Annual Report

2011

KARDAN N.V.

2011 Annual Report

KARDAN N.V.

Profile

Kardan is an emerging markets player, active mainly in Central and Eastern Europe (CEE) and China.
The company identifies opportunities in promising emerging markets and initiates, develops and manages its assets in these markets through local business platforms. Kardan focuses on the following growth sectors that benefit from rising middle-class demand: real estate and water infrastructure. In addition, Kardan has banking and retail lending activities mainly in Bulgaria and Romania.

€ in millions	2011	2010	2009
Revenues	436	394	381
Net profit (loss) before income taxes	(387)	(20)	(204)
Net profit (loss)	(409)	(29)	(176)
Net profit (loss) net of non-controlling interest	(148)	(27)	(92)
Total equity	740	1,067	988
Equity net of non-controlling interest	203	334	293
Total consolidated assets	4,355	5,999	5,633
Solvency (total equity/total consolidated assets)	17%	17.8%	17.5%
Return on average equity net of non-controlling interest	(55.1%)	(8.6%)	(27.8%)
Number of employees	7,001	10,332	12,140

€ per share	2011	2010*	2009*
Basic earnings (loss)	(1.18)	(0.24)	(0.81)
Diluted earnings (loss)	(1.20)	(0.24)	(0.88)
Total consolidated equity	6.6	9.5	8.8
Equity net of non-controlling interest**	1.8	3.4	2.9
Number of shares (used for calculation of information per share)			
December 31	111,824,638	111,824,638	111,824,638
Weighted average for the year	111,390,454	111,824,638	111,824,638
Diluted	111,390,454	111,824,638	111,824,638

* Earning(loss) per share were adjusted retrospectively, see Note 39 of the IFRS Consolidated Financial Statements for additional information

** Excluding treasury shares outstanding as of December 31

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Foreword by the Chairman of the Management Board

The year 2011 started off with a slightly improved macroeconomic sentiment, following the careful and gradual stabilization and recovery of the global economy in 2010. However, markets started to show hesitation at the beginning of the second half of 2011, spurred on by the European sovereign debt crisis. In the latter half of the year, the Eurozone crisis led to worldwide instability and a deterioration of consumer confidence, which also impacted the real economies. This significant downturn in confidence has impacted Kardan N.V.'s 2011 results. We have reported a loss of EUR 148 million for Kardan N.V. shareholders, EUR 36 million of which were recorded in the first half of the year, EUR 31 million in Q3 and a more substantial loss of EUR 81 million in the last quarter, in line with the unexpected change in the financial markets. The uncertainty in Europe, specifically in Bulgaria, Romania and Croatia with lower estimated rental value and postponement of developments, has translated into a considerable decrease in the value of assets of GTC S.A. as well as in our Bulgarian and Romanian financial service activities, profoundly impacting our results.

On the other hand, our activities in China performed well in 2011, considering the state of the world economy. The number of apartments handed over in 2011 was similar to the number in 2010, but the average price of the apartments was higher, generating higher revenue and gross profit. The sale of units, however, did slow down in 2011, and even quite severely in Q4 2011, as measures taken by the Chinese government to control the property market made buyers hesitant. China is expected to remain an important growth engine of the global economy. Continuing urbanization in the country means the high demand for apartments for private use will also continue. Similarly, there are still far too few shopping centers in second and third tier cities to accommodate the Chinese government's increased focus on consumption and purchasing power. Our subsidiary Kardan Land China is geared towards developing mixed-use projects, i.e. shopping centers in combination with service apartments, in these cities.

Our first retail center in Chengdu did well in 2011: at the end of the first full year of operation the center had an occupancy rate of 97%. We sold 50% of Galleria Chengdu to a private equity partner to generate funds to continue our ambitious development plans. As the measures taken by the Chinese government to fight inflation and cool down the speculation in the property markets are taking hold, we expect that the Chinese government will loosen the restrictions for banks to lend in the latter half of this year. As our activities are geared towards second and third tier cities with an actual demand for apartments for private use, and as we follow the plans of the Chinese government closely, we expect an increase in the sale of apartments in the second half of this year.
We also aim to continue and expand our water infrastructure business in China, again in line with the plans of the Chinese government to deal with the country's water challenges, such as scarcity, cleanliness and proper distribution.

Our banking and retail lending segment, which is mainly located in Bulgaria and Romania, also suffered from the sovereign debt crisis. Our clients are mostly individuals and small and medium sized enterprises (SME's), who were particularly hard hit by the economic situation. Consequently, we have had to take considerable provisions with respect to non-performing consumer credits and leasing operations and also had to impair goodwill. In mid 2011, we signed an agreement with the co-owner of our Russian bank, Sovcombank, to sell our 50% stake in the bank for a consideration of EUR 123 million (including the result until closing of the transaction), pending certain conditions precedent, such as approval by the Russian Central Bank.

Given the uncertainty in real estate markets, we have taken measures in all our real estate activities to align their pace of development with market and macroeconomic circumstances, while maintaining our standards in developing high-quality and sustainable assets. Consequently, GTC S.A. has put several projects on hold, focusing on the completion of two projects during 2012 and on the development of two new retail centers in Warsaw, which are planned to be completed in 2014. GTC S.A.'s management has identified a need for new capital in order to strengthen GTC S.A.'s capital structure and to improve its cash position, and has therefore recommended raising approximately EUR 100 million through a rights issue. In addition, GTC S.A. aims to generate some EUR 180 million of free cash through the disposal of assets in the coming three years.

Simultaneously, we are also focusing on decreasing Kardan N.V.'s net debt to strengthen our balance sheet. We stated at the beginning of 2011 that we aim to pay back more than EUR 100 million of our debt. During 2011, we have brought back our net debt position (Kardan N.V., GTC Real Estate Holding B.V., KFS holding B.V. and TBIF B.V. combined) by EUR 197 million, excluding the pending proceeds of Sovcombank. During the year, we also decided to initiate a plan to repurchase up to a maximum of EUR 50 million debentures of Kardan N.V. listed on the Tel Aviv stock exchange. To date, approximately 33% of the Debenture Plan has been completed.

On the organizational level, Kardan had announced its intention to spin off its Israeli activities, which were no longer fully aligned with its core portfolio. In Q4 2011, the spin-off was effectuated, leaving us with a focused company aimed at initiating, developing and managing cash-generating assets in emerging markets, specifically in commercial real estate and water infrastructure activities.

It seems that the global economy in 2012 will continue to be challenging. In South Eastern Europe (SEE) we are dependent on the return of consumer confidence and an improved investment climate, whereas we expect Poland to continue to perform well. However, as we believe Asia will continue to be a major global growth engine and water scarcity to be an ever growing concern, we intend to continue pursuing our strategy to further develop our real estate assets in this region as well as to expand our water infrastructure arm globally.

More specifically for 2012, management will focus on achieving our operational goals but also on managing the cash flow and debt position of Kardan N.V. and its intermediate holding company GTC RE in view of the upcoming redemption of (part of) the bonds, starting in 2013. For 2012 and 2013, we believe to have sufficient funds to service our debt.

On April 16, 2012 GTC S.A.'s general meeting of shareholders approved the announced rights issue. We intend to participate to our pro-rata share, as we believe the real estate market will bounce back in Central and Eastern Europe in the mid to long term.

In China, we expect to deliver approximately 1,600 apartments during 2012, of which we will receive our share of 50% of the generated revenue. As for commercial real estate, we aim to start the construction of the mixed-use project in Dalian, which comprises approximately 300,000 m^2 of residential retail and parking space, in the second half of 2012, pending local approval and construction finance.

With respect to GTC S.A., the company will complete two new properties in 2012: a shopping mall in Burgas, Bulgaria, which is currently 60% pre-let, and an office building in Warsaw, with a pre-let area of 70%. GTC S.A. management aims to reduce its leverage and improve its cash position.

Within our water infrastructure segments, we will increase investments in water-related assets. This entails increasing the capacity of our plants in China by approximately 25,000 m^3/day to 630,000 m^3/day by the end of 2012. And we are reviewing the possibility of entering into other markets. Revenue is consequently expected to increase.

In the project segment, the spectrum of activities will focus more on engineering, procurement and construction projects in frontier countries, as well as on our Israeli subsidiary's 'on-shore and off-shore' design and engineering activities. Revenue is expected to increase from existing and recently signed projects.

TBIF, our banking and lending segment, expects to finish the conversion of existing branches of the consumer finance and leasing activities in Bulgaria into branches of the new bank, TBI Bank, by the end of this year. Using the banking network, TBI Bank will start raising deposits and generating new business. Whether the volume of new business will exceed the decline of the portfolio due to regular redemptions depends on the development of the purchasing power and behavior of consumers, and the viability of medium and small enterprises. We are also trying to get a banking license in Romania, but this is not expected until late 2012. And finally, the sale of Sovcombank is expected to be closed in the second half of 2012. Just recently, all conditions precedent for the transaction were met. Currently, approximately EUR 48 million was received as part of the consideration, so we expect the remaining part, which is EUR 75 million, of the sales price to be paid in the second half of 2012. We will use these proceeds mainly to reduce debt.

We continue to believe in the resilience and economic potential of emerging markets, though we cannot foresee or influence the timing of their resurgence. Our prime focus for 2012 is to strengthen our balance sheet while following our strategy to develop high-quality assets and deliver excellent services.

I want to thank all my colleagues throughout the world as well as our shareholders for their continuing commitment, dedication and support. I also wish my designated successor Shouky Oren all the best in leading this company to higher levels, and am convinced that Kardan N.V.'s future is in good hands with him. I am staying within the Group, where I will focus on real estate activities and will continue to contribute and to assist Kardan N.V. in this challenging environment. I am confident that we have the proper basis to ride this wave of economic downturn and benefit from a comeback when things turn around.

And finally, I would also like to take this opportunity to thank my colleague, Walter van Damme, for his valuable contribution to our Management Board in the last five years. Walter is leaving our board to become the CEO of Kardan Water, the water infrastructure subsidiary of Kardan in China.

Alain Ickovics,
Chairman of the Management Board

Shareholder Information

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

Distribution of shares

As of December 31, 2011 a total of 111,824,638 ordinary shares have been issued and are outstanding. The following table presents shareholdings of more than 5% and of related parties as of March 30, 2012:

	Number of shares held (ordinary shares of € 0.20 each)	Holding rate		Holding rate in full dilution	
		In capital	In voting	In capital	In voting
Y. Grunfeld (1)(9)	22,214,267	19.87%	20.09%	19.82%	20.03%
A. Schnur (2)(9)	19,818,464	17.73%	17.93%	17.68%	17.87%
E. Rechter (3)(9)	4,098,719	3.67%	3.71%	3.66%	3.70%
A. Ickovics (4)	3,312,974	2.96%	3.00%	2.96%	2.99%
J. Pomrenze (5)	150,052	0.13%	0.14%	0.13%	0.14%
A. Shlank (6)	40,675	0.04%	0.04%	0.04%	0.04%
W. van Damme (7)	–	–	–	0.13%	0.14%
E. Oz-Gabber (8)	3,289	–	–	–	–
J. Slootweg (10)	–	–	–	0.16%	0.16%
Kardan Israel Ltd	12,300,330	11%	11.13%	10.97%	11.09%
IDB Group/Clal (11)	6,158,289	5.51%	5.57%	5.50%	5.55%

(1) The shares are held directly and indirectly through Talromit Financial Holdings (1995) Ltd., a company wholly owned by Mr. Grunfeld.
(2) The shares are held through Raitalon Ltd., a company wholly owned by Mr. Schnur.
(3) The shares are held through Shamait Ltd., a company owned by Mr. Rechter for 97.5% and by Ms. Rechter for 2.5%.
(4) Mr. Ickovics is a member of the Management Board of Kardan.
(5) Mr. Pomrenze is a member of the Supervisory Board of Kardan.
(6) Mr. Shlank was a member of the Management Board of Kardan and resigned as per January 1, 2011.
(7) Mr. Van Damme is a member of the Management Board of Kardan. Mr. Van Damme holds 150,000 options to shares of Kardan.
(8) Ms. Oz-Gabber is a member of the Management Board of Kardan.
(9) Mr. Grunfeld, Mr. Schnur and Mr. Rechter have a voting agreement which represents approximately 47%.
(10) Mr. Slootweg is a member of the Management Board of Kardan. Mr. Slootweg holds 175,000 options to shares of Kardan.
(11) Combined holdings of several companies related to IDB Holdings Ltd., based on the Electronic Discloser System ('MAGNA').

Key financial figures per share

€ per share	2011	2010*	2009*
Basic earnings (loss)	(1.18)	(0.24)	(0.81)
Diluted earnings (loss)	(1.20)	(0.24)	(0.88)
Total consolidated equity	6.6	9.5	8.8
Equity net of non-controlling interest**	1.8	3.4	2.9

* Earnings (loss) per share were adjusted retrospectively, see Note 39 of the IFRS Consolidated Financial Statements for additional information
** Excluding treasury shares outstanding as of December 31

Share prices in 2011

	Euronext (EUR)	Tel Aviv (NIS)
Highest share price	4.77	22.78
Lowest share price	1.59	7.67
Year-end	1.98	8.90

Liquidity provider

Petercam SA ('Petercam') acts as a liquidity provider for the Kardan shares listed on Euronext Amsterdam.

Financial calendar

General Meeting of Shareholders – May 31, 2012
Q1 2012 results – May 30, 2012
Q2 2012 results – August 28, 2012
Q3 2012 results – November 27, 2012

Dividend policy

The dividend policy of Kardan N.V. will take into consideration the level of net income, liquidity and the capital position, future financing requirements and financial covenants of the Company, all within the limitations of the law. If circumstances allow, the dividend policy recommends an annual distribution of between 20% and 30% of net income. Dividend pay-out may vary from year to year.

Additional information

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

Other publications and information: www.kardan.nl

Vision Mission Strategy

Vision

We believe that emerging markets will grow and develop faster than developed markets.

Ongoing global developments will significantly change the worldwide economic landscape in coming years. Emerging markets' share in the global economy and their influence will grow faster than that of the rest of the world.

Emerging countries are generally rich in natural resources and important commodities. In addition, they have access to large pools of educated labor at a relatively low cost. Their growth will significantly increase middle-class economic power, thus creating greater demand for housing, shopping centers, adequate water infrastructure and retail financial services.

Mission

As entrepreneurs and business developers, we aim to create value from growth opportunities in emerging markets by drawing on our skills.

It is our mission to create value for our stakeholders by identifying opportunities, and initiating and developing them into a large and diversified asset base in selected promising emerging markets.

Stability in the emerging markets is an important prerequisite for achieving sustainable growth, and consequently of importance to the worldwide economic and political landscape. Thus, governments have a vested interest to encourage emerging countries to organize their economy to increase wealth and social welfare among the population. Kardan's mission is to use its specific expertise, network of strategic partnerships, local and international entrepreneurial management and commercial strengths in real estate, water infrastructure and financial services to cater to the basic needs of the middle-class, and consequently to contribute to sustainable growth for all its stakeholders.

Strategy

Our strategy is to focus on fast-growing geographies, on sectors that cater to the needs of the expanding middle-class, using local platforms that combine international expertise with local know-how.

The key elements of our strategy are:
- Identify promising emerging markets, in which there is a growing middle-class to underpin economic growth.
- Establish local platforms in selected countries, based on identified demand, economic viability and legal infrastructure.
- Diversify our assets, spreading them throughout many regions in our two main sectors: real estate and water infrastructure.
- Manage the local platforms through local as well as international professionals, applying international expertise to local needs. Identify, initiate, develop and manage (new) assets and projects – these are the prime responsibilities of the management of the local platforms.
- Aim for projects and assets with an IRR of over 15% after tax, including attributable expenses and excluding general overhead.
- Ensure acceptable loan-to-value ratios on the holding and intermediate holding company levels.

Kardan's Management Board is closely involved in determining the strategy, providing support, risk management, and controlling local platforms.

This strategy allows us to:
- Decentralize to maintain lean management processes.
- Manage risk properly: the platforms enable us to optimize local opportunities and to minimize risk.
- Motivate management properly, whilst ensuring quick decision-making processes.

Real Estate activities
- Diversify assets geographically through GTC S.A. (CEE/SEE) and Kardan Land China.
- Investigate appropriately selected Asian countries to initiate platforms over time.

GTC S.A.
- Develop assets in prime locations, according to market circumstances and needs.
- Focus primarily on shopping centers and offices, specifically in Poland.
- Initiate the development only if significant pre-lease contracts have been signed and funding is in place.
- Leverage of GTC S.A. not to exceed 60%.
- Funding for project development should take place either through raising capital, banking facilities and/ or through the sale of selected assets.

Kardan Land China
- Follow the pace and strategic direction as indicated by the Chinese government in, among other things, their Five-Year Plans.
  Kardan Land aims to:
- Expand in China by investing in new land positions in Tier 2 and 3 cities.
- Develop mixed-use projects combining commercial (shopping center/(service) apartments/offices) and residential on existing land plots (i.e. Dalian), or develop neighborhood shopping centers within existing residential projects.

Water Infrastructure activities
Tahal Assets
- Focus on developing wastewater treatment, water supply and water reuse facilities underpinned by long-term concession agreements.
- Increase the number of water assets in China; increase the capacity from approximately 600,000 m³/day at the end of 2011 to approximately 800,000 m³/day by the end of 2014.
- Identify other countries/regions with acceptable conditions to initiate investment in assets.
- Focus on concession agreements to generate IRR of > 15%.

Tahal Projects
- Increase engineering, procurement and consultancy (EPC) activities in frontier countries, collaborating closely with reputable banks and trade credit insurance companies.
- Choose selected off-shore engineering activities, building on Tahal Engineers' strong reputation.
- Extrapolate on EPC and engineering know-how to obtain concession agreements in selected, appropriate markets.

Financial Services
TBIF
- Develop a retail bank, located in Bulgaria and Romania, through organic growth.

Developments within the Portfolio of Activities

The year 2011 started off with a slightly improved macroeconomic sentiment, following the careful and gradual stabilization and recovery of the global economy in 2010. However, markets started to show hesitation at the beginning of the second half of 2011, spurred on by the European sovereign debt crisis. In the latter half of the year, the Eurozone crisis led to worldwide instability and a deterioration of consumer confidence, which also impacted real economies.

In its 2010 annual report, Kardan N.V. expressed the intention to continue to grow its asset base with a specific focus on real estate and water infrastructure. This growth had to be financed at the level of the subsidiaries. Due to the market developments in 2011, the growth in assets was limited. Changes in the portfolio are described in more detail below, in the section on segments.

In 2011, Kardan N.V.'s portfolio of activities changed significantly, and the debt position has been reduced.

Kardan N.V.

Kardan N.V. successfully spun off its Israeli activities in Q4 of 2011. Consequently, Kardan's core activities currently are real estate, in Central and Eastern Europe (CEE) and China, and water infrastructure (worldwide), in addition to which the company is active in financial services, mainly in South Eastern Europe (SEE).

In 2008, Kardan N.V. announced for the first time its intention to spin off Kardan Israel. Following the initial announcement, several additional announcements were made about delays and resumptions of the process. In the 2010 annual report, Kardan stated that the delay was the result of the fact that the process was subject to different regulatory requirements in both the Netherlands and Israel. Eventually, in 2011, the process was successfully finalized.

During 2011, Kardan reduced its net debt position (at the Kardan N.V., GTC Real Estate Holding B.V., KFS B.V. and TBIF B.V. levels combined) by EUR 197 million to strengthen its balance sheet, excluding the pending proceeds from the sale of Sovcombank. This is due, among others, to the sale of 16% of GTC S.A.'s shares (see 'Real Estate' below), and the spin-off of Kardan Israel. As part of the deleverage process during the year, Kardan also initiated a plan to repurchase Kardan N.V. debentures, listed on the Tel Aviv Stock Exchange, up to a maximum of EUR 50 million. To date, approximately 33% of the debenture plan has been completed.

Following the sale of 16% of the shares in GTC S.A., Maalot, the Israeli subsidiary of Standard and Poor's, changed the rating outlook for the debentures to iLBBB+/stable from iLBBB+/negative.

Real Estate (GTC Real Estate Holding)

In January 2011, GTC RE sold a 16% stake in the CEE real estate company GTC S.A., maintaining a stake of approximately 27%. The funds generated from this sale have primarily been used to reduce the debt position of Kardan N.V. and its intermediate holding companies. In September, GTC RE increased its position in GTC S.A. to approximately 28%.

In April 2011, GTC S.A. opened Avenue Mall, an entertainment and shopping center in Osijek, Croatia, with nearly 27,000 m² NRA and 80 retail units. The mall was 90% leased at the time of opening. Avenue Mall is the tenth shopping center developed by GTC S.A. The development of the mall was co-financed by the European Bank for Reconstruction and Development (EBRD) and Raiffeisen Bank. EBRD is also a 20% shareholder in the investment.

In August 2011, GTC S.A. signed an agreement to sell its 50% stake in Galeria Mokotow in Warsaw to Unibail-Rodamco S.E., co-owner and manager of the shopping center. The asset was valued at EUR 475 million at the time of transaction, generating approximately EUR 110 million of free cash for GTC S.A.

GTC S.A. opened its eleventh retail center in October 2011, in Arad, Romania. Galleria Arad hosts a total of 100 shops in a 35,000 m^2 net rentable area. The project was financed by EBRD and Raiffeisen Bank. The mall is anchored by CORA supermarket, the cutting edge 8-screen multiplex Cinema City, as well as several fashion tenants, including Inditex Group (including Zara and Pull & Bear) and Peeraj Group (including Mango and Vero Moda).

Kardan Land China sold a 50% stake in Galleria Chengdu (China) to MGPA, a private equity real estate investment company, in August 2011 for a net cash consideration of approximately RMB 422 million (at the time approximately EUR 46 million), generating a profit of EUR 12 million. Kardan Land China retains a 50% stake in the Galleria and will continue to manage and operate the shopping center, which at year-end had an occupancy rate of 97%.

Water Infrastructure (Tahal)

Kardan Water, Tahal Assets' subsidiary in China, finalized the acquisition of the wastewater treatment plant in Xuanhua (180 km from Beijing), with a capacity of 120,000 m^3/day, in Q1 of 2011. In July, the company also signed two agreements to develop new wastewater treatment plants in Zibo city in the Shandong province, with a daily capacity of 55,000 m^3/day.

In September 2011, Tahal Projects initiated the Quiminha project, a substantial integrated agricultural and regional development project in Angola, which it expects to complete in three years. This project is a so-called EPC project: Tahal is responsible for the engineering, procurement of materials, and construction. The aim is to develop fertile land, increasing the local production of agricultural products. Following completion of the project, Tahal will provide the farmers with a training program for an additional two years. Total revenues to be generated by the project will amount to approximately EUR 143 million.

In March 2012, Tahal Projects signed an agreement in Ghana, where it will design, construct, expand, and upgrade the drinking water systems in the Kumawu, Konongo and Kwahu regions. This agreement is the sequel to an existing project also executed by Tahal in the same area ('the 3K project'), and the fourth project in Ghana. According to the agreement, the project is anticipated to take three years from commencement, and is estimated to generate revenues of approximately USD 97.5 million (approximately EUR 73 million).

Financial Services (KFS)

In January 2011, TBIF, the subsidiary of KFS, sold its stake in the Ukrainian VAB Bank to a group of international investors, following a strategic review.

Three months later, in April 2011, TBIF signed an agreement to acquire the Bulgarian bank NLB Banka Sofia AD from two Slovenian banks to further strengthen its existing investments in Bulgaria and Romania and to upgrade its operation in Bulgaria into a full banking operation. The acquisition was completed in late July 2011, for a consideration of EUR 15 million.

Furthermore, in June 2011, TBIF signed an agreement to sell its 50% stake in the Russian bank Sovcombank to the bank's co-owner for a consideration of EUR 123 million. The closing of the transaction is expected in the second half of 2012, pending the receipt of conditions precedent. The Russian Central Bank approved the sale after the reporting period.

Kardan Israel

In January, 2011, Kardan Israel signed an agreement to purchase the controlling stake in Avis Israel and to simultaneously end its partnership with Dan Company for Public Transport Ltd. in Emed Real Estate Development & Investments Ltd.

In July 2011, Kardan Israel sold half of its holdings in Avis, viz. approximately 34% of Avis' issued share capital, to Hamizrach Company. The agreement was closed in September 2011. Kardan Israel and Hamizrach currently control Avis together, as laid down in the shareholder agreement.

In October 2011, as part of the spin-off of the majority of Kardan N.V.'s Israeli activities, a new company was incorporated, Kardan Yazamut, and listed on the Tel Aviv Stock Exchange. The shares of this company were distributed to the shareholders of Kardan N.V. as dividend in kind. Kardan Israel is a 74% subsidiary of Kardan Yazamut. Consequently, as of Q4 of 2011, Kardan Israel is no longer a part of Kardan N.V.'s portfolio of activities.

For a more detailed overview of the operations of each of the divisions, see pages 40 to 61.

Financial Developments

General

Kardan N.V. lost EUR 148 million in 2011 compared to a loss of EUR 27 million in 2010. The increase in the loss is mainly due to fair value adjustments and impairments of inventory and investment property in CEE/SEE and the results of the Banking and Retail Lending segment, active notably in Romania and Bulgaria. The consolidated loss amounted to EUR 409 million compared to a loss of EUR 29 million in 2010. The significant difference between the consolidated loss and the loss of Kardan N.V. is mainly due to the stake of non-controlling shareholders in the consolidated loss, predominantly GTC S.A.: this company suffered a loss of EUR 338 million, out of which EUR 76 million is attributable to Kardan N.V. In the analysis below the focus is on the consolidated financial statements. At the end of the chapter, information is provided with respect to the equity and funding position of Kardan N.V.

Jan Slootweg, member of the management board of Kardan N.V.

'Maslow's "hierarchy of needs" defines water, food and property as some of the basic physical and safety requirements of human beings. Kardan aims to meet these needs of people living in emerging and frontier countries and to simultaneously reward debt and equity investors who make this possible.'

Condensed Consolidated Income Statement Kardan N.V.

For the year ended December 31, 2011

€ in millions	Real Estate		Infrastructure		Banking and Retail lending	Other	Total		
	Asia	Europe	Assets	Projects			2011	2010	2009
Total revenues	49	160	29	85	113	–	436	394	381
Total expenses	53	166	25	99	95	8	446	345	324
Profit (loss) from operation before fair value adjustments, disposal of assets and financial expenses	(4)	(6)	4	(14)	18	(8)	(10)	49	57
Profit (loss) from fair value adjustments and on disposal of assets and investments	33	(235)	2	1	(55)	–	(254)	56	(174)
Result from operations before finance expenses	**29**	**(241)**	**6**	**(13)**	**(37)**	**(8)**	**(264)**	**105**	**(117)**
Financing income (expenses), net	3	(87)	(5)	(2)	(12)	(20)	(123)	(125)	(87)
Profit (loss) before income tax	32	(328)	1	(15)	(49)	(28)	(387)	(20)	(204)
Income tax (expenses)/benefit	(8)	(18)	(2)	1	(9)	(2)	(38)	(24)	22
Profit (loss) from continuing operations	**24**	**(346)**	**(1)**	**(14)**	**(58)**	**(30)**	**(425)**	**(44)**	**(182)**
Profit (loss) from discontinued operations	–	–	3	–	5	8	16	15	6
Profit (loss) for the period	24	(346)	2	(14)	(53)	(22)	(409)	(29)	(176)
Attributable to:									
Non-controlling interest	–	(262)	(1)	–	–	2	(261)	(2)	(84)
Net result for the segment, attributable to equity holders	**24**	**(84)**	**3**	**(14)**	**(53)**	**(24)**	**(148)**	**(27)**	**(92)**
Profit (loss) for the period	24	(346)	2	(14)	(53)	(22)	(409)	(29)	(176)

Total consolidated **net result from continuing operations** decreased by EUR 381 million to a loss of EUR 425 million in 2011. The only segments attributing profits in 2011 are Real Estate Asia and Tahal Assets.

Real Estate Asia is explained by the success of Galleria Chengdu (China, Sichuan Province), mainly due to the capital gain on the sale of 50% of the shopping mall in Chengdu and delivery of apartments.

The main contributor to the consolidated loss (from continuing operations) of 2011 is *Real Estate Europe* (mainly GTC S.A.) which reported a negative revaluation of investment property (including properties under construction) and impairment of land bank and residential properties mainly in SEE as well as in CEE amounting to EUR 307 million. These revaluations were made mainly due to lower estimated rental values and postponement of developments following the economic deterioration in the region, especially Romania and Bulgaria which were hit severely, contributing 65% of these losses. The sovereign debt crisis reduced consumer spending and capital investments in these countries.
The remainder of the loss in Real Estate Europe is largely due to tax charges (EUR 18 million) and one-off financial expenses related to refinancing of loans and unwinding of hedge positions following the sale of properties (EUR 13 million).

Water infrastructure results were negatively impacted by provisions that had to be taken on several projects in Europe and Africa (EUR 7 million), as well as by delays of some projects. Tahal Assets performed according to expectations, with revenue growth in China following the expansion of the capacity of the wastewater treatment facilities.

The *Banking and Retail Lending* segment also suffered from the economic situation in Romania and Bulgaria, resulting in a decrease of the leasing and consumer finance portfolios, further impairment losses on these portfolios and, consequentially, impairment losses on the goodwill related to these activities.

Included in *'Other'* are the expenses and finance costs of the holding companies Kardan N.V. and GTC Real Estate Holding B.V., as well as the results of discontinued operations which were not allocated to any continuing segment.

In 2010, the Kardan N.V. loss from continuing operations (EUR 44 million) was driven by negative results in Banking and Retail Lending mainly due to impairments totaling EUR 46 million, resulting from EUR 28 million on Goodwill as well as EUR 18 million on the loan portfolio, and 'Other' (EUR 41 million) attributable to finance expenses of EUR 32 million and General and Administrative expenses of EUR 9 million. These losses were compensated by profits in both Real Estate Europe (EUR 28 million, driven by positive revaluations of EUR 45 million) and EUR 12 million in Real Estate Asia, attributable to the revaluation of the shopping mall in Chengdu.

The **profit from discontinued operations** in 2011 includes the results relating to the Israeli activities, mainly Kardan Israel, that were spun-off in October 2011, and distributed as dividend in kind to the shareholders of Kardan N.V. It also includes a profit on the sale of Ukrainian VAB bank in the beginning of 2011.

In 2010, the result was mainly attributable to VAB bank (loss of EUR 97 million), Sovcombank (Russian bank, recording a profit of EUR 74 million on the sale of 16% of the shares in September 2010 and subsequent revaluation to fair value of the remaining stake of 50%) and TBIH (former insurance and pension division sold to the partner generating a profit of EUR 31 million).

Highlights per segment

Every segment result for 2011 is analyzed separately below. Due to the increase of its relative importance, the real estate segment has been split in 'Asia' and 'Europe'.

Real Estate

Kardan is active in development and management of Real Estate through two segments: 1) Asia, which includes its 100% subsidiary Kardan Land China, and 2) Europe, which includes GTC S.A., of which it holds approximately 28%, and a relatively small investment in Western Europe (49% holding in GTC Investments).

Real Estate Asia

Kardan Land China's strategy is to focus on the development of mixed use projects, i.e. shopping malls in combination with (service) apartments and small offices, in China's Tier 2 and Tier 3 cities. Consumer spending power has increased over the years as a result of rising wages, as evidenced by a growth of total retail sales in 2011 of around 17% y-o-y. Chinese consumers are lured to the newly developed shopping centers by the concept of a managed mall offering a varied mix of tenants and good services.

Results Real Estate Asia

€ in millions	For the year ended December 31	
	2011	2010
Property rental and service recharge revenues	6	1
Delivery of units	43	39
Total revenues	49	40
Costs of property rental and service recharge operations	3	1
Cost of delivery of units	34	33
Other expenses, net	1	2
Gross profit	11	4
SG&A expenses	(15)	(13)
Adjustment to fair value (impairment) of investment properties	17	29
Gain on disposal of assets and other income	16	–
Result from operations before finance expenses	**29**	**20**
Financing income (expenses), net	3	–
Income tax (expenses) / benefit	(8)	(8)
Profit (loss) from continuing operations	24	12
Net profit (loss)	**24**	**12**
Attributable to:		
Equity holders (Kardan N.V.)	**24**	**12**

Additional information Real Estate Asia

€ in millions	2011 (31.12)	2010 (31.12)
Balance sheet		
Completed investment properties	68	110
Investment properties under construction	54	–
Inventory	231	132
Cash & short term investments	67	124
Total Assets	514	465
Loans and Borrowings	43	143
Advance payments from buyers	136	103
Total Equity	247	161
Other		
Units sold in period *	1,883	3,461
Units delivered in period *	1,767	1,748
Total units sold, not yet delivered *	5,115	4,999

* reflects 100%; Kardan Land China holds 50%

Revenues

'Property rental and service recharge revenues' is attributable to the shopping centre in Chengdu that was opened in November 2010. The occupancy rate as of December 31, 2011 is 97% compared to 89% as of December 31, 2010. At the end of August 2011, Kardan Land China sold 50% of the shopping mall to a Singapore investor; consequently as of September 1, 2011 Kardan Land China is only entitled to 50% of the rental income, but still to 100% of the asset management fees.

In 2011, Kardan Land China delivered 1,767 apartments vis-à-vis 1,748 in 2010 (these numbers represent 100%: Kardan Land China has a stake of approximately 50%, consequently the revenue shown represents 50% of the total revenues booked on these deliveries). The increase in revenues is due to price increases, as well as to a different mix of the type of apartments and parking spaces delivered.

Gross margin

The gross margin on retail was over 55%, after a full year of operation. The gross margin on delivery of units increased to 21% (from 15% in 2010), as a result of higher prices, as well as the mix of apartments sold.

Sales & marketing, and General & Administrative expenses (SG&A)

The increase of EUR 2 million is mainly due to employee share option expenses amounting to EUR 5 million (2010: EUR 3 million).

Adjustment to fair value and gain on disposal of assets

The gain on disposal of assets of EUR 16 million is attributable to the sale of a project in Hangzhou in April 2011 (EUR 4 million) and the sale of 50% of the shares in the shopping mall in Chengdu. The adjustment to fair value in both 2011 and 2010 is the valuation gain attributable to the shopping mall in Chengdu.

Financing income (net)

The income includes a foreign exchange gain of EUR 5 million (2010: nil) due to the strengthening of the RMB against the Euro: the financial assets are all recorded in RMB and exceed the financial liabilities, some of which are denominated in Euro.
Finance expenses of EUR 2 million are relatively low. The company finances the acquisition of land with equity, and only borrows money for the construction and holding of commercial property.

Additional Information

As at December 31, 2011, total unsold but completed units stood at 3% in comparison to 4% as at the same date last year.

'Advance payments received from buyers' reflects the amount of revenue that is expected to be recognized in the profit and loss account over the next two to three years, depending on the moment of hand over of units to the buyers.

From the outstanding 'Loans and Borrowings', approximately EUR 24 million relates to the shareholder loan. EUR 3 million needs to be paid down on the outstanding bank loan in 2012.

As can be seen in the table on page 20, sale of units decreased by 45% in 2011; a result of the hesitation noticeable with buyers pending the measurements taken by the Chinese government. Whereas some 550 to 600 units were sold in each quarter of the first nine months of the year, a substantial slowdown occurred in Q4 to just over 100 units; a reflection of the unstable sentiment. It should be noted that a similar slowdown occurred in 2008.

Real Estate Europe

Real Estate Europe comprises GTC S.A., as well as the small entity GTC Investments, in which Kardan holds 49%. As the 28% that Kardan holds in GTC S.A. is a controlling stake, the results of GTC S.A. are 100% consolidated in the financial statements of Kardan.

Results Real Estate Europe

€ in millions	For the year ended December 31 2011	2010
Property rental and service recharge revenues	136	130
Delivery of units	24	45
Total revenues	160	175
Costs of property rental and service recharge operations	38	31
Cost of delivery of units	23	43
Operational Gross Profit	99	101
Other expenses, net	(77)	(4)
Gross profit	22	97
SG&A expenses	(28)	(28)
Adjustment to fair value (impairment) of investment properties	(221)	42
Gain on disposal of assets and other income	1	1
Impairment losses on goodwill	(11)	–
Equity in net earnings of associated companies	(4)	6
Result from operations before financing expenses	**(241)**	**118**
Financing income (expenses), net	(87)	(73)
Income tax (expenses) / benefit	(18)	(16)
Profit (loss) from continuing operations	(346)	29
Net profit (loss) from discontinued operations	–	–
Net profit (loss)	**(346)**	**29**
Attributable to:		
Non-controlling interest holders	(262)	11
Equity holders (Kardan N.V.)	**(84)**	**18**

Additional information GTC S.A.

€ in millions	2011 (31.12)	2010 (31.12)
Balance sheet		
Inventory & residential land bank	182	254
Investment property	1,704	2,118
Assets held for sale	134	–
Cash & short term investments	179	230
Total Assets	2,314	2,728
Total bank debts and financial liabilities	1,395	1,447
Total Equity	724	1,053
Other		
Loan to Value*	60%	51%
Completed commercial space (m^2)	579,856	531,957
Value completed commercial space (EUR million)	1,465	1,617
Average occupancy	87%	83%
Average yield	8.1%	7.8%

* LTV = Loans net of cash and deposits / Investment Property, inventory and assets held for sale

Revenues
'Property rental and service recharge revenues' increased by 5% in 2011, despite the sale in Q3 2011 of 50% of Galeria Mokotow, the retail center of GTC S.A. in Warsaw. The increase is due to opening of new retail/office centers and an increase in occupancy.

The residential market in CEE/SEE is weak: the revenue from delivery of residential apartments decreased by 47% to EUR 24 million. Within the residential segment, GTC S.A. focuses on cash repatriation.

Operational Gross profit
The gross profit on property rental and service recharge revenue amounted to EUR 98 million, nearly equal to 2010, despite higher revenue. The reduction of the margin to 72% (2010: 76%) is the result of the policy to retain tenants, and thus occupancy, by increasing the rent free periods and contributing in the fit-out expenses for example.

The gross profit on delivery of units decreased to EUR 1 million as the result of the lower number of deliveries and lower sale prices.

Other expenses, net

Included is an amount of EUR 75 million of impairments on inventory (residential land bank and inventory). The impairment is the result of the weak residential markets in Romania and Hungary causing significant delays in the residential development program and consequently a decrease of the value of the land. Similarly, the value of land available for the development of office and retail was revalued downwards as the development has been postponed.

Sales & marketing, and General & Administrative expenses (SG&A)

These costs did not increase compared to 2010. Additional expenses made for marketing to support footfall in the shopping malls were compensated by lower expenses for employee share option plans.

Adjustment to fair value/impairment losses goodwill

The negative revaluation result and the majority of the goodwill amortization are mainly attributable to the retail centers, including the commercial land bank. Despite Poland doing well, the weak purchasing behavior outside of Poland (notably in Romania, Bulgaria and Croatia) reduces the turnover of retailers (tenants) and consequently the rent payable to the owner of the shopping mall. Due to the lurking forecasts for the retail segment, appraisers have revised the expected rental values (ERV) for coming years downwards. Combined with slightly higher yields compared to year-end 2010, resulting from increased uncertainty, the developments of ERV led to a significant negative revaluation of 12% of the book value (pre-adjustment) of the properties. 65% of the losses are attributable to Romania and Bulgaria.

