financing package to customers, there is financial exposure in respect of the financing banks' right of recourse to the Tahal Group in the event of a breach of the terms of the financing agreements.

10.25.14 **Tax exposure –** the computation of the Tahal group's tax liabilities involves the interpretation and application of various tax treaties and laws. The Tahal Group executes transactions in various countries. In accordance therewith, the Tahal Group's activity is subject to the tax laws prevailing in the different countries and the computation of the Tahal group's tax liabilities involves the interpretation and application of tax treaties and laws of different countries. The Tahal Group computed its tax liabilities in reliance on its understanding of the applicability of the laws and treaties. Nonetheless, the tax authorities might interpret or apply relevant treaties and laws in a manner resulting in additional tax liabilities.

Unique risk factors

10.25.15 **Execution risks –** in light of the significant growth that is expected in the scope of projects (such as the projects in Angola and Ghana, as set forth in Section 10.9.4 of this part), the Tahal Group may face risks deriving from a deviation or mistake in pricing the projects, which result in considerable financial losses, in a larger scale than in the past. Such a deviation may be a result of engineering mistakes, pricing mistakes, an increase in the prices of raw materials, the work inputs prices and logistical problems that were not foreseen and/or previously known. The foregoing may result in the Tahal Group being unable to meet timetables and supplying a product/service of a low quality because of the lack of suitable manpower in the countries in which the Tahal Group operates.

10.25.16 **Execution risks in light of the joint operating frameworks -** On projects that may be awarded to the Tahal Group on the basis of joint venture partnerships or co-sponsorships, the Tahal Group may be jointly and severally liable for the performance of obligations by its joint venture partners or co-sponsors. In the Tahal Group's construction business, delay or failure on the part of a joint venture partner to timely perform its obligations could result in delayed payments to the Tahal Group, additional liabilities, or termination of a contract. In the Tahal Group's infrastructure development business, lenders may require joint and several undertakings and guarantees by the Tahal Group and its co-sponsors. This may result in amongst other things: non-payment of investment in share capital, a shortfall in funds necessary to complete the project and/or project cost overruns; shortfalls from time to time in operation and maintenance expenses; shortfalls [in the debt service reserve accounts] or shortfalls in interest payments. The inability of a joint venture partner to continue with a project due to financial or legal difficulties could mean that, as a result of the Tahal Group's joint and several liabilities, the Tahal Group may be required to make additional investments and/or provide additional services to ensure the performance and delivery of the contracted services. With respect to B.O.T projects the Tahal Group may be required to draw funds from the operations of its construction business or from external resources in order to satisfy its joint and several obligations to lenders. Therefore, in light of the foregoing, joint and several obligations could have an adverse effect on the Tahal Group's financial results and business prospects.

10.25.17 **Investment risks** – the investment activity is based for the most part on the leverage of the Tahal Group. Since the investment activity is primarily made in developing countries that benefit from rapid growth in the infrastructure segment on the one hand and are exposed to risks deriving from activity in developing countries (including political risks, regulatory risks, military risks and risks relating to the local economy) on the other hand, there is a risk with regard to the return on investment.

Below is a table rating, according to the Tahal Group's assessment, the type and influence of the risk factors detailed above on the Tahal Group's business:

Item in this part	**Risk factors**	**Degree of influence**		
		High	**Medium**	**Low**
	Macro risk factors			
10.25.1	Global economic crisis			X
10.25.2	Investments in developing markets characterized by political instability		X	
10.25.3	Cancellation of existing projects due to financing difficulties, difficulties of customer/supplier/subcontractor		X	
	Industry risk factors			
10.25.4	Performance risks		X	
10.25.5	Limited bargaining power		X	
10.25.6	Tahal Group's income dependence on winning tenders	X		
10.25.7	Competition		X	
10.25.8	Financing requirements		X	
10.25.9	Approvals and licenses			X
10.25.10	Delays in completing current projects		X	

10.25.11	Investment risks in turnkey agreements		X	
10.25.12	Compensation claims, liability and insurance risks			X
10.25.13	Financial exposure due to constructing financing packages		X	
10.25.14	Tax exposure		X	
	Unique risk factors			
10.25.15	Performance risks		X	
10.25.16	Performance risks due to joint operating frameworks		X	
10.25.17	Investment risks		X	

11. **Description of Vehicle Sales Field**

11.1. Kardan NV is active in the vehicle sales field through its holding, indirectly (through Kardan Israel), in UMI. Kardan Israel and Kardan NV indirectly hold 40.5% and 29.9%, respetively, of the issued capital of UMI.

Kardan Israel holds the entire issued capital of Kardan Motors, which holds approximately 90% of Taldan's issued capital. Taldan holds 45% of UMI's issued capital. UMI imports and markets vehicles made by General Motors, Opel and Isuzu and holds the franchise to import cars made by Saab and Hummer to Israel. UMI also markets spare parts for the vehicles it imports and deals in several complementary or related activities.

In order to secure loans of NIS 100,000 thousand and NIS 140,000 thousand that Kardan Israel took from Mizrahi Bank in March 2009 and from the Bereshit and Hadas funds, in October 2009, as detailed in Sections 7.4.3 and 7.11.3 of this part, 40.5% of UMI's shares held by Taldan and 90% of Taldan's shares held by Kardan Motors have been pledged under a first-ranking charge in favor of Mizrahi Bank and in favor of the Bereshit and Hadas funds. It is hereby clarified that the charge registered in favor of the Bereshit and Hadas funds, ranks *pari passu* with the charge previously registered on UMI's shares in favor of Mizrahi Bank, as described above, and, should the charge be realized, the proceeds will be split between the Bereshit and Hadas funds, and Mizrahi Bank, in equal shares. For further details regarding the aforesaid loans and the covenants relating to these loans, see Sections 7.4.3 and 7.11.3 of this part.

The balance of the principal of the loans secured by the aforesaid charge amounts (in nominal terms) to NIS 240,000 thousand as of the date of the report.

Kardan NV presents its investment in UMI in its financial statements according to the equity method.

11.2. Presented in the table below are data as of December 31, 2009 regarding Kardan NV's investment in UMI:

Rate of Kardan NV's direct and indirect holding (as a percentage)	Direct and indirect investment amount in Kardan NV's books (in EUR millions)	Percentage that the investment amount in UMI represents out of the total equity attributable to Kardan NV's shareholders[353]	Contribution to net profit attributable to Kardan NV's shareholders in 2009 (in EUR millions)
30%	29	9.8%	5[354]

11.3. Data extracted from UMI's financial statements to December 31, 2009 are presented in the following table (amounts are in NIS thousands):

Revenues			Net profit attributable to UMI's shareholders			Equity attributable to UMI's shareholders		Total assets	
2009	2008	2007	2009	2008	2007	As of 31/12/09	As of 31/12/08	As of 31/12/09	As of 31/12/08
1,966,174	2,298,171	2,106,971	78,101	108,250	94,437	526,208	498,121	1,206,464	1,078,745

11.4. Dividends Distribution by TALDAN

Details of dividends distributed by Taldan in 2009 and 2008 are presented below:

Payment date (month/year)	Total dividend (in NIS thousands)	Share of Kardan Motors (in NIS thousands)
December 2009	4,500	4,050
September 2009	9,250	8,325
March 2009	9,000	8,100
August2008	9,000	8,100
June 2008	9,000	8,100

Pursuant to the agreements with Mizrahi Bank and with the Bereshit and Hadas funds, in relation to the loans that are described in Sections 11.1, 7.4.3 and 7.11.3 of this part, Taldan has given various undertakings with regard to dividends that it distributes, as detiled in Sections 7.4.3 and 7.11.3 of this part.

As of December 31, 2009, the balance of Taldan's retained earnings available for distribution amounts to NIS 236,805 thousand.

353 Equity attributable to company shareholders (excluding minority rights).

354 Including revenues from management fees.

11.5. **UMI**

A description and details of UMI appear below:

11.5.1 Holding in UMI

UMI is a private company, incorporated in 1993 under the laws of the State of Israel.

Taldan, which is held at the rate of 90% by Kardan Motors, holds 45% of UMI's issued capital. Kardan Israel and Kardan NV hold, directly and indirectly, 40.5% and 29.9%, respectively, of UMI's issued capital.

The other shareholders in UMI are: Hamizrach Holding Company (1984) Ltd. ("**Hamizrach Company**") (45%) and a subsidiary of General Motors ("**GM**"), General Motors Overseas Distribution Corporation (**GMODC**), (10%).

UMI's shareholders have entered into an agreement among them, that stipulates various provisions concerning the management of UMI, including provisions that relate to the appointment of directors (Taldan and Hamizrach Company have the right to appoint three directors each and GMODC has the right to appoint one director); certain decisions require a special majority (at least four directors, and one director at least on behalf of each shareholder) and certain decisions require a unanimous vote of all shareholders at the general meeting; GMODC has a veto right on decisions related to changes in the senior Management of UMI; the parties are granted first right of refusal to acquire shares of any party that wishes to sell its shares; shareholders are obliged to refrain from transferring their shares to a third party, unless that party is approved by GMODC and joins the agreement as a party thereof; each of the shareholders has the right to acquire all the shares (and not part thereof) of a shareholder (except GMODC), in the event that control over the shareholder is transferred to another (except permitted transfers, defined by the agreement), at a price determined according to a formula defined by the agreement; the price according to the fourmula might be conciderbly low than the price of the shares; GMODC is entitled to oblige the other shareholders (in accordance with their holding rates) to acquire all the UMI shares held by GMODC, at a price determined according to a formula defined by the agreement (put option). If a party breaches any of the material provisions of the agreement, the other shareholders are entitled, subject to GMODC's decision, to oblige that party to sell its holding to the other shareholders, at a price determined according to the same formula.

Since, as a result of the merger between Kardan NV and GTC RE (see Section 1.4.1 of this part), the holdings of the current controlling shareholders of

Kardan NV (in this section, the "**Control Group**") will fall below 50%, and due to the fact that the agreement provided that a transfer of control in a particular shareholder grants the other shareholders the right to purchase the shares of such shareholder, it was necessary to obtain consent to the merger from the other shareholders who have holdings, together with Taldan, in UMI. The aforementioned consent was granted, provided that Taldan shall remain under the effective control of the Control Group, the directors appointed by Taldan to UMI's board of directors will remain unchanged and the Control Group will resume holding control (50.01%) of Taldan by no later than October 31, 2010. The Control Group has informed Kardan NV that it will act to fulfill the aforementioned conditions. As of the date of the report, the Control Group is not taking any measures to increase its holdings in Taldan to any significant extent.

For further details regarding the holdings of Taldan and Kardan Motors in UMI that are pledged to secure the loans taken by Kardan Israel, see Sections 11.1, 7.4.3 and 7.11.3 of this part.

11.5.2 <u>UMI Activities – General</u>

UMI imports and markets vehicles made by GM and Isuzu. As of the date of the report, vehicles are marketed under the brands: Chevrolet, Buick and Cadillac (manufactured in GM plants in North America and Korea); Opel (manufactured in GM plants in Europe) and Isuzu (manufactured in Japan and Thailand). UMI also holds the franchise agreement to import cars made by Saab and Hummer to Israel.

UMI markets family sedans, executive and luxury sedans, commercial vehicles and sport utility vehicles (SUVs).

UMI also has 50% holdings in Universal Trucks Israel Ltd. ("**UTI**"), which imports and markets Isuzu light trucks in Israel.

UTI has an exclusive franchise to distribute Isuzu trucks in the Czech Republic, Slovakia and Hungary. Up to the date of the report, UTI had formed local subsidiaries in the aforesaid countries and had completed the standardization process in the Czech Republic and Hungary. As of the date of the report, such companies have not yet commenced business operations.

UMI also provides, directly and through subsidiaries and related companies (collectively, "**UMI**"), related services and other activities, as detailed in Sections 11.5.3 and 11.5.8 of this part.

11.5.3 UMI's Fields of Operation

UMI operates in two fields:

Vehicle sales – vehicle import and marketing.

Related and other services – import and marketing of automobile spare parts and accessories from different suppliers, maintenance and repair services to vehicles imported by UMI at a central garage and at four additional garages owned by UMI and through 55 other garages that are operated by franchisees; trade-in of used vehicles from customers who purchase new vehicles and sale of the used vehicles to third parties; elementary insurance (mainly for vehicles sold by UMI) and finance leasing field ("**related and other services field**").

Since the most material operation in the related and other services field is the import and marketing of automobile spare parts and accessories, only this activity is described within the related and other services field.

11.5.4 Dividend Distribution

Details of dividends distributed by UMI during 2009 and 2008 are detailed below:

Payment date (month/year)	Total dividend amount (in NIS thousands)	Taldan's Share (in NIS thousands)
March 2009	20,000	9,000
September 2009	20,000	9,000
December 2009	10,000	4,500
April 2008	20,000	9,000
August 2008	20,000	9,000

UMI has given undertakings to banking corporations that have granted it loans and "on call" credit lines, which include the following financial undertakings: that its total tangible capital will not fall below the rate of 25% of its total consolidated assets at any time and, in addition, that the total tangible capital will not fall below the amount of NIS 300,000 thousand at any time; that the rate of the holdings of each of Hamizrach Company and Taldan in UMI will not fall below a rate of 35%; and that it will not to execute a merger with another corporation without obtaining the banking corporations' prior written consent to this, apart from investments of an agreed amount, and provided that the investment is in a corporation that is active in UMI's fields of operation. In addition, UMI has undertaken, under certain circumstances, not to pay its shareholders any amount on account of loans (as defined in the agreements) and/or dividends, without first obtaining the banking corporations' written consent.

For details regarding the financial undertakings in relation to UMI's activities, which Kardan Israel made as part of the loans taken from Mizrahi Bank and the Bereshit and Hadas funds, see Sections 11.1, 7.4.3 and 7.11.3 of this part.

It should be noted that UMI's total capital as of December 31, 2009 amounts to approximately NIS 526,653 thousand and represents approximately 43.7% of the total consolidated assets.

As of December 31, 2009, the balance of UMI's retained earnings available for distribution amounts to NIS 514,832 thousand.

11.5.5 Financial Information with Regard to UMI's Fields of Operation

Financial data with regard to UMI's fields of operation are presented in the following table (in NIS thousands):

	Vehicles field			**Related and other services field**			**Consolidated**		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Revenues (from external sources)	1,493,089	1,796,713	1,662,955	473,085	501,458	444,016	1,966,174	2,298,171	2,106,971
Total costs	1,342,012	1,526,035	1,432,512	350,027	387,682	338,072	1,692,039	1,913,717	1,770,584
Gross profit	151,077	270,678	230,443	123,058	113,776	105,944	274,135	384,454	336,387
Total assets as of December 31	-	-	-	-	-	-	1,206,464	1,078,745	
Total liabilities as of December 31	-	-	-	-	-	-	679,811	580,246	

In 2009, UMI delivered 13,976 vehicles, compared to 17,035 vehicles and 14,070 vehicles in 2008 and 2007, respectively. The drop in sales in 2009, compared with 2008, stems from the overall decline in sales in the Israeli vehicles market, resulting from the global economic crisis, its implications on the local market and its impact on GM in the first half of 2009, as well as from the cessation of marketing a number of leading brands. and from the launch of the Chevrolet Cruze, which only reinvigorated sales growth in the second half of 2009. Beginning from the second half of 2009, there have been indications of a recovery in the Israeli economy, which has resulted in sales growth in the entire vehicles market and, concurrently, to growth in UMI's sales. In addition, the launch of the Chevrolet Cruze, in May 2009, has led to growth in UMI's sales, starting from the second half of 2009, and has contributed to the growth in UMI's market share in the family sedan segment from 3.7% and 4.7% in

2007 and 2008, respectively, to 6.2% in 2009[355]. In 2009, 3,851 Chevrolet Cruze vehicles were delivered.

For explanations with regard to the results of UMI, see Section 1.4 of the board of directors' report.

11.5.6 General Environment and Impact of External Factors on UMI Operations

UMI is exposed to trends, events and development in its operating environment, as follows:

Global economic crisis – During 2008, there was a significant worsening in global financial markets, which continued through the first half of 2009 of 2009 and resulted in a real global economic crisis. As of the date of the report, it is not clear whether the direct economic effects of the aforesaid crisis have run their course, but it is thought that the worst of the global economic crisis has past. For further details regarding the global economic crisis, see Section 6 of this part. UMI's operations are affected by the global economic conditions and policy in general, and particularly, in countries from which UMI imports vehicles (including the U.S.A., Europe, Korea and Japan). In 2009, the economic situation caused a decrease in the demand for vehicles worldwide and primarily in the U.S.A.

In October 2008, GM announced that the global economic crisis had seriously affected its business. To the best of UMI's knowledge, based on publicly-available information, toward the end of 2008, the three major U.S. automobile manufacturers, including GM, asked the U.S. government for financial aid, which would enable them to survive the current crisis in the global economy. To the best of Kardan NV's knowledge, during 2009, GM received aid from the U.S. and Canadian governments in the amount of $ 60 billion, and concurrently started to implement a number of streamlining measures, such as lowering the salary of senior employees, dismissing employees and eliminating and reducing the number of product lines. In June 2009, GM, together with other GM Group companies filed for creditor protection (bankruptcy proceedings) under "Chapter 11" of the U.S. Bankruptcy Law. The name of the company that declared bankruptcy has been changed to Motors Liquidation Company. In July 2009, the U.S. Bankruptcy Court Southern District of New York approved the sale of the assets of Motors Liquidation Company to a new, separate and independent company that was established for this purpose (GM). The ordinary stock of GM are held by the

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355 The data are based on official licensing data for the whole of 2009, published by the Israel Vehicle Importers Association.

U.S. Department of the Treasury (60.8%), the Health Insurance Fund of the Autoworkers Union (17.5%) the Government of Canada and the Government of the Province of Ontario (11.7%), and Motors Liquidation Company (10%). GM is continuing the business operations of Motors Liquidation Company and is making further sales of its core brands. It should be noted that, as of the date of the report, the import of GM brands to Israel is continuing as usual and GM is meeting all of its commitments toward UMI. To the best of UMI's knowledge, as a result of the measures described above, GM has begun to focus its activities on the manufacture of particular models that are suitable, *inter alia*, for the Israeli market and has discontinued the manufacture of non-profitable vehicles, which in any case were not imported to Israel by UMI, due, *inter alia*, to their not being suitable for the Israeli market. In light of the aforesaid, UMI's management assesses that the measures described above will not have a negative impact on UMI's position in Israel. It is even possible that, within the framework of the changes being made by GM, there will be a greater supply of cars suitable for the Israeli market.

The aforementioned assessments with regard to the impact on UMI of the measures described above and the greater supply of cars suitable for the Israeli market, as described above, are forward-looking information, as defined in the Securities Law, based on publicly-available information regarding GM's activities focusing on the manufacture of particular models, UMI management's assessment, its familiarity with the vehicles market in general and with the tastes of the Israeli market in particular. The aforementioned assessment may not materialize, in whole or in part, or may materialize differently, including materially differently from what is expected, due to a change in GM policy, changes in factors on which the assessments are based, changes in the state of the market and changes in customer tastes and/or the materialization of all or part of the risk factors set forth in Section 11.5.19 of this part.

<u>Economic condition</u> **–** Vehicles sales volume in Israel is affected by the condition of the Israeli economy and a number of additional parameters (including political and security-related ones). The Israeli economy has shown an improving trend in recent years, up to the third quarter of 2008, with a consequent improvement of vehicle sales volumes in Israel. Starting from the fourth quarter of 2008, the impact of the global economic crisis was felt in the Israeli economy and the downturn in economic activity, as described above, continued during the first half of 2009. The effects of this were evident in various areas including the decline in consumer consumption, the difficulty encountered by leasing companies in securing credit, and the difficulty

encountered by some of their customers in renewing leasing agreements, due *inter alia* to the large number of workers laid off from their places of employment. The credit crunch encountered by the leasing companies halted or decreased purchases of new vehicles by vehicle fleet operators (institutional customers). The rise in employment rates and the frop in private consumption reduced vehicle demand by private customers. As a result of the foregoing, the trend of growth in sale volumes in the automobile market changed, and sale volumes began to decelerate. Since the third quarter of 2009, the Israeli economy has begun to recover from the economic crisis. The recovery in activity has led to a moderate rise in demand in Israel, and global trade has also begun to increase, which has been accompanied by an upturn in global optimism. As a result of the recovery in the financial markets, a resurgent trend in the business segment, the improvement in job security and the halting of real salary erosion, together with the assistance provided by the low interest environment, an upward trend has been evident in private consumption since the third quarter of 2009, and particularly with regard to the purchase of consumer durables.[356]. In parallel with the Israeli economy's recovery from the global economic crisis, indications have also been seen, since the second half of 2009, of a recovery in the vehicles market, both in the business sector and also in the private sector, and increased demand for new vehicles has been noted.

Developments in those global markets which have an impact on the economic situation in Israel, as described above, may have persistent, material effects on UMI's business results, its liquidity, its total capital, its business condition and its ability to secure financing for ongoing operations.

<u>Fluctuations in Exchange Rates</u> – UMI purchases vehicles from foreign countries that use different currencies. Fluctuations in exchange rates of the foreign currencies against the Israeli currency may cause changes in vehicle purchase prices and changes in selling prices to customers, resulting in significant changes in sales volumes and profitability. In 2009, a number of additional developments have occurred in the Israeli economy, including significant fluctuations in the exchange rates of the main currencies against the New Israeli Shekel. The aforesaid fluctuations in the dollar exchange rate that occurred during the period of the report affects UMI's profitability. For details regarding changes in profitability, see Section 11.5.7[b][2] of this part.

<u>Taxation</u> – Purchase tax at different rates is applied to all vehicles imported

356 The data included in this Section are based on the Bank of Israel's surveys for January-April 2009, May-August 2009 and September-December 2009.

into Israel: 83% on private vehicles and 72% on commercial and cargo vehicles weighing over 3.5 tons (purchase tax does not apply to trucks). The gradual reduction of the purchase tax rate on new vehicles, which upon completion in 2010 was meant to apply a uniform 72% tax rate on vehicles with a total weight of 4.5 tons, was cancelled in 2009. On August 1, 2009, a new tax system went into effect, the aim of which is to create economic incentives to reduce environmental pollution (the "**Green Taxation**"). For details concerning the Green Taxation method, see Section 11.5.7[b][1](b) of this part. In addition, as a rule, customs at the rate of 7% of the vehicle's value is charged on vehicles manufactured in foreign countries and imported into Israel, including the majority of vehicles imported by UMI (GM-manufactured vehicles imported from Korea and Isuzu-manufactured vehicles imported from Japan and Thailand). However, no customs are paid on vehicles imported to Israel which are manufactured in the U.S.A., Canada, Mexico or countries of the European Union, according to agreements with the European Union and the governments of the U.S.A., Canada and Mexico. Furthermore, V.A.T. is charged on all vehicles sold in Israel. Changes in tax rates applying to vehicles affect purchases of new vehicles.

Changes in regulation applying to the Israeli vehicle sector – the Israeli vehicle sector is characterized by expansive regulation which is becoming increasingly stringent with the aim of reducing concentration in the Israeli vehicle market, *inter alia*, by means of opening the market to parallel import of vehicles and restricting vehicle importers' ability to limit authorized service garages to purchasing parts of a particular type. For further details regarding the regulation applying to UMI, see Sections 11.5.7[b][1], 11.5.8[b] and 11.5.8[i] of this part. Such stringent regulation may affect UMI's activity.

11.5.7 Vehicle Sales Field

[a] General

UMI imports and markets vehicles manufactured by GM and Isuzu, including light trucks manufactured by Isuzu (through UTI) and Chevrolet. UMI is one of the largest vehicles importers in Israel. Vehicles are imported pursuant to a franchise granted to UMI by the manufacturers of the vehicles it imports and markets, under franchise agreements. Within the framework of these agreements, UMI imports various types of vehicles, including family sedans, executive and luxury sedans, commercial vehicles and SUVs.

[b] General Information Regarding the Field of Operation

The sales volume of new vehicles in the Israeli vehicles market amounted in

2009 to approximately 173,000 new vehicles.[357] This market is one of the most competitive markets in the world (data is based on information published by the Israel Vehicle Importers Association).

High vehicle tax rates (112% on vehicles from Europe and the U.S.A. and 128% on vehicles from Asia), relatively low purchasing power of customers, geographical isolation and absence of local manufacture, which limits the competition, create a highly price sensitive market and cause fluctuations.

All leading vehicles manufacturers are represented in Israel, including the whole range of their secondary brands, in most cases.

The standardization issue is a main component that affects the supply of vehicles on sale in the Israeli market. Traffic regulations require conformance to the European common market standards (accepted standard requirements in Europe focus mainly on vehicle safety, passenger and pedestrian safety and air pollution). It is also permitted to import vehicles manufactured in North America that conform to U.S. standards and to several dedicated Israeli standardization requirements. Vehicles which fail to conform to the aforesaid standard are prohibited from being imported into Israel. UMI's management estimates that several Chinese manufacturers will complete a standardization process, at a similar level to the European standard[358] within the next few years. Achievement of this standardization, if and to the extent that it is achieved, will enable import of Chinese vehicles to Israel. This will intensify the competition in this field and may lead to price reduction. As of the date of this report, UMI's management is unable to evaluate how the Chinese manufacturers' achievement of standardization and the import of Chinese vehicles to Israel will affect, if at all, UMI's business results.

The vehicle market is also affected, *inter alia*, by fuel prices (diesel, gas and gasoline), which may affect vehicle purchase volumes and the vehicles market mix (the type of vehicle sought after by potential customers). Higher fuel prices cause customers to shift to smaller vehicles, with lower fuel consumption and to even changeover to vehicles operated by alternative energies (e.g., hybrid, electricity and fuel cells). The vehicles market may also

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357 Not including heavy trucks.

358 **The aforementioned estimate with regard to the Chinese manufacturers' completion of the standardization process, as described above, is forward looking information, as defined in the Securities Act, which is based on the public statements of Chinese manufacturers. The aforementioned estimate may not materialize, fully or partially, or materialize differently, including materially differently from what is expected, due to different factors related to Chinese manufacturers and standardization processes.**

be affected by the tastes of the different customers and their preferences, against a background of technological innovations, price and tradability.

Two main types of customers are apparent in the Israeli vehicles market, private customers and small business customers, who buy single vehicles and institutional customers, e.g., leasing companies, car rental companies and the Government Vehicles Administration.[359]

[1] <u>Restrictions, Legislation, Standardization and Other Constraints Applying to the Field of Operation</u>

(a) Pursuant to government decision, the Ministry of Finance and the Ministry of Transport have acted in recent years to reduce the concentration in the vehicles sector in Israel and to introduce tax, standardization and regulation reforms.

Initial recommendations of the committee formed to examine the issue were implemented in 2002. These recommendations were related to the approval process for the import of vehicles into Israel. The main change was cancellation of vehicle importer exclusivity, granted by law in Israel. Additional changes were also made, such as: requiring the vehicle importer to maintain contact with the vehicle manufacturer (in order to protect the crucial interests of consumers in all matters relating to providing warranty, technical support, garage coverage, the sale of spare parts and other similar services); the establishment of garages and sales outlets for spare parts with a minimum nationwide coverage; requiring the vehicle importer to operate a central garage, and the cancellation of the requirement that it owns such garage; requiring the vehicle importer to provide bank guarantees as a condition for receiving an import license; cancellation of the control of spare part prices; cancellation of the restriction requiring a minimum level of spare parts inventory, and broadening the vehicle warranty. Implementation of the committee's recommendations also enabled personal import of used vehicles one year old at most.

In 2004, a second inter-ministerial committee recommended implementing a mechanism that would allow parallel import, as an alternative to imports from the vehicle manufacturer, by means of setting a series of entry barriers at a lower level than the previous barriers, that would be comprised of a range of requirements related to conditions which the importer must fulfill – on all aspects related to the importer's identity, the imported vehicle, and after-sale service support, including proof of financial soundness and depositing the

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359 The Government Vehicles Administration is the entity responsible for vehicle purchases and maintenance for all government ministries and their dependent units.

required bank guarantees.

In February 2010, the Economic Affairs Committee of the Knesset (the Israeli parliament) approved the Control on Commodities and Services Order (Import of Vehicles and Vehicle Services) (Amendment), 5770-2010 (“**the Import and Services Order**”). Pursuant to the aforesaid Order that, to the best of UMI’s knowledge, is due to take effect in April 2010, the import to Israel will be permitted of passenger vehicles, whose total weight does not exceed 3.5 tons, of the same make and the same standardization as imported by the direct importer, as well as by means of entering into an agreement with an authorized agent of the vehicle manufacturer who meets certain terms that are stipulated in the (“**Parallel Import**”) Order. Pursuant to this Order, a parallel importer will not be able to import more than three makes of vehicle. The order prescribes, *inter alia*, conditions for the import of vehicles by an importer, which include conditions to ensure the financial soundness of the importer (including providing a NIS 8,000 thousand bank guarantee and also having equity of NIS 10,000 thousand) and his obligation to provide a maintenance infrastructure and a warranty for the vehicles after their import to Israel. The Order also permits the import of vehicles manufactured in the U.S.A. that conform to U.S. standardization and that, as of the date of the report, are not marketed in Israel. UMI’s management assesses that parallel import will not have a material effect on its business results, *inter alia*, because – in its estimation – parallel importers will not succeed in buying the vehicle models that are most common in Israel and that constitute the major market segments, at better prices and/or at better terms than those at which the importers buy the vehicles from the various manufacturers. Consequently, parallel importers will be unable to sell the vehicles to the public in Israel at better prices and/or at better terms. Nevertheless, UMI’s management assesses that, in certain segments, e.g., executive sedans and luxury sedans, the parallel importers might be able to compete on the basis of price.

The aforementioned assessment with regard to the impact of parallel import on UMI’s business results, as described above, is forward-looking information, as defined in the Securities Law, based on an estimation that the aforementioned legislative change would have an effect on executive and luxury sedans, which constitute a small segment of UMI’s sales, as of the date of the report, and also on the estimation that parallel importers will find it difficult to find significant inventory of vehicles the constitute the major market segments in Israel at competitive prices. The aforementioned assessment may not materialize, in whole or in part, or may materialize differently, including materially differently from what is

expected, due to a change being made in the aforementioned legislation, the expansion of UMI's future activities in the import and marketing of luxury and expensive vehicles, the success of a parallel importer in buying significant inventory of the vehicle models that are most commonly marketed in Israel and that constitute the major market segments, and/or the materialization of all or part of the risk factors set forth in Section 11.5.19 of this part.

(b) In August 2009, a new tax system went into effect, the aim of which is to create economic incentives to reduce environmental pollution (the "**Green Taxation**"). As part of the Green Taxation reform, a green index has been created (the "**Green Index**") that ranks vehicles by the level of pollution, which is determined according to a weighting of environmental costs of polluting emissions, and the purchase tax is set in accordance with this ranking. As part of the aforementioned reform, it has been prescribed , *inter alia*, that the pollution ranking of vehicles will be stated on the vehicle license and vehicle importers will be required to state the pollution data and the fuel consumption of every new vehicle that is put up on sale. Accordingly, with effect from November 2009, purchase tax is imposed on new vehicles at the rate of 83%, with their being a set reduction based on the degree of benefit for the vehicle, according to the Green Index. Reduced purchase taxes are also imposed on hybrid and electric vehicles. The Green Taxation will mainly raise the prices of luxury sedans, while the impact on the prices of family sedans is not material.

Starting in January 2010, a method is being applied whereby the usage value of a vehicle is calculated as a percentage of the vehicle's price to the consumer ("**Linear Usage Value**"). This method is being applied only to new vehicles sold from January 1, 2010. The usage value in 2010 has been set at 2.04% of the vehicle's price to the consumer for vehicles with a price of up to NIS 130,000 and at 2.48% of the vehicle's price for vehicles with a price in excess of NIS 130,000. With effect from 2011, the usage value is expected to be set at 2.43%-2.6% of the vehicle's price to the consumer for all vehicles, subject to adjustments relating to the weighted price of the vehicle. In UMI's assessment, application of the Linear Usage Value method could result in employees, who in the past waived a fixed monthly component of their gross salary in return for receiving a company car from their employer, will re-evaluate whether it is more worthwhile economically to opt for the aforesaid waiver, rather than to accept a company vehicle; it is likely that a portion of them will opt not to take advantage of this benefit. As of the date of the report, UMI assesses that the aforementioned continuing rise in the usage value is likely – in the medium term – to lead to a decline in the volume of demand for operating leases, and could accordingly lead to a decline in leasing companies' vehicle purchases, on the one hand, and to a transition by employees to buying vehicles directly, which would offset some of the effects of the decline in leasing companies' vehicle purchases, on the other hand. As of the date of the report, UMI is unable to estimate the extent of the impact on its business results.

The aforementioned assessment with regard to the decline in the medium term in the level of demand for operating lease vehicles and consequently the fall in the scope of leasing companies' vehicle purchases and, on the other hand, the transition of employees to buying vehicles directly and its impact, as described above, is forward-looking information, as defined in the Securities Law, based on an estimation of the economic viability of accepting a company vehicle and on the scope of vehicle purchases by leasing companies and private customers in Israel. The aforementioned assessment may not materialize, in whole or in part, or may materialize differently, including materially differently from what is expected, due to changes in the Linear Usage Value and/or the materialization of all or part of the risk factors set forth in Section 11.5.19 of this part.

(c) With effect from January 2010, all private and commercial vehicles imported to Israel must be equipped with an Electronic Stability Program ("**ESP**"), which prevents accidents due to skidding, crashes and rollovers by means of automatic wheel braking. As of the date of the report, UMI has non-material inventory of the Chevrolet Aveo and the Chevrolet Optra vehicle models, which were imported to Israel prior to the aforesaid directive taking effect in Israel and which are not equipped with an ESP system. Since the aforesaid vehicles were imported to Israel prior to the directive taking effect, they may be sold in Israel without an ESP system.

(d) <u>Legal Constraints on UMI Operations</u>

UMI is subject to the following legal constraints:

(1) The Control of Commodities and Services Order (Vehicle Import and Provision of Services to Vehicles), 5739-1978, regulates several obligations that apply to a vehicles importer. The order stipulates, *inter alia*, that an importer is entitled to sell an imported vehicle only according to a permit issued by the Vehicles and Maintenance Services Department. UMI holds the permit required to sell imported vehicles. The order requires the vehicle order form and purchase contract to be signed or confirmed in writing by the importer, when the vehicle is sold by an entity authorized by the importer. The

order sets conditions for granting a license to import vehicles (the said license is usually granted for a period of one year) and the issue of the said license is contingent on the importer to provide maintenance services to the vehicle through service garages, including a central service garage. For details regarding an amendment to the order that, to the best of UMI's knowledge, will take effect in April 2010, see Section 11.5.7[b][1](a) above.

(2) The Traffic Regulations, 5721-1961 stipulate that a vehicle may not be registered and no license may be issued for it, unless the Licensing Authority has inspected and certified the prototype of that vehicle model and unless a certificate, issued by an authorized laboratory, or any other required certificate has been submitted to the Licensing Authority, certifying that the vehicle conforms to the prototype of that type or model.

(3) The Traffic Regulations (Amendment No. 3), 5768-2007 provides that, with effect from April 1, 2008, the requirement to register the year of manufacture (model year) for new vehicles has been cancelled, and the only registration required is the date such vehicles were introduced on the road. It was further provided that a condition for registering a vehicle as of the date it was introduced on the road is that less than twelve months must have passed since the date of manufacture thereof, apart from certain exemptions set forth in the regulations. According to the above Regulations, if one year has passed since the vehicle manufacture date and the vehicle has not yet been sold, UMI must perform the vehicle licensing process and register the vehicle under its own name. When such a vehicle is sold, it will be considered second-hand. In order to avoid selling the car as second-hand, which lowers the price and value of the vehicle, UMI has prepared accordingly, such that UMI's computers warn marketing representatives shortly before the conclusion of the 12-month period, and has made it a practice to provide larger incentives to sales people for sales of these types of vehicles.

(4) Vehicles standardization – the Standardization Department of the Vehicles Department at the Ministry of Transport defines, every year, the changes in mandatory requirements applied to different types of vehicles for the following year's models. The Department indicates which amendments are required by the European standardization and which are the special requirements for conformance with the Israeli standardization, which is based primarily on European and American standardization requirements. Standardization requirements focus mainly on vehicle safety, passenger and pedestrian safety and air pollution.

(5) According to a Ministry of Transport procedure, which was determined pursuant to the authority vested in the Ministry of Transport under Section 18 of the Import and Services Law, an importer is required to report to the customer, prior to vehicle delivery, every defect in the vehicle, other than in the circumstances specified in the procedure. The procedure further provides that consumers shall be entitled to refuse acceptance of a new vehicle they purchased if the commercial value of the vehicle decreased by a total rate of 3.5% or more, with the exception of a decrease in value due to painting, in which case consumers may refuse acceptance of the vehicle commencing with a decrease of 6% or more in the value of the vehicle. In the event that the customer chooses to accept the damaged vehicle, despite its reduced value, the importer must compensate the customer at the rate of the reduced value and provide the customer with a commitment to repurchase the vehicle under the terms specified in the procedure.

(6) Tire Recycling and Disposal Law – for details, see Section 11.5.8[h] of this part.

UMI holds all the licenses and certificates detailed in this section, which are valid as of the date of the report.

[2] <u>Changes in Operation Volume and Profitability in this Sector</u>

To the best of UMI's knowledgenore than 60% of all vehicles sales in Israel are to institutional customers. UMI's management estimates that more than 70% of the sales in the main market segments (small vehicles and compact vehicles) in recent years were made to leasing companies. On the one hand, these transactions reduce the inventory financing costs since storage times of vehicles sold through leasing transactions is shorter; on the other hand, however, the discount rates, granted in these transactions reduce profitability.

Starting in the third quarter of 2009, there have been indications that the Israeli economy was beginning to recover from the effects of the global economic crisis. Concurrent with the recovery of the economy as a whole, an upward trend and growth have also been noted in vehicle sales in Israel, with this being in contrast to the downward trend that was evident until the second quarter of 2009 (inclusive), which led, *inter alia*, to a decline in vehicle sales in Israel. Starting from the second half of 2009, in parallel with the recovery in the economy as a whole from the global economic crisis, a resurgent trend was also evident among the leasing companies, with this being in contrast to the latter part of 2008 and the first half of 2009, when the leasing companies were encountering difficulties securing credit, which adversely affected their ability to continue purchasing new vehicles in volumes similar to the past. In addition, the significant decrease in the value of the leasing companies' vehicle inventory as a result of the sharp drop in the prices of used vehicles and depressed end-consumer demand also led to a decrease in vehicle purchases by the leasing companies in the first half of 2009 and to an attempt by leasing companies to extend existing leasing agreements that had reached their end for an additional period, without purchasing new vehicles.

Due to the ramifications of the global economic crisis and the increase in the level of prices on the leasing market, as described above, companies and organizations began to review the economic feasibility of entering into operating lease transactions and to seek alternatives accordingly. As a result of the aforesaid, a change in consumer tastes began to be apparent during 2009: agreements with leasing companies were terminated and customers made a transition to purchasing vehicles from the importers within the framework of finance leases or in some other way. UMI has a finance lease department that provides a solution to companies and organizations seeking this alternative.

Fluctuations occurred during 2009 in the exchange rates of the dollar against the shekel. UMI began 2009 with relatively high inventory in relation to demand, due to orders received prior to the outbreak of the global economic crisis, which it had purchased at high foreign currency exchange rates. The large vehicle inventory that had been bought at high foreign currency exchange rates and the strengthening of the dollar against the shekel during the first half of 2009, resulted in a fall in profitability in the vehicle field, compared to 2008. Nevertheless, starting in the second half of 2009, and as of the date of the report, as a result of adjusting the inventory level to market demand and due to the weakening of the dollar against the shekel, there has been an upward trend in profitability in the vehicle field.

[3] Critical Success Factors

UMI's management believes that the factors listed below greatly contribute to its success:

- The extensive and varied products line offered by GM, one of the world's largest vehicle manufacturers. As of the date of the report, UMI markets a range of approximately 20 different vehicle models, compared with other vehicle importers that offer a limited number of vehicle models.
- Quality of the relations with GM. UMI is the only Israeli vehicles importer in which the vehicles manufacturer has a holding (for details regarding GM's holdings in UMI, see Section 11.5.1 of this part). The said holding ensures the matching of both vehicles and prices to market requirements.