Of the total impairment and adjustment to fair value amount of EUR 296 million at GTC S.A., 87% was recorded in Q3 and Q4 2011 combined (EUR 140 million and EUR 118 million respectively); indicating the dramatic change in sentiment that occurred in Europe resulting from the sovereign debt crisis. Included in the total of EUR 296 million, EUR 75 million impairment charges with respect to inventory including residential land bank are booked under 'Other expenses, net'.

In 2010 revaluation results were still positive (EUR 42 million) driven by higher rents.

Financing expenses (net)

The financing expense increased mainly due to one-off items amounting to EUR 13 million resulting from the breach of hedge contracts upon the (intended) sale of assets (Galeria Mokotow and Platinum Business Park, both in Warsaw) and prepayment of refinanced loans. The average interest rate payable by GTC S.A. in 2011 remained stable at 5% compared to 2010.

Direct result

The gross profit from operations less the SG&A and finance expenses and excluding the one-off expenses is slightly negative: EUR 5 million in 2011 compared to a flat result in 2010. This demonstrates that the operating and financing expenses can be serviced from the operations.

Income tax

The income tax charge is mainly attributable to a deferred tax liability which is due to the increasing difference between the value of assets in the financial statements and for tax purposes, resulting from the weakening of the Polish Zloty (PLN) against the Euro.

Net profit/ (loss) attributable to Kardan N.V.

In 2010, Kardan still held an indirect 43.1% stake in GTC S.A. As of 2011, Kardan indirectly holds 27.75%. Consequently, the majority of the consolidated loss is attributable to the non-controlling shareholders. The 2011 result for the equity holders of Kardan from the Real Estate Europe segment was a loss of EUR 84 million (2010: profit of EUR 18 million).

Additional Information GTC S.A.

Total assets decreased mainly as a result of impairment/revaluations of inventory and investment property of EUR 296 million, sales of investment property (EUR 238 million), off-set by expenditure on investment property under construction (EUR 155 million).

The loss for 2011 (EUR 338 million) was the main reason for the decrease in total equity by EUR 329 million. Following the revaluation losses and impairments, loan to assets value arrived at 60%. The loans redeemable within one year amount to EUR 264 million. However, it should be noted that EUR 150 million is repayable only upon sale of the related assets (Platinum and residential apartments). For another EUR 25 million of repayable loans a waiver has been received. On balance, an amount of EUR 89 million is payable. Given the current cash position, slowdown of development, approved rights issue (see page 45) and intended sale of investment property, the management of GTC S.A. expects to be able to meet its obligations. With respect to the bonds, EUR 21 million matures in 2012, EUR 103 million in 2013 and EUR 191 million in 2014.

GTC S.A. is listed on the Warsaw Stock Exchange. For full details on the GTC S.A. 2011 results, reference is also made to the company website: www.gtc.com.pl.

Water Infrastructure

Tahal Group International, the fully owned water infrastructure company of Kardan, focuses on developing water assets (e.g. wastewater and water treatment plants) and on executing water related projects worldwide. Tahal Assets is mainly active in China and Turkey, whilst Tahal Projects is mostly involved in projects in Israel, Africa, Central and Eastern Europe as well as in Latin America.

Results Water Infrastructure Assets (Tahal Assets)

€ in millions	For the year ended December 31	
	2011	2010
Contract revenues	29	26
Contract cost	16	17
Other expenses, net	2	–
Gross profit	11	9
SG&A expenses	(7)	(7)
Gain on disposal of assets and other income	2	2
Result from operations before financing expenses	**6**	**4**
Financing income (expenses), net	(5)	(5)
Income tax (expenses) / benefit	(2)	(1)
Profit (loss) from continuing operations	(1)	(2)
Net profit (loss) from discontinued operations	3	2
Net profit (loss)	**2**	**–**
Attributable to:		
Non-controlling interest holders	(1)	(2)
Equity holders (Kardan N.V.)	**3**	**2**

Additional Information Tahal Assets

€ in millions	2011 (31.12)	2010 (31.12)
Cash & short term investments	17	15
Total Assets	171	186
Net Debt (excl shareholder loans) **	44	58
Equity * / Assets	49%	37%

* Group equity including shareholder loan
** Bank loans net of cash and cash equivalents

Revenues

Revenue increased by 12% compared to 2010, mainly attributable to Kardan Water in China, which activity accounts for approximately 2/3 of the total revenue of Tahal Assets. The acquisition of a new wastewater treatment plant in Xuanhua with a capacity of 120,000 m^3/day, accounts for the majority of the revenue growth. These figures no longer include the revenue attributable to activities that were divested during the year 2011 (e.g. Milgam).

Gross profit

The gross profit margin increased to 38% from 35% (2010) on the back of the revenue growth. The gross profit is largely attributable to Kardan Water in China.

Gain on disposal of assets and other income

In 2011, one out of the six plants operated in the Tianjin area (China) was sold to the local government, resulting in a gain of EUR 2 million. In 2010, the rights of a project in a Central American country were sold at a capital gain of EUR 2 million.

Result from operations before financing expenses

In the result from operations before financing expenses, the contribution of Kardan Water China is EUR 9 million (2011) and EUR 2 million (2010) respectively.

Net loss from continuing operations

The net loss amounts to EUR 1 million (2010: loss of EUR 2 million). A higher gross profit of EUR 2 million compared to 2010 was offset by income tax of the same amount, compared to a tax income of EUR 1 million in 2010.

Net profit from discontinued operations

In both 2011 as in 2010, this includes the net contribution of Milgam Municipal Services Ltd., the Israeli company active in operation and management of municipal water networks and the collection of receivables. This company was sold as part of the spin-off of the Israeli activities which Kardan effectuated in Q4 2011.

Additional information Tahal Assets

The capacity of the wastewater treatment and water treatment plants in use in China increased in 2011 to 605,000 m^3/day. This is attributable to the acquisition of the plant in Xuanhua, with a capacity of 120,000 m^3/day to treat wastewater and the same capacity for re-use.

Results Water Infrastructure Projects (Tahal Projects)

€ in millions	For the year ended December 31 2011	2010
Contract revenues	85	112
Contract cost	76	88
Other expenses, net	3	–
Gross profit	6	24
SG&A expenses	(20)	(18)
Gain on disposal of assets and other income	1	1
Equity in net earnings of associated companies	–	1
Result from operations before financing expenses	**(13)**	**8**
Financing income (expenses), net	(2)	(5)
Income tax (expenses) / benefit	1	–
Profit (loss) from continuing operations	(14)	3
Net profit (loss)	**(14)**	**3**
Attributable to:		
Equity holders (Kardan N.V.)	**(14)**	**3**

Additional Information Tahal Projects

€ in millions	2011 (31.12)	2010 (31.12)
Balance sheet		
Cash & short term investments	26	34
Total Assets	119	142
Net debt (excl. shareholder loans) **	(18)	10
Equity * / Assets	30%	29%
Other		
Backlog at year end	316	183
New business in the year	203	98

* Group equity including shareholder loan
** Bank loans net of cash and cash equivalents

Revenues

Revenue decreased by 24% compared to 2010, as a result of the completion of projects and simultaneous delay in the start of some new projects. In addition, EUR 2 million is caused by the weakening of the US Dollar versus the Euro.

Gross profit

The gross profit margin decreased from 21% in 2010 to 7% in 2011. The decrease of the margin is caused by a combination of restructuring costs and additional provisions related to projects (EUR 7 million).
The other expenses mainly relate to restructuring costs of the engineering division including severance payments (EUR 2 million).

Sales & marketing, and General & Administrative expenses (SG&A)

In 2011 the expenses increased due to the move to new offices and a couple of one-off provisioning items, partly off-set by cost saving measures.

Financing expenses (net)

The reduction of finance expenses is partly due to a significant increase of cash following receipt of outstanding receivables and a down payment of EUR 21.5 million relating to the Quiminha project in Angola.

Net loss from continuing operations

The net loss is mainly attributable to one-off expenses by EUR 9 million reducing the gross profit.

Additional information Tahal Projects

The new business contracts signed in 2011 amounted to EUR 203 million. The main contract was with the government of Angola, worth approximately EUR 143 million.

After reporting date, Tahal Projects signed an agreement for a project to design, construct, expand and upgrade the drinking water systems in the Kumawu, Konongo and Kwahu region of Ghana (the 3K project). Estimated revenues for the project are USD 97.5 million (approximately EUR 73 million). The project will take approximately three years from commencement.

Banking and Retail Lending

Kardan operates in the financial services sector through its 100% holding in Kardan Financial Services (KFS), which at year-end 2011 owned 92% (after reporting date: 100%) of TBIF (banking and retail lending), mainly in Bulgaria and Romania. In June 2011, an agreement was signed with TBIF's co-shareholder in Russian Sovcombank for the sale of TBIF's 50% stake in this bank. This agreement is expected to be closed in H2 2012. In July 2011, TBIF completed the acquisition of the Bulgarian bank NLB Banka Sofia (rebranded TBI Bank), to upgrade its operation in Bulgaria into a full banking operation focused on retail and small and medium sized enterprise (SMEs) banking to be funded by deposit taking.

Results Banking and Retail Lending

€ in millions	For the year ended December 31	
	2011	2010
Banking and retail lending activities	107	35
Other revenues	6	7
Total revenues	113	42
Costs of banking and lending activities	88	43
Other expenses, net	4	5
Gross profit	21	(6)
SG&A expenses	(3)	(2)
Gain on disposal of assets and other income	3	2
Impairment losses on goodwill	(58)	(29)
Result from operations before financing expenses	**(37)**	**(35)**
Financing income (expenses), net	(12)	(10)
Income tax (expenses) / benefit	(9)	(1)
Profit (loss) from continuing operations	(58)	(46)
Net profit (loss) from discontinued operations	5	(23)
Net profit (loss)	**(53)**	**(69)**
Attributable to:		
Non-controlling interest holders	–	(12)
Equity holders (Kardan N.V.)	**(53)**	**(57)**

Additional information KFS Banking and Retail Lending

€ in millions	2011 (31.12)	2010 (31.12)
Balance sheet		
Gross loan portfolio	579	448
Cash & short term investments	252	264
Total Assets	979	912*
Total Equity	61	112
Other		
Provisions**	29.5%	15.9%

* Excluding VAB bank
** Excluding Sovcombank. Including Sovcombank the percentages would be 9.7% and 8.5% for 2011 and 2010 respectively.

General

In 2010 Kardan sold 16% of Sovcombank, and in the first half of 2011 Kardan signed a Share Purchase Agreement (SPA) to sell the remaining 50%. The SPA includes a pre-agreed fixed transaction price, which entails that there is no adjustment to the final consideration for the results recognized between signing and closing of the SPA. The closing is expected to happen in the second half of 2012. Pursuant to the sale of 16% in 2010, Sovcombank is consolidated proportionally in 2011, whereas this was only the case in the last quarter of 2010. The results attributable to Sovcombank for the period January-September 2010 are included in the 'Net profit (loss) from discontinued operations'.

Revenues

Excluding Sovcombank, the revenues in 2011 amounted to EUR 10 million compared to EUR 25 million in 2010; attributable to the leasing, mortgage and finance operations in Romania and Bulgaria as well as the leasing activities in Ukraine. This decrease in revenues is caused by the decrease of the average portfolio in 2011, a decrease of returns on the portfolio, and impairments on non performing consumer credits and leasing. All developments result from the difficult situation in Bulgaria and Romania, leading to a slowdown in demand and consequently, in more and fiercer competition.

Gross profit

The gross profit excluding Sovcombank was EUR 28 million negative (2010: EUR 13 million negative) due to the impairments mentioned under 'Revenues' and a portfolio which was too small to generate sufficient income to cover the overhead expenses.

Sales & marketing, and General & Administrative expenses (SG&A)

These expenses comprise of employee and other expenses of KFS, the holding company of the banking and retail lending activities.

Impairment losses on goodwill

As the transaction price with respect to the sale of Sovcombank is fixed (see 'Revenues'), any profit contributed by Sovcombank is off-set by an impairment of the goodwill recorded in the books of TBIF of the same amount as the profit contribution. Consequently, the impairment losses on goodwill in 2011 include an amount of EUR 38 million relating to Sovcombank. The remaining impairment of EUR 20 million is mainly attributable to the consumer finance and leasing operations in Bulgaria and Romania resulting from an adjustment downwards in the expected cash flows to be generated by the businesses. The bulk of the impairment was taken in Q4 2011, when the overall consumer sentiment in both countries deteriorated further. In 2010, the goodwill impairment was also attributable to the operations in Romania and Bulgaria, as well as to the banking operations in general.

Financing expenses (net)

The finance position improved and interest payment decreased – from EUR 10 million in 2010 to EUR 8 million in 2011 - due to the full benefit in 2011 of the reduction of the 'interest bearing loans and borrowings' of KFS resulting from a repayment of loans following the receipt of the sales price for the pension and insurance activities in the fourth quarter of 2010. In addition, in 2011 the receipt of a prepayment (EUR 40 million) to the purchase price by the potential buyers of Sovcombank was partially used to repay debt. However, total finance expenses (net) arrived at EUR 12 million following a EUR 4 million impairment on a call option on a Bulgarian pension fund.

Income tax

This item includes a tax amount of EUR 11 million related to Sovcombank (2010: a profit of EUR 1 million). The remaining income tax in 2011 concerns a deferred tax income of EUR 2 million as a result of the operating loss in the Bulgarian and Romanian operations.

Profit (loss) from continuing operations

In 2011, this loss is fully attributable to the activities in Bulgaria, Romania and Ukraine, whereas in 2010 a profit of EUR 8 million was attributable to Sovcombank (Russia).

Net profit (loss) from discontinued operations

In 2011, the profit is fully attributable to the sale of VAB Bank (Ukraine) which was sold in the beginning of the year. In 2010, however, a loss of EUR 97 million relates to VAB bank. This was off-set by a profit of EUR 74 million of Sovcombank, which was recorded upon the sale of 16% in 2010. As the sale of the 16% stake generated a profit, combined with the loss of control, the remaining stake of 50% had to be revalued to its fair value. Consequently, net loss of discontinued operations in 2010 amounted to EUR 23 million. Reference is made to Note 5 of the Consolidated IFRS Financial Statements.

Additional Information

The increase in the gross loan portfolio is for the larger part attributable to Sovcombank, as well as to the first time consolidation of the Bulgarian bank portfolio, but was off-set by a decrease in the portfolios of most other operations as a result of the deterioration of the macroeconomic situation in the countries of operation.

The substantially increased percentage of provisions, excluding Sovcombank, from 15.9% (2010) to 29.5% in 2011, reflects the deterioration of the economic situation for consumers and SMEs in Bulgaria and Romania during 2011.

Other Expenses

€ in millions	For the year ended December 31	
	2011	2010
General and administration expenses	(8)	(10)
Financing income (expenses), net	(20)	(32)
Income tax (expenses) / benefit	(2)	2
Profit (loss) from continuing operations	**(30)**	**(40)**
Net profit (loss) from discontinued operations	8	36
Net profit (loss)	**(22)**	**(4)**
Attributable to:		
Non-controlling interest holders	2	1
Equity holders (Kardan N.V.)	**(24)**	**(5)**

General
The results under 'Profit (loss) from continuing operations' relate to the holding and finance expenses of Kardan N.V. and its direct subsidiary GTC Real Estate Holding BV (GTC RE).

General & Administrative expenses
In 2011, the expenses decreased by EUR 2 million. Due to a reduction in the number of Management Board members of Kardan N.V., personnel expenses decreased. The advisory expenses were lower due to, among others, less expenses made in relation to Israeli Sox (ISOX) and other legal, tax and general consultancy expenses.

Financing expenses (net)
In the beginning of 2011, GTC RE sold a 16% stake of GTC S.A. (from 43% to 27% holding). The proceeds were partly used to early repay loans and to buy back

debentures. This resulted in a decrease of the financing expenses. Later in 2011, the stake in GTC S.A. was increased to 28%. In addition, in 2010, an amount of EUR 7 million was recorded relating to foreign exchange losses. The foreign exchange results were nil in 2011. The main foreign exchange positions of the holding companies are attributable to obligations in Israeli Shekel (NIS) and investments in Chinese Renminbi (RMB) denominated assets.

Income tax
These amounts relate to hedge instruments; the reverse of the amounts recorded in the income statement are recognized directly in Shareholder's Equity. On balance there is no impact on Shareholder's Equity.

Net profit (loss) from discontinued operations
In 2010, the result is attributable to Kardan Israel Ltd. and TBIH, the pension and insurance division that was sold to the partner. In 2011, the result is attributable to Kardan Israel Ltd. The company, in which Kardan N.V. held approximately 74%, was spun-off in October 2011.

Consolidated Statement of Comprehensive Income (expense)

In addition to the consolidated loss for the year amounting to EUR 409 million (2010: EUR 29 million), other comprehensive expense amounts to EUR 7 million (2010: income of EUR 85 million), mainly comprising of foreign currency translation differences (EUR 9 million negative compared to EUR 73 million positive in 2010).

From the total comprehensive loss of EUR 416 million, an amount of EUR 150 million is attributable to shareholders of Kardan N.V. From the comprehensive income in 2010 of EUR 56 million, an amount of EUR 48 million is attributable to shareholders of Kardan N.V.

For further information, see page 112 Consolidated IFRS Financial Statements.

Consolidated Balance Sheet

Total assets
Total consolidated assets decreased by EUR 1.6 billion to EUR 4.4 billion as at December 31, 2011 from EUR 6 billion at year-end 2010.

Of the reduction, an amount of EUR 1.5 billion is due to the sale of subsidiaries: the 84% stake in VAB Bank was sold in January 2011. At year-end 2010, the total assets of VAB bank amounted to EUR 578 million. Prior to the spin-off of Kardan Yazamut, Kardan Israel reduced its stake in Avis Israel to 34% from 68%. This had an impact of EUR 476 million on the total assets. The subsequent spin-off reduced assets further by EUR 493 million. Other important movements are: a decrease of investment properties less assets held for sale by EUR 325 million to approximately EUR 2 billion mainly due to sale of property of EUR 385 million, revaluation losses of EUR 194 million and capitalized expenditure of ongoing constructions of EUR 200 million. As the Russian Sovcombank noticed an increase in lending, the outstanding loans to bank customers increased by EUR 175 million to EUR 430 million.

Consolidated equity
The consolidated equity decreased by EUR 327 million to EUR 740 million. The decrease is EUR 89 million less than the consolidated comprehensive expense amounting to EUR 416 million. This is mainly explained by two transactions:

- an increase of EUR 193 million resulting from the sale of 16% of the shares in GTC S.A. in the beginning of 2011, increasing the non-controlling shareholders' part of consolidated equity.
- distribution of shares of Kardan Yazamut to the shareholders of Kardan reducing consolidated equity by EUR 74 million.

In addition, deconsolidation of proportionally consolidated entities (mainly Avis Israel) reduced consolidated equity by EUR 35 million.

Interest bearing liabilities
Kardan N.V. has a decentralized funding structure. This implies that Kardan, its direct subsidiaries (all being (in) direct holding companies of the operational entities), and the operational entities are mostly responsible for the funding of their own activities. In the chapters describing the divisions a description can be found of the funding positions of the main subsidiaries.

Company only balance sheet as of December 31 of Kardan N.V.

Kardan N.V. – balance sheet (company only)

	2011	2010
Total Assets (in EUR million)	864	1,030
Total Equity (in EUR million)	203	334
Equity/Total assets (%)	23%	32%

Total assets
The total assets of Kardan N.V. decreased by EUR 166 million. This is mainly attributable to a reduction of the value of the investments in consolidated subsidiaries of EUR 109 million, mainly due to the losses for the year 2011, and a reduction in the value of the derivatives of EUR 63 million due to a sale as well as a negative revaluation.

Shareholder's equity
Shareholder's equity of Kardan N.V. decreased from EUR 334 million as of December 31, 2010 to EUR 203 million as of December 31, 2011, as a result of the loss of EUR 148 million, mainly reduced by the positive equity movement due to the sale of a 16% stake in GTC S.A. in Q1 2011.

Interest bearing liabilities
Net of derivatives, Kardan N.V. owes EUR 567 million to bond holders and banks (December 31, 2010: EUR 494 million). The cash position of the company increased by EUR 18 million to EUR 28 million, as of December 31, 2011.

The table below presents the maturity of the liabilities of Kardan N.V. and its subsidiary GTC RE:

Company Only – Kardan N.V. & GTC RE Holding

€ in millions	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Debentures – Series A	–	53	53	53	53	–	–	–	–	212
Debentures – Series B	–	–	40	40	40	40	41	41	41	283
Loans from Banks *	30	–	5	13	15	15	15	27	12	131
Total	**30**	**53**	**98**	**106**	**108**	**55**	**55**	**67**	**52**	**626**

* Based on refinancing in March 2012

Kardan N.V. has extended guarantees to the benefit of third parties for the liabilities of companies in the Kardan Group stemming from various loans. The balance of the guarantees amounts to, as at December 31, 2011 and around the date of the statement, approximately EUR 74 million (of which EUR 44 million relates to KFS and its subsidiaries and the remainder to Tahal Group International and its subsidiaries) and approximately EUR 67 million, respectively. In addition, Kardan N.V. is extending execution guarantees for various projects that are being conducted by subsidiaries and related companies, whose estimated volume as at December 31, 2011 stood at approximately EUR 3 million.

Kardan N.V. extended a performance guarantee regarding the financing of a Tahal Group project in Angola (Quiminha), and secured Tahal Group's liabilities in case of non performance by the Tahal Group. At balance sheet date, an amount of EUR 7 million has been spent on the project.

The liabilities maturing in the years 2012 and 2013 will be serviced according to the following cash flow projection:

Forecast cash flow

€ in millions	January 1, 2012 – December 31, 2012	January 1, 2013 – December 31, 2013
Cash and cash equivalents at the beginning of the period	123	89
Company only resources		
From operating activities		
General and administration expenses	(7)	(6)
From investing activities		
Sales of assets	15	
Resources from investee companies		
From operating activities in investments – Loan repayment	52	41
From operating activities in investments – Management fees	1	1
Total resources	**184**	**125**
Expected Uses		
From investing activities		
Investment in GTC S.A.	28	–
From financing activities		
Repayment of a loan	30	–
Interest payment of loans	5	4
Repurchase of debentures – Series A	8	–
Interest payment of debentures – Series A	9	9
Interest payment of debentures – Series B	15	15
Principle payment of debentures – Series A	–	51
Total Uses	**95**	**79**
Cash and cash equivalents at the end of the period	**89**	**46**

Assumptions and Notes to the cash flow forecast:

1. The opening balance of the cash flow forecast includes pledged deposits in the amount of approximately EUR 49 million which the Company expects will be released in the near future.

2. The Cash-flow projection was jointly drawn for both Kardan N.V. Company only and GTC Real Estate Holding B.V. because the treasury of these companies is centralized.
3. The interest payment for the debentures includes the amount of hedged interest, less the interest which relates to the debentures purchased by a subsidiary.
4. The cash flows do not include any additional investments the company will make once those will be approved by the appropriate organs in the company.
5. The Interest calculations are based on Consumer Price Index (CPI), exchange rates and interest rates which are as of December 31, 2011.

For the debt position of the other direct subsidiaries of Kardan N.V. reference is made to the chapters 'Water Infrastructure Division' and 'Financial Services Division'.

Covenants

As of December 31, 2011, Kardan N.V. did not meet financial covenants towards a lending bank relating to maintaining a minimum equity level. As a result, long term loans in the amount of EUR 30 million were classified to short term.

Within the Group, additional loans with the same covenant in the amount of EUR 144 million, including an amount of EUR 100 million owed by GTC RE, were also classified as short term liabilities.

In March 2012, Kardan N.V. received a signed letter from the lending bank describing principal agreements between Kardan N.V. and the bank relating to a change in the financial covenants required with respect to the aforementioned loans. According to the principal agreement, the financial covenants will be amended so that Kardan N.V. is required to maintain a minimum shareholders' equity of EUR 160 million, and a ratio of equity to total stand-alone balance sheet of Kardan N.V. of 21%. In addition, it was agreed to early repay an amount of EUR 35 million from the total outstanding loans of Kardan, GTC RE Holding and Tahal Assets. For additional information reference is made to note 29 in the financial statements.

Subsequent to the balance sheet date, GTC S.A. had amended a loan agreement with a lending bank in connection with a breach of covenants relating to its debt coverage ratio and project time table. As a result of the breach, a loan in the amount of EUR 25 million was reclassified as current liabilities.

GTC S.A. was in breach of an additional covenant which relates to debt coverage ratio. As a result of the breach, a loan in the amount of EUR 29 million was reclassified as current liabilities. GTC S.A. is negotiating with the lending banks in relation to this breach.

Dividend 2011

The dividend policy of Kardan N.V. will take into consideration the level of net income, liquidity and the capital position, future financing requirements and financial covenants of the Company, all within the limitations of the law. If circumstances allow, the dividend policy recommends an annual distribution of between 20% and 30% of net income. Dividend pay-out may vary from year to year. Due to the loss for the year under review, and taking into account the financial position of Kardan N.V., the Management Board, with the approval of the Supervisory Board, has decided not to distribute any additional dividend following the distribution of the shares in Kardan Yazamut in October 2011, from the reserves for the financial year 2011.

Outlook 2012

Kardan N.V.

Management attention in 2012 will be focused on the cash flow and debt position of Kardan N.V. and on its intermediate holding company GTC Real Estate Holding B.V. in view of coming redemption of (part of) the bonds, starting in 2013. For 2012 and 2013 the company believes to have sufficient funds to service its debt.

On April 16, 2012, the shareholders of GTC S.A. approved the announced rights issue (see under Real Estate Europe). Kardan is expected to participate to its pro-rata share, as Kardan believes in the return of the real estate market in CEE in the mid to long term. The timing will depend also on the development of Western European economies as exports from CEE/SEE are important drivers to the growth of the region.

The outlook 2012 for the divisions and segments are published in the next chapters, the Management Board Reports with respect to the three divisions (pages 40 to 61).

Real Estate Division

General

Kardan operates in the real estate segment in Europe under the brand name Globe Trade Centre S.A. (GTC S.A.), whereas in China the name Kardan Land is used. The shares of the operating companies are held by an intermediate holding company, GTC Real Estate Holding B.V. (GTC RE).

GTC RE currently has activities in three regions: China, Central and Eastern Europe (CEE) and Western Europe, organized in two segments: Real Estate Asia (Kardan Land China Ltd.) and Real Estate Europe (mainly GTC S.A.).

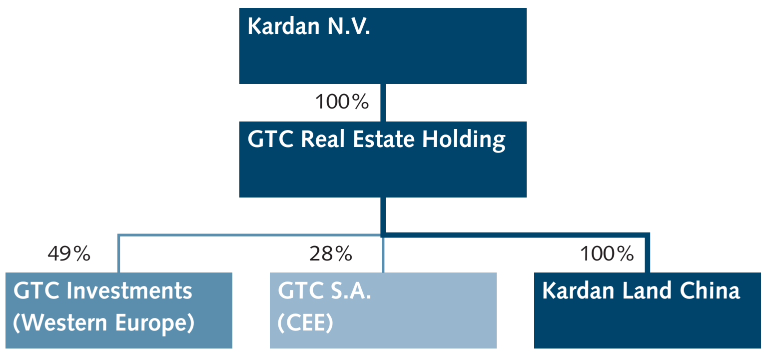
In China, GTC RE is active through its 100% subsidiary Kardan Land China Ltd. Since its incorporation in 2005, Kardan Land China has initially only focused on residential real estate development, mainly in Tier 2 and Tier 3 cities. Currently, Kardan Land China is primarily focusing on mixed-use projects, which combine service apartments with shopping centers and small offices. In November 2010, the first stand-alone shopping center was opened in Chengdu. Kardan Land China envisages continuing to develop mixed-use projects in close coordination with leading retailers, in Tier 2 and Tier 3 cities. In all of the residential projects, Kardan Land China cooperates with a local partner, generally on a 50/50 basis. The same holds for the shopping centre in Chengdu. The mixed-use project in Dalian is fully owned by Kardan Land China.

GTC RE is active in CEE/SEE through its approximately 28% holdings in GTC S.A., one of the leading real estate developers in the region. GTC S.A. is listed on the Warsaw Stock Exchange and is included in major indices, such as the WIG20, MSCI and GPR250.

GTC S.A. mainly focuses on the development and management of office buildings and shopping centers. GTC S.A. also develops and sells residential projects. Its strategy is to initiate large-scale projects in prime locations.

GTC S.A. has been active in the region since 1994, has vast experience in CEE and is present in ten countries: Poland, Romania, Hungary, Bulgaria, Croatia, Serbia, Slovakia, the Czech Republic, Russia, and Ukraine. As at year end 2011, 44% of GTC S.A.'s net rentable area of completed office and retail centers is in Poland.

In Western Europe, GTC RE conducts limited activities. Since investment in developed countries is not part of Kardan N.V.'s strategy, no new investments will be made in this region. Due to the relatively small size of these operations, they are not discussed any further in this report.



Situation April 2012

Helen Guan, Executive Director of Asset Management

‘We aim to develop and operate Galleria Chengdu as the best retail destination with an extraordinary shopping experience for our customers to shop, dine and entertain. The Galleria is becoming more and more a place to spend quality time: in the weekends over 50,000 people visit the Galleria.’

Markets

China

The Chinese economy expanded by 9.2% in 2011 (y-o-y), slowing down gradually during the year according to plan as a result, among others, of measures taken by the Chinese government to fight inflation. Chinese export has slowed down in Q4 of 2011, as the demand from Western European countries deteriorated. Following years of GDP growth y-o-y of above 9%, the current Five-Year Plan (2011–2015) focuses on re-balancing the economy, i.e. to bring GDP growth levels down somewhat over time (to approximately 7.5%), to prevent the economy from over-heating and to become less dependent on export by encouraging internal demand and consumption.

During 2011, the Chinese government took several measures to cool down the speculative property market in particular, such as raising interest rates and decreasing the availability of mortgages. These measures generally led to pricing pressure and a slowdown in the sale of apartments also because potential buyers postponed their purchase decision in the expectation that prices will decrease further. The government, however, is anxious not to disturb the market for buyers who need to find housing for their own use, typically in Tier 2 and 3 cities. Some researchers expect that this part of the real estate market will see an upturn again during the latter half of 2012 or beginning of 2013, as the demand for housing will remain strong as a result of urbanization combined with increasing average wages, the current prices of apartments as well as the expectation that banks will increase lending.

Consumer spending power in China has increased over the years as a result of rising wages, as evidenced by a growth of total retail sales in 2011 of around

17% y-o-y. Chinese consumers are lured to the newly developed shopping centers by the concept of a managed mall offering a varied mix of tenants and good services. Kardan Land China's strategy is, among others, to focus on the development of such shopping centers.

Central and Eastern Europe

In the first quarter of 2011, CEE/SEE (South Eastern European) countries continued to show careful macroeconomic recovery as a result of increasing external demand, recovery of capital flows and in some countries also an improvement in the domestic demand and labor markets. In the second and third quarter, however, the growth dynamic in CEE/SEE slowed markedly as the Eurozone began to stagnate mainly due to the sovereign debt crisis. Confidence in Europe as a whole deteriorated on the financial markets, leading to a significant change in sentiment and consequently to a downgrade of rental and sales expectations by real estate appraisers, specifically in SEE. The uncertainty regarding the sovereign debt crisis progressed during the fourth quarter of 2011. In addition, availability of debt funding deteriorated as banks were, and still are, forced to improve their solvency. Consumer confidence, and thus purchasing behavior, has deteriorated due to the unreliable macroeconomic situation, inflation rates, and the reality of unemployment and fiscal measures taken by governments.

The various countries that make up CEE/SEE all have their own macroeconomic developments. They are, however, all strongly linked to the economies of Western European countries who are their main trading partners. Poland showed resilience in 2011; its GDP growth rate y-o-y was 4.0%. The economy in Romania also showed robust growth in Q1 of 2011, but tailed off in the second half of the year. However, y-o-y the country was able to report a GDP growth of 1.7%, whereas in 2010 there was a GDP decrease of 1.9% (y-o-y). The Romanian labor market showed signs of improvement during 2011, but with consumers remaining hesitant and uncertain, purchasing behavior did not improve. The recovery in Bulgaria is slow and lagging behind that of other countries in the region. Consumer demand was constrained by a continued decline in employment, rising consumer prices and increased precautionary savings. Growth largely relied on external demand, which, as has been mentioned earlier, fell sharply as of Q3 of 2011 due to the sovereign debt crisis.

Development of group companies

GTC RE

General

GTC RE is the holding company of the real estate division, consisting of Real Estate Asia and Real Estate Europe. Consequently, its main activity is the management of the investments in the shares of Kardan Land China, GTC S.A. and GTC Investments, as well as the financing of these investments in Kardan Land China and GTC Investments.

Portfolio

In January 2011, GTC RE successfully sold 16% of the shares of GTC S.A. at a price of PLN 21.50 per share. Gross proceeds amounted to PLN 754,650,000 (approximately EUR 195 million), which was used by Kardan N.V. to increase financial headroom and to reduce its leverage. Following the sale, GTC RE held approximately 27.1% of GTC S.A.'s issued share capital. In connection with the transaction, Kardan agreed to retain its remaining interest in GTC S.A. for a subsequent period of at least 15 months. In August 2011, Kardan purchased 1,353,635 shares of GTC S.A. for a total amount of approximately EUR 3.8 million. Through this purchase, GTC RE increased its holding in GTC S.A. from 27.1% to 27.75%.

Funding

For further information about the financial position and covenants, reference is made to the paragraphs 'funding' and 'covenants' in the chapter 'Financial Developments'.

Real Estate Asia (Kardan Land China)

Portfolio

Kardan Land China, active in the residential real estate market as well as in the retail market, noted a slowdown in the sale of apartments due to the various measures taken by the Chinese government to cool down the speculative property market and to fight inflation. Consequently, in the reporting period, Kardan Land China sold 1,883 apartments compared to 3,461 apartments in 2010. These figures relate to 100% of the projects; the share of Kardan Land China is approximately 50%. The revenues of these contract sales will be recognized in the income statement upon delivery of the apartments, which will lag by roughly more than two years post sale.

The various residential development projects in China (under construction and in the planning and design phases) comprise approximately 27,435 apartments. As of December 31, 2011, approximately 12,885 units have been sold. These figures relate to 100% of the projects. The construction of new apartments will depend on demand.

Furthermore, Kardan Land China initiated and developed a shopping center in Chengdu, Galleria Chengdu, which was opened in November 2010, of which it sold 50% in 2011 to a private equity partner.

In the beginning of 2011, Kardan Land China made the last payment for the land in Dalian on which the company will develop a mixed use project called Europark Dalian comprising of approximately 1,100 apartments and home offices as well as a shopping mall with a gross floor area of approximately 100,000 m^2. Construction works are expected to begin in 2012.

At present, the number of employees in China is 341 compared to 322 at year-end 2010.

For the 2011 financial developments and results of Real Estate Asia, see the previous chapter, 'Financial Developments'.

Competition

The real estate market in China is a decentralized market, where hundreds of large real estate companies operate, led by local companies that specialize in the

Alon Shlank, Chairman of Kardan China

'Developing apartments and shopping centers as well as water infrastructure facilities in a sustainable manner in China is fascinating and rewarding; it is imperative though to follow the pace that the Chinese Government sets for the growth of this great country.'

construction of residential housing (e.g. Vanke, SOHO, Gemdale and Forte), followed by companies from Hong Kong and Singapore (e.g. CapitaLand, CR Land, and Swire), which operate mainly in the fields of commercial real estate and luxury residential housing in Tier 1 and Tier 2 cities. In addition, numerous local companies operate primarily in the provinces of China. Following the accelerated development of the commercial real estate market in Tier 1 cities, many companies are expanding their operations to Tier 2 and Tier 3 cities.

As of 2005, Kardan Land China has been developing residential projects in Tier 2 and Tier 3 cities. The company has an organizational infrastructure as well as numerous connections with service suppliers and government agencies, which helps the company to expand its operations in the cities in which it operates. Competition varies in each project and depends, among others, on other projects built in the immediate vicinity. GTC RE cannot estimate the share of Kardan Land China in the Chinese real estate market.

Funding

The Chinese projects are funded through loans from GTC RE, shareholder equity, supplier credit, advance payments from apartment buyers, and the pledge of land to secure loans from banks. In addition, payment for the land is made, in certain cases, in installments, so that occasionally it is possible to finance some of these payments through revenues from sales. The total of equity and loans invested by GTC RE in Kardan Land China for the projects in China amounted to approximately EUR 271 million as of December 31, 2011 (December 31, 2010: EUR 230 million). The increase is mainly attributable to the profit for the year. Advances received from buyers amounted to EUR 136 million as of December 31, 2011, an increase of 32% in comparison to the amount as at December 31, 2010.

In August 2009, Kardan Land China entered into a loan agreement with the Chinese Construction Bank, pursuant to which a 10-year loan (non-recourse) of approximately RMB 245 million (approximately EUR 24.1 million) was granted to Kardan Land 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, 2011, the balance of the loan to Kardan Land China totaled RMB 233 million (approximately EUR 29 million), and it is secured by a charge over some of Kardan Land China's rights in the property.

Real Estate Europe (mainly GTC S.A.)

General

As a result of the Eurozone crisis, the macro economy of South Eastern European countries in particular deteriorated considerably, leading to diminished expected rental values (ERVs), mainly with respect to shopping centers in Bulgaria, Romania, and Croatia. Given these uncertainties with respect to real estate markets, considerable negative revaluations and impairments were taken. In addition, GTC S.A. has taken measures to align the development pace with market and macroeconomic circumstances, whilst maintaining the standards of developing high-quality and sustainable assets. Consequently, GTC S.A. has put several projects on hold, focusing on the completion in 2012 of an office project in Warsaw (Platinum V), which is 70% pre-let, and a 60% pre-let shopping mall in Bulgaria (Galleria Burgas). In addition, GTC S.A. plans to develop two new retail centers in Warsaw with an NRA of 136,000 m^2, of which the GTC S.A. stake amounts to 108,000 m^2.

The loss for 2011 was the main reason for a decrease of EUR 329 million in total equity of GTC S.A. Following the revaluation losses and impairments, and the consequential decrease in total assets, loan to value* arrived at 60%. GTC S.A. management has identified a need for new capital to strengthen the capital structure of GTC S.A. and to improve its cash position. After considering various alternatives,

* LTV: Loans net of cash and deposits/Investment Property, inventory, and assets held for sale

Burcu Karasoy Uygurcetin,
Leasing Manager, GTC S.A. (Romania)

‘Galleria Arad has introduced a new model of commerce and entertainment to the market: a powerful contribution to the local economy. Designed and developed in accordance with the international standards, including many green solutions, it is an exceptional shopping destination and meeting point of Arad.’

GTC S.A. management recommended to raise approximately EUR 100 million through a rights issue, which was approved by the GTC S.A. shareholders’ meeting on April 16, 2012. In addition, management of GTC S.A. has indicated the intention to generate approximately EUR 180 million of net proceeds in the coming three years through sale of assets. Given the current cash position, slowdown of development, approved rights issue, and intended sale of investment property, the management of GTC S.A. expects to be able to meet its obligations.

Portfolio

In the CEE/SEE and CIS (Commonwealth of Independent States) countries, the portfolio of yielding properties (office and retail, including the assets in the Czech Republic) consists of 40 properties with a consolidated net rentable area of 708,165 m^2 (GTC S.A. share 579,856 m^2).

A total of approximately 81,000 m^2 of net rentable area was completed and added to the existing portfolio of yielding properties in 2011, while 50% of 62,000 m^2 of net rentable area was sold due to the sale of the remaining 50% stake in Galeria Mokotow.

The new completions include two office buildings in Warsaw (Platinum IV and Corius) and two shopping malls, Avenue Mall Osijek in Croatia and Galleria Arad in Romania.

The portfolio of GTC S.A. as of December 31, 2011 can be detailed as follows:

	Poland	Hungary	Serbia	Croatia	Romania	Bulgaria	Slovakia	Subtotal	Czech *	Total
Office										
Pro rata to GTC holding, NRA, m^2	184,990	88,630	53,900	4,900	28,128	–	8,820	369,458	10,989	380,447
Total NRA m^2	184,990	88,630	53,900	7,000	47,900	–	12,600	395,020	35,502	430,522
Number of assets	16	5	3	1	2	–	1	28	2	30
Average yield, %	7,4%	8.1%	8.6%	–	7.1%	–	8.8%	7.7%	7.0%	7.7%
Average rent, €/m^2	17	13	16	–	22	–	9	16	11	16
Average occupancy	83%	91%	92%	95%	96%	–	49%	86%	25%	86%
Book value, € m	427	173	117	–	174	–	15	906	8	914
Retail										
Pro rata to GTC holding, NRA, m^2	68,600	–	–	40,500	58,400	18,707	–	186,207	13,202	199,409
Total NRA m^2	87,700	–	–	54,000	69,500	24,943	–	236,143	41,500	277,643
Number of assets	2	–	–	2	4	1	–	9	1	10
Average yield, %	7.2%	–	–	8.2%	9.2%	10.4%	–	8.5%	6.9%	8.4%
Average rent, €/m^2	24	–	–	17	9	7	–	16	19	16
Average occupancy	97%	–	–	95%	88%	82%	–	92%	94%	92%
Book value, € m	243	–	–	194	84	38	–	559	58	617
Total										
Pro rata to GTC holding, NRA, m^2	253,590	88,630	53,900	45,400	86,618	18,707	8,820	555,666	24,190	579,856
Total NRA m^2	272,690	88,630	53,900	61,000	117,400	24,943	12,600	631,163	77,002	708,165
Number of assets	18	5	3	3	6	1	1	37	3	40
Average yield, %	7.4%	8.1%	8.6%	8.2%	8.3%	10.4%	8.8%	8.0%	6.9%	8.0%
Average rent, €/m^2	19	13	16	17	15	7	9	16	18	16
Average occupancy	94%	91%	92%	95%	91%	82%	49%	87%	63%	86%
Book value, € m	670	173	117	194	258	38	15	1,465	66	1,531

*Pro rata to GTC S.A.

The consolidated net operating income from yielding properties for the years ended on December 31, 2011 and December 31, 2010 can be detailed as follows:

Country (€ in millions)	Offices 2011	Retail 2011	Total 2011	Offices 2010	Retail 2010	Total 2010
Poland	27.0	19.7	46.7	26.8	31.8	58.6
Other countries *	31.4	7.1	38.5	23.9	9.7	33.6
Total	58.4	26.8	85.2	50.7	41.5	92.2

* Does not include Czech Republic

In addition to the completed investment properties, GTC S.A. has a pipeline of office and retail space in different stages of development. Total value of GTC S.A. investment properties under development amounted to EUR 373 million as of December 31, 2011; projects which are under construction accounted for approx. 17%.

The commercial projects under construction are in the following countries:

Country	Number of projects	Net rentable area (m²)	Pre-lease (%) *	% of completion	Book value (€ in millions)	Estimated rental value (€ in millions)
Poland	1	11,600	63	50	14.0	1.9
Bulgaria	1	36,500	53	95	50.1	5.9

* Currently, these percentages are 70% and 60% respectively.

The total residential space in GTC S.A.'s portfolio accounted for 9% of GTC S.A.'s total space. Out of the total value of EUR 182 million of residential inventory and land bank, the inventory accounted for 59% and the remaining 41% relates to the land bank which GTC S.A. expects to develop in the future. Currently, GTC S.A. develops houses and apartments in Poland, Hungary, Romania, the Czech Republic, and Slovakia, but its land bank also includes Croatia.

Competition

Following the global economic crisis, there has been a significant decrease in the number of companies and developers competing in the field of yielding properties, as well as a significant decrease in the number of projects competing in each city in which GTC S.A. operates. Whereas in the years preceding the global economic crisis competition focused on the search for land for development and on achieving a reasonable construction cost, as of the reporting date, the competition is primarily focused on securing bank financing under terms that make development feasible and on signing pre-let agreements with tenants that could generate bank financing.

The construction of shopping centers at sites adjacent to areas where GTC S.A. operates, or plans to operate, that will have a retail mix similar to that of GTC S.A.'s own shopping centers could decrease revenues from rent from the GTC S.A. shopping centers and also result in lower occupancy.

GTC S.A. deals with the competition, among others, by maintaining high standards of construction, meeting the deadlines of projects it undertakes, and offering high-quality service after the completion of the project. International corporations, which in the past entered into agreements with GTC S.A. in certain countries, sometimes continue to cooperate with GTC S.A. in other countries because of the advantages offered by GTC S.A. Additionally, the reputation gained by GTC S.A. allows it to expand to other countries, and to market its projects to larger lessees

Katarzyna Pankiewicz, Leasing Manager (Office), GTC S.A. (Poland)

'The construction and technical solutions employed throughout GTC's office buildings significantly increase the working comfort of the tenants without negative impact on the environment. Many GTC office buildings include parking spaces for bicycles and charging stations for electric-powered vehicles. Since 2010, all GTC office projects in Poland have been developed in compliance with US Green Building standards.'

and anchor tenants. GTC S.A. considers itself to be a leader in the field of yielding properties in CEE.

Funding

In its financing agreements with banks, GTC S.A. typically undertakes to meet certain financial covenants prescribed in those agreements. The main criteria are: maintaining a certain ratio between the loan and the value of the project; a certain ratio between the net rental income from the financed project and the amounts of various expenses, such as interest and commission; maintaining certain ratios between the net rental income from the financed project and the principal interest under the loan that the company is required to pay during one quarter. In terms of its debentures, GTC S.A. has ensured, inter alia, that its aggregate loans will not exceed 70% of the total assets.

As of December 31, 2011, as securities for the bank loans of GTC S.A., the banks have a mortgage over the assets together with the assignment of associated receivables and insurance rights.

As a result, among others, of the decrease of the asset value of GTC S.A., due to the anticipated diminishing ERVs in SEE, the leverage of the company increased to a 60% loan to value ratio* (2010: 51% LTV). As a result of renegotiations of outstanding loans and of certain covenants, close to 50% of the total debt will mature in 2017 or later.

The loans redeemable within one year amount to EUR 264 million. However, it should be noted that EUR 150 million is repayable only upon sale of the related assets (Platinum and residential apartments). For another EUR 25 million of repayable loans a waiver has been received. On balance, an amount of EUR 89 million is payable. Given the current cash position, slowdown of development, approved rights issue (see page 45) and intended sale of investment property, the management of GTC S.A. expects to be able to meet its obligations. With respect to the bonds, EUR 21 million matures in 2012, EUR 103 million in 2013 and EUR 191 million in 2014

* LTV: Loans net of cash and deposits/Investment Property, inventory, and assets held for sale

Outlook 2012

Real Estate Asia

In China, sales are not expected to be high in the first half of 2012, due to the restrictive measures taken by the Chinese government to cool down the residential property sector. As buyers are postponing the take-up of sold and paid apartments, we expect to deliver approximately 30% of sold apartments, i.e. approximately 1,600 apartments, in 2012.

We expect to start construction of the mixed-use project in Dalian (approximately 300,000 m^2 of residential, retail, and parking space) in the second half of 2012, pending local approval and construction finance.

Kardan is investigating the possibility to enter into other Asian markets.

Real Estate Europe

In 2012, GTC S.A. plans to complete two new properties: one shopping mall in Burgas, Bulgaria, currently 60% pre-let, and an office building in Warsaw, Poland, with a pre-let of 70%. The leverage of GTC S.A. is 60%, and GTC S.A. management aims to reduce this. In addition, GTC S.A. intends to raise equity of approximately EUR 100 million and to sell assets, prepare for redemption of debt, and fund the new development of retail centers, particularly in Warsaw. The success and timing depends on market sentiment.

Taking into account the current activities and the outlook for 2012, it is not expected that the total number of employees in our real estate operations will change considerably compared to the number as of December 31, 2011 (530).

Water Infrastructure Division

General

Through Tahal Group International B.V. ('TGI'), Kardan is active in the water infrastructure business and operates as a leading international engineering company, specializing in water-related infrastructure projects and water-related asset ownership. TGI has participated in the planning, development, design, construction, and management of thousands of projects in approximately 50 countries across five continents. TGI's advanced technical resources include a staff of approximately 1,200 employees, including engineers and scientists in a wide variety of disciplines.

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

Ehud Brant, **Chief Financial Officer, Tahal Group International**

'Offering and winning a water infrastructure project in emerging markets does not only require having a good reputation and the best engineering expertise, but also the ability to assist the client in obtaining proper long term financing. By arranging the financing, we have enabled our clients to make drinking water available to their population.'

Tahal Projects' design and EPC projects are located in Israel, Africa, Central and Eastern Europe as well as in South America. The total number of projects is approximately 2,000, out of which 10 are EPC projects.

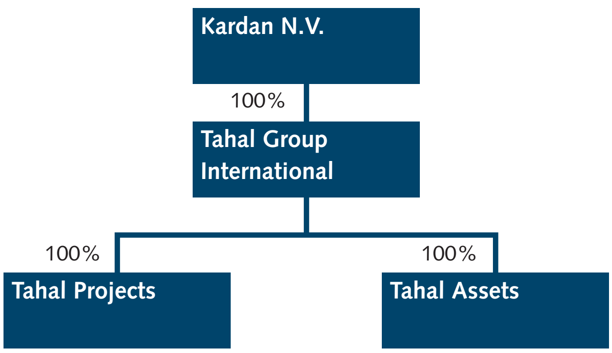
Tahal Group Assets B.V. ('Tahal Assets') invests in water-related assets such as municipal water systems, desalination plants, wastewater treatment plants, and hydropower plants. Tahal Assets is mainly operational in China (via Kardan Water) and Turkey. Clients of Tahal Assets are mainly governments and municipalities as well as industrial zones with whom long-term contracts (up to 30 years) are negotiated.

Markets

The demand for water is ever increasing due to population growth, social mobility and industrial and agricultural expansion. Consequently, governments worldwide are allocating more funds to water infrastructure projects and – in some countries more than others – encouraging Public Private Partnerships (PPPs). In most emerging markets, it is still uncommon for individuals to pay for water. Governments in various countries are therefore taking measures to address this issue, to make people aware of the importance of saving water and to secure enough funds to meet increasing water consumption demands.

By 2020, the Organisation for Economic Co-operation and Development expects the global middle-class to more than triple in size compared to 2009. This implies that the need for water will increase as well.
Today, China constitutes approximately 20% of the global population, whereas it only has access to roughly 7% of the world's renewable water supply. With fertility, diets, health and life expectancy improving annually, the population in China is expected to grow substantially. China is expected to have some 110 cities with over 1 million inhabitants by 2015, with this number growing to more than 220 by 2025. Consequently, one of the focal areas of China's Five-Year Plan (2011-2015) is water conservation and treatment, which is particularly relevant for Tier 2 and Tier 3 cities, Tahal Assets' target market in China. China encourages (international) PPPs, specifically with regard to wastewater treatment plants.

Water management is also a key focal area in African countries, for instance, where water is imperative for food security and thus for the stability in these countries.



Situation April 2012

Development group companies

Portfolio

Projects
After announcing the project in 2008, Tahal Projects signed an agreement with the government of Angola in January 2010 for the Quiminha project. The project includes, among other things, the development and construction of a water supply and sewage and drainage system for a new rural settlement and the irrigation of farmland. In September 2011, the project was initiated after having reached financial closing and after the first down payment of 15% of the total project revenues (EUR 21.5 million) had been made. Total revenues to be generated by the Quiminha project, over a period of three years starting in the course of 2012, will amount to approximately EUR 143 million.

In 2009, Kardan announced that a subsidiary of Tahal Projects (Tahal Water Energy Ltd) was rewarded a conditional license to construct, build and operate a power plant in Israel with an installed capacity of 300 megawatts using the 'pumped storage' technology. Since May 2009 progress has been made

Jack Nie, General Manager, Kardan Water Tianjin (China)

'By operating and managing the wastewater treatment plant well, we are protecting the natural environment, conserving water resources and committing to the sustainable development of water management in Tianjin in China. We feel that we are helping out in doing what is needed.'

in the development of the project, and major milestones were achieved. It is uncertain if the company will eventually enter into an agreement.

In February 2012, due to disagreements between Tahal Projects and the government of Botswana, Tahal Projects cancelled the Memorandum of Agreement signed in May 2007 with respect to a water and agriculture project in Botswana. The project involved the construction of water supply infrastructure and the development of agricultural land in Botswana. The project entailed two components, to be executed subject to feasibility studies and certain conditions precedent.

At the end of February 2012, an agreement was signed with the National Water Company of Ghana for a project to design, construct, expand, and upgrade the drinking water systems in the Kumawu, Konongo and Kwahu regions of Ghana.
The project is the sequel to an existing project also executed by Tahal Projects in the same area ('the 3K project'). Estimated revenues for the project are USD 97.5 million (approximately EUR 73 million). The project is anticipated to take three years from commencement. Tahal Projects has organized the financing for the project.
The project will be the fourth assignment for Tahal Projects in Ghana. Including this new assignment, total combined revenues for Tahal's current projects in Ghana amount to USD 282 million (approximately EUR 210 million), of which approximately 75% is still to be invoiced over the coming years.

Assets
Tahal Assets is developing and investing in assets such as water supply systems and wastewater treatment plants, mainly in China (via Kardan Water) and in Turkey. During the development phase, no cash will be generated. After completion of a development, water is delivered to municipalities and industrial areas on a long-term concession basis (typically for 20 to 30 years). In January 2011, Kardan Water completed the asset transfer for the Xuanhua wastewater treatment plant. The total investment in the Xuanhua project amounted to RMB 270 million (approximately EUR 28 million). The plant has a capacity of 120,000 m^3 per day. The Chinese government is guaranteeing the supply and payment of 80,000 m^3 per day in the first year, which will subsequently increase in increments of 2,500 m^3 per day every year until full capacity is reached. The concession period of this plant is 30 years. In addition to water treatment, the treated water can be re-used. At the end of 2011, 40,000 m^3 per day was re-used and sold to a nearby power plant.

Kardan Water signed two agreements in 2011 for wastewater treatment in Zibo city (Zichuan and Boshan) extending the total capacity of operations in China with 55,000 m^3/day. The total investment is estimated at RMB 94 million (approximately EUR 11 million).

For financial information on Tahal Group International, see the chapter 'Financial Developments', starting on page 16.

Overview Assets Kardan Water China

		Maximum Capacity ('000 m³/day)			
			Expected – based on expansions		
	Number of plants/uses	2011	2012	2013	2014
Tianjin	5	205	230	295	315
Dazhou	2	110	110	110	170
Dingzhou	1	20	20	20	40
Xuanhua	2	240	240	160	240
Zichuan	2	30	30	30	30
Total	**12**	**605**	**630**	**615**	**795**

The nine BOT (build – operate – transfer) wastewater treatment facilities that Tahal Assets operates in China (8) and Turkey (1) at balance sheet date have a remaining term of on average 24 years, and represent approximately EUR 545 million of guaranteed revenues.

Competition
Tahal Group International competes with many international engineering companies and international companies who deliver comprehensive projects in areas of water infrastructure and water treatment, as well as companies with stakes in infrastructure companies.
Considering the diversity and variety of the business segments in which TGI's corporations operate, the competition is almost unlimited and cannot be characterized. This diversity can be expressed in all of the following: (a) diversity in the business segments (projects and asset investment); (b) difference in the nature of the project (planning, supervision, performance, or a combination of the above) or the asset (from the acquisition of existing and operating assets to planning, constructing, and operating new assets); (c) difference in the project's or asset's type of activity (water-sewage, treating water and sewage, burying waste, gas and agriculture, operating and maintaining municipal water systems, and more); (d) difference in the degree of complexity and the financial scale of the projects and assets; and (e) difference in geographical location and scope.

TGI corporations cannot estimate the number of their competitors and/or their position in the market or their own position among their competitors.

The water market is characterized by the entry of new players. In light of substantial investments in the field of the global water market, as well as its noticeable growth, many players from construction, engineering, investments and commercial sectors are also developing capabilities and competing for tenders in the water infrastructure market. TGI corporations deal with their competitors by maximizing their efficiency; using advanced and innovative technologies; active marketing through the location and initiation of projects and investments; joining partners in different countries; and access to financing sources and programs, which enable them to offer their customers financial solutions.

Funding
TGI finances its operation through loans from banks and other financial institutions, as well as shareholder loans which it receives from its parent company, Kardan N.V. Most of the shareholder loans are drawn to finance the assets'operations.

TGI is examining possibilities of diversifying its financing sources, including through raising capital from private institutions as detailed below.

In July 2010, Kardan N.V. capitalized EUR 41 million of the shareholder loan it had provided to TGI into share capital of TGI. As of December 31, 2011, and as of the date of the report, the balance of loans which Kardan N.V. provided to TGI stood at approximately EUR 44 million and EUR 42 million, respectively. The said loans are for periods of three years and they bear an annual interest rate of Euro LIBOR +3%.

In July 2010, TGI signed an agreement with FIMI, an Israeli private equity fund, that was amended in June 2011, pursuant to which FIMI would provide TGI with a loan of up to USD 50 million (approximately EUR 37 million), to be drawn before July 2012 and repaid after 5 years from the date the agreement was signed (July 2010). According to the agreement, FIMI would receive warrants in an amount of up to USD 50 million (approximately EUR 37 million) to purchase an equity stake in TGI based on a pre-money company valuation for TGI which shall be the lower of (a) USD 250 million plus interest or (b) 25% discount on the company valuation at an exit event (such as an IPO). The warrants expire at the earlier of the lapse of five years from closing or upon an exit event. Kardan has the option to buy back up to 60% of the warrants at an internal rate of return for FIMI of 17.5% (provided that a pro-rata portion of the loan shall be repaid at that time) ('Call Option'). The Call Option can be exercised in the six months period commencing two and a half years from closing, or earlier in certain events. The transaction was completed in August 2010.

The total amount of consolidated debt from third parties according to the 2011 consolidated financial statements of TGI amounts to EUR 68 million (December 31, 2010: EUR 121 million). Total cash and cash equivalents amounts to EUR 43 million compared to EUR 49 million as of December 31, 2010. The reduction of debt is the effect of the sale of Milgam, the receipt of outstanding trade receivables of Tahal Group and advance payments with respect to the Quiminha project.

Outlook 2012

TGI will increase its focus to invest in water-related assets. In addition to China, where we expect the capacity of our plants to increase by 25,000 m^3/day to 630,000 m^3/day by the end of 2012, entry into other markets is under review. Revenues are consequently expected to increase.

In the project segment, the spectrum of activities will be more focused on engineering, procurement and construction projects (EPC) projects in frontier countries, as well as on design and engineering activities in Israel (onshore and offshore). Revenues are expected to increase from existing and recently signed projects.

Taking into account the current refocused activities, the total number of personnel of Tahal Projects is expected to slightly decrease.
The total number of staff at Tahal Assets is expected to increase slightly on the back of the growth of Kardan Water China.

Financial Services Division

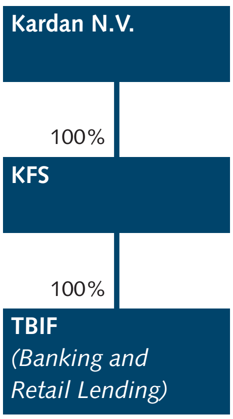
General

Kardan N.V. operates in the financial services sector through its 100% (December 31, 2010: 100%) holdings in Kardan Financial Services B.V. (KFS) and TBIF Financial Services B.V. (TBIF). KFS's strategy is to strengthen the existing investments in Bulgaria and Romania primarily through organic growth, while executing new synergetic investments in these countries.

After the sale of VAB Bank (Ukraine) in January 2011, and the sale of Sovcombank (Share Purchase Agreement was signed in the first half of 2011 – the transaction is expected to be closed in H2 2012), KFS is only active in Bulgaria and Romania, as well as in Ukraine with its operational lease franchise, Avis Ukraine. Currently, there is no intention to extend the activities to other countries.

In April 2011, KFS increased its stake in TBIF, a sub-holding company for Kardan N.V.'s banking and retail lending businesses, to approximately 92% from 90% in 2010. In January 2012, the stake was increased to 100%.

In November 2010, KFS sold its 40% stake in TBIH Financial Services Group N.V. (TBIH), the holding company for insurance and pension activities. TBIH was held jointly with Vienna Insurance Group ('VIG'), which acquired KFS' stake for a consideration of approximately EUR 127 million.



Situation April 2012

Banking and Retail Lending (TBIF Group)

TBIF is active mainly in the fields of banking, consumer finance and leasing in Russia, Bulgaria and Romania. The investment in the bank in Russia was sold in June 2011, but the transaction still needs to be closed.

In April 2011, TBIF signed an agreement to acquire the Bulgarian bank NLB Banka Sofia AD (in the meantime rebranded TBI Bank) from two Slovenian banks to further strengthen its existing investments in Bulgaria and Romania, and to upgrade its operation in Bulgaria – and at a later stage also in Romania – into a full banking operation. The acquisition was completed at the end of July 2011, for a consideration of EUR 15 million. On the date of the acquisition the equity was EUR 10 million.

Before the acquisition of TBI Bank, the activities in Bulgaria and Romania were executed via non-banking units and comprised consumer credit provided to individuals to purchase consumer goods in retail outlets and leasing (mostly financial leases and, to a lesser extent, operational leases), mainly for vehicles and equipment.

TBIF was also active in the asset management market in Bulgaria until August 2011, when these operations were sold.

In Russia, TBIF is active through its 50% (December 31, 2010: 50%) stake in Sovcombank, a retail bank specializing in the origination of consumer loans and loans to small and medium enterprises. The bank has a nationwide network of 1,022 (December 31, 2010: 777) branches and outlets throughout Russia, focusing on the eastern region of Russia.

Venkat Sarma,
Chief Risk Manager TBIF

'Risk and Reward are but two sides of the same coin. The beauty lies in getting the balance right !'

In June 2011, TBIF signed an agreement to sell its stake in Sovcombank to the bank's co-owner. The structure of the transaction includes an initial payment of approximately EUR 40 million that was received during 2011, with the remainder of the price due upon completion, which is expected in the second half of 2012. Completion is subject to various conditions precedent, and until completion TBIF continues to fully exercise its joint-control rights in the bank. The total consideration for the transaction is approximately EUR 123 million. Over the years, Kardan invested approximately EUR 100 million in the bank. This sale, together with last year's sale of a 16% interest in the bank, generates accumulated proceeds of approximately EUR 160 million for Kardan N.V.

After the reporting period, another EUR 8 million was received as part of the consideration, and the Russian Central Bank approved the sale. The remainder of the consideration is EUR 75 million.

In Ukraine, TBIF sold its banking and financial lease operations in the first quarter of 2011 (VAB Bank and VAB Leasing), after a strategic review. As of December 31, 2010, TBIF still held an 84% stake in VAB Bank and 100% in VAB Leasing. After the completion of these transactions in the first quarter of 2011, TBIF remains active in Ukraine only via its holding in Avis Ukraine, an operational lease franchise.

Markets

The developments in the countries of activity are described below;

Bulgaria and Romania

The year 2011 started on a slightly positive note. The sovereign debt crisis which became imminent in Q3 of 2011 as a result of the situation in Greece has impacted Central and Eastern Europe (CEE) in general and some countries in SEE more specifically. Anxiety with respect to diminishing demand from higher income European countries, the main trading partners of the CEE/SEE countries, in combination with the appearing credit crunch resulting from higher solvency requirements for banks, has slowed down the recovery in some of the SEE countries. Insecurity, tightened fiscal measures and increasing unemployment, to name some, have negatively affected purchasing power, particularly in Bulgaria and Romania. Consequently, in November 2011, the European Commission adjusted its economic forecast for Europe downwards, reflecting deteriorating confidence in Europe. GDP growth for Bulgaria and Romania in 2011, however, amounted to 2.2% (2010: 0.2%) and to 1.7% (2010: –1.9%) respectively, and is expected to slightly improve in both countries in 2012. There have been two main developments as Western European banks withdraw their funds from SEE countries, and at times pull out of these countries altogether: 1) additional opportunities for local banks with an existing market share to increase/improve their position and 2) continuing non-performing loans affecting the results of banks in the short to mid-term.

Russia

The growth trend of the Russian economy continued in 2011. It began in Q2 of 2009 and stood at 4% in 2011 in comparison with growth of 3.7% in 2010. Russia's growth in recent years is influenced, inter alia, by high oil prices and is expressed in lower unemployment rates similar to those found during periods immediately prior to economic crises. Russia is exposed to the current European crisis, and the International Monetary Fund is therefore expecting growth in Russia to slow down to a level of 3.7%.

Ukraine

In 2011, Ukraine recorded a growth of 4%, similar to the growth recorded in 2010, which followed negative growth before 2010. The growth rate in the second half of 2011 decreased in comparison with the first half. This is due to the negative influence of the European crisis and a decrease in export volumes. According to the assessment of the World Bank, Ukraine's economy is expected to grow by 2.5% in 2012. Ukraine's rehabilitation program with the International Monetary Fund, which began in 2009, has so far only been partially implemented, but the banking system has stabilized. It should be mentioned that Ukraine faces macro-financial challenges due to the combination of an expected negative influence of the European crisis and internal factors, such as political instability and high external debt.

Development of Group companies

General

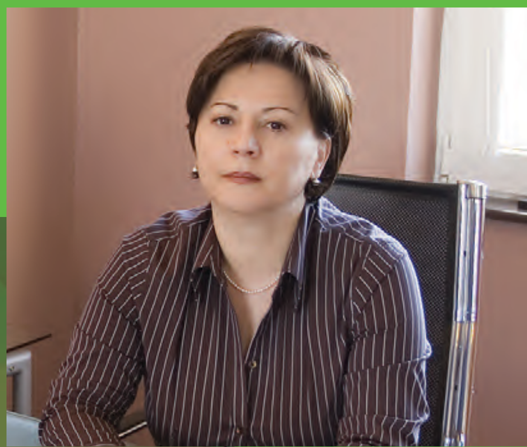
KFS is the holding company of the financial division. Due to its nature, the main activity is the management of the investments in the shares of its subsidiaries, which consists of the wholly owned TBIF.

Portfolio

Upon the sale by KFS of the Insurance and Pension activities, TBIH, to VIG in November 2010 (see section 'General'), KFS acquired a call option to purchase a 93% stake in pension assurance company Doverie AD (Doverie). Doverie manages mandatory and voluntary pension funds in Bulgaria, with assets of EUR 750 million as of December 31, 2011 (December 31, 2010: EUR 677 million) under management. Doverie is the largest pension fund in Bulgaria and has a market share of approximately 33% (December 2010: 33%) on the basis of assets under management. The operations are defined contribution funds in which members' pension payments are based on savings deposited and any returns accumulated on that amount prior to the pension being taken.

TBIF sold its Ukrainian banking and financial lease activities in Q1 of 2011 and signed an agreement to sell its stake in Sovcombank (Russia) in Q2 of 2011. The sale of Sovcombank is expected to be completed in the second half of 2012. As mentioned above, in 2010 KFS sold its holdings in TBIH, so TBIF is currently its sole subsidiary.

In July 2011, TBIF acquired NLB Banka Sofia, currently rebranded TBI Bank, in Bulgaria. In addition, TBIF operated in Ukraine during 2011 in the leasing segment under the brand name Avis.



Florentina Mircea,
Executive Country manager TBIF Romania

'TBIF is well represented in Romania in the financial services sector through TBI Leasing with financial lease products and through TBI Credit with consumer credit and credit cards. With an experience of 10 years, we have a rich portfolio of partners, clients and suppliers and financial partners, a good presence in the country and tailored products for the new financial environment. TBIF Romania is a significant player in the Romanian non-banking financial sector.'

Funding

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

The net cash of KFS/TBIF as of December 31, 2011 is EUR 2 million (December 31, 2010: net debt of EUR 41 million). In the table below, the composition of the net cash is presented.

KFS/TBIF** € in millions	
Liabilities:	
Loans from Kardan NV	(93)
Loans from banks and others	(52)
Assets:	
Cash and short term investments	16
Receivable due to the sale of Sovcom**	69
Loans to others	9
Loans to subsidiaries	53
Net cash	2

** In the financial statements of TBIF, the positions with respect to Sovcom are not included in the current assets. As it is expected that the sale of the shares will be completed in the second half of 2012, the amount payable by the buyers less an amount due to Sovcom is included in the net cash position.

As of December 31, 2011, Kardan N.V. has not complied with one of the covenants with a lending bank (Discount Bank) because a covenant with respect to the minimum equity position of Kardan N.V., the ultimate parent company, was breached. Consequently, an amount of EUR 36 million has been reclassified to short-term liabilities.

After balance sheet date, Kardan N.V. reached an understanding with the bank (see Note 29 of the Consolidated IFRS Financial Statements).

Competition

Most competitors in the banking segment in Central and Eastern Europe, as well as in former Soviet Union countries, are mainly European (international) banks, which compete either through local branches or through acquired banking operations. The advantage of international competitors, in many cases, is demonstrated by the ability of many international banks to provide their local subsidiaries with financial resources, which are often cheaper than local financial resources. In addition, the ability to enter markets is limited to the number of licenses of the existing banks, since most of the countries minimize the allotment of new bank licenses.

The competition in the banking and retail credit business focuses on attracting more, and a diverse group of, clients (individual and business). Differentiation in product offering is crucial, and requires a thorough understanding of the client's needs. Most competitors in the retail credit and financial leasing sector are banking institutions (or banks) often associated with Western European banks. Only a few of them are non-banking entities in the various countries. The advantage of the banking institutions usually lies in the competitive interest rates, as banks can attract deposits while consumer credit institutions need to tap the whole sale banking sector at a higher cost.
The advantage of the non-banking entities, however, stems from the quality of the service and the physical presence at selling points.

Main financial developments

For an analysis with respect to the results and financial developments of KFS, see chapter 'Financial Developments' (page 16 to 39).

Outlook 2012

TBIF will integrate existing branches of the consumer finance and leasing activities in Bulgaria into branches of the new bank, TBI Bank. Using the banking network, TBI Bank will start raising deposits and generating new business. Whether the volume of new business will exceed the decline of the portfolio due to regular redemptions depends to a significant extent on the development of the purchasing power and behavior of consumer's and the viability of small and medium enterprises. The company is also trying to get a banking license in Romania, but this is not expected to happen until late 2012.

Finally, the sale of Sovcombank is expected to be closed in the second half of 2012. In Q1 of 2012 all conditions precedent were met, and after having already received EUR 40 million in 2011, another EUR 8 million was received as part of the consideration. The remaining part of the sales price amounts to EUR 75 million. The proceeds will largely be used to reduce debt.

The total number of personnel, employed by the Financial Services division as of December 31, 2011 was 5,284 (December 31, 2010: 6,510). The decrease in number of staff was mostly due to the sale of VAB Bank at the beginning of 2011, which was partially off-set by an increase in personnel at Sovcombank. Following the closing of the Sovcombank transaction, the total number of personnel, employed by the KFS Group, will substantially decrease.

Discontinued operations: Rental and Leasing of Vehicles, Sale of Vehicles, and other businesses

General

Kardan Israel Ltd. (Kardan Israel) is listed on the Tel Aviv Stock Exchange and operates three segments: Real Estate, Rental and Leasing of Vehicles, and Sale of Vehicles. Kardan Israel's other activities mainly include investments in the communication and technology sectors.

In 2008, Kardan announced for the first time its intention to spin off Kardan Israel. Following the initial announcement, several additional announcements were made about delays and resumptions of the process. In the 2010 annual report, Kardan stated that the delay resulted from the process being subject to different regulatory requirements in both the Netherlands and Israel. Eventually, the process was successfully finalized on October 5, 2011.

Up to October 5, 2011, Kardan N.V. owned almost 74% of the shares of Kardan Israel.
The results and activities of Kardan Israel are consequently presented as discontinued operations in Kardan N.V.'s financial statements.

In Rental and Leasing of Vehicles, Kardan N.V. was active through Kardan Vehicle (operational under the brand name Avis Israel), of which it indirectly held 34% as of September 30, 2011. In March 2011, Kardan Israel increased its stake in Avis Israel to 68% and became the controlling shareholder of that company. In August 2011, however, Kardan Israel decreased its stake in Avis to 34%.

In Sale of Vehicles, Kardan Israel indirectly holds 41% of UMI, the importer of General Motor vehicles, such as Chevrolet, Buick, Cadillac and Isuzu light trucks. In addition, for importing and marketing these vehicles, UMI provides related services such as maintenance and repair, insurance and finance leasing.

Development of activities

Rental and Leasing of Vehicles

The leasing market in Israel has become more competitive mainly due to attractive financing, which has led to an increase of cars in the market and pressure on pricing for leasing, renting and for the sale of second-hand vehicles. In addition, the demand for lease vehicles has decreased due to recent regulations in Israel on the taxation of lease cars. As a consequence, employees are facing higher income tax, as the value of their lease car is considered to be additional compensation.

Developments Avis Israel

The revenues of Kardan Vehicle (Avis Israel) in 9M–2011 decreased by 9% y-o-y, mainly due to the market circumstances mentioned above. As of September 30, 2011, Avis Israel had a car fleet of approximately 29,500 cars.
The fleet as of the December 31, 2010 amounted to approximately 30,300.

Sale of vehicles

The Israeli automotive sales market continued to grow, with approximately 175,000 vehicles (+14% y-o-y) being handed over in 9M–2011.

Developments at UMI

In 9M–2011, UMI increased its market share, in terms of the number of new vehicles sold, to 7.7% (9M-2010: 6.4%), mainly due to the successful sales of mini and compact vehicles (Chevrolet Spark and Chevrolet Cruze). However, the increase in the number of vehicles sold (14,628 in 9M–2011) was not reflected in a higher net profit during the reporting period, due to higher marketing expenses associated with the launching of new models.

In the full year 2010, UMI delivered 14,430 vehicles.

Personnel and Organization

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

Since Kardan's employees are of major importance to its success, the company remains dedicated to retaining highly competent personnel throughout its organization.
This is only possible by offering them competitive employment conditions and a challenging environment. Kardan N.V.'s management is confident that this is what the company offers its employees.

Kardan N.V. has a lean management structure with an entrepreneurial approach. Kardan N.V. is not only responsible for strategic development, but it also contributes its business experience, local and international networks, and financial resources. Each segment is headed by an experienced manager with an appropriate background.

	Number of employees as of December 31, 2011				
	Kardan	GTC	KFS	Tahal	Total
Europe (mainly CEE & CIS)	19	189	5,284	384	5,876
China	–	341	–	322	663
Israel	–	–	–	269	269
Other	–	–	–	249	249
Total	**19**	**530**	**5,284**	**1,224**	**7,057**

Management Board Report

In Kardan N.V.'s view, a strong local presence and a decentralized management structure are key for initiating and developing assets in emerging markets. This ensures that Kardan has timely access to appropriate opportunities, while also understanding and managing local risks. Consequently, Kardan's personnel policy and its operational structure are decentralized.

At year-end 2011, the number of people employed by Kardan N.V. and its consolidated companies totaled 7,057. As of December 31, 2010 the number of employees was 10,332. The reduction of the number of employees in Israel from 2,321 to 269 is mainly due to the spin-off of Kardan Israel (1,159 employees as at December 31, 2010) and Milgam Municipal Service Ltd., formerly part of Tahal Group International.

Real Estate

Kardan N.V. is active in real estate in Europe and in Asia. Real Estate Europe consists mainly of GTC S.A. activities, the leading real estate company in Central and Eastern Europe. The companies performing GTC S.A.'s activities in Poland, Romania, Hungary, the Czech Republic, Serbia, Croatia, Slovakia, Bulgaria, Ukraine and Russia are each managed by local headquarters, which coordinates the business operations in each country. Sometimes, one of the headquarters manages the headquarters of several countries by providing management services. The local headquarters in each of the countries deal with the development of new projects, as well as the marketing and management of existing properties. As of December 31, 2011, GTC RE employed 189 people in Europe (196 as of December, 2010).

Real Estate Asia comprises Kardan Land China, with headquarters in Beijing. Kardan Land China has a full staff, all of whom deal with the management and operation of the real estate assets in China, as well as the location and development of new projects. As of December 31, 2011, Kardan Land China employed 341 people (322 as of December, 2010).

Water Infrastructure

Tahal Group International's (TGI) organization is based on operations divided into two business segments: Tahal Projects and Tahal Assets. Each business segment is led by its own management, this in addition to the management and headquarters of Tahal Group International.
As of December 31, 2011, Tahal Projects employed 812 people, Tahal Assets employed 410 people and TGI employed 2 people at the holding level, bringing the total number of employees of TGI to 1,224 employees, (December 31, 2010: 2,128). The decrease is mainly attributable to the fact that Milgam (Tahal Assets Israel) is no longer part of Tahal Assets, following the spin-off of Israeli activities in Q4 2011.

Financial Services

As of December 31, 2011, the Kardan Financial Services (KFS) division employed 5,284 people. KFS and TBIF Group headquarters, located in Amsterdam, the Netherlands, are made up of employees who engage purely in management duties. All of the other KFS Group employees are employed locally in the various countries of operation. In 2011, the number of employees decreased compared to 2010 (from 6,510 to 5,284) mostly due to the sale of VAB Bank at the beginning of 2011, which was partially off-set by an increase in personnel at Sovcombank.

Sandra Christiaan,
Executive Office Manager Kardan N.V.

'Developing a career in an international, listed company which is going through rapidly changing market circumstances, means to adapt to the moment while never losing your focus.'