- A notionwide, professional marketing network and high branding of vehicle models among customers.
- The effect of globalization on GM – In recent years, GM has started to manufacture more and more global vehicle models in which parts originating from various plants and locations worldwide are installed. This is in light of the increased specialization of production factors in diverse places throughout the world. Global product gives GM a competitive advantage over other automobile manufacturers in manufacturing vehicles using higher-quality components and at competitive prices.

[4] Primary Entry Barriers

Financial soundness – which is required by the high financial transaction volumes involved in importing new vehicles into Israel. Pursuant to the order that was approved by the Economic Affairs Committee of the Knesset in February 2010 and that, to the best of UMI's knowledge, will take effect in April 2010, as described in Section 11.5.7[b][1](a) of this part, an importer is required to provide a NIS 8,000 thousand bank guarantee and to also have equity of NIS 10,000 thousand, as a condition for receiving an import license.

[c] Products

- UMI imports and markets the following vehicles: Cars and commercial vehicles from the Chevrolet, Buick and Cadillac brands, which are manufactured by GM and classified as family sedans, SUVs, commercial vehicles, light trucks, executives sedans and luxury sedans.
- Vehicles manufactured by GM Europe (Opel and Saab brands); vans and pick-up trucks manufactured by Isuzu.
- Light trucks manufactured by Isuzu (through UTI) and light trucks manufactured by Chevrolet.

In January 2009, UMI launched the new Chevrolet Traverse, which is classified as a crossover.

In May 2009, UMI launched the new Chevrolet Cruze, which belongs to the family sedan market segment, the largest segment (approximately 52%) of the total Israeli vehicles market.[360] This is Chevrolet's first family sedan, which is being marketed concurrently in all the markets in which Chevrolet operates and it has been customized, *inter alia*, to the requirements of the Israeli market.

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360 The data are based on official licensing data for the whole of 2009, published by the Israel Vehicle Importers Association.

In the assessment of UMI's management, this vehicle can successfully compete with the leading brands in the family sedan market segment and thereby increase UMI's share of the said market segment.

These assessments regarding UMI's ability to compete in the family sedan market segment through the Chevrolet Cruze is forward-looking information, as defined in the Securities Law, based on the assessment of UMI's management, and its familiarity with the vehicle market in general and the family sedan market in particular. This assessment may not materialize, in whole or in part, or may materialize differently, including materially differently from what is expected, due to a material change in exchange rates, changes in customer tastes, delays in meeting timetables and/or the materialization of all or part of the risk factors set forth in Section 11.5.19 of this part.

In January 2010, UMI launched a new Buick executive sedan model – the "LaCrosse".

Details of delivered vehicles (in units) in 2009, 2008 and 2007 are presented in the following table:

Brand	**Quarter 4 2009**	**Quarter 4 2008**	**2009**	**2008**	**2007**
Chevrolet	3,706	1,502	11,847	13,917	10,981
Buick	71	83	416	679	967
Hummer	1	5	73	53	113
Cadillac	23	15	92	135	63
Opel	33	62	167	388	297
Saab	-	-	-	1	6
Isuzu	370	485	1,381	1,862	1,643
Total	**4,204**	**2,152**	**13,976**	**17,035**	**14,070**

The drop in sales of Buick vehicles between 2007-2009 and in sales of Isuzu and Opel vehicles between 2008-2009 is due, *inter alia*, to the delay in the launch of the Buick "LaCrosse" model in Israel, a downturn in the commercial vehicles segment in Israel, and to the end of production of the Opel "Astra (H)" model, respectively. It should be noted that, despite the downturn in the commercial vehicles segment in Israel, Isuzu's market share in this segment has increased significantly. In addition, since January 2010, at the same time as the launch of the Buick "LaCrosse", Buick sales in Israel have been on the rise.

Details of delivered vehicles (in units) split by vehicle types in 2009, 2008 and 2007 are presented in the following table:

Class	2009	2008	2007
Family sedans	8,965	10,271	8,044
SUVs	720	1,204	731
Commercial vehicles	851	1,051	689
Executive sedans	1,323	1,836	1,595
Luxury sedans	508	811	1,036
Vans and pick-up trucks	1,609	1,862	1,975
Total	**13,976**	**17,035**	**14,070**

In 2009, 2008 and 2007, approximately 64%, 61% and 59% of vehicle sales, respectively, were to institutional customers, and approximately 36%, 39% and 41% of sales, respectively, were to private customers.

[d] New Products

During 2010, UMI expects to launch Cadillac's new vehicle in Israel. The vehicle will be customized to the requirements of the Israeli market. **The aforementioned expected launch is forward-looking information, as defined in the Securities Law, based on the assessments of UMI's management and on agreements reached with Cadillac. This assessment may not materialize, in whole or in part, or may materialize differently, including materially differently from what is expected, due to changes in the timetables for the vehicle's global and/or Israeli launch, a change in the exchange rate, changes in customer tastes, and/or the materialization of all or part of the risk factors set forth in Section 11.5.19 of this part.**

[e] Segmentation of Revenues from Products

Details of UMI revenues derived from product groups, constituting 10% or more of UMI's total revenues, are presented below:

Brand	Quarter 4, 2009		Quarter 4, 2008		2009		2008		2007	
	Amount NIS in thousands	Percentage of UMI's total revenues	Amount NIS in thousands	Percentage of UMI's total revenues	Amount NIS in thousands	Percentage of UMI's total revenues	Amount NIS in thousands	Percentage of UMI's total revenues	Amount NIS in thousands	Percentage of UMI's total revenues
Chevrolet	334,618	64.9%	167,029	43.5%	1,200,380	61.1%	1,307,749	56.9%	1,113,487	52.8%
Isuzu[361]	50,865	9.9%	63,254	16.5%	182,082	9.3%	240,995	10.5%	244,734	11.6%
Total	**385,483**		**230,283**		**1,382,462**		**1,548,744**		**1,358,221**	

Data regarding the breakdown of UMI's revenues by vehicle models the revenues from which account for 10% or more of UMI's total revenues are presented below:

[361] In 2009, 2008 and 2007, these data do not include light trucks, which are marketed by UTI.

Vehicle type[362]	2009		2008		2007	
	Amount (NIS in thousands)	**Percentage of UMI's total revenues**	**Amount (NIS in thousands)**	**Percentage of UMI's total revenues**	**Amount (NIS in thousands)**	**Percentage of UMI's total revenues**
Chevrolet Cruze*	342,414	17.4%	-	-	-	-
Chevrolet Aveo	214,800	10.9%	323,057	14.1%	292,145	13.8%
Isuzu D-Max	182,082	9.3%	240,995	10.5%	244,734	11.6%
Total	**739,296**		**564,052**		**536,879**	

(*) The Chevrolet Cruze was launched in Israel in May 2009.

[f] Marketing and Sales

UMI conducts the marketing and sales activities both directly, through two showrooms that it operates, and also through 16 authorized distributors, who operate showrooms in 15 cities throughout Israel. UMI has entered into marketing agreements with each of the authorized distributors. The principles of the agreements with the authorized distributors, regulating their activity, have been approved by GM, and any change in these agreements (including cancellation and extension) is subject to the consent of GM, as is also the appointment of any new distributor. Subject to UMI's marketing policy, all showrooms are operated according to uniform criteria, defined by UMI's management, jointly with GM. In return for fulfilling their obligations, UMI pays commissions to the authorized distributors for vehicle sales and for sales of accessories installed by the authorized distributors according to orders from customers.

Sales Promotion and Advertising

The advertising activities of UMI focus on advertising the different brands in newspapers, radio and television, and additional advertising activities.

Public relations activity of UMI includes both sales promotion of different brands and also sales promotion of UMI in general. UMI sales promotion and advertising expenses amounted in 2009, 2008 and 2007 to approximately NIS 30,780 thousand, NIS 38,249 thousand and NIS 29,333 thousand, respectively. UMI also initiates special sales promotion campaigns from time to time, which promise discounts on a range of vehicles, special credit terms, additional accessories in the vehicles and/or easier delivery terms. UMI enters into agreements with business-institutional customers (transportation companies, car rental companies, etc.) from time to time, and grants discounts in some of these agreements or offers special credit terms.

362 The Chevrolet Cruze and Aveo models belong to the family sedan and compact segments, respectively. The Isuzu D-Max model belongs to the commercial vehicles segment.

[g] Competition

The vehicles market in Israel is highly competitive in all vehicle types (compact models, family sedans, SUVs, etc.). Approximately fifteen vehicle importers currently compete in the market and each represents one or several particular vehicle manufacturers. According to estimates by UMI's management and based on announcements by the Israel Vehicle Importers Association, UMI was ranked fifth among vehicles importers in Israel for 2009, with a market share of approximately 7.8%, and it is expected to maintain its status, and possibly even enlarge its market share in the family sedan market segment due to the launch of the Chevrolet Cruze (for details, see Section 11.5.7[c] of this part).

The aforementioned assessment regarding UMI's expectations of maintaining its ranking and even enlarge its market share if the family sedan market segment, as described above, is forward-looking information, as defined in the Securities Law, based on UMI's sales volume for 2009, including the 2009 sales of the Chevrolet Cruze, on UMI's 2010 sales forecast for the various market segments, including the family sedan market segment and on UMI's total sales in the market. The aforementioned assessment may not materialize, in whole or in part, or may materialize differently, including materially differently from what is expected, due to changes in competitors' product pricing, material changes in exchange rates, changes in customer tastes and/or the materialization of all or part of the risk factors set forth in Section 11.5.19 of this part.

In 2009, 2008 and 2007, UMI's market share was approximately 7.8%, 8.8% and 7.2% of total vehicle sales, respectively.

To the best of UMI's knowledge, its main competitors are: Delek Motors (importers of Mazda and Ford), Colmobil (importers of Mercedes, Hyundai and Mitsubishi importer), Union Motors (importers of Toyota and Lexus) and Champion motors (importers of Volkswagen, Audi, Seat and Skoda).

Primary Methods Employed by UMI to Contend with Competition are:

- Effective advertising and maintaining a positive image.
- Continued monitoring of customers' changing preferences, in order to match the vehicle models imported into Israel by UMI and the prices thereof to the requirements of the Israeli consumer.

Factors Affecting the Competitive Status of UMI are:

- A wide range of products – UMI imports a wide range of products, thereby ensuring high long-term competitiveness.
- The primary manufacturer whose vehicles are marketed by UMI, GM, adapts the products it manufacturers to the varying tastes of customers and the changing conditions of reality. Accordingly, the recent period marks a transition to the manufacture of global family cars, which are smaller and more economical and are suited to the tastes and needs of the Israeli market.
- Nationwide marketing and professional service network.
- Trade-in division.

[h] Suppliers

UMI has entered into franchise agreements to exclusively import and market in Israel with the following parties: GMODC, Adam Opel Aktiengesellschaft, Isuzu Motors Limited and Saab Automobil AB. The agreements with Saab Automobil AB and Isuzu Motors Limited are extended automatically for a period of one year each time and all other agreements are for periods ranging from three to five years and may be extended for additional periods, with the consent of the parties. As of the date of the report, and following their extension, the agreements are valid and expire between 2011 and 2013. It should be noted that the GMODC agreement is in effect and terminates in 2013, after it was last renewed in 2008. As to the agreements' non-extension risk, see Section 11.5.19 of this part.

In these agreements, UMI has undertaken, *inter alia*, not to represent or market other vehicles besides those represented by GM, unless it receives prior consent in writing to do so.

According to the agreements, the manufacturers appoint UMI as an authorized marketer in Israel, authorized to deal in the agreed-upon vehicles (the authorization includes sales, leasing and service provision). The list of the agreed-upon vehicles is specified in the agreements and is updated from time to time according to the policies of the manufacturer and UMI and according to market conditions. Two of the agreements stipulate that selling prices of vehicles to customers are determined by UMI alone, while the other agreements stipulate that vehicle selling prices to the customer are determined by mutual consent of the parties. According to the agreements, the manufacturers supply UMI with spare parts, accessories and other items, for periods of time specified in the agreements (even subsequent to the conclusion of UMI’s regular import of vehicles to Israel).

The agreements require UMI to conform to certain standards, detailed in the agreements (e.g., financial soundness, service level, etc.).

The agreements commit the manufacturers to indemnify UMI for amounts it spends on vehicle repairs during the warranty period (for details of the warranty granted to customers, see Section 11.5.7[i] of this part).

The agreements also stipulate, that changes in UMI’s ownership and management, as defined in the agreements, require detailed application to the manufacturers and obtaining their advance written approval. Any such change, implemented without advance written approval, would constitute grounds for canceling the agreement.

Usually, one party may bring about the termination of the agreement in the circumstances specified in the agreements, including in situations of breach or the insolvency of the other party, or in the event of changes in the holding control or ownership of the other party. In addition, the manufacturers are usually entitled to terminate the agreement in other circumstances specified in the agreements, *inter alia*, in the event that UMI fails to obtain a certain permit, which is crucial for its operation under the agreements. In addition, the agreements, with the exception of the agreement with GMODC, include a provision allowing either of the parties to terminate the agreements, subject to three to six months’ prior notice.

According to the agreement with GM, GM reserves the right to interfere in the business management of UMI, in the event that UMI and/or any of its authorized distributors fail to meet regional and general marketing plans, concluded with GM every year. In addition, according to the August 2008 extension of the agreement with GMODC, GMODC may replace the agreement with a new agreement, in accordance with market conditions and at GMODC’s demand.

UMI is materially dependent on GM, which is its main supplier. For details regarding the recovery measures taken by GM and an assessment of their impact on UMI, see Section 11.5.6 of this part.

To the best of UMI’s knowledge, within the framework of the measures taken by GM in order to re-position itself in the global vehicle market, in February 2010, GM closed a transaction in which it agreed to sell the Saab brand to a Dutch automobile concern. In addition, to the best of UMI’s knowledge, the negotiations that GM was conducting for the sale of the Hummer brand to a Chinese automobile manufacturer did not culminate in agreement and, as of the date of the report, the brand looks set to close unless a buyer can be found. During 2009, UMI sold only a few vehicles of the Saab and Hummer models. Accordingly, the sale of the Saab brand and the sale of ownership of the Hummer brand or its closure are not expected to have any impact on the operations of UMI. UMI continues to hold the franchise to import, market and sell models from the Saab and Hummer brands in Israel.

In addition, UMI has entered into agreements with service providers, including marine and land transportation companies, which transport the vehicles from manufacturing counties to Israeli ports and from there to UMI storage facilities throughout Israel. UMI is not dependent on transportation suppliers.

Land transportation (from the port to UMI's bonded warehouses) is usually performed by Ta'avura Cement Containers Ltd., which owns trucks adapted to transport vehicles, at prices concluded between the parties from time to time. UMI's management estimates that termination of UMI business activity with this company would not have a material effect on UMI operations.

[i] Working Capital

Finished Products Inventory-Holding Policy

UMI usually purchases vehicles for inventory according to its forecast of expected demand. The vehicles that UMI holds in inventory are intended for immediate delivery. The majority for the vehicles delivered by UMI are delivered from inventory. In light of the implementation of the statutory provisions pertaining to the registering of the date on which the vehicle was introduced on the road, since April 2008, UMI has made preparations with the intention of decreasing its vehicle inventory immediately prior to the conclusion of one year from the date of manufacture of the vehicles (see Section 11.5.7[b][1](d)(3) of this part), and is maintaining strict control over orders of vehicles and different models for inventory.

UMI's number of days inventory averaged 144 days in 2009, compared to 62 days in 2008.

Product Warranty-Provision Policy

UMI provides a warranty for all the vehicles it sells, to repair certain faults in the event that such faults occur in the vehicle during the warranty period, as defined in the warranty certificate that UMI gives to every customer. The warranty period corresponds to the warranty period UMI receives from vehicles manufacturers, intended to indemnify UMI for expenses incurred during the warranty period. The warranty period is usually defined as a period of three years, or until the purchased vehicle has logged one hundred thousand (100,000) kilometers, whichever is the earlier (except the warranty for Opel and Saab models, which is for a two-year period, with an option for the customer to purchase a one-year extension to the warranty). According to agreements entered between UMI and the various vehicle manufacturers, the manufacturers indemnify UMI for expenses incurred by UMI for the repair of vehicles during the warranty period. The repair service for vehicles during the warranty period is provided, *inter alia*, by the central garage, which is operated by UMI and by garages authorized by UMI. UMI pays amounts due for such repairs to the authorized garages, according to agreements UMI has entered into with the authorized garages. For details on restrictions applied by virtue of a consent order pursuant to the Restrictive Business Practices Law, 5748-1988 ("**Restrictive Business Practices Law**") on stipulating that a warranty is valid only when service is provided by authorized garages, see Section 11.5.8[i] of this part.

Credit Policy

Credit to Customers – UMI does not grant credit to private customers who purchase vehicles from UMI. Credit is granted only to business customers, who purchase a considerable number of vehicles. Credit to business customers is granted for different periods, according to terms concluded with each customer separately. During 2009, as a result of the global economic crisis and its implications on the Israeli market and on the leasing companies, UMI granted credit to leasing companies that amounted to an average of 110 days as of the date of the report. UMI is in the process of reducing the credit periods granted by it to the leasing companies and it ensures that collateral is received for repayment of the credit which was provided by it primarily to these customers.

Credit from Suppliers – During 2009, average credit granted to UMI by its suppliers was approximately 40 days from bill of lading execution date.

The gap between the credit period from suppliers and the credit period to customers in 2009 is primarily due to the market's and the leasing companies' need to receive credit for a longer period, against the background of the global economic crisis.

11.5.8 **Related and Other Services Field**

[a] General

In this field, UMI imports and markets original and substitute (new only) spare parts and accessories for vehicles; provides maintenance and repair services to vehicles imported by UMI; vehicles trade-in; elementary insurance (mainly vehicles) and finance leasing**.** As already stated, since the most material operation in this field is the import and marketing of automobile spare parts and accessories, only this activity will therefore be described in this field of operation.

[b] General Environment and Effect of Material External Factors

In this field of operation, UMI has had to contend with two main trends in the last two years:

(1) Opening the market to increased competition, pursuant to the consent order issued by the Antitrust Commissioner (for additional details, see Section 11.5.8[i] of this part), stipulating that vehicle owners may have their vehicles serviced and repaired during the warranty period, even in unauthorized garages and garage operators are entitled to purchase spare parts from any supplier and are not obliged to purchase spare parts from the vehicle importer.

(2) Changes in the mix of vehicles sold by UMI and changes in the customer mix began after UMI started importing Korean vehicles and increased its sales to leasing companies and vehicle fleet operators. As a result of the aforesaid, the UMI spare parts department works directly with leasing companies and vehicle fleet operators and not just with its long-time customers, such as garages and spare parts dealers.

In addition, in the fourth quarter of 2008 and the first half of 2009, the effects of the global economic crisis and the financial situation in Israel (as described in Section 6 of this part) were also felt by UMI, such that it was possible to discern customers' transition to purchasing substitute replacement parts in lieu of original replacement parts (which are more expensive than substitute replacement parts), and customers' inclination to postpone repairs which are not urgent and/or repairs related to the car's appearance. Since the second half of 2009, in parallel with the overall economic recovery from the global economic crisis, a resurgent trend has also been apparent in the related services field.

Critical Success Factors

(1) Range of Spare Parts – UMI maintains a considerably wider spare parts range than the spare parts ranges maintained by its competitors in the GM spare parts field. This range includes both original and substitute (not original) spare parts.

(2) Service and Availability – UMI operates an advanced, modern warehouse and an independent distribution system, which is able to supply spare parts to the garage network from three to eight times every day.

(3) Competitive Prices – UMI constantly monitors market prices and sets consumer prices giving due consideration to market prices.

Restrictions, Legislation, Standardization and Other Constraints

For details of the reform in the vehicles market in Israel, see Section 11.5.7[b][1] of this part, and for details of a consent order issued by the Antitrust Commissioner and on restrictions imposed by virtue of this order on vehicle importers in Israel, see Section 11.5.8[i] of this part.

The Restrictions on Use and Recording of Transactions in Used Auto Parts Regulations (Theft Prevention) (Maintaining a Journal and Recording Therein; Reporting a Theft of a Part and Restriction of Use of Auto Parts), 5767-2007 ("**Restriction on Use Regulations**"), that took effect in June 2007, were intended to regulate and supervise the use of vehicles spare parts, pursuant to the Restrictions on Use and Recording of Transactions in Used Auto Parts Law(Theft Prevention), 5748-1998 (in this section, the **"Law**"). The Restriction on Use Regulations prohibit the installation of used vehicle parts[363] in a damaged vehicle, which was registered according to the vehicle registration less than two years prior to the repair date. In the estimation of UMI's management, there has been a trend of transitioning from use of used vehicle parts to new vehicle parts (original and substitute) in light of the Law and the Restriction on Use Regulations. This is primarily the case with reference to parts intended for repairing vehicles damaged in accidents, although UMI is unable to quantify and attribute the rate of the aforementioned increase in the use of new parts as a result of the Law and the Restriction on Use Regulations.

Changes in Operation Volume in this Field and Its Profitability

During 2009, the level of profitability in the spare parts sector began to drop, *inter alia*, due to the impact of competition in the sector on the level of prices and to a rise in exchange rates. Revenue turnover in the spare parts sector increased in 2009, primarily as a result of the improvement in the positioning of the vehicles sold by UMI. Nevertheless, the spare parts sector constitutes just one component of the related and other services field, the revenues of

[363] Pursuant to the Restriction on Use Regulations: doors, hoods, front and rear side panels, engines, bumpers, trunks and gear boxes.

which fell in 2009, compared to 2008, *inter alia*, as a result of the downturn in the volume of activity in the other components in this field and primarily to the reduced activity in UMI's trade-in dealership.

[c] Products and Services

UMI supplies original spare parts, made by GM and substitute spare parts (not original) mainly to the authorized garages; it also supplies the aforementioned spare parts directly to other customers, mostly spare parts dealers and leasing companies. Sales of spare parts by UMI increased at a rate of approximately 5.6% in 2009, due to increased volume of transactions in this field, which is attributable primarily to the improvement in the positioning of the vehicles that UMI imports to Israel, for which the spare parts are intended.

[d] Marketing and Sales

No active marketing measures are taken by UMI in the spare parts field. Nevertheless, UMI offers discounts and makes special offers from time to time to retain its customers. UMI operates an independent spare parts distribution system that provides a speedy and convenient service to customer and gives UMI a competitive edge over its competitors.

[e] Competition

The spare parts sector is characterized by intense competition and numerous players in the market. Competition in this sector has intensified in recent years, including 2009, resulting in a downward trend in prices, mainly due to a consent order published by the Antitrust Commissioner (see Section 11.5.8[i] of this part). UMI competes against local suppliers of substitute spare parts (not original) and against a small number of importers, importing original spare parts, purchased from overseas suppliers. UMI's main competitors are: "Autoline", "Ezraco Halafim", "Zoko", "Montecchio", "Super Body", "Super Helek" and "Bitan Spark".

UMI contends with the competition in the spare parts sector by maintaining a considerably wider spare parts range than the spare parts ranges maintained by its competitors, which includes both original and substitute (not original) spare parts; expansion of the suppliers network; applications to manufacturers to reduce prices so as to be able to offer customers cheaper prices and various special offers; expansion of UMI's distribution network, which enables numerous deliveries of spare parts to customers each day; relocation to a new spare parts warehouse and installation of control and command systems which enable spare parts delivery in the minimal time; and entering spare parts delivery agreements with leasing companies and vehicle fleet operators. UMI's management UMI estimates that its profitability in this sector will not be affected, despite intensifying competition in the spare parts market, as a result of developing methods to contend with the competition (see above).[364]

[f] Suppliers

Spare parts imported by UMI are shipped to Israel by sea or air freight and transported in Israel by UMI to garages and warehouses. UMI also purchases safety and vehicle accessories, alarm systems, radio units, etc., from various suppliers. Pursuant to the franchise agreements with the parties referred to in Section 11.5.7[h] of this part, the manufacturers of the vehicles imported and marketed by UMI in Israel also provide original spare parts, accessories and additional items, for the periods of time specified in the agreements (even subsequent to the conclusion of UMI's regular import of vehicles to Israel). UMI also purchases, imports and markets substitute spare parts, accessories and other items from additional manufacturers in Israel and abroad that are not automobile manufacturers. As of the date of the report, UMI is not dependent on any of these manufacturers.

[g] Working Capital

Inventory-Holding Policy

UMI maintains an inventory of spare parts intended for the regular supply of spare parts, as required by law. Pursuant to franchise agreements with vehicle manufacturers, UMI is also committed to maintain an inventory of spare parts sufficient to meet customer demands for ongoing repairs under the warranty.

Product Warranty-Provision Policy

UMI provides a full warranty on spare parts installed in vehicles it sells for a period ranging from three months to one year (according to the product and the manufacturer), or until the vehicle containing the installed spare parts has logged 6,000 -20,000 kilometers (according to the product), whichever is the earlier (for details of legal restrictions, see Section 11.5.8[i] of this part).

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364 **The aforementioned assessment regarding the absence of any effect on UMI's profitability is forward looking information, as defined in the Securities Law, based on UMI's spare parts sales volume in recent years and the factors set forth above. Such assessment may not materialize, in whole or in part, or materialize differently, including materially differently from what is expected, due to changes in the competition in this sector, including enhanced competing methods adopted by competitors of UMI, changes in competitors' product pricing, changes in the Israeli economy and security conditions and/or materialization of all or part of the risk factors set forth in Section 11.5.19 of this Part.**

According to agreements entered between UMI and some of the spare parts manufacturers, these spare parts manufacturers indemnify UMI for expenses incurred by UMI during the warranty period. The warranty period granted by UMI does not necessarily correspond to the warranty period granted by the spare parts manufacturers. Nevertheless, in cases where UMI grants a longer warranty period than the period granted by the spare parts manufacturers, these manufacturers reduce UMI's spare parts purchase prices, thereby usually offsetting excess expenses incurred by UMI for a longer warranty period. GM does not provide a warranty to UMI for spare parts supplied by GM to UMI. GM provides UMI minor reimbursement for such expenditure.

Credit Policy

Credit to Customers – Payment terms of UMI's business customers, averaged 75 days, as of December 31, 2009. Usually, UMI does not grant credit to private customers.

Credit from Suppliers – As at December 31, 2009, the average credit received by UMI from suppliers in Israel and overseas was 60 days.

[h] Environmental Protection

Operations at the authorized garage owned by UMI and at its commissioning and delivery center, located at Park Reem are subject to the requirements of the Ministry of Environmental Protection. Lubricants and other materials used at these sites (e.g., car wash detergents) require special treatment and arrangements in conformance with the requirements of the Ministry of Environmental Protection, in order to prevent environmental pollution by such materials and the waste created by using these substances. As of the date of the report, UMI is in compliance with the aforementioned requirements.

In addition, UMI is subject to the provisions of the Tire Disposal and Recycling Law, 5767-2007. Pursuant to the provisions of this law, UMI is subject to requirements with respect to the disposal of tires (including meeting tire disposal goals based on the quantity of tires it imports) and the method of storage thereof, as well as requirements to submit various reports in connection with the import and disposal of tires to the party charged with the implementation of the said law. UMI has entered into an agreement with a third party for the disposal of such tires in accordance with the quotas defined in the aforementioned law, and keeps tracking records in accordance with the provisions of the aforementioned law.

[i] Constraints and Supervision

- Production and Trade Order – UMI operations in the spare parts import and marketing field subject UMI to the Supervision of Consumer Goods and Services Order (Production and Trade of Traffic Products), 5743-1982 ("**Production and Trade Order**"), which applies, *inter alia*, to trade in spare parts of vehicles. The Production and Trade Order stipulates mandatory licensing by the qualified authority at the Ministry of Transport for production of and trade in traffic products (spare parts). The license is granted for one year and the Director of the Vehicles and Maintenance Services Department at the Ministry of Transport may renew or deny renewal of the license. UMI holds the said license. The Production and Trade Order requires that a warranty be provided on the said spare parts for a period of not less than three months or a distance of 6,000 kilometers, whichever is the earlier. Moreover, the Production and Trade Order also stipulates that a traffic product may not be sold at a price exceeding the price to the consumer, as defined in the order.

- Import and Services Order - UMI is subject to the Supervision of Consumer Goods and Services Order (Vehicles Import and Provision of Service), 5739-1978 ("**Import and Services Order**"), which requires a vehicles importer to maintain an inventory of traffic products (assemblies, instruments, parts, spare parts, including liquid or solid materials used in the repair or maintenance of the vehicle, and also an accessory that is used, or can be used, to ensure the proper operation of the vehicle, or for its safety or for the convenience of its user, including any product that is legally required to be part of the vehicle's equipment) at the quantity recommended by the vehicles manufacturer or at the quantity indicated by inventory flow during the last twelve months, or according to the stipulation of the Vehicles and Maintenance Services Department Manager at the Ministry of Transport. The Import and Services law also stipulates that a vehicles importer will deliver every traffic product for each of the vehicle models it imports, not later than seven days from receipt of the order. However, if the importer proves that all means to order the product, from any source capable of supplying the product at that time were employed and that the delayed delivery was out of its control, the product may be delivered to the customer within 14 days from the order date. Pursuant to the amendment to the Import and Services Order that was approved by the Economic Affairs Committee of the Knesset in February 2010 and that, to the best of UMI's knowledge, will take effect in April 2010, additional obligations are imposed on the importer, including marketing traffic products through at least one sales outlet.

- Consent Order by the Antitrust Tribunal – UMI's operations are also regulated by a consent order, issued by the Antitrust Tribunal, in its decision pursuant to Section 50B of the Restrictive Business Practices Law. This order, which went into effect in April 2003 and expired in April 2008, forbids a vehicles importer from placing restrictions on the service garage in any matter related to spare parts purchase, but the importer may still oblige the service garage to use spare parts which conform to quality and compatibility requirements. The importer is also entitled to oblige the garage to use spare parts of a certain type (e.g., original spare parts) when the service is provided under the warranty and the importer incurs at least 90% of the cost of this service, or when the service is provided under a recall event (when the importer invites all vehicle owners of the model in which defects were found to bring their vehicle to its service garages for repair), for which the importer assumes full responsibility. In addition, a vehicle importer may not to determine conditions for the validity or applicability of a vehicle warranty that requires the vehicle owner to receive service for the vehicle at a service garage or to use specific parts, except in instances where the importer or the vehicle manufacturer covers 90% or more of the payment for such service (or 50% or more, if the service is provided for certain specified assemblies). With respect to vehicle warranties, the order also requires, *inter alia*, the importer to provide a vehicle warranty in accordance with the provisions of the law (two years) or more or according to the warranty granted by the manufacturer, as a regional or global policy, and that every additional period of warranty must be priced separately and offered to the customer separately from the vehicle price.

  Due to the expiration of the aforementioned consent order in April 2008, the Antitrust Authority announced in October 2007 the initiation of a comprehensive examination of the vehicles import, spare parts and service garages field and the large importers of vehicles in Israel were required to submit information and data to the Antitrust Authority regarding their activity in vehicle imports, spare part sales and garage services. As of the date of the report, to the best of UMI's knowledge, the consent order has not been extended. However, UMI continues to act pursuant to the provisions of the order, as if it was still in effect.

11.5.9 Customers

UMI's customers list includes private customers and institutional customers. In

2009, vehicle sales rates to institutional customers accounted for approximately 64% of vehicle sales, while private customers accounted for approximately 36%.

Under agreements between UMI and large business customers, UMI grants these customers discounts or special credit terms, according to transaction volumes.

UMI has entered into an agreement with the Ministry of Defense, under which UMI is committed to provide routine maintenance services to vehicles purchased from UMI and used by the Ministry of Defense, for a period of up to six years from the purchase date, in return for a global payment, as specified in the agreement.

As of December 31, 2009, UMI had one material customer – a group of companies active in the vehicle leasing and rental field in Israel. UMI's revenues from this customer accounted for approximately 12% of its total revenues in 2009. UMI does not have a framework vehicle orders agreement with the aforesaid customer and the vehicle orders that the customer places are made on an *ad hoc* basis in accordance with its needs. As is usual in transactions with vehicle leasing and rental companies, UMI grants the customer credit when placing orders and also a discount at an agreed rate.

UMI's main customers in the spare parts field are the authorized garages.

UMI operates a customer service center at UMI's management offices in Rishon Le'Zion, whose ongoing function is to maintain customer loyalty and to attend to certain events related to providing service to customers.

As of the date of the report, UMI has a customer whose unsecured debt to UMI amounts to approximately NIS 12,600 thousand, and who has encountered financial difficulties. Legal proceedings have been instituted against such customer by other creditors, and, as of the date of the report, the customer is undergoing a voluntary liquidation process, during which he is continuing to conduct business as usual. UMI intends to take measures to collect the debt. UMI has made a provision for doubtful debts for the entire aforementioned debt amount, although, in the opinion of UMI's legal advisors, the customer will have the means to settle a portion of his debts to unsecured creditors, including UMI. As of the date of the report, it is not possible to estimate what proportion of the total existing debt will be paid to UMI, or when payment will be made.

11.5.10 <u>Fixed Assets, Real Estate and Installations</u>

Details of UMI offices, showrooms for vehicle sales, bonded storage facilities, spare parts warehouses and garages at which UMI operates are presented below, distinguishing between property owned and leased by UMI:

	Site	Location	Title to the Asset	General Features and Remarks
1.	UMI offices (UMI House), showroom, garage and trade-in site	Rishon Le'Zion	Partially owned *	The premises include offices, commercial halls and showrooms, a spare parts warehouse and a service garage. Used for management purposes and for the marketing and sale of vehicles.
2.	Logistics center	Modiin Region Industrial Park	Leasehold	Includes a spare parts warehouse. Used for marketing, sale and storage of spare parts.
3.	Commissioning and delivery center, bonded storage facility and spare parts warehouse	Reem Park	Leasehold	Used for storage of vehicles and for commissioning vehicles for delivery to customers.
4.	Showroom, spare parts warehouse and trade-in site	Tel Aviv	Rented from a shareholder (Hamizrach Company)	Used for marketing and sale of vehicles and spare parts.
5.	Showroom, garage and spare parts warehouse	Hadera	Owned	Used for marketing, servicing and sale of vehicles and spare parts.
6.	Garage and spare parts warehouse	Haifa	Leased from a subsidiary	Used for servicing, marketing and sale of spare parts.

* Approximately 24.5% of the rights in the property are directly owned by UMI. In December 2009, Kardan Real Estate sold all its rights in this property to Hamizrach Company. For further details, see Section 8.6.2[4] of this part.

11.5.11 Intangible Assets

UMI owns the trademarks for the UMI name and logo, which are registered in Israel.

UMI also holds a license to use the trademarks of GM, by virtue of the marketing franchise agreements entered between UMI and vehicle manufacturers, for the purpose of operating under the franchise agreements, including vehicle advertising and sales promotion. The usage right is not exclusive and does not entail royalty payments to manufacturers. UMI has been given the right to grant usage rights to marketers of vehicles, pursuant to obtaining the prior approval of the vehicles manufacturers.

11.5.12 Human Capital

On December 31, 2009, UMI employed about 330 employees, in the following three departments: 32 employees in the Headquarters and Administration and Finance Department, 133 employees in the Marketing Department and 165 employees in the Service Department, which includes the customer service employees, central garage employees and spare parts warehouses employees. 5 employees are members of UMI's senior management. In addition to permanent employees, UMI engages the services of a negligible number of employees from manpower placement firms, from time to time, as needed. On December 31, 2008, UMI employed 346 employees. The employee cuts result from the streamlining plan implemented by UMI in 2009 in light of the global economic crisis and its ramifications on the Israeli economy.

On January 1, 2008, the CEO of UMI resigned his position and started serving as the Chairman of UMI's board of directors, and his position was taken over by the Marketing and Sales VP.

The employees receive a monthly salary, except marketing and sales employees, whose salaries are comprised of a fixed element and a variable element, which varies according to the sales volumes of the showrooms at which they are stationed. Employees receive bonuses from time to time, according to the decision of UMI's management and subject to approval by the board of directors.

UMI initiates regular training activities and marketing seminars for UMI sales personnel and employees of the authorized distributors, in order to maintain a high and uniform service level at UMI's showrooms. UMI also initiates technical training for garage employees.

UMI is a member of the Tel Aviv-Jaffa Chamber of Commerce ("**Chamber of Commerce**") and is subject accordingly to the provisions of all the collective agreements to which the Chamber of Commerce is a party. Consequently, UMI is obliged, *inter alia*, to allocate provisions for pension for all its employees, by virtue of the general collective agreement in the import, export, trade and services sectors, signed in 1977 (and updated in 1983 and 1987 and extended by an Extension Order in May 1984). UMI is also subject to the obligation to create provisions for severance pay for all its employees by virtue of an Extension Order from January 1, 2008, which extends the provisions of the general collective (framework) agreement on comprehensive pension insurance in Israel, signed on November 19, 2007, according to the provision rates and dates specified in the aforesaid Extension Order. UMI makes all the aforementioned provisions according to the terms of the agreements and the aforesaid Extension Orders.

11.5.13 Financing

UMI finances its operations through bank financing.

UMI has credit facilities with various banks in Israel totaling approximately NIS 750,000 thousand, of which NIS 357,000 thousand had been utilized as of the date of the report.

Details regarding loans from banking corporations as of December 31, 2009 are presented below:

	Principal amount (in NIS thousands)	**Rate of nominal interest**	**Rate of effective interest**	**Balance (in NIS thousands)**
Index-linked	74,414	1.72%-5.60%	1.72%-5.60%	77,666
Unlinked	51,127	2.73%-6.05%	2.73%-6.05%	51,127
Total	**125,541**			**128,793**

Details regarding the credit at variable interest received by UMI in 2009 are presented below:

Change mechanism	**Interest range**	**Credit amount (in NIS thousands)**	**Rate of interest as of December 31, 2009**
Prime	2.3%-3.0%	240,000	2.5%

As of the date of the report, UMI had recorded a floating charge in an unlimited amount on all its assets and a fixed charge on its unissued share capital and goodwill, in favor of several Israeli banking corporations with respect to the aforesaid credit facilities. As of December 31, 2009, the total indebtedness with respect to which the charges have been recorded amounts to approximately NIS 345,495 thousand.

As of December 31, 2009 and adjacent to the date of the report, UMI is in compliance with all the aforementioned financial covenants (based on the financial statements to December 31, 2009).

11.5.14 Taxation

UMI has received final tax assessments up to December 31, 1997. According to the law, tax returns submitted up to and including 2005 are regarded as a final assessment, subject to certain conditions. For details regarding taxation in Israel, see Section 17.4 of this part.

11.5.15 Material Agreements

[a] For details of the agreement between UMI's shareholders, see Section 11.5.1 of this part.

[b] For details of franchise agreements with vehicle manufacturers, see Section 11.5.7[h] of this part.

[c] According to agreements between UMI and its shareholders, since 2001, UMI has been paying management fees to its shareholders at an annual rate of 5% (to all shareholders and in accordance with their pro rata holdings) of the nominal annual pre-tax income, with the addition of a fixed amount of NIS 2,800 thousand, linked to the CPI for December 2001, for management and consultation services rendered by them to UMI. According to the agreements, the total management fees payable to shareholders, as aforementioned, shall not exceed an annual amount of approximately NIS 10,000 thousand, linked to the CPI of December 2001. It should be noted that, in accordance with the consultancy agreement between UMI and Mr. Yosef Greenfeld, as set forth in Section 8c.(1) of Part D of the report, the amounts payable to Telromit Ltd., a company wholly owned (100%) by Mr. Yosef Greenfeld, are set off against the amounts payable to Kardan Israel pursuant to the aforementioned agreements. In accordance with the aforementioned agreements, in 2009, UMI paid Kardan Motors and Kardan Israel approximately NIS 3,722 thousand. The agreements have no time limit.

[d] In July 2009, UMI acquired the rest of the shares (50%) of Kahan Motors Israel 2003 Ltd. ("**Kahan Motors**") for NIS 3,500 thousand, resulting in UMI holding the entire issued capital of Kahan Motors as of the date of the report. Kahan Motors operates an authorized service garage for vehicles imported by UMI. Also, in 2009, together with a third party, UMI established Kahan Properties Ltd. ("**Kahan Properties**"), which is held by UMI and the third party in equal shares. In 2009, Kahan Properties acquired from Kahan Motors the real estate on which the aforesaid garage is operated in return for the assignment of the NIS 8,600 thousand debt owed by Kahan Motors to UMI. UMI, through Kahan Motors, continues to run the aforesaid garage.

11.5.16 Legal Proceedings

[a] In February 2008, a NIS 12 thousand claim was filed against UMI with the Jerusalem District Court, together with a motion to certify the claim as a class action in the amount of NIS 220,000 thousand. The cause of the claim is the plaintiff's allegations regarding deception on the part of UMI with regard to the brake linings that were fitted to the plaintiff's vehicle, an Isuzu Trooper

manufactured in 2004. According to the plaintiff's allegations, the linings wore out extremely frequently. The plaintiff petitioned to be allowed to bring a class action in the name of all purchasers of Isuzu vehicles. In June 2009, the motion was dismissed without an order for costs.

[b] In February 2010, Auto Line Ltd. ("**Auto Line**") filed a financial claim against UMI in a total amount of approximately NIS 20,000 thousand. Auto Line is claiming that UMI allegedly is and was in breach of the provisions of the law and the consent order with regard to the spare parts and authorized garages (in this Section: "**the Order**"), insofar as it relates to maintenance agreements; UMI allegedly is and was in breach of the provisions of the law and the Order in providing a "target discount", which UMI granted to authorized garages; UMI allegedly is and was in breach of the Order with regard to the use that was made of the online connection between UMI and the authorized garages. An amount of NIS 2,500 thousand is also being claimed within the framework of the claim with respect to "lack of funds" for legal and other expenses relating to the proceddings that Auto Line is bringing in order to enforce the law and the order, as alleged. As of the date of the report, UMI is engrossed in preparing its statement of defense. In the opinion of UMI's management, based on the assessments of its legal advisors and on the measures taken by UMI with regard to the claims made against it, UMI has sound defense arguments and weighty responses to the claim, which are based, *inter alia*, on the position of the Antitrust Commissioner. To the extent that an estimate can be made at this stage, the chances of the claim are slight. UMI has not included a provision in its financial statements with respect to this claim.

[c] For details of a claim filed by UMI against a customer whose unsecured debt to UMI amounts to approximately NIS 12,600 thousand, see Section 11.5.9 of this part.

11.5.17 Goals and Strategy

UMI intends to maintain its status as a leading company in vehicle marketing in Israel and to improve its market position, by selling vehicles to the private sector, business sector and leasing companies and by improving and expanding the various services that UMI provides to the owners of the vehicles it imports.

11.5.18 Development Forecast for Coming Year

UMI's management estimates that the scope of sales of the Chevrolet Cruze, which was launched in the first half of 2009, the Buick LaCrosse, which was launched in the first quarter of 2010, and the Chevrolet Malibu, which was launched in 2008, will continue to grow during 2010, resulting in these vehicles capturing an ever increasing share of the family sedan market, the luxury sedan market and the executive sedan market, respectively. In addition, UMI's management assesses the Isuzu D-Max pick-up truck is expected to maintain its position in the commercial vehicles market segment.

The aforementioned assessments regarding growth in the scope of sales of the vehicles referred to above, the growth in market share and maintaining the positioning of the Isuzu D-Max pick-up in 2010, as described above, are forward-looking information, as defined in the Securities Law, based on the global economic situation, reports of leasing companies, market surveys, the estimations of UMI's management and its familiarity with the vehicle market. The aforementioned assessments may not materialize, in whole or in part, or may materialize differently, including materially differently from what is expected, due to the direct and/or indirect implications of the global economic crisis, a material change in exchange rates, a change in customer tastes and delays in meeting timetables and/or the realization of all or part of the risk factors set forth in Section 11.5.19 of this part.

11.5.19 Discussion of Risk Factors

UMI's operations are characterized by the following risk factors:

Macro Risks

11.5.19.1 **Global economic crisis –** As described above, during 2008, there was a significant worsening in global financial markets, which continued during the first half of 2009 and resulted in a real global economic crisis. As of the date of the report, it is not clear whether the direct economic implications of the aforesaid crisis have run their course, but it is thought that the worst of the global economic crisis has past. The global economic crisis and the economic situation in Israel (see Section 11.5.19.3 of this part) may have significant continuous, adverse effects on UMI's business results, its liquidity, the value of its capital, the condition of its business and its ability to secure financing for its ongoing activities.

11.5.19.2 **Fluctuations in exchange rates –** Fluctuations in the exchange rates of currencies used by UMI to purchase the vehicles it markets, may affect the shekel prices of new vehicles for customers in Israel, as well as the prices of UMI vehicles in comparison to the prices of competing vehicles, and consequently on the demand for vehicles marketed by UMI. UMI is exposed to liabilities linked to foreign currency, mainly related to credit from suppliers.

From time to time, UMI carries out future transactions for protection against such exposure.

11.5.19.3 **Economic conditions –** Vehicle sales volume in Israel is affected by the condition of the economy and a number of additional parameters (including political and security-related ones). Private vehicles are a consumer product. The demand for this product is affected, *inter alia*, by households' standard of living. A decline in economic activity in Israel, the credit crunch in the Israeli economy, a decrease in households' standard of living and increased unemployment may affect the number of vehicles sold by UMI to private and institutional customers (including the leasing companies), and consequently adversely affect its business results. The condition of the Israeli economy may have persistent, material adverse effects on UMI's business results, its liquidity, the value of its equity, the condition of its business and its ability to secure financing for its ongoing activities.

Industry Risks

11.5.19.4 **Development of parallel import –** As described in Section 11.5.7[b][1](a) of this part, in February 2010, the Economic Affairs Committee of the Knesset approved an amendment to the Control on Commodities and Services Order (Import of Vehicles and Vehicle Services) (Amendment), 5770-2010. pursuant to the aforesaid order that, to the best of UMI's knowledge, will take effect in April 2010, the parallel import of vehicles to Israel will be permitted. In the estimation of UMI's management, parallel import is not expected to have a material effect on UMI's business and on its business results. Nevertheless, the parallel import reform will allow the entry of new competitors into the field, which could result in greater competition, particularly in certain market segments, such as luxury sedans and executive sedans.

11.5.19.5 **Changes in regulatory arrangements –** Changes in regulatory arrangements, e.g., regulation of competition in both the vehicles field and also the related services field (import and marketing of spare parts and accessories for vehicles), changes in the government taxation policy, or changes in the policy related to vehicles classification as a sedan or a commercial vehicle for tax purposes, may lead to changes in the structure of the market in which UMI operates, by changing the demand for a vehicle of a certain size or type, or demand for vehicles manufactured in certain countries.

11.5.19.6 **Licenses and permits –** UMI operates as an importer of vehicles into Israel, subject to licenses and permits. Although these were consistently extended in the past and there is no reason for concern about future extensions, it is still possible that unexpected circumstances may lead to their non-renewal.

Moreover, unexpected changes in regulation arrangements may affect competition in the Israeli vehicles market.

Special Risks

11.5.19.7 **Dependence on marketing agreements and on GM –** Most of UMI's revenues are derived from the import and marketing of vehicles and spare parts manufactured by GM (for details regarding the sales of GM-manufactured vehicles and the percentage thereof out of UMI's total revenues, see Section 11.5.7[e] of this part); consequently, UMI is materially dependent on continued relations with the GM. Due to the fact that GMODC is one of UMI's shareholders, UMI has no reason to doubt that the marketing agreement with GMODC will be renewed in the future. However, the non-renewal of the aforesaid marketing agreement, and, *inter alia*, particularly if GMODC no longer holds shares in UMI, should not be excluded from considerations. If GM will not extend its agreement with UMI after the current agreement expires, UMI will sustain a material adverse impact. Termination of UMI's relations with any of the manufacturers which are members of the GM, will harm UMI's revenues and business results. Since the marketing agreements the other vehicle manufacturers (Isuzu and Saab), which, as of the date of the report, are not part of the GM Group, were renewed in recent years, UMI has no reason to doubt that they will be renewed in the future. However, the non-renewal of the aforesaid marketing agreements, and, *inter alia*, in light of the fact that these manufacturers are not owned by GM, should not be excluded from considerations. Upon termination of the marketing agreement with any of the said vehicles manufacturers, UMI will also cease to market spare parts for those vehicles, which will further harm the business results of UMI. For details regarding the changes that occurred in GM during 2009 and an assessment of their implications on UMI, see section 11.5.6 of this part.

11.5.19.8 **Inventory holding –** The import and sale of vehicles involve maintaining a large inventory which may lose value due to model year obsolescence (resulting, *inter alia*, from marketing models of a later year of manufacture), technological improvements, regulation, serious financial harm to or bankruptcy of the vehicle manufacturer, changes in foreign currency exchange rates, etc.

In accordance with UMI estimates, the table below presents the risk factors detailed above, classified according to the degree of the effect of each factor on UMI's business, divided by risk types:

Section in this part	Risk Factors	Risk Factor Effect Rate		
		Minor Effect	**Moderate Effect**	**High Effect**
	Macro Risks			
11.5.19.1	Global economic crisis		X	
11.5.19.2	Fluctuations in exchange rates		X	
11.5.19.3	Economic conditions		X	
	Industry Risks			
11.5.19.4	Development of parallel import			X
11.5.19.5	Changes in regulatory arrangements		X	
11.5.19.6	Licenses and permits	X		
	Special Risks to UMI			
11.5.19.7	Dependence on marketing agreements and on GM	X		
11.5.19.8	Inventory holding			X

12. Operating Leases and Short-Term Car Rental Field (Dan Vehicle)

Below is a description and details regarding Dan Vehicle:

Presented in the table below are data as of December 31, 2009 regarding Kardan NV's investment in Dan Vehicle, which constitutes a business segment of Kardan NV:

Rate of direct and indirect holding (in percent)	Direct and indirect investment amount recorded in books of Kardan NV (in EUR millions)	Rate of the investment amount in Dan Vehicle out of equity attributable to Kardan NV's shareholders[365]	Market value of the investment in Dan Vehicle (in EUR millions)	Contribution to the net profit attributable to Kardan NV's shareholders in 2009 (in EUR millions)
24.3%	21	7.1%	23	(0.8)

Data extracted from Dan Vehicle's financial statements to December 31, 2007, 2008 and 2009 are presented in the following table (amounts are in NIS thousands):[366]

Revenues			Net profit attributable to Dan Vehicle's shareholders			Equity attributable to Dan Vehicle's shareholders		Total assets		Accounting presentation in books of Kardan NV
2009	2008	2007	2009	2008	2007	As of 31/12/09	As of 31/12/08	As of 31/12/09	As of 31/12/08	
1,622,044	1,617,180	1,483,625	63,199	51,967	71,394	498,960	444,761	2,452,749	2,656,385	Proportionate consolidation

12.1 The Company's Activities and the Development of its Business

Dan Vehicle was established and incorporated in Israel in 1986 as a private company. In May 1993, Dan Vehicle published a prospectus, pursuant to which its shares were listed for trade on the Tel-Aviv Stock Exchange. Dan Vehicle holds a franchise from Avis Europe Plc. ("**Avis Europe**"), which permits it to use the Avis brand name in Israel, in its methods of work and computer systems related to car rentals.

As stated, Dan Vehicle is a public company listed on the Tel-Aviv Stock Exchange. Dan Vehicle's main shareholder is Emed, which holds, as of the date of the report, 54.25% of the share capital of Dan Vehicle. Kardan Israel indirectly holds, through Emed, 27.1% of Dan Vehicle. In addition, Kardan Israel directly holds an additional 5.8% of Dan Vehicle's issued

365 Total equity attributable to Dan Vehicle's shareholders (excluding non-controlling interests).

366 It should be noted that the accounting data of Dan Vehicle included in this part are those that appear in Dan Vehicle' financial statements. These data differ from the data that appear in the financial statements of Kardan Israel, due to Kardan Israel applying a different accounting policy, primarily in connection with the accounting treatment of liabilities linked to the consumer price index.

share capital, resulting in Kardan Israel's total holdings in Dan Vehicle as of the date of the report amounting to 32.9%. Kardan NV's indirect holding in Dan Vehicle amounts to 24.3% of Dan Vehicle's issued capital.

As set forth in Section 7.3.3 of this part, in January and July 2009, Kardan Israel acquired additional shares of Kardan Emed Properties (the company through which Kardan Israel holds Emed) and its holdings in Kardan Emed Properties increased to 100%. Therefore, from the first quarter of 2009, Kardan Israel and Kardan NV consolidate the financial statements of Dan Vehicle according to the proportionate consolidation method.

12.2 Fields of Operation

[a] Dan Vehicle has two principal fields of operation. These two fields are presented as business segments in Dan Vehicle's consolidated financial statements:

Short-term car rental – In this field, Dan Vehicle rents out various private and commercial vehicles in Israel, to Israelis and tourists, for varying periods of time (up to one year) and at varying rates.

Operating leases – In this field, Dan Vehicle leases various types of private and commercial vehicles in Israel to customers that belong primarily to the business sector, for varying periods of time (usually three years), for a fixed monthly payment. Under the operating lease method, the customer receives a service package from Dan Vehicle that includes a vehicle, garage services, licensing, compulsory insurance, accident or theft insurance coverage, a replacement vehicle, roadside services and service by which the vehicle is taken for servicing by one of a pool of drivers. At the end of the lease period, Dan Vehicle sells the vehicle. Operating leases constitute Dan Vehicle's principal business segment.

Others

Dan Vehicle has secondary fields of operation in addition to the aforementioned fields of operation, which, separately or together, do not constitute a material business component of Dan Vehicle. These activities include, *inter alia*, the sale of vouchers for overseas car rental, a travel agency, a used car trade-in dealership, as well as operations in Eastern Europe, as follows: during 2007, Dan Vehicle formed a joint venture with Financial Services TBIF B.V. ("**TBIF**"), a company (indirectly) controlled by Kardan NV, for the acquisition of leasing and short-term rental activity in Eastern Europe under the Avis brand name. In February 2008, the joint venture completed an acquisition of shares of an Avis franchisee in Ukraine. For further details, see Section 12.8 of this part.

12.3 Distribution of Dividends

Below are details regarding the dividends distributed by Dan Vehicle in 2009 and 2008:

Date of Payment (Month/Year)	Dividend Amount (in NIS thousands)
March 2009	9,000
March 2008	14,170

The balance of Dan Vehicle's retained earnings available for distribution as of December 31, 2009 amounts to NIS 368,453 thousand. On March 8, 2010, the board of directors of Dan Vehicle declared a dividend distribution in the amount of NIS 16 million. The aforesaid dividend will be distributed on April 7, 2010. Emed's portion of the distribution is NIS 8.7 million.

Dan Vehicle does not have a dividend distribution policy. With respect to restrictions on dividend distribution, see Section 12.11[c] of this part.

12.4 Financial Information with Respect to Dan Vehicle's Fields of Activity

Below are consolidated financial data for Dan Vehicle, divided according to fields of operation (in NIS thousands):

		Short-term rentals	Operating leases	Other	Consolidation adjustments	Consolidated
2009	Total revenue	341,588	1,288,195	8,414	(16,153)	1,622,044
	Total allocated costs	308,178	1,108,681	6,094	(16,153)	1,406,800
	Operating profit	33,410	179,514	2,320	-	215,244
	Total identifiable assets as of December 31, 2009	363,718	1,853,616	5,864	-	2,223,198
2008	Total revenue	360,403	1,261,131	9,856	(14,210)	1,617,180
	Total allocated costs	314,926	1,090,615	6,264	(14,210)	1,397,595
	Operating profit	45,477	170,516	3,592	-	219,585
	Total identifiable assets as of December 31, 2008	396,704	2,032,931	7,380	-	2,347,015
2007	Total revenue	242,240	749,462	10,763	(14,383)	988,082
	Total allocated costs	181,161	569,403	5,939	(14,383)	742,120
	Operating profit	61,079	180,059	4,824	-	245,962
	Total identifiable assets as of December 31, 2007	450,900	2,063,800	5,300	-	2,520,000

For an explanation of Dan Vehicle's operating results, see Section 1.4 of the board of directors' report.

12.5 General environment and Effect of External Factors on Dan Vehicle's Operations

To the best of Dan Vehicle's knowledge and in its estimation, the following factors have or are likely to have a general, material effect on its operating results:

Economic growth or downturn: During September 2008, a major shake-up took place in global financial markets, with the collapse of several financial institutions in the United States and other countries. The deepening of the aforesaid crisis led, *inter alia*, to a downturn in activity and the beginning of a recession. These events impacted on the capital market in Israel and, *inter alia*, on the ability of corporations in Israel to secure financing for their current and long-term activities, as well as on their liquidity and business situation. In a similar but even more drastic fashion, the global crisis affected the operations of the Avis franchisee in Ukraine, which is partly held by the Dan Vehicle. Since the second half of 2009, the beginnings of a recovery from the economic crisis have been seen in Israel and abroad. This has been expressed, *inter alia*, by indications of a significant easing in the availability of credit throughout the economy and also in the sector in which Dan Vehicle operates. It appears that supply and demand for operating leases and short-term car rental services and for the purchase of used vehicles on the part of Dan Vehicle's customers are maintaining their stability. During 2009, Dan Vehicle improved its financial soundness, reduced the level of its leverage and increased its net profit. Dan Vehicle estimates that, as of the date of the report, its financial soundness, operating cash flows and assets position enable it to cope with whatever is currently in store and will allow it to finance its operations, to meet its liabilities and to attain its goals. Nevertheless, it is not currently possible to predict with certainty how the recovery from the crisis will continue.

Changes in the security situation: Relative calm or deterioration in the security situation in the world, in general, and in Israel, specifically, may affect Dan Vehicle's operations, which are closely related to the tourism sector.

Price fluctuations in the used car market: Used car prices are influenced by various factors, including:

[1] Economic downturn – An economic downturn and credit crunch affects the vehicle purchasing ability of private customers, demand for operating lease services by business customers, and the financing ability of leasing companies and their ability to dispose of vehicles at the conclusion of the lease period.

[2] Large supply of vehicles for sale – A large supply of vehicles held for sale by importers and leasing companies may erode used car prices.

[3] The change in the company car usage value method and the implementation of the reforms changing purchase tax on new vehicles, as well as changes in foreign currency exchange rates, affect the price of new cars and, consequently, also the price of used cars, to the extent that a rise in the consumer price of a new car leads to a rise in the price of a used car of the same model, and vice versa.

Tax law changes: Changes to the taxation of new vehicles, taxation of the usage value of employees' use of company vehicles and changes in corporate tax rates, as described below, may affect the operations of Dan Vehicle and the value of its assets.

Usage value of company car: A substantial portion of vehicles under operating leases are given to company employees as "company cars", constituting a benefit for the employee. A portion of employees is required to relinquish a fixed monthly component which is deducted from the gross wages in return for the aforementioned benefit. The employee pays tax for the company car on the basis of the benefit value as determined by the Israeli Tax Authority ("**the Usage Value**"). The benefit value is determined in accordance with the various car price groups ("**the Usage Value Groups**").

On December 31, 2009, the Income Tax Regulations (Value of Vehicle Usage) (Amendment), 5770-2009 were published, as part of the plan to promote the "Green Taxation" ("**the New Regulations**"). Within the framework of the New Regulations, it is provided that the Usage Value of a company car will be determined, with effect from January 2010, as a percentage of the new vehicle's price to the consumer ("**Linear Usage Value**"). The Usage Value for vehicles with a price of up to NIS 130,000 that is registered for the first time after January 1, 2010 will be at the rate of 2.04% of the vehicle's price and, for vehicles with a price in excess of NIS 130,000, the Usage Value will be at the rate of 2.48% of the vehicle's price. With effect from 2011, the Usage Value will be set at 2.43%-2.6% of the vehicle's price to the consumer, subject to adjustments relating to the weighted price of vehicles. The current method, pursuant to the previous Usage Value Regulations, will continue to apply to vehicles registered through December 31, 2009. With the implementation of the aforementioned plans, it is anticipated that employees, who in the past waived a fixed monthly component of their gross salary, will re-evaluate whether it is more worthwhile economically to opt for the aforesaid waiver, rather than to accept a company vehicle; it is anticipated that a portion of them will opt not to take advantage of this benefit. As of the date of the report, Dan Vehicle estimates that the aforementioned continuing increase in Usage Value will affect activity in the operating leases field, although Dan Vehicle is currently unable to estimate the extent of decreased demand for operating leases and the extent to which continued implementation of the aforementioned plans will affect its profitability.

Change in taxation on new vehicles: In September 2005, an order was published providing for a gradual reduction of purchase tax on vehicles over a period of five years, commencing December 2005, from 95% down to 72%. Purchase tax was reduced accordingly. On January 1, 2009, the tax was further reduced to 75% and, on January 1, 2010, the tax was due to be reduced to 72%, as stated above.

In June 2009, The Minister of Finance and the Minister of Environmental Protection announced a government policy, whose main aim is to create economic incentives to reduce environmental pollution (the "**Green Taxation**"). Within this framework, a "green index" has been created that ranks vehicles by the level of pollution, which is determined according to a weighting of public costs of polluting emissions, and the purchase tax is set in accordance with this ranking. Instead of purchase tax at rates pursuant to the 2005 Order, as described above, purchase tax is imposed, with effect from August 1, 2009, at the rate of 90%, with their being a set reduction in the tax based on the degree of benefit for the vehicle, according to the Green Index. Reduced purchase taxes are also imposed on hybrid and electric vehicles. In November 2009, the Finance Committee of the Knesset (the Israeli parliament) passed the Green Taxation reform, which includes the purchase tax changes, pursuant to which the basic rate of purchase tax will be reduced from 90% to 83%, with this being countered by the cancellation of the tax benefit granted to vehicles equipped with an Electronic Stability Program system.

Dan Vehicle estimates that in the long-term the purchase tax change will not materially affect demand in the sectors in which it operates.

Regulatory changes: Regulatory changes, such as the grant of a permit for parallel import of vehicle brands to Israel, which would cancel the existing exclusivity, may make it possible for Dan Vehicle to import vehicles independently and develop in new directions and consequently, will affect Dan Vehicle's business and its operating results. In February 2010, the Economic Affairs Committee of the Knesset approved regulations for the parallel import of vehicles to Israel. Pursuant to the new regulations, which were published in the Official Gazette in March 2010 and which will take effect in April 2010, the State will permit a vehicle importer to import cars or motorcycles through an authorized agent of the overseas vehicle manufacturer, which is in contrast to the old regulations that required the vehicle importers to import vehicles to Israel directly from the vehicle manufacturers.

Fluctuations in foreign currency rates: Dan Vehicle is primarily affected by changes in the dollar, euro and Japanese yen exchange rates against the shekel. These changes have effects – contradictory in part – on Dan Vehicle's financial position, whether directly or by way of the exchange rates' effect on the price of new vehicles for importers, as set forth in Section 12.17.12 of this part.

Interest and CPI fluctuations – As Dan Vehicle is a highly leveraged company, changes in interest rates affect the cost of raising debt to finance operations. Changes in inflation rates affect the interest on CPI-linked loans. For details, see Section 12.17.12 of this part.

The Synergy between Dan Vehicle's Fields of Operation

Significant synergy exists between Dan Vehicle's two primary fields of operation, short-term car rental and operating leases. The short-term car rental and operating lease fields use numerous common systems. Dan Vehicle's operating strategy over the years has been to perform its various operations while taking advantage of the synergy and the scale advantage. Dan Vehicle operates its two principal fields of operation, short-term car rental and operating leases, under the Avis International brand name. In addition, Dan Vehicle performs its entire purchasing operations in a centralized manner, for all types of operations. Dan Vehicle also has centralized systems for sales and marketing, operations and service, and maintenance, which serve both fields of operation. Dan Vehicle finances all of its operations by means of credit from banks, the capital market and suppliers.

12.6 Short-Term Car Rental Field

Dan Vehicle offers a range of car rental services to various types of customers by means of a new and varied fleet of vehicles, for varying periods of time and at a range of rates. Dan Vehicle's rates are based on vehicle type, size and duration of the rental. The customer price is comprised of a basic rental price, which is determined on the basis of time and mileage criteria, cancellation fees, deductibles for accidents and other payments for theft and personal accident coverage for the driver and passengers. The rate schedule is comprised of daily, weekly and monthly rates. Dan Vehicle's rates are affected, *inter alia*, by seasonality, competition considerations and Dan Vehicle's costs, and are updated from time to time based on changes in the above parameters. Dan Vehicle advertises its prices to its customers through the Avis International system, the Internet and travel agents in Israel and abroad. Dan Vehicle has 'walk-in' rates for Israeli customers and tourists and rates for business customers.

[a] Structure of the Field of Operation

Dan Vehicle offers its short-term car rental customers a wide range of self-drive vehicles for customer selection, available for varying periods of time ranging from one day to one year. Dan Vehicle's fleet of vehicles is comprised of private and commercial vehicles, mostly manufactured in recent years (2008-2009), and from a wide range of imported models. Dan Vehicle's customers are split between private (Israeli and tourist) customers and business customers. The duration of use by private customers varies between one week and one month, while duration of use by business customers is usually loner, ranging from one week to one year. While private customers mostly use private vehicles, business customers use both private and commercial vehicles. Dan Vehicle's vehicles are rented under the Avis International brand name.

Legislative Restrictions, Standards and Other Constraints Applying to the Field of Operation

Dan Vehicle is required to maintain a license for self-drive car rental pursuant to Section 5 of the Supervision of Goods and Services Order (Tour Shuttles, Special Shuttles and Car Rental), 5745-1985. Dan Vehicle is also required under such order and under the directive of the Traffic Supervisor dated March 1, 1989 to insure its vehicles under third party property insurance for damage caused by rented vehicles. The order further provides that no vehicle may be rented for the purpose of transporting passengers for payment, and it is prohibited to transport passengers in rented cars for payment. In addition, an obligation exists to prepare a rental agreement in the form approved by the Traffic Supervisor. To the best of its knowledge, Dan Vehicle is in compliance with all the legislative restrictions, standards and other constraints applying to the field of operation, as detailed above.

Changes in the Volume of Activity in the Field and in its Profitability

During recent years and until the economic crisis began at the end of 2008, there had been a noticeable increase in demand for rented cars and an increase in the number of rental days, despite continued competition in the field. With the onset of the aforementioned crisis and until the second half of 2009, there was a downturn and contraction in demand in this field of operation. A trend of recovery has been apparent since the second half of 2009and demand has stabilized.

Critical Success Factors in the Field of Operation and Changes Occurring Therein

Financial soundness, demand for car rental services by customers, from the business and ultra-Orthodox sectors, servicing the operating lease fleet of Dan Vehicle, a calm security situation and economic stability, scale advantage, brand strength and operational flexibility.

Main Barriers to Entry and Exit for the Field of Operation

This field of operation has high barriers to entry: the need to purchase a fleet of new vehicles at a high capital investment, the establishment of a servicing and branch network with nationwide coverage, the need for investment in the brand and advertising. This field of operation has barriers to exit which are limited to the ability to sell the fleet of vehicles at a reasonable price.

Alternatives to the Products in the Field of Operation and the Changes Occurring Therein

Rental activities and leasing activities are alternative activities in a portion of the fields. A business customer may select between renting for a period of 3 years (an operating lease) at discounted rates and with a commitment for the duration of the agreement period, and renting for shorter periods, at higher variable rates, but without any long-term commitment.

Structure of Competition in the Field of Operation and the Changes Occurring Therein

There are numerous competitors in the short-term car rental field, some of which are companies operating an international brand, while others operate a local brand. Competition focuses primarily on rates and levels of service.

[b] Revenue Segmentation

Presented below are details of Dan Vehicle's (consolidated) revenue from short-term rentals (in NIS millions), and as a percentage of Dan Vehicle's total revenue, in 2009, 2008 and 2007:

	2009	**2008**	**2007**
Revenue from short-term rentals	341.6	360.4	227.9
Percentage of total revenue	21.1%	22.3%	23.1%

The decrease in revenue from 2008 to 2009 is due to the shrinkage in the size of the rental car fleet, as described in Section 12.15 of this part. At the same time, Dan Vehicle's financing expenses also fell due to a reduction in the scope of credit. Financing expenses are not allocated directly to the field of operation.

[c] Customers

Business customers: Business customers rent vehicles on a daily, weekly or monthly basis. This category includes regular customers who rent vehicles for periods ranging from one day to one month, such as replacement vehicles for insurance companies and garages, replacement and interim vehicles for operating lease companies. This category also includes regular customers who rent vehicles for periods ranging from one month to one year. In this case, Dan Vehicle's activity is similar in nature to operating lease activities, without the need to commit to a three-year rental period. This activity is unchanging throughout the year and is not seasonal. This activity accounts for approximately 53% of the scope of Dan Vehicle's operations in the short-term car rental field.

Private Customers: Private customers rent vehicles primarily on a daily or weekly basis. Customers from the private sector are divided into Israeli customers (primarily 'walk-in' customers and customers from the ultra-Orthodox sector) and foreign tourists (primarily from the U.S.A. and Europe). The business from these customers is characterized by seasonality (see Section 12.6[f], below). Rental by private customers is characterized by higher rates than rental by business customers. This activity accounts for approximately 47% of the scope of Dan Vehicle's operations in the short-term car rental field.

[d] Marketing and Sales

Dan Vehicle's marketing and sales activity is performed by the following means: sales promoters and representatives of Dan Vehicle's branches, who approach the various segments of the market, and a U.S subsidiary; travel agents and tourism wholesalers in Israel and abroad; advertising in newspapers, on billboards and on buses, radio, television and the Internet; sponsorship of events and organizing events for customers; and Avis International's marketing channels and reservation centers. Dan Vehicle does not have a material dependence on any of its marketing channels.

[e] Competition

Dan Vehicle's short-term car rental operation is characterized by high competition, which is likely to affect Dan Vehicle's operating results. In Dan Vehicle's estimation, dozens of short-term car rental companies operate on the market and four of which (S. Shlomo Vehicle, Eldan, Hertz and Budget), together with Dan Vehicle, are the leading players in the field and account for the majority of activity therein. Competition in this field pertains to price and levels of service, while the branch at the airport has particular importance with respect to its service to tourists. The principal methods that Dan Vehicle employs to contend with competition is to maintain a high standard of service, while creating a qualitative separation between itself and its competitors and strengthening the Avis International brand name, at the same time as keeping its prices at a reasonable level.

[f] Seasonality

A portion of the short-term car rental activity is seasonal. Demand by non-regular customers for car rental services increases during the Jewish and Christian holiday seasons and in the summer. This activity is also affected by the political-security-economic situation, and an unsettled security situation and/or economic instability leads to decreased demand. Rentals in the business customer field are less affected by seasonality.

[g] Fixed Assets

[1] Fleet of Vehicles

Dan Vehicle's fleet of vehicles is its principal asset. As of December 31, 2009, the fleet of vehicles for short-term rental numbered approximately 5,750 vehicles, mainly 2008-2009 models. As of December 31, 2008 and 2007, Dan Vehicle's fleet of short-term rental vehicles numbered approximately 6,300 vehicles and 6,100 vehicles, respectively. The average age of the fleet of vehicles for short-term rental was 19.0 months as of December 31, 2009, compared to 18.3 months as of December 31, 2008 and compared to 14.7 months as of December 31, 2007. Dan Vehicle owns its fleet of vehicles.

Presented below is a description of the manner in which Dan Vehicle operates its common systems, which are used for Dan Vehicle's entire fleet of vehicles, for both short-term rental and operating leases. The common systems are fleet purchasing, maintenance, insurance and licensing and vehicle sales, as set forth below:

Vehicle Fleet Purchasing

Dan Vehicle purchases the fleet of vehicles, which it uses for both short-term rental and operating leases, from a range of Israeli vehicle importers. Due to the volume of its vehicle purchases, Dan Vehicle receives discounts from the vehicle importers and credit terms ranging from cash payments to 150 days. Dan Vehicle purchases vehicle models that are highly tradable on the used car market, with an emphasis on the anticipated value of the vehicle on its disposal date. In 2009, Dan Vehicle had three principal suppliers: Delek Motors Ltd. ("**Delek Motors**") importers and Mazda and Ford, Colmobil Group – Colmotor ("**Colmobil Group**"), importers of Hyundai and Mitsubishi and Union Motors Ltd., importers of Toyota, from which Dan Vehicle purchased approximately 75% of all its vehicle purchases in 2009. In 2008, Dan Vehicle had two principal suppliers: Delek

Motors and Colmobil Group, from which it purchased approximately 57% of all its vehicle purchases in 2008. .

The vehicles purchased are from different vehicle categories, with the largest category, in terms of the highest number of vehicles purchased, being the category of vehicles with a 1600 cc engine and automatic gear – Licensing Group 2. Dan Vehicle’s principal considerations in purchasing vehicles are: the economic conditions at the time of purchase (such as the discount rate, credit terms, buy-back commitment and so forth); Dan Vehicle’s estimation of the vehicle’s anticipated degree of tradability on the used car market upon being sold at the conclusion of the rental period. In the leasing market, the customer’s preference for a particular type of model is also taken into account.

In light of the fierce competition between vehicle importers, the wide range of car models suitable for vehicle fleets and the fact that Dan Vehicle does not have-long term agreements for the purchase of imported vehicles, it is Dan Vehicle’s opinion that it has the ability to rapidly change the purchase mix in accordance with the considerations set forth above and with no material additional cost. Dan Vehicle has no material dependence on any of its suppliers, this being due – in its opinion – to making purchases of new vehicles from alternative vehicle importers, without there being any material cost increment. Nevertheless, in light of the aforesaid and as a consequence of the fact that Dan Vehicle purchases 75% of its vehicles from three suppliers, it has a certain degree of dependence on these suppliers.

<u>Vehicle Fleet Maintenance</u>

Vehicle maintenance is divided into mechanical maintenance of the various vehicle systems and accident and breakdown damage repair.

Mechanical maintenance is divided into routine vehicle maintenance, repairs under importer warranty and other repairs. This type of maintenance is usually performed at the importer’s garage network. Dan Vehicle has entered into centralized agreements with the majority of vehicle importers, for the maintenance of all its vehicles from both its short-term rental and leasing fleets, at the importers’ garage networks.

Dan Vehicles does not insure its vehicles under a comprehensive insurance policy. Accident and breakdown damage repair is performed under contract with spare parts suppliers, bodywork garages, glazier suppliers and other suppliers. In the event of a serious accident (which is not a total loss, as defined by law), Dan Vehicle evaluates the economic viability of repairing the damage. Should a repair not be deemed to be economically viable, Dan Vehicle sells the damaged vehicle in its current condition.

Licensing and Insurance of Vehicle Fleet

As mentioned above, Dan Vehicle is required to procure compulsory insurance, third party insurance and licensing for all its vehicles. Dan Vehicle does not procure comprehensive insurance for the vehicles it owns due to economic considerations which are based, *inter alia*, on the vehicle fleet size versus insurance premium costs. Dan Vehicle examines the aforementioned policy on a periodic basis. Based on the aforesaid examinations over the years, non-insurance continues to be worthwhile and Dan Vehicle continues its aforementioned policy. As part of these examinations, Dan Vehicle checks the number of its vehicles that have been stolen. 71 and 125 of Dan Vehicle's vehicles were stolen in 2009 and 2008, respectively, which represents between 0.2% and 0.4% of the average size of the entire vehicle fleet.

Vehicle Sales

Vehicles are sold from both the short-term car rental fleet and the operating lease fleet under the Avis brand name, through Dan Vehicle's 17 nationwide sales centers that are adjacent to branches of Dan Vehicle. Purchasers of vehicle are primarily from the private sector, and the remaining purchasers are used car dealers. Dan Vehicle prepares the vehicles for sale under the management and supervision of its technical department. Fleet vehicles are sold at a price that is slightly less than the Yitzchak Levy Blue Book price. In 2009, 2008 and 2007, Dan Vehicle sold approximately 2,300, 1,877 and 1,790 vehicles, respectively, from its short-term rental fleet.

[2] Dan Vehicle's Facilities

Dan Vehicle has more than thirty facilities throughout the country, which are used for both short-term rental and operating lease activities. These facilities include, *inter alia*, rental and service branches, vehicle sales centers, management headquarters and logistical operations centers.

[h] Suppliers

Dan Vehicle's principal suppliers that provide service for its entire activities, as described above, are the vehicle importers, garages, spare parts suppliers, auto protection and audio suppliers, the insurance company that insures its vehicles and other suppliers. Dan Vehicle is not materially dependent on any of its suppliers and selects its suppliers on the basis of quality and price criteria. As described in Section 12.6[g][1] of this part, Dan Vehicle has three principal suppliers from among vehicle importers, upon which Dan Vehicle is dependent to a certain degree. Dan Vehicle's purchases from its principal suppliers in 2009 and 2008 amounted to NIS 604 million and NIS 642 million, respectively. Dan Vehicle does not have any contracts with its suppliers that are longer than one year. Dan Vehicle's total vehicle purchases from all its suppliers in 2009 and 2008 amounted to approximately NIS 1.2 billion and NIS 1.4 billion, respectively.

[i] Legal proceedings

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 had 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 spent to repair the damage to the vehicles. The plaintiffs have set the amount of their personal claim at NIS 3,000 and the amount of the class action at NIS 120 million. In February 2009, Dan Vehicle filed a motion for summary dismissal of the motion to certify the claim as a class action. In January 2010, the Court conducted a preliminary hearing, where it was decided that a further preliminary hearing would be held on May 26, 2010. With respect to the motion for summary dismissal, Dan Vehicle's management believes, based on the opinion of its legal advisors, that Dan Vehicle has sound arguments which have a good likelihood of being accepted in a manner that would result in the summary dismissal of the motion to certify the claim as a class action, and it is more likely than not that the motion for summary dismissal will be accepted. For further details, see Note 34.C.5 of the financial statements.

In February 2009, an additional claim was filed with the Haifa District Court against Dan Vehicle, concurrently with a motion to certify the claim as a class action. The claim was based on the argument that the amount that Dan Vehicle had charged the plaintiff for topping-up the fuel tank in the plaintiff's rented car exceeded the cost of gasoline for Dan Vehicle by 41%. The plaintiff argued, *inter alia*, that the clause in the rental agreement, pursuant to which Dan Vehicle charged renters a surcharge for topping-up the fuel tank, was misleading and a discriminatory clause in a standard contract and should be nullified. The plaintiff set the class action amount at approximately NIS 66 million. As of the date of the report, the plaintiff and Dan Vehicle have filed their responses to the motion to certify the claim as a class action. A preliminary hearing on the motion to certify the claim as a class action has been set for March 28, 2010. Dan Vehicle's management believes, based on its knowledge of the factual infrastructure and relying on the opinion of its legal advisors, that it is more likely than not that the motion to certify the claim as a class action will be dismissed. For further details, see Note 34.C.6 of the financial statements.

12.7 Operating Leases Field

The operating lease arrangements which Dan Vehicle offers to its customers enable the customer to lease vehicles for periods ranging between 12 and 48 months (generally for a period of 36 months), at a fixed monthly payment. Garage services, licensing, compulsory insurance, accident or theft insurance coverage, a replacement vehicle, roadside services and towing, vehicle accessories and a service by which the vehicle is taken for servicing by one of a pool of drivers are all included within the framework of the leasing services that Dan Vehicle offers.

The rental fees that Dan Vehicle collects from its customers are a derivative of a number of parameters: the purchase cost of the vehicle and the cost of the additions to the vehicle, the length of the lease, the interest rate, the value of the depreciation, the basket of ancillary services offered to the customer and the mileage quota allocated to the customer. VAT is added to the leasing fees.

Dan Vehicle requires collateral from the majority of its customers, in accordance with the degree of risk involved in the transaction with them. The collateral that is provided consists of the advance payment of a number of months' leasing fees on account of the last months of the lease, debt notes and personal guarantees. As of December 31, 2009, Dan Vehicle holds collateral amounting to approximately NIS 82 million.

[a] Structure of the Field of Operation

As mentioned above, Dan Vehicle offers its operating lease customers a wide range of self-drive vehicles for customer selection, available for periods of time ranging between 12 and 48 months (generally for a period of 36 months). At the conclusion of the lease period, the vehicle is returned to Dan Vehicle, which subsequently sells it. Dan Vehicle's fleet of vehicles, the vast majority of which were manufactured in recent years (2007-2009), is comprised of private and commercial vehicles from the range of models that are imported into Israel. Dan Vehicle's customers are mainly business customers. This field of operation operates under the Avis International brand name.