Risk Management

Risk as an integral part of Kardan's business model

By focusing on the initiation and development of assets in promising emerging markets, Kardan is exposed to a relatively high degree of business and geopolitical risks inherent to these markets. Emerging markets are by nature underdeveloped and unstable in various aspects and therefore often exposed to risks arising from unforeseen changes such as geopolitical, regulatory, legal, and economic changes. To ensure knowledge and understanding of its business environments, Kardan acts as locally as possible by entering into local partnerships using local management. In addition, Kardan thoroughly analyzes business opportunities and tries to avoid and mitigate risks that are not intrinsic to its business model and core competencies.

As in previous years, Kardan has been closely following changing global economic developments and is carefully reviewing and monitoring their impact on its financing position, valuation of assets, and liquidity position. Contact between the Management Board and the management bodies of its subsidiaries has remained intensive, and they regularly discuss the latest developments and expectations in the respective markets, as well as the financial resilience of these subsidiaries.

Kardan's approach to risk management

Kardan believes it is impossible to fully know and therefore 'control' all the risks related to its businesses. Kardan's aim is to try to oversee and understand the risks related to its businesses to the greatest extent possible, fully realizing that there are many unknown risks. On the basis of this, the company strives to make well-informed decisions. Therefore, one of the main drivers behind Kardan's risk management approach is to have reliable and adequate flows of relevant information as a basis for informed analyses, discussions and decisions.

In Kardan's view, a crucial element of successful risk management is a company's organizational culture. The prerequisite for effective risk management is having a proper 'risk culture' throughout the organization, i.e. all involved in our businesses should have the basic mindset required for doing responsible business. This needs to be continuously reinforced and cultivated, amongst others through education and communication. In this respect, it is crucial that the so-called 'tone at the top' is the right one; management should lead the way by setting the right example through their behavior and decisions.

Furthermore, Kardan believes it would be a misconception to see risk management and internal control as mandatory matters that should be complied with or that can be dealt with by a risk manager or a risk management department. As the company believes that risk creates opportunities for businesses, which in turn can create value, it is crucial to embed the management of these risks in our day-to-day operations. Although proper coordination of risk management and internal control activities is necessary, the responsibility for adequate risk management and internal control is ultimately a joint responsibility for all employees of all companies that are part of Kardan as a group.

To validate the proper implementation of risk management within its subsidiaries, Kardan uses, among others, the various governance structures in place. Through Kardan's position as a shareholder in its subsidiaries, as well as through the various board positions held by the Kardan Management Board in Kardan's subsidiaries, Kardan is monitoring the status of risk management within its subsidiaries. Moreover, in this respect, certain structural control measures are implemented, through thresholds for approval of important decisions, for example, and through the performance of internal audits on issues selected by the relevant audit committee. In addition to monitoring through governance structures, there is ongoing management reporting that enables Kardan to monitor the businesses of its subsidiaries. Kardan's (main) subsidiaries provide Kardan with a representation letter on a yearly basis. The statement made in this letter is closely connected to the statement as made under 'Management review' below.

Kardan N.V.'s risk management framework and processes

Within Kardan's corporate governance structure, its risk management framework constitutes the link between strategy and policy-making, and the actions of the organization. An effective risk management framework provides reasonable assurance that the group's objectives will be achieved: The general concept of Kardan's risk management approach is to create and maintain a risk management framework that provides a clear view of Kardan's business environment as well as its position therein and to ensure high-quality information flows. This in order to enable management at all levels to make sound analyses, leading to informed decisions on opportunities and risks that present themselves during the course of business.

Kardan implemented a risk management framework in alignment with the Enterprise Risk Management – Integrated Framework published by the committee of sponsoring organizations (COSO) of the Treadway Commission. In line with this framework, Kardan implemented certain recurring and ongoing processes.

- The Management Board holds an annual strategy meeting. During this meeting, the Management Board discusses and – if deemed appropriate – modifies Kardan's corporate strategy and related objectives.
- Following the strategy meeting, the Management Board holds a risk assessment session. The general purpose of this session is to discuss and assess the risks related to Kardan's strategy and activities, aimed at getting a good common understanding of such risks within the Management Board that can provide a basis for future decision-making and (targeted) measures to be taken. Although the risks inherent to Kardan's strategy are also explicitly addressed and discussed, the voting perspective strongly reflects the Board's views towards the residual risks. The focus is placed on risks that are thought to be actively manageable and where further internal control measures could be taken.
- In due time after the risk assessment session, the Management Board evaluates the main results of the risk assessment workshop, focusing on the main risks identified and the views and responses towards these main risks.
- The outcomes of the various meetings are processed into a report that is shared with Kardan's Supervisory Board and with the internal auditors. The risks identified, as well as their related controls, are amongst others also monitored by using certain specific risk and control indicators embedded in Kardan's ongoing management (reporting) systems and regular formal and informal contact with staff throughout the Kardan and its group companies. Within Kardan's governance structure, internal management reporting systems form an important information source for management's analysis and decision-making processes and therefore the management of risks.

As of December 31, 2010, Kardan needs to comply with Israel's Securities Law regulations relating to the effectiveness of internal control over financial reporting and disclosure ('Israeli SOX'). During the year under review, until the date of this report, all steps have been taken to be able to provide a declaration regarding the effectiveness of the internal control as referred to before.

Based upon the work performed, the Chairman of the Management Board and the CFO of Kardan N.V. have made a statement in the Israeli Annual Report saying that the control over financial reporting and disclosure is effective. The Group's auditors have confirmed the correctness of that statement in a separate opinion. In subsequent years, a similar declaration has to be made. The implementation of the Israeli Sox requirements will strengthen the company's internal control framework and enhance the quality of financial reporting and disclosure.

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

Main risks related to Kardan's strategy

The section below describes the main risks associated with Kardan's strategy, as well as their related controls. Reference is also made to the financial risks, as described in the 2011 Statutory Financial Statements. In addition, there may be other significant risks that Kardan has not yet identified or that were assessed as not having a significant potential impact on the business, but which could at a later stage materialize.

Please note that in Kardan's view, the risk categories listed below should be seen as general guidance for considering the main risks related to its businesses and strategy. Kardan deems all risk categories, as discussed during its annual risk assessments, to be relevant for its business performance and hence conscientiously monitors all of them.

Capital availability

Kardan remains strongly dependent on external financing, amongst others taking into account the current level of debt on a Kardan N.V. (holding) level and on the level of its intermediate holdings. As a consequence, Kardan is exposed to the risk that insufficient access to capital may threaten its capacity to execute its business model, grow and generate future financial returns.

In line with its financial strategy, Kardan intends to further reduce its leverage on a Kardan N.V. (holding) level as well as on the level of its intermediary holding levels – and further enhance the direct financing of its activities on a subsidiary level. Reducing leverage on a Kardan N.V. level will reduce Kardan N.V.'s exposure to risks related to debt-servicing capacities, e.g. by being less dependent on financing and refinancing possibilities in adverse financial markets.

Kardan N.V. and each of its divisions intensively manages their capital structure and liquidity position. Cash-flow forecasts are made on a regular basis and discussed within the divisions and with Kardan's Management Board. As part of these discussions, decisions are made with respect to raising capital and the form of it (equity, mezzanine, debt), repayment or restructuring of loans, investment or divestment of assets, and dividend policy.

Concentration

Kardan conducts numerous operations, mainly concentrated in Central-Eastern Europe and (increasingly) in China, as a result of which the Group is specifically exposed to these regions and markets. However, the Group has diversified its business activities over different sectors in different (emerging) markets, providing, to a certain extent, a risk mitigation effect.

Kardan continues to divert managerial and financial resources to its investments in Central-Eastern Europe and China and is looking to further expand its activities in Asia. As a result, Kardan is closely monitoring risks related to the specific markets and segments it operates in and might further expand into.

Financial markets

As a listed company strongly dependent on external financing and with a high exposure to emerging markets, Kardan runs the risk that fluctuations in, among other things, prices, rates and indices affect the value of its financial assets and stock prices, impacting its ability to raise capital, as well as the cost of capital.

Although Kardan is not able to estimate the impact of this, ongoing developments in the financial markets could adversely affect Kardan's results, its equity base, the value of its assets, its ability to comply with the covenants agreed upon with lenders, and its ability to raise financing, as well as the terms of such financing. To manage these risks, Kardan intensively monitors the financial positions within its businesses and hedges these risks if and when deemed necessary.

As stated above under 'Capital availability', Kardan intends to further reduce its leverage on a Kardan N.V. (holding) level as well as on the level of its intermediary holding levels – and further enhance the direct financing of its activities on a subsidiary level. Reducing leverage on a Kardan N.V. level will reduce Kardan N.V.'s exposure to risks related to debt-servicing capacities, e.g. by being less dependent on financing and refinancing possibilities in adverse financial markets.

Fraud & illegal acts

Being a decentralized organization with a large number of separate entities spread over different geographic areas in emerging markets, Kardan runs the risk that fraudulent activities or illegal acts perpetrated by managers, employees, customers, suppliers or third parties may expose the organization to fines, sanctions, and loss of customers, profits and reputation, etc., and may adversely impact the organization's ability to achieve its objectives.

Kardan has implemented a Code of Conduct, guiding its employees on ethical behavior with the aim of preventing fraud and illegal acts. In addition, Kardan has implemented policies and procedures which are embedded as much as possible in the daily operations, providing checks and balances for its activities. Furthermore, Kardan needs to comply with many regulations. As a result, several entity level controls were implemented (as part of the Israeli SOX referred to above) in order to prevent and detect fraud and illegal acts, and Kardan is subject to (internal and external) audits on an ongoing basis.

Human resources

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

With the support of its local partners, Kardan endeavors to ensure the long-term commitment of key personnel, among others, by having incentive schemes in place that are aligned with the long-term development of their assets. In addition, Kardan aims to take further actions to avoid dependency on a limited number of key personnel, among others, by creating a diversified pool of people available for key positions, rotation of personnel, and improvement in succession planning.

Competition

Kardan faces competition both from an operational perspective, i.e. as a result of others providing the same assets and services to *clients*, as well as to *investors*, having a wide range of investment opportunities in emerging markets.

In relation to both risks, Kardan believes it is very important to have a clear understanding of local market circumstances. Therefore, Kardan builds on a strong local presence in its countries of operations, using a mix of local and international management.

Through this local presence, Kardan closely monitors the needs of its clients and adjusts its activities when needed and possible. Being an initiator and developer of assets, Kardan offers investors an opportunity to benefit from a relative early presence in the markets in which it operates, incorporating 'Western-style/ managed' assets in emerging markets.

Investor relations

Kardan N.V. is still relatively unknown to a part of the investor community. This may limit Kardan's ability to successfully operate in the capital markets, which could adversely affect Kardan's strategy to further grow its businesses.

Kardan will continue its investor relation efforts to further build relations with its stakeholders and aim to create a broader, more global, investor base.

Legal & regulatory

Kardan operates in highly regulated markets and market segments and is consequently exposed to the risk that changing laws and regulations may threaten its capacity to consummate important transactions, enforce contractual agreements or implement specific strategies and activities. With the assistance of its local partners and (internal and legal) counsels, Kardan is continuously monitoring the regulatory environments it operates in, aiming to both anticipate and respond to changing regulations and the related consequences on it businesses.

Partnering

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

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

Sovereign/political

Being predominantly active in emerging markets, Kardan can be confronted with unstable political situations that are often inherent to these markets. Such instabilities might adversely affect its operations and their results.

Kardan closely monitors the political situation of the countries it is operating in and adjusts its position where desirable and possible. In this respect, Kardan aims to select the right local partners to enhance the understanding of the local political environments and the resulting consequences on its businesses.

Management review

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

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

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

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

Environmental and Social Governance (ESG)

Kardan considers Environmental and Social Governance (ESG) behavior conditional for the future success of the operations of the Group. The core activities of Kardan – Real Estate and Water Infrastructure – all inherently demand and incorporate ESG requirements, as highlighted in our explanation on sustainability. We take the view that ESG is not a topic by itself, but rather, that it is a growing integral part of our overall strategy and a core value of the company, combining sustainability issues with risk management and with corporate social responsibility. Kardan aims to contribute to sustainable growth throughout all its businesses.

Sustainability

Sustainability is a key element of our strategy to initiate and develop assets in emerging markets. We deem it important to meet the current and future needs of our various stakeholders with a long-term view. Sustainability has developed into a broadly supported component for meeting such needs. We are therefore committed to further developing sustainability into a key value driver for our businesses.

Initiating and developing assets focused on segments that serve the middle-class's needs in emerging markets, Kardan is confronted with the social and environmental challenges specific to these markets and segments. Social and environmental issues are generally still given less attention in emerging markets, though this is changing noticeably. At the same time, the pressure to facilitate the needs of the growing middle-class is strong and this could adversely affect the responses to such social and environmental issues. We are dedicated to addressing and managing such issues in a responsible manner, and aim to implement ESG standards whenever possible.

We believe that sustainability should be a core value of the company reflected in our corporate governance. Consequently, a Code of Conduct has been created to provide the Group's employees with guidelines for behavior and activities, as well as on how to comply with laws, regulations and ethical standards that govern Kardan's businesses.

Real Estate

Sustainability has become a 'sine qua non' for doing business in real estate markets. Sustainability standards increasingly form part of the criteria that tenants set for renting property. Kardan aims to meet these standards by providing high-quality property that addresses its tenants' needs.

GTC S.A. takes pride in its firm commitment to corporate social responsibility. Serving the long-term interests of all stakeholders, socially and environmentally, has become an integral part of its strategy. This translates into internal and external guidelines on environmental issues, social responsibility, and corporate governance.
The company complies with OECD guidelines, such as cooperation with local communities, creation of new jobs, and development and implementation of best practice in corporate governance. Before starting the development of a project, GTC analyzes the environmental situation, energy consumption, the ability to recycle waste, and other issues that need to be considered when undertaking socially responsible investments.

Since 2010, GTC S.A.'s office projects have been built in compliance with standards defined by the US Green Building Council®, enabling them to meet the requirements for prestigious LEED (Leadership in Energy & Environmental Design) certification.
The certification process involves assessing factors such as the rational use of natural resources, building location, energy efficiency, water conservation, limiting CO_2 emissions, the quality of the microclimate inside the building, and the selection of construction and finishing materials. Certification is awarded only to selected projects that meet the highest standards set by the US Green Building Council. In late 2011, GTC investments in Romania and Bulgaria won CEE Green Building Awards, and two office developments

and a shopping mall developed by GTC were awarded in the category of 'LEED application in progress'.

Within its Chinese developments, Kardan Land China is servicing the needs of the rising middle-class by developing shopping centers as well as affordable housing, thereby also facilitating the strong urbanization trend as supported by the government. Kardan Land China uses external consultants to develop their projects according to sustainability guidelines and is committed to corporate social responsibility, taking its stakeholders' interests to heart. In 2012, Kardan Land China plans to start the development of its most prestigious project, Europark, which involves a shopping center (GLA approximately 100,000 m^2) and service apartments (approximately 1,000 planned). For this project, Kardan Land China aims to obtain LEED certification for the entire project and also aims to get LEED Gold for some specific elements.

Financial Services

Kardan's banking and retail lending activities, under the brand name TBI, target the growing middle-class, mainly in Bulgaria and Romania, by providing loans, consumer credit and leasing services to individuals and small businesses to accommodate their basic financial needs and to invest in their businesses. Hence, as a financial services company, we enable economic and social change that influences many people's lives.

Kardan's financial services division operates truly locally, by offering its services through local offices and points of sale. Our services are granted to retail clients, who are deemed capable of repaying the funds. In addition, TBIF follows EU banking rules and regulations. By providing financial services to individuals and SMEs, in order to support these clients in growing their businesses, TBIF Group aims to contribute to the sustainable economic and social development in the countries of its operations.

Water Infrastructure

The demand for water is ever increasing due to population growth, social mobility and industrial expansion. In addition, climate change and pollution are negatively impacting the world's rapidly diminishing fresh water supply. Water is, however, a basic human need which the state is obliged to deliver, and unlike with electricity for instance, people are not accustomed to pay for water. Governments in various countries are therefore taking measures to address this issue, to make people aware of the importance of saving water and to secure enough funds to meet increasing water consumption demands. A lack of sufficient and clean water can, and will, negatively impact such things as agricultural development (food), a country's healthcare, industrial development and ultimately a nation's economic growth.

'Water' demonstrates clearly how social, environmental and economic goals are interlocked. With fertility, diet, health and life expectancy improving annually in emerging markets, populations are expected to grow, putting more pressure on the need for greater and better access to water.
The development of water supply systems in rural areas in developing countries is not only essential for food security but also creates job opportunities, generates income and improves the general health of people. In other words, water is crucial to the development of countries and their citizens' general well-being.

Tahal Group International has played a worldwide role in developing access to water, treating wastewater, enhancing agricultural production, and producing energy from solid waste for 60 years. We are fully committed to continue to provide such solutions in an environmentally sound and socially responsible way.

The connection between technology and environment, and the needs of the community is evident in all our projects. We develop water solutions and create jobs in rural and urban environments, such as our latest and biggest water infrastructure project in Angola. This project, titled the Quiminha project, encompasses a variety of endeavors, including the development and construction of the water supply, sewage and drainage system for a new rural settlement and irrigation of farmland. The aim is to develop fertile land to increase the local production of agricultural products. Following completion of the project, Tahal will provide the farmers with a training program for a period of another two years.

Wastewater treatment facilities designed by Tahal are aimed at preventing the dumping of raw sewage into clean rivers and providing recycled water suitable for irrigation. We are particularly active in attracting long-term concession agreements to develop and exploit wastewater and water treatment plants in China, where we currently operate eight wastewater treatment facilities, one water treatment facility and one water supply facility. We also have two wastewater treatment projects under construction. Kardan Water, our water infrastructure company in China, is a founding member of Tianjin Binhai New Area Green Water and Low Carbon Industry Association, which aims to improve communication to enterprises with respect to environmental protection and provide a platform to share ideas and opportunities. Kardan Water was included in the China Top 10 Low Carbon Contribution International Enterprises by the Chinese People's Political Consultative Conference (CPPCC) and National Development and Reform Commission (NDRC) and the China Top 10 Best Water Business Enterprise by the Ministry of Water Resources, due to its good practices and operational excellence. In addition to developing our businesses, we are continuously engaged in protecting the environment, conducting socially responsible activities and committed to the municipalities with whom we cooperate. For example, Kardan Water established a scholarship program to support outstanding students. The company also participates in educational programs related to the environment and sustainability.

Responsible behavior and environmental impact assessments have become an integral part of construction projects. This affects Tahal's own design and planning activities, where prevention and mitigation of environmental risks are an essential element of each project. This, in turn, meets the new requirements set by leading commercial banks, regarding social and environmental impact assessments, in order to obtain financing.

Since 1996, Tahal has been accredited by the Israeli Standard Institute for its Quality Assurance System, which is in compliance with the requirements of Israeli Standard ISO 9001:2008. Moreover, the Tahal office in Tel Aviv and Haifa, Israel, has been accredited by the Israeli Standard Institute for its environmental and occupational health & safety management system in compliance with Israeli Standards ISO 14001:2004 OHSAS 18001:2007, and was awarded the SII GOLD MARK (2011).

Declaration by the Management Board

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

(i) The Consolidated Financial Statements for the financial year 2011 give a fair view of the assets, liabilities, financial position and losses of Kardan N.V. and of the companies included in the consolidation.

(ii) The 2011 Annual Report gives a fair view of Kardan N.V.'s condition on the balance sheet date, the development of Kardan N.V. and its affiliated companies (subsidiaries, joint ventures, and associated companies) during the financial year 2011, and all material risks to which Kardan N.V. and its affiliated companies are exposed.

Amsterdam, April 17, 2012

Management Board

A. Ickovics

W. van Damme

Ms. E. Oz-Gabber

J. Slootweg

Composition of the Boards

Management Board

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

Mr. Alain Ickovics (1959)
Position: Managing Director (Chairman)
Nationality: Israeli and Belgian
Appointed: June 14, 2006
Reappointed: May 20, 2009
Current term: AGM 2012
Mr. Ickovics will step down per the Annual General Meeting of Shareholders on May 31, 2012, as announced in the press release dated February 21, 2012.
Mr. Ickovics holds an MBA in Finance from Columbia University (United States) and a BSc in Industrial Engineering from the Technion – Israel Institute of Technology. In 1994, Mr. Ickovics joined the Kardan Group and held the position of Chairman of the Management Board of Globe Trade Centre S.A.
From 2001 to 2006, Mr. Ickovics served as Director of International Operations of Kardan N.V., as Managing Director of GTC International S.A., and as a Director of several of its operational subsidiaries. Currently, he serves as Managing Director and Supervisory Director in various other companies within the Kardan Group, including Globe Trade Centre S.A.

Mr. Jan Slootweg (1957)
Position: Managing Director (Deputy Chairman)
Nationality: Dutch
Appointed: June 19, 2008
Reappointed: May 31, 2011
Current term: AGM 2014
Upon approval of the one-tier board structure as will be proposed at the Annual General Meeting of Shareholders on May 31, 2012, Mr. Slootweg will no longer be in office as member of the Management Board but will stay as a member of the executive management.
Mr. Slootweg completed his education at NIVRA (CPA) in Amsterdam, the Netherlands, and is a RA (Registered Auditor).
He started his career at Deloitte & Touche in 1975. Between 1992 and 2001, Mr. Slootweg worked for Athlon Groep N.V. as Group Controller, and between 2001 and 2006 he was a member of the Executive Board of Athlon Holding N.V., a company listed on the AEX at that time, where he was responsible for finance, controlling, and IT. After Athlon was delisted from the AEX, Mr. Slootweg became a member of the Management Board of Athlon Car Lease International B.V., where he was responsible for control, risk, tax, HR, and legal affairs. Mr. Slootweg joined Kardan N.V. in June 2008. He also serves as Managing Director and Supervisory Director in various other companies within the Kardan Group, including Globe Trade Centre S.A.

Ms. Einat Oz-Gabber (1971)
Position: Managing Director (CFO)
Nationality: Dutch
Appointed: May 19, 2005
Reappointed: May 31, 2011
Current term: AGM 2014
Upon approval of the one-tier board structure as will be proposed at the Annual General Meeting of Shareholders on May 31, 2012, Ms. Oz-Gabber will no longer be in office as member of the Management Board but will stay as a member of the executive management.
Ms. Oz-Gabber is a Certified Public Accountant (Israel) and holds a BA in economics and accounting from Tel Aviv University (Israel).
Ms. Oz-Gabber worked as an accountant and auditor from 1997 to 2001 in Israel with Luboshitz Kasierer (Arthur Andersen). Between 2001 and 2003, she worked for Deloitte & Touche Accountants (formerly Arthur Andersen) in the Netherlands. Ms. Oz-Gabber has been working as Controller of the Kardan Group since mid-2003, and since May 2005 as Kardan N.V.'s Chief Financial Officer (CFO). Ms. Oz-Gabber has knowledge of and experience with IFRS, Dutch GAAP, and Israeli GAAP. Currently, she also serves as Managing Director and Supervisory Director in various other companies within the Kardan Group.

Mr. Walter van Damme (1972)
Position: Managing Director
Nationality: Dutch
Appointed: May 26, 2010
Current term: AGM 2013
Mr. Van Damme will step down from the Management Board of Kardan per the Annual General Meeting of Shareholders on May 31, 2012 to become CEO of Kardan Water, the water infrastructure subsidiary of Kardan in China, as announced in a press release issued on November 21, 2011.
Mr. Van Damme holds a law degree from the University of Amsterdam. He started his career as a lawyer at different law firms. From 2000 until the end of 2006, Mr. Van Damme served as one of the founding partners of First Dutch Capital. Mr. Van Damme joined the Kardan Group in January 2007. He also serves as Managing Director and Supervisory Director in various other companies within the Kardan Group.

(Re-)appointment Scheme of Kardan N.V.'s Management Board

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

Scheme

Name	Date of initial appointment	Date of (last) reappointment	End of current term
Einat Oz-Gabber [1]	May 19, 2005	May 31, 2011	AGM 2014
Alain Ickovics [2]	June 14, 2006	May 20, 2009	AGM 2012
Walter van Damme [3]	June 13, 2007	May 26, 2010	AGM 2013
Jan Slootweg [4]	June 19, 2008	May 31, 2011	AGM 2014

1 Upon approval of the one-tier board structure as will be proposed at the General Meeting of Shareholders on May 31, 2012, Ms. Oz-Gabber will no longer be in office as member of the Management Board but will stay as a member of the executive management.
2 Mr. Ickovics will step down per the General Meeting of Shareholders of May 31, 2012, as announced in the press release dated February 21, 2012.
3 Mr. Van Damme will step down from the Management Board of Kardan on May 31, 2012 to become the CEO of Kardan Water, the water infrastructure subsidiary of Kardan in China, as announced in a press release issued on November 21, 2011.
4 Upon approval of the one-tier board structure as will be proposed at the General Meeting of Shareholders on May 31, 2012, Mr. Slootweg will no longer be in office as member of the management board but will stay as a member of the executive management.

Supervisory Board

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

Mr. Joseph Krant (1948)
Position: Chairman of the Supervisory Board, member of the Audit Committee, and member of the Remuneration, Appointment and Selection Committee.
Nationality: Dutch
Appointed: July 9, 2003
Reappointed: May 31, 2011
Current term: AGM 2015
Mr. Krant will step down per the General Meeting of Shareholders of May 31, 2012.
Mr. Krant is Managing Director of Catalyst Advisors B.V. Since 1973, he occupied various positions, including Managing Director and Chief Executive Officer of Kempen & Co and CEO of Dexia Bank Nederland.
Other positions:
Member of the Supervisory Board of Cyrte Investments B.V.

Ms. Karnina Rechter (1953)
Position: Supervisory Director
Nationality: Israeli
Appointed: May 2, 2003
Reappointed: May 31, 2011
Current and final term: AGM 2012
Ms. Rechter holds a BA in Social Work from the Bar-Ilan University (Israel), and a BA and law degree from London University (United Kingdom).
Ms. Rechter is a partner in the Israeli law firm of Bash-Rechter Law Offices, where she works as an attorney and mediator.

Mr. Avner A. Schnur (1948)
Position: Supervisory Director
Nationality: Israeli and Belgian
Appointed: July 9, 2003
Reappointed: May 31, 2011
Current term: AGM 2015
Mr. Schnur will be nominated for appointment by the General Meeting of Shareholders on May 31, 2012 as a non-executive board member of the one-tier board as explained on page 84 of the Corporate Governance chapter.
As of 1986, Mr. Schnur has served as President of Astra Diamonds Manufacturers Ltd. He also served as a director in various other Israeli companies that are either subsidiaries of, or associated with, the Kardan Group.

Mr. Israel Fink (1946)
Position: Supervisory Director
Nationality: Belgian
Appointed: May 2, 2003
Reappointed: May 31, 2011
Current and final term: AGM 2012
Mr. Fink holds a degree in civil engineering from Brussels University (Belgium). Mr. Fink serves as Sales and Marketing Manager and Co-director of Fancy Diamonds International BVBA, a company incorporated in Belgium. Since 1970, he has occupied various positions in the construction management and diamond industries.

Mr. Jay L. Pomrenze (1949)
Position: Supervisory Director and member of the Remuneration, Appointment and Selection Committee
Nationality: American
Appointed: May 18, 2004
Reappointed: June 19, 2008
Current term: AGM 2012 (not eligible for re-appointment)
Mr. Pomrenze holds a BA in chemistry from Yeshiva University, New York (United States), an MA in philosophy from Yeshiva University, an Ordination as Rabbi of Yeshiva University, and an MBA in finance & economics from New York University.
Mr. Pomrenze currently serves as Director of Poalim Capital Markets Ltd. and KCPS & Company.
Mr. Pomrenze is not available for reappointment in AGM 2012.

Mr. Max I. Groen (1946)
Position: Supervisory Director and Chairman of the Audit Committee
Nationality: Dutch
Appointed: July 1, 2005
Reappointed: 20 May, 2009
Current term: AGM 2013
Mr. Groen will be nominated for appointment by the General Meeting of Shareholders on May 31, 2012 as a non-executive board member of the one-tier board as explained on page 84 of the Corporate Governance chapter.
Mr. Groen holds an MA in economics and accounting from the University of Amsterdam (the Netherlands).
Mr. Groen worked as partner of KPMG Business Advisory Services/KPMG Accountants, Amsterdam, for more than 30 years. He holds a degree in economics (MA) and a postgraduate degree in accountancy (CPA). He is a member of the Netherlands Institute of Certified Public Accountants.
Mr. Groen is currently a board member of the Netherlands Synagogue Community and a member of the Appeals Committee of the Netherlands Foundation Collective Maror Funds.

Mr. Hendrik Benjamins (1943)
Position: Supervisory Director and Chairman of the Remuneration, Appointment and Selection Committee.
Nationality: Dutch
Appointed: May 26, 2010
Current term: AGM 2014
Mr. Benjamins will step down per the General Meeting of Shareholders of May 31, 2012.
In May 2005, Mr. Benjamins retired as CEO from Koninklijke Frans Maas Groep after 15 successful years in various positions. Between 1986 and 1991, Mr. Benjamins worked for Akzo Nobel as Transport Manager. He is currently also a member of the Supervisory Board of Vos Logistics B.V.

Corporate Governance

Introduction

As a company listed in the Netherlands, Kardan N.V. adheres, to the fullest extent it deems fit, to the Dutch Corporate Governance Code adopted on December 9, 2003, and amended as of January 1, 2009 (the Code). Pursuant to the Dutch governmental Decree of December 23, 2004, as amended by the Decree of March 20, 2009, establishing further instructions concerning the content of the annual report (Besluit van 23 december 2004 tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag) (the Decree), listed companies are required to comply with the Code, or explain deviations therefrom.

The full text of the Code can be found on www.commissiecorporategovernance.nl for reference, as well as the latest report on compliance with the new Code dated December 2011 as issued by the Corporate Governance Code Monitoring Committee.

The Code refers to the relationship between the main bodies of companies, being the General Meeting of Shareholders, the Supervisory Board and the Management Board. This chapter describes the general corporate governance structure of Kardan N.V., the deviations from the Code, and covers the items of the corporate governance statement (the Corporate Governance Statement) introduced by aforementioned Decree. The Management Board and the Supervisory Board of Kardan N.V. acknowledge their responsibility for Kardan N.V.'s corporate governance and for compliance with the Code. Kardan N.V. applies the Code's principles and best practice provisions, except for the following principles and best practice provisions that are not fully applied:

- *Best practice provision II.1.2 d)* – approval of corporate social responsibility issues by the Supervisory Board: during 2011, Kardan N.V.'s Management Board conveyed a message of importance to create long-term, sustainable solutions throughout the Kardan Group and informed its stakeholders to this effect (see the chapter on Environmental and Social Governance (ESG) on page 73 of this report). The Supervisory Board supports the Management Board's vision on ESG matters and its importance for Kardan Group's future growth. The support of the Supervisory Board will be sought with respect to ESG concerns regarding the operational and financial objectives of Kardan N.V. and the strategy designed to achieve these objectives. On matters that fall within the managing authority of the Management Board, such as operational and/or investor relations matters, the Management Board may decide on an ESG approach without the Supervisory Board's prior approval.
- *Best practice provisions relating to principle II.2* – remuneration and composition of the remuneration: Kardan N.V. is not yet fully compliant with the best practice provisions related to the remuneration of the members of its Management Board, especially with regard to the 2006 Stock Option Plan currently still in force, e.g. granting remuneration in this plan is not subject to specific performance criteria (for more information on this subject, see the section in this chapter entitled 'Remuneration and shareholdings of the Management Board' on page 86.
  In addition, the General Meeting of Shareholders (instead of the Supervisory Board) determines the amount of remuneration and other remuneration components for the members of the Management Board, but this occurs based on a proposal made by the Supervisory Board (see to Article 20.2 of Kardan N.V.'s Articles of Association).

On May 20, 2009, the General Meeting of Shareholders adopted the Remuneration Policy. The Remuneration Policy contains both fixed and variable (both short- and long-term) components, whereby the fixed part needs to conform to market standards, and the variable components will take into consideration both collective and personal targets. For the purpose of long-term variable remuneration, a share plan was developed and subsequently adopted during the General Meeting on May 26, 2010 (Share Plan 2010). Kardan N.V.'s Management Board and Supervisory

Board take the view that the 2010 Share Plan is in accordance with the Code, provided that one deviation was made with respect to the retention of shares. A retention period of two years will apply to the first possible grant of shares (three years after the adoption of the targets), so that this essentially complies with best practice provision II.2.5 of the Code. However, no further retention plan will apply for further grants of shares under the 2010 Share Plan, which will only be granted once every three years, provided the long-term targets have been met, if the member of the Management Board has been in office for a consecutive period of at least five years at the time of grant. Standard good leaver/bad leaver provisions will apply though. The Supervisory Board takes the view that this measure sufficiently meets the long-term character of the share remuneration and retention of management.

- *Best practice provision III.2.1* – independence of the Supervisory Board members: five members of Kardan N.V.'s Supervisory Board 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 Ms. Rechter, are not independent under these criteria. Mr. Schnur holds more than 10% of Kardan N.V.'s issued share capital, and Ms. Rechter is related by marriage to Mr. Rechter, who is a director of a non-affiliated company (Kardan Israel Ltd.) that holds more than 10% of Kardan N.V.'s shares. Ms. Rechter will step down from the Supervisory Board after the 2012 annual general meeting . Given the extensive provisions on conflicts of interest in its Articles of Association and the Supervisory Board Regulations, Kardan N.V. feels that there are – without jeopardizing the corporate governance system – sufficient safeguards in place for not following this provision.
- *Best practice provision III.3.3* – introduction program and education or training program: Kardan N.V. does not consider it necessary to make an introduction program mandatory for each newly appointed Supervisory Board member. If a newly appointed Supervisory Board member or the Chairman considers it necessary or desirable, he or she may follow an introduction program that covers general financial and legal matters, financial reporting within the Kardan Group, any specific aspects that are unique to Kardan N.V. and its business activities, and the collective and individual responsibilities of a Supervisory Board member.
- *Best practice provision III.3.4* – limitation of number of Supervisory Board positions at Dutch listed companies: although in practice Kardan N.V. currently complies with this best practice provision, as none of the Supervisory Board members serves in more than five Supervisory Boards of listed Dutch companies, it does not comply with the Code in a strict sense, as no numerical maximum is set. However, the Supervisory Board Regulations prescribe that the Supervisory Board shall decide on a case-by-case basis whether the acceptance of another position would conflict with the ability of a Supervisory Board member to properly perform his/her role within Kardan N.V., in which case the relevant member is requested to resign if he or she were to accept a position considered a conflict of interest. Kardan N.V. believes that a case-by-case assessment is a better way of adhering to the principle behind this Code than applying absolute numerical criteria. In addition to this, new legislation incorporating this provision into the Dutch Civil Code is expected to enter into effect in the course of 2012 (Wet Bestuur en Toezicht). Kardan N.V. will monitor this legislation process and ensure compliance.
- *Best practice provision III.4.1(f) and III.4.4* – the election of a vice chairman by the Supervisory Board: the Supervisory Board of Kardan N.V. has not appointed a vice chairman as it does not consider it necessary for the proper functioning of the Supervisory Board.
- *Best practice provision III.6.4* – transactions between Kardan N.V. and legal or natural persons holding at least 10% of the shares in Kardan N.V.'s capital: although Kardan N.V. does not regulate

these transactions as provided for in this best practice provision, it takes the view that the provisions on conflicts of interest as provided for in its Articles of Association, the Management Board Regulations and the Supervisory Board Regulations, in combination with the provisions on transactions with Holders of Control (as defined in the Articles of Association and as further described in the paragraph 'Related Party Transactions' on page 89 of this chapter), provide suitable protection in this respect.

- *Best practice provision IV.1.1* – the adoption of a resolution to cancel the binding nature of a nomination for the appointment of a member of the Management Board or the Supervisory Board and/or a resolution to dismiss a member of the Management Board or the Supervisory Board: Kardan N.V. considers it in its own interest that the Supervisory Board's right of nomination shall be binding, unless the General Meeting of Shareholders cancels the binding character by a resolution passed by a two-thirds majority vote, representing more than half of Kardan N.V.'s issued share capital.
- *Best practice provision IV.3.1* – meetings with analysts, presentations to analysts and presentations to investors shall be announced in advance on Kardan N.V.'s website and by means of press releases, and provisions 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 sensitive nature of the identity of (some of) the investors, not all of these meetings are announced or can be followed by all shareholders in accordance with this best practice provision. If presentations contain relevant information, it will be posted on Kardan N.V.'s website afterwards in accordance with the applicable rules.
- *Best practice provision IV.3.4* – analyst meetings, presentations to investors and direct discussions with investors: Kardan N.V. has adopted a policy on bilateral contact in accordance with best practice provision IV.3.13, the policy of which has been published on the Kardan N.V.'s website. Kardan N.V.'s contacts with investors will at all times be conducted with due regard to the applicable rules and regulations, in particular those concerning selective disclosure, price-sensitive information and equal treatment. However, Kardan N.V. does not fully comply with best practice provision IV.3.4 as it cannot guarantee in advance that discussions with investors will not take place during a closed period before the publication of regular financial information. Kardan N.V. deems it important to be in regular contact with its investors' base, and contact with potential new investors may be deemed necessary at any given time when opportunities arise. In addition, no such restriction is in place in Israel, where Kardan N.V. is also listed.

Each important change to Kardan N.V.'s Corporate Governance structure and any alterations in the compliance with the Code will be submitted to the Annual General Meeting of Shareholders for discussion as a separate agenda item. At the latest Annual General Meeting of Shareholders, held on May 31, 2011, 'Corporate Governance' was a separate agenda item under which the shareholders were invited to discuss Kardan N.V.'s chosen approach towards the implementation of the Code. The shareholders did not comment on this subject.

Further details on the extent and manner of implementation of the Code and the information to be included in the Corporate Governance Statement are found (i) in the remainder of this chapter regarding the functioning of the General Meeting of Shareholders and the composition and functioning of the Management Board and Supervisory Board, and in the Risk Management chapter (page 67 of this annual report) regarding the main characteristics of the risk management and internal control systems connected with the company's financial reporting process and (ii) in Kardan N.V.'s Articles of Association, the Supervisory Board Regulations (including profile, Audit Committee Terms of Reference and the rules governing the

Remuneration, Appointment and Selection Committee) and the Management Board Regulations which have all been posted on Kardan N.V.'s website (www.kardan.nl).

Structure

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

Kardan N.V.'s overall management is entrusted to the Management Board, which means, among other things, that the Management Board is responsible for the development and implementation of Kardan N.V.'s objectives, strategy, risk management, financial performance, policies and corporate social responsibility issues that are relevant to the enterprise. Under Dutch law, the members of the Management Board hold their duties and responsibilities collectively, meaning that each individual Managing Director may, in principle, be held accountable for the execution of the Management Board's tasks as a whole. The Management Board is accountable to the Supervisory Board and to the General Meeting of Shareholders. In performing its duties and responsibilities, the Management Board is guided by Kardan N.V.'s corporate interests and by the interests of its affiliated enterprises, while taking all stakeholders' interests into consideration. The Management Board is subject to Management Board Regulations.