Legislative Restrictions, Standards and Other Constraints Applying to the Field of Operation

Dan Vehicle is required to maintain a vehicle-leasing license pursuant to Section 5 of the Supervision of Commodities and Services Order (Tour Shuttles, Special Shuttles and Vehicle Rental), 5745-1985. See Section 12.6[a] of this part. To the best of its knowledge, Dan Vehicle is in compliance with all the legislative restrictions, standards and other constraints applying to the field of operation, as detailed above.

Changes in the Volume of Activity in the Field and in its Profitability

In December 2007, a plan was published for gradually raising the usage value of a company car, over a period of 4 years. See Section 12.5[3] of this part. In December 2009, new regulations were published for determining Usage Value, as part of the plan to promote the “Green Taxation”, see Section 12.5[3] of this part. The global economic crisis, whose impact on the Israeli economy began to be felt in the second half of 2008, *inter alia*, in the reduction of the sources of credit, has caused an increase in leasing tariffs and a contraction in the volume of activity. During the second half of 2009, with the first signs of a trend of recovery from the crisis and greater availability of sources of financing at low interest rates, a downward trend began to be seen in operating lease tariffs. Nevertheless, operating lease tariffs are still higher than immediately prior to the economic crisis.

Critical Success Factors in the Field of Operation and Changes Occurring Therein

Financial soundness, economic stability, and demand for vehicle leasing services by companies and businesses that require vehicles for their use and as company cars for their employees, as part of the terms of employment, the scale advantage, brand strength and operational flexibility.

Main Barriers to Entry and Exit for the Field of Operation

The operating lease field has high barriers to entry, including the need to purchase a fleet of new vehicles at a high capital investment, the establishment of a servicing and branch network with nationwide distribution, the need for investment in the brand and advertising.

The operating leases sector has barriers to exit, including the termination of contracts with existing customers and the ability to sell the fleet of vehicles at a reasonable price.

Alternatives to the Products in the Operating Lease Sector

Rental activities and leasing activities are alternative activities in a portion of the fields. A business customer may select between renting for a period of 3 years (leasing) at discounted rates and against a commitment for the duration of the agreement period, and renting for shorter periods, at higher variable rates, but without any long-term commitment.

An additional alternative product for the operating lease field is the management of a fleet of vehicles that are owned directly by the customer.

[b] Revenue Segmentation

Presented below are details of Dan Vehicle's (consolidated) revenue from operating leases (in NIS millions), and as a percentage of Dan Vehicle's total revenue, in 2009, 2008 and 2007:

	2009	**2008**	**2007**
Revenue from operating leases	1,288.2	1,261.1	749.4
Percentage of total revenue	79.4%	78.0%	75.8%

[c] Customers

Dan Vehicle's customers in this field of operation are from the business sector, primarily companies from all sectors of the economy, who require vehicles for business use and as company cars for their employees, which are provided as part of the terms of employment. Most of the customers are concentrated in the central region of Israel. The customers have between 1 and 1,400 vehicles. Dan Vehicle has no dependence on any of its customers in this field of operation, and Dan Vehicle's customer portfolio is broad and diverse. As of December 31, 2009, Dan Vehicle had 1,820 customers in this field of operation, compared to 2,040 customers as of December 31, 2008.

[d] Marketing and Sales

Dan Vehicle's marketing and sales activity in this field of operation is performed by the sales managers and representatives in Dan Vehicle's branches, who approach the various segments of the market; by advertising in newspapers, primarily in the economic press, on billboards, buses and the Internet; and by organizing events for customers. Dan Vehicle does not have a material dependence on any of its marketing channels.

[e] Competition

According to data from a sectoral surveys published by Business Data Israel Ltd. ("**BDI**") in January 2010, the number of vehicles that are leased under operating leases amounted to approximately 190 thousand vehicles in 2009.

There are a number of companies operating in the sector, five of which account for the majority of activity in the field – Dan Vehicle, S. Shlomo Vehicle, Elbar, Eldan and Hertz. The competition in this field pertains to price and levels of service. The principal methods that Dan Vehicle employs to contend with competition is to maintain a high standard of service, while creating a qualitative separation between itself and its competitors and strengthening the Avis International brand name, at the same time as keeping its prices at a reasonable level.

Dan Vehicle's market share, according to data from BDI's aforementioned survey is approximately 16%.

[f] Dan Vehicle's Fixed Assets and Facilities

Dan Vehicle's fleet of vehicles is its principal asset. As of December 31, 2009, the fleet of vehicles for operating lease activities numbered approximately 25,600 vehicles., mainly 2007-2009 models and as of December 31, 2008, it numbered approximately 27,400 vehicles. Models of Group 2 vehicles account for approximately 80% of the total fleet of vehicles. Dan Vehicle sells the vehicles at the conclusion of the leasing contracts, generally after 36 months. Dan Vehicle owns its fleet of vehicles. Dan Vehicle customarily orders vehicles for its leasing fleet only against orders from its customers.

Since the servicing and the maintenance of the fleet of vehicles that are held for short-term rental and the fleet of vehicles that are held for operating lease is identical, there is one consolidated system that deals with this subject. For additional details see Section 12.6[g][1] of this part.

[g] Facilities

As mentioned above, Dan Vehicle employs numerous common systems for its short-term rentals and operating lease activities. For information regarding Dan Vehicle's facilities, see Section 12.6[g][2] of this part.

[h] Suppliers

As mentioned above, Dan Vehicle employs numerous common systems in its short-term rentals and operating lease activities, and it has identical suppliers in both fields of operation. For information regarding suppliers in this field of operation, see Section 12.6[h] of this part.

12.8 Other Activities

Dan Vehicle has various activities that are not included in the fields of operation, where the revenue and investment relating to these activities is not material, and are recorded in Dan Vehicle's financial statements as part of the "others" segment. These activities include: the sale of vouchers for overseas car rental, a travel agency and a used car trade-in dealership.

The "others" segment also includes a venture for the acquisition of leasing and short-term rental activities in Eastern Europe under the Avis brand name. Particulars regarding the venture are presented below:

During 2007, Dan Vehicle entered into an agreement with TBIF for the formation of a venture for the acquisition of leasing and short-term rental activities in Eastern Europe under the Avis brand name (the "**Venture**"). The owners of the venture are: TBIF – 66% and Dan Vehicle – 34%. The

Venture operates through a company that is registered in Cyprus under the name of TBIF Dan Leasing Ltd. (the "**Cypriot Company**")**. In June 2007,** Dan Vehicle's general meeting approval in principle the grant of a monetary facility of EUR 15 million for the operation of the Venture.

In November 2007, the Cypriot Company purchased 90% of the ownership and control of the Avis short-term rental and leasing franchisee in Ukraine ("**Avis Ukraine**"), for a consideration of EUR 10 million. In addition, the Cypriot Company was granted an option for the purchase of the remaining 10% of the shares in Avis Ukraine and a third party was granted an option to sell the remaining 10% of the shares to the Cypriot Company during the course of the year commencing on July 1, 2010 and ending on June 30, 2011, for a consideration of an additional EUR 1.5 million. The transaction was closed in February 2008.

The board of directors of Dan Vehicle approved the grant of a shareholders' loan to Avis Ukraine in an amount of EUR 3.4 million Euros, pro rata to Dan Vehicle's and TBIF's holdings in the Venture. As of December 31, 2009, the balance of the loan, including interest and exchange differences, amounted to approximately NIS 7.7 million.

The global economic crisis in general, and the economic crisis in Ukraine in particular, has led Dan Vehicle's management to review the investment in Avis Ukraine on the basis of the valuation carried out in 2008, and to record a provision for impairment in value of NIS 5.5 million. In 2009, a reversal was recorded of NIS 2.1 million of the impairment in value, so as to adjust the investment to its recoverable amount.

As of December 31, 2009, the balance of Dan Vehicle's investment in Avis Ukraine amounts to NIS 13.8 million.

Matters Relating to Dan Vehicle's Activities in their Entirety

12.9 Human Capital

As of December 31, 2009 and 2008, Dan Vehicle employed 799 and 781 people, respectively.

Employee compensation plan – Sales personnel and employees of the branches receive incentives from time to time in accordance with the level of sales and this is in addition to their basic salaries.

Employment agreements – Dan Vehicle is a member of the Tel-Aviv-Jaffa Chamber of Commerce, and as such it is subject to general collective agreement No. 7010/77. Dan Vehicle enters into employment contracts with its employees pursuant to the provisions of the law and the collective agreement.

Senior management personnel are employed under personal employment agreements.

12.10 Working Capital

Credit to customers: Dan Vehicle extends credit to its business customers for a period of up to 90 days, in accordance with the type of customer and in accordance with the contract with them. Private customers generally pay in cash or by credit card. The average credit period for customers in 2009 was 38 days, compared to 41 days in 2008. The average balance of credit extended in 2009 amounted to approximately NIS 177 million, compared to approximately NIS 172 million in 2008.

Credit from suppliers: Dan Vehicle receives credit from its suppliers for periods of up to 150 days. The average credit period received from suppliers was 71 days in 2009, compared to 43 days in 2008. The average balance of credit received from suppliers in 2009 amounted to approximately NIS 260 million, compared to approximately NIS 190 million in 2008.

Dan Vehicle has negative working capital of approximately NIS 608,412 thousand, which results from the fact that its liabilities in its statement of financial position (balance sheet) are divided into current liabilities and long-term liabilities, while its principal assets (the fleet of vehicles) are presented in its statement of financial position (balance sheet) under long-term assets, despite the fact that a portion thereof is to be disposed of in the coming year. In addition, in accordance with accounting principles, future revenues from operating lease agreements (which are comprised, *inter alia*, of the customer financing component) are not recorded under current assets (firm off–balance-sheet commitments); these future revenues are recorded against the repayment of the expected liability. Therefore, despite the fact that Dan Vehicle's statement of financial position (balance sheet) shows negative working capital, as referred to above, Dan Vehicle's management estimates that there is no reasonable concern that Dan Vehicle will not meet its current and anticipated commitments. Dan Vehicle's management has reviewed Dan Vehicle's commitments against possible sources of financing, taking into consideration extreme situations as well. As stated, possible sources of financing are based, *inter alia*, on future payments by customers under leasing agreements, on projected future revenues from vehicle sales and a possible reduction in the size of the vehicle fleet, were this to be required in order to increase liquidity and repay liabilities.

12.11 Financing

[a] **Bank credit –** As of December 31, 2009, Dan Vehicle's outstanding bank credit amounted to approximately NIS 268 million (compared to NIS 467

million as of December 31, 2008). The loans were taken for various periods of time, from daily loans (on-call) up to long-term loans (up to three years). The linkage terms for the bank credit are ‘shekels and unlinked’, ‘shekels and CPI-linked’ or ‘shekels and variable interest’. The short-term credit gives Dan Vehicle flexibility to adjust the size of its vehicle fleet and the liabilities relating thereto to the seasonality that characterizes the sector. The credit that is taken up is used to finance the generality of Dan Vehicle’s activities and not to finance specific transactions. As of December 31, 2009, Dan Vehicle has an amount of approximately NIS 38 million on deposit with banks.

Non-bank credit – As of December 31, 2009, Dan Vehicle’s outstanding non-bank credit amounted to approximately NIS 1,054 million. Since 2003, Dan Vehicle has secured funds from non-bank sources with the object of diversifying its sources of finance. The raising of funds was carried out by means of a private offering of debentures and by means of the issuance of listed debentures. The debentures have been given a rating of (A+/Stable) by Maalot and (A2) with a stable outlook by Midroog. Dan Vehicle raises funds from non-banking sources by way of the issuance of debentures, without any specific securitization of the cash flows from customers. In June 2008, Dan Vehicle raised an amount of NIS 267 million by means of the issuance of debentures (Series G) to the public, pursuant to a shelf prospectus. The debentures were issued at a price of 100% of their par value and bear interest at a rate of 4.5% annually, linked to the Consumer Price Index. In August 2009, Dan Vehicle published a shelf prospectus.

The buy-back of debentures – In October 2008, Dan Vehicle’s board of directors approved a framework for the buy-back of Dan Vehicle’s Series B and Series C debentures, which are not listed for trade, and debentures of Series D-G, which are traded on the Tel-Aviv Stock Exchange. The buy-back is to be carried out by Dan Vehicle and/or by subsidiaries of Dan Vehicle and/or entities under its control, with an overall volume of purchases of up to NIS 50 million. The aforementioned buy-back, to the extent performed, will be carried out from time to time at the discretion of Dan Vehicle’s management, on or off the Stock Exchange. During 2008, Dan Vehicle had purchased approximately NIS 74 million par value of debentures of Series D-G for an aggregate consideration of approximately NIS 45 million. In 2008, Dan Vehicle recorded a gain of approximately NIS 33 million with respect to these transactions. In February 2009, Dan Vehicle’s board of directors approved an additional framework for the buy-back of Dan Vehicle’s debentures of Series B-C and Series D-G with an overall volume of purchases of up to NIS 50 million, in accordance with the principles for the buy-back that were determined in the previous decision. The decision by Dan Vehicle’s board of directors regarding the aforementioned buy-back of debentures is in effect until February 11, 2010, inclusive. During 2009, Dan Vehicle purchased NIS 8.6 million par value of debentures of Series D-F for an aggregate consideration of approximately NIS 7 million. Dan Vehicle recorded a gain of approximately NIS 1.6 million with respect to these transactions. From January 1, 2010 through the date on which the board of directors' decision ceased to be valid, Dan Vehicle made no further buy-backs.

[b] The Average Interest Rate

Presented below are the average interest rates on loans from bank and non-bank sources, which were in effect as of December 31, 2009:

	Average interest		**Range**	
	Linked	**Fixed**	**Linked**	**Fixed**
From bank sources	4.19%	5.77%	3.6%-4.35%	4%-7.2%
From non-bank sources	5.13%	-	4.5%-6.7%	

[c] Restrictions on Credit

In accordance with an undertaking given by Dan Vehicle in favor of eight (8) banks in Israel, the overall amount of Dan Vehicle's total equity is not to fall below 15% of its total assets. If the total equity falls below 15%, the banks reserve the right to call for the immediate repayment of the loans. Dan Vehicle has given an undertaking to the said banks for restrictions on the distribution of a dividend, which are conditional upon the level of the ratio between Dan Vehicle's total equity and its total assets (if the ratio of total equity to total assets lies in the range of 15%-17%, Dan Vehicle will be entitled to distribute a dividend at the rate of 25% of its annual net income; if the ratio of total equity to total assets lies in the range of 17%-19%, Dan Vehicle will be entitled to distribute a dividend at the rate of 50% of its annual net income; if the ratio of total equity to total assets exceeds 19%, Dan Vehicle will be entitled to distribute a dividend at the rate of 70% of its annual net income). As of December 31, 2009, Dan Vehicle's ratio of total equity to total assets stands at 20.3%. Dan Vehicle is in compliance with the aforementioned covenants. For further details, see Note 34.A.7 of the financial statements.

The holders of debentures of Series B and C are entitled, *inter alia*, to demand immediate repayment of the debentures if Dan Vehicle's rating from Maalot should be downgraded to a rating of BBB or less or if Dan Vehicle should cease to be a public company. As of December 31, 2009 and as of the date of publishing the report, Dan Vehicle is in compliance with all the terms of the debentures.

[d] Credit Facilities

Dan Vehicle had credit facilities amounting to approximately NIS 580 million as of December 31, 2009. As of that date, Dan Vehicle has utilized approximately NIS 268 million of these facilities.

[e] Charges

In September 2009, the process of creating first-ranking fixed charges was completed. As part of this process, Dan Vehicle reached an agreement with the banks that finance its activities for the cancellation of their right to a negative pledge on all the vehicles owned by Dan Vehicle in return for the creation of first-ranking fixed charges in favor of each bank on a portion of the vehicles owned by Dan Vehicle and on the contractual rights with respect to and associated with the aforesaid vehicles. The total value of the vehicles pledged in favor of each bank is determined based on an agreed pricing scale and in accordance with the credit facility from each bank. As of the date of the report, Dan Vehicle had approximately 5,000 vehicles so pledged, representing approximately 15% of the fleet of vehicles that it owns. The remaining vehicles of Dan Vehicle, which have not been pledged, are free of any negative pledge and can be pledged, at Dan Vehicle's discretion, in favor of any financing party, including Dan Vehicle's suppliers, vehicle importers, its shareholders and any other party, at the discretion of Dan Vehicle, for the purpose of securing financing for Dan Vehicle in any manner whatsoever and without restriction as to amount , provided that Dan Vehicle's total indebtedness to any financing party at any time shall not be less than 60% of the overall value of the vehicles pledged to that financing party. For further details regarding the charges recorded by Dan Vehicle, see Note 34.A.7 of the financial statements.

[f] Credit Rating

In December 2003, Maalot gave Dan Vehicle an (A) rating. The rating was ratified a number of times and, in June 2008, Maalot raised Dan Vehicle's rating to (A+/Stable). In January 2009, Maalot ratified the rating at (A+), but lowered the outlook to Negative. The rating was ratified in July 2009. In January 2010, Maalot ratified the rating, and raised the outlook to Stable.

In May 2006, Midroog gave Dan Vehicle a rating of (A1) with a Stable outlook. The rating has been ratified a number of times. In April 2009, Midroog lowered Dan Vehicle's rating to (A2) with a Stable outlook.

12.12 Taxation

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislative Amendments to Implement the Economic Plan for the Years

2009 and 2010), 5769-2009, which provides, inter alia, for a further gradual reduction in the corporate tax rate, which will fall to 18% in the 2016 tax year and thereafter. Pursuant to the aforementioned amendments, the corporate tax rates in the 2009 tax year and thereafter are as follows: in the 2009 tax year – 26%, in the 2010 tax year – 25%, in the 2011 tax year – 24%, in the 2012 tax year – 23%, in the 2013 tax year – 22%, in the 2014 tax year – 21%, in the 2015 tax year – 20%, and in the 2016 tax year and thereafter, the corporate tax rate will be 18%. The current taxes and the balances of deferred taxes as of December 31, 2009 are calculated in accordance with the new tax rates specified in the aforementioned amendments. In 2009, Dan Vehicle recognized tax savings of approximately NIS 16 million from the ramifications of the aforementioned change in the tax rates.

On June 17, 2008, the Tel-Aviv District Court conferred validity of a court judgment to a settlement agreement between Dan Vehicle and the Israel Tax Authority, relating to the 2001-2004 tax years, with respect to which years the Income Tax Authority had issued Dan Vehicle with orders and an assessment requiring Dan Vehicle to pay an amount of approximately NIS 59 million before interest and linkage differences. In accordance with the agreement, Dan Vehicle paid an amount of NIS 14.75 million with respect to the years 2001-2004, plus interest and linkage differences of NIS 3.1 million. Concurrently, Dan Vehicle was allowed additional expenses for tax purposes in the 2005-2007 tax years at the level of the additional income in accordance with the agreement. Pursuant to the agreement, neither party admitted the claims of the other party, and nothing in the settlement agreement requires either of the parties to act in accordance with the principles of the agreement in the future. Accordingly, Dan Vehicle has final tax assessments up to and including the tax year ended December 31, 2004 (the 2004 tax year).

As of December 31, 2009, Dan Vehicle had an accumulated business loss for tax purposes in an amount of approximately NIS 144 million that is available to be carried forward to future years, including with respect to the settlement agreement with the Tax Authority, as described above. Dan Vehicle has recorded deferred taxes with respect to these carryforward tax losses, to the extent that it is expected that there will be chargeable income in the future against which the aforesaid losses can be realized.

12.13 Material Agreements

Dan Vehicle operates the Avis franchise in Israel and the Avis method, in accordance with the agreements set forth below:

The licensee agreement from March 1987, including addendums thereto.

The licensee agreement (as amended in the addendum to the agreement, the latest of which is from August 1999) grants Dan Vehicle a license to use the Avis method and the Avis trademarks in Israel, including in the occupied territories, from November 1, 1986 through December 31, 2011. Dan Vehicle has an option to extend the period of the agreement by an additional five years (i.e., through December 31, 2016), subject to giving Avis Europe prior notice of the exercise of the option, no later than October 1, 2011 and provided that Dan Vehicle has not breached the licensee agreement as of the date of exercising the option, as described above. To the best of its knowledge, Dan Vehicle has not breached nor does it intend to breach the licensee agreement. Dan Vehicle has undertaken to work in accordance with the Avis method, and the rules and regulations thereunder. Dan Vehicle has also undertaken to allow Avis Europe, without prior notice, to supervise and inspect that the Avis method is being complied with. Pursuant to the agreement, Emed is entitled to sell shares of Dan Vehicle, provided that its holding rate in the shares of Dan Vehicle does not fall below 51%.

In consideration for granting the license, Dan Vehicle has undertaken to pay monthly royalties (license fees) to Avis Europe, which are calculated on Dan Vehicle's revenue turnover. As from January 1, 2000, the monthly license fees that Dan Vehicle had to pay to Avis Europe with respect to operating lease activities were at a rate of 1.5% of its revenue and the license fees with respect to short-term rental activities ranged between 4%-6% of its revenue; from 2008, Dan Vehicle pays royalties at a rate of 6% of its revenue. In 2009 and 2008, Dan Vehicle paid royalties to Avis Europe in a total amount of approximately NIS 23 million and NIS 25 million, respectively.

The general sales agency agreement from March 1987, including addendums thereto

Dan Vehicle has been appointed as Avis Europe's exclusive general sales agent in Israel, for the purpose of receiving bookings from customers who are interested in using Avis's vehicle rental services throughout the world. The period of the agreement is identical to the period of the aforementioned licensee agreement. The agency agreement will terminate in the event of the above-described licensee agreement being terminated. Dan Vehicle has undertaken to perform car rental sales promotion and marketing to overseas customers coming to Israel, to deal with all such car rental bookings and to issue payment vouchers to these customers.

12.14 Order Backlog

In the business segments in which Dan Vehicle operates, even though orders are received from the customers, it is the general custom not to charge a customer for canceling an order, so long as the cancellation is done before the vehicle is supplied to the customer. Accordingly, such orders cannot be viewed as binding orders that have not yet been recognized as revenue in Dan Vehicle's financial statements.

12.15 Goals and Strategy

In light of the economic crisis and the credit crunch, which characterized the second half of 2008 and the first half of 2009 and which affects the entire Israeli economy, including the leasing and rental sector and Dan Vehicle, Dan Vehicle has adjusted its business goals for 2009, grounding them on the basic assumptions of a reduction in the volume of available credit, primarily in the capital market, but also in the bank credit market. Consequently, Dan Vehicle has made a controlled reduction in its leasing and rental fleets, which has provided Dan Vehicle with the cash inflows needed to settle its liabilities, even in the extreme circumstances of a major credit crunch. In making the aforesaid reduction, careful attention was paid to principles for improving the quality of Dan Vehicle's customer portfolio and for retaining quality customers, maintaining profitability and keeping up the high standard of service that characterizes Dan Vehicle. In addition, Dan Vehicle has acted to review and improve cost-saving measures. Since the second half of 2009, in parallel with the trend of recovery from the economic crisis and the greater availability of credit sources, Dan Vehicle has been taking steps to preserve its market share, while continuing to pay attention to the principles described above.

12.16 Development Forecast for Coming Year

In light of the trend of recovery from the global economic crisis and the stabilization of demand for short-term rental services, on the one hand, and the availability of financing sources, on the other hand, Dan Vehicle intends to take steps to preserve its market share and to even enlarge it, by means of maintaining and improving the quality of its customer portfolio, keeping pricing at an appropriate level and conducting risk management in accordance with Dan Vehicle's policy, while continuously keeping the changing economic reality under review. All this will be done in such a way as to enable Dan Vehicle to maintain the high standard of service that it provides to its customers and to meet its financial obligations. Dan Vehicle intends to continue examining from time to time relevant business opportunities. **The aforementioned assessments regarding preserving and even enlarging Dan Vehicle's market share, as described above, are forward-looking information, as defined in the Securities Law,**

based on the global economic situation and its implications on the Israeli economy, market surveys, assessments of Dan Vehicle's management and its familiarity with the operating lease and short-term rental sectors. The assessment regarding preserving and/or enlarging Dan Vehicle's market share may not materialize, in whole or in part, or may materialize differently, including materially differently from what is expected, due to the direct and/or indirect implications of the global economic crisis and/or the realization of all or part of the risk factors set forth in Section 12.17 of this part.

12.17 Risk Factors

Dan Vehicle's operations area characterized by the following risk factors:

Macro-economic and sector-specific risk factors

12.17.1 Economic downturn in Israel – The economic downturn in the Israeli economy may lead to a decrease in demand for short-term car rental services and for operating leases. The economic downturn may also cause a decline in demand for used vehicles and a fall in the prices of used vehicles, a consequence that would affect the value of Dan Vehicle's fleet of vehicles. In addition, the economic downturn may cause a credit crunch, which would impair the ability of leasing and rental companies to finance their activities, and which might affect the ability of customers to fulfill their commitments.

12.17.2 Worsening of the security situation in Israel – A worsening of the security situation in Israel might have an adverse impact on the arrival of tourists from overseas in Israel, and adversely affect demand for short-term car rentals.

12.17.3 Reduction of taxation on new vehicles – The price of used and new vehicles is connected. As a result of the high level of the tax component in the cost of the vehicle fleet, a change in the rate of taxation on the purchase of new vehicles changes the price of the new vehicle and, consequently, also affects the price of the used vehicle. Such a change causes an increase/decrease in the value of Dan Vehicle's vehicle fleet. In Dan Vehicle's opinion, it is not possible to efficiently hedge the value of the vehicle fleet against changes in the tax laws. For details regarding the change in the taxation of new vehicles, see Section 12.5[3] of this part.

12.17.4 Increase in vehicle theft – The leasing company's fleet of vehicles is not, for the most part, insured against theft and, accordingly, an increase in the number of vehicle thefts could affect their results. See Section 12.6[g][1] of this part with respect to the number of thefts of Dan Vehicle's vehicles.

12.17.5 Raising the usage value of employees' company cars – On December 31, 2007, the Income Tax Regulations (Value of Vehicle Usage) (Amendment), 5768-2007 were published. Pursuant the aforesaid regulations, the vehicle usage value is being raised, commencing from January 2008 and continuing to the tax year that commences in January 2011, as described in Section 12.5 of this part. On December 31, 2009, the Income Tax Regulations (Value of Vehicle Usage) (Amendment), 5770-2009 were published, as part of the plan to promote the "Green Taxation". Within the framework of the regulations, it is provided that the usage value of a company car will be determined, with effect from January 2010, as a percentage of the new vehicle's price to the consumer, as described in Section 12.5[3] of this part. The increase in the usage value of employees' company cars could reduce the current viability of providing employees with a company car, and such a reduction could have an adverse effect on demand for operating leases.

12.17.6 Supervision and restriction of the rates of discounts from importers – Supervision and restriction could affect the rates of the discounts that are provided to leasing and rental companies by the importers of vehicles and could affect Dan Vehicle's profitability.

12.17.7 Credit risk – Credit risk is the risk of a financial loss that would be caused to a leasing or rental company if a customer fails to meet its contractual obligations, and it pertains primarily to the debit balances of customers. As of December 31, 2009, Dan Vehicle's debit balances amounted to NIS 179,564 thousand.

12.17.8 Liquidity risks – Liquidity risk is the risk that a leasing or rental company will not be able to meet its financial commitments as they fall due.

Dan Vehicle's unique risk factors

12.17.9 Brand dependence – Impairment of Avis's international brand name could affect Dan Vehicle's profitability. In addition, in the event that the licensee and franchise agreements with Avis were to be cancelled for any reason whatsoever, this could have a negative impact on Dan Vehicle's business.

12.17.10 Impairment in the value of Dan Vehicle's vehicle fleet – Changes in the prices of new vehicles and, consequently, changes in the prices of second-hand vehicles have an impact on the value of the vehicle fleet. Dan Vehicle examines its fleet of vehicles every year in the following manner: [a] By making an evaluation of the market value of the fleet of vehicles and comparing it to the carrying value of the fleet, as reflected in the accounting records. The market value of the fleet is assessed in accordance with the Yitzchak Levy Blue Book price for used vehicles, less the appropriate discount on the price as per the price list. Dan Vehicle has found that the market value of the fleet is higher than the carrying value of the fleet as reflected in the accounting records; [b] By reviewing the economic depreciation rate in vehicle sale transactions that were executed in the period of the report. Dan Vehicle has found that the rate of economic depreciation does not exceed the rate of the accounting depreciation, which is included in the accounting records; [c] By examining the overall profitability on short-term rental and operating lease transactions, of which the results of the disposal of the vehicles form a part. Dan Vehicle has found that these transactions continue to be profitable. On the basis of the above examination, and in accordance with generally accepted accounting principles, Dan Vehicle's management believes that there is no need to include in its accounting records an allowance for impairment in the value of the car rental fleet. Dan Vehicle continues, on an ongoing basis, to examine the market value of its fleet of vehicles against their carrying value in its financial statements. The value of the vehicle fleet designated for sale is written down to market value on an ongoing basis, in the event that its carrying value in the accounting records is higher than that value.

12.17.11 Foreign **c**urrency exchange risks – Most of Dan Vehicle's revenue is linked to the Israeli consumer price index and some of it is linked to or denoted in dollars. Changes in the foreign currency exchange rates result in a change in the shekel consideration received from customers in transactions that are denoted in or linked to dollars. In addition, a change in the foreign currency exchange rates could affect the price of new vehicles and, consequently, affect the value of the fleet that is designated for rental, as previously explained. Dan Vehicle has no liabilities in foreign currency. Dan Vehicle examines the need for foreign currency hedging from time to time.

12.17.12 Interest/inflationary risks – Some of Dan Vehicle's financial debt at fixed interest rates is linked to the consumer price index, while some is unlinked. The rest of Dan Vehicle's financial debt is at variable interest rates. A change in the basis for the variable interest rates would lead to a change in the interest rate for that debt, something that finds expression under the financing expenses item. Loans that bear fixed rates of interest expose Dan Vehicle to the risk of a change in the interest rate with respect to the fair value. Dan Vehicle monitors the changes in the interest rates that are paid on the raising of credit and in parallel it updates the interest that is included in the costing of new leasing transactions. Changes in the inflation rate have an impact on the effective interest rates on loans at fixed interest rates that are linked to the CPI. Since the majority of Dan Vehicle's liabilities are linked to the CPI, changes in the inflation rate affect Dan Vehicle's profitability and its future cash flows. Nevertheless, most of Dan Vehicle's leasing agreements with its customers are CPI-linked. Within the framework of the implementation of its risk mitigation policy, Dan Vehicle carries out hedging transactions against the CPI from time to time.

12.17.13 Credit risk – Dan Vehicle routinely monitors its customers' debts. In order to minimize the credit risk, Dan Vehicle collects a number of monthly payments in advance from its business customers in the leasing field at the beginning of a transaction, which serve as a guarantee for performance of the agreement, including the monthly payments. In addition, Dan Vehicle requires, wherever possible, guarantees from its business customers in the short-term rental and operating lease fields. Dan Vehicle's private customers pay by credit card for short-term rentals and the payments are thus guaranteed for the most part. The total amount of Dan Vehicle's customers' debts is spread over a large number of customers. Dan Vehicle does not have a single customer that accounts for more than 5% of its revenue. A provision for doubtful debts is recorded in Dan Vehicle's financial statements, which in the opinion of Dan Vehicle's management, adequately reflects the losses inherent in the debts whose collection is doubtful.

12.17.14 Liquidity risk – Dan Vehicle's policy for the management of its liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due, in ordinary circumstances and in times of distress, without suffering undesirable losses. Dan Vehicle finances its operations by raising funds from both the capital market and also from 6-8 different banks. Dan Vehicle does not utilize its bank facilities to the full and retains an unutilized bank facility as a matter of policy. Dan Vehicle takes measures, where necessary, to adjust the size of the vehicle fleet in order to meet its commitments.

Presented below is Dan Vehicle's estimation regarding the type and degree of the effect of Dan Vehicle's aforementioned risk factors:

Section in this part		**Risk factor effect rate on the activities of Dan Vehicle**		
		High effect	**Moderate effect**	**Minor effect**
	Macro-economic and sector-specific risk factors			
12.171.	Economic downturn in Israel	X		
12.172.	Worsening of the security situation in Israel		X	
12.173.	Reduction of taxation on new vehicles		X	
12.174.	Increase in vehicle theft			X
12.175.	Raising the usage value of employees' company cars	X		
12.176.	Supervision and restriction of the rates of discounts from importers		X	
12.177.	Credit risk		X	
12.178.	Liquidity risk	X		

	Unique risk factors			
12.179.	Brand dependence	X		
12.1710.	Impairment in the value of Dan Vehicle's vehicle fleet	X		
12.1711.	Foreign currency exchange risks		X	
12.1712.	Interest/inflationary risks		X	
12.1713.	Credit risk		X	
12.1714.	Liquidity risk	X		

13. **Others**

The table below presents details on Kardan NV's holdings in companies included in the Others Sector as of December 31, 2009:

Name of affiliate	Rate of holding in %	Amount of investment in the affiliate as it appears in Kardan NV's books (€, million)	Market value of investment in the affiliated company (€, million)	Contribution to the profit (loss) from ordinary operations attributed to shareholders of Kardan NV (€, million)		Description of activity of the affiliated company
Kardan Technologies	46.03%	1.1	1.1	(0.6)		
Kardan Communications	73.85%	9	-	(0.8)		See section 7.8.5 of this Part.
El Har	37%	3	-	0.3		Contractor services for housing projects, public buildings and commercial and industrial construction
Mekdan Management and Maintenance	22%	02	-	0.2		Construction management and maintenance, consultation and financing services for developers during the planning and establishment of projects, in matters relating to, the management and maintenance of assets in Israel and Central-Eastern Europe.
SFDI	74%	(0.2)	-			Engaged in the import and distribution of a variety of Bauknecht, Whirlpool and Sanyo home electrical appliances (white line and brown line), as well as import and distribution of Bellers home electrical appliances
Kol Hai Radio Broadcasting in Faith Ltd.	52%	(0.6)	-	0.1		Owns received from The Second Authority for Television and Radio transmitting to the orthodox sector in the Jerusalem area and the centre.

Chapter D: Additional Details

14. **Competition**

All Kardan NV Group's areas of operation are competition-influenced.

Nevertheless, Kardan NV Group's strategy is to invest in companies with relative business and marketing advantages that help them successfully compete in relevant markets. Kardan NV Group operates in developing markets in order to be one of the pioneering companies in its areas of operation, and to situate itself in the market before the competition becomes fierce.

This strategy led a significant number of Kardan NV Group's holdings to be among the leading companies in the markets in which they operate. The competition in each field and the relative advantages of Kardan NV Group's holdings have been detailed extensively in the preceding parts.

15. **Human Capital**

In accordance with Dutch law, Kardan NV has a double-tiered management structure, comprising of the Management Board, which is the effective manager of Kardan NV's ongoing operations and the Supervisory Board which oversees Kardan NV's policies and its business practices. Kardan NV's headquarters has five Management Board members; including the Chairman of the Board of Directors, Chief Financial Officer (CFO), and the Chief Operating Officer ("**COO"**) and together they manage Kardan NV. Likewise, the headquarters also contains a finance and legal department, as well as secretaries.

The headquarters, which are located in Amsterdam, the Netherlands, is responsible for laying down Kardan NV's strategy and supervising its implementation. The headquarters deals with locating and initiating business opportunities and manages the Kardan NV Group's operations abroad and the ongoing operations of the Kardan NV headquarters. Kardan NV Headquarter employees provide services to headquarters of other companies in the Group. In addition, Kardan NV receives, via Kardan Israel, services regarding Kardan NV's connection to human resources in Israel and with Israeli financial entities, including financial and legal services, in view of the fact that Kardan NV's shares are also listed for trading on the Tel Aviv Stock Exchange.

The active companies within Kardan NV are managed by independent headquarters. For details regarding the Human Resources of the significant companies, see the description of Kardan NV's operative sectors.

Compensation plans

In 2006, 716,927 options for acquiring up to 716,927 ordinary shares of Kardan NV were allocated, without consideration, to four Management Board members of Kardan NV at that time and 382,400 options for purchasing up to 382,400 Kardan NV ordinary shares to additional employees of Kardan NV and Kardan Israel (hereinafter in this Part: "**Offerees"**). Options were allocated to the Offerees that so selected in accordance with Part 102 of the Income Tax Ordinance in the capital gain track (to the extent this is allowed by law). The exercise price of a share for Offerees that are residents of Israel was set at 90% of the closing price for company shares in the Tel Aviv Stock Exchange on November 2, 2006 and is 46.512 NIS per share (subject to adjustments) while the exercise price of the options for the Offerees who are not residents of Israel was set at 90% of the closing price for Kardan NV and Euronext shares in the same period and is 8.568 Euros per share (subject to adjustments).[367] Kardan NV has the right to allocate shares to Offerees that reflect the bonus element of the options exercised instead of the total shares that stem from the quantity of options they are actually eligible to, as calculated at time of exercised, in exchange for their nominal value, or the bonus element in cash (except for offerees to whom options were allocated under Part 102 to the Income Tax Ordinance, who will not be entitled to receive the bonus element in cash). As of the reporting date, the restriction periods prescribed in the plan have elapsed and the options can be exercised. The options are exercisable during a period of five years from the time of allocation. A condition for option exercised by the Offeree is that at the date of exercise the Offeree will be employed by Kardan Israel or by another company in the Kardan NV Group.

According to this option plan, in May and July 2008, a total of 325,000 options were allotted for the purchase of up to 325,000 ordinary shares of Kardan NV, gratis, to two members of the Kardan NV's Management Board of Directors, who are not numbered among the four members of the Management Board of Directors of Kardan NV who are discussed above and who are not residents of Israel. The exercise price per share in respect of the said 175,000 options was set at 90% of the closing price of the Kardan NV's shares on the Euronext Stock Exchange on May 30, 2008, and is 9.216 Euros (subject to adjustments) and in respect of 150,000 of the said option, it was set at 90% of the closing price of Kardan NV's shares on the Euronext Stock Exchange on April 30, 2008 and is 6.615 Euros, respectively (subject to adjustments). The options were allotted

[367] The exercise price is adjusted due to the dividend distribution in July 2007 for a total of NIS 45.868 to the Offerees who are Israeli residents and 8.4527 Euros to Offerees who are not Israeli residents

under the same conditions mentioned above, including regarding Kardan NV's right to allot shares which reflects the composition of the benefit or the composition of the cash benefit, including the dates of entitlement (where regarding one of the offerees all the dates of entitlements have been postponed for one year, that is to say, the exercise dates will fall at the end of two, three and four years from the date of the allocation). The options can be exercised on the above-mentioned dates of entitlement until the earlier of the following dates: (a) for a period of five years (for one offeree) or six years (for the second offeree) from the date of their allotment or; (b) within 15 days from the date of termination of the engagement between the offeree and Kardan NV (the Management Board of Directors may extend the 15-day period at its discretion). According to the terms of the option, should the engagement between any of the offerees and Kardan NV terminate before the end of the exercise period, respectively, that offeree will be entitled to exercise only the options they hold for which the entitlement date has expired.

Up to December 31, 2009, 107,567 options, which had been allocated to employees, whose employment with Kardan NV had been terminated before reaching the date of entitlement to exercise the options that were held by them, have expired. In addition, a member of the Management Board of Directors, who resigned from his position, waived 104,103 options out of the 209,103 options that had been awarded to him in 2006. Moreover, 11,933 options were exercised for a cash consideration.

As of the reporting date, there are 1,200,724 options in circulation, of which 832,824 options have been granted to members of the Management Board of Directors and 367,900 options have been granted to additional employees of Kardan NV and of its subsidiary company and all this in accordance with the said options plan. In accordance with the decision of the General Meeting of Kardan NV of June 2008, to increase the number of options allotted according to the plan described above, to 1,444,875, there are 20, 548 options which have not yet been allotted.

The expense that is recorded in the financial statements for the year 2009 in respect of the said options, amounts to approximately EUR 0.7 million. The balance of expenses which will be recorded in the statement of comprehensive income in the upcoming years totals EUR 0.5 million. For additional details about the options see note 23a to the financial statements.