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

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

It is noted that a proposal to approve an amendment to Kardan N.V's articles of association will be submitted to the General Meeting of Shareholders on May 31, 2012. This amendment will entail the introduction of a one-tier board, which will replace the two-tier board structure as described above. The details of this proposal and the consequences for the governance structure are further described in the notes to the agenda of the General Meeting of Shareholders of May 31, 2012 as available on the website www.kardan.nl.

Appointment and composition of the Management Board

The Supervisory Board has the right to make binding nominations for candidates for the Management Board that are subsequently appointed by the General

Meeting of Shareholders. Each member of the Management Board is appointed for a period of three years, but may be reappointed following the expiration of his/her term of office. At present, there are four Management Board members. The profiles of the Management Board members and an appointment scheme can be found on pages 77 and 78 of this annual report. Mr. Ickovics will step down as per the day of the General Meeting of Shareholders on May 31, 2012 as announced in a press release issued on February 21, 2012. As announced by the Company on November 21, 2011, Mr. Van Damme will step down from the Management Board to become CEO of Kardan Water China in May, 2012. Mr. Oren will, upon approval of the General Meeting of Shareholders on May 31, 2012, be appointed as CEO of the Company and be appointed as executive board member on the one-tier board, as described above. Upon the introduction of the one-tier board, which will replace the two-tier board structure as is in place at present, Ms. Oz-Gabber and Mr. Slootweg will no longer be in office as members of the management board but will stay as a member of the executive management of the Company.

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

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

Resolutions of the Management Board are adopted by an absolute majority of the votes cast. If, and as long as, the Management Board consists of an equal number of members, the chairman of the Management Board has a casting vote in case of a tied vote.

Internal regulations and conflicts of interest in the Management Board

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

Kardan N.V.'s Articles of Association include extensive provisions on conflicts of interest between Kardan N.V. and Holders of Control (as defined in the Articles of Association), which are also applicable if these Holders of Control hold a position on the Management Board (for a further description of these provisions, see the section entitled 'Related Party Transactions' in this chapter). In addition, Kardan N.V. endorses the principles and provisions of the Code that address conflicts of interest between Kardan N.V. and one or more members of the Management Board. To this effect, provisions have also been included in the Management Board Regulations covering best practice provisions II.3.1 through II.3.4 of the Code. In 2011, there were no reports of transactions involving conflicts of interest of members of the Management Board.

Remuneration and shareholdings of the Management Board

On May 20, 2009, the General Meeting of Shareholders adopted the Remuneration Policy. The Remuneration Policy contains both fixed and variable (both short- and long-term) components, whereby the fixed part needs to conform to market standards, and the variable components will take into consideration both collective and personal targets. These long-term targets were adopted by the Supervisory Board during 2009 and were published on Kardan N.V.'s website in a summarized form and to the extent allowed due to their sensitive nature. For the purpose of long-term variable remuneration, a share plan was developed and subsequently adopted by the General Meeting of Shareholders on May 26, 2010 (Share Plan 2010). For more details on the Remuneration Policy, the targets for the members of the Management Board and the Share Plan 2010, see the Remuneration Report on page 98.

In addition, the General Meeting of Shareholders (instead of the Supervisory Board) determines the amount of the remuneration and other remuneration components for the members of the Management Board, but this occurs based on a proposal made by the Supervisory Board (see Article 20.2 of Kardan N.V.'s Articles of Association).

Detailed information about the remuneration of the members of the Management Board can be found in the notes to the financial statements on page 273 of this annual report.

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

The members of the Management Board who hold shares in the capital of Kardan N.V. are Mr. A. Ickovics, who currently holds 3,312,975 shares in the capital of Kardan N.V., and Ms. E. Oz-Gabber, who currently holds 3,290 shares in the capital of Kardan N.V. Furthermore, the only member of the Management Board holding shares in Kardan Group companies is Mr. A. Ickovics, holding 225 shares in GTC Investments B.V.

Kardan N.V. granted the following number of options on shares in Kardan N.V. to the following members of the Management Board under the terms and conditions as laid down in the 2006 Stock Option Plan and the individual award agreements, which was approved by the General Meeting of Shareholders during the Annual General Meeting of Shareholders held on June 19, 2008:
– 150,000 options to Mr. Van Damme; and
– 175,000 options to Mr. Slootweg.

The options granted by the General Meeting of Shareholders during the Extraordinary General Meeting of Shareholders of Kardan N.V. held on October 26, 2006 (to Mr. Ickovics and Ms. Oz-Gabber) automatically lapsed on November 2, 2011.
No options were granted in the General Meetings of Shareholders held in 2009, 2010 and 2011.

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

Grants of options under the 2006 Stock Option Plan are not subject to the fulfillment of specific performance criteria. This is a deviation from the Code. Furthermore, the allocation of grants to the members of the Management Board under the 2006 Stock Option Plan 2006 is not considered best practice under the Code as the options will vest in three equal annual installments, commencing on the first anniversary of the date of the grant, and the exercise price of options can be set lower than the closing share price at the date of grant. Kardan N.V. believes that it is not necessary to completely adhere to these provisions of the Code because (i) the same 2006 Stock Option Plan rules apply to the other employees and, therefore, for the sake of unity, clarity and ease of administration, no differences are made between the members of the Management Board and the other employees, (ii) the annual vesting of options is appropriate market practice in an international environment, and (iii) the discounted exercise price reflects the depreciating effect of the fact that the participant can neither sell nor exercise the options during the vesting period. However, under the 2010 Share Plan, as adopted in the General Meeting of Shareholders on May 26, 2010, shares are granted in the form of long-term variable remuneration and, as such, the granting is subject to specific targets that are to be met by the Management Board. Therefore, Kardan N.V.'s Management Board and Supervisory Board take the view that the 2010 Share Plan 2010 complies with the Code, provided that one deviation was made with respect to the retention of shares. A retention period of two years will apply regarding first possible grant of shares (three years after the adoption of the targets, being January 2012), so that this essentially complies with best practice provision II.2.5 of the Code, which prescribes a retention period of five years. However, no further retention period will apply for further grants, if at the time of grant the member of the Management Board has been in office for a period of at least five years. Standard good leaver/bad leaver provisions will apply though. Kardan N.V. takes the view that this measure sufficiently meets the long-term character of the share remuneration and retention of management.

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

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

Appointment and Composition of the Supervisory Board

The Supervisory Board itself has the right to make binding nominations of candidates for the position of member of the Supervisory Board, who are subsequently appointed by the General Meeting of Shareholders. Each member of the Supervisory Board is appointed for a period of four years and may be reappointed for a maximum of two more terms. The Supervisory Board itself determines the number of Supervisory Board members, but there must always be at least three members. At present, the Supervisory Board consists of seven members. Their profiles and an appointment scheme can be found on pages 79 and 80 of this annual report. Furthermore, the Supervisory Board Regulations include a profile of the Supervisory Board's size and composition. Ms. Rechter and Mr. Fink were re-appointed in the General Meeting of May 31, 2011 for a second time and as such will not be nominated for re-election by the General Meeting on May 31, 2012. Mr. Pomrenze will not be available for re-appointment by the General Meeting on May 31, 2012. Mr. Krant and Mr. Benjamins will resign per the General Meeting of Shareholders on May 31, 2012.

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

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

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

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

Conflict of interest and remuneration of the Supervisory Board

Kardan N.V.'s Articles of Association include extensive provisions on conflicts of interest between Kardan N.V. and Holders of Control (as defined in the Articles of Association), which are also applicable if these Holders of Control hold a position on the Supervisory Board (for a further description of these provisions, see the section entitled 'Related Party Transactions' in this chapter). In addition, Kardan N.V. endorses the principles and provisions of the Code that address conflicts of interest between Kardan N.V. and one or more members of the Supervisory Board. To this effect, provisions have been included in the Supervisory Board Regulations covering best practice provisions III.6.1 through III.6.3 of the Code. In 2011, there were no reports of transactions involving conflicts of interest of members of the Supervisory Board.

The General Meeting of Shareholders determines the remuneration of each Supervisory Board member. The remuneration of a member of the Supervisory Board does not currently depend on the performance of Kardan N.V.'s shares, and rights to shares are currently not granted to members of the Supervisory Board as remuneration. Kardan N.V. has not granted personal loans, guarantees or the like to members of the Supervisory Board, all of which is prohibited by the Supervisory Board Regulations unless the Supervisory Board has granted approval. Detailed information on the remuneration of the members of the Supervisory Board can be found in the notes to the financial statements on page 272 of this annual report.

There are two members of the Supervisory Board who hold shares in the capital of Kardan N.V.: Mr. Schnur currently holds 19,818,466 shares, and Mr. Pomrenze currently holds 150,052 shares. It is noted that Mr. Rechter, via the company Shamait Ltd., in which he holds 97.5% of the shares, holds 4,098,719 shares in Kardan N.V. and is a director of a non-affiliated company (Kardan Israel Ltd.) which holds approximately 11% of the shares in Kardan N.V. Ms. Rechter, related by marriage to Mr. Rechter, holds 2.5% of the shares in Shamait Ltd.

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

Audit Committee

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

The Audit Committee has the general task of preparing and advising the Supervisory Board on matters concerning financial administrative control, financial reporting, and internal and external auditing. The Audit Committee shall act as the principal contact for the external auditor, should the auditor discover irregularities in the content of the financial reports. The Audit Committee is authorized to request advice from outside experts if deemed necessary. If possible, there should be at least one financial expert on the Audit Committee. The chairman of the Supervisory Board does not chair the Audit Committee.

For the Audit Committee's work and focus during the financial year 2011, reference is made to the Supervisory Board Report as included in this annual report.

Remuneration, Appointment and Selection Committee

The Supervisory Board has elected three of its members to form a Remuneration, Appointment and Selection Committee, without in any way derogating from its primary responsibilities. The Remuneration, Appointment and Selection Committee is subject to the rules governing the Remuneration, Appointment and Selection Committee.

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

For the Remuneration, Appointment and Selection Committee's work and focus during the financial year 2011, reference is made to the Supervisory Board Report as included in this annual report.

Related Party Transactions

Articles 7, 8 and 9 of the Articles of Association of Kardan N.V. contain rules on the corporate resolution process in the case of dealings between Kardan N.V. and one or more Holders of Control, as defined in the Articles of Association (Special Approval Procedure). Holders of Control are deemed to be any Person (as defined in the Articles of Association) who holds 25% or more of the voting rights in the General Meeting of Shareholders, if there is no other Person holding more than 50% of the voting rights. Certain transactions, as described in Kardan N.V.'s Articles of Association, between Kardan N.V. and a Holder of Control require special approval, as follows: (i) Management Board approval, (ii) Supervisory Board approval with an absolute majority of votes, including the affirmative vote of at least one Independent Supervisory Director (as defined in Kardan N.V.'s Articles of Association) and (iii) approval of the General Meeting of Shareholders with an absolute majority of votes, provided that either (a) such a majority includes the affirmative votes of at least one-third of all the votes of the shareholders who are present at the meeting and who do not have a Personal Interest (as defined in

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

The Special Approval Procedure was followed during the General Meeting of Shareholders of May 31, 2011, in which a resolution was adopted to approve entering into a new contract relating to the terms of employment of Mr. Y. Rechter, the son of Mr. Rechter, who is a Holder of Control in the Company., as required on the basis of Article 7.2.c. of Kardan N.V.'s Articles of Association. The Special Approval Procedure was not followed for any other transaction in 2011, nor was any other Related Party Transaction disclosed to Kardan N.V.

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

General Meeting of Shareholders and shareholders' rights

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

Each shareholder has the right to attend General Meetings of Shareholders, either in person or represented by proxy, to address the General Meeting of Shareholders and to exercise voting rights, subject to the provisions of the Articles of Association of Kardan N.V. and Dutch law. To the extent practically feasible, investors in Israel may participate in General Meetings of Shareholders by means of a conference call or a video conference.

Each share carries one vote. Kardan N.V. has only one class of shares, being ordinary shares with a nominal value of EUR 0.20 each. As of July 1, 2010, Dutch law requires Kardan N.V. to set the record date for the exercise of the voting rights and the rights relating to General Meetings of Shareholders on the 28th day prior to the day of the General Meeting of Shareholders (as also taken up in the present Articles of Association). Unless otherwise required by its Articles of Association or Dutch law, resolutions of the General Meeting of Shareholders require the approval of an absolute majority of the votes validly cast. Unless provided otherwise by Dutch law or Kardan N.V.'s Articles of Association, there are no quorum requirements. The General Meeting of Shareholders can decide to amend Kardan N.V.'s Articles of Association with an absolute majority of the votes cast, without a quorum requirement being applicable.

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

and the shareholders at the time the resolution is adopted.

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

One or more shareholders holding shares representing at least 1% of Kardan N.V.'s issued share capital or representing a value of EUR 50 million according to the Official Price List of Euronext Amsterdam has/have the right to request the Management Board or the Supervisory Board to place items on the agenda of a General Meeting of Shareholders provided such request is duly motivated or accompanied by a draft resolution. The Management Board or the Supervisory Board shall then add the item onto the meeting's agenda, provided that the request is received by the Management Board or Supervisory Board in writing no later than on the sixtieth day before the day of the General Meeting of Shareholders. Notice of a General Meeting of Shareholders shall be given no later than on the forty-second day prior to the day of the General Meeting of Shareholders.

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

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

The Articles of Association and Dutch law require that certain important resolutions made by the Management Board and/or Supervisory Board be subject to the prior approval of the General Meeting of Shareholders.

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

Information on the European Takeover Directive

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

a. An overview of Kardan N.V.'s capital structure is included on pages 198 and 199 of this annual report.
b. Shares in the capital of Kardan N.V. are freely transferable.
c. Substantial shareholdings within Kardan N.V. are included on page 8 of this annual report.
d. There are no special control rights attached to Kardan N.V.'s shares.
e. A stock option plan for members of Kardan N.V.'s Management Board and other key Kardan employees has been approved by the shareholders during the Extraordinary General Meeting of Shareholders held on October 26, 2006. The options can only be granted in accordance with the underlying rules of the 2006 Stock Option Plan

and with the approval of the Supervisory Board and – with respect to the Management Board – with the approval of the General Meeting of Shareholders. Further information regarding the options granted under the Stock Option Plan can be found on pages 200 to 210 of this annual report. The 2010 Share Plan (as described on pages 100 to 102 of this annual report) has been approved by the General Meeting of Shareholders on May 26, 2010. The 2010 Share Plan stipulates that shares can be granted to members of the Management Board upon approval of the General Meeting of Shareholders, upon a proposal by the Supervisory Board, and to other key employees if the Management Board so decides.

f. There are no limitations to voting rights on the shares of Kardan N.V.'s capital.

g. Kardan N.V. is aware of a voting agreement between Mr. Grunfeld, Mr. Schnur and Mr. Rechter as referred to on page 8. Kardan N.V. is unaware of any other agreements that might result in a limitation of the transferability of or the voting rights on shares in Kardan N.V.'s capital.

h. The provisions regarding the appointment and dismissal of members of the Management Board and the Supervisory Board, and the provisions regarding amendments of the Articles of Association are described in Kardan N.V.'s Articles of Association, which are available on Kardan N.V.'s website (www.kardan.nl).

i. The General Meeting of Shareholders may authorize the Management Board (i) to purchase shares in its own capital, and (ii) to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares. Further information can be found in Kardan N.V.'s Articles of Association and the minutes of the relevant General Meetings of Shareholders of Kardan N.V. with respect to authorizations that have been granted to the Management Board. Authorization for Kardan N.V.'s purchase of its own shares has been granted for a period of eighteen months during the General Meeting of Shareholders of May 26, 2010. At the same General Meeting of Shareholders, held on May 26, 2010, the authorization to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares was granted for a period of five years, taking into account the limits provided by the law and the Articles of Association and provided that no more than 10% of the issued share capital can be issued annually.

j. There are no important agreements to which Kardan N.V. is a party and which will come into force, be amended or be terminated under the condition of a change of control over Kardan N.V. as a result of a public offer.

k. There are no agreements between Kardan N.V. and members of the Management Board or other employees that entitle them to any compensation rights upon termination of their employment after completion of a public offer on Kardan N.V.'s shares.

Supervisory Board Report

The Supervisory Board is pleased to present the 2011 Annual Report, including the 2011 Financial Statements. The 2011 Financial Statements were prepared by the Management Board and audited by Ernst & Young Accountants LLP. The independent auditor's report is included on pages 291 and 292 of this Annual Report.

The 2011 Annual Report, including the 2011 Financial Statements, was presented to the Supervisory Board after being discussed by the Audit Committee with the Management Board and the external auditor. On the basis of these discussions, the Supervisory Board is convinced that the 2011 Annual Report, including the 2011 Financial Statements, meets the transparency requirements, and therefore endorses this annual report. In the opinion of the Supervisory Board, it forms a sound basis for its reporting on the supervision exercised in the financial year 2011.

The Supervisory Board proposes to the General Meeting of Shareholders to adopt the 2011 Financial Statements included in this annual report during the Annual General Meeting of Shareholders to be held on May 31, 2012.

Taking into account the negative results during the financial year 2011 and Kardan N.V.'s dividend policy, no dividend will be declared for the financial year 2011.

Composition of the Supervisory Board

During the Annual General Meeting of Shareholders held on May 31, 2011, Mr. Fink and Ms. Rechter were reappointed as members of the Supervisory Board for a period of one year. Mr. Krant and Mr. Schnur were reappointed as members of the Supervisory Board for a period of four years. At the close of the Annual General Meeting to be held on May 31, 2012, the terms of the following members of the Supervisory Board will expire: Mr. Fink, Ms. Rechter and Mr. Pomrenze. As Ms. Rechter and Mr. Fink were re-appointed in the General Meeting of May 31, 2011 for the second time they can not be nominated for re-election by the Annual General Meeting on May 31, 2012. Mr. Pomrenze will not be available for re-appointment by the General Meeting on May 31, 2012. As published in the press release on April 18, 2012, announcing the Annual General Meeting of Shareholders of May 31, 2012, Mr. Krant and Mr. Benjamins will resign per the date of the Annual General Meeting.

The Supervisory Board currently comprises seven members, five members of whom can be regarded as independent under the criteria laid down in the Dutch Corporate Governance Code (the Code).
These members are Mr. Krant, Mr. Fink, Mr. Pomrenze, Mr. Groen and Mr. Benjamins. The other two members, being Mr. Schnur and Ms. Rechter, are not independent under these criteria. Mr. Schnur holds more than 10% of the issued share capital of Kardan N.V., while Ms. Rechter is related by marriage to Mr. Rechter, who is a director of a non-affiliated company (Kardan Israel Ltd.) which holds more than 10% of the shares in Kardan N.V. For this reason, Kardan N.V. did not comply with best practice provision III.2.1 of the Code, which prescribes that all but one member of the Supervisory Board should be independent. Given the extensive provisions on conflicts of interest in its Articles of Association and the Supervisory Board Regulations, Kardan N.V. feels that there are – without jeopardizing the corporate governance system – good grounds for not following this best practice provision.

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

One Tier board following Annual General Meeting of Shareholders of May 31, 2012

A proposal will be submitted to the Annual General Meeting of Shareholders on May 31, 2012, to approve an amendment to Kardan N.V's articles of association. This amendment will entail the introduction of a one-tier board, which will replace the two-tier board structure as is in place at present. The details of this proposal and the consequences for the governance structure are further described in the notes to the agenda of the Annual General Meeting of Shareholders of May 31, 2012. The notes are available on the website of Kardan, www.kardan.nl.

Supervisory Board meetings in 2011

The Supervisory Board held five scheduled meetings during the financial year 2011 in the presence of the Management Board, one of which was combined with the meeting of the Audit Committee. Moreover, four ad-hoc meetings were held by conference call. In addition to the formal meetings, informal discussions were held frequently between the Chairman of the Supervisory Board and one or more of the members of the Management Board. Furthermore, the Chairman of the Audit Committee and the Chairman of the Remuneration, Appointment and Selection Committee regularly updated the members of the Supervisory Board on the discussions that took place in the respective committees. In certain instances, the Supervisory Board passed resolutions outside a meeting in accordance with Kardan N.V.'s Articles of Association, when the matter required special urgency or if no meeting was deemed necessary.

Furthermore, the Supervisory Board held one meeting in 2011 without the presence of the Management Board. The purpose of this meeting was – inter alia – to discuss the performance of the Supervisory Board and its individual members; the functioning of the Supervisory Board, its committees and its members; and the performance of the Management Board and that of the individual members of the Management Board, and the conclusions to be drawn from this. The Chairman of the Supervisory Board outlined that the views held by members of the Supervisory Board on the performance and composition of the Supervisory Board were mostly in agreement.

None of the members of the Supervisory Board was frequently absent from the meetings. Kardan N.V.'s external auditor attended the Supervisory Board meeting during which the 2010 annual results were discussed. The auditor also attended Audit Committee meetings.

During the financial year 2011, the Management Board frequently updated the Supervisory Board on business developments and the achievement of goals within the Kardan Group for each of the three segments, the spin-off of Kardan Israel and the countries the Kardan Group is active in. Part of the frequent business updates was related to the financial results, as further described below. The Management Board also gave extensive presentations on the development of specific existing businesses and return on investments, such as Kardan Land China and new initiatives in the water infrastructure segment. Furthermore, the Management Board informed the Supervisory Board of potential business opportunities in Vietnam and India, which will be explored further.

In its meetings with the Management Board, the Supervisory Board frequently addressed risks associated with Kardan N.V.'s business and specific projects, from a financial, strategic and, on occasion, geographical perspective. The Management Board also updated the Supervisory Board on the company's overall risk management and explained that the two top risks categories for 2011 based on likelihood and impact were the financial markets and capital availability. Special attention was given to the relationship with investors.

A specific discussion took place between the Supervisory Board and the Management Board on strategy and the investment budget. The focus of this discussion was Kardan N.V.'s strategy for 2012-2014 for all the sectors it is active in.

Kardan N.V.'s internal control framework and related internal audits, for example on its water infrastructure division, were discussed in-depth in the Audit Committee, as described below. When deemed necessary, the Chairman of the Audit Committee updated the Supervisory Board on the matters discussed during the audit committee meetings. In this respect, the Supervisory Board took note of and approved the 2010 Financial Statements. In addition, the Management Board updated the Supervisory Board on forecasts and actual results achieved, as well as the Group's cash position.

As regards compliance with legislation, the Supervisory Board was regularly updated, when required by the Chairman of the Audit Committee, on matters of compliance with applicable legislation. In addition, the Management Board informed the Supervisory Board about the Israeli Securities Authority's new regulations, which entail administrative enforcement of breaches of the Israeli Securities Law, the implementation of a specific approval process regarding financial statements and a statement the Supervisory Board will issue on the five highest paid senior officers in the Kardan Group.

The Supervisory Board acknowledges the increasing importance of sustainability and took note of sustainability demands by both investors and customers that were brought to their attention by the Management Board. As such, the Management Board informed the Supervisory Board that sustainability forms an integral part of the business models of its subsidiaries. The Management Board will inform the Supervisory Board of developments related to sustainability.

At the end of 2011, the Supervisory Board received Mr. Van Damme's request to be released from the Management Board in May 2012. It decided not to replace him in the Management Board for the time being. Other subjects that were discussed, acknowledged and – where necessary – approved during the Supervisory Board meetings held during the year 2011 included the following:

- The spin-off of Kardan Israel Ltd. and Milgam Municipalities Ltd., in light of which the Supervisory Board approved the filing of a draft prospectus and a final prospectus to the Israeli Securities Authority and the Tel Aviv Stock Exchange, as well as the convocation of an Extraordinary General Meeting of Shareholders in order to have the spin-off approved.
- Two share buyback plans, one for the amount of up to EUR 1.5 million and one for the amount of up to EUR 15 million.
- Two plans to purchase, via a subsidiary, Kardan debentures listed on the Tel Aviv Stock Exchange.
- The sale of the 50% stake in Sovcombank by TBIF Financial Services B.V to its co-shareholder for a multiple of more than two times its equity based on the shareholder's equity on March 31, 2011.
- The purchase of NLB Banka Sofia in Bulgaria by TBIF Financial Services B.V, and the subsequent expansion of banking operations in Bulgaria and Romania.
- The proposals for remuneration and bonuses for the members of the Management Board to be submitted to the Annual General Meeting of Shareholders.

Supervisory Board meetings in 2012

Although outside of the financial year 2011, the Supervisory Board wants to report that during the meetings in 2012 a lot of attention was given to changes in the management board and the envisaged one-tier structure.

In the upcoming AGM Kardan is proposing to change the current Two Tier Board to a One Tier Board. The one-tier structure is the prevailing corporate governance structure globally. A new Dutch legislation that is aimed at facilitating the implementation of the one tier model is also expected to become effective July 1, 2012, or soon thereafter. The move to a one tier model should simplify the corporate governance structure and result in a more efficient and simplified decision making process.

Just recently, the Supervisory Board of Kardan has proposed to appoint Mr. Shouky Oren as new Chairman of the Management Board, and to ask the current Chairman, Mr. Alain Ickovics, to focus entirely on the company's real estate activities as Chairman of the Management Board of GTC Real Estate Holdings B.V and as Chairman of the Supervisory Board of GTC S.A. Once the One Tier Board structure has been approved, Mr. Shouky Oren will, upon his appointment, be CEO and member of the One Tier Board of Kardan N.V.

Supervisory Board committees

Audit Committee

The Supervisory Board has appointed an Audit Committee from among its members. Currently, the Audit Committee comprises two members: Mr. Groen (Chairman) and Mr. Krant. Mr. Groen and Mr. Krant are regarded as financial experts within the meaning of the Code. The Audit Committee met five times in 2011 and one time together with the Supervisory Board.

The Audit Committee paid special attention this financial year to the following subjects:

- 2010 Annual Financial Statements, the 2011 Quarterly Financial Statements, the 2011 Half-Yearly Financial Statements, the financial reporting process and specific accounting issues arising from the Financial Statements. During these meetings, both the Management Board and the external auditor had the opportunity to further explain the results and to highlight specific accounting matters. The Audit Committee conducted in-depth discussions regarding valuations and fair value of Group assets with the Management Board and the external auditor. In connection herewith, the Management Board regularly updated the Audit Committee on correspondence received from the Israeli Securities Authority relating to the valuation of five Group assets, as further described in these Annual Accounts on page 180.

All meetings were attended by the full Audit Committee. All meetings were attended by Kardan N.V.'s Chief Financial Officer, Ms. Oz-Gabber, Mr. Slootweg, member of the Management Board, and one or more other members of the Management Board.

Kardan N.V.'s external auditor attended all Audit Committee meetings in which Financial Statements were discussed, and Kardan N.V.'s internal auditor attended the meeting during which internal audit reports were discussed. With respect to the internal audit, the Audit Committee discussed its findings and the follow-up that has been recommended by the local management of the Group's various companies. In addition to the formal meetings, informal discussions were held regularly between the chairman of the Audit Committee and the Chief Financial Officer, and financial controller and the external auditor.

Remuneration, Appointment and Selection Committee
The Supervisory Board has appointed a Remuneration, Appointment and Selection Committee from among its members. Currently, the Remuneration, Appointment and Selection Committee comprises three members: Mr. Benjamins (Chairman), Mr. Krant and Mr. Pomrenze.

The Remuneration, Appointment and Selection Committee held four meetings in 2011. In addition to the formal meetings, there were also regular informal discussions, also with members of the Management Board.
The Remuneration, Appointment and Selection Committee dedicated considerable time and attention to:

- 2010 bonuses for the Management Board
- Progress of the individual and collective targets in 2011
- The determination of fixed salaries in 2011

For a further description of the remuneration of the members of the Management Board, see the Remuneration Report on page 98 of this annual report. The Remuneration, Appointment and Selection Committee took note of and discussed Mr. Van Damme's request to be released from his duties as a member of the Management Board, as described before.

Corporate governance

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

As noted in the previous annual report, the Supervisory Board fully subscribes to the meaning and usefulness of the Code for Kardan N.V. and subsequent changes in Dutch law. Therefore, the Supervisory Board endorses the outlines, principles, and best-practice provisions of the Code with certain exceptions, which, in the Supervisory Board's view, do not fit Kardan N.V.'s character or size.

Responsibilities

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

In conclusion

The Supervisory Board realizes that the Management Board, the Senior Management Team heading each sector, and all employees in its holding company and Group companies have to operate in difficult and challenging times.

The Supervisory Board would like to thank Mr. Ickovics and Mr. Van Damme for their outstanding contributions to the Management Board.

Amsterdam, April 17, 2012
On behalf of the Supervisory Board,
Joseph Krant

Remuneration Report

The first part of this chapter outlines the responsibilities of Kardan N.V.'s Remuneration, Appointment and Selection Committee. The second part describes Kardan N.V.'s Remuneration Policy and gives further insight into how the Management Board's remuneration is structured.

Remuneration Committee

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

- Preparing proposals for the Supervisory Board concerning the remuneration policies for the Management Board members to be adopted by the General Meeting of Shareholders.
- Preparing proposals for the Supervisory Board concerning the individual remuneration of members of the Management Board.
- Preparing the yearly Remuneration Report.
- Preparing the selection criteria and appointment procedures for members of the Management Board and the Supervisory Board.
- Periodically evaluating the scope and composition of the Management Board and Supervisory Board.
- Proposing the (re)-election of members of the Management Board and Supervisory Board.
- Supervising the policy of the Management Board on the selection criteria and appointment procedures for senior management.

Throughout 2011, the Remuneration, Appointment and Selection Committee consisted of three members, namely Mr. Benjamins (Chairman), Mr. Krant, and Mr. Pomrenze.

The Remuneration, Appointment and Selection Committee met four times in 2011. For a specification of the main matters discussed during these meetings, see the Supervisory Board Report on pages 96 and 97 of this annual report.

The Remuneration, Appointment and Selection Committee prepares its proposals for targets and remuneration (fixed and variable) for individual members of the Management Board after careful consideration. Feedback by the Management Board may be part of this process. While doing this, the Remuneration, Appointment and Selection Committee seeks the advice of several external and internal advisors.

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

The fixed remuneration over 2011 was approved by the General Meeting of Shareholders during the AGM on May 31, 2011.

The Supervisory Board, on proposal of the Remuneration, Appointment and Selection Committee, proposes to increase the fixed remuneration of the members of the Management Board for the year 2012 by 5% for each member of the Management Board.

The proposed increases are deemed necessary to bring the fixed remuneration of the members of the Management Board more in line with the fixed remuneration in companies that are regarded as the company's peers.

The Supervisory Board, will not propose to grant any short-term variable remuneration over 2011 to the members of the Management Board.

Pursuant to the Kardan N.V. 2010 Share Plan, as described below, and as part of the long-term variable remuneration, long term targets for the period 1 January 2009 - 31 December 2011 were set for the members of the Management Board. Having reviewed the achieved targets, the Supervisory Board, on a proposal of the Remuneration, Appointment and Selection Committee, proposes the grant of the following shares in Kardan N.V.:

	Shares (in numbers)
Mr. Ickovics	35,344
Ms. Oz-Gabber	24,656
Mr. Van Damme	28,660
Mr. Slootweg	27,832

In addition, in relation to Mr. Shlank, who stepped down from the Management Board per January 1, 2011, the Supervisory Board, on a proposal of the Remuneration, Appointment and Selection Committee, proposes to grant 31,927 shares, which reflect an earlier decision of the Supervisory Board that he will be entitled to two-thirds of the maximum amount of shares that can be granted under the 2010 Share Plan, provided all conditions for the grant have been met.

The above proposals shall be submitted to the General Meeting of Shareholders during the AGM to be held on May 31, 2012.

The General Meeting of Shareholders of May 31, 2011 resolved that only 50% of the bonuses of the members of the Management Board as approved would be immediately payable and the remaining 50% of the bonuses would be granted at the full discretion of the Supervisory Board in 2011, without further reverting to the General Meeting of Shareholders. The Supervisory Board decided to grant the payment of the second installment in late 2011.

Remuneration Policy

Kardan N.V.'s Supervisory Board takes the view that Kardan N.V.'s current Remuneration Policy follows the principles and the best practice provisions of the Code. The objective of the Kardan N.V. Remuneration Policy is to attract, motivate, and retain qualified directors, and its compensation policy is based both on Kardan N.V. balanced short-term and long-term performance and value creation for its shareholders. The Remuneration Policy stipulates that the level and structure of the compensations will be determined with due regard for pay differentials within Kardan N.V.

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

(i) A fixed remuneration.
(ii-a) A short-term variable remuneration.
(ii-b) A long-term variable remuneration.

In the above, the variable components will take both the collective and individual targets into account.

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

(i) Fixed remuneration

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

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

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

(ii) Variable remuneration

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

The short- and long-term variable remuneration, taking into account certain exceptions as provided for in the Remuneration Policy, may each amount to a maximum of 50% of the fixed annual salary, so that the maximum yearly variable remuneration amounts to a Management Board member's fixed annual salary.

Given the anticipated changes in the governance structure of the Company, which are to be submitted for approval by the General Meeting of Shareholders on May 31, 2012, and which will entail the introduction of a one-tier board, the Remuneration, Appointment and Selection Committee has not set new short-term and/or long-term targets for the members of the Management Board for 2012 and 2012-2014 respectively.

(a) Short-term variable remuneration: cash

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

(b) Long-term variable remuneration: shares

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

For the purpose of the long-term variable remuneration, the 2010 Share Plan was approved by the General Meeting of Shareholders.

The 2010 Share Plan consists of the Plan Rules and a Notice of Grant, which will be administered by the Management Board; however, in matters regarding grants to Management Board members and dispute settlements with respect to Management Board members, the Supervisory Board shall be the corporate body in charge. Any grants to Management Board members shall be subject to prior and final approval by the General Meeting of Shareholders.

The mechanism of the 2010 Share Plan is as follows (for an explanation of the definitions used, reference is made to the 2010 Share Plan):

(1) Selected participants receive a notice of grant which is to be accepted within 60 days by the participant. To tailor the Notices of Grant to both the Dutch and Israeli employees' tax situations, there is a version of the Notice of Grant for Israeli residents, and another one to be used for non-Israeli residents.
(2) The Notice of Grant will specify the Date of Grant.
(3) After targets have been attained over a Performance Measurement Period of three years for Management Board members as of the Date of Grant, new shares in Kardan N.V.'s capital will be issued against payment of the nominal value, with payment to be made through a loan granted by the company.
(4) These are referred to in the Share Plan as Unreleased Shares. The Unreleased Shares will be held in custody by the company, for risk and account of the participant.
(5) The participant is entitled to receive dividends only after Unreleased Shares are released (before that time, dividends will be held in trust, blocked by the company for risk and account of the participant).
(6) Until the Unreleased Shares are released, the participant is not entitled to exercise voting rights.
(7) Shares will only be released for trade at the stock exchange after (i) the expiration of the Performance Measurement Period, or (ii) at the moment the participant has accumulated (at least) five consecutive years of service with the company since January 1, 2009, and after approval by the company's General Meeting of Shareholders.
(8) This means that for initial grants, the shares will be released after two additional two years have lapsed since the start of the Performance Measurement Period.
(9) Subsequent grants will be released as per the expiration of the Performance Measurement Period and after determination of the grants by the company's General Meeting of Shareholders (provided that the participant has accumulated (at least) five consecutive years of service with the company since January 1, 2009).
(10) Termination of employment will cause (a) the forfeiture of grants under which no shares have (yet) been issued and (b) forfeiture of shares if those have not yet been released, including accrued dividends (unless the participant qualifies as a 'good leaver' under the Share Plan or unless, in the case of members of the Management Board, the Supervisory Board decides otherwise).

The percentage of shares that has been reserved for the 2010 Share Plan shall, for the period ending December 31, 2011 (recognizing that the actual issuance may take place at a later date), not exceed 2% of the aggregate issued share capital outstanding as of the effective date, being 2% * 110,976,911 = 2,219,538 shares. A maximum of two-thirds of the aforementioned amount of shares is reserved for the Management Board. Therefore, each of the current four members of the Management Board shall be entitled to receive a maximum of 295,938 shares for the period ending December 31, 2011 (Rule 4.6 of the Share Plan). With respect to Mr. Shlank, who stepped down as a member of Kardan N.V.'s Management Board as of January 1, 2011, the Supervisory Board has decided that he will be entitled to two-thirds of the aforementioned maximum amount of shares, provided all conditions for the grant have been met. The proposal for the grant of shares is described above on page 99.

With regard to members of the Management Board, the definition of targets to be achieved as well as the parameters of the maximum incentive to be received, take place in accordance with the general principles of the Remuneration Policy as well as the principles as applied by the Remuneration, Appointment and Selection Committee and the Supervisory Board.

Kardan N.V.'s Management Board and Supervisory Board take the view that the 2010 Share Plan is in accordance with the Code, provided that one deviation was made with respect to the retention of shares. A retention period of two years will apply to the first possible grant of shares (three years after the adoption of the targets), so that this essentially complies with best practice provision II.2.5 of the Code. However, no further retention plan will apply for further grants of shares under the 2010 Share Plan, which will only be granted once every three years, provided the long-term targets have been met, if the member of the Management Board has been in office for a consecutive period of at least five years at the time of grant. Standard good leaver/bad leaver provisions will apply though. The Supervisory Board takes the view that this measure sufficiently meets the long-term character of the share remuneration and retention of management.

The maximum remuneration to be earned by each member of the Management Board annually is displayed in the table below:

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

The notes to the financial statements on page 273 of this annual report provide the remuneration for the year 2011 per individual member of the Management Board (see also the table above, which displays both the fixed and the variable remuneration for the year 2011). The proposed fixed remuneration for the year 2012 and the grant of shares under the 2010 Share Plan will be submitted for shareholders' approval to the General Meeting of Shareholders to be held on May 31, 2012.

The Remuneration Policy and the remuneration for the year 2011 have been established after careful consideration and taking into account various relevant aspects and developments in the market. The Remuneration, Appointment and Selection Committee will see to the continuance of this record for the future by performing checks and balances on a regular basis.

Loans

Kardan N.V.'s Remuneration Policy stipulates that no personal loans, guarantees, or the like will be granted to members of the Management Board, unless in the normal course of business and on terms applicable to the personnel as a whole, and after approval by the Supervisory Board. No waiver of loans may currently be granted. Since the Remuneration Policy came into effect, no member of the Management Board has been granted a loan, guarantee, or the like, and no member of the Management Board has been granted shares in the capital of Kardan N.V. by way of remuneration: in view of the 2010 Share Plan, this may change in the coming years.

Other

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

Final authority to adjust remuneration with the Supervisory Board

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

Employment contracts and additional arrangements

For further details on individual remuneration per member of the Management Board, options, and other interests of the members of the Management Board, see the notes to the financial statements on pages 273 and 274 of this annual report.

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

Website

This Remuneration Report will be posted on www.kardan.nl.

Remuneration of Supervisory Board

In accordance with the policy adopted in this respect in 2007, the Supervisory Board will evaluate its remuneration once every two years, and if based on such evaluation and on comparisons made with other companies, the Supervisory Board should take the view that its remuneration needs to be amended, a proposal for such amendment will be put forward to the General Meeting of Shareholders. The previous evaluation of the Supervisory Board members' remuneration took place in 2010, and therefore the Supervisory Board reconsidered its remuneration for 2012. Given its present remuneration, which is in line with peer groups, the Supervisory Board will not submit a proposal for an increase.