16. **Financing**

For details regarding finance for 2008, see Notes 11, 24, 28, 29 and 32 of the financial statements.

16.1 Loans Provided to Kardan NV

[a] Following is data regarding the loans balance allocated to Kardan NV as of December 31, 2008 and their interest rates:

	Currency	Balance as of 31 Dec 2009 (in Euros millions)	Interest Rate	Effective Interest Rate	Repayment of Principal	Repayment of Interest	Guarantees and Restrictions
Long-Term Bank Loans	Euro	6.6	Euribor+ 2%	5.39%	Month of April for years 2007-2011	Quarterly from years 2007-2011	[368]
	Euro	10.9	Euribor+ 2.13%	5.26%	Month of February for years 2009-2013	Quarterly from years 2008-2013	
	Euro	3	Euribor+ 1.4%	5.13%	Month of May for years 2008-	Quarterly from years 2008-2013	[369]

[368] Kardan NV charged shares of KFS, representing approximately 29% of KFS's issued capital, in favor of the Bank, under a first ranking fixed charge. In addition, Kardan NV has undertaken, inter alia, in favor of the bank, starting from 31 December 2009 until 1 January 2011, to maintain a ratio of capital to the statement of financial position (the Company's balance sheet) of 25% (starting from 1 January 2011 the said ratio will remain at 28%); its total capital will not fall below $180 million; that Kardan NV will not charge all of its assets; that KFS will continue to hold at least 50.01% of net TBIF shares free of any lien; to continue to hold at least 51% of net KFS shares free of any lien (in addition to shares that have been charged to the bank); not to guarantee to third-party obligations, except for its subsidiaries and their related companies; not to charge the shares in TBIH in order to obtain additional loans, except in certain instances; not to dilute its holding in KFS, without the bank's consent; to cause KFS not to lower its holding to less than 35% in TBIH or 30% of its holding and joint control in TBIH; that KFS's total loans will not exceed € 300 million, not including loans from Kardan NV, and in total € 350 million. As of 31 December 2009 and in proximity to the reporting date, Kardan NV is in compliance with the said obligations (based on its financial reports as of 31 December 2009).

[369] Kardan NV charged shares of Kardan Israel in favor of the bank, valuing 125% of the debt balance. In addition, it was agreed that if the value of said collateral drops from 100% of the debt balance or exceeds 150% of the debt balance, additional shares will be charged or released, such that the value of the collateral will constitute 125% of the debt balance. As of 31 December 2009 and in proximity to the reporting date Kardan NV is in compliance with its aforementioned financial obligations- (based on its financial reports as of 31 December 2009).

					2011		
	Euro	5.1	Euribor+ 2.5%	4.74%	From years 2009-2013	From years 2009-2013	[370]
	Euro	30	Euribor+ 2.25%	3.93%	50% of the principal from years 2014-2018; 50% of the principal in 2019	Biannually each calendar year from years 2009-2019	[371]
	Euro	8.3	Euribor+ 2.6%	3.8%	Quarterly payments from years 2009-2014	At the time of principal payments	[372]
Long-Term Loans	Index-linked in NIS (non-	253.2	4.45%	4.58%	Month of February for years 2013-	Month of February for years 2008-	See Section 16.2 (A) for

[370] As part of the loan agreement Kardan NV has undertaken, inter alia, that the capital attributable to Kardan NV shareholders will not fall below 25% of the total of the statement of financial position (the Company's balance sheet); the total tangible equity will not fall below 10% of the consolidated statement of financial position; Kardan NV and the companies under its control will maintain control of Kardan Israel. In order to guarantee the loan, Kardan NV charged non-marketable shares of Kardan Israel, in favor of the bank, at a rate of 120% of the debt balance. According to an agreement between the sides, if the value of the collateral drops from 110% of the debt balance or exceeds 145% of the debt balance, shares will be charged or released from the lien, such that the collateral will constitute 120% of the debt balance. As of 31 December 2009 and in proximity to the reporting date, Kardan NV is in compliance with its aforementioned financial obligations (based on its financial reports as of 31 December 2009).

[371] As part of the loan agreement, Kardan NV has undertaken, inter alia, that: (1) Kardan NV will hold at least half of the means of control in GTC Holding; (2) starting from 31 December 2009 and until 31 June 2011, the total equity attributable to the equity holders of Kardan NV, will not fall below the total of € 260 million or 27% of the total of Kardan NV's only statement of financial position; (3) starting from 1 July 2011, the total equity attributable to the equity holders of Kardan NV, will not fall below the total of € 290 million or 30% of the total of Kardan NV's only statement of financial position (3) the ration between total equity including non-controlling interests in Kardan NV in its consolidated statements and the consolidated statement of financial position will not fall below 12%. As of 31 December 2009 and in proximity to the report date, Kardan NV is in compliance with its aforementioned financial obligations (based on its financial reports as of 31 December 2009).

[372] Kardan NV has charged shares of Kardan Israel, in favor of the bank, valuing 125% of the debt balance. In addition, it was agreed that if the value of the said collateral falls from 100% of the debt balance or exceeds 150% of the debt balance, additional shares will be charged or released, such that the value of the collateral constitutes 125% of the debt balance. In addition, Kardan NV has undertaken as part of the loan agreement, inter alia, that at the end of each quarter its minimal equity total will be the higher of €115 million or 30% of the assets of the company only statement of financial position of Kardan NV. As of 31 December 2009 and in proximity to the report date, Kardan NV is in compliance with its aforementioned financial obligations (based on its financial reports as of 31 December 2009).

from Non-Banking Sources	marketable debentures)				2016	2016	this part
	Index-linked in NIS (non-marketable debentures)	285.5	4.9%	4.99%	Month of February for years 2014-2020	Month of February for years 2009-2020	See Section 16.2 (D) for this part

16.2 The issue of Debentures

[A] The issue of debentures (Series A) and the acquisition of debentures (Series A) by a subsidiary

In February 2007, Kardan NV issued to Israeli institutional investors NIS 840 million par value of debentures (Series A), which were rated AA by Maalot. The debentures are linked to the Consumer Price Index and bear an annual interest at a rate of 4.45%. The debentures (principal) (Series A) will be repaid in four equal payments between 2013 and 2016. The interest on debentures (Series A) will be paid once a year.

In June 2007 debentures (Series A) were listed for trading on the Tel Aviv Stock Exchange.

On November 12, 2008, Maalot announced the downgrading of the rating of the debentures (Series A) of Kardan NV[373] from (AA-) to (A-) and on delisting Kardan NV from the Credit Watch List with a negative outlook.

On November 27, 2008, Maalot published a report detailing the main considerations for the new rating given to the debentures (Series A) of Kardan NV. In this report, Maalot states that the rating issued reflects, *inter alia*, the expectations of Maalot that Kardan NV will maintain an LTV [ratio of the net debt plus guarantees to the subsidiaries] to the value of the portfolio assessed thereby) which will not exceed 50%, except for short periods of time and that this level of leverage replaces the which were detailed in the previous rating given by Maalot and which, today, is not a rating consideration.

During November 2008, Tahal International (as aforesaid, a wholly owned subsidiary of Kardan NV) acquired approximately NIS 150 million par value of debentures (Series A) of Kardan NV for a consideration of approximately Euro 18

[373] In July 2009 Maalot's rating scale was revised, such that as of the reporting date, the rating of Kardan NV's debentures (series A) is (ilA)

million, in a number of transactions on the stock exchange. For the purpose of this acquisition, Kardan NV granted Tahal International a loan of Euro18 million, linked to the Consumer Prices Index at an interest rate of 4.75% (in this Part: "**the loan**"[374]) The loan was repaid in tranches at the time of the sale of the debentures that were purchased, out of the consideration that was received for the debentures (Series A) that were sold. It was further agreed between Kardan NV and Tahal International, that if the total amount of the consideration received from the sale of all the debentures (Series A), exceeds the outstanding balance of the loan, as it shall be on the final date that theI debentures (Series A) held by Tahal International are sold, then the outstanding balance of the consideration will be distributed to Kardan NV as dividend. After the date of the statement of financial condition and until the reporting date (March 2010) Tahal International sold all the debentures (Series A) it bought on the Tel Aviv Stock Exchange, the considerations received from the sale of debentures (Series A) was higher than the balance of the loan, therefore the profit (of approximately EURO 13.3 million) was distributed as a dividend as stated.

[B] In July, 2007, Kardan NV allocated to institutional Israeli investors, in a private placement by way of expansion of the series, NIS 350 million par value of debentures of Kardan NV (Series A), in exchange for a total of NIS 357 million (about 60 Euro million). The additional debentures were issued at a 1.01% discount, and the weighted discount for all debentures (Series A) is 0.287%.

[C] After the issue of the debentures, as detailed in above and in order to adjust its payments to Kardan NV’s cash flow sources stated in Euros, Kardan NV entered into hedge transactions with four different Israeli banks,to guarantee the full amount of the debentures, according to which, as from the day of the transaction, the banks will pay Kardan NV the linked shekel cash flows required to repay the debentures and Kardan NV will pay the banks a commensurate cash flow in Euros at fixed interest rates that range between 5.38% and 5.64%, to guarantee the said transactions Kardan NV pledgedinsubstantial amounts

[D] Issue of debentures (Series B)

As part of the merger between Kardan NV and GTC RE on December 16, 2008, Kardan NV issued to GTC RE’s the bondholders (Series B) of GTC RE on the determining date for the purpose of the merger, NIS 1,333,967,977 par value of debentures (Series B) of Kardan NV, in exchange for their holdings in debentures (Series B) of GTC RE, under identical conditions (mutatis mutandis) to the terms

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[374] For details on the loan, see section 9.5.1 (b) and 9.13.1 (e) of this Section.

of the debentures (Series B) of GTC only. The debentures (Series B) of Kardan NV are registered in the name of the holders, bear a fixed annual fixed rate of 4.9%, linked (principal and interest) to the Consumer Price Index for the month of December 2006, and are repayable (principal) in seven (7) equal installments on February 1 of each year from 2014 to 2020 (inclusive). The interest for the debentures (Series B) will be paid annually on February 1 of each year from 2009 to 2020, inclusive.

Following the issue of debentures (Series B) as aforesaid, in exchange for (Series A) GTC RE debentures, GTC RE assigned Kardan NV, its rights and debts to two Israeli Banks relating to the hedge transactions entered into by GTC RE, according to which, the banks will pay Kardan NV the CPI-linked shekel cash flow required for repayment of the debentures (Series B) while Kardan NV will pay the banks an equivalent amount in euros, to guarantee the exposure of its transactions, Kardan NV pledged of cash deposits and shares of GTC Poland.

On December 3, 2008, Maalot announced an initial rating (ilA-/negative) for the debentures (Series B) of Kardan NV that were issued as part of the merger, in exchange for Debentures (Series B) of GTC RE. Maalot stated in its announcement that the initial rating reflects the expectations that Kardan NV will maintain and LTV ratio (ratio of net debt [plus guarantees to the subsidiaries] to the value of the portfolio) that will not exceed 50% and replaces previous assumptions which do not constitute a rating consideration.

[E] **<u>Issue of Debentures (Series 1)</u>**

In the framework of the merger between Kardan NV and GTC RE on December 16, 2008, Kardan NV issued to the bondholders (Series A) of GTC RE on the determining date for the purpose of the merger (excluding Kardan NV), NIS 15,904,092 par value of debentures (Series 1) in exchange of their holdings in debentures (Series A) of GTC RE under identical terms (mutatis mutandis) and excluding the rate of conversion of the debentures) to the terms of the debentures (Series A) of GTC RE. The debentures (Series 1) which were repaid in a lump sum payment on August 31, 2009, bore an annual fixed rate of 6%, and were linked (principal and interest) to the consumer price index published for the month of July 2004. The debentures (Series 1) were convertible into ordinary registered shares of Kardan NV, on each trading day from the date of their listing for trading until August 16, 2009, such that every NIS 17.88 par value of debentures (Series 1) can be converted into one ordinary share of Euro 0.20 par value of Kardan NV. Until the final conversion date, 12,575,424 debentures (Series 1) have been converted into 759,252 ordinary shares of Kardan NV. The outstanding principal of the debentures (Series 1) and the interest in respect thereof were repaid in full by Kardan NV on August 31, 2009. Following said conversion, Kardan NV's tangible shareholders equity increased by €3 million.

16.3 Guarantees

Kardan NV has provided its subsidiaries and related companies with guarantees for various loans. The balance of these guarantees, as of December 31, 2009 and as of the reporting date totals approximately Euro 163 million and Euro 160 million, respectively. Kardan NV also provides guarantees for various projects carried out by subsidiaries and related companies, whose value, as of December 31, 2009, was Euro 10.2 million.

For the provision of guarantees to the companies in the Kardan NV Group, Kardan NV generally collects annual fees at a rate of between 0.2% and 0.5% of the amount of the loan or of the nominal value of the guarantee, in accordance with the agreements between Kardan NV and the company to which it made the guarantees available. The fees are generally paid quarterly. There is an agreement (not in writing) between Kardan NV and Kardan Israel, from May 2005, which regulates the payment of fees between the parties in respect of mutually provided guarantees.

The following are the details on material guarantees that have been made available by Kardan NV:

16.3.1 In February 2008, Kardan NV provided a bank guarantee amounting to Euro 50 million as collateral for credit amounting to Euro 175 million, which was provided to KFS by Israel Discount Bank Ltd. ("**Bank Discount**")[369]. This guarantee may be utilized only in the event that it is impossible to enforce the Put option granted to KFS under the shareholders agreement with TBIH (as detailed under Part 9.16.1[a] of this Part). In addition, in April 2008, Kardan NV provided an additional bank guarantee of Euro 50 million to secure the repayment of an additional credit of Euro 50 million extended to KFS by Bank Discount for a period of 11 years (which was fully utilized as of the date of the report). For details on financial obligations which Kardan NV has undertaken in connection with this guarantee, see section 9.13.1 [d] of this Part.

16.3.2 In December 2008, Kardan NV provided unlimited guarantees with respect to the loans in an aggregate amount of $35 million (approximately Euro 25 million) to secure the repayment of loans that were granted by one or more banks to two

[369] For details in respect of the loans, see Sections 9.5.1[b] and 9.13.1[e] of the report.

related companies of KWIG. For details on the financial obligations Kardan NV has undertaken in connection with this guarantee, see section 10.17.3 [c] (2) of this Part.

Kardan NV provided a bank in Italy collateral to secure the debt of Foodyard Holdings AD to the bank, an indirectly held company of Yahal Assets. The outstanding guarantee as of December 31 2009 is approximately 11.5 million Euros. For further details see section 10.10.2 [f] of this Part.

For further details see Note 34 A. of the Financial statements.

16.4 Financial obligations –

[A] In connection with a loan in an amount of Euro 173 million, which GTC Holding received from Bank Discount (see Part 8.5.13 [a][1] of this Part), Kardan NV has undertaken to comply with various financial criteria, including: (1) From December 31, 2009 to June 30, 2011, the total tangible shareholders' equity attributed to the shareholders of Kardan NV will not be less than the higher of Euro 260 million or 27% of total assets (company only) of Kardan NV; (2) as of July 1, 2011, the total tangible shareholders' equity attributed to the shareholders of Kardan NV will not be less than the higher of Euro 290 million or 30% of total assets (company only) of Kardan NV; (3) the ratio of total tangible shareholders' equity of Kardan NV in its consolidated financial statements to consolidated total assets will not be less than 12%; (4) Kardan NV will maintain control that will not be less 51% in GTC Holding and in addition, GTC Holding will hold at least 40% of the capital of GTC Poland. If GTC Holding holds less than 40% of GTC Poland and loses its ability to direct the company's activities, or if it holds less than 30%, the debt will become immediately due and payable. As of December 31, 2009, GTC Holding has drawn down Euro 155 million from the credit facility. As of December 31 2009, and in proximity to the date of the report, Kardan NV was in compliance with the aforesaid covenants (based on the Financial statements of 31 December 2009).

[B] In connection with the bank guarantee to secure the repayment of a loan of Euro 175 million, which was provided to KFS by Bank Discount (see section 16.3 of this Part), Kardan NV has undertaken to Bank Discount to hold at least 51% of the means of control in KFS, free of all liens, and also to have Kardan NV's obligations be rated by Maalot or by Midroog Credit Rating Company (**"Midroog"**). In addition, following renewed understandings between Kardan NV and Bank Discount from Decmber 2009, as part of the merger between Kardan NV and GTC RE, as of the reporting date, as long as the guarantees provided by Kardan NV for the credit lines are valid, the following financial covenants shall apply as detailed in subsections (1) to (3) of section 16.4[A] of this Part3) If Kardan's debt is rated CCC+ or lower by Maalot, the loans shall be immediately due and payable; it was also agreed that if Kardan's debt is rated B+, B or B- by Maalot, Kardan NV will provide collateral in respect of the loan, to the satisfaction of Bank Discount. Furthermore, if Kardan NV ceases to be obligated to issue reports pursuant to Israel securities laws, the loan shall be immediately due and payable. As of December 31, 2009, KFS has drawn down on the entire line (Euro 175 million). As of December 31, 2009 and and in proximity to the reporting date, Kardan NV is in compliance with the said financial covenants (based on the Financial statements as of 31 December 2009)and there is no reason for calling the loan immediately due and payable.

[C] In connection with the guarantee to secure the repayment of loans aggregating $35 million (about Euro 25 million), which were provided by a bank to two related companies of KWIG, Kardan NV has undertaken to comply with various financial criteria, including those mentioned in sections (1) and (3) of section 16.4 [A] of this Part. as Kardan NV maintains control of the joint company, by all means of control. As of December 31, 2009, the said companies has drawn down on the entire Euro 25 million from this loan facility. As of December 31, 2009 andin proximity of the reporting date, Kardan NV was in compliance with the aforesaid covenants(based on the Financial statements as of December 31 2009). For additional details, see section 10.17.3[ב][2] of this Part.

[D] For details on financial liabilities that Kardan NV has undertaken pursuant to an unlimited guarantee for the loan of a subsidiary of KWIG HK, see section 10.17.3[c][2] of this part.

[E] In addition, in connection with the credit taken, Kardan NV has undertaken additional financial commitments, as detailed in section 16.1 [A] of this Part.

[F] For further details, see Note 34 A. of the Financial statements.

16.5 In May and November 2009, concurrently with the publication of the financial statements of Kardan Israel for the first and third quarters of 2009, Kardan NV delivered Kardan Israel two letters whereby Kardan NV undertook to financially support Kardan Israel insofar as Kardan Israel may request the support of Kardan NV for the purpose of repaying its liabilities. The commitment provided in November 2009 is valid until April 1, 2011. The said commitments do not bind Kardan NV towards third parties

17. **Taxation**

For details on taxation, See note 47 to the financial statements.

The following are additional details in respect of the taxation on Kardan NV:

17.1 Taxation in the Netherlands

The corporation tax in the Netherlands applies to the global income (from any source) of a company that is a resident of the Netherlands, at a rate of 20% on taxable income of up to Euro 200,000 and at a rate of 23.5% of the taxable income above Euro 200,000 subject to certain exemptions that are determined under Dutch tax law.

Participation Exemption in the Netherlands in 2009

One of the exemptions that is determined under Dutch tax law is the "**Participation Exemption.**" In accordance with the Participation Exemption, a Dutch company (a "**Holding Company**") that meets certain conditions may benefit from a tax exemption on its income from dividends and capital gains that derive from shares that it holds in another company (**"The affiliated company"**).

The exemption applies if the two following cumulative conditions are satisfied: (1) Holdings of at least 5% of the affiliated company (2) The affiliated company meets one of the following criteria : (a) The Assets Test or (b)The Effective Tax Rate Test . An affiliated company will be compliant with the Assets Test if less than 50% of its assets are (free portfolio investments) (including assets that are deemed to be passive). In cases where the affiliated company holds subsidiaries, the assets test will be applied in a cumulative manner (similar to the consolidation of financial statements, but without eliminating inter-company transactions). As aforementioned, profits that are generated from a holding company that has not yet passed the Assets Test could be eligible for Participation Exemption if the affiliated company has passed the Effective Tax Rate test ("The **ETR test").** According to the ETR test, the effective tax rate applicable to the affiliated company will be no less than 10%. It is to be noted that the effective tax rate will be calculated according to the tax laws in the Netherlands. A Holding company, whose profits are generated from an affiliated company that has not met the two aforementioned tests, could still be eligible for Participation Exemption if the affiliated company is considered a "real estate company". A real estate company is a company that most of its assets (at least 90%) are real estate properties. The calculation is based on the consolidated statement of financial position of the affiliated company. The exemption for this test is viable on condition that the real estate is affiliated to a tax-exempt Trust Fund. In addition, if the affiliated company temporarily does not satisfy the 90% condition, under certain conditions, this will not cause the rescinding of the exemption (this is subject to negotiation with the tax authorities in Holland). Based on Dutch tax law, the company holding the affiliated company, which has not met the above conditions, is still eligible to a tax credit of 5% of the affiliated company's revenue (including capital gains). Alternatively, the company might choose to claim underlying tax credit according to the European Directive.

Kardan NV is of the opinion that as of December 31 2009, it is in compliance with the conditions that entitle it to participation exemption in Holland.

Participation Exemption in Holland as of the year 2010

As of January 1 2010, the Participation Exemption will apply to any affiliated company (at a minimum rate of 5%) as long as its affiliation is not considered as purely passive (the "**Intention Test**"). An affiliated company will pass the intention test provided that the shares in the affiliated company are not held solely for the purpose of return which could be expected from pure asset management. These demands are based on court rulings in the Netherlands and therefore could serve as a wider basis for taxation decisions in the Netherlands (pre-ruling) with regard to the Participation Exemption. In specific cases, the holding might not be considered a purely passive affiliation based on the activities and the assets of the affiliated company. However, if the Intention Test does not materialize, the holding company could still be eligible for the Participation Exemption if the affiliated company meets either the asset test or the ETR test (the conditions of which have also been amended as of January 1 2010).

The Asset Test – An affiliated company will meet the asset test if less than 50% of its assets are passive – free portfolio investments (including assets deemed to be passive). Passive assets are assets that are not used during the course of business of the holding company. If at least 70% of the holding company's assets are other assets (not free portfolio investments), then all of the holding companies assets will be considered "acceptable" for the purpose of the Asset Test.

The ETR Test- An affiliated company will meet the ETR test, if it is subject to tax at a rate that meets acceptable standards in Dutch tax laws. In order to comply with those standards, based on past experience, the local tax system (to which the affiliated company is subject) should be comparable to the Dutch tax system. The main criteria to be taken into account are the local tax base and statutory tax rate. In general, a statutory tax rate of at least 10% should be sufficient if there is no substantial deviation (tax exemption, tax on the basis of Cost + where the cost basis is limited, absence of limitations on deduction of financing expenses, etc.) in the local tax system.

Real Estate Companies – Real estate assets are not considered free portfolio investments (passive investments). Accordingly, the Participation Exemption will apply to real estate companies (see the definition of real estate companies in this section above.)

Credit Points – If the Participation Exemption is not applicable, the Credit Point system can be used. According to this system, the company is eligible for a tax credit of up to 5% of revenues from the affiliated company (including capital gains).,Alternatively, credit can be obtained in respect of the underlying taxes against the income, provided that the revenue is derived from an affiliated company which complies with the European directive.

If the holding company has investment in an affiliated company which is not subject to standard Dutch tax rates (see the ETR test above) and which owns 90% or more free portfolio investments, the holding company is required to evaluate this investment annually, based on the market value of the affiliated company (mark to market), in order to estimate the percentage of passive assets on that year.

Kardan NV was issued final tax assessments until 2006.

17.2 Taxation in Israel

Kardan NV is a Dutch company, and thus, in accordance with the directives of the Tax Ordinance (New Version) - 1961 (“**The Ordinance”**), and the provisions of the double tax prevention treaty between Israel and the Netherlands in respect of the prevention of multiple taxes and prevention of tax evasion regarding income tax (“**The Treaty”**), Kardan NV will be obligated to pay Israeli tax only on income earned or developed in Israel for capital gains from realizing real estate properties in Israel or rights in property association in Israel and likewise, on capital gains from selling movable goods that serve part of the Kardan NV’s permanent institutional assets in Israel.

17.3 Taxation of Companies held by Kardan NV

Kardan NV Group is required to pay tax on taxable profits of every company, according to the local tax regulations at each and every country where member companies of Kardan NV Group are incorporated. Tax liability of foreign companies holding real estate is, inter alia, due to profit from sale of property, or alternately, due to rent proceeds less expenses incurred directly from the property, including interest expenses paid for loans taken to purchase the property, property maintenance and management expenses, and allowed depreciation, less part of the property cost (the rate varies from one property to another), all according to the local tax regulations in the country in which the real estate holding company is incorporated. Tax rates paid on the income of companies vary from one country to another and range from 10% to 27% as of the date of this report. In some countries there may be VAT implications in respect of the companies' transactions.

The following is a table specifying the general taxation principles in the different tax regimes in the countries where the Kardan NV Group's main companies operate. It should be emphasized that the information in this table and specifically the information referring to tax implications at the time of direct or indirect sale of assets (sale of the asset company or sale of the holding companies) is general information and does not include the specific tax implications for each possible sale alternative:

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
Poland	19%	On commercial structures at rates of 1.5%-10% depreciation calculated according to direct tax method. A 2.5% depreciation rate will apply in most cases.	20%	5% in accordance with the treaty with the Netherlands and 10% (payment of interest)In respect of a company that is resident in Luxembourg_ in accordance with the treaty with Luxembourg (except for a number of exceptions)	Debt-to-capital ratio of 3:1 in the event of a loan from shareholder (directly or indirectly) holding over 25% of company shares or from a company held by the said shareholder	On sale of real estate – 19%. Dutch and Luxembourgian companies that sell shares in Polish company are exempt.	If VAT is not applied to a transaction, a transfer tax will apply at a rate of 2%. The transfer of taxed shares at a rate of 1%. In other cases, only VAT at a rate of between 7% to 22% will apply.	Annual property tax on structures and real estate owned and/or leased from the state or local authorities, paid monthly, changes in accordance with the real estate usage. The tax amount is set by the Polish authorities every year as a maximum amount in square meters. Property tax is defined as an expense for purposes of the tax on companies.
Romania	16%	Buildings depreciated by the straight line method. The period of depreciation is between 8-60 years	16%. A reduced 10% rate (under certain conditions) will apply if the European Directive applies. (As of 2011 the exemption applies provided that the European Directive applies)	Exemption under the treaty with the Netherlands (except for a number of exceptions).	Debt-to-capital ratio of 3:1 should be maintained – applying to loans given for periods that exceed one year. On condition that the capita/ debt ratio is higher than the above mentioned, or if the company capital is negative, financing expenses will not be allowed. Nevertheless, loan expenses that were not deducted during	16%. In principle, Dutch and Luxemburg companies that sell shares in a Romanian company are exempt.	upon sale of real estate, there is a transfer tax of 1%-4%.(these rates include notary payment of o.5-0.75% of the value of the transaction in addition to the commission to be paid for the registration of the property, to the sum of 0.5% of its value) Upon sale of the shares of a real estate company, negligible taxes will	Local annual tax applicable to building owners, of 0.5%-1.5% of the property value on the books. Land tax is applied in accordance with the property type and location. If the asset has not been assessed in the past 3 years, the above rate will be between 5% -10%. The said taxes can be increased by 20% (20% of the existing tax percentage)

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
					the current year, will be transferable to the following years.		be imposed on the registration of the said sale. There may be a VAT liability of 5%-19% on specific transfers of real estate assets (in certain cases exemptions will be given), The sale of shares is not subject to VAT	according to the location of the asset.
Hungary	16%. Subject to certain conditions, a reduced rate of 10% will be levied on the first 50 million HUF. Plus solidarity tax at a rate of 4% was added. As of 2010, the solidarity tax will be abolished and corporate taxes will increase to 19%.	At rates of 2%-6%. Leased commercial structure is eligible for 5% reduction.	0% As of 2010, withholding tax of 30% will apply to on interest, royalties and other services	Exempt, since the internal law prescribes no withholding tax if the receiver of interest is a resident of treaty country.	Debt-to-capital ratios should generally be 3:1	On real estate sales by Hungarian resident – 16% plus a solidarity tax at a rate of 4% . As of 2010, sale of a Hungarian Real estate company (non traded shares) will be subject to 19% company tax. Dutch and Luxembourg companies that sell shares in Hungarian companies are exempt.	As a rule, transfer tax is at a rate of 10%, although in certain cases there are reduced tax rates between 2%-6% and exemptions may be granted under certain conditions. As of 2010, the sale of real estate for housing will be subject to tax of 2% for up to 4 million HUF, 4% on the remainder. The general tax rate for transfer of property will be reduced to 4% for a sum under 1 Billion HUF and 2% for the remainder. The total	Local tax on structures/real estate that may reach of 2% and property tax derived from the property value, dependent on number of factors including location. Additional taxes in insignificant rates may be imposed.

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
							tax amount will not exceed 200 million HUF for any property. The sale of a Hungarian real estate company will also be subject to transfer tax, if the holdings of the buyer, directly or indirectly, are not less than 75% of the shares of the real estate company. The transfer of shares and the sale of land are exempt from VAT as a matter of principle.	
Serbia	10%	At an annual rate of 2.5%.	20%.	Exempt in accordance with the treaty with the Netherlands. It should be noted that the exemption granted under the treaty does not apply automatically and there is a requirement to go through a certain process in order to prove entitlement to the exemption. 20% if the payment of interest is to a resident of	Restriction on finance expenses allowed according to set formula in Serbian law. According to a current bill draft, the existing law will be changed to reflect a 4:1 debt to capital ratio.	10%. As a matter of principle, a Dutch company that sells shares in a Serbian company is exempt from tax in Serbia and no withholding tax applies. As a matter of principle, a Luxembourg company that sells shares in a Serbian company is exempt from tax in Serbia.	2.5% calculated according to appraisal of value for tax purposes. There are certain exemptions from this tax. VAT - 18%, no VAT is imposed on the transfer of shares.	Annual property tax at a rate of 0.4% of the value of the asset. This tax does not apply to persons who lease land.

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
				Luxembourg.		At the same time, if the sale is to a Serbian resident, a 20% withholding tax may be applicable in Serbia at a rate of 20%. It should be noted that in accordance with a proposed law a 20% withholding tax may also be imposed. In cases where the Luxembourg-based company sold shares to anyone who is not a Serbian resident. In addition to the aforesaid, a 0.3% tax is imposed on the transfer of shares by a Dutch company or by a Luxembourg company. This tax was cancelled on January 13, 2009, however the cancellation is not effective retroactively.		

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
Croatia	20%	10% is the maximum depreciation allowed for buildings (depreciation on land is not allowed). If the rates of depreciation are lower, these rates will be applied. The straight line method of depreciation is applied	15%	An exemption in accordance with the treaty with Holland. Since Croatia has not signed a treaty with Luxembourg, a 15% withholding tax will be imposed on the payment of interest to Luxembourg.	Financing laws in Croatia apply to interest on loans provided or guaranteed by a foreign resident. Debt to capital ratio is 4:1.The debt/capital ratio is higher than stated, no excess financing expenses are allowed. Ratio of debt /capital as above is not applicable if the loan is received from financial institutions	20% In principle, a Dutch or Luxemburg based company selling shares in a Croatian company are exempt.	Transfer tax on real estate -5% applies to transfer of land or structures built before January 1 1998..The tax liability applies to the buyer. Transfer tax does not apply on the transfer of shares of a real estate company (a company with real content and business activity) the sale of shares of a RE company with no business activity may be liable to transfer tax. VAT of 23% will be levied on a business in respect of the transfer of real estate that was built after January 1, 1998.(22% up to August 1 2009) if the seller of the property is not a business, he will be liable to transfer tax. There is no tax on the transfer of shares in the real estate company	Additional taxes at insignificant rates may be imposed.

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
The Czech Republic	24%. The tax rate will be reduced to 19% in 2010.	For commercial buildings that were purchased or constructed on or after January 1, 2004 – over a period of 50 years (at a rate of 1.02% for the first year and 2.02% in the following years) in accordance with the straight line method. For commercial buildings that were constructed or purchased prior to the said date, the asset will be depreciated over a period of 30 years (at rates of 1.4% for the first year and 3.4% for the following years) in accordance with the straight line method. Alternatively, the assessed person may elect the accelerated depreciation method.	15% . A tax rate of 0% will apply in the event that the European directive applies.	An exemption under the treaty with the Netherlands	Finance expenses due to loans from related parties that meet a equity/debt ratio in excess of 4:1 will not be deductible. If the lender is not a resident of the EU the non deductible expenses will be classified as dividends and a withholding tax of 15% will apply in accordance with the Czech tax law or alternatively, an exemption from withholding tax will apply (under certain conditions). The classification of dividend as aforesaid will not apply if the lender is a resident of a country with which the Czech Republic has signed a tax treaty, pursuant to the provisions of the treaty	In accordance with the corporate tax rate. Capital gains for a company in Holland or Luxembourg, from sales of shares of a Czech company are exempt from tax in accordance with the relevant treaty. .	There is a 3% tax on the transfer of real estate. The tax is applied to the selling price or the assessor's evaluation (the higher of the two). A 19% VAT is imposed on the sale of real estate and in certain cases there may be a reduced tax rate of 9% or full exemption. As of 2010 the VAT will be raised to 20% or 10% (in the event of reduced VAT. As a matter of principle, the sale of shares is not liable to VAT. . .	Annual property tax in respect of the buildings and the land in accordance with the size of the asset, the type of the asset and its location, in insignificant amounts.

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
Bulgaria	10%.	A maximum of 4% for buildings.	10%	An exemption under the treaty with the Netherlands. It should be noted that the reduced tax rates pursuant to the Treaty do not apply automatically and certain reporting requirements should be met, such as: the receiving company is a Dutch resident for tax purposes; the receiving company is entitled to receipt of interest; the interest rate is set according to market conditions.	Dept-to-Equity ratio of 3:1 Deduction of net financing expenses (financing expenses less financing income)is limited to 75% of the EBITDA of the company. Financing expenses, not included in this calculation are: expenses capitalized to fixed asset in accordance with accounting principles; interest payments to financial institutions that are not related parties (if not collateral or guarantee was provided by a related party in respect of the loan);financing expenses that are not deductible pursuant to another provision in the Bulgarian tax laws	10%. In principle, Dutch and Luxemburg based companies, selling shares in a Bulgarian company are exempt. It should be noted that the exemption that is granted under the treaty does not apply automatically, and there is a requirement to go through a certain process in order to prove entitlement to exemption.	1.3%-5% tax on real estate transfer (RETT) and 0.1% tax on property registration. The aforesaid taxes are applied to the higher between the agreed sales price according to contract and the property value for tax purposes. As of 2010, RETT will range between 0.1% and 3%, and determined based on the location of the asset. In certain cases, in particular the sale of a new asset (an asset less than 5 years old),VAT may apply at the rate of 20%..VAT does not apply to sale of shares.	Annual municipal real estate tax at a rate between 0.05% and 0.2% (based on the location of the asset) applies to the book value of the real estate (as of the 2010, the rate will be between 0.01% and 0.25% 0 and will be determined based on the location of the asset). In addition, a municipal waste-disposal tax will be levied on the owners of assets (at a rate varying annually) based on the relevant area.

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
Slovakia	19% .	As a rule, over a period of 20 years either the straight-line method or accelerated depreciation, as the company elects. In certain cases, the depreciation will be over a period of 12 years.	19%. 0% in the event that the terms of the European Directive are met (including the rate and the period of the holding). In order to benefit from the European Directive (as related parties) they must be considered related parties for at least 24 months before the date of payment.	Exempt in accordance with the treaty with the Netherlands.	None.	19%. Dutch and Luxemburg based companies, selling shares in a Luxemburg based company are exempt from tax in Slovakia, unless the capital gain is attributed to a permanent Slovakian organization.	No transfer tax. VAT at a rate of 19% may apply in cases where there is a transfer of realty (under certain conditions an exemption from VAT is granted in relation to the transfer of certain land). The sale of shares is not subject to VAT.	Property tax on land (at a rate of 0.25%) on the value of the land) and on buildings (at a rate of 0.33 Euros per sq. meter). The taxes are imposed on an annual basis. In addition, the said rates may change in accordance with the location and size of the asset. It is possible that additional taxes will be charged at insignificant rates.
Ukraine	25%	Fixed percentage of the balance at a rate of 2% per quarter.	15% (except for a few exceptions)	10% in accordance with the treaty with the Netherlands (it should be noted that the reduced tax rates under the treaty will not apply automatically and a certain process should be complied with in order to prove entitlement to the reduced rate. A 15% withholding applies if interest is paid to a resident of	There are no thin financing laws but there are certain restrictions on financing expenses when the Ukrainian company has at least 50% foreign investments	Capital gain is subject to a tax of 25%. If a foreign resident is selling shares in a Ukrainian company the capital gain is subject to 15% withholding tax unless an exemption is included in the relevant treaty for prevention of double taxation. If	In general terms, transfer taxes at an overall rate of 2% apply to a transfer of realty. VAT at a rate of 20% applies on the sale of certain realty assets (certain exemptions exist). The sale of shares is not subject to VAT.	Additional taxes, at insignificant rates may be imposed.

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
				Luxembourg		a Dutch company is selling shares in a Ukrainian real estate company, a 15% withholding will apply. If a Luxembourg company is selling shares in a Ukrainian company, a 15% withholding will apply.		
Germany	Corporate Tax – 15% + surcharge at a rate of 5.5% of the Corproate Tax. The total tax rate in Germany is 15.825%. In addition, there is a municipal trade tax that applies to the taxable income of companies and institutions. This tax is at a rate of 13%-20.5%, based on the area of activity, so that the average tax rate ranges 31% - 33%.	Depreciation of buildings is at a rate of 2%-3%, under the straight line method.	Generally, interest on inter-company loans is tax exempt, except for certain cased (e.g., when a bank is involved in the profit-participating loan, etc.) .	–Exempt under internal laws (unless it is a profit-participating loan, where the withholding tax on the interest is 15%).	As a rule, there will be no limitations on financing expenses up to Euro 3 million. If the expenses aggregate more than Euro 3 million, financing expenses over 30% of the EBITDA will not be deductible (there are certain exceptions to this rule)	Taxed as a regular income – companies tax (Surcharge tax and Trade Tax). Usually, a German company (or even a non-German company under certain conditions) selling shares in a German company is exempt from tax on 95% of the capital gain. In principle, Dutch and Luxemburg based companies, selling shares in a German company are exempt from tax in Germany.	3.5% of sales value on properties (4.5% rate in Berlin). Also applies to sale of 95% at least of shares of a company whose chief assets are real estate . The new legislation regarding acceleration of economic growth, includes an exception as aforesaid, when a re-organized group is involved (subject to preliminary requirement). The new legislation applies to business transactions carried out after December	Property tax – imposed at varying rates in different areas (0.5%-2.8%).

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
							31 2009. VAT rate in Germany is 19%. In general, the sale of real estate is not subject to VAT.	
Switzerland	25% Federal and Canton tax) depending on the relevant canton in which the business activity is carried out.	Commercial buildings: 1.5%-2% under the straight line method, 3%-4% under the balance depreciation method. Industrial buildings: 3.5%-4% under the straight line method, 7%-8% under the balance depreciation method.	0% except for interest on loans from banks; interest on debentures and other bond instruments issued by Swiss lenders (subject to other specific conditions); interest on loans secured by Swiss real estate; interest classified as dividends for Swiss tax purposes due to failure to comply with Swiss thin financing rules.	An exemption under the internal law. Exemption is also permissible subject to compliance with the European Directive provisions.	Financing expenses on loans from related parties can be amortized as long as the loans are not considered "hidden capital" pursuant to the federal tax authorities regarding thin financing. In certain Cantons there are thin financing rules, applicable to real estate companies, in the form of capital-debt ceiling..	Capital gain is subject to federal tax (7.8%) and Cantonal tax. There may be higher cantonal taxes (between 5%-60%) depending on the amount of the profit, the location of the real estate and the period of holding of the real estate. In principle, Dutch and Luxemburg based companies selling shares in a Swiss company are exempt From the tax.	Transfer tax is imposed at rates between 0% and 3.3% in accordance with the canton in which the asset is located. The sale of real estate is not subject to VAT. In certain cases it is possible to elect VAT for the purpose of the deducting input tax. As a rule, the VAT rate in Switzerland is 7.6% (8% from 1.1.2011).	Tax on real estate (0%-1.5%) is imposed at different rate for different cantons. Additional taxes may be imposed in different cantons.

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
China	25%. A reduced rate of 20% will apply if the company is located in a unique economic area. Until 2011 transition provisions may be applied to companies located in these regions, In addition, land appreciation tax at a progressive rate ranging between 30% - 60% may be imposed on the sale of realty in respect of appreciation in the value.	As a matter of principle the depreciation is over a period of 20 years in accordance with the straight line method.	10%. In addition, there may be a business tax applied (BT) at a rate of 5% on payment of interest for foreign residents.	10% under internal law. In addition, there may be a business tax (BT) at a rate of 5% on payment of interest.	Interest expenses in companies that are not financial organizations will be deductible if they maintain an equity – debt ratio of 1:2 in relation to loans from related parties. However, if the interest is in accordance with market conditions, the aforesaid equity/debt ratios may not apply. In addition, in relation to investment projects, there is a requirement to maintain an equity: debt ratio in accordance with the scope of the investment in the project, as detailed below: (1) In respect of projects with a size of up to 3 million dollars, there is a requirement that at least 70% of the investment be in capital. (2) In respect of	Similar to companies law. Capital gains from the sale of a Chinese resident company by a foreign resident will be subject to 10% tax in China. Tax treaties between China and Luxemburg and the Netherlands do not grant any benefit. If shares of a Chinese company are transferred to another entity in the group as part of re-organization it is possible (under certain conditions) to carry out the said transfer of ownership while postponing capital gains.	On the sale or rental of real estate, business tax (BT) may be levied at a rate of 5%. The buyer will be subject to a property tax of 3%-5% (in accordance with the nature of property and its location). In addition, a stamp tax will apply at a rate of 0.05% on each of the parties in respect of the agreement. In relation to the rental of real estate, stamp duty will be levied at the rate of 0.1% on each of the parties.	Municipal real estate tax of 1.2% is imposed on the owner of an asset that used the property for his own needs, on 70%-90% of the cost of the asset. Municipal real estate tax of 12% is imposed on the owner of the asset that leases the property. In addition, a land usage tax which is calculated at a fixed rate per sqm,is applied to foreign investment companies (in accordance with the location of the asset). .

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
					projects with an overall investment in excess of $ 3 million, at least 50% of the investment but no less than $ 2.1 million is required to be in equity. In addition to the said restrictions, additional restrictions may apply on real estate companies with foreign investment (RE FIW) in relation to the loans. Inter alia, it is required: (A) that the issued capital be fully paid up; (B) That a license be obtained for the use of the land; (C) That at least 35% of the project will be financed by way of investment in capital. In addition, realty companies with foreign investment will not be allowed to take loans from a foreign resident, unless the loan was	.		

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
					provided before June 1 2007. .It should be noted that there is a small likelihood that shareholders' loans will be approved unless they were recorded before June 1, 2007.			
Russia	The federal tax rate is 2%. The regional tax rate ranges between 13.5%-18%. Accordingly the overall tax rate stands at 15.5% - 20%.	Depreciation under the straight line method or a non-linear depreciation method.. In cases where the asset at least is 20 years-old, the depreciation is to be calculated under the straight line method, The depreciation of	20%	Exemption in accordance with the treaty with the Netherlands and Luxembourg (subject to certain conditions).	Restrictions apply to tax deduction In general terms, the maintenance of a capital: debt ratio of 3:1 where the loan is provided by related parties.	Identical to the corporate tax rate. In principle, Dutch and Luxemburg based companies that sell shares in a Russian company are exempt.	As a matter of principle there is no transfer tax. The sale of real estate is not subject to VAT. In general, the sale of shares is not subject to VAT.	Russian property tax applied to average value of property on the books, at a maximum rate of 2.2% in different areas).

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
		commercial buildings depends on the type of group to which the building is affiliated						
Israel	26% (it should be noted that the corporate tax rate is expected to be lowered to 25% in 2010 and to 18% in 2016)	4%	Individual tax rate of15%,, 20% or 25% (in the event of bonds issued before May 8 2000), if the payment is made to an individual who is a material share holder or an employee or a service provider to the interest payer, a marginal tax rate will apply (up to 46% for 2009 or up to 44% for 2010). This tax rate will be reduced to 39% in 2016) Members tax rate – corporate tax rate. If the interest is paid	15% according to treaty with the Netherlands..	None. Nevertheless there may be cases of limitation on the deduction of financing expenses, if the financing expenses were used for the purchase of an asset that does not generate income (including the distribution of dividends) and if the company's equity is not sufficient to finance the purchase of this asset.	Between 25% of corporate tax rate (26% in the year 2009 but expected to be gradually reduced to 18% by 2016). Dutch companies that sell shares of Israeli companies are exempt from tax, except if it is a sale of shares in a property association.	As of August 1, 2007 the sales tax has been cancelled (for sales carried out after this date) in respect of a real estate regardless of the date on which it was purchased. As a rule, a 25% purchase tax is levied on the purchase of real estate. There a number of reliefs in certain cases) As a rule, the sale of real estate in Israel is subject to VAT (except for exceptions). The rate of VAT until May 30, 2009 was 15.5%. As of July 1 2009 the VAT was 16,5%. Since January 1 2010 the VAT is 16%.	Municipal tax will apply in accordance with the type and location of the property.

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
			to a foreign resident, a 25% tax is deducted in accordance with the guidelines of the tax authorities.				Rental of residential property in some cases is exempt from VAT. As a rule, rental of non residential property is subject to VAT. The sale of shares is not subject to VAT except in cases of real estate corporations including equity transactions related to property associations which may be subject to VAT. The stamp duty law was cancelled as of 2006 and thereafter.	
Turkey	20%	Depreciation of land is not permitted. Methods of depreciation: in accordance with the straight line method or the declining balance method. Depreciation of buildings–over a period of 50 year period. Factories- 40 years	10%. In certain cases a tax rate of 0% will apply to interest that is paid to foreign banks.	10% in accordance with internal law.	Compliance with of an equity-to-debt ratio of 3:1 (ratio of 1:6 will be permitted with respect to debts from relevant banks or related financial organizations).	32% effective (20% + 15% of 80%). The sale of a Turkish company by a Dutch resident company – is exempt from tax under two conditions: the sale is not to a Turkish resident; the Dutch selling company held the Turkish company for more than one	Land registration fees – 3.3% (when real estate is sold the buyer and seller are both required to pay a tax rate of 1.5%). VAT at a rate of 18% (in certain cases there are exemptions). In principle, the sale of shares is not subject to VAT if the terms prescribed by the law are complied with.	Municipal tax at a rate of 0.1%-0.3%. At the time of the receipt of loans in foreign currency whose average period is less than twelve months, tax will be imposed on the principal of the loan at a rate of 3%.

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For a Company that is resident in the Netherlands	Thin Financing Laws	Capital Gain Tax Rate	“Transfer” Tax	Other Taxes
						year. Sale of a Turkish company by a resident company of Luxembourg- exempt from tax if the Luxembourg company held the Turkish company for more than one year.		

17.4 Taxation of Kardan NV Group Companies Residing in Israel (also see above table)

In February 2008, the Knesset approved an amendment to the Income Tax Law (Inflationary Adjustments), 5745-1985 (the "**Adjustments Law**"), which limits the applicability of the Adjustments Law until the end of 2007. As of 2008, results for tax purposes are measured in nominal values, with the exception of certain adjustments as a result of changes in the Consumer Price Index for the period ending December 31, 2007. The amendment to the Adjustments Law includes, *inter alia*, the cancellation of the inflation addition and deduction and the additional depreciation deduction as of 2008.

Following an amendment to the Israeli Income Tax Ordinance (no.147) 2005 of the ordinance, a gradual depreciation began in 2006 of the Israel company tax rate up to 25% (in 2010). In the tax year 2009, the corporate tax rate was in Israel 26%. In July 2009 a bill was passed in the Knesset – the Economic Efficiency law (Legislation Amendments for the Implementation of the Economic Plan for the years 2009-2010) of 2009, which prescribed, inter alia, an additional gradual reduction of the corporate tax rates and capital gains tax rates in Israel, as of the year 2011 as follows: 20001-24%, 2012 -23%, 2013-22%, 2014-21%, 2015-20% and 2016 and thereafter - 18%. The effect of the aforementioned change on the balance of the delayed taxes has led to an increase of about Euro 4 million in the net profit (about Euro 2.4 million increase in the net profit attributed to Kardan NV's equity holders).

According to the provisions of the Law for the Amendment of the Income Tax Ordinance (No. 132), 5762-2003 (the "**Reform Law**"), a reduced tax rate of 25% applies to capital gains generated as of January 1, 2003, in lieu of the ordinary tax rate. With respect to a sale of assets which were acquired prior to the Reform Law's entry into force, the reduced tax rate will only apply to the component of the gains generated after the Reform Law, to be calculated in accordance with the provisions of the Reform Law. The Reform Law also provides that capital loss transferred for tax purposes may be utilized against capital gains for an unlimited period of time. The Reform Law also provides for the possibility of offsetting capital losses from the sale of assets abroad against capital gains in Israel.

Following the Reform Law, the bulk of its provisions becoming effective on January 1, 2003, the "Controlled Foreign Company" legislation (**"CFC"** and **"CFC Legislation"**, respectively) also went into effect at that date. A foreign company shall be considered an CFC if it meets all the following criteria: [1] Its shares or the rights in the company are not registered for trading on the stock exchange however, in cases where they have been registered in part and less than

30% of the shares or rights of the same group of people have been offered to the public; [2] The majority of its revenues or the majority of its profits are derived through passive income; [3] The applicable tax rate for said passive income does not exceed 20%; and [4] More than 50% of one or more of the means of control in the foreign company are held directly or indirectly by Israeli residents. Under the CFC legislation, an Israeli resident who is a controlling party in CFC,[370] which has unpaid profits (as defined under the ordinance), shall be considered as having received as dividend his pro-rata share in those profits, and accordingly, he will be subject to taxation on the theoretical dividend income (while being credited for the tax to be paid abroad at such time as the profits are actually distributed.

Kardan NV's management does not expect the CFC legislation to have any significant impact on the taxability of the Israeli resident companies in the group.

Kardan NV's above assessment is forward-looking information, as defined in the Securities Law, based on CFC Legislation existing as of the date of the report, and the assessments of Kardan NV's management regarding the effects of the CFC Legislation on the Israeli Kardan NV Group companies. These assessments might not be realized, in whole or in part, or might be realized in a different, including significantly different manner than expected, as a result of changes in regulation, including in CFC Legislation, as well as various developments in the Israeli affiliated companies.

Actual distribution of dividends by the foreign companies residing in the Netherlands which are held by Kardan NV's Israeli-resident companies, shall be subject to withholding tax in the Netherlands and taxation in Israel (in general 25%) while being credited for taxes withheld in the Netherlands. Distribution of dividends from Israeli resident companies in Kardan NV to Kardan NV, shall be subject to withholding tax in Israel at a rate of 5% as provided under the treaty.

The tax rates applicable to the Kardan NV Group companies differ from the statutory tax rate (see Note 47C to the financial statements). This difference is due mainly to tax-exempt profits or profits subject to reduced taxation.

For details regarding losses for tax purposes of Kardan NV Group companies, which have not yet been utilized and tax benefits that have not yet been used see Note 47e to the financial statements.

[370] An Israeli resident holding 10% at least, directly or indirectly, alone or with others, of one of the means of control in a foreign company defined as a "Foreign Controlled Company", on one of the following dates: (1) at the end of the tax year; (2) on any day whatsoever in the tax year and on any day whatsoever in the following tax year.

18. Restrictions and Supervision of Kardan NV's Activities

18.1 Kardan NV is subject to Dutch law, including Dutch companies' laws and securities laws. In addition, Kardan NV is subject to the Securities Law and certain ordinances derived from that law, that apply to companies incorporated outside of Israel and traded on the Israeli stock exchange.

Part 39A of the Securities Law ("**Part 39A**") which was added to the Securities Law after Kardan NV's shares were listed for trading on the Tel Aviv Stock Exchange, stipulates, that the provisions of the Companies Law and the Regulations of the Securities Law, as detailed in the Fourth Addendum to the Securities Law, will apply, with the changes mentioned, to a company incorporated outside Israel which offers its shares to the public in Israel. In May 2008, immediately prior to the publication of a shelf prospectus by Kardan NV, the Securities Authority informed Kardan NV that it will not interfere in Kardan NV's position, according to which should Kardan NV offer shares to the public, including in the framework of a share offering report by virtue of a shelf prospectus, Part 39A will not apply to Kardan NV, provided that prior to the date of offering shares to the public (if such offering is carried out) Kardan NV will bring for the approval of a general assembly of its shareholders, a proposal to change Kardan NV's Articles of Incorporation, in such a way that types of transactions included in Part 270(4) of the Companies Law and which were not included in the Articles at that time, will be added to the Articles. This will require obtaining the approval of a special majority as stipulated in the Articles, and additional alleviations will be given to interested parties' transaction included in the Companies' Regulations (Alleviations regarding Transactions with Interested Parties) – 2000, which were not included in the Articles at that time. Consequently, in December 2008 concurrently with the offer of shares to the public in the framework of a shelf offer report that Kardan NV published in connection with the merger between Kardan NV and GTC RE, the general assembly of Kardan NV's shareholders approved the change in Kardan NV's Articles as mentioned and detailed in Part D of the Report (see Regulation 28).

18.2 In December 2004 the enactment of the law amending Book 2 of the Dutch Civil Code was approved, regarding the Dutch "Best Practice of Corporate Governance" Code submitted by the "Tabaksblat Committee" in December of 2003 (**"the Tabaksblat Code"**), applicable to companies incorporated in the Netherlands, and which are traded on a recognized stock exchange in the Netherlands and/or outside the Netherlands. In December 2008, the Tabakblat Code was amended by the Monitoring Committee Corporate Governance, which amendments came into force on 1 January 2009 ("**the New Code**", together with the Tabaksblat Code referred to as "**the Code**"). The New Code gives the supervisory board tighter control over the management board remuneration, for example by introduction of a claw-back possibility, giving the supervisory board the right to recover from management board members any variable remuneration awarded on the basis of incorrect financial or other data. In addition, the New Code places greater emphasis on risk management and provides that the Management Board has a maximum of 180 days in which it may put an item on the agenda of a general meeting of shareholders, which has been requested by shareholders and which would entail changes to the strategy of the company (for example dismissal of one or more management board members). The statutory obligation under the Code is of a "comply or explain" nature, meaning that companies can deviate from the best practice guidelines. There can be good reasons to deviate from certain provisions and in addition the possibility of adopting all the Code guidelines depends on the specific conditions of each company. Traded companies are required to devote a Part in their statutory annual report submitted in the Netherlands (**"the Dutch Report"**) for an in-depth description of their corporate governance structure, as well as to the manner of their compliance with the Code, including the reasons for non-compliance with certain best practice provisions.. In addition, on 20 March 2009 a decree was adopted, applicable for financial years commencing 1 April 2008, whereby companies are obligated to publish in their financial statements a corporate governance statement. This statement needs to include information on Kardan NV’s corporate governance practice, the most important characteristics of internal control and risk management systems regarding the financial reporting, the functioning of its general assembly and most important shareholder rights, composition and performance of Management Board and Supervisory Board and its committees as well as information regarding take-over bids. The 2009 Dutch Report will contain such corporate governance statement for the first time.

The material provisions adopted by Kardan NV include the following:

[A] A member of Kardan NV's executive board of directors shall not also serve as a member of the supervisory board of directors in more than two traded companies, and shall not serve as chairman of the supervisory board of directors in a traded company. Membership in the supervisory board of directors in other companies in the group to which Kardan NV belongs shall not be included in this regard. Appointment of an executive director as a supervisory director in another traded company shall require the approval of Kardan NV's supervisory board of directors. An executive director shall inform Kardan NV's supervisory board of directors of any significant other position that he accepts.

[B] Kardan NV shall review, develop and adopt provisions regarding risk management and control systems, and shall report on this process in the Dutch Report.

[C] In addition to the provisions in Kardan NV's Articles regarding transactions with controlling parties, the guidelines detailed under the Code were adopted regarding cases of conflict of interests between Kardan NV and one or more members of the supervisory or executive boards of directors.

Among other provisions, Kardan NV has decided not to adopt or not to fully implement the following provisions:

[A] The best practice provision requiring approval of corporate social responsibility issues by the Supervisory Board: In this process and once a clearer stance will be taken, the Supervisory Board of Kardan NV will be involved and, in as far as it concerns matters regarding the operational and financial objectives of Kardan NV 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.

[B] The best practice provisions relating to remuneration and composition of the remuneration: At the time of the report, Kardan NV 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 which does not have to include specific vesting mechanisms nor is granting subject to certain performance criteria, as required by the Code. In addition, the general assembly (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 NV’s statute). After establishment of the Remuneration, Appointment and Selection Committee on June 19, 2008, a Remuneration Policy was adopted by the general assembly during the latest annual general meeting of shareholders held on May 20, 2009. The Management Board and Supervisory Board of Kardan NV 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 establishing 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 Pursuant to the proposal, long term variable remuneration will be awarded to the members of the Board in shares. The aforesaid share plan will be drafted in accordance with the Code, but will not meet all the provisions of the Code and therefore, the approval of the general meeting of the shareholders will be required.

[C] The best practice provision regarding the independency of the supervisory board members: five members of the supervisory board of Kardan NV 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 NV and Mrs. Rechter is related by marriage to a person receiving financial compensation from a company associated with Kardan NV (Mr. Rechter receiving a remuneration in his position of CEO of Kardan Israel Ltd.). Kardan NV will not follow this best practice provision because it regards a long-term alliance with these shareholders as vitally important to all the interested parties in Kardan NV. Given the provisions on conflict of interest in its Statute and the supervisory board regulations, Kardan NV feels that there constitute – without undermining the corporate governance system – good grounds for not adopting these provisions.

[D] The best practice provision regarding the obligation to hold training programs for new members of the supervisory board: Kardan NV 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 NV, any specific aspects that are unique to Karan NV and its business activities and the responsibilities of a supervisory board member.

[E] The best practice provision providing for the limitation of the number of supervisory board positions: although as of the reporting date, Kardan NV complies with this best practice provision, as none of the supervisory board members serve in more than five supervisory boards of Dutch listed companies, it does not comply with the Code in a strict sense, since it has not determined a maximum number of supervisory boards on which a supervisory director can serve. However, the supervisory board regulations prescribe that the supervisory board on a case-by-case basis decides whether the acceptance of another position would conflict with the ability of the supervisory board member to properly perform its duties within Kardan NV. In this case and if the said director accepts the position in the other board, he will be requested to resign. Kardan NV believes that a case-by-case assessment better serves the principle behind this provision of the Code than applying the absolute numerical criteria.

[F] The best practice provision relating to the election of a vice chairman by the Supervisory Board: the Supervisory Board of Kardan NV has not appointed a vice chairman in deviation from the Code as it does not consider it necessary for a proper functioning of the Supervisory Board to have a vice chairman.

[G] The best practice provision providing that 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 NV does not consider it appropriate to exclude such situation for the future, taking into account the specific knowledge and experience that rest with its senior management and from which a supervisory board may well benefit when performing its tasks.

[H] The best practice provision pursuant to which the chairman of the audit committee shall not be a former member of the management board: although Kardan NV 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 NV not to exclude this situation for the future and has therefore enforced this vision in the terms of reference of the audit committee.

[I] The best practice provision pursuant to which the chairman of the Remuneration, Appointment and Selection Committee shall not be a former member of the Management Board: although Kardan NV 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.

[J] The best practice provision regarding transactions between Kardan NV and legal or natural persons holding at least ten percent of the shares in the capital of Kardan NV: although Kardan NV does not regulate these transactions as provided for in the Code, it takes the view that the provisions on conflicts of interest as provided for in its Articles, 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) provide sufficient protection in this respect.

[K] The best practice provision regarding the adoption of a resolution to cancel the binding nature of a nomination for the appointment of a member of the management board or of the supervisory board and/or a resolution to dismiss a member of the management board or of the supervisory board: Kardan NV considers it in its own interest that the supervisory board’s right of nomination shall be binding, unless the general assembly deprives the binding character, by a resolution passed with a majority of two-thirds of the votes cast representing more than half of Kardan NV’s issued capital.

[L] The best practice provision determining that 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 that 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 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 case the presentations include relevant information, these are posted on Kardan NV's website afterwards in accordance with the applicable provisions. .

18.3 <u>Material changes in the Dutch Companies Law in the year 2009 and up to the date of the report</u>

18.3.1 Transparency Directive implemented into Dutch law

On 1 January 2009, certain provisions regarding the disclosure of financial and other information pursuant to the Transparency Directive (Directive 2004/109/EC of the European Parliament and European Council of 15 December 2004) were incorporated into the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) ("**FSA**"). These rules include the following: publication of annual and semi-annual financial statements on prescribed dates, disclosure of change or amendment to the rights attached to the securities, including the rights for the acquisition of said securities; equal treatment of information provided to the shareholders and bondholders; duty to notify of any amendments to the articles of association to the Dutch Authority for the Financial Markets ("**AFM**") and the relevant stock market; and filing of the annual report with the AFM by Dutch issuers.

18.4 Regarding restriction on material companies, see the sections describing the various business segments.

19. **Material Agreements**

For a description of material agreements to which companies in the Kardan NV group are party, see the Parts on material agreements in the Parts outlining Kardan NV's activities.

20. **Legal Proceedings**

For information regarding material legal proceedings see Note 34c to the financial statements.

21. **Objectives and Corporate Strategy**

21.1 Kardan NV Group's strategy is to create value in the intermediate-long term, and its activities are based on the following principles:

[A] Activities in markets and fields with significant growth potential.

[B] Lean management, combining entrepreneurial spirit with vast international business experience, and capable of fast decision making.

[C] Automatic management of the company's business activities by a professional and experienced team supervised by Kardan NV Group's headquarters.

[D] Strengthening the contacts with leading individuals in Kardan NV Group and by granting shares and options in certain companies in the group.

[E] Extensive cooperation, including partnerships, with large international entities and key local players.

[F] Assimilation of international management standards in the Kardan NV group.

21.2 Most of the investments considered by Kardan NV meet the following criteria:

[A] Have significant growth potential.

[B] Located in developing markets.

[C] Permitting Kardan NV Group to be the controlling party or one of the controlling partners.

[D] Calculated capital risk levels.

21.3 Kardan NV Group's Corporate Objectives

International Activities

In the past years the Kardan NV Group relocated its business center from Israel to emerging markets in the world and principally to Central-Eastern Europe, and also to Asia. The business activities that Kardan NV initiated and gradually developed in the last two decades started to mature and to express the strategy and the ability of these initiatives.

The Kardan NV Group objectives in the medium-long term are further growth on two levels:

[A] Further growth of the companies in the various fields of operation.

[B] Expanding the operations in each business segment to additional countries and to additional segments within the area of activity.

Nevertheless, in the short term, in view of the crisis in the financial markets and the economic slowdown which is becoming apparent worldwide, Kardan NV is examining its exposure to the present crisis, and is preparing to operate in the most suitable manner in view of the conditions in the various markets in which it operations, in order to reduce the level of risks to which the Group is exposed and to maintain the strength of the businesses and its positioning in the various markets.

There are signs of recovery in emerging markets in which Kardan NV operates. Kardan NV is examining its activities in these markets and taking appropriate measures, in light of various market conditions, in order to promote Kardan NV's goals as detailed above, while fulfilling its obligations.

Activity in Israel

As of the reporting date, Kardan NV is examining a plan to sell 55% of the share of Kardan Israel shares held by it, to the shareholders of Kardan NV. In light of the complexity of this process, which is subject to the laws of Israel and the Netherlands, there is no certainty regarding the outline of the sale or regarding its actual execution.

For more information regarding the objectives and strategy in the various areas of activity, see the information in those Parts describing the company's areas of activity.

22. **Expected Developments in the Year Ahead**

In 2010, the Kardan NV Group will continue to strengthen its business activities and examine possibilities for expanding them, giving preference to investments within its existing areas of activity and in developing markets.

For more information regarding expected developments in the year ahead in the company's areas of activity, see those Parts detailing the company's areas of activity.

23. **Events or Matters Exceeding Kardan NV's Ordinary Business**

In March, 2004, Kardan NV was notified by Messrs. Yosef Greenfeld and Eitan Rechter, who are among the controlling shareholders in Kardan NV and serve as functionaries in Kardan Israel regarding the filing of indictments against them for offenses under the Securities Law. Messrs. Greenfeld and Rechter were acquitted of all charges against them by the Magistrate's Court in February 2008. In April 2008, an appeal by the State on the verdict was filed with the Tel Aviv District Court. In December 2008, the Tel Aviv District Court confirmed the acquittal of Messrs Yosef Greenfeld and Eytan Rechter from the offences of a fraud in connection with securities and the partial acquittal of Mr. Greenfeld of the offence of the use of insider information in relation to the joint holdings transaction. In connection with the transgression of the use of insider information in relation to the joint holding transaction. In connection with the charges of using insider information in connection with the plan to consolidate the capital, the District Court confirmed the acquittal of Mr. Greenfeld from the charges of using insider information that were purportedly carried out up to August 1998. In the absence of factual findings in connection with the use of insider information in relation to the plan to consolidate the capital, which were allegedly carried out from August 1998, the District Court Cancelled Mr. Greenfeld's acquittal and ruled that the file be returned to the Magistrates Court which will decide whether to convict Mr. Greenfeld on those charges. In April 2009, the Tel Aviv Magistrate's Court handed down a verdict acquitting Mr. Greenfeld from the charges of use of insider information pursuant to Part 52c of the Securities Law. The criminal proceedings have thus come to an end, with the acquittal of Mr. Greenfeld of all the charges against him.

24. **Information regarding events subsequent to the date of the statement of financial position**

For information regarding events after the date of the statement of financial position, see section 1 to the board of directors' report.

25. **<u>Discussion of Risk Factors</u>**

Kardan NV's activities are characterized by the following risk factors:

<u>Macro Risks</u>

25.1 **The global financial crisis -** In 2008, there was a significant deterioration in global financial markets, which continued in the first half of 2009 and resulted in a global economic crisis. As of the reporting date, it is unclear whether the direct economic effects of the crisis have ended, but according to estimates, the peak of the crisis is behind us. For further details regarding the global economic crisis, see Part 6 of this Part.

<u>The characteristics of the said crisis and the partial recovery form it, have affected and will continue to influence Kardan NV’s business results, the affiliated companies, cash flow, value of assets, realization possibilities of these their assets, their business status, their financial criteria, their credit rating, their capacity for dividend distribution and fund raising for ongoing activities and long term activities, as well as on their financing terms</u>. . Credit rating companies have carried out a review process and revised the rating of debentures of Kardan NV, Kardan Israel,including Dan Motors For details regarding the downgrading of debentures of said companies, see section 7.11.5, 12.11[f]], and 16.2 [a] of this Part.

Regarding the repercussions of the crisis' on Kardan NV and its affiliated companies, see also the Board of Directors' report.

25.2 **Investment in developing markets –** Kardan NV makes a significant portion of its investments in developing and unstable markets. This type of investments entails a high level of risk. Such investments expose Kardan NV to risks due to unexpected changes that may occur in these markets, such as political, state, regulatory, legal and economic changes.

Kardan NV's success in developing markets depends on the continuing development of those markets, the continuing development of the real estate sector, the development of financial services and infrastructure. A decrease in the level of development of those markets might have a detrimental effect on Kardan NV's business. In addition, it should be noted that the official information published in developing countries is not always credible or complete. Reliance on such information constitutes a risk.

25.3 **Investments in markets characterized by political instability –** The markets where Kardan NV operates are sometimes characterized by political instability. Occasionally, ethnic and/or religious differences between the various populations in those countries where Kardan NV operates have led to instability, which has sometimes is likely to continue for long periods of time affecting the economies of those countries where Kardan NV operates.

25.4 **The economic environment and the economic status in Central-Eastern Europe and China –** Kardan NV Group has significant activity in Central-Eastern Europe, especially in the fields of real estate, financial services and infrastructure, and in China the group is active in the real estate sector. Kardan NV Group continues to divert managerial and financial resources to investments in Central-Eastern Europe, in light of the economic growth in this region in recent years, and in the expectations that the economic and general gaps between Eastern and Western Europe will continue to be narrowed,, as well as investments in China, which experiences accelerated growth in recent years. A change in these trends in central-eastern Europe, China and India may adversely impact Kardan NV Group's operations.

25.5 **The judiciary systems in countries where the company operates –** the weakness of the judiciary and enforcement systems in the countries where Kardan NV operates and the complexity of the various methods constitute a risk to the company's activities. In some of those countries where Kardan NV operates, the legal systems are immature and still adapting to economic developments. In this regard, Kardan NV is exposed to contradictions between local and federal laws, government and judiciary corruption, high levels of discretion granted to government authorities, and so forth. Some of the laws in those countries where Kardan NV operates are new laws the implementation of which has not yet been examined. These create an atmosphere of legal ambiguity.

25.6 **Risks relating to the business activity in Israel** - The Israeli economy experienced a slowdown in recent years. For details regarding the effects of the global economic crisis on Israel, see Part 6 of this Part. Part of Kardan NV Group’s business activities are carried out in Israel, especially in the fields of real estate, construction, vehicle sales, operating lease and short-term car rental and communication and technology. This activity is affected by the condition of the Israeli economy and by the security and political situation in Israel and in the Middle East. A deterioration in the economic situation in Israel will adversely affect the Kardan NV Group, due, *inter alia*, to the effect on the willingness of foreign parties to enter business relations with Israeli companies, like companies held by Kardan NV. Moreover, political and security instability may have an adverse impact on the operations of Kardan NV Group in Israel.

25.7 **Credit rating –** In November 2008, Ma'alot lowered the rating of the Debentures (Series A) of Kardan NV, as set forth in Part 16.2[a] of this Part and in December

2008 Maalot announced an initial rating (ilA-/CW Negative) to debentures (Series B) of Kardan NV that were issued as part of the merger between Kardan NV and GTC RE (see section 16.2 [d] of this Part). In addition, in April 2009 Maalot announced the downgrading of debentures issued by Kardan Israel from (ilA/CW Negative) to Negative Outlook. The downgrading of the credit could, in the future, increase the cost of raising capital by Kardan NV.

Sectoral risks

25.8 Failure to comply with **Financial covenants –** As part of the loan agreements which Kardan NV or its subsidiaries are parties thereto, Kardan NV undertook to meet certain financial covenants. As of December 31, 2009 and in proximity to reporting date, Kardan is in compliance with all its financial covenants Based on their financial statements as of December 31 2009). Failure to comply with the covenants could lead creditors to demand early repayment of these loans, thus requiring Kardan NV or its subsidiaries to take action to quickly dispose of assets or raise equity or foreign capital, on terms suitable to a company that does not comply with its covenants. For details on the financial covenants undertaken by Kardan NV, see Part 16 of this Part. Sometimes there are conditions relating to Cross Default, according to which, if one of Kardan NV's loans is positioned for immediate repayment, this will bring about the possibility of positioning additional loans for immediate repayment.

25.9 **Taxation exposure –** Taxation planning and calculation of Kardan NV Group's tax obligations involve the interpretation and application of laws and tax treaties on various different areas of jurisdiction. Kardan NV Group carries out transactions in different countries, mostly through investments in local companies. Accordingly, the group's activities are subject to the taxation laws common in the various different countries, and calculation of the group's tax obligations involve the interpretation and application of the laws and tax treaties in those countries. Kardan NV Group evaluated its tax obligations based on its understanding of the application of such laws and treaties. However, the tax authorities may interpret or apply such relevant laws and treaties in such manner as to create additional tax obligations.

25.10 **Access to capital sources –** the lack of access to financial sources is likely to affect the Kardan NV Group's ability to grow and to implement its business plans. Maintaining access to capital sources is essential to finance the Kardan NV Group's operations and business. The lack of access to capital sources in the international finance market is likely to cause Kardan NV not to succeed to finance its operations and to meet its covenants, which is liable to affect Kardan NV Group's financial results. The Kardan NV Group's access to sources of capital is likely to be affected, *inter alia*, by the ramifications of the global economic crisis, the level of operations, the level of its leveraging, from a lack of cash flows to service its debt from the goodwill of the Kardan NV Group and from factors which are exogenic to Kardan NV Group's operations.

25.11 **Changes in exchange rates –** Changes in the exchange rates of the various different currencies in which the group carries out its business may affect Kardan NV's financial status. Kardan NV Group's business (as well as its liabilities) is carried out in various different currencies, including U.S. dollars, Euro, Yen, New Israeli Shekels, and the currencies of countries in Central and Eastern Europe, and China. In some cases, Kardan NV Group carries out hedging transactions in order to minimize the effects of fluctuations in exchange rates on its business. However, fluctuations in the exchange rates of the various currencies in which the group conducts its business may have an adverse affect on the group's financial condition and its business results.

25.12 **Fluctuations in the prices of affiliated companies shares** - A significant portion of Kardan NV Group's assets are holdings in marketable shares in capital markets in various countries. A significant decline in the market value of these companies could occur due to many reasons, including weakness in local or global capital markets and changes in exchange rates and could impact Kardan NV Group's value, its ability to generate capital gains from the disposal of its holdings and lead to Kardan NV Group's inability to meet the financial covenants stipulated the existing agreements and to make it difficult for the Kardan NV Group to raise capital and loans.

25.13 **Fluctuations in interest and inflation rates –** Fluctuations in interest rates and in the inflation rate may affect Kardan NV Group's business results. As the group holds significant loans with variable interest rates and/or interest rates linked to the rate of inflation in Israel, and future changes in these rates may impact the group's business results. Also, a significant rise in the interest rates may hinder future business development for Kardan NV Group, which relies, among others, on obtaining loans.

Unique Risks

25.14 **Dependency on key staff –** Kardan NV Group's activities are managed by a small group of skilled managers, experienced in those markets in which Kardan NV operates. Therefore, Kardan NV depends on the services provided by a small group of managers and consultants. Although the group has adopted an incentive-based remuneration policy, which is designed to reduce the departure of managerial staff, such departure could detrimentally affect the group and its business results. In addition, in Central and Eastern European countries there is a lack of experienced managers. Therefore, Kardan NV Group may find it difficult to recruit suitable managers, both for the expansion of its activities, as well as to replace managers that have resigned.

25.15 **Exposure to legal proceedings –** Kardan NV Group is involved in legal proceedings, the resolution of which may have a negative impact on the group. Although Kardan NV Group does not expect these legal proceedings to end with significant liabilities, a negative outcome could have a negative effect on the group's business results or its financial condition.

25.16 **Dependency on third parties –** Kardan NV Group may depend on the consent of third party shareholders in the companies in which it invests for the implementation of its corporate strategy. Some of the group's business is carried out through companies in which the group invests, and in which third parties hold partnership percentages. Also, the other shareholders in those companies in which Kardan NV invests hold contractual rights which grant them rights regarding many significant managerial decisions in these countries. Therefore, Kardan NV Group may depend on the consent of these shareholders for the implementation of its corporate strategy.

25.17 **Changes in control –** by virtue of agreements with financing parties and agreements with different investors in several companies in the Kardan NV Group, changes in control in the group may have different implications (including right for early repayment of loans, cancellation of material agreements, shareholders' rights to sell their shares to Kardan NV Group and/or shareholders' rights to purchase the group's shares in held companies, at a price lower than the market price) which may significantly affect the company's business.

25.18 Kardan NV as a **Holding company –** Kardan NV's business results are primarily comprised of and influenced by Kardan NV's share of the business results of the companies held by it, by way of disposals or acquisitions or adjusting the value of Kardan NV's holdings in such companies, and from the activity of Kardan NV's headquarters, which include expenses or net financing income, administrative and general expenses and income from management fees. Kardan NV's cash flow is affected, *inter alia*, by dividends that are distributed by its affiliated companies, management fees received from these companies and by income from the realization of its holdings therein and from Kardan NV's investments and dividends which Kardan NV distributes to its shareholders. High fluctuations between the reporting periods may occur in Kardan NV's business results, primarily due to the timing of disposals of Kardan NV and its affiliated companies, and due to changes in the share prices of affiliates and changes in the financing expenses and income of Kardan NV and its affiliated companies, which is affected by their net debt, the debt linkage and changes in the Consumer Price Index and the dollar's exchange rate in each reporting period. In addition, from time to time Kardan NV and Kardan Israel raise loans or debentures for the financing of their activities, and sell shares in affiliated companies. Kardan NV's ability to provide financial resources for the development of its business and to fulfill its obligations considerably depends on the cash flows generated by its affiliated companies and on its ability to raise loans and dispose of holdings. Therefore, negative business results by those affiliated companies will have a negative effect on Kardan NV's ability to develop its business and meet its obligations.

25.19 **The environment–** Some of the companies held by Kardan NV are exposed to various requirements by environmental protection authorities. Changes in the policy of these authorities may have an effect on the profitability of these held companies, and thus on the profitability of Kardan NV.

25.20 **Compliance with financial reporting requirements –** the Kardan NV Group has an increasing number of subsidiaries operating in developing markets, which is liable to result in a failure to obtain relevant and up-to-date financial information for these companies that is required in order to evaluate whether it should be disclosed in Kardan NV's financial statements, and lead to inaccuracies in the financial statements of the Kardan NV Group.

Below is a table classifying, in Kardan NV Group's estimation, the abovementioned risk factors by type and level of influence over Kardan NV's activities:

The summary

Section in this Part	Risk Factors	Level of Influence		
		High	Intermediate	Low
	Macro Risks			
25.1	Crisis in the global economy	X		
25.2	Investment in developing markets	X		
25.3	Investment in markets characterized by political instability	X		
25.4	General environment and economical condition in Central-Eastern Europe, China and Africa	X		
25.5	The judiciary system in countries of activity	X		
25.6	Risks in activity in Israel		X	
25.7	Credit rating		X	

	Sector Risks			
25.8	Non compliance with Financial criteria		X	
25.9	Taxation exposure		X	
25.10	Access to sources of capital	X		
25.11	Changes in exchange rates		X	
25.12	Fluctuations in share prices of affiliated companies		X	
24.13	Fluctuations in interest and inflation rates		X	
	Unique Risks:			
25.14	Dependence on key personnel		X	
25.15	Exposure to legal proceedings			X
25.16	Dependence on third parties		X	
25.18	Changes in control		X	
25.19	Kardan NV as a Holding company		X	
24.20	Environment			X
25.21	Meeting financial reporting requirements			X

See also the reference to unique risk factors that are included in the description of Kardan NV's material affiliated companies, which are detailed in the description of Kardan NV's areas of activity.