An overview of the remuneration per member of the Supervisory Board can be found on page 272 of this annual report.

Amsterdam, April 17, 2012

H. Benjamins
Chairman of the Remuneration, Appointment and Selection Committee

Statutory Financial Statements

for the year ended December 31, 2011 by Kardan N.V., Amsterdam, The Netherlands

Notes to the Consolidated IFRS Financial Statements

Consolidated Statement of Financial Position

€ in millions	Note	December 31, 2011	December 31, 2010
Assets			
Non-current assets			
Tangible fixed assets	6	103	105
Rental vehicles	7	–	245
Investment properties	8	1,885	2,344
Investments in associates	9	54	157
Other financial assets		6	26
Loans to bank customers	10	189	96
Long-term loans and receivables	11	172	171
Derivatives	40	57	120
Intangible assets and goodwill	12	94	184
Long-term real estate inventory	13	106	231
Deferred income tax assets	38	20	22
		2,686	**3,701**
Current assets			
Inventories, contract work and buildings inventory in progress	13	364	384
Derivatives	40	1	2
Current maturities of long-term loans and receivables	11	115	159
Loans to bank customers	10	241	159
Trade receivables	14	37	111
Income tax receivables		4	6
Other receivables and prepayments	15	102	140
Short-term investments	16	259	254
Cash and cash equivalents	17	407	498
		1,530	**1,713**
Assets held for sale	5	139	585
Total current assets		**1,669**	**2,298**
Total assets		**4,355**	**5,999**

The accompanying Notes are an integral part of these IFRS consolidated financial statements

€ in millions	Note	December 31, 2011	December 31, 2010
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued and paid-in capital	18	23	23
Share premium		208	235
Foreign currency translation reserve		7	9
Property revaluation reserve		52	114
Revaluation reserve, other		5	–
Non-controlling interest holders transactions reserve		19	(1)
Treasury shares		(3)	(27)
Retained earnings (accumulated deficit)		(108)	(19)
		203	**334**
Non-controlling interests		**537**	**733**
Total equity		**740**	**1,067**
Non-current liabilities			
Interest-bearing loans and borrowings	20	972	1,582
Banking customers accounts	21	270	76
Derivatives	40	81	55
Other long-term liabilities	22	24	26
Options	23	16	29
Convertible debentures	24	–	15
Other debentures	25	811	1,016
Deferred income tax liabilities	38	149	182
Accrued severance pay, net		2	2
		2,325	**2,983**
Current liabilities			
Advances from customers in respect of contracts	13	13	17
Banking customers accounts	21	250	302
Trade payables	26	79	120
Interest-bearing loans and borrowings	27	563	509
Income tax payables		5	8
Advances from apartment buyers	13	144	158
Derivatives	40	22	16
Other payables and accrued expenses	28	214	232
		1,290	**1,362**
Liabilities associated with assets held for sale	5	–	587
Total current liabilities		**1,290**	**1,949**
Total liabilities		**3,615**	**4,932**
Total equity and liabilities		**4,355**	**5,999**

The accompanying Notes are an integral part of these IFRS consolidated financial statements

Consolidated Income Statement

€ in millions	Note	For the year ended December 31, 2011	2010	2009
Sale of apartments		67	83	105
Contract revenues		114	138	125
Retail lending activities	31	107	35	40
Property rental and service recharge revenues		142	131	103
Other revenue		6	7	8
Total revenues		**436**	**394**	**381**
Cost of apartments sold		57	75	58
Contract costs		92	105	120
Costs of banking and retail lending activities	32	87	43	41
Costs of property rental and service recharge operations		40	32	24
Other expenses, net	33	88	13	22
Total expenses		**364**	**268**	**265**
Gross margin		**72**	**126**	**116**
Selling and marketing expenses	34	21	20	13
General and administration expenses	35	61	57	46
Profit from operations before fair value adjustments, disposal of assets and financial expenses		**(10)**	**49**	**57**
Adjustment to fair value (impairment) of investment properties	8	(205)	71	(183)
Impairment losses on goodwill	12	(68)	(28)	(1)
Gain on issuance of shares in associated companies and subsidiaries to third parties		–	–	1
Gain on disposal of assets and other income	36	22	7	9
Profit (loss) from fair value adjustments and on disposal of assets and investments		**(251)**	**50**	**(174)**
Profit (loss) from operations before finance expenses and income taxes		**(261)**	**99**	**(117)**

The accompanying Notes are an integral part of these IFRS Consolidated financial statements

Consolidated Income Statement (continued)

€ in millions	Note	For the year ended December 31, 2011	2010	2009
Other financial income	37	22	19	48
Other financial expenses	37	(141)	(143)	(137)
Adjustment to fair value of other financial instruments		(4)	(1)	2
Total financial expenses, net		**(123)**	**(125)**	**(87)**
Profit (loss) from operations		**(384)**	**(26)**	**(204)**
Share of profit of associates accounted for using the equity method	9	(3)	6	–
Profit (loss) before income taxes		**(387)**	**(20)**	**(204)**
Income tax expenses (benefit)	38	38	24	(22)
Profit (loss) for the period from continuing operations		(425)	(44)	(182)
Net profit (loss) from discontinued operations	5	16	15	6
Net profit (loss) for the year		**(409)**	**(29)**	**(176)**
Attributable to:				
Equity holders		(148)	(27)	(92)
Non-controlling interest holders		(261)	(2)	(84)
		(409)	**(29)**	**(176)**
Earnings (loss) per share attributable to shareholders *	39			
Basic from continuing operations		(1.32)	(0.35)	(0.86)
Basic from discontinued operations		0.14	0.11	0.05
		(1.18)	**(0.24)**	**(0.81)**
Diluted from continuing operations		(1.34)	(0.35)	(0.93)
Diluted from discontinued operations		0.14	0.11	0.05
		(1.20)	**(0.24)**	**(0.88)**

* Earning (loss) per share were adjusted retrospectively, refer to Note 39 for additional information

The accompanying Notes are an integral part of these IFRS Consolidated financial statements

Consolidated Statement of Comprehensive Income (expense)

€ in millions	For the year ended December 31, 2011	2010	2009
Net profit (loss) for the year	**(409)**	**(29)**	**(176)**
Foreign currency translation differences [1]	(9)	73	(12)
Change in hedge reserve, net of tax [2]	3	11	21
Unrealized revaluations, net of tax [3]	(1)	1	(1)
Other comprehensive income (expense) for the year [4]	(7)	85	8
Total comprehensive income (expenses)	**(416)**	**56**	**(168)**
Attributable to:			
Equity holders	(150)	48	(80)
Non-controlling interests holders	(266)	8	(88)
	(416)	**56**	**(168)**

1 Foreign currency translation differences for the year ended December 31, 2011 include release of amounts related to business combinations and to the distribution of Kardan Yazamut as dividend in Kind, for additional information refer to Note 5.
2 Presented net of tax which amounted to €2 million, €3 million and €1.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.
3 The tax effect amounted to less than €1 million in all presented periods.
4 Other comprehensive income (expenses) include the following amounts resulting from associates: for the years ended on December 31, 2011, 2010 and 2009 nil, €(1) million and €(2.1) million, respectively.

The accompanying Notes are an integral part of these IFRS Consolidated financial statements

Consolidated Statement of Changes in Equity

€ in millions	Attributable to equity holders of the parent									
	Issued and paid-in capital	Share premium	Property revaluation reserve *	Revaluation reserve, other *	Foreign currency translation reserve *	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of January 1, 2009	**23**	**230**	**140**	**(35)**	**(43)**	**(21)**	**74**	**368**	**744**	**1,112**
Other comprehensive income (expenses)	–	–	–	21	(9)	–	–	12	(4)	8
Net result for the year	–	–	–	–	–	–	(92)	(92)	(84)	(176)
Comprehensive income/ expense for the year	**–**	**–**	**–**	**21**	**(9)**	**–**	**(92)**	**(80)**	**(88)**	**(168)**
Share-based payment	–	1	–	–	–	–	–	1	5	6
Issuance of shares to consolidated company	–	4	–	–	–	–	–	4	–	4
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	35	35
Dividend distributed to non-controlling shareholders	–	–	–	–	–	–	–	–	(1)	(1)
Reclassification according to the Netherlands Civil Code requirements*	–	–	(47)	–	–	–	47	–	–	–
Balance as of December 31, 2009	**23**	**235**	**93**	**(14)**	**(52)**	**(21)**	**29**	**293**	**695**	**988**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution.

The accompanying Notes are an integral part of these IFRS Consolidated financial statements

Consolidated Statement of Changes in Equity (continued)

€ in millions	Attributable to equity holders of the parent										
	Issued and paid-in capital	Share premium	Property revaluation reserve *	Revaluation reserve, other *	Foreign currency translation reserve *	Non-controlling interest holders transactions reserve	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of January 1, 2010	**23**	**235**	**93**	**(14)**	**(52)**	**–**	**(21)**	**29**	**293**	**695**	**988**
Other comprehensive income (expenses)	–	–	–	14	61	–	–	–	75	10	85
Net result for the year	–	–	–	–	–	–	–	(27)	(27)	(2)	(29)
Total comprehensive income/ loss	**–**	**–**	**–**	**14**	**61**	**–**	**–**	**(27)**	**48**	**8**	**56**
Share-based payment	–	–	–	–	–	–	–	–	–	10	10
Issuance of shares to non-controlling interest holders	–	–	–	–	–	1	–	–	1	22	23
Shares purchased in consolidated and newly consolidated subsidiaries	–	–	–	–	–	–	–	–	–	29	29
Deconsolidation of a subsidiary (Note 5C)	–	–	–	–	–	–	–	–	–	(31)	(31)
Deconsolidation of proportionally consolidated group companies (Note 5C)	–	–	–	–	–	–	–	–	–	(2)	(2)
Other transactions with non-controlling shareholders (Note 5C)	–	–	–	–	–	(2)	–	–	(2)	4	2
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(2)	(2)
Purchase of treasury shares	–	–	–	–	–	–	(6)	–	(6)	–	(6)
Reclassification according to the Netherlands Civil Code requirements*	–	–	21	–	–	–	–	(21)	–	–	–
Balance as of December 31, 2010	**23**	**235**	**114**	**–**	**9**	**(1)**	**(27)**	**(19)**	**334**	**733**	**1,067**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution.

The accompanying Notes are an integral part of these IFRS Consolidated financial statements

Consolidated Statement of Changes in Equity (continued)

€ in millions	Attributable to equity holders of the parent										
	Issued and paid-in capital	Share premium	Property revaluation reserve *	Other reserves *	Foreign currency translation reserve *	Non-controlling interest holders transactions reserve	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of January 1, 2011	**23**	**235**	**114**	**–**	**9**	**(1)**	**(27)**	**(19)**	**334**	**733**	**1,067**
Other comprehensive income (expenses)	–	–	–	(1)	(1)	–	–	–	(2)	(5)	(7)
Loss for the year	–	–	–	–	–	–	–	(148)	(148)	(261)	(409)
Total comprehensive loss for the year	**–**	**–**	**–**	**(1)**	**–**	**–**	**–**	**(148)**	**(150)**	**(266)**	**(416)**
Share-based payment	–	–	–	–	–	–	–	–	–	8	8
Issuance of shares to non-controlling interest holders	–	–	–	6	(1)	22	–	–	27	166	193
Shares purchased in subsidiaries and first time consolidation of subsidiary (Note 5C)	–	–	–	–	–	(2)	–	–	(2)	6	4
Purchase of treasury shares	–	–	–	–	–	–	(3)	–	(3)	–	(3)
Deconsolidation of proportionally consolidated entities	–	–	–	–	–	–	–	–	–	(35)	(35)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(4)	(4)
Distribution of a subsidiary as dividend in kind (Note 5C)	–	(27)	–	–	–	–	27	(3)	(3)	(71)	(74)
Reclassification according to the Netherlands civil code requirements *	–	–	(62)	–	–	–	–	62	–	–	–
Balance as of December 31, 2011	**23**	**208**	**52**	**5**	**7**	**19**	**(3)**	**(108)**	**203**	**537**	**740**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution.

The accompanying Notes are an integral part of these IFRS Consolidated financial statements

Consolidated Cash Flow Statement

For the year ended December 31

€ in millions	2011	2010	2009
Cash flow from operating activities			
Net profit (loss) from continuing operations before taxes on income	(387)	(20)	(204)
Profit (loss) from discontinued operations before taxes on income	16	10	2
Adjustments required to present cash flow from operating activities	423	8	253
Net cash provided by (used in) operating activities	**52**	**(2)**	**51**
Cash flow from investing activities			
Acquisition of tangible fixed assets and investments in investment properties	(264)	(196)	(313)
Granting (collecting) loans from (to) associated companies and joint ventures, net	(1)	5	(9)
Investments in associated companies and joint ventures	(1)	(14)	(27)
Proceeds from sale of assets and investments	4	237	16
Granting of long-term loans	(1)	(1)	(141)
Change in loans to bank customers	(175)	(124)	(175)
Change in long-term loans and receivables	33	36	318
Change in short-term investments	(50)	12	(256)
Acquisition of newly consolidated subsidiaries, net of cash acquired (see appendix B below) (see Note 5C)	(13)	(3)	3
Deconsolidation of a joint venture (see appendix C below)	160	–	–
Disposal of formerly consolidated subsidiaries, net of cash disposed (see appendix D below)	26	69	24
Change from proportionate consolidation to full consolidation (see appendix E below) (see Note 5C)	10	28	–
Change from proportional consolidation to equity method (see Note 5C)	–	(30)	–
Change from full consolidation to proportionate consolidation (see appendix F below)	46	–	–
Tax paid on disposal of investment properties	(27)	(5)	–
Change in deferred brokerage fees	(1)	(1)	(2)
Change in other assets	(23)	(29)	(6)
Net cash used in investing activities	**(277)**	**(16)**	**(568)**

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2011	2010	2009
Cash flows from financing activities			
Dividend paid to non-controlling interest holders	(4)	(2)	(1)
Cash distributed as dividend in kind (refer to Note 5C)	(19)	–	–
Proceeds from issuance and sale of shares in subsidiaries to third parties	189	23	5
Issuance of debentures	83	70	22
Repayment and repurchase of debentures	(71)	(83)	(92)
Change in loans from bank customers	132	275	95
Change in deposits from tenants	–	–	1
Proceeds from long-term loans	333	464	886
Repayment of long-term loans	(525)	(448)	(585)
Change in short-term loans and borrowings, net	(12)	(184)	178
Cost related to issuance of debt and shares	(4)	(5)	(5)
Proceeds from sale of hedge instruments	45	29	–
Purchase of treasury shares	(3)	(6)	–
Investments in companies	(12)	(13)	(76)
Proceeds from sale of investments to non-controlling interest holders	(3)	–	44
Net cash provided by financing activities	**129**	**120**	**472**
Foreign exchange differences relating to cash and cash equivalents	5	18	(23)
Increase (decrease) in cash and cash equivalents	(91)	120	(68)
Decrease of cash of assets held for sale (refer to Note 5C)	–	(96)	2
Cash and cash equivalents at the beginning of the year	498	474	540
Cash and cash equivalents at the end of the year	**407**	**498**	**474**

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2011	2010	2009
A. Adjustments to reconcile net profit (loss) to net cash			
Charges / (credits) to profit / loss not affecting operating cash flows:			
Share of profit (loss) of associated companies accounted for using the equity method	(3)	(13)	(7)
Dividend from associated companies	7	9	6
Gain on issuance and sale of shares in associated companies and subsidiaries to third parties, net	–	(9)	(5)
Gain from release of negative goodwill	–	–	(5)
Impairment of goodwill	68	28	1
Loss (gain) on disposal of assets and investments, net	(6)	(85)	2
Gain (loss) from early repayment of loans	–	(9)	–
Share-based payment	4	14	6
Depreciation and amortization	77	66	74
Fair value adjustments of investment properties	273	(73)	179
Financial expense (income) and exchange differences, net	88	94	99
Change in fair value of options and share appreciation rights	(4)	11	(14)
Decrease (increase) in fair value of securities held for trading and hedge instruments, net	8	3	(20)
Increase in provision for bad debts in the financial services segment	47	118	116
Impairment of assets	2	3	19
Changes in operating assets and liabilities			
Purchase of rental vehicles	(125)	(121)	(79)
Proceeds from sale of rental vehicles	75	65	54
Change in insurance provisions and deferred acquisition costs, net	–	5	–
Change in trade and other receivables	(91)	(271)	(42)
Change in inventories and in contract work in progress, net of advances from customers	(58)	(59)	(2)
Change in trade and other payables	113	262	(99)
Change in outstanding insurance premiums, reinsurance receivables and insurance companies	–	–	(1)
Interest paid	(184)	(286)	(246)
Interest received	147	279	230
Income taxes paid	(15)	(23)	(13)
	423	**8**	**253**

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2011	2010	2009
B. Acquisition of newly consolidated subsidiaries, excluding cash acquired			
Working capital	8	1	74
Non-current assets	(58)	(5)	(279)
Goodwill on acquisition	(10)	(1)	(1)
Non-controlling interests	–	–	20
Long-term liabilities	33	1	192
Capital reserve	–	–	(2)
Total purchase price	(27)	(4)	4
Less – cash in subsidiaries acquired	14	–	(1)
Payable on account of investment	–	1	–
	(13)	**(3)**	**3**
C. Disposal of a joint venture net of cash disposed			
Working capital	34	–	–
Non-current assets	238	–	–
Goodwill	2	–	–
Gain on disposal of investment	4	–	–
Change in capital reserves	(2)	–	–
Long-term liabilities	(108)	–	–
Total consideration	168		
Less – Cash of Joint venture which ceased to be consolidated	(8)	–	–
	160	**–**	**–**

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2011	2010	2009
D. Disposal of formerly consolidated subsidiaries, net of cash disposed			
Working capital	(7)	157	59
Non-current assets	(30)	253	10
Intangible assets on acquisition	13	–	–
Investment properties	–	–	9
Goodwill	–	(40)	16
Rental vehicles	395	–	–
Non-controlling interests	(30)	(31)	(7)
Long-term liabilities	(323)	(307)	(49)
Gain on disposal of investment	8	59	19
Total consideration	26	91	57
Cash of subsidiary which ceased to be consolidated	–	(22)	(29)
Release of capital reserves	–	–	(1)
Other receivables from disposal of investments	–	–	(3)
	26	**69**	**24**
E. Change from proportional consolidation to full consolidation			
Working capital	(3)	(1)	–
Investment property	55	(33)	–
Other non-current assets	(185)	(242)	–
Goodwill on acquisition	(4)	(11)	–
Gain on disposal of investment	(3)	6	–
Non-controlling interests	11	9	–
Long-term liabilities	139	265	–
Total purchase price	10	(7)	–
Less - cash in subsidiaries acquired	–	35	–
	10	**28**	**–**

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2011	2010	2009
F. Change from full consolidation to proportional consolidation			
Working capital	(2)	–	–
Investment property	60	–	–
Goodwill on acquisition	(3)	–	–
Gain on disposal of Joint venture	12	–	–
Long-term liabilities	(21)	–	–
Total purchase price	46	–	–
Foreign currency translation on cash	1	–	–
Less – cash of disposed Joint venture	(1)	–	–
	46	**–**	**–**

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

The accompanying Notes are an integral part of these IFRS Consolidated financial statements

Notes to the Consolidated IFRS Financial Statements

December 31, 2011

1 General

A Introduction

Kardan N.V. ('Kardan' or 'the Company') having its legal seat in Amsterdam, The Netherlands, was incorporated on May 2, 2003, and acts as an active investment company which is engaged in the development of real estate in Asia and Europe, banking and retail lending, infrastructure projects, infrastructure assets, and others through its subsidiaries, joint ventures and associated companies. During 2010, the Company sold its insurance and pension segment. Following During 2011, the Company distributed its rental of vehicles and sale of vehicles segment and parts of the other segment as dividend in kind to it's shareholders (refer to Note 5 for additional information).

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

The total number of employees in the Company and its subsidiaries was 7,001 as of December 31, 2011 (December 31, 2010 – 10,332).

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

These financial statements were approved by the Management Board and Supervisory Board of the Company on March 29, 2012.

Going concern

During 2011 the Company recorded losses in a total amount of €148 million mainly due to the complex uncertain macroeconomics conditions existing in the world markets and especially in Europe. As a result, as of December 31, 2011 the Company did not meet certain covenants related to loans from a bank (refer to Note 29 for additional information). The Management Board of the Company believes that, based on, among other things, the cash balances of the Company, the cash expected to derive from operational activities, sale of assets (regarding sale of shares in Sovcom Bank refer to Note 5) and the Company's assets that are free of collaterals that in the foreseen future, the Company will be able to repay its liabilities when it matures. Therefore the financial statements were prepared on the assumption that the Company will continue as going concern.

Subsequent to balance sheet date, on March 15, 2012, the Company received a letter from the Israeli Securities Authority regarding sampling audit that was conducted by the ISA and included, inter alia, the examination of the values in the financial statements of five real estate assets owned by a consolidated subsidiary as of December 31, 2009, for additional information refer to Note 8.

The statutory financial statements which comprise these consolidated financial statements and the company only financial statements were authorized for issuance on April 16, 2012.

For additional information included in the Barnea report as required by the Israeli Securities Authority regulation, reference is made to the website of the Company (www.kardan.com).

2 Basis of preparation

A Basis of preparation

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

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

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

B Statement of compliance

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

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

C Basis of consolidation

Basis of consolidation from January 1, 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2011.
Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control. The Group adopted the Effective Control approach. Under such approach effective control is present when the Group has the power, directly and indirectly, to govern the financial and operational policies of an entity so as to obtain benefits from its activities. In determining control, the effects of potential voting rights existing as of the balance sheet date are taken into account.

Subsidiaries continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non controlling interests ('NCI') represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated statement of financial position, separately from equity attributable to the equity holders of the parent. Losses within a subsidiary are attributed to the NCI even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction and is presented in a separate reserve named 'Non controlling interest-holders transactions reserve'. In addition, any directly attributable incremental transaction costs incurred to acquire outstanding NCI in a subsidiary or to sell NCI in a subsidiary without loss of control are deducted from equity. The Group also reattributes Other Comprehensive Income ('OCI') in transactions that do not result in the loss of control of a subsidiary.

Upon partial disposal of a subsidiary without loss of control, the adjustment of NCI comprises a portion of the net assets of the subsidiary. Furthermore, a proportion of the goodwill is reallocated between the controlling and the non-controlling interest.
If the Group loses control over a subsidiary, it:

- Derecognizes all assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the entire carrying amount of any NCI
- Derecognizes amounts deferred in OCI
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in the income statement
- Reclassifies the parent's share of components previously recognized in other comprehensive income to the income statement or retained earnings, as appropriate.

Basis of consolidation prior to January 1, 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognized in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between NCI and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at January 1, 2010 has not been restated.

D Changes in accounting policies and disclosures

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The amendment is effective as of January 1, 2011. The adoption of the amendment did not have any impact on the disclosures of the Group.

IAS 32 Financial instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment is effective as of February 1, 2010. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.

All other components are to be measured at their acquisition date fair value (see Note 5).

The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011. The Group, however, adopted these as of January 1, 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of IFRS 3.

IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 40.

IAS 1 Presentation of Financial statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Company presents the required breakdown in its equity statement.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008);
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards);
- IAS 27 Consolidated and Separate Financial Statements;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.
- IFRIC 13 Customer Loyalty Programs (determining the fair value of award credits).
- IFRIC 14 Prepayments of a minimum Funding Requirement

E Reclassifications

Certain amounts in the statement of financial position and income statement were reclassified, within the same group of accounts, in order to conform to current period presentation. The reclassifications were not material.

3 Significant accounting judgments, estimates and assumptions

A Judgments, estimates and assumptions

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

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

Revaluation of investment properties and of investment properties under construction

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

Completed investment properties are measured at fair value as at the balance sheet date. Any changes in the fair value are included in the income statement. Change in fair value is usually determined by independent real estate valuation experts in accordance with recognized valuation techniques. These techniques include among others: the Income Approach to value (which includes the Discounted Cash Flow Method and the Yield method), the Residual Method and the Sales Comparison Method. These methods include estimate future cash flows from assets and estimates of discount rates applicable to those assets. In some cases the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the company's assets (Sales Comparison Method).

In cases where the fair value of investment property under construction can be reliably measured, management considers factors such as zoning and construction permits, the percentage complete and the percentage pre-let.

In cases where a fair value cannot be reliably determined, such properties are presented at the lower of cost or recoverable amount. The fair value of investment properties under construction is determined using either the Discounted Cash Flow Method or the Residual Method, except if such values cannot be reliably determined. The Group has adopted the following internal guidelines to assess whether the substantial risks are eliminated (and therefore the fair value can be reliably measured):

- Agreement with general contractor is signed
- Building permit is signed
- At least 20% of the rentable area is leased to tenants.

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

Estimates about key assumptions include among others: future cash flows from assets (such as lettings, tenants' profiles and future revenue streams, capital values of fixtures and fittings, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of investment properties under construction. Future revenue streams, inter alia, comprise contracted rent (passing rent) and estimated rental income (ERV) after the contract period. In estimating ERV, the potential impact of vacancy and future lease incentives to be granted to secure new contracts is taken into consideration. All these estimates are based on local market conditions existing at the reporting date.

Refer to Note 40 for sensitivity analysis of profit (loss) before tax due to changes in the certain key parameters.

Definitions used for valuing investment properties
The Income Approach to value converts anticipated future benefits in the form of rental income into present value. This approach requires careful estimation of future benefits and application of investor yield or return requirements. One approach to value the property on this basis is to capitalize net rental income on the basis of net initial yields, generally referred to as the yield method.

The discounted cash flow analysis, another accepted methodology within the income approach to valuation involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. For development properties the calculated periodic cash flow is typically estimated as gross income less vacancy and collection losses and less operating expenses/outgoings. The series of periodic net operating incomes, along with an estimate of the reversion/terminal value, anticipated at the end of the projection period, is then discounted. The aggregation of the net present values leads to the market value of the property.

The residual approach is a combination of the income and cost approaches. The residual method is a method of determining the value of a property which has potential for development, redevelopment or refurbishment. The estimated total cost of the work, including fees and other associated expenditures, plus allowance for interest, developer's risk and profit, is deducted from the gross value of the completed project. The resultant figure is then adjusted back to the date of valuation to give the residual value. Elements of the cost approach (as completed) were used in order to estimate the construction costs of the subject property.

The sales comparison approach is a method of determining the value of a property by using sale prices of recent sale transactions of similar property.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable risk-adjusted discount rate in order to calculate the present values of those cash flows. Generally, the Group uses the Weighted Average Cost of Capital of the applicable cash-generating units. The carrying amount of goodwill as of December 31, 2011 was €58 million (2010 - €147 million), of which €5 million is allocated to real estate activities (2010 - €16 million), €34 million (2010 - €103 million) is allocated to financial services activities, and €19 million (2010 - €26 million) is allocated to the infrastructure activities. With respect to the real estate segments, where goodwill was paid (prior to January 1, 2010) in compensation for future project development profit, the goodwill is reduced commensurate with the amount of development profits subsequently realized. Such goodwill is either capitalized as part of investment properties under construction, or as the case may be, separately classified as goodwill.

Service concession arrangements

The Group measures the total investment of the concession agreements based on the investments during construction and the operational period, taking into account an estimated gross margin. The estimated gross margin has been initially determined during the acquisition of the project and will be evaluated continuously during the period of the project. The carrying amount of the service concession intangible assets and financial receivable arrangements as of December 31, 2011 amounted to a total of €11 and €78 million respectively (2010 - €11 million and €38 respectively).

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of the deferred tax assets as of December 31, 2011 was €20 million (2010 - €22 million).

Determination of effective control

Existence of control or de facto control over investee companies is determined by management by examining its power to direct the activities of the investee company. An investee company for which the Company has less than half of the voting rights has the power to direct the activities of another entity if:

(a) the reporting entity has more voting rights than any other party; and

(b) the reporting entity's voting rights are sufficient to give the reporting entity the ability to determine the entity's strategic operating and financing policies.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input for these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives (see Note 40).

Fair value of equity based instruments

Fair value of equity instruments, primarily put options granted to non controlling shareholders, share options and conversion components of convertible debentures, have been valued, in most cases, by independent external appraisers, using applicable valuation models, or based on the value of the respective companies as assigned in transactions with third parties. The valuations are necessarily and inevitably based on certain assumptions, and hence they are subject to estimation uncertainty. The assumptions and models used are disclosed in Note 23. The fair value of such equity based instruments as of December 31, 2011 was €16 million (December 31, 2010 - €29 million).

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

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures, in connection with those loan classes which, although not specifically identified as requiring a specific allowance, are considered to have a greater risk of default than when originally granted. These take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows. See also Note 10.

Impairment losses on inventory
Inventory is stated at the lower of cost and net realizable value ('NRV'). NRV is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions. In connection with residential units under construction which classify as inventory, impairment is tested by comparing the estimated selling price per unit and the expected cost per unit on completion.
The carrying amount of inventory as of December 31, 2011 was €470 million (December 31, 2010 - €615 million (see Note 13 for additional information with regards to impairments in the reporting period).

Future interest payable
Under IFRS 7 an entity has to provide a maturity table of financial liabilities including future interest due. In cases where interest is variable, future interest is estimated based on currently known variables (see Note 40).

Provision for legal claims
In estimating the chances of lawsuits filed against the Group and its investee companies, the Group relies on the opinion of its legal councils. These estimates are based on the legal advisers' best professional judgment, considering the stage which proceedings are in, and the legal experience gained on the various issues. Since the results of the claims will be determined in the courts, these results may differ from theses estimates.

4 Summary of significant accounting policies

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

A Interest in joint ventures
The Group has an interest in joint ventures, which are jointly controlled entities, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognizes its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint ventures are prepared for the same reporting

period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Company's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealized gains and losses on such transactions between the Group and its joint ventures. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control, the Group measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

B Non-current assets held for sale and discontinued operations

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

Discontinued operations is defined as a component of an entity that either has been disposed of or is classified as held for sale and: a. represents a major separate line of business or geographical area of operations. b. is a part of a single cooperated plan to dispose of a separate major line of business or geographical area of operations or c. is a subsidiary acquired with a view to resale.

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

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

Investment property held for sale

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

For the sale to be highly probable:

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

On reclassification, investment property that is measured at fair value continues to be so measured.

C Foreign currency translation

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

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

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

	USD	NIS	RMB	CPI
December 31, 2011	0.77	0.20	8.2253	128.6
December 31, 2010	0.75	0.21	8.7351	125.4
December 31, 2009	0.69	0.184	9.7705	122.6
December 31, 2008	0.72	0.189	9.6092	117.9
Change in 2011	3.0%	(4.1%)	(5.8%)	2.6%
Change in 2010	8.0%	14.9%	(10.6%)	2.3%
Change in 2009	(3.5%)	(2.6%)	1.7%	3.9%

D Tangible fixed assets

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

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

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

Office furniture and equipment	3-16 years (mainly 10 years)
Property, plant and equipment	10-20 years (mainly 10 years)
Motor vehicles	2-7 years (mainly 5 years)
Buildings (not including land)	25-50 years (mainly 50 years)
Leasehold improvements	over the term of the lease (mainly 5 years)

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

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

E Investment properties

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

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

Both completed investment properties and investment properties under construction, where management deemed that fair value can be reliably measured (see Note 3A), are externally valued (in most cases) based on open market values. Completed properties are either valued on the basis of the income approach (which includes DCF and the Yield methods), on basis of the Residual approach or on the basis of sales comparison approach. Investment property under construction that cannot be reliably measured is valued at cost or lower recoverable amount. For a description of these valuation techniques and assumptions, see Note 3A.

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

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

Lease origination costs / deferred brokerage fees

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

F Contract work and building inventory in progress

Costs relating to the construction of the residential properties are stated at the lower of cost and net realizable value. Inventory is stated at the lower of cost and NRV. NRV is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions. Costs relating to the construction of a project are included in inventory as follows:

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

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

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

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

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

Receivables for contract work is separately calculated for each contract and presented in the statement of financial position at the aggregate amount of costs incurred and recognized profits less recognized losses and progress billings. Progress billings are amounts billed for work performed up to the financial position date, whether settled or not settled. If the amount balance is positive, it is recorded in the statement of financial position as an asset under receivables for contract work. If it is negative, it is recorded in the statement of financial position as a liability for contract work.

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

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

G Merchandise inventories

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

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

H Business combinations and goodwill

Business combinations from January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date at fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the NCI in the acquiree either at fair value or at the proportionate share of the fair value of the acquiree's identifiable net assets. Other equity instruments not entitled to a proportionate share of net assets should be measured at FV on the acquisition date unless another measurement basis is required by IFRS such as IFRS 2. Acquisition costs incurred are expensed and included in 'Other expenses'

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement. Amounts deferred in OCI are reclassified to the income statement or transferred directly to retained earnings.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be premeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for NCI over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the income statement. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The carrying value of goodwill is annually tested for impairment or more frequently when events or changes in circumstances indicate that the carrying value may not be recoverable. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to January 1 2010
In comparison to the above-mentioned requirements, the following differences applied:
Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets. Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.
When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract. Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

I Service concession arrangements

Introduction
Service concession arrangements are arrangements where an entity (the Concession Operator) may enter into an arrangement with another entity (the Concession Provider or the Grantor) to provide services that give the public access to major economic and social facilities. These may include obligations to restore infrastructure to a specified condition before it is returned to the grantor at the end of the concession. These do not include any upgrade elements as these are treated as an additional construction service.

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

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

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

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

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

Operating and maintenance costs, which are deemed executory, will be accounted for as incurred. Contractual obligations, including obligations to maintain, replace or restore infrastructure, are recognized and measured at the best estimate of the expenditure required to settle the present obligation at the financial position date. These may include obligations to restore infrastructure to a specified condition before it is returned to the grantor at the end of the concession. These do not include any upgrade elements as these are treated as an additional construction service.

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

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

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

Mixed assets

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset it accounts separately for each component of the consideration. The consideration received or receivable for both components is recognized initially at the fair value of the consideration received or receivable. The nature of the consideration given by the grantor to the Group is determined by reference to the contract terms and, when applicable to relevant contract law.

Revenue recognition

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

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

Impairment

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

J Other intangible assets

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

Other intangible assets are amortized commensurate to their estimated economic life. The carrying value of other intangible assets is reviewed for impairment at each reporting date and when events or changes in circumstances indicate that the carrying value may not be recoverable.

K Investment in associates

The Group's investment in its associates is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to associates is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of an associate is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'Share of profit of associates accounted for using the equity method' in the income statement.
Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the income statement. Amounts deferred in OCI are reclassified to the income statement or transferred directly to retained earnings.

L Impairment of non-financial assets

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses recognized in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

M Financial assets

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

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

Financial assets at fair value through profit or loss

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

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement held-to-maturity investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process. Under the requirements of IFRS the Group will not be able to classify any financial instruments in the held-to-maturity portfolio until the end of 2012 due to the sale of held to maturity securities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method.

Gains and losses are recognized in income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

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

N Cash and cash equivalents

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

O Impairment of financial assets

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

Assets carried at amortized cost

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Assets carried at cost relate to an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument.

Available-for-sale financial assets

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

P Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and are presented in the statement of financial position as a deduction from shareholders' equity. No gain or loss is recognized in the income statement on the sales, issuance, or cancellation of treasury shares.
Shares of the parent company purchased by subsidiaries are also accounted for as treasury shares. Any difference between the carrying amount and the consideration, if reissued, is recognized in share premium. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

Q Borrowing costs

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

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

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

R Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

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

Loans and borrowings

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

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Financial guarantee liabilities

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

Convertible debentures

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

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

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

After initial recognition, the conversion component, if recorded as a financial liability, is measured according to IAS 39 and is presented at fair value. Gains or losses are recognized in the income statement. If the conversion component is recognized in equity, it is not premeasured subsequently.

Debentures

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

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

S Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

T Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognized when:

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

When the Group has transferred its rights to receive cash flows from the asset and has neither transferred nor retained substantially all the risks and rewards of the asset, but retains control, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

U Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

V Share-Based Payment Transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions'). Some employees are granted share appreciation rights, which can only be settled in cash ('cash-settled transactions'). In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date. This is then capitalized or expensed as appropriate.

Equity-settled transactions

The cost of equity-settled transactions with employees for awards granted after 7 November 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 19.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 39).

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using mostly the binomial model, further details of which are given in Note 19. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense (see Note 19 and 23).

W Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

Leased assets, which are not classified as investment properties, are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and

recognized over the lease term on the same bases as rental income.
Contingent rents are recognized as revenue in the period in which they are earned.

X Revenue recognition

General
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Contract revenues
Revenue from work performed under a contract, which qualifies as a construction contract is recognized by reference to the stage of completion when the outcome can be measured reliably. The stage of completion is measured based on engineering estimates. When the contract outcome cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable. In the period in which it is determined that a loss will result from the performance of the contract, the entire amount of the estimated ultimate loss is charged against income. Contract revenue is recognized within the Group's infrastructure project segment, by the subsidiary Tahal Group International B.V. and its investee companies.

Rental income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms. Costs of rental operations are recorded in the same period as rental income is recognized. The aggregate cost of rental incentives are recognized as a reduction of rental income over the lease term on a straight-line basis. Rental income is recognized within the Company's Europe and Asia real estate segments, by the subsidiary GTC Real Estate Holding B.V. and its investee companies.

Sale of apartments
Revenue from the sale of houses and apartments is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. The risks and rewards are considered as transferred to the buyer when the houses or apartments have been substantially constructed, accepted by the customer and the vast majority of the amount resulting from the sale agreement was paid by the buyer. Revenue from the sale of apartments is recognized within the Company's Europe and Asia real estate segments, by the subsidiary GTC Real Estate Holding B.V. and its investee companies. Revenues from sale of apartments are presented in the income statements as 'Sale of goods'.

Rendering of services (including management fees)
Revenues from services are recognized as the services are provided and when the outcome of such transactions can be estimated reliably. Where the outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Sale of goods
Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Sale of goods in these consolidated financial statements include revenues from the sale of apartments (see herein under) and from sale of consumer goods.

Interest and dividend income
Revenue is recognized as the interest accrues (taking into account the effective yield on the asset). Dividend income is recognized when the Group's right to receive payments is established.

Y Taxes

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to

compute the amount are those that are enacted or substantially enacted at the balance sheet date.

Current income tax relating to items recognized outside the income statement is recognized in OCI or equity, in correlation to the underlying transaction, and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to the situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary difference, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be used except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized outside the income statement is recognized outside the income statement. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority and expected to settle net or simultaneously.

At each balance sheet date, the Group companies re-assess unrecognized deferred tax assets and the carrying amount of deferred tax assets. The companies recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Conversely, the companies reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilized.