PART FOUR

ADDITIONAL DETAILS OF THE CORPORATION

The Company's name:	Kardan N.V. – a company registered in Holland (hereinafter referred to as **"Kardan NV"**)
The Company's no. at the Registrar of Companies in Holland:	34189974
Address (regulation 25A):	Claude Debussylaan 30, Vinoly Building 1082 MD Amsterdam, The Netherlands in Israel: 154 Menachem Begin Way, Tel Aviv 64921, c/o Adv. Ayelet Weller
e-mail address (regulation 25A):	info@kardan.nl
Telephone (regulation 25A):	in Holland: +3050010-20-31 in Israel: 03-6083444
Facsimile (regulation 25A):	in Holland: +3050011-20-31 in Israel: 03-6083434
Date of balance sheet:	31st December 2009
Date of report:	26th March 2010
Period of report:	1. 1st January 2009 to 31st December 2009 2. 1st January 2010 to 26th March 2010

1. **Regulation 10A: summary of profit and loss statements**

Below is a table summarizing Kardan NV's gross profit for each of the quarters in the reporting year, in € millions:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total 2009
Income					
Sales and services	42	41	42	20	145
Performance of works	37	37	46	53	173
Insurance business	15	15	15	14	59
Retail credit and banking activity	12	23	25	36	96
Rent	24	24	25	32	105
Income from renting fleet of cars	26	29	28	25	108
Income from selling fleet of cars	13	14	14	17	58
Management fees from included companies	0	1	0	8	9
	169	**184**	**195**	**205**	**753**
Expenses					
Cost of sales and services	33	32	33	16	114
Cost of performing the works	29	30	38	41	138
Operation of insurance business	14	17	17	20	68
Retail credit and banking activity	32	33	30	29	124
Maintenance of rental buildings	5	5	6	8	24
Cost of renting fleet of cars	20	21	18	19	78
Cost of renting and selling fleet of cars	13	13	12	16	54
Other expenses	4	7	1	18	30
	150	**158**	**155**	**167**	**630**
Gross profit (loss)	**19**	**26**	**40**	**38**	**123**
Sale and marketing	6	5	6	7	24
Administration and general	15	15	14	18	62
Profit (loss) from operations before adjustments in respect of fair value and realization of assets	**(2)**	**6**	**20**	**13**	**37**
Increase in value of real estate for investment, net	16	(34)	(44)	(117)	(179)
Profit from issue of shares to third party in held companies, net	0	1	0	-	1
Profit from realization of assets and other income	**3**	3	12	12	30
Decrease in value of assets	-	-	0	(1)	(1)
	19	**(30)**	**(32)**	**(106)**	**(149)**
Profit before financing and taxes on income	**17**	**(24)**	**(12)**	**(93)**	**(112)**
Financing income	37	8	10	8	63
Financing expenses	64	41	48	33	186
Adjustments in respect of fair value of other financial instruments	1	(1)	3	-	3
Financing income (expenses), net	(26)	(34)	(35)	(25)	(120)
Profit before the Company's share of included companies' profits, net	**(9)**	**(58)**	**(47)**	**(118)**	**(232)**
Share of included companies' profits, net	3	(1)	(1)	6	7
Profit before taxes on income	**(6)**	**(59)**	**(48)**	**(112)**	**(225)**
Taxes on income (tax benefit)	15	(9)	(16)	(17)	(27)
Net profit from ongoing activity	(21)	(50)	(32)	(95)	(198)
Profit from ceased activity	-	16	5	1	22
Net profit	**(21)**	**(34)**	**(27)**	**(94)**	**(176)**
Attributed to: the Company's shareholders The minority rights	(18) (3)	(15) (19)	(12) (15)	(47) (47)	(92) (84)
	(21)	**(34)**	**(27)**	**(94)**	**(176)**

Report regarding the Comprehensive income:					
Net income (expense)	(21)	(34)	(27)	(94)	(176)
Other Comprehensive income (expense): Change in hedge reserve, net of tax	16	(1)	-	6	21
Foreign currency translation differences	9	(23)	(11)	13	(12)
Unrealized revaluations, net of tax	(2)	1	-	-	(1)
Other comprehensive income (expense), net	23	(23)	(11)	19	8
Total comprehensive income	**2**	**(57)**	**(38)**	**(75)**	**(168)**
Attributed to: the Company's shareholders The minority rights	 5 (3)	 (30) (27)	 (22) (16)	 (33) (42)	 (80) (88)
	2	**(57)**	**(38)**	**(75)**	**(168)**

2. Regulation 10C: use of consideration for securities, with reference to the consideration objectives according to the prospectus

None.

4. Regulation 13: income of subsidiaries and related companies and Kardan NV's income from them as of the date of the statement of financial position

Company no.	Pre-tax profit (loss) (in € millions)	Net profit (loss) attributed to the shareholders of the company (in € millions)	Gross profit (loss) attributed to the shareholders of the company (in € millions)	Dividend and management fees as of the date of the statement of financial position (in € millions)	Dividend and management fees after the date of the statement of the financial position (in € millions)	Financing income (in € millions)
Kardan Israel Ltd.	29	32	31	-	-	-
GTC Real Estate Holding B.V.	(157)	(52)	(52)	0.3	-	7
Tahal Group International B.V	(3)	2	12	0.2	13	4
Kardan Financial Services B.V	(35)	(6)	(14)	0.2	-	4

6. **Regulation 14: balances of loans given as at balance sheet date**

None.

7. **Regulation 20: trade on stock exchange – securities listed for trade / dates of and reasons for stopping trade**

(1) In December 2008, phantom options of holders of 2003 debentures of Kardan Israel Ltd which were issued by the company were exercised, in return for an allocation of 90,237 shares of the company. During January 2009, the company allocated an additional 88,475 company shares in return for said exercise and this was as a result of a technical error in the exercise of option warrants (series 1) to the company shares in 2008.

(2) In the reporting year, 13,575,424.14 debentures (series1) of Kardan NV were converted into 759,252 Kardan NV shares.

(3) The balance of debentures (series 1) of Kardan NV which stood at NIS 2,328,677.86 nominal value was repaid and was not converted into shares.

(4) In the reporting year, 39,801 options to employees of Kardan NV, who finished working for Kardan NV before the date of entitlement for exercising the said options or waived the options allocated them, lapsed and/or were cancelled.

(6) In the reporting year, there was no cessation of trade in Kardan NV's shares on the stock exchange[1].

[1] Except for temporary cessations of trade.

8. Regulation 21: payments to interested parties and officers in the Company

(a) The five highest-paid officers in Kardan NV and companies under its control

Details of payment recipient					Payments for services					Total (including share-based payment (in € thousands)	Total (not including share-based payment) (in € thousands)
Name		Position	Scope of position	Percentage holdings of capital and corporation	Salary (€ thousands)	Bonus (€ thousands)	Share-based payment	Management fees (€ thousands)	Consultation fees (€ thousands)		
1	Hagai Harel [1]	International development manager and member of the management board of Globe Trade Center SA	100%	-		157 [6]	91 [7]	335		583	492
2	Ivo Gueorguiev [2]	Chairman - TBIF Financial Services B.V	100%	0.03%			289		270	559	270
3	Erez Boniel [3]	Member of the management board and CFO of Globe Trade Center SA	100%	-		157 [6]	91 [7]	286		534	443
4	Jan Slootweg [4]	Member of the management board of Kardan NV	100%	-	195	12	318	-		525	207
5	Piotr Kruanka [5]	Member of the management board of Globe Trade Center S.A.	100%	-	272	157 [6]	91 [7]			520	429

Notes on the table

[1] According to the agreement of June 2005, which was updated in June 2006, between companies in Mr. Harel's control and GTC Poland, Mr. Harel holds the position of international development manager and member of the management board of GTC Poland since January 2004.
In January 2009, GTC Poland's supervisory board approved the extension of the said agreements up to December 2014, unless one of the parties decides to terminate them at an earlier date, by providing 6 months early notification to the other party.

[2] In accordance with three agreements for the provision of consulting services between Mr. Ivo Gueorguiev and/or a company in which he is the key person for the provision of the consulting services (hereinafter: "**the manager's company**") and companies in the Kardan Financial Services B.V. Group (hereinafter – "**KFS**"), Mr. Gueorguiev and the manager's company provide consulting services to TBIF and companies it controls in exchange for annual consulting fees of €300,000.

Share-based payments
Pursuant to an options agreement between Mr. Gueorguiev and TBIF dated September 17, 2008, Mr. Gueorguiev was granted 418,717 options convertible into shares of TBIF. The exercise price of the options is €4.657 and the options are exercisable in four equal tranches in the period between January 1, 2007 and December 31, 2010, or earlier in the event of a change in control in TBIF prior to the publication of a prospectus. In accordance with the options agreement, the options may be exercised for the exercise price or in exchange for the benefit component only. In 2009 TBIG made a €289,000 provision in its books in respect of said options.

Loans:
The manager's company holds shares of TBIF, which represent 9.62% of the share capital of TBIF. Pursuant to a series of agreements between KFS and TBIF and the manager's company, the following terms apply to the said shares: in the event that the shareholders of TBIF are required to provide financing to TBIF for investment in the capital of subsidiaries, the manager's company will participate pro-rata in the said financing, provided that as long as KFS' said investments in TBIF (except for investments in respect of which the manager's company transferred its share in the financing from independent sources, and except for investments that are not used as investment in the capital of subsidiaries) do not exceed €172.5 million, KFS will lend to the manager's company its share in the financing on Non-Recourse terms and at an interest of Euribor +3%, against the pledge of the shares of the manager's company in TBIF.
As of the reporting date, the said KFS investments amount to €176 million, and as of December 31, 2009 the loans to the manager's company amount to €19,530,000 (while the value of 9.62% of TBIF shares amount to €15,191,000). The said loans

will be paid from the proceeds to the manager's company from the sale of shares in TBIF, and will be repayable 18 months after the CEO terminates his employment.
In the event that the shareholders of TBIF are required to provide financing to TBIF for the provision of loans to subsidiaries, the manager's company will not be required to participate in the said financing.
In 2006 the manager's company provided a €3 million loan to TBIF in exchange for its pro-rata investment as aforesaid. The loan bears a 7.25% interest per annum and is paid each quarter. From the loan principal, in February 2010 a sum of €1 million was paid and the outstanding loan principal will be repayable in two equal installments on September 30, 2010 and June 30, 2011.
The manager's company has a PUT option to sell its holding in TBIF to KFS and KFS has a CALL option to acquire the shares of the manager's company in TBIF in three equal tranches for a period of three years as of June 30 of each of the years 2008, 2009 and 2010 (as of the reporting date, the option to exercise the first tranche and second tranche was not exercised). The exercise price of the option will be determined based on material transactions in TBIF shares in the year prior to the exercise date or based on a valuation on the exercise date, but shall not be less than the price determined in the valuation, if determined, in agreements between the KFS Group and third parties. KFS is entitled to pay the consideration in respect of the exercise of the options in cash and/or through shares of Kardan NV. If KFS chooses to exercise the option through shares of Kardan NV, the price will be adjusted, such that if at the end of one year from the exercise of the option, the market value of Kardan NV shares, which the manager's company received pursuant to the agreement, is lower than the exercise price, KFS will pay the manager's company the difference in cash.
The manager's company has the right to tag along in the event of the sale of TBIF shares by KFS.
In the event of a change in control in KFS, the manager's company will be entitled to convert its shares in TBIF into shares of KFS and to participate in the control change transaction. In addition, if KFS shares are listed for trading the manager's company will be entitled to convert its shares in TBIF into shares of KFS.
In the event where KFS holds 50% and less in the voting rights in TBIF, the manager's company will vote in the general meeting of TBIF shareholders as instructed by KFS.

[3] In accordance with a contract that was revised in June 2006, between Mr Boniel and companies under his control, on the one hand, and GTC Poland, Mr Boniel has been employed as CFO of GTC Poland as of March 1997 and is a member of GTC Poland's management board.

In January 2009 the term of the contract between the parties was extended until December 2014, unless one of the parties elects to bring it to an early end, on six months' notice to the other party.

[4] According to the transaction agreement between Mr. Slootweg and Kardan NV, Mr. Slootweg holds the position of member of the management board of Kardan NV as of June 1, 2008 for a period of three years[2].

Each of the parties is allowed to terminate the engagement provided that it notifies the other party with prior written notice. IF Mr. Slootweg will be interested in terminating the engagement, he will have to notify Kardan NV two months in advance, and if Kardan NV will be interested in terminating the engagement, it will have to notify Mr. Slootweg four months in advance.

On May 20, 2009, the company's general assembly approved a 5% raise in the salary that the company pays the members of the management board of the company, to whom Mr. Slootweg belongs, and therefore his annual salary amounts to approximately EUR 195thousand.

For details regarding the management board's members' payment plan, which was adopted in the general meeting of May 20, 2009, see immediate reports the company published on April 30, 2009 and on May 20, 2009, whose publication reference numbers are 2009-01-098265 and 2009-01-116178, respectively.

Share-based payment

In July 2008, Kardan NV granted Mr. Slootweg 175,000 options that can be converted into Kardan NV shares, under the terms of the Kardan NV employees' options plan. The options can be exercised by installments, in three equal parts, at the end of two, three and four years from the date of allocation. The exercise price of the options was set at approximately EUR 9.2 per share. Close to the date of the report, the rate of a Kardan NV share is approximately EUR 4.5 per share. Therefore, the options are "out of the money" and it is not financially worthwhile to exercise them. The expense included for these options in the financial statements of Kardan NV for 2008 is EUR 318 thousand. For details regarding the options plan see Section 15 in part A of the report and also the immediate report regarding a private allocation that was published by the company on June 2, 2008, whose reference number is 2008-01-156843.

[5] According to the contractual agreement that was updated in June 2006, between Mr. Kruanka and GTC Poland, Mr. Kruanka is employed as CEO of GTC Poland from 1996 and serves as a member of the management board in GTC Poland.

In January 2009, the period of engagement between the two partied was extended up to December 2014, unless one of the parties chooses to terminate the said agreement at an earlier date, by giving prior notification of 6 months to the other party.

[6] In accordance with the contractual terms and conditions between GTC Poland and Messrs. Hagai Harel, Erez Boniel and Piotr Kruanka (hereafter in this Section: "**the Officers of the Company**"), The Officers of the Company are entitled to an annual

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[2] Mr. Slootweg's employment and terms of employment were approved by the general assembly of Kardan NV of June 19, 2008.

bonus, each calendar year, of 0.23% of GTC Poland's profits for such year, after tax, to be paid in two installments: the first payment, of 0.15% of the profits as aforesaid, shall be paid shortly after approval of GTC Poland's annual statements for the year in respect of which the bonus is paid, and the second payment, of 0.08% of the profits as aforesaid, shall be paid at the end of the next year, if the employment term of the Officers of the Company has not come to an end during this year. The sums in the table reflect the second payment of the bonus for 2008 for each of the Officers of the Company, and the entitlement to receive it was established at the end of 2009.
In addition, in the event of termination of the contract between GTC Poland and the Officers of the Company within six months of a change of control in GTC Poland, the above mentioned Officers of the Company will be entitled to compensation in an amount of up to 50% of the bonus to which they would have been entitled had they continued providing services for 12 months from the date of termination of their employment with the company and 25% of the bonus to which they would have been entitled had they continued providing services another 12 months, commencing one year after the employment's termination.

[7] Share-based Payment

Messrs. Hagai Harel and Erez Boniel and the companies under their control, and Mr. Piotr Kruanka as well (hereafter in this Section: "**the Officers of the Company**"), were granted phantom shares as detailed hence:
In March 2006 each of the Officers of the Company was granted 150,000 phantom shares (series 1), in August 2008 each of the Officers of the Company was granted 200,000 phantom shares (series 2) and in January 2009, each of the Officers of the Company was granted 40,000 phantom shares (series 3).

The details of the terms of the phantom shares are as follows:

The phantom shares from the three aforesaid series are exercisable in installments during the period from 1st January 2007 until 31st December 2014, for series 1 or until December 31, 2015 for series 2 and 3, at the latest. The exercise price for half the series 1 phantom shares is about 22.5 zlotys (about € 6.28) and the exercise price for the other half of the phantom shares (series 1), and for the series 2 phantom shares and for the series 3 phantom shares, is about 18.15 zlotys (about € 5.10); however, these amounts will not necessarily be actually paid but will be used for the purpose of determining the benefit component only, in accordance with the formula prescribed in the agreement.
As of December 31, 2009, the Rate of the GTC Poland share is 25.65 zlotys.

Additionally, each of the Officers of the Company agreed with GTC Poland that in case GTC Poland or any of the Officers of the Company announce the end of the engagement between them within six months from the date of change in the control of GTC Poland, then each of the Officers of the Company will then be entitled to bring forward the exercise date of a number of phantom shares, according to the formula agreed upon in the agreements.

In the reporting year, GTC Poland recorded an expense of about € 91 thousand in its books in respect of share-based payments granted to the Officers of the Company in respect of each one of the Officers of the Company. For additional details regarding the terms of the said phantom shares, see Section 8.5.10 of part A’ of the report.

(b) The three highest-paid senior officers in the corporation, who are not listed in Section A above:

Details of payment recipient				Payments for services				Total (including share-based payment (in € thousands)	Total (not including share-based payment) (in € thousands)
Name	Position	Scope of position	Percentage holdings of capital and corporation	Cost of salary (€ thousands)	Bonus (€ thousands)	Share-based payment (€ thousands)	Management fees) € (thousands)		
Walter Van Damme (1)	Member of the management board of Kardan NV	100%-	-	190	18	177	-	385	208
Alain Ickovics (2)	Chairman of Kardan NV's management board	-	2.96%	-	19	35	182	236	201

On May 20, 2009, the company's general assembly approved a 5% raise in the salary and management fees the company pays the members of the management board of the company, which includes Messrs. Walter Van Damme and Alain Ickovics.

Notes on the table

(1) In accordance with an employment contract between Mr Van Damme and Kardan NV, Mr Van Damme serves as a member of Kardan NV's management board and as COO as of January 2007.
For details regarding the management board's members' payment plan, which was adopted in the general meeting of May 20, 2009, see immediate reports the company published on April 30, 2009 and on May 20, 2009, whose publication reference numbers are 2009-01-098265 and 2009-01-116178, respectively.

Share-based payment: in July 2008, Kardan NV granted Mr Van Damme 150,000 options convertible into shares of Kardan NV, on the terms of the Kardan NV employee option plan. The options are convertible in installments, in three equal parts, at the end of one year, two years and three years from the allotment date. The options' exercise price was set at about € 6.6 per share. At or about the date of the report, Kardan NV's share price is about € 4.5 per share; accordingly, the options are "out of the money" and it is not economically feasible to exercise them. The expense that was included in respect of these options in Kardan NV's financial statements for 2009 is € 177 thousand. For details of the option plan, see paragraph 15 of chapter one of the report and the immediate report on a private placement that the company published on 2nd June 2008, whose reference no. for publication is 156843-01-2008.

(2) Mr. Ickovics serves as a member of the management board of Kardan NV since June 2006, and was appointed chairman of the management board in June 2007. In 2009, the company fully owned by Mr. Ickovics was paid the sum of approximately EUR 182 thousand for the management services he provided Kardan NV. In addition to the management fees paid by the company, Mr. Ickovics receives salary and management fees from Kardan NV's subsidiaries, for services he provides them, in the total amount of approximately EUR 65 thousand. For details regarding Mr. Alain Ickovics office in additional positions in the Kardan Group, see Section 12 below in this part of the report.

Share-based payment – in 2006, Mr. Ickovics was allocated 179,232 options that can be converted into Kardan NV shares, according to the terms of the Kardan NV employees' options plan. The price of the exercise of the options was set at approximately EUR 8.5 per share. Close to the date of the report, the rate of the Kardan NV share is approximately EUR 4.5 per share, therefore the options are "out of the money" and it is not financially worthy to exercise them. The expense included in the financial statements of Kardan NV for 2008 due to the options is approximately EUR 35 thousand. As of the date of the report, Mr. Ickovics has not exercised said options. For details regarding the options plan, see Section 15 in chapter one of the report.

Additionally, upon the establishment of the joint enterprise between GTC RE[3] and the Company for Properties and Building Ltd., which operates through the GTC Investments Company, 2.5% of the issued and paid up share capital of GTC Investments was allocated to Mr. Ickovics, who also serves as a manager in GTC Investments. GTC RE and Properties and Building held, at the same time, approximately 49% each, of the issued capital of GTC Investments, in equal parts. In February 2007, the director transferred 1.25% of the share capital of GTC Investments to Properties and Building. It was agreed upon between the director and GTC RE in an agreement dated March 2007 that as regards the 1.25% of the share capital left with him, he would pay the proportional part that was invested in the share capital of the company. In addition, it was agreed by GTC RE and Mr. Ickovics that the following rules will apply to all funding provided by the shareholders to the company: Mr. Ickovics will have to provide 20% of the part of Mr. Ickovics in the funding from his sources and 80% of the sums will be provided to Mr. Ickovics from GTC RE as a loan, which will be guaranteed in a Non Recourse lien created on Mr. Ickovics shares in GTC Investments. Accordingly, GTC RE (currently GTC Holding) provided Mr. Ickovics with loans whose balance as of the date of the report is approximately EUR 197 thousand. The loan bears interest at a rate of 3.05%. Mr. Ickovics was granted an option to sell his shares to GTC RE at a price equal to the fair value of the shares at the time of the sale. The option can be exercised upon a change in the control in GTC Investments, and also during one year from November 2010 (or if on that day the director provides services to GTC Investments, then during one year from the day of cessation of said services).
In 2009, a decline in liability in the sum of EUR 14 thousand was entered in the financial statements of GTC Holding.

[3] After the merger between the company and GTC RE and GTC Real Estate Holding B.V. as said in Section 8.5.2 of chapter one of the report, GTC RE';s obligation mentioned in this Section above was transferred to GTC Real Estate Holding B.V.

(c) <u>Payments to interested parties in the company</u>[4]

Below are details of payments made in the reporting year by Kardan NV or a company under its control to interested parties in Kardan NV[5]:

Details of payment recipient				Payments for services						
Name	Position	Scope of position	Percentage holdings of capital and corporation	Salary*	Bonus	Share-based payment	Management fees	Consultancy fees	Total (incl. share-based payment) (€ 000)	Total (not incl. share-based payment) (€ 000
Joseph Grunfeld Ltd (1)	Chairman of board of directors - Kardan Israel Ltd	75%	20.11%	114*	-	-	-	217*	331*	331*
Eytan Techter and Shamait Ltd (2) Karnina Rechter (3)	MD Kardan Israel Ltd Provision of consultancy services to S.F.D.I. Ltd and Kardan Communications Ltd Member of supervisory board and member of audit committee of Kardan NV	50% 50% -	3.67%	219*	-	-	-	219* 25	438* 25	438* 25
Avi Schnur	Member of Kardan NV's supervisory board	-	17.72%	-	-	-	-	21	21	21

4 In this paragraph mention will be made of the interested parties who are not listed in paragraphs (a) and (b) above.

5 The order in which the interested parties appear is random and not in accordance with the amount of the payments.

Joseph Krant	Chairman of Kardan NV's supervisory board	-	-	-	-	-	-	36	36	36
Max I. Groen	Member of Kardan NV's supervisory board	-	-	-	-	-	-	25	25	25
Hendrik Benjamins	Member of Kardan NV's supervisory board	-	-	-	-	-	-	25	25	25
Israel Fink	Member of Kardan NV's supervisory board	-	-	-	-	-	-	21	21	21
Jay Lev Pomrenze	Member of Kardan NV's supervisory board	-	0.13%	-	-	-	-	25	25	25
Einat Oz Gabber** (4)	Member of Kardan NV's management board	-	-	175	11	29	-	-	215	186
Alon Shlank **	Member of management board of Kardan NV and holds various positions in the Kardan group		0.04%	18	19	35	242		314	279

** On May 20, 2009, the company's general assembly approved a 5% raise in the salary and management fees the company pays the members of the management board of the company, which includes Messrs. Alon Shlank and Einat Oz Gabber.

Notes on the table

(1) According to the agreement signed in February 2008 between Kardan Israel, a company controlled by Kardan NV, and Mr. Joseph Grunfeld, chairman of the board of Kardan Israel, who is one of the controlling shareholders on Kardan NV, Mr. Grunfeld is entitled to receive, due to his position as chairman of the board of Kardan Israel (at a scope of three quarters of a position) a monthly salary (gross) at the cost of the amount of approximately NIS 54 thousand (approximately EUR 10 thousand), linked to the index, including reasonable expenses, social benefits, car whose grade has not been determined (in practice, as of the date of the report, Kardan Israel does not provide a car to Mr. Grunfeld but he is entitled as said to have one), cellular telephone, and return of expenses involved in having them. Additionally, Talromit Ltd, a company fully owned by Mr. Grunfeld ("**Talromit**"), is entitled, according to an agreement between it together with Mr. Grunfeld and Universal Motors Israel Ltd., which is held (indirectly) by Kardan NV at a rate of 29.9 % ("**UMI**"), to consideration for consultancy services Mr. Grunfeld provides UMI in a regular number of hours, totaling approximately NIS 275 thousand (approximately EUR 50 thousand) quarterly, linked to the consumer price index, and payment of expenses paid as part of the position and the provision of a car (grade 7) for work and personal use. The said sum paid to Talromit Ltd. for services provided to UMI is offset from the sum of the management fees Kardan Israel is entitled to according to an agreement between it and UMI. The cost of Mr. Grunfeld's salary for 2009 totaled approximately NIS 625 thousand (approximately EUR 114 thousand) for his position as chairman of the board of Kardan Israel, and also for the period from January 1, 2010 and up to the date of the report, Mr. Grunfeld is entitled to receive a salary in the amount of approximately NIS 159 thousand (approximately EUR 29 thousand). In addition, in 2009, Mr. Grunfeld received, through Talromit, for management and consultation services he provided UMI, a sum of approximately NIS 1,186 thousand (approximately EUR 217 thousand), and also for the period from January 1, 2010 and up to the date of the report, Mr. Grunfeld is entitled to management and consultancy fees in the amount of approximately NIS 303 thousand (approximately EUR 55 thousand).

According to the employment agreement between Mr. Grunfeld and Kardan Israel and according to an agreement for the provision of consultation services between Talromit and UMI, each of the parties is entitled to terminate the agreement at any time. In case Mr. Grunfeld will be interested in terminating the period of his employment or of the provision of consultancy services, as the case may be, on his own initiative, he will notify Kardan Israel or UMI, with a 90 days' prior notice, and if the termination of the employment or the consultancy services is initiated by Kardan Israel or UMI, Mr. Grunfeld will be given 180 days' prior notice.

(2) According to the agreement signed in February 200 between Mr Eytan Rechter and Kardan Israel, Mr. Rechter, who is one of the controlling shareholders of Kardan NV, is entitled to receive, due to his position as managing director of the company (at a scope of half a position), a monthly salary at the cost of approximately NIS 103 thousand (approximately EUR 19 thousand) (gross), including reasonable expenses, social benefits, car (grade 7), cellular telephone, and return of expenses involved in having them. Additionally, Shamait Company Ltd. ("**Shamait**"), a company fully owned by Mr. Rechter and his wife, is entitled, according to agreements with S.F.D.I Ltd. and Kardan Communications Ltd, to consideration in return for consultation services Mr. Rechter provides the subsidiaries in the amount of approximately NIS 150 thousand (approximately EUR 27 thousand) and approximately NIS 160 thousand (approximately EUR 29 thousand) per quarter, respectively.

According to the employment agreement between Mr. Rechter and Kardan Israel and according to an agreement for the provision of consultation services between Shamait and the subsidiaries, each of the parties is entitled to terminate the agreement at any time. In case Mr. Rechter will be interested in terminating the period of his employment or of the provision of consultancy services, as the case may be, on his own initiative, he will notify Kardan Israel or the subsidiaries, with a 90 days' prior notice, and if the termination of the employment or the consultancy services is initiated by Kardan Israel or the subsidiaries, Mr. Rechter will be given 180 days' prior notice.

In the reporting year, Mr. Rechter received, directly and through Shamait, due to his position as managing director of Kardan Israel, salary at the total cost of approximately NIS 1,192 thousand (approximately EUR 219 thousand), and for consultation services that he provided as said to S.F.D.I Ltd., he received consultation fees at the total cost of approximately NIS 577 thousand (approximately EUR 105 thousand), and for consultation services to Kardan Communications Ltd. he received approximately NIS 621 thousand (approximately EUR 114 thousand). For the period from January 1, 2010 and up to the date of the report, Mr. Rechter is entitled to receive approximately NIS 310 thousand (approximately EUR 57 thousand) from Kardan Israel, and he is also entitled to receive from S.F.D.I., through Shamait, consultation fees in the amount of approximately NIS 142 thousand (approximately EUR 26 thousand), and from Kardan Communications Ltd. the sum of approximately NIS 152 thousand (approximately EUR 28 thousand).

(3) Ms Karnina Rechter is the wife of Mr Eytan Rechter, a controlling shareholder of the Company.

(4) Ms Oz-Gabber holds the office of a member of the management board of Kardan NV commencing from May 2005. Kardan NV paid Ms Oz-Gabber for her serving in this position in the year of the reporting the amount of approximately EUR 175 thousand. For details regarding the management board's members' payment plan, which was adopted in the general meeting of May 20, 2009, see immediate reports

the company published on April 30, 2009 and on May 20, 2009, whose publication reference numbers are 2009-01-098265 and 2009-01-116178, respectively.

Share based payment: In 2006, Ms Oz-Gabber was allotted 149,360 options convertible into shares of Kardan NV, on the terms of Kardan NV's employee option plan. The exercise price in accordance with the option plan is about € 8.5 per share. At or about the date of the report, the price of Kardan NV's share is about € 4.5 per share; accordingly, the options are "out of the money" and it is not economically feasible to exercise them. The expense that was included in respect of these options in Kardan NV's financial statements for 2009 is € 29 thousand. Correct as at the date of the report, Ms Oz-Gabber has not exercised the options as aforesaid. For details of the option plan, see paragraph 15 of chapter one of the report.

(5) Mr Shlank serves as a member of Kardan NV's management board. In respect of the management services he provided to Kardan NV in 2009, Mr Shlank received, through a company fully owned by him and his wife, a sum of about € 88 thousand. In addition to the management fees payable by Kardan NV, Mr Shlank receives a salary and management fees from subsidiaries of Kardan NV, to which he provides services, in an overall sum of about € 170 thousand.

Share-based payment: in 2006, Mr Shlank was allotted 179,232 options convertible into shares of Kardan NV, on the terms of Kardan NV's employee option plan. The exercise price in accordance with the option plan was set at about € 8.5 per share. At or about the date of the report, the price of Kardan NV's share is about € 4.5; accordingly, the options are "out of the money" and it is not economically feasible to exercise them. The expense that was included in respect of these options in Kardan NV's financial statements for 2009 is € 35 thousand. Correct as at the date of the report, Mr Shlank has not exercised the options as aforesaid. For details of the option plan, see paragraph 15 of chapter one of the report.

In addition, it was agreed between GTC Real Estate China Ltd and Mr Shlank who is a director of GTC China, that he would be granted options convertible into up to 5% of GTC China's shares. Not all the allotment terms have been agreed and the options have not yet actually been granted and no provision has been made in respect of the undertaking to grant them. For details of Mr Shlank's other positions in the Kardan group, see paragraph 12 of this part of the report.

9. **<u>Regulation 22: transactions with the Company's controlling shareholders</u>**

9.1 **<u>Transactions in the framework of section 270(4) of the Companies Law, 5759-1999</u>**

<u>Controlling Shareholder: Josef Grunfeld</u>

9.1.1 For additional details regarding the employment of Mr. Grunfeld as chairman of the board in Kardan Israel see Section 8.C above, note (1) of the table.

The controlling shareholders with a personal interest in the contract are Messrs Joseph Grunfeld, because the substance of the engagement is payment of salary and consultation fees to him and to Talromit, and also Messrs Avi Schnur and Eytan Rechter, since they are parties to a shareholders' agreement in Kardan NV, to which Mr Grunfeld is also a party.

Ido Leibowitz

9.1.2 In January 2006, Mr Ido Leibowitz, the son-in-law of Mr Joseph Grunfeld, a controlling shareholder of Kardan NV, was appointed Deputy MD and at a later stage MD of Kol Hai Radio Broadcasting in Faith Ltd (hereinafter referred to as **"Kol Hai Radio"**), which correct as at the date of the report is held indirectly, by Kardan NV, at a rate of 51.69%.

In August 2007, Kardan Israel's general meeting approved the employment and employment terms of Mr Leibowitz, such that he would be entitled to a monthly salary (gross) of about NIS 22,250 plus ancillary terms in respect of his employment as Kol Hai Radio's MD. The controlling shareholders with a personal interest in the contract: Joseph Grunfeld, Mr Leibowitz's father-in-law, as aforesaid, and Messrs Avi Schnur and Eytan Rechter, because they are a party to a shareholders' agreement in Kardan NV, to which Mr Grunfeld is also a party.

The cost of Mr Leibowitz's salary from Kol Hai Radio in the reporting year amounted to about NIS 407 thousand (about € 74 thousand) and in respect of the period from January 1, 2010 and up to the date of the report, Mr Leibowitz is entitled to salary amounting to NIS 121 thousand (about € 22 thousand).

9.1.3 In January 2008, Kardan Israel's general meeting approved the employment of Mr Ido Leibowitz, as of 1st January 2008, as Kardan Israel's business development manager, in an approx. 20% position. In consideration for his employment, Mr Leibowitz receives a monthly salary (gross) of NIS 10,000 plus social terms as customary pursuant to the law, including, *inter alia*, executive insurance and vocational studies fund provisions.

The cost of Mr Leibowitz's employment by Kardan Israel in the reporting year amounted to about NIS 172 thousand (about € 32 thousand) and in respect of the period from January 1, 2010 and up to the date of the report, Mr Leibowitz is entitled to payment of about NIS 39 thousand (about € 7 thousand).
The controlling shareholders with a personal interest in the contract are: Joseph Grunfeld, who is Mr Leibowitz's father-in law, as aforesaid, and Messrs Avi Schnur and Eytan Rechter, since they are parties to a shareholders' agreement in Kardan NV, to which Mr Grunfeld is also a party.

Michael Grunfeld

9.1.4 On September 7, after receiving the approval of the audit committee, the company's board approved the employment and the terms of employment of Mr. Michael Grunfeld, son of Joseph Grunfeld, one of the controlling shareholders of the company ("**Michael**"), as an intern in the legal department of Kardan Israel, as a full time job in return for a sum of NIS 6 thousand (gross). Michael's employment has been approved according to the Companies Regulations (Relief for Transactions with Interested Parties), 2000-5760.
The cost of Michael's employment by the company in the reporting year amounted to approximately NIS 30 thousand (approximately EUR 5 thousand), and Michael is entitled, for the period from January 2010 and up to the date of the report, to a payment of approximately NIS 22 thousand (approximately EUR 4 thousand).
Controlling shareholders who have personal interest in the above contractual engagements are: Joseph Grunfeld, Michael being his son, as stated above, and Messrs. Avi Schnur and Eytan Rechter, since they are a party to the agreement of the shareholders of Kardan NV, to which Mr. Grunfeld is also a party.

The controlling shareholder: Avi Schnur

9.1.5 Mr Schnur, one of the controlling shareholders of Kardan NV, is a member of Kardan NV's supervisory board. For his office in the year of the reporting Mr. Schnur was paid the sum of approximately EUR 21 thousand. Mr. Schnur is entitled to receive an amount of approximately EUR 5.25 thousand for the period starting on January 1, 2010 and up to the date of the report.
It is noted that the remuneration to Mr Schnur is identical to the remuneration that is received by the other members of the supervisory board.

The controlling shareholders with a personal interest in the contract are: Mr Schnur, who is a party to the contract, and Messrs Joseph Grunfeld and Eytan Rechter, since they are parties to a shareholders agreement in Kardan NV, to which Mr Schnur is also a party.

9.1.6 Alon Wulkan

Mr Alon Wulkan, who serves as Deputy MD and economic advisor in Kardan Israel, is the son-in-law of Mr Avi Schnur, a controlling shareholder of the Company. Until 31st March 2008, Mr Vulcan was employed in a 41% (approx.) position and his salary was about NIS 23,400 (about € 4 thousand). This salary reflected a salary of about NIS 57,000 (about € 10) (gross), in respect of a full time position (100%). Mr Vulcan's said salary was approved by Kardan Israel in 2004, when Kardan Israel, the company that employs him, was a private company, while Kardan NV's articles do not oblige his employment's approval by the general meeting. On April 7, 2009, the general meeting of the company decided, after the approval of Kardan Israel's board of directors and the audit committee to approve and ratify a change in Mr Vulcan's employment terms, such that the scope of his position would be increased from 41% to 67%, and accordingly, his salary would be increased to about NIS 38,200 (about € 7 thousand) (this amount also reflecting a salary of about NIS 57,000 (gross) in respect of a full-time position), such being as of 1st April 2008, the date on which the change in the scope of his position actually took effect. Accordingly, after the said approval of the general meeting, the company paid Mr. Wulkan the sum of approximately NIS 171 thousand.

The cost of employing Mr Vulcan in the reporting year amounted to about NIS 903 thousand (about € 165 thousand) and in respect of the period from January 1, 201 and up to the date of the report, Mr Vulcan is entitled to about NIS 212 thousand (about € 39 thousand) in respect of his aforesaid position.

For the sake of caution, it is noted that in 2006 Mr Alon Vulcan, who is employed as deputy MD and economic advisor in Kardan Israel and who is the son-in-law of Avi Schnur, a controlling shareholder of Kardan NV, was granted 47,800 options exercisable into shares of Kardan NV, in the framework of a plan to grant options of Kardan NV to employees of the Kardan NV group. The options' allotment was in Kardan NV's ordinary course of business. On the options' allotment date, there was no provision in the Company's articles obliging their approval by a special majority at the general meeting and the allotment was approved by the Company's organs whose approval is required in accordance with the Dutch law.

Correct as at the date of this report, Mr Vulcan has not yet exercised the said options. The options' exercise price is about NIS 45 (about € 8.2) whle the price of Kardan NV's share on or about the date of the report's publication is about € 4.5. Accordingly, the options are "out of the money" and it is not economically feasible to exercise them. In 2009 a provision was recorded in Kardan NV's books in respect of these options in a sum of about € 9.4 thousand.

The controlling shareholder Eytan Rechter

9.1.7 For additional details regarding the employment agreement of Mr. Rechter in respect of his position as managing director of Kardan Israel, see Section 8.C above, note (2) of the table.

Controlling shareholders who have personal interest in the contractual engagements are Messrs Eytan Rechter, since the engagement is with him regarding his salary and the consultation fees he receives (through Shamait). Additionally, Messrs Joseph Grunfeld and Avi Schnur have personal interest since they are a party to the agreement of the shareholders of Kardan NV, to which Mr. Rechter is also a party.

9.1.8 Mr Eytan Rechter's wife, Ms Karnina Rechter, is a member of Kardan NV's supervisory board and is entitled to remuneration for her position. For her position as aforesaid in the reporting year, Ms. Rechter was paid a sum of € 25,000, as set forth in paragraph 8(c) above. For her position during the period commencing on January 1, 2010, and up to March 26, 2010, Ms. Rechter is entitled to receive a sum of approximately EUR 6.25 thousand.

It is noted that the remuneration to Ms Rechter is identical to the remuneration received by the other members of the supervisory board.

Controlling shareholders with a personal interest in the contract are Mr Rechter, since his wife receives the remuneration, and Messrs Joseph Grunfeld and Avi Schnur, who are parties to a shareholders' agreement in Kardan NV, to which Mr Rechter is also a party.

9.1.9 **Insurance and indemnity in the Kardan NV group**

Kardan NV's directors officers in Kardan NV are insured under a policy insuring the liability of officers and directors, the owners of which are: Kardan NV, Kardan Israel, Kardan Real Estate and two other companies in the Kardan NV group (hereinafter referred to as **"the insured companies"**). The liability limits are: € 25,000 thousand per event, in the aggregate and for the period and the policy is valid throughout the world. The policy is applicable retroactively, from the date of the relevant company's establishment.

The division of the policy among the members of the Kardan NV Group is determined by the insurer, based on the scope and level of risk of their operations.

On August 12, 2008, the general meeting of the shareowners reached a decision to approve the renewal of the said policy, for a period of one year, commencing on September 15, 2008, with liability limits of between EUR 20,000 thousand and EUR 40,000 thousand per event and for the period (for all the insured companies), and in return for the payment of a premium for the whole group in the amount of between EUR 150 to 300 thousand (not including commissions or taxes) (for all the insured companies).

Additionally, on April 24, 2009, the supervisory board of the company reached a decision[6] to approve the renewal of the said policy, for a period of one year, commencing on September 15, 2009, with liability limits of between EUR 25,000 thousand and EUR 50,000 thousand per event and for the period (for all the insured companies), and in return for payment of a premium for the whole group in the amount of between EUR 150 to 300 thousand (not including commissions or taxes) (for all the insured companies).

For the said policy the Kardan NV group paid an overall sum of about € 145 thousand per annum for the period between September 2008 and September 2009 and an aggregate sum of approximately EUR 177 thousand for the period between September 2009 and September 2010. Kardan NV's share of the costs of the directors and officers insurance policies in the said periods amounted to about € 22 thousand and about € 27 thousand, respectively, constituting about 15% of the premium for the entire Kardan group.

Since the directors' insurance also includes insurance for Messrs Avi Schnur and Karnina Rechter, who are members of the Company's supervisory board, and in accordance with the Company's articles, the contract was approved as a transaction with a controlling shareholder (see footnote6 of the report). The controlling shareholders with a personal interest in the contract are Mr Eytan Rechter, Karnina Rechter's husband, Mr Avi Schnur, who, as aforesaid, is insured under the insurance policy, and Mr Joseph Grunfeld, who is a party to a shareholders' agreement in Kardan NV, to which Mr Schnur and Mr Rechter are also parties.

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6 Following the amendment of the articles of the company, from December 11, 2008, within which, among others, relief for transactions with interested parties, which is included in the Companies Regulations (Relief for Transactions with Interested Parties), 2000-5760, was adopted, the supervisory board reached said decision based on reasoning that the conditions of the insurance are identical for all the functionaries of the company, among them also controlling shareholders of the company, the engagement is under market conditions and cannot influence the profitability, property or obligations of the company. Therefore, an approval of the general meeting for the engagement in the said policy is not required. For details regarding the provisions of the articles that were adopted as abovementioned, see immediate reports that the company published on November 25, 2008 and the amendment of December 4, 2008, and of December 11, 2008, whose reference numbers for publication are 2008-01-329169, 2008-01-344637 and 2008-01-352122, respectively.

9.1.10 **<u>Providing exemption and indemnity to the controlling shareholders by the Kardan NV Group</u> companies**

Kardan Israel, Kardan Technologies, a company held by Israel the company at a rate of 46.03% (indirectly), Kardan Communications, a company fully held by Kardan NV (indirectly) and Kardan Real Estate, a company controlled by Kardan NV and held by it at a rate of 54.43%[7], produced letters of indemnity to their directors and officers of the company, some of whom are controlling shareholders of Kardan NV (jointly – "**the Officers of the Company**"). In the letters of indemnity, Kardan Israel, Kardan Technologies, Kardan Communications, and Kardan Real Estate committed to indemnify (post factum as well) each of the Officers of the Company for liability or expense, as detailed below, that would be imposed on him as a result of acts he has carried out or will carry out by virtue of being an Officer of the Company in Kardan Israel, Kardan Technologies, Kardan Communications, or Kardan Real Estate, as the case may be, including acts that were carried out before the letter of indemnity was provided, that are directly or indirectly related to one or more of the events detailed in the letter of indemnity, provided that the maximum sum of the indemnity will not rise above the sum detailed below: (a) a financial liability imposed on an Officer of the Company in favor of another person according to a judgment, including a judgment handed in a settlement or an arbitrator's judgment that has been approved by the court; (b) reasonable litigation expenses, including lawyer's fees, spent by an Officer of the Court or obligated by the court, in a proceeding brought against him by Kardan Israel, Kardan Technologies, Kardan Communications, or Kardan Real Estate as the case may be, or on their behalf or by another person, or in a criminal indictment in which he was acquitted, or in a criminal indictment in which he was found guilty of an offence that does not require proving criminal intention.

- The sum of indemnity that Kardan Israel will pay all the Officers of the Company, accumulated, according to all of the letters of indemnity, will not rise above 25% of Kardan Israel's equity according to the consolidated financial statements that will be published from time to time, with the addition of sums received, if received, from an insurance company within the framework of insurance Kardan Israel has contracted for directors and officers of a company.
- The sum of indemnity that Kardan Technologies will pay all the Officers of the Company, accumulated, according to all of the letters of indemnity, will not rise above 25% of Kardan Technologies' equity according to the latest consolidated financial statements that were published on or about the date of the payment in practice of the indemnity, with the

[7] After an additional allocation of shares to Clal Insurance Ltd., according to the mechanism of adjusting the consideration as detailed in Section 8.6.4 [H] of the report, the company is expected to hold (indirectly) 53.25% of the shares of Kardan Real Estate.

addition of sums received, if received, from an insurance company within the framework of insurance Kardan Technologies has contracted for directors and officers of a company.

- The sum of indemnity that Kardan Communications will pay all the Officers of the Company, accumulated, according to all of the letters of indemnity, will not rise above Dollar 3 million, in their equivalent in Shekels, according to the representative rate of exchange on the date of the payment in practice, with the addition of sums received, if received, from an insurance company within the framework of insurance Kardan Communications has contracted for directors and officers of a company.
- The sum of indemnity that Kardan Real Estate will pay all the Officers of the Company, accumulated, according to all of the letters of indemnity, will not rise above 25% of its' equity according to the consolidated financial statements that will be published from time to time, with the addition of sums received, if received, from an insurance company within the framework of insurance Kardan Israel has contracted for directors and officers of a company.

Kardan Israel, Kardan Technologies, Kardan Communications, and Kardan Real Estate will not be required to pay, according to the letters of indemnity, monies that were paid in practice to an officer of the company or for him or in his stead in any manner whatsoever within the framework of the insurance (that any of the companies purchased, as the case may be) or any obligation to indemnify of anyone else except for Kardan Israel, Kardan Technologies, Kardan Communications, and Kardan Real Estate, as the case may be. The indemnity sum will apply on top of (and in addition to) the sum that will be paid (if paid) within the insurance or indemnity as abovementioned.

The liabilities of Kardan Israel, Kardan Technologies, Kardan Communications, and Kardan Real Estate according to the letters of indemnity will also remain the right of the officer of the company after he finishes his term as an officer of the company, provided that the acts for which the exemption from responsibility or the commitment to indemnity were provided for were carried out or will be carried out during the term of office of the officer of the company as an officer of the company.

Additionally, Kardan Israel, Kardan Communications, and Kardan Real Estate decided to irrevocably exempt their Officers of the Company from any responsibility towards them, for any damage caused or that will be caused by an officer of the company to Kardan Israel, Kardan communications or Kardan Real Estate, as the case may be, due to breach of duty of care towards them.

The decisions to provide the said letters of indemnity were approved by the general meeting of Kardan Israel of May 26, 2008, the general meeting of Kardan Technologies of October 6, 2002, the general meeting of Kardan

Communications of September 25, 2002, and the general meeting of Kardan Real Estate of October 12, 2009.

9.2 **Other transactions**

9.2.1 Talladium Holdings (1987) Ltd – a company that is held by Mr Joseph Grunfeld, a controlling shareholder of Kardan NV

In 1992, Talladium Ltd, a company that is held by Mr Grunfeld, issued a capital note to Kardan Motors in a nominal value of NIS 6,520 thousand (about € 1,198 thousand), that is not linked, does not bear interest and matures in December 2011. For further details, see note 12 to the financial statements.

9.2.2 On September 7, 2009, Kardan Israel's board approved the contractual engagement of Kardan Real Estate Enterprise and Development Ltd., a company held at a rate of 73.70% by the company (indirectly), in agreements to sell a 4 room apartment to Mr. Alon Vulkan (the son-in-law of Mr. Avner Schnur, one of the controlling shareholders of the company), for consideration in the sum of NIS 685,801, with the addition of VAT, and to sell two garden apartments to Mr. Eytan Schnur (the son of Avner Schnur), for consideration in the sum of NIS 749,709 per apartment, with the addition of VAT, at a total sum of NIS 1,499,418 with the addition of VAT. The apartments are destined to be built as part of the real estate project Kardan Real Estate is constructing in Lod. The engagement was performed in market conditions and during the normal course of business of Kardan Real Estate and was approved by the board of Kardan Real Estate and by the board of Kardan Israel as abovementioned[8].

9.3 **Immaterial transactions**

On November 26, 2009, the Management Board of Kardan NV adopted guidelines and rules for the classification of a transaction as an immaterial transaction in regard to transactions with interested parties and transactions with the controlling shareholders of the company. For details regarding the procedure that was adopted, see Section 12 of the directorate statement attached to part B' of this report. Kardan NV, and companies controlled by it, contracted with the controlling shareholders of Kardan NV and/or their relatives and/or with companies in which they are interested parties, in

8 The transactions described above are negligible transactions, according to the criteria the company has set as detailed in Section 12 of the directorate's statement attached as Part B" of the report, but for the sake of caution, the company has chosen to mention them, as they were presented in the prospectus that was published by Kardan Real Estate Enterprise and Development Ltd., held (indirectly) by the company at a rate of 73.70% on February 26, 2010.

transactions that were classified by Kardan NV as immaterial transactions, according to the guidelines detailed in the abovementioned directorate statement such as: renting and renovating office areas and purchasing apartments in a project of a subsidiary by relatives of a controlling shareholder.

In November 2009, The Company's Management Board decided to adopt guidelines and rules to classify the transactions of The Company or its united company with its stakeholders as a immaterial transaction as determined by Regulation 41(a)(6) of The Israeli Securities Regulations (Annual Financial Reports), 2000 (**Financial Statements Regulations**). These rules and guidelines will also serve to test the scope of discovery in the periodical report regarding transactions of The Company, corporation in its control and its connected company with a shareholder or another entity for which a controlling shareholder has a personal interest as determined by Regulation 22 of The Israeli Securities Regulations (Periodical and Immediate Statements), 1970 (**Periodical Statements Regulations**) and additionally to test the necessity to submit an immediate statement for a said transaction of The Company as determined by Regulation 37(a)(6) of The Periodical Statements Regulations (Types of Transactions Determined by aforementioned Financial Statements Regulations and Periodical Statements Regulations, (hereafter – **Stakeholders' Transactions**). In March 2010, The Company's Management Board decided to make a number of changes in the guiding rules as aforementioned; The rules detailed below constitute the updated guiding rules following the decision of the Management Board in March 2010.

[a] The Company and its subsidiaries perform or may carry out related party transactions during their routine transactions and likewise they have or may have obligations to carry out transactions as aforementioned. The Company’s Management Board determined that a transaction shall be considered immaterial if all the conditions below exist, accumulatively:

[1] It is not an extraordinary transaction (according to the meaning of Irregular Transactions in The Companies Law).

[2] No special qualitative considerations exist that do not allow the transaction to be ruled as immaterial.

[3] The scope of the transaction, in relation to the relevant standard shall be less than 0.3%. In spite of the aforesaid, a transaction for an amount above NIS 2.5 million will not be considered a negligible transaction.

[4] The immateriality of transactions for more than one year (for example: an agreement for a number of years) shall be tested on an annual basis (i.e. if the annual monetary amount of the agreement is more that the amounts determined by this proceeding).

[5] Each transaction shall be tested by itself, but the immateriality of combined or conditional transactions shall be tested in a joint manner.

[6] The relevant standard for checking the relative scope of the transaction shall be determined by the nature of the transaction. The standard may and shall be: assets ratio, profits/loss ratio, ratio of liabilities, income ratio, equity ratio and expense ratio.

The standard [one or more] relevant to calculating the size of the transaction shall be determined by the nature of the transaction and in the following manner:

Standard	Negligibility Calculation
Ratio of Assets	The scope of the transaction's assets (acquired or sold assets) divided by total assets as presented in the most recent united financial reports.
The Contribution Profit/loss	The profit/loss of the transaction divided by the annual profit attributable to The Company's shareholders according to the average united annual profit during the last three years (not calendar, meaning the last 12 quarters), for which financial statements had been publicized.
Ratio of Liabilities	The liabilities of the transaction divided by the total of liabilities according to the last united financial statements.
Ratio of Shareholders' Equity	Increase or decrease in shareholders' equity as a result of the transaction divided by the shareholders' equity attributable to The Company's shareholders according to the last financial statements.
Ratio of Profits	Scope of profits of transaction divided by the total of annual united profits, calculated on the basis of the last four quarters for which financial statements had been published.
Ratio of Expenses	Scope of expenses of transaction divided by the total of annual united profits, calculated on the basis of the last four quarters for which financial statements had been published.

Without derogating from The Company's considerations on the relevant standard of calculation as aforementioned, the following standards shall be considered relevant to the transactions below:

Asset acquirement: Asset ratio

Asset sales: Contribution to profit/loss and also asset ratio

Liabilities (loans): Liabilities ratio

Services offered (including office rentals): Profit ratio

Services received (including office rentals): Expenses ratio

The guidelines described above were determined and shall be implemented, inter alia, after considering the scope of The Company's assets, the scope of its transactions, from time to time by The Company's directorate, inter alia, in light of

the changes that shall take place in Kardan NV's business policy and/or in the market conditions and the Kardan NV Board of directors can change them from time to time and/or add additional guidelines and/or additional types of transactions.
In cases where according to The Company's considerations, the above standards are not relevant to test the transaction, The Company will determine an alternative standard. In the calculation of the alternative standard, the relative size of the transaction under discussion will be less than 0.3% (three tenths of one percent). The Company will determine the relevant standard (one or more) of the calculation as aforementioned after consulting The Company's professionals and/or external professional bodies.

10. Regulation 24: shares and convertible securities held by interested parties in Kardan NV, a subsidiary or a related company

10.1 The shares and convertible securities held by Kardan NV's interested parties in Kardan NV, correct as at 26th March 2010, and the dormant shares and securities convertible into dormant shares that Kardan NV or a subsidiary thereof holds in Kardan NV:

Interested party's name	ID / passport / company no.	Name of security	No. of security at stock exchange	No. of securities held (ordinary shares of € 0.2 n.v.)	No. of convertible securities held (convertible into ordinary shares of € 0.2 n.v.)	Percentage holdings		Percentage holdings on full dilution (1)	
						(%) of capital	(%) of voting	(%) of capital	(%) of voting
Joseph Grunfeld (2)	4399960	Kardan NV	1087949	22,487,267.18	0	20.11	22.19	19.92	21.97
Avner Schnur (3)	4605689	Kardan NV	1087949	19,818.464.36	0	17.72	19.56	17.56	19.36
Eytan Rechter (4)	47355342	Kardan NV	1087949	4,098,719.04	0	3.67	4.05	3.63	4.00
Jay Lev Pomrenze (5)	111162680	Kardan NV	1087949	150,052	0	0.13	0.15	0.13	0.15
Alain Ickovics (6)	318138435	Kardan NV	1087949 1099621	3,312,974	179,232 options to employees	2.96	3.27	3.09	3.41
Einat Gabber (7)	28422780	Kardan NV	1087949 1099621	3,289	149,360 options to employees	0	0	0.14	0.15
Jan Slootweg (8)	NS1P07516	Kardan NV	1099621		175,000 options to employees	0	0	0.16	0.17
Walter Van Damme (9)	NF6821539	Kardan NV	1099621		150,000 options to employees	0	0	0.13	0.15
Kardan Israel Ltd (10)	520033457	Kardan NV	1087949	10,506,110		9.40	0	9.31	0
IDB Group (11)	-	Kardan NV	1087949	5,570,262.73		4.98	5.50	4.93	5.44

Notes on table

(1) On the assumption that all the options granted to employees of the Company are converted into shares of Kardan NV.

(2) Held directly and through Talromit Financial Holdings (1995) Ltd, PC 512835661 (hereinafter referred to as **"Talromit"**), a company that is fully held by Grunfeld. Mr Joseph Grunfeld is one of the controlling shareholders in Kardan NV.

(3) Held through Raitalon Ltd, PC 512597303, a private company that was incorporated in Israel, which is fully held by Mr Avi Schnur. Mr Avi Schnur is a supervisory director of Kardan NV and one of its controlling shareholders.

(4) Eytan Rechter is one of Kardan NV's controlling shareholders. The holding is through Shamait Ltd, a company that is fully held by Mr Rechter and his wife. Mr Rechter's wife is a member of Kardan NV's supervisory board.

(5) Mr Jay Lev Pomrenze is a member of Kardan NV's supervisory board.

(6) Mr Alain Ickovics is a member of Kardan NV's management board.

(7) Ms Einat Oz-Gabber is a member of Kardan NV's management board.

(8) Mr Jan Slootweg is a member of Kardan NV's management board.

(9) Mr Walter Van Damme is a member of Kardan NV's management board.

(10) Kardan Israel Ltd is a subsidiary that on the date of the report was 73.85% held by Kardan NV.

(11) The holding described in the above table with regard to the IDB group is correct as at March 2010 and reflects the joint holding of the companies of the IDB Holdings Ltd Group, which includes Clal Insurance Enterprises Holdings Ltd, Clal Finance Ltd, Epsilon Provident Funds Management Ltd, Epsilon Trust Funds Management (1991) Ltd, and together with entities holding IDB Holdings Ltd. directly and indirectly and their relatives, as set forth below: David Lubinsky Ltd, Schroeder Ltd., Messrs. Nohi Dankner, Ms Shelly Bergman and Itzhak and Zehava Dankner. The said IDB Group holding data is correct as of March 22, 2010.

10.2 **<u>Agreements between the interested parties in Kardan NV with regard to their holdings of Kardan NV's shares</u>**

In April 2006, Kardan NV's controlling shareholders (Talromit Financial Holdings (1999) Ltd, Joseph Grunfeld, Riathlon Ltd, Avi Schnur, Eytan Rechter and Shamait Ltd) entered into voting arrangements with regard to general meetings, arrangements with regard to the appointment of directors, restrictions on the transfer of their holdings in Kardan NV during the lock-up period (as defined in the agreement) and a right of first refusal mechanism.

10.3 The shares and convertible securities that, to the best of Kardan NV's knowledge, are held by each interested party and each subsidiary or related company of Kardan NV, correct as at 26th March 2010:

Interested party's name	ID / company no. at Registrar	Subsidiary or related company held by the interested party	Name of security	No. of securities held	No. of securities convertible into held shares	Percentage holdings		Percentage holdings on full dilution	
						% of capital	% of voting	% of capital	% of voting
Alain Ickovics (1)	318138435	Kardan Israel	Ordinary share	148,038	-	0.18	0.18	0.15	0.16
Alain Ickovics	318138435	GTC Investment BV	Class C	225		1.25	-	1.25	-
IDB group (2)	-	Kardan Israel Ltd	Ordinary share Debentures (series 3)	4,165,134.25	1,327,532.9	5.14	5.14	4.46	4.50
IDB Group (3)	-	Kardan Real Estate Enterprise and Development Ltd.	Ordinary share Debentures (series 1)	23,255,066	1,570,000	13.01	13.01	12.67	12.67

(1) Mr Ickovics is a member of Kardan NV's supervisory board.

(2) The holdings of the IDB Group described in the above table are the joint holdings of the subsidiaries and/or the companies related to IDB Holdings Ltd., which includes Clal Insurance Enterprises Holdings Ltd., Clal Finance Ltd., Epsilon Provident Funds Management Ltd, Epsilon Trust Funds Management (1991) Ltd. The IDB Group holding data are correct as of March 22, 2010.

(3) The holdings of the IDB Group described in the above table are the joint holdings of the subsidiaries of Clal Insurance Enterprises Holdings Ltd, a public company indirectly held by IDB Holdings Ltd., which includes Clal Insurance Ltd., Clal Gemel Ltd., and Meitavit Atudot Pension Funds Management Company Ltd., and also Clal Finance Trust Fund Management Ltd. together with Euro Man Automotive Ltd., a company controlled by interested party of IDB Holdings Ltd. The IDB Group holding data are correct as of March 22, 2010.

11. **<u>Regulation 24A: authorized capital, issued capital and convertible securities (correct as at 26th March 2010)</u>**

Authorised share capital	Issued share capital	Dormant shares		Issued share capital less the dormant shares
		Do not vest voting rights	Do not vest any rights	
225,000,000 ordinary shares of € 0.2 n.v. each	111,824,638.89 ordinary shares of € 0.2 n.v. each	10,506,113.1	-	101,318,525.7 ordinary shares of € 0.2 n.v. each

Convertible securities of Kardan NV (correct as at 26th March 2010):

Name of security	No. of security	Quantity
Options to employees of the Kardan group	1099621	1,200,724

12. Regulation 26: Kardan NV's directors

Below are details of the members of Kardan NV's supervisory board

The director's name:	**Joseph Krant**
Date of birth:	30.3.1948
Address:	De Cuserstraat 21, 1081 CK Amsterdam, The Netherlands
Date of appointment:	9.7.2003 And reappointment: 13.6.2007
Passport no.:	NK3319366
Nationality:	Dutch
Membership on board of directors' committees:	Chairman of the supervisory board, member of audit committee; member of remuneration, appointment and selections committee
Is he an independent director, as defined in the Company's articles?[9]	Yes
Does he have knowledge of accounting and financial management?	-
Is he an employee of Kardan NV, a subsidiary, a related company or of an interested party?	No.
Education:	High school. Studied economics at ISW.
Employment in last five years:	Netherlands, Managing Director/Partner

[9] Kardan NV is a company that was incorporated in Holland; accordingly, the provisions of the Companies Law, 5759-1999 do not apply to it, and *inter alia* it does not appoint external directors and is not obliged to appoint directors with special accounting and financial expertise. Nonetheless, in accordance with Kardan NV's articles, there are resolutions that the supervisory board must pass by way of a special approval process, requiring, *inter alia*, the agreement of the "independent directors", as defined in the Company's articles, who are present at the meeting. In addition, in accordance with the Dutch Corporate Governance Code, the Company adopted the duty pursuant whereto at least one of the members of the supervisor board in office shall have know-how in accounting and financial management. For details of the Corporate Governance Code (**"the Tabaksblat Code"**) applicable in the Netherlands, see paragraph 16 of the report.

	– Catalyst Advisors BV; Member of Investment Committee of: Cyrte Fund 1 CV, Cyrte Fund 2, Cyrte Fund 3 CV
Other corporations in which he holds office as a director:	Supervisory board member of: Cyrte Investments BV Wereldhave NV AFC Ajax NV Management board member of: Catalyst Advisors BV
Is he a relative of another interested party in Kardan NV?	No
The director's name:	**Israel Fink**
Date of birth:	29.8.1946
Address:	Prins Albertlei 70, Berchem 2600, Belgium
Date of appointment:	2.5.2003 And reappointment: 13.6.2007
Passport no.:	EE116280
Nationality:	Belgian
Membership on board of directors' committees:	No
Is he an independent director, as defined in the Company's articles?	Yes
Does he have knowledge of accounting and financial management?	-
Is he an employee of Kardan NV, a subsidiary, a related company or of an interested party?	No.
Education:	Degree in civil engineering from the

	University of Brussels
Employment in last five years:	Marketing and sales manager of Fancy Diamonds International BVBA
Other corporations in which he holds office as a director:	Fancy Diamonds International BVBA
Is he a relative of another interested party in Kardan NV?	No (Mr Israel Fink's father was married to the late mother of Mr Avner Schnur, who is a member of Kardan NV's supervisory board and a controlling shareholder of Kardan NV)
The director's name:	**Hendrik Benjamins**
Date of birth:	2.11.1943
Address:	Lingsforterweg 70, 5944BE, Arcen, The Netherlands
Date of appointment:	1.11.2006
Passport no.:	NG0179093
Nationality:	Dutch
Membership on board of directors' committees:	Chairman of the remuneration, appointment and selections committee
Is he an independent director, as defined in the Company's articles?	Yes
Does he have knowledge of accounting and financial management?	-
Is he an employee of Kardan NV, a subsidiary, a related company or of an interested party?	No.
Education:	High school
Employment in last five years:	CEO – Koninklijke Frans Maas Groep NV; NCW; member of Executive Board

	Chamber of Commerce Limburg
Other corporations in which he holds office as a director:	<u>Chairman of supervisory board</u>: Groenxploitatiemaatschappij Californie BV; Central Aanhoopbureau FNZBV; Munckhof Groep BV; Vos Logistics BV; Foundataion Annadal <u>Member of supervisory board</u>: Flora Holland Cooperatie Academisch Ziekenhuis Maastricht (Hospital of Maastricht)
Is he a relative of another interested party in Kardan NV?	No
The director's name:	**Jay Lev Pomrenze**
Date of birth:	26.10.1949
Address:	Carmieh 6, Jerusalem
Date of appointment:	18.5.2004 and reappointed on 19.6.2008
Passport no.:	113098805
Nationality:	United States
Membership on board of directors' committees:	Member of remuneration,, appointment and selections committee
Is he an independent director, as defined in the Company's articles?	Yes
Does he have knowledge of accounting and financial management?	-
Is he an employee of Kardan NV, a subsidiary, a related company or of an interested party?	No.
Education:	Yeshiva University (New York) – BA in

	chemistry; New York University – Finance & Economics – MBA; Yeshiva University (New York) – MA in philosophy; Yeshiva University (New York) – Rabbinate authorization
Employment in last five years:	Partner in Caymen Partners, an American company; partner in KCPS Capital Management
Other corporations in which he holds office as a director:	Poalim Capital Markets Ltd; Keinan Cohen Pomrenze Steinhardt & Company
Is he a relative of another interested party in Kardan NV?	No
The director's name:	**Karnina Rechter**
Date of birth:	26.8.1953
Address:	Harakefot 12, Kfar Shmariyahu
Date of appointment:	7.5.2003
Identity no.:	52007028
Nationality:	Israeli
Membership on board of directors' committees:	Member of the audit committee
Is he an independent director, as defined in the Company's articles?	No
Does he have knowledge of accounting and financial management?	-
Is he an employee of Kardan NV, a subsidiary, a related company or of an interested party?	No.
Education:	BA in Social Work from Bar Ilan

	University, Bachelor of Law from the Hebrew University, Jerusalem, LLM in Law, London University
Employment in last five years:	Advocate at the firm of Besh-Rechter, Advocates
Other corporations in which he holds office as a director:	Shamait Ltd
Is he a relative of another interested party in Kardan NV?	Wife of Mr Eytan Rechter – a controlling of Kardan NV
The director's name:	**Avner Avraham Schnur**
Date of birth:	12.6.1948
Address:	Hatichon 17, Saviyon
Date of appointment:	9.7.2003
Identity no.:	004605689
Nationality:	Israeli and Belgian
Membership on board of directors' committees:	None
Is he an independent director, as defined in the Company's articles?	No
Does he have knowledge of accounting and financial management?	-
Is he an employee of Kardan NV, a subsidiary, a related company or of an interested party?	No.
Education:	High school.
Employment in last five years:	Diamonds, commerce and investments; director of Astra Diamond Manufacturers Ltd, director of Kardan Technologies Ltd.

Other corporations in which he holds office as a director:	Talladium Holdings (1987) Ltd, Talladium Ltd, Taldan Motors Ltd, Astra Diamond Manufacturers Ltd, Guadelope Trade & Investments Ltd, Riathlon Ltd, PDD Diamonds Ltd, AP Diamonds Ltd, IGC International Gemmological Laboratories (2004) Ltd, Astra-Michelin Diamonds Ltd, Rachminov Diamonds (Israel) 1891 Ltd, Rachminov Jewellery – 1891 Ltd, Taltlon Assets Ltd, Dalior Diamonds Ltd, Riathlon Technologies 2009 Ltd., Smart Diamond Enterprises Ltd., Rachminov Rare Gems Ltd.
Is he a relative of another interested party in Kardan NV?	No (Mr Avner Schnur’s late mother was married to the father of Mr Israel Fink – director of Kardan NV)
The director’s name:	**Max I. Groen**
Date of birth:	31.5.1946
Address:	Watercirkel 314EA Amstelveen 1186, The Netherlands
Date of appointment:	1.7.2005 and reappointed on 20.5.2009
Passport no.:	NXR1836H4
Nationality:	Dutch
Membership on board of directors’ committees:	Chairman of the audit committee
Is he an independent director, as defined in the Company’s articles?	Yes
Does he have knowledge of accounting and financial management?	Yes
Is he an employee of Kardan NV, a subsidiary, a related company or of an interested party?	No.

Education:	Master's degree in economics and accounting from the University of Amsterdam
Employment in last five years:	Partner – KPMG Business Advisory Services, KPMG Accountants, Amsterdam;
Other corporations in which he holds office as a director:	Supervisory board member of Sinai Centrum. Board member of: Foundation Carel ABAS; Netherlands Synagogue Community Foundation Jewish Hospice Immanuel Member of appeals Committee of Dutch Jewish Humanitarian Fund; Member of appeals Committee of Foundation Collective Maror-gelden Nederland; Member of Finance Committee of B'nai B'rith Europe;
Is he a relative of another interested party in Kardan NV?	No

Below are details of the members of Kardan NV's management board

The director's name:	**Jan Slootweg**
Date of birth:	13.05.57
Address:	Kooikersweg 8, 2141 VS Vijfhuizen, The Netherlands
Date of appointment:	19.6.2008
Passport no.:	NS1P07516
Nationality:	Dutch
Does he have knowledge of accounting and financial management?	Yes

Is he an employee of Kardan NV, a subsidiary, a related company or of an interested party?	Member of management board of Kardan N.V.
Education:	Bachelor's degree in accounting from the University of Nivra (CPA)
Employment in last five years:	Athlon Car Lease International BV – CFO; Athlon Holdings NV – member of executive board; treasurer in SFBSA (the advisory board to the municipality of Amsterdam on granting subsidy and loans to sport clubs)
Other corporations in which he holds office as a director:	Kooikersweg Beheer BV; management board member of GTC Real Estate Holding BV <u>Supervisory board memberships</u>: Kardan Financial Services BV Tahal Group International BV Globe Trade Center SA TBIF Financial Services B.V. Management Board Member of: GTC Real Estate Holdings B.V.; Emerging Investments VI B.V.
Is he a relative of another senior officer or interested party in Kardan NV?	No
The director's name:	**Walter Van Damme**
Date of birth:	22.7.1972
Address:	Geschutswerf 87, 1018 AW Amsterdam, The Netherlands
Date of appointment:	1.1.2007
Passport no.:	NU85913R4
Nationality:	Dutch

Does he have knowledge of accounting and financial management?	No
Is he an employee of Kardan NV, a subsidiary, a related company or of an interested party?	Member of Kardan NV's management board and Chief Operating Officer ("COO")
Education:	Master's degree in law, University of Amsterdam; Propaedeutics at the Institute for Business Administration and Economics (HEAO), HES Amsterdam; Intermediate business education (MEAO), Europa College, Amsterdam
Employment in last five years:	First Dutch Capital BV – member of committee of recommendation of XSML (a social investment fund)
Other corporations in which he holds office as a director:	First Van Damme Holding BV <u>Memberships supervisory board</u> GTC Real Estate Investments Ukraine BV; Emerging Investments III BV; TBIF Financial Services BV; Globe Grade Center SA <u>Memberships management board</u> GTC Real Estate Holding BV; GTC Real Estate Asia BV; GTC Investments B.V.; Kardan Financial Services BV; Tahal Group International BV; Tahal Group BV; Tahal Assets BV; Emerging Investments III B.V.; Emerging Investments IV BV; Emerging Investments V BV; Emerging Investments VI B.V.
Is he a relative of another senior officer or interested party in Kardan NV?	No

The director's name:	**Alon Shlank**
Date of birth:	16.8.1959

Address:	Bodenheimer 19, Tel Aviv
Date of appointment:	18.5.2004
Identity no.:	055963102
Nationality:	Israeli
Does he have knowledge of accounting and financial management?	No
Is he an employee of Kardan NV, a subsidiary, a related company or of an interested party?	Member of Kardan NV's management board and director of subsidiaries and related companies of Kardan NV (see below).
Education:	Bachelor's Degree in Law(LLB) – Tel Aviv University
Employment in last five years:	Manger and director of companies belonging to the Kardan NV Group, provides management and consultancy services to Tahal Engineers & Consultants Ltd.
Other corporations in which he holds office as a director:	Teomim Shlank Ltd; IDAAM (2003) Ltd; Kardan Israel Ltd; Kardan Group Asia Limited; GTC Real Estate China Limited; GTC Lucky Hope Dadong Ltd.; Sino Castle Development Ltd.; Sino Court International Ltd.; Sinolong Enterprises Ltd.; GTC Lucky Hope Chengdu (HK) Real Estate Development Ltd. Shenyang Taiying Real Estate Development Ltd.; Shenyang GTC Palm Garden Real Estate Development Ltd.; Shan'xi GTC Lucky Hope Real Estate Development Ltd.; Changzhou GTC Lucky Hope Real Estate Development Ltd.; SUZY GTC Lucy Hope Real Estate Development Ltd. Kardan Water International Group Ltd. (KWIG); Tahal China Group Ltd; Kardan Water Management and Consultation (Beijing)

	Co., Ltd.; Dazhou Tianhe Water Supply and Drainage Co., Ltd.; Tianjin Huanke Water Development Co., Ltd; Green Power Development Ltd.; Rainfield Development Ltd.; GTC Dalian Galleria Real Estate Ltd.; Hangzhou International Financial Center Co. Ltd.; Dingzhou City Kardan Water Co Ltd.; GTC Dalian Galleria (HK) Ltd.; GTC (Beijing) Management and Consulting Ltd.; GTC (Chengdu) Property Management Ltd.; GTC (China) Investment Co. Ltd.; Kardan Water International Group (HK) Ltd. (KWIG (HK)); KWIG Xuanhua Development Ltd.; Perilla Water Group Ltd.; Tri-River Water Group Ltd. Memberships supervisory board: TBIH Financial services Group N.V.; Kardan Financial Services B.V; Globe Trade Centre S.A.; Memberships management board: GTC Real Estate Holding B.V.; GTC Real Estate Asia B.V.;
Is he a relative of another senior officer or interested party in Kardan NV?	No
The director's name:	**Alain Ickovics**
Date of birth:	4.6.1959
Address:	Hatsankhanim 3, Raanana
Date of appointment:	14.6.2006 and reappointed on 20.5.2009
Identity no.:	31813835
Nationality:	Israeli and Belgian
Does he have knowledge of accounting	Yes

and financial management?

Is he an employee of Kardan NV, a subsidiary, a related company or of an interested party?	Member of Kardan NV’s management board and director of subsidiaries and related companies of Kardan NV (see below)
Education:	B.Sc. in industrial engineering and management from the Technion, Haifa, and MBA (specializes in finance) from Columbia University Graduate School of Business, New York, USA
Employment in last five years:	Manager and director in companies from the GTC RE group and from the Kardan NV group, overseas, director of Kardan Israel; provides management and consultancy services to Tahal Engineers & Consultants Ltd.
Other corporations in which he holds office as a director:	Kardan Israel Ltd; Esytyt Investment & Management Ltd; Forexmanage Ltd; WPC Sp.z.o.o Memberships supervisory board: GTC Real Estate Investments Ukrain BV; TBIH Financial Services Group NV; Kardan Financial Services BV; TBIF Financial Services Group BV; Tahal Group International BV; Globe Trade Center SA Memberships management board: GTC Real Estate Asia BV; GTC Real Estate Holding BV; Stiching Adminkantoor TBIH Financial Services Group NV
Is he a relative of another senior officer or interested party in Kardan NV?	No
The director’s name:	**Einat Oz-Gabber**
Date of birth:	27.1.1971

Address:	30 Claude Debusseylaan, 1082 MD Amsterdam, The Netherlands
Date of appointment:	19.5.2005 and reappointed on 19.6.2008
Identity no.:	28422780
Nationality:	Israeli and Dutch
Does he have knowledge of accounting and financial management?	Yes
Is he an employee of Kardan NV, a subsidiary, a related company or of an interested party?	Member of Kardan NV's management board and CFO of the Company
Education:	Degree in economics and accounting – Tel Aviv University
Employment in last five years:	Comptroller of Kardan NV and GTC Real Estate NV, CPA at the accounting firm of Leiboschitz, Kasirer & Co., CPA at Arthur Andersen / Deloitte Touche, Amsterdam
Other corporations in which he holds office as a director:	Memberships supervisory board: Kardan Financial Services B.V.; TBIF Financial Services B.V; Tahal Group International B.V.; Memberships management board: GTC Real Estate Asia B.V.; GTC Real Estate Holding B.V.; GTC Investments B.V.; Durango Switzerland B.V.; GTC Real Estate Investments Croatia B.V.; GTC Real Estate Investments Romania B.V.; National Commercial Centers (NCC) B.V.; Bucharest City Gate (BCG) B.V.; Budapest Properties B.V.; Budapest Investments B.V.; GTC Real Estate Investments Serbia B.V.; GTC Real Estate Investments

	Slovakia B.V.; GTC Real Estate Investments Bulgaria B.V.; GTC Real Estate Investments Ukraine B.V.; Emerging Investments III B.V.; GTC Real Estate Investments Russia B.V.; City Properties Serbia B.V.; GTC Real Estate Developments Bratislava B.V.; Tahal Group Assets B.V.; Task Water B.V.; Agri Products International N.V.; Emerging Investments III B.V.; Emerging Investments IV B.V.; Emerging Investments V B.V.; Emerging Investments VI B.V.
Is he a relative of another senior officer or interested party in Kardan NV?	No

13. **Regulation 26A: Kardan NV's senior officers**

(1) The officer's name:	**Yossi Ginossar**
Identity no.:	055377071
Date of birth:	13.11.1958
Education	Degree in economics and accounting – Hebrew University
Date of appointment::	1.4.2006
Employment in last five years:	Managing partner in Fahan Kneh Management and Supervision Ltd.
The position held by him in the company, subsidiary, related company or interested party:	Internal auditor Internal auditor of GTC RE and Kardan Israel Ltd; internal auditor of TBIH and TBIF
Relation to other interested parties:	
Related company or interested party:	Israel Ltd., Director in companies of Kardan Group as follows: Kardan Emed Properties Ltd., Emed Development Real Estate and Investments Ltd., Dan Vehicle and Transportation (D.R.T.) Ltd., Kardan Services (1993) Ltd., Electrodan Trade Ltd., S.F.D.I. Ltd., Kardan Trade Ltd., and in a number of inactive companies

(3) The officer's name:	**Lonneke de Beer**
Identity no.:	152430179
Date of birth:	16.11.1976

Education	LLM in law, University of Nijmegen
Date of appointment::	1.5.2008
Employment in last five years:	Attorney, NautaDutilh Attorneys Offices; Legal advisor – Endemol N.V. and Endemol Group B.V.
The position held by her in the company, subsidiary, related company or interested party:	Company Secretary of Kardan N.V.
Relation to other interested parties:	None.

14. **Regulation 26B: independent authorized signatories on behalf of the corporation**

None.

15. **Regulation 27: Kardan NV's accountant**

In Holland:
Ernst & Young Holland, Drentestraat 20, 1083 HK, Amsterdam.

In Israel:
the accounting firm of Kost, Forer, Gabai & Kasirer, 3 Aminidav Street, Tel Aviv

16. **Regulation 28: change in memorandum and articles**

At an annual general meeting of Kardan NV that was held on 20th May 2009, it was resolved to approve an amendment to the Company's articles, in accordance with the Draft Deed of Amendment of 6th April 2009, which was prepared by the Company's legal advisors in Holland. For details see the immediate report published by Kardan NV on 30th April 2008, its amendment of 4th December 2008, and the immediate report of 11th December 2009 and on 20th May 2009, , whose reference numbers for publication are 2009-01-098265 and 2009-01-116178, respectively.

17. **Regulation 29: recommendations and resolutions of the board of directors**

(a) Recommendations of the board of directors to the general meeting and resolutions of the board of directors that do not require the general meeting's approval, regarding:

(1) Paying a dividend or making a distribution as defined in the Companies Law in another way or a distribution of bonus shares

None.

(2) A change in Kardan NV's authorized or issued capital

See paragraph 7 above and paragraph 3 in chapter one of the report.

(3) A change in Kardan NV's memorandum or articles

See paragraph 16 above.

(4) Redemption of redeemable securities as defined in Section 312 of the Companies Law.

None.

(5) Early redemption of debentures

None.

(6) Transaction that is not on market terms between Kardan NV and an interested party therein

For the sake of caution, mention will be made of transactions mentioned in section 8 and 9 above.

(b) Resolutions of the general meeting other than in accordance with the directors' recommendations

None.

(c) Resolutions of a special general meeting

None.

18. **Regulation 29A: the Company's resolutions**

(1) To approve the act of an officer pursuant to section 255 of the Companies Law

None.

(2) To approve the act of an officer in accordance with section 254(a) of the Companies Law that was not approved, whether brought for approval pursuant to section 255 of the Companies Law, or not

None.

(3) Exceptional transactions requiring special approval pursuant to section 270(1) of the Companies Law

The Company is a Dutch company and accordingly the provisions of the Companies Law, 5759-1999 do not apply to it. For details of transactions in which officers in Kardan NV might have an interest, and which have been approved by the Company, see Sections 8 and 9 above.

(4) Officers' exemption, insurance and indemnity in force on the date of the report

For details of the insurance taken out by the Company in respect of the directors and officers therein, see Section 9.1.9 above.

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Kardan NV

Date: 26th March 2010

The signatories' names:

Alain Ickovics, chairman of the management board
Walter Van Damme, member of the management board