Z Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations.
For financial instruments where there is no active market, the estimated fair value is determined by the Group by using valuation models.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

The Group has estimated that the fair value of some of the financial instruments does not differ significantly from their current carrying amounts. This is valid for cash items, receivables from banks, customers' loans, and other receivables and liabilities. The Group believes that the current carrying amount of these assets and liabilities approximates their fair value, especially when they are short term or their interest rates are changing together with the change in the current market conditions.

AA Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by independent valuators using agreed-upon valuation models.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability;
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge. At the inception of the hedge relationship the Group classifies and documents the type of hedge it wishes, the use for the purpose of financial reporting and its strategic goals for risk management relating to the specific hedging relationship. The documentation includes identification of the hedging instrument, the hedged item, and the nature of the hedged risk and how the Group assesses hedge effectiveness.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the income statement. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the income statement.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the income statement over the remaining term to maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in the income statement.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement. The changes in the fair value of the hedging instrument are also recognized in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flow that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the income statement. The effective portion of the gain or loss on the hedging instrument is recognized in OCI through the hedge reserve, while the ineffective portion is recognized in the income statement.

Amounts taken to OCI are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to OCI are transferred to the initial carrying amount of the non-financial asset or liability. If the forecast transaction is no longer expected to occur, amounts previously recognized in OCI are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in OCI remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

BB Put option granted to non controlling shareholders

From January 1, 2010

The Group recognizes a financial liability under such contract at its fair value. The non controlling interest reported in the financial statements is subsequently reclassified as a financial liability. Any changes in the fair value of that financial liability in subsequent periods are taken to the income statement or to equity if the put option can be classified as an IFRS 3-like transaction (business combination).

Prior to January 1, 2010

The Group has granted to several key executives an option (put option) to sell any or all of their shares in certain subsidiaries within a certain period.

The Group recognizes a financial liability under the above contract at its fair value. The Non controlling interest reported in the financial statements is subsequently reclassified to a financial liability. Any changes in the fair value of that financial liability in subsequent periods are taken to the income statement or to goodwill if the put option can be classified as a non-controlling interest holder transaction.

CC Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding during the period (after adjusting for treasury shares).

Diluted earnings per share amounts are calculated by dividing the net profit attributable to the equity holders of the parent (after adjusting for interest on convertible debentures and options classified as derivative instruments) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. In addition, securities that were converted during the period are included in the diluted earnings per share calculation to the date of conversion, and from that date they are included in the basic earnings per share. Potential ordinary shares are only included in diluted earnings per share when their conversion would decrease earnings per share (or increase loss per share) from continuing operations. Options and warrants are dilutive when they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period.

DD Pensions and other post-employment benefits

Pensions and other post-employment benefits are either classified as defined contribution or defined benefit plans. Under defined contribution plans, contributions during the period are expensed when incurred.

Defined contribution plans

Defined contribution plans are funded through independent pension funds or similar organizations. Contributions fixed in advance (e.g., based on salary) are paid to these institutions, and the beneficiary's right to benefits exists against the pension fund. The employer has no legal or constructive obligation beyond payment of the contributions.

Under retirement plans in the form of defined contribution plans, the entity pledges to pay the beneficiary benefits at a predefined level. This effectively releases the entity from any further obligations beyond the contributions payable and at the same time precludes the entity from participating in the investment success of the contributions.

EE Period of operational business cycle

The period of the operational cycle of the Group exceeds one year, especially in connection with real estate and infrastructure construction projects that may last for 2-4 years. Accordingly, assets and liabilities derived from the construction works include items that may be realized within the abovementioned operational business cycle.

FF Future changes in accounting policies

Standards issued but not yet effective:

IAS 1 Financial Statement Presentation – Presentation of items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 7, 2012.

IAS 12 Income taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012. The amendment will have an impact on the group's financial position and performance. The expected impact of the implementation of the amendment as of December 2011 on the deferred tax balance and the retain earnings of the company is immaterial.

IAS 19 Employee Benefits (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January1, 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed 'IAS 28 Investments in Associates and Joint Ventures', and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs' work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. In subsequent phases, the IASB will address impairment of financial assets and hedge accounting. The completion of this project is expected in 2013. [The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.] The standard is effective for financial years beginning on or after 1 January 2015.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities.
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the

option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.
The application of this new standard will impact the financial position of the Group. This is due to the cessation of proportionate consolidating the joint venture in several joint ventures to equity accounting for this investment. This standard becomes effective for annual periods beginning on or after 1 January 2013. The amendment will have an impact on the group's financial position.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IAS 32 Financial instruments: Presentation (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

GG Definitions
The following definitions are used throughout these financial statements:

Kardan or the Company – Kardan N.V.
The Group or Kardan Group – Kardan N.V. and its subsidiaries, joint ventures and associates
GTC Holding – GTC Real Estate Holding B.V.
Kardan Real Estate Enterprise and Development Ltd. – Kardan Real Estate
GTC Group – GTC Holding and its subsidiaries, joint ventures and associates
GTC SA – Globe Trade Centre S.A.
GTC SA Group – GTC SA and its subsidiaries, joint ventures and associates
KFS – Kardan Financial Services B.V.
KFS Group – KFS and its subsidiaries, joint ventures and associates
TBIF – TBIF Financial Services B.V.
TBIF Group – TBIF and its subsidiaries, joint ventures and associates
Kardan Yazamut – Kardan Yazamut (2011) Ltd.
Kardan Yazamut Group – Kardan Yazamut and its subsidiaries, joint ventures and associates
Kardan Israel or KIL – Kardan Israel Ltd.
KIL Group – KIL and its subsidiaries, joint ventures and associates
TGI – Tahal Group International B.V.
TGI Group – TGI and its subsidiaries, joint ventures and associates
Kardan Land China – Kardan Land China Ltd.
TASE – The Tel-Aviv Stock Exchange

5 Business combinations and investment in subsidiaries and joint ventures

A Principal directly held subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Following is a list of the Company's principal directly held subsidiaries:

Name of subsidiary	Country of incorporation	% equity interest and voting rights as of December 31		
		2011	2010	
Kardan Financial Services B.V.	Netherlands	100	100	Subsidiary
GTC Real Estate Holding B.V.	Netherlands	100	100	Subsidiary
Tahal Group International B.V.	Netherlands	100	100	Subsidiary
Kardan Israel Ltd.	Israel	–	73.67	Subsidiary

Additional information regarding directly held subsidiaries:

€ in millions	Investment in shares	Credit facilities provided by the Company to its subsidiaries		Total investment in the subsidiary *	Goodwill included in the investment
		Loans	Collaterals		
2011					
Kardan Financial Services B.V.	69	93	44	162	–
GTC Real Estate Holding B.V.	360	150	–	510	–
Tahal Group International B.V.	54	44	23	98	–
	483	287	67	770	–
2010					
Kardan Financial Services B.V.	124	77	62	201	1
GTC Real Estate Holding B.V.	348	163	–	511	7
Tahal Group International B.V.	56	42	60	98	–
Kardan Israel Ltd.	73	–	–	73	–
	601	282	122	883	8

* The total investment in a subsidiary includes investment in shares and loans granted by Kardan N.V.

B Principal indirectly held subsidiaries (fully consolidated into the Group) and joint ventures

The consolidated financial statements include the financial statements of the Company, its subsidiaries, its joint ventures and its associates. Following is a list of the Company's principal indirectly held subsidiaries (consolidated into the Group) and joint ventures (proportionally consolidated into the Group). The classification as a 'Subsidiary' or a 'Joint venture' relates to the direct entity which holds the investee company and relates to the effective control or joint control status as of December 31, 2011:

Holding company	Name of subsidiary or joint venture	Country of incorporation	% equity interest by the direct holding as of December 31		
			2011	2010	
Kardan Financial Services B.V.	TBIF Financial Services B.V. [1]	Netherlands	92.2	90.6	Subsidiary
TBIF Financial Services B.V.	TBI Credit IFN SA	Romania	99.99	99.99	Subsidiary
	TBI Leasing SA	Romania	99.99	99.99	Subsidiary
	TBI Bank EAD	Bulgaria	100	–	Subsidiary
	VAB Bank	Ukraine	–	83.91	Subsidiary
	VAB Leasing	Ukraine	–	100	Subsidiary
	SovcomBank [2]	Russia	50	50	Joint venture
TBIF	TBIF – Dan Leasing Ltd.	Cyprus	66	66	Joint venture
TBIF – Dan Leasing Ltd.	VIP Rent Foreign Enterprise	Ukraine	100	100	Joint venture
TBIF Bulgaria EAD and subsidiaries	TBI Leasing EAD	Bulgaria	100	100	Subsidiary
	TBI Credit EAD	Bulgaria	100	100	Subsidiary
GTC Real Estate Holding B.V.	Globe Trade Centre S.A. [3]	Poland	27.75	43.14	Subsidiary
	Kardan Land China Limited (previously GTC Real Estate China Ltd).	Hong Kong	100	100	Subsidiary
	GTC Investment B.V.	Netherlands	48.75	46.25	Joint venture
Globe Trade Centre SA	GTC Hungary Real Estate Development Company Ltd.	Hungary	100	100	Subsidiary
	GTC Real Estate Investments Romania B.V.	Netherlands	100	100	Subsidiary
	GTC Real Estate Investments Serbia B.V.	Netherlands	100	100	Subsidiary

Holding company	Name of subsidiary or joint venture	Country of incorporation	% equity interest by the direct holding as of December 31 2011	2010	
	GTC Real Estate Investments Croatia B.V.	Netherlands	100	100	Subsidiary
	GTC Real Estate Investments Slovakia B.V.	Netherlands	100	100	Subsidiary
	GTC Real Estate Investments Bulgaria B.V.	Netherlands	100	100	Subsidiary
Kardan Land China Limited	Shenyang Taiyling Real Estate Development Ltd.	China	50	50	Joint venture
	Shenyang GTC Palm Garden Development Co. Ltd.	China	50	50	Joint venture
	Shanxi GTC Lucky Hope Real Estate Development Ltd.	China	50	50	Joint venture
	GTC Lucky Hope Suzy Real Estate Development Ltd.	China	50	50	Joint venture
	Kardan Land Chengdu Ltd. (formerly known as GTC Chengdu Real Estate Development Ltd.)	China	50	100	Joint Venture
	Kardan Land Dalian Ltd.	China	100	100	Subsidiary
	Hangzhou International Financial Center Co. Ltd.	China	–	50	–
GTC Investment B.V.	Blitz Portfolio GmbH	Germany	85	85	Subsidiary
	Durango Switzerland B.V.	Netherlands	80	80	Subsidiary
Tahal Group International B.V.	Tahal Group B.V.	Netherlands	100	100	Subsidiary
	Tahal Group Assets B.V.	Netherlands	100	100	Subsidiary
Tahal Group B.V.	Tahal Consulting Engineers Ltd.	Israel	100	100	Subsidiary
	Sitahal 'Hagal' (Talia) Partnership	Israel	100	100	Subsidiary
	Palgey Maim Ltd.	Israel	55.5	55.5	Subsidiary
	Eko-Wark Sp. ZOO	Poland	100	100	Subsidiary
	Fideco DOO	Serbia	100	100	Subsidiary
	Tahal Angola Ltd.	Angola	70	70	Subsidiary
Tahal Group Assets B.V.	Kardan Water International Group Limited	Hong Kong/ Cayman Islands	100	100	Subsidiary
	Perilla Water Group Ltd.	China	100	100	Subsidiary
	Tri-River Water Group Ltd.	China	100	100	Subsidiary
	Dazhou Tianhe Water Supply and Drainage Co., Ltd.	China	100	100	Subsidiary

Holding company	Name of subsidiary or joint venture	Country of incorporation	% equity interest by the direct holding as of December 31 2011	2010	
	TASK Water B.V.	Netherlands	100	100	Subsidiary
	TASK SU Kanalizasyon SU	Turkey	50	50	Joint venture
	Milgam Municipal Services Ltd. [4]	Israel	–	98.68	–
	Agri Products N.V.	Netherlands	51	51	Subsidiary
	KWIG Dingzhou Development Ltd.	Hong Kong	100	100	Subsidiary
	Zhangjiakou Kardan Water Development Co., Ltd.	China	100	100	Subsidiary
Kardan Israel Ltd.	Kardan Real Estate Enterprise and Development Ltd.	Israel	–	71.94	–
	Kardan Motors Ltd.	Israel	–	100	–
	Kardan Technologies Ltd.	Israel	–	62.3	–
	Kardan Communications Ltd.	Israel	–	100	–
	Kardan Emed Properties Ltd.	Israel	–	100	–
	Dan Vehicle and Transportation D.R.T Ltd. (AVIS Israel)	Israel	–	14	–
Kardan Real Estate Enterprise and Development Ltd.	Nofei Hashemesh B.S. Ltd.	Israel	–	50	–
	El-Har Engineering and Construction Ltd.	Israel	–	50	–
Kardan Motors Ltd.	Taldan Motors Ltd.	Israel	–	90	–
	S.F.D.I. Ltd.	Israel	–	100	–
Kardan Emed Properties Ltd.	Emed Real Estate and Investments Development Ltd.	Israel	–	50	–
Emed Real Estate and Investments Development Ltd.	Dan Vehicle and Transportation D.R.T Ltd. (AVIS)	Israel	–	54.25	–

Comments:

1 Due to existing put options for non controlling interest holders, TBIF is effectively 100% consolidated by KFS. Subsequent to the balance sheet date KFS increased its interest in TBIF to 100%.

2 Proportionally consolidated from September 30, 2010 and fully consolidated up to that date – See Note 5C.

3 Despite the fact that as of December 31, 2011 the Company holds less than 50% of the shares of GTC S.A., the Company had, as of that date, effective control and therefore consolidates its financial statements. For additional information refer to Note below.

4 Milgam as part of the Tahal Assets sold to Kardan Israel – See Note 5C.

C Significant transactions and business combinations

Kardan N.V.

2011

1. **Spin-off of the Company's main Israeli activities**
In September 2011 the Extraordinary Shareholders' Meeting of Kardan approved a transaction according to which Kardan would spin-off its 73.7% holding in Kardan Israel Ltd. ('Kardan Israel') and its indirect 97% holdings in Milgam Municipal Services Ltd. ('Milgam', a subsidiary Kardan Municipal Services Ltd. – 'KMS', formerly named Tahal Assets Israel Ltd.).

   The Company restructured most of its holdings in Israel and transferred the Company's shares in Kardan Israel and in KMS to its newly incorporated Israeli ,100% owned subsidiary, Kardan Yazamut (2011) Ltd. ('Kardan Yazamut'). Kardan Yazamut financed the purchase of these shares using external financing in the amount of €39.6 million. Kardan NV used the proceeds from the sale to deleverage. In October 2011, after receipt of all the required approvals, the shares of Kardan Yazamut were distributed as dividend in kind to the Company's shareholders and Kardan Yazamut shares were listed for trade on TASE.

   In the past, the results of Kardan Israel were included in 4 operating segments: 'Rental and leasing of vehicles', 'Sale of vehicles', 'Real estate' and 'Others'. The results of KMS were included in the 'Infrastructure – Assets' segment. Following the transaction, the Company is substantially no longer active in the 'Rental and leasing of vehicles' and 'Sale of vehicles' and 'Others' operating segments.

   As a result of presenting the related assets and liabilities as 'Held for distribution' in Q3-2011, the Company re-measured the assets and liabilities of Kardan Yazamut (excluding treasury shares held by Kardan Israel) at the lower of its carrying amount and fair value less costs to distribute. The re-measurement did not result in an impairment loss.

   The fair value of Kardan Yazamut used for the impairment test took into account market indicators and share prices as these were published in TASE.

   For accounting purposes, the carrying value and the fair value of Kardan Yazamut (net of treasury shares and non controlling interest) was nil, therefore, the book value of dividend distributed was nil. Even though IFRIC 17 ('Distribution of non cash assets to owners') does not apply to the aforesaid transaction (subsequent to the distribution of Kardan Yazamut, the controlling shareholders of the Company have direct control over Kardan Yazamut), due to the fair value being equal to the carrying value of Kardan Yazamut, as of October, 2011, there was no difference between determining the value of the dividend payable at fair value or by using the carrying value. In October 2011, dividend withholding tax of €2.9 million which was booked directly to equity and was paid subsequent to the distribution.

   In October 2011, as a result of the distribution, the Company reclassified to the income statement foreign currency translation reserve and hedge reserve, net of tax, amounting to €13 million and €(5) million, respectively.

   In addition, as a result of the distribution, 11% of the Company's shares which were held by Kardan Israel as treasury shares were re-issued and the Company retrospectively reduced its earnings (losses) per share by a ratio of 11% as the distribution such of shares is considered an issue of bonus shares.

In total, after the distribution of Kardan Yazamut's shares, the transaction resulted in a negative impact on the Company's equity of approximately €3 million.

Discontinued operations related to the Spin-off: The activities of Kardan Yazamut were clearly distinguishable, operationally and for financial reporting purposes. Kardan Yazamut represents several separate businesses and a major geographical area of operations and is part of a single co-ordinated plan to split these operations.

1 Composition of the income and expenses related to discontinued operations:

€ in millions	For the year ended December 31,		
	2011	2010	2009
Total income	286	277	250
Total expenses	(273)	(269)	(250)
Profit (loss) before tax	13	8	–
Income tax expenses	2	(1)	2
Net profit (loss) from discontinued operations	11	7	2
Attributable to:			
Equity holders	10	6	9
Non-controlling interest holders	1	1	(7)
	11	**7**	**2**

Composition of the net cash flows related to discontinued operations:

€ in millions	For the year ended December 31,		
	2011	2010	2009
Net cash flow from operating activities	15	(21)	41
Net cash flow from investing activities	(61)	(19)	(12)
Net cash flow from financing activities	40	37	12
Net cash flows from discontinued operations	**(6)**	**(3)**	**41**

2 Composition of other comprehensive income items related to discontinued operations:

€ in millions	For the year ended December 31,		
	2011	2010	2009
Change in hedge reserve, net of tax	6	–	1
Foreign currency translation differences	(15)	8	–
Other	–	–	2
	(9)	**8**	**3**

Assets and liabilities which were distributed as a result of the split

The below table represents the assets and liabilities of Kardan Yazamut, distributed as described above:

€ in millions	October, 2011
Assets	
Tangible fixed assets	18
Investment properties	20
Investment in associates	121
Long-term loans and receivables	13
Intangible assets and goodwill	22
Inventories, contract work and buildings inventory in progress	165
Trade receivables	31
Other receivables and prepayments	18
Short-term investments	66
Cash and cash equivalents	19
Total assets	**493**
Liabilities	
Convertible debentures	15
Other debentures	60
Deferred income tax liabilities	7
Accrued severance pay, net	2
Trade payables	16
Interest-bearing loans and borrowings	221
Advances from apartment buyers	61
Other payables and accrued expenses	40
Total liabilities	**422**
Non-controlling interests	**71**
	493

Kardan Israel and Tahal Assets Israel were distributed as part of the Spin-off of the Company's main Israeli activities, the main events described below relate to the prior period to the Spin-off which was completed in October 2011.

Events in Kardan Israel (distributed as part of Kardan Yazamut)

2011

1. Avis Israel

a. Kardan Israel held 100% of the share capital of Kardan Emed Properties Ltd ('Emed Properties'). Prior to the completion of the transactions described below, Emed Properties held 50% of Emed Real Estate and Investments Developments Ltd. ('Emed'), a proportionately consolidated company (50%), which was engaged both in real estate investments in Israel and in rental and lease of vehicles through a 54% stake in Dan Vehicle and Transportation D.R.T Ltd. ('Avis Israel'). In addition, at that time, Kardan Israel directly held approximately 14% of Avis Israel.

In January 2011, two agreements were signed with the partner in Emed in connection with the holding in Emed and Avis Israel. According to the first agreement, Emed Properties sold to its former partner its shares in Emed, reflecting 50% of Emed's issued and paid in capital.

According to the second agreement, Kardan Israel purchased from Emed, through Emed Properties, all of its holdings in Avis Israel, reflecting 54.25% of Avis Israel's issued and paid in capital.

In March 2011, the transaction was finalized, after fulfillment of all conditions precedent. Through Emed Properties, Kardan Israel purchased, from Emed all its shares in Avis Israel in consideration of €68 million (NIS 336 million). Following the acquisition, Kardan Israel obtained control over Avis Israel by holding, directly and indirectly, 68.27% of its shares. In addition, Emed Properties sold all its shares in Emed, in consideration of €73 million (NIS 361 million).

According to IFRS 3R, regarding business combination achieved in stages, as a result of the transactions, Kardan Israel recorded a loss of approximately €7 million (NIS 34.9 million) which is included in 'Net profit for the period from discontinued operations' in the income statement.

b. In July 2011 Kardan Israel signed an agreement to sell 34.13% of the shares of Avis Israel (out of 68.27%) to Hamizrach company (Kardan Israel's partner in UMI) for a consideration of €40 million and interest from the date of signing up to the closing. The transaction was closed in September 2011 after all conditions precedent were met. As a result of the transaction Kardan Israel recognized a gain in the amount of €7.8 million which was comprised as follows: a gain of approximately €4.6 million (NIS 22.9 million). Kardan Israel recognized a loss of approximately €3.3 million (NIS 16.2 million) from revaluating its remaining share (34%) to market value. In addition, Kardan Israel recognized a gain of approximately €6.5 million (NIS 32 million) from negative goodwill. These amounts were included in 'Net profit for the period from discontinued operations' in the income statement. Following the completion of the transaction Kardan Israel lost control over Avis Israel and ceased consolidating the financial statements of Avis Israel and accounted for the investment using the equity method.

2. Sale of Sintec Media

In March 2011 Kardan Communication Ltd. (which was previously included in the Company's 'Others' segment), a wholly owned subsidiary of Kardan Israel, sold all of its shares in Sintec Media (which were accounted as a financial asset at fair value through profit and loss), reflecting 16.63% (fully diluted) of Sintec Media's share capital, in consideration of €13.2 million ($18.9 million).

In April 2011, an amount of €12 million ($17 million) was transferred to Kardan Communication Ltd. The remainder of the consideration of €1.2 million ($1.9 million) was deposited in a trust and will be transferred to Kardan Communication Ltd. within 18 months subsequent to the completion of the transaction.

3. Formula Vision

In August 2011, Formula Vision, a partnership held by Kardan Technologies Ltd., a subsidiary of Kardan Israel, which was included in the 'others' segment, completed the sale of its stake in 2 companies to Sapiens Ltd. As consideration, the partnership received shares of Sapiens Ltd. (a company which is traded on the NASDAQ and TASE). The Company's share in the gain from disposal amounted to €4 million is included in 'Net profit for the period from discontinued operations' in the income statement.

2010

4. Kardan Real Estate – Public offering

In March 2010, Kardan Real Estate (which was previously included in the company real estate segment) has completed a public offering of shares and convertible debentures on the TASE. The total proceeds amounted to approximately €27.2 million (€26.3 million, net of transaction costs), as follows:

1. 23,778,700 ordinary shares were issued in consideration of €10.8 million.
2. NIS 80,867,000 par value convertible debentures were issued in consideration of €16.4 million.

The debentures are linked to the CPI and bear an annual interest of 5.7%. The debentures mature on March 30, 2014. The debentures can be converted into Kardan Real Estate shares until March 14, 2014 at a conversion rate of 3.884 NIS par value debentures per share.

The balance of the convertible debentures was split into two components: the conversion component was calculated at issue date as financial derivative measured at fair value of €2.5 million (NIS 12.7 million); the difference between the proceeds and the conversion component, amounting to €14 million (NIS 71 million) was allocated to the liability component. The effective interest rate of the convertible debentures was calculated as 10.29% p.a.

5. **Teledata**

   In June 2010 Kardan Communications LTD has completed a transaction to sell its 45% interest in Teledata Networks Ltd. ('Teledata') to Enablence Technologies Ltd. ('Enablence'), a Canadian listed company. Kardan Communications and the other major shareholders in Teledata sold their shares in Teledata to Enablence for a total consideration of approximately €40 million (USD 50 million) paid in cash, non-tradable bonds and listed shares of Enablence. The total consideration to Kardan Communications amounted to approximately €11 million (USD 13 million). Following the completion of the transaction the Company recorded a gain amounting to €6 million which was included in 'Net profit for the period from discontinued operations' in the income statement.

6. **Purchase of shares in Avis Israel**

   In August 2010, Kardan Israel purchased 1,286,469 par value shares of Avis Israel (In 2011 Avis Israel changed its name to 'Kardan Vehicles') in the amount of €8 million and increased its direct stake from 5.8% to stake of 14%. The total direct and indirect stake of Kardan Israel in Avis Israel subsequent to the purchase was 41.1%.

Events in Kardan Municipal Services (formerly Tahal Assets Israel) – included in Kardan Yazamut

2011

1. **Sale of shares in Pango**

   In April 2011 a transaction between Milgam (was previously included in the Infrastructure Assets segment) and Unicell Ltd ('Unicell', a former associated company which was previously included in 'Others' segment), a company specialized in content for cellular devices, for selling part of Milgam cellular parking company ('Pango') was finalized. As part of the transaction Unicell paid Milgam a total of €0.3 million and transferred to Pango an amount of €0.2 million as consideration for 16.67% of Pango's shares, which were accounted for using proportional consolidation under a joint venture agreement.

   According to the agreement Unicell has 2 options, which are exercisable starting February 2012 for a period of three years, to buy additional 16.67% (each) of Pango's shares, according to the same terms used the first acquisition. The 2 options were considered to be financial derivatives.

   If Unicell does not exercise the options, the joint control agreement will no longer prevail and the control over Pango will be restored to Milgam each party will maintain its shares in Pango based on the actual share acquisition.

   In the second quarter of 2011 the Company recognized a gain from the sale and from the revaluation of the remaining investment in Pango in the amount of €4 million which are included in 'Net profit for the year from discontinued operations'.

GTC

2011

1. **Sale and purchase of Shares in GTC S.A.**

   In January 2011 GTC Holding sold 35.1 million shares of GTC S.A. (which is included in the Company's Real Estate – Europe segment), constituting 16% of GTC S.A.'s share capital. The shares were sold at a price of PLN 21.50 per share. Gross proceeds amounted to approximately €195 million (PLN 754,650,000); net proceeds amounted to approximately €187 million.

   Following the transaction, GTC Holding held 59,529,180 shares in GTC S.A., representing an interest of 27.14%.

   Even though that GTC Holding decreased its holding to 27.14%, it retained the power to govern the financial and operating policies of GTC S.A. under its statute as it has the ability to appoint the majority of the supervisory board members. That fact, in combination with the wide spread of the other shareholders of GTC S.A., as well as the historical voting patterns at the general meeting, result in retaining effective control over GTC S.A. Accordingly, GTC Holding continued consolidating the financial statements of GTC S.A.

   As a result of retaining control over GTC S.A, the transaction was accounted in accordance to IAS 27R as an equity transaction. As such, the difference between the consideration received and the increase in the balance of non controlling interest which increased the Company's equity in the amount of €22 million was considering the partial disposal of goodwill and reattribution of amounts which were previously recognized as other comprehensive income, attributed to non controlling interest-holders transactions reserve.

   The Company will keep monitoring any change in facts and circumstances, in order to confirm there are no triggers for loss of control.

   Subsequent to the sale, in September 2011, GTC Holding purchased 1,353,635 shares for a consideration of €3.8 million and increased its interest in GTC S.A. by 0.61% to 27.75%. The increase in holding was also accounted as an equity transaction and resulted in a positive equity impact of €2.3 million.

2. **Sale of HIFC project in China**

   In April 2011, Kardan Land China (which is included in the Company's Real Estate – Asia segment) sold all its interests in the joint venture company - Hangzhou International Financial Center Co. Ltd. ('HIFC') to a Chinese real estate and investment company, (Rich Holding Group Co. Ltd.) for a consideration of €29 million. The transaction resulted in a gain for the Company of approximately €5 million recognized in 'Gain (loss) on disposal of assets and other income'.

2010

3. **National Commercial Centers (NCC) B.V.**

   In March 2010, GTC Real Estate Investments Romania B.V. ('GTC Romania') signed an agreement with its joint venture partner in relation to its holdings in companies which develop shopping centers in Romania ('the Project Companies'). The agreement regulated the conversion of GTC Romania's over-financing into additional shares in the Project Companies and in their holding company ('NCC'). As result of the agreement, GTC Romania increased its holding in NCC from 50% to 52%.

   Following the execution of the above mentioned agreement, the Company started consolidating the financial statements of most of the projects companies instead of applying the proportionate consolidation method which was used in previous periods.

As result of the transaction, the Company recognized goodwill in the amount of €2.7 million, decreased the non-controlling interest holder by €5.2 million, and took over liabilities to a non-controlling interest holder in the amount of €0.2 million. Management believes that the goodwill is supported by a mix of operational synergies, future projects' potential and gaining control.

GTC Romania did not recognize a gain or a loss neither from fair value adjustment of the interest acquired nor from the interest which, it already directly or indirectly owned due to the fact that the carrying value of the net assets which were purchased approximated their fair value.

The fair values of the identifiable assets and liabilities of NCC and its subsidiaries as at the acquisition date were:

€ in millions	
Investments properties	126
Cash and cash equivalents	2
Trade and other receivables	5
Interest bearing loans and borrowing	(146)
Trade and other payables	(4)
Net assets (100%)	**(17)**
Equity interest at fair value immediately before acquisition date	9
Non-controlling interest (proportional share of net assets)	5
Goodwill arising on acquisition	**3**

From the date of acquisition till the end of 2010, as a result of fully consolidating the financial statements instead of proportionally consolidating, NCC and its subsidiaries contributed a loss of €5.8 million loss for the period (before allocation to NCI) and €0.9 million revenues to rental revenues.

In November 2010, GTC Romania has signed an additional agreement with the non controlling interest holder in NCC. The agreement set the conversion of GTC Romania's financing into additional shares in the Project Companies, Mercury Commercial Center S.R.L. ('Mercury') and Cefin Galati Real Estate S.R.L. ('Cefin'). Following the execution of the agreement, GTC Romania holds a 100% interest in Mercury (Arad shopping centre) and 85% interest in Cefin (Cefin shopping centre).

In 2011, as a result of the macro economic situation in Europe, which is described in Note 8 and according to IAS 36, GTC Romania has recognized an impairment of the goodwill (refer to Note 12).

KFS (Banking and Retail Lending)

2011

1. Acquisition of NLB Banka Sofia

In July 2011 TBIF (the holding company of the Banking and retail lending segment) finalized the purchase of NLB Banka Sofia AD ('NLB Bank'). TBIF purchased 100% of the shares of the NLB Bank for a consideration of €15 million. The excess of purchase price over the carrying value of the acquired net assets, amounting to €5 million, was allocated primarily to the acquired banking license. Subsequent to the purchase the name of the bank was changed to TBI bank.

2. **Sovcom Bank – Sale of 50% Sovcom bank**

   In June 2011 TBIF signed an agreement with Sovco Capital Partners B.V. (TBIF's partner in Sovcom bank) to sell the shares in Sovcom bank owned by TBIF (a total of 50% of the share capital of the bank) in consideration of €123 million. The closing of the transaction is subject to various conditions precedent, including regulatory approvals, and therefore the assets and liabilities of Sovcom were not reclassified as 'Held for sale'.

   In line with the agreement, in July 2011, TBIF received €7.3 million of dividend from Sovcom bank, and €32.6 million as initial payment from Sovco Capital Partners B.V.. Subsequent to the balance sheet date TBIF received an additional consideration in the amount of €7.8 million, additionally, in February 2012 the regulatory approvals required for the purchase TBIF's stake in Sovcom bank were attained.

   The initial payment has been classified as an advance for the sale of the bank and has been included in line 'Other payables and accrued expenses' in the statement of financial position.

   As the value of the net assets of Sovcom bank is higher than the value derived from the above transaction by €38 million. In 2011, an impairment of goodwill was recorded in the amount of €38 million, (refer to Note 12)

2010

1. **TBIH (the holding company of the Group's former insurance and pension segment) – Cease of joint control and sale of the investment.**

   Pursuant to the Shareholders Agreement of December 2008 between VIG and KFS (the holding company of the Group's financial services segment) with respect to their joint control in TBIH, on December 29, 2009 the parties signed a new agreement, pursuant to which joint control will expire immediately, subject to receipt of the required regulatory approvals and respective amendment of TBIH's Articles of Association. These conditions were fulfilled in June 2010.

   As a result, as of June 30, 2010 the Company ceased to proportionately consolidate the financial statements of TBIH, and as of that date the investment in TBIH was accounted for using the equity method.

   The Company revaluated the equity investment in TBIH to its fair value. The excess of the fair value of the investment over the fair value of the individual assets and liabilities amounting to €34 million was allocated to goodwill on a provisional basis.

   The amounts deconsolidated from the Company's consolidated statement of financial position as of June 30, 2010 were as follows:

€ in millions	June 30, 2010
Assets	
Property, plant and equipment	(10)
Goodwill and other intangible assets	(68)
Deferred acquisition costs (insurance companies)	(8)
Reinsurrance receivables and insurance companies	(28)
Insurance premium receivables	(30)
Other long-term assets	(5)
Short-term investments	(20)
Other receivables and prepayments	(3)
Cash and cash equivalents	(30)
	(202)
Liabilities and Equity	
Non-controlling interests	2
Interest bearing loans and borrowings	47
Options	7
Insurance provisions	79
Other payables and accrued expenses	17
	152
Net assets deconsolidated	**(50)**

As a result of the agreement mention above the Company recognized in 2010 a net profit of €24 million (including increase in the value of the put option) recognition of deferred profit and release of capital fund and goodwill) the profit booked in the net profit from discontinued operation.

KFS held a put option to sell its 40% stake in TBIH to VIG, exercisable from April 2011 until December 2011, under certain conditions. On July 22, 2010 KFS signed an agreement to exercise the put option. On November 25, 2010, the transaction was finalized and the option was exercise.

As a result of the abovementioned agreements the Company recognized in 2010 a net gain of approximately €24 million (including the revaluation of the put option, recognition of deferred gain and release of related goodwill and capital reserves). Due to the sale of TBIH, as described below, the gain is included in 'Net (loss) profit from discontinued operations'.

As KFS revalued its investment in TBIH to its fair value following the cease of control, as described above, the sale transaction did not result in a significant gain or loss.

In addition to the sale transaction and upon its closing, KFS acquired a transferable five year call option for €10 million to purchase 92.6% of the shares of Doverie Pension Fund AD, a Bulgarian pension fund currently owned by TBIH. The exercise price of this call option is €150 million for the first three years (2011-2013) and €160 million for the last two years (2014-2015). The call option will be exercisable subject to receipt of required regulatory approvals. For the purchase of the call option, KFS received a €10 million loan from VIG.

As a result of the sale transaction, the Company presented the results of TBIH as discontinued operations, as the Company effectively sold its insurance and pension business by disposing a major line of business.

2. Sovcombank – From full to joint control

In April 2010 TBIF (the holding company of the company's banking and retail lending segment) received a notification from the non-controlling shareholder in Sovcom bank, holding options issued by TBIF, which allow the non-controlling shareholder to purchase shares in Sovcom bank so that TBIF would decrease its holding to 50% holding of the Bank's shares, that he intended to exercise all of the options. In July 2010, TBIF signed an agreement to sell shares of Sovcom bank to the non-controlling shareholder in line with this notification.

In September 2010, this sale transaction was fully executed, including receipt of all required approvals. Subsequent to the transaction, TBIF holds 50% of the Bank under a joint control agreement, and therefore the statement of financial position of the Bank is included in these financial statements on a proportionate basis. The results of the Bank for the periods before September 30, 2010 are presented as discontinued operations, as the sale is considered a disposal of a major geographical area.

The sale transaction entailed a sale of a 16% stake in the Bank by TBIF for consideration of €36 million. The purchase price was determined in line with the agreed upon terms of the option agreement mentioned above (RUR 1,284 million increased by interest from closing).

TBIF revaluated the investment in Sovcom bank to its fair value, provisionally estimated at €115 million for the 50% stake. The transaction resulted in goodwill in the amount of €68 million which reflects the excess of the fair value of the investment over the carrying amount.

The assets and liabilities of Sovcom bank were proportionally consolidated in the TBIF statement of financial position as per September 30, 2010 are as follows (representing 50% of the balance sheet items of the bank):

€ in millions	September 2010
Property, plant and equipment	11
Deferred tax assets	2
Bank loans granted	237
Goodwill and intangibles	72
Investment properties	1
Financial assets at fair value through profit/loss	147
Trade and other receivables	11
Balances with central banks	2
Cash and cash equivalents	22
	505
Loans and deposits from banks	(56)
Deposits from companies and individuals	(299)
Other liabilities	(35)
	(390)
Net assets deconsolidated *	**115**

* The assets and liabilities deconsolidated equals the amounts consolidated with the exception of goodwill and non-controlling interests.

As a result of the transaction, the accumulated foreign currency translation reserve and revaluation reserve relating to the investment in Sovcom bank were reclassified to the income statement, contributing a loss of €9 million. The gain on the sale of the stake and on the revaluation to fair value of the investment in the Bank amounted to €59 million (of which €46 million relates to the revaluation of the existing share).

In accordance with the requirements of IFRS 5, and as management considers Sovcom bank operations as a major geographical area, the current and past results of the bank up and including the nine months ended September 30, 2010, including the capital gain which totalled to €50 million were included in 'Net profit for the period from discontinued operations' in the consolidated income statement.

Purchase price allocation

In the second quarter of 2011 TBIF finalized the purchase price allocation related to the loss of full control to joint control in Sovcom bank in September 2010. The amounts before and after reclassification due to the purchase price allocation as of September 30, 2010 are as follows:

€ in millions	Before	Reclassification	After **
Goodwill	64	(11)	53
Other intangible assets *	3	10	13
Bank loans granted	653	4	657
Deposits from companies and individuals	(656)	(1)	(657)
Deferred tax liabilities	(3)	(2)	(5)
	61	**–**	**61**

* The useful life of other intangible assets ranges from 3 years to indefinitely.

** The purchase price allocation was implemented prospectively, as the impact of amortization of intangible assets was immaterial.

3. VAB Bank – Share purchase and capital increase

In October 2009, TBIF (the holding company of the company banking and retail lending segment) signed an agreement with its joint venture partner in VAB Bank whereby TBIF would purchase additional shares in VAB Bank representing 14.1% of the share capital of VAB Bank in consideration of conversion of loans in the amount of approximately €14 million.

TBIF received the necessary regulatory approvals and the transaction was completed on March 31, 2010. Following the completion of the transaction, TBIF held 63% of the shares of VAB Bank and accordingly became the controlling shareholder. As a result, TBIF fully consolidated the balance sheet of VAB Bank as of March 31, 2010 and started fully consolidating the income statement of VAB Bank as of the second quarter of 2010. Prior to the transaction, VAB Bank was proportionally consolidated.

As a result of the transaction, the Company recognized a net loss amounting to €16 million, including the release of the accumulated foreign currency translation reserve in the amount of €22 million, relating to the investment in VAB Bank. The loss, together with the entire results of VAB Bank, is included in 'Net profit (loss) from discontinued operations', following the sale transaction described in section C above.

The gain on revaluation of the previously held share in VAB bank was calculated as follows:

€ in millions	
Fair value of previously held share	18
Carrying value of previously held share	(12)
Gain on revaluation	**6**

As a result of continuous losses incurred by the Bank, the Company examined the need to recognize an impairment of goodwill. As of December 31, 2010, the Company has recognized a full impairment of €20 million of goodwill and intangible assets related to VAB Bank and the financial services segment operations. Which are included as 'Impairment losses on goodwill' in the income statement (see Note 12). In August, 2010, the shareholders of VAB Bank approved a capital increase in which TBIF was the only shareholder participating. As a result, its holdings in the bank increased from 63% to 71%. The increase in holding resulted in a shareholders equity decrease of €2 million.

In September 2010 the shareholders of VAB Bank agreed to increase the capital of the Bank by €52 million (UAH 550 million). The capital increase was finalized by December 31, 2010. The capital increase resulted in an increase of TBIF's stake in the Bank from 71.26% to 83.91%. The excess of purchase the price over the carrying value of the acquired stake, amounting to €10 million, was allocated to the investment in VAB Bank as part of assets held for sale. This amount was not allocated to a decrease in equity as it was considered to be directly linked to the sale Transaction.

4. Disposal of the investment in VAB Bank and VAB Leasing

In December, 2010 TBIF entered into a series of agreements with international entities ('the Purchaser'), whereby it was agreed that TBIF would sell its stake in VAB Bank (the 'Sale Transaction') to the Purchaser. As part of the Sale Transaction, it was agreed that the Purchaser would pay a purchase price, which would be equal to the amount placed in the capital increase (UHA 550 million, €52 million). Following the capital increase, TBIF's shares in the Bank (84%) were transferred to the Purchaser and the Sale Transaction was completed on January 28, 2011. Subsequently, the results of VAB Bank were presented as discontinued operations, as it was considered a disposal of a major geographical area, and its assets and liabilities were presented as 'Assets held for sale' and 'liabilities associated with assets held for sale'. For additional details, refer to section E below.

In addition, in December 2010, TBIF also entered into an agreement with VAB Bank to sell to the Bank its 100% holdings in VAB Leasing for a consideration of $4.5 million (€3.4 million). The transaction was completed in February 2011.

Following the completion of both transactions in the first quarter of 2011, TBIF recorded a net gain of €3.9 million, of which €5.5 million gain relate to VAB Bank and €1.6 million loss relate to VAB Leasing.

Assets and liabilities held for sale

Assets and liabilities held for sale as of December 31, 2010 represent the assets and liabilities of VAB Bank, in relation to the sale transaction as described in section C. See below composition of main groups of these assets and liabilities:

€ in millions	December 31, 2010
Assets	
Property, plant and equipment	27
Investment properties	20
Intangible Assets	10
Deferred tax assets	28
Bank loans granted	360
Other loans and long-term receivables	2
Financial assets at fair value through profit/loss	2
Available for sale financial assets	19
Trade and other receivables and other assets	9
Balances with central banks	12
Cash and cash equivalents	96
Total assets	**585**
Liabilities	
Loans and deposits from banks	19
Deposits from companies and individuals, Bank activities	410
Non-convertible debentures	66
Other interest-bearing borrowings	33
Other payables	59
Total liabilities	**587**

5. Discontinued operations in KFS (VAB Bank, Sovcom Bank, TBIH):

Composition of the income and expenses related to discontinued operations:

€ in millions	For the year ended December 31,		
	2011	2010	2009
Total income	– *	64	156
Total expenses	– *	(141)	(154)
Profit/(loss) before tax	–	(77)	2
Income tax expenses	–	6	2
Net profit/(loss) from discontinuing operations before capital gains	–	(71)	4
Capital gain from sale	5	79	–
Net profit from discontinued operations	**5**	**8**	**4**

Discontinued operations for comparatives periods presented include the results of TBIH, VAB Bank and Sovcom bank.

The sale of VAB Bank was completed in January 2011; therefore, total income and expenses from these activities in 2011 were immaterial.

Capital gain of €5 million relates to the completion of the sale of VAB Bank, as described above.

Composition of the net cash flows related to discontinued operations:

€ in millions	For the year ended December 31,		
	2011	2010	2009
Net cash flow from operating activities	–	(55)	(139)
Net cash flow from investing activities	–	148	48
Net cash flow from financing activities	–	44	(18)
Net cash flows from discontinued operations	**–**	**137**	**(109)**

As a result of the sale of VAB Bank (as described above), €96 million of cash and cash equivalents, which were included in assets held for sale as of December 31, 2010, were disposed of.

For all presented periods, other comprehensive income items relating to discontinued operations are immaterial.

TGI

2010/2011

1. FIMI Transaction

On July 12, 2010 TGI (the holding company of the company's infrastructure segments) signed an agreement ('the Agreement') with FIMI, an Israeli private equity fund, pursuant to which FIMI undertakes to provide TGI a loan of up to USD 50 million (approximately €40 million). In exchange, FIMI will receive warrants in an amount of up to USD 50 million (approximately €40 million) to purchase an equity stake in TGI.

On July 12, 2010 FIMI provided a loan (the 'Loan') to TGI in the amount of USD 25 million (€19 million) and provided an additional commitment in the same amount which will be available one year after the closing. The Loan is to be repaid after four years and bears an interest of 6 month Libor plus 3% per annum. On each interest payment date, the Loan may be prepaid in whole or in part without premium or penalty. Upon closing of the Loan Agreement, the Company converted 50% of its shareholders loans to TGI in to equity at the total amount of €82 million.

On the basis of the Agreement, TGI issued warrants to FIMI, which entitle FIMI to purchase shares in TGI in the amount of the Loan outstanding. The exercise price of the warrants is based on TGI valuation equal to the lower of :

a USD 250 million increased by 5% annually (subject to certain adjustments, as detailed in the Agreement) or;
b In case of an exit event such as an IPO, merger or loss of control at a 25% discount from the valuation of TGI at such exit event date.

The warrants are exercisable after the below mentioned call option has expired or upon an exit event. If TGI would obtain part or whole of the additional commitment, it would issue additional warrants to FIMI for the amount of this additional loan.

The warrants expire at the earlier of the lapse of four years after closing or upon an exit event, if they are not exercised at such an exit event. The Company has the option to buy back up to 60%

of the warrants at an IRR of 17.5% (provided that a pro-rata portion of the Loan shall be repaid at that time) (the 'Call Option'). The Call Option can be exercised by the Company in the six months period commencing two and a half years from closing, or earlier in certain events. The Company and FIMI have also signed a shareholders' agreement providing for certain customary rights and obligations.

At initial recognition, the Company and TGI have classified the warrants as a derivative liability and determined the fair values of the warrants (€6.2 million) and the Call Option (€2.1 million), based on an external valuation, the residual of the consideration was allocated to the loan element. The external valuation was based on the 'Binomial model'. The valuation was done with respect to the exercise price and by using parameters of TGI value as of the balance sheet date, effective contractual period of the options, annual interest rate and expected volatility of shares. Subsequent fair value movements of the warrants and the Call Option will be recognized in the income statement. The Loan is subsequently measured at amortized cost with an effective interest rate being 10.6%.

In June 2011 TGI signed an amendment to the loan agreement with FIMI. The amendment includes: (i) the drawdown period for the additional loan in an aggregate amount of USD 25 million is extended with one year; (ii) the repayment date of the aggregated total loan is extended with one year; (iii) the exercise period reflected in the corresponding warrant agreement is extended with one year. As a result, the warrants and the Call option held by the Company were revalued; the change in terms did not result in a material change to the value of the options or the loan.

2. Hydro Caisan

In September 2010, an agreement for the sale of Hydro Caisan (which is included in the Company Infrastructure -Assets segment) was signed for a consideration of €2.5 million for the sale of the shares and shareholders loan. The profit amounted to €2.5 million is included in 'Gain (loss) on disposal of assets and other income' in the income statement.

D The following shares are used as collateral by the Group companies:

As described in Note 29, Group companies have pledged shares as collateral for certain loan agreements. The main shares pledged are as follows:

1. Shares of GTC SA
2. GTC SA pledged shares of its subsidiaries for several construction loans
3. GTC Group pledged shares of certain subsidiaries in favor of certain loans.

E Investments in joint ventures

Following are main statement of financial position and profit and loss items of companies and joint ventures accounted for under the proportionate consolidation method as presented in these consolidated financial statements:

Group share in the companies' statement of financial position according to holding percentage:

€ in millions	December 31, 2011	December 31, 2010
Current assets	719	684
Non-current assets	537	914
Current liabilities	(559)	(725)
Long-term liabilities	(513)	(521)
Assets, net	**184**	**352**

Group share in the operating results of the joint ventures according to holding percentage:

€ in millions	December 31, 2011	December 31, 2010
Revenues	**187**	**364**
Expenses	(115)	(337)
Non-controlling share in profit (loss)	–	–
Net profit (loss)	**72**	**27**

Refer to Note 5B for a list of material joint ventures.

The material increase in assets and liabilities is mainly due to the proportionate consolidation of Sovcom bank. See Note 5C.

For additional information regarding commitments and contingent liabilities related to the joint ventures refer to Note 29.

F The Group's investments in subsidiaries whose shares are publicly traded

€ in millions	December 31, 2011	December 31, 2010
GTC SA *		
Carrying value	199	427
Market value ***	128	583
Kardan Technologies **		
Carrying value	–	2
Market value	–	2
Kardan Israel **		
Carrying value	–	74
Market value	–	111
Kardan Real Estate **		
Carrying value	–	55
Market value	–	53
Dan Vehicle & Transportation D.R.T Ltd. (AVIS) **		
Carrying value	–	46
Market value	–	48

* Traded on the Warsaw Stock Exchange.
** Traded on the Tel Aviv Stock Exchange.
*** The difference between the Market value and the carrying value did not result in any impairment of goodwill and intangibles, which no longer exist on the holding level of GTC SA, nor did it result in an impairment of the underlying assets, due to the fact that most of the underlying assets were externally valued as of the balance sheet date.

G The Company has received the following dividend amounts in the reporting period

€ in millions	2011	2010
From subsidiaries	15	43
From joint ventures	7	75
From associated companies	9	9

For Liens, Contingent Liabilities and commitments of investees refer to Note 29.

6 Tangible fixed assets

€ in millions	Freehold Land, buildings and assets under construction	Property, plant and equipment	Motor vehicles	Office furniture and equipment	Leasehold improve-ments	Total
Cost						
Balance as of January 1, 2010	55	65	26	23	6	175
Additions [1]	47	20	6	8	6	87
Transfers from investment properties	6	–	–	–	–	6
Disposals [2]	(40)	(54)	(8)	(13)	–	(115)
Exchange differences	7	3	(6)	3	–	7
Balance as of December 31, 2010	**75**	**34**	**18**	**21**	**12**	**160**
Additions [1]	37	28	6	11	3	85
Transfers from investment properties	–	–	–	–	–	–
Disposals [2]	(41)	(15)	(7)	(26)	(7)	(96)
Reclassification	3	(1)	–	2	(1)	3
Impairment [3]	–	(2)	–	–	–	(2)
Exchange differences	2	(1)	–	–	–	1
Balance as of December 31, 2011	**76**	**43**	**17**	**8**	**7**	**151**
Accumulated depreciation:						
Balance as of January 1, 2010	9	29	11	14	3	66
Depreciation for the year [1]	5	12	4	6	1	28
Eliminated on disposals [2]	(10)	(18)	(5)	(8)	–	(41)
Exchange differences	–	1	(1)	2	–	2
Balance as of December 31, 2010	**4**	**24**	**9**	**14**	**4**	**55**
Depreciation for the year [1]	1	4	3	5	2	15
Eliminated on disposals [2]	–	(2)	(4)	(14)	(3)	(23)
Reclassification	–	–	–	2	–	2
Exchange differences	–	(1)	–	–	–	(1)
Balance as of December 31, 2011	**5**	**25**	**8**	**7**	**3**	**48**
Net book value						
December 31, 2010	71	10	9	7	8	105
Net book value						
December 31, 2011	**71**	**18**	**9**	**1**	**4**	**103**

Freehold land and buildings are related to owner-occupied property.

1 Includes additions resulting from newly consolidated subsidiaries: December 31, 2011 cost – €7 million; accumulated depreciation – €4 million (December 31, 2010 - €24 million and €9 million, respectively).

2 Includes disposals resulting from deconsolidation of subsidiaries: December 31, 2011 cost – €20 million; accumulated depreciation – €10 million, (December 31, 2010 - €16 million and €5 million, respectively).

3 During the second quarter of 2011, the production facilities of Mastfood have been impaired with an amount of €1.6 million, which has been accounted for as other expense in the income statement (see Note 33). The net impact of the impairment allocated to the equity holders of the parent amount to €0.5 million.

7 Rental vehicles

€ in millions	2011	2010
Cost		
Balance as of January 1	315	265
First time consolidation	227	–
Increase in proportional consolidation	–	21
Purchases	116	109
Reclassification to inventory	(139)	(120)
Exchange rate differences	(17)	40
Deconsolidation of a company	(502)	–
Balance as of December 31	**–**	**315**
Accumulated depreciation		
Balance as of January 1	70	64
First time consolidation	48	–
Increase in proportional consolidation	–	5
Depreciation	57	44
Reclassification to inventory	(63)	(53)
Exchange rate differences	(4)	10
Deconsolidation of a company	(108)	–
Balance as of December 31	**–**	**70**
Net book value	**–**	**245**

This activity is primarily related to AVIS Israel.

8 Investment properties

A General

Investment properties owned by the Group include office and commercial space and comprise both completed properties and investment properties under construction.

B The movements in investment properties for the years ended December 31, 2011 and 2010 are as follows:

€ in '000	2011	2010
Opening balance	2,344	2,156
Acquisition of newly consolidated subsidiaries and increase in interest in a joint venture	33	77
Additions capitalized subsequent expenditure	200	143
Valuation (losses) gain, net	(194)	73
Impairment adjustments of investments properties carried at cost	–	1
Disposals [1]	(385)	(97)
Transfer to Property, plant and equipment	1	2
Transfer (to) from inventory [2]	2	(36)
Foreign currency translation differences	18	18
	2,019	**2,337**
Transfer (to) from assets held for sale [3]	(134)	7
Closing balance	**1,885**	**2,344**

1 In 2011 relates to the sale of Galleria Mokotow and 50% Galleria Chengdu (HK). Refer to I below.

2 The Company is in process of modifying the buildings rights from residential to offices for projects presented at cost amounting to €28 million that on initial recognition were classified by the Company as inventory (residential land bank).

The Company will reclassify the mentioned projects from inventory back to investment property only following the commencement of an operating lease to third party.

3 In 2011 relates to the sale of Platinum Business Park. Refer to I below for additional information.

As a result of revaluation of investment properties under construction and completion of construction of investment properties, the goodwill allocated to these properties was deducted from the adjustment to fair value. In 2011, the goodwill deduction amounted to €8 million (2010: nil). Accordingly, the consolidated income statement shows net fair value adjustments of €205 million (2010: €71 million devaluation).

Investment properties which are financed by external debt are in most cases pledged as securities for the according long-term loans in favor of the lending banks.

C Fair value adjustments comprise

€ in millions	For the year ended December 31,		
	2011	2010	2009
Adjustment to fair value of newly completed investments properties	(48)	25	17
Adjustment to fair value of investments properties completed in prior years	(60)	35	(142)
Adjustment to fair value of investment property under construction, net of goodwill released	(3)	11	(16)
Impairment of investment properties under construction measured at cost	(89)	–	(42)
Impairment of receivables and accruals	(5)	–	–
Total fair value adjustments for the year	**(205)**	**71**	**(183)**

During the third and fourth quarter of 2011 , the fair value adjustments and impairments amounted to a loss of €100 million and €93.4 million respectively.

Presented in the table below fair value adjustments/ impairments separated to the Asia and Europe:

€ in '000	For the year ended		
	2011	2010	2009
Adjustment to fair value/Impairments in Asia (Kardan Land China)	16	75	–
Adjustment to fair value/Impairments in Europe (GTC Investments and GTC SA)	(221)	(4)	183
Total fair value adjustments for the year	**(205)**	**71**	**183**

D Investment properties can be split up as follows:

€ in millions	December 31, 2011	December 31, 2010
Completed investment properties	1,477	1,876
Investment properties under construction carried at fair value	64	201
Investment properties under construction carried at cost	344	267
	1,885	**2,344**

Real estate under construction carried at cost includes borrowing costs incurred in connection with the construction of the projects. As of December 31, 2011 borrowing costs capitalized as real estate under construction amounted to €2 million, (2010: €2 million). During 2011 and 2010 interest was capitalized to real estate under construction carried at cost at an average rate of 5% p.a.

Presented in the table below the Group investments properties separated to the Asia and Europe:

€ in '000	December 31, 2011	December 31, 2010
Investments properties in Europe (GTC S.A. and GTC Investments)	1,764	2,161
Investments properties in Asia (Kardan Land China)	121	110
Other *	–	73
	1,885	**2,344**

* Relates primarily to Kardan Israel

E During 2011 the following projects were completed and classified as completed investment properties:

Completion date	Property name	Fair value adjustment during 2011	Value at December 31, 2011
		€ in millions	
First quarter 2011	Avenue Mall Osijek, Shopping center, Osijek Croatia	(27)	40
Second quarter 2011	Platinum IV, Warsaw Poland	10	–
Third quarter 2011	Galeria Arad, Shopping center, Arad Romania	(36)	51
Fourth quarter 2011	Corius, office building, Warsaw Poland	5	17

F Significant assumptions:

Investment properties of the Group are presented based on the fair value model. Appraisal of investment properties and IPUC by independent valuators is based on their market value periodically or estimated by using the residual method or discounting future cash flows.

Significant assumptions used in the valuations are presented below on the basis of weighted averages:

	Asia		Europe	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Completed investment properties				
Average rental rate per sqm per month (in €) *	19	17	15.9	19.7
Yield	9.5%	9.5%	8.1%	7.8%
ERV per sqm per month (in €) *	21	20	16.2	19.1
Current Vacancy	2.5%	5%	13%	17%
Long-term vacancy	5%	5%	0%-5%	0%-5%
Vacancy duration assumed in valuations (months)	n/a	n/a	24	23
Assets under construction (only assets at fair value)				
Yield	n/a	n/a	8.7%	9%
Average % completed	n/a	n/a	53%	62%

* Apart from basic rent, includes income from parking, add on factors and other income.

In the valuation reports of the properties, the valuer assumed a potential impact due to future lease incentives to be granted in order to secure new lease contracts, in the amount to up to 8 months rental income and fitout contribution ranging from €35 to €100 per sqm. All these estimates are based on average conditions applicable in the various local markets in which the Group operates.

G Revaluations and impairment tests in CEE

In the second half of 2011, contradictory to earlier expectations and forecasts, the macro economic situation in Europe has worsened further, which resulted in significant deterioration of purchasing power and contraction of consumption of households. Management of GTC S.A. has observed international retailers stopping their expansion plans and large corporations reducing their work force, in particular in Hungary, Romania, Bulgaria, Slovakia and Croatia.

GTC S.A.'s management previous assumptions which were based on market improvements early in 2011 and that the macroeconomic situation will recover have been revised and the expected horizon for such recovery is now uncertain.

In addition to the parameters mentioned above, in some cases, in view of the decline in consumption and the influence on the purchasing power, the timetable for stabilization of certain completed and cash generating assets had to be re-assessed, and consequently expectations for stabilized income were deferred.

The substantial impermanent of investment property results mainly due to lower expectation regarding future rent payment in commercials centers due to purchasing power as describe above.

H Impairment of investment properties under construction at cost

According to the Company accounting policy, certain properties under construction are carried at cost, as, either not all permits are in place and / or pre-letting and construction has not yet started. Accordingly, the management of GTC S.A. is of the opinion that the fair value cannot yet be reliably measured. For the majority of these assets, impairment testing was performed according to IAS 36 and using the market comparison approach based on impairment tests conducted on the basis of the comparison method which received on December 31, 2011 based on the Comparison method, GTC S.A. devalued the year 2011, certain properties carried at cost to their market value. The most material impairments were noted in land plots for office and commercial use located in Hungary and Poland (€ 31 million), and Romania and Bulgaria (€53 million).

I Sensitivity analysis:

The table below presents the sensitivity of profit (loss) before tax due to change in following assumptions (the values are presented in absolute numbers as a change can either be positive or negative):

€ in millions	Asia		Europe	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Completed investment property				
Change of 25 bp in yield	6	n/a	42	52
Change of 5% in estimated rental income	3	n/a	68	81
Investment property under construction				
Change of 25 bp in yield	n/a	–	2	18
Change of 5% in estimated rental income	n/a	–	5	10

In order to estimate the impact of the yield change on the profit, the Company has considered the ratio between the yield change and average yield in the portfolio. This ratio was then multiplied by the total value of investment property.

In order to estimate the impact of the estimated rental income change on the profit, the Company has considered the ratio between the yield estimated rental income and average estimated rental income in the portfolio. This ratio was then multiplied by the total value of investment property.

I. Significant transactions involving investment properties

2011

1. Sale of Galleria Mokotow

In August, 2011 GTC S.A. (which is included in the company's 'Real estate – Europe' segment) signed the final agreement for the sale of its shares in the company holding the shopping center Galleria Mokotów (Rodamco CH1), the owner of the

Galleria Mokotow Shopping Center in Warsaw for a total consideration of €139 million, no gain was recognized from the sale. An expense in amount of €3.5 million, which relates to this transaction, is included within general and administration expenses.

2. **Sale of 50% of Galleria Chengdu**

In August, 2011, Kardan Land China, sold 50% of its shares in Kardan Land Chengdu Ltd., a subsidiary which owns the Galleria Chengdu shopping center to MGP Spicy (BVI) Limited, for a consideration of €46 million. As a result of the transaction Kardan Land China lost control in GTC Chengdu and retained a 50% interest in a jointly-controlled entity which is proportionally consolidated, under a joint control agreement.

Kardan Land China recognized a gain on disposal of a subsidiary in the amount of €12 million, this amount included in 'Gain (loss) on disposal of assets and other income', out of which €5 million relates to revaluation of its remaining interest to fair value. The excess value of €5 million was allocated to goodwill on a provisional basis pending final purchase price allocation. The sale resulted in reclassification of exchange rate differences previously recognized in other comprehensive income to the income statement in the amount of €3 million.

3. **Sale of Platinum Business park**

In October 2011 GTC S.A. signed Head of Terms with Allianz Group, regarding sale of the Platinum Business Park in Warsaw. As of December 31, 2011 Platinum Business Park with a fair value of €134.1 million, was reclassified to 'Assets held for sale', and the related loans and hedge instruments were classified as current liabilities. Furthermore, an amount of €6 million of changes in hedge reserves previously recognized in equity was reclassified to profit and loss. No material revaluation was recorded due to the intended sale.

2010

4. **Sale of buildings in Durango**

In January 2010, Durango Switzerland B.V. sold two office buildings properties in Uster and Zurich in consideration of €4.2 million (CHF 6.3 millions), being the fair value of these investment properties at year end 2009.

5. **Topaz and Nefryt**

In October 2010, GTC S.A. finalized, the sale of Topaz and Nefryt office buildings in Warsaw for the total price of € 78.9 million. GTC S.A. repaid the financial liabilities (bank loans and hedges) in relation with the two buildings in the amount of €50 million. An accumulative expense of €4 million representing the hedge related to the assets held for sale was recycled from OCI and recognized as expense in the period.

J

After the balance sheet date, on March 15, 2012, the Company received a letter from the Israeli Securities Authority (hereafter – the ISA), following earlier discussions and correspondences between the ISA and the Company regarding sampling audit that was conducted by the ISA on the Company's audited financial statements as of December 31, 2009, and included, inter alia, an examination of the values in the financial statements of five real estate assets owned by a consolidated subsidiary. According to the said letter, the purpose of the sampling was to examine the accounting treatment of investment properties that are presented in the financial statements of the Company at fair value and also of investment properties that are presented in the financial statements at cost for which impairment test was performed.

As a result of the findings of the examination of the fair value and/or the recoverable amounts of the five assets that were examined, the ISA is of the opinion that the Company should correct the values of the assets that were examined in order to fairly present their fair value, as required by the provisions of International Financial Reporting Standards. In addition, the Company is required to examine the validity of the findings of the ISA in relation to carrying values of its investment properties that were not included in the sample, and to send to the ISA its response, inter alia with respect to the claimed facts or new arguments, to the conclusions raised in ISA letter in relation to the five assets that were examined, and in relation to the other investment properties of the Group and their implications on the need to amend the Company's financial statements as of December 31, 2009.

Following the discussions with the ISA, the Company is still of the opinion that there are no material deficiencies in these valuations, neither at December 31, 2009 nor at subsequent dates. However the Company continues evaluating the ISA claims and intends to respond to the letter immediately after it completes the examination.

It should be noted that the valuations the Company performs with respect to the majority of its investment properties are performed at least twice a year by external independent appraisers in leading appraiser firms. In addition it should be noted that the financial statements of the consolidated subsidiary are audited by Ernst & Young.

9 Investments in associates

A Composition

€ in millions	December 31, 2011	December 31, 2010
Total of equity investments	7	79
Loans and other long-term balances	47	78
Total investment in associates	**54**	**157**
These investments include goodwill as follows:		
Goodwill arising from acquisition		
Cost	–	9
Carrying amount as of the statement of financial position date	–	8

Impairment testing revealed no impairment of these goodwill amounts.

The amount of equity investment includes the existence of capital reserves due to currency translation differences.

B Movement in the equity investments in associates is as follows:

€ in millions	2011	2010
Balance as of January 1	157	146
Additions (disposals), net *	(89)	1
Change in loans, net	(6)	(3)
Equity earnings (losses) **	3	13
Dividend distributed	(7)	(9)
Foreign currency translation differences	(4)	9
Balance as of December 31	**54**	**157**

* For additional information refer to Note 5C.
** Equity earnings for the years 2010 and 2011 in the amount of €7 million and €6 million respectively, are included in the income statement as part of the Net profit (loss) from discontinued operations.

C Loans

The investment in associated companies includes loans as follows:

€ in millions	Interest rate	December 31, 2011	December 31, 2010
In NIS (linked to the CPI)	0%-5%	–	33
In EUR	4.5%	31	29
In USD	2.5%-7.5%	16	16
		47	**78**

For most loans repayment dates have not been determined yet.

D Below is a summary of financial data from the statement of financial positions of the Group's associated companies:

€ in millions	December 31, 2011	December 31, 2010
Current assets	19	161
Non-current assets	134	228
Current liabilities	(78)	(151)
Non-current liabilities	(60)	(159)
Assets, net	**15**	**79**

The differences between note D and note A are predominantly explained by non controlling interests holders on the subsidiary level.

Share of the Group in the results of associated companies proportionate to the holding rate for the year:

€ in millions	For the year ended December 31,		
	2011	2010	2009
Revenues	**15**	**29**	**230**
Net profit (losses)	**(3)**	**6**	**–**

10 Loans to bank customers

A Composition

€ in millions	December 31, 2011	December 31, 2010
Loans and advances to individuals	289	143
Mortgage loans	6	6
Other loans and advances to banks	1	3
	296	152
Corporate loans	161	118
Total loans and advances gross	457	270
Less – allowance for impairment losses [1]	(27)	(15)
	430	**255**

1 Movements in allowance for impairment losses are:

€ in millions	2011	2010
Balance as of January 1	15	88
First time consolidation	10	48
Assets transferred as held for sale (refer to note 5C)	–	(150)
Deconsolidation	–	(16)
Allowance for the period	20	98
Recognized written-off uncollectible debts	(18)	(64)
Foreign currency exchange differences	–	11
Balance as of December 31	**27**	**15**

B Maturities

€ in millions	December 31, 2011	December 31, 2010
Presented as current assets	241	159
Presented as non-current assets	189	96
	430	**255**

During 2011, TBIF repossessed assets with a carrying value of €10 million (€12 million in 2010). TBIF is in the process of selling the repossessed assets.

11 Long-term loans and receivables

A Composition

€ in millions	December 31, 2011	December 31, 2010
In USD [1]	10	16
In EUR [2]	148	181
In NIS	–	5
In other currencies [3]	69	66
	227	268
Less – current maturities	(115)	(159)
	112	109
Service concessions [4]	63	29
Related parties and NCI [5]	43	45
Advances to government authorities	12	8
Capital Note issued by related party	–	1
Provision for doubtful debts [6]	(58)	(38)
Other	–	17
	172	171

1 As of December 31, 2011 and 2010, the balance includes €7 million and €12 million, respectively, relating to leasing activities.
2 As of December 31, 2011 the balance includes: an amount of €111 million (2010: €155 million) for long term leasing operations, retail credit and mortgage.
3 The balance includes mainly leasing and retail lending denominated primarily in Russian Ruble and Romanian Lei.
4 The concession agreements are based on guaranteed volumes and tariffs, which in accordance with IFRIC 12 are accounted for as concession financial receivables.
According to the relevant concession agreements, the Company has an unconditional right to receive cash as the grantor contractually guarantees to pay at specified amounts or the shortfall between the actual and the guaranteed water volume. The interest on the finance receivables amounts to approximately 7.5%.
Short term portion of concession agreements in the amount of €15 million is presented in other receivable (see Note 15).
5 Primarily includes loans to partners in joint ventures. The loans are mostly denominated in EUR and bear a variable interest rate of Euribor + a margin of 3% p.a. (€5.5 million bears fixed interest of 3.05% p.a. interest)
6 Provision for doubtful debts primarily includes provision for impairment losses relating to consumer credit and mortgage activities. The provision increased mainly due to the impact of the European debt crisis.

Long-term loans and receivables are further specified as follows:

€ in millions	December 31, 2011	December 31, 2010
Financial leases *	57	83
Consumer credits and mortgage	86	111
	143	**194**
Current	61	79
Non Current	82	115
	143	**194**

* Net investments in financial leases are further specified as follows:

€ in millions	December 31, 2011	December 31, 2010
Not more than one year	50	67
Later than one year and not later than five years	31	45
Later than five years	1	4
Gross receivables from financial leases	82	116
Less – gross earnings allocated to future periods	10	19
Less – allowance for impairment losses	15	14
Net investment in financial leases	**57**	**83**
Not more than one year	30	46
Later than one year and not later than five years	26	34
Later than five years	1	3
	57	**83**

Financial leases include mainly agreements with corporate and private customers for vehicles and production equipment.

B Movement in the provision for doubtful debts:

€ in millions	December 31, 2011	December 31, 2010
Balance as per January 1	38	26
Decrease due to change from full to proportionate consolidation	–	(9)
Deconsolidation of a subsidiary	(5)	–
Reclassification of portfolios in Sovcom bank	–	–
Allowance for the period	42	28
Recognized written off uncollectible debts	(17)	(7)
Balance as of December 31	**58**	**38**

12 Intangible Assets and Goodwill

A Movement in goodwill, service concession and other intangible assets is as follows:

€ in millions	Goodwill	Service concessions [3]	Other intangibles [5]	Total
Balance as of January 1, 2010	199	26	32	257
Additions [1]	117	4	4	125
Change due to disposal of subsidiaries [4]	(150)	–	(4)	(154)
Reclassification of intangible assets	–	(19)	(4)	(23)
Impairment and amortization [6]	(19)	–	(2)	(21)
Balance as of December 31, 2010	**147**	**11**	**26**	**184**
Additions [1]	12	–	21	33
Change due to disposal of subsidiaries [4]	(33)	–	(6)	(39)
Reclassification of intangible assets [2]	–	–	(11)	(11)
Impairment and amortization [6]	(68)	–	(5)	(73)
Balance as of December 31, 2011	**58**	**11**	**25**	**94**
As of December 31, 2010				
Total cost	316	30	36	382
Accumulated amortization and impairment losses	(169)	(19)	(10)	(198)
	147	**11**	**26**	**184**
As of December 31, 2011				
Total cost	159	11	47	217
Accumulated amortization and impairment losses	(101)	–	(22)	(123)
	58	**11**	**25**	**94**

1 The additions in 2011 relate primarily to the sale of Chengdu in the amount of €5 million, acquisition of Metropoli-Net in the amount of €4 million and to the acquisition of AVIS – for additional information refer to Note 5C. In 2010 €7 million were added due to business combinations in the period. The material addition of Goodwill in 2010 relates to the Sovcom bank transaction which increased the Goodwill by an amount of €68 million.
2 In 2011, an amount of €11 million relates to finalization of PPA in Sovcom bank.
3 As of January 1, 2010 BOT concession agreements have been reclassified as financial assets. The concession agreements are based on guaranteed volumes and tariffs, which in accordance with IFRIC 12 are accounted for as concession financial receivables. According to the relevant concession agreements, the Company has an unconditional right to receive cash as the grantor contractually guarantees to pay at specified amounts or the shortfall between the actual and the guaranteed water volume for certain projects. The reclassification did not result in a material impact.
4 In 2011 relates mostly to the distribution of Kardan Yazamut in the amount of €11 million. The movement in 2010 relates mostly to change from proportionate consolidation to equity at TBIH and the change from full consolidation to proportionate consolidation of Sovcombank refer to Note 5C for additional information.
5 Other intangible assets include excess cost allocated to Banking license, loan benefits, client relationship, brands etc.
6 Refer to impairment of goodwill section, further in this note.

B Information regarding goodwill at the level of the different subsidiaries:

€ in millions	December 31, 2011	December 31, 2010
GTC SA	–	9
GTC Romania	–	3
Kardan Land China	5	4
Romania – Consumer credit and leasing	7	11
Bulgaria – Lending and asset management	–	14
Ukraine – Leasing	4	7
Russia – Banking	23	71
Kardan Israel	–	2
Tahal Consulting Engineers Ltd (TCE)	8	8
Fideco	–	1
Milgam	–	6
KWIG	3	3
Dahzou Tianhe Water Supply	1	1
Tianjin Huanke water Development Co., Ltd	4	4
TASK Turkey	1	1
Other subsidiaries and effect of translation differences	2	2
	58	**147**

Goodwill acquired through business combinations has been allocated to the relevant cash-generating units, and is primarily allocated to anticipated future benefits arising from synergies. Relevant cash generating units within the reportable segments could be individual subsidiaries, activities in a certain country, or total segments. Reference is made to Note 4H.

The recoverable amount of the goodwill has been determined based on the values used for valuations of each reportable segment, according to methods and assumptions applicable to such segments. The Company annually assesses impairment, or more frequently if deemed required.

As of December 31, 2011 the Company has no internally generated intangible assets.

C Impairment of goodwill

KFS

Impairment charges recognized

During 2011, KFS recognized an impairment charge of €57 million (2010: €15 million).

The reduction in recoverable amounts in Russia is in line with the sales price agreed upon in the sale transaction of TBIF's stake in Sovcom bank. The reduction of the recoverable amounts in Bulgaria in 2011 can be attributed to the full write off of goodwill and intangibles relating to the non-banking activities. The reduction of the recoverable amounts in Romania in 2011 can be attributed to the decrease in the valuation of the consumer credit activities.

Timing of impairment testing
Goodwill is tested for impairment at least once a year and whenever there is an indication that goodwill may be impaired. Goodwill has been tested for impairment as at December 31, 2011.

Basis of the recoverable amount for December 31, 2011
Recoverable amounts have been determined based on valuations using the Discounted Cash Flow (DCF) method, applying assumptions specific to markets in which the CGUs operate. In specific cases where recent transactions have occurred the derived valuation was used as a benchmark.

For each significant CGU, the value is calculated by discounting management's cash flow projections, for a period of 5 years. The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective of KFS' business strategy.

Discount rates and long term growth rates
The discount rate used to discount the cash flows derived from the Capital Asset Pricing Model ('CAPM'). The CAPM depends on inputs reflecting a number of financial and economic variables including the risk-free rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated. The rates used as of December 31, 2011:

Country	Discount rate for forecast period	Discount rate for residual	Long-term growth rate
Ukraine	17.5%	15%	4%
Romania	13.5%	13.5%	3%

Management's judgment in estimating the cash flows of a CGU:
The cash flow projections for each CGU are based on long term plans prepared by the management. These account for local market conditions and management's judgment of local future trends. The key assumptions in addition to the discount rates and the long-term growth rate for each significant CGU are: the level of impairment charges; the timing and scope growth trend of the portfolios and the returns that will be achieved on the portfolio and operational efficiencies.

Sensitivity analysis:
A sensitivity analysis regarding the effect using a different discount rate for the long term was carried out for all operations. Increasing the discount rate in the long term by 1% (equivalent to decease of the assumption for long term growth rate by 1%) would have resulted for 2011 in an additional impairment charge of €2.3 million: €1.8 million relating to Romanian operations and €0.5 million related to Ukrainian operations. This sensitivity analysis results in no additional potential impairment charges relating to Bulgaria and Russia.

A sensitivity analysis regarding the effect of decreasing the portfolio growth rate by 20% was carried out for all operations. This would have resulted for 2011 in an additional impairment charge of €4.7 million: €3.2 million relating to Romanian operations and € 1.5 million related to Ukrainian operations. This sensitivity analysis results in no additional potential impairment charges relating to Bulgaria and Russia.

For 2010 the same sensitivity analysis would have resulted in an additional impairment charge of €3.3 million: €2.8 million relating to Bulgarian operations and €0.5 million relating to Romanian operations. This sensitivity analysis results in no additional potential impairment charges relating to Ukrainian and Russian operations due to the surplus of fair value over book value.

TGI

The recoverable amount of goodwill has been determined based on the values used for valuations of each segment, according to methods and assumptions applicable for such segment.

The recoverable amount has been determined based on a value in use calculation. The method used for calculating the value in use is the Discounted Cash Flow ('DCF') method. This approach is based on the estimation of future returns on an investment in terms of cash flows, and the calculation of the present value of the expected cash flows by discounting them according to the required rate of Weighted Average Cost of capital (WACC). The period used in the DCF method is 5 years, which is based on the nature of the operations of the cash generating units.

The assumptions regarding the fair value evaluation can be presented as follows:

	WACC	Annual growth rate	Gross profit margin	Operating income margin
Projects segment:				
2011	12%	2%	17.5%	5.4%
2010	12%	2%	18.5%	8.5%
Assets segment:				
2011	8%-11%	*	**	10%-20% ***
2010	8%-11%	*	**	10%-20% ***

* The majority of the asset companies have revenues which are based on contractual fixed incomes, as part of the concession agreements.

** For the asset segments, only the operating income margin is used for fair value evaluation.

*** The operating contribution rate is different between different factories.

GTC

The recoverable amount of goodwill has been determined based on the values used for valuations of each segment, according to methods and assumptions applicable for such segment.

During 2011 the GTC Group impaired goodwill of €8 million since the estimated recoverable amount was lower the book value.

D Service concession agreements:

The Service concession agreements included in the other financial fixed assets commenced during 2010 and can be presented as follows:

€ in millions	Construction period until 31.12.2011	Remaining construction period	Remaining operational period	Carrying value December 31, 2011	Carrying value December 31, 2010
Tianjin Tanggu Huanke Xinhe Sewage treatment	–	–	21 years	10	9
Gulluk project – Turkey	0,5 year	–	31 years	1	2
Total				**11**	**11**

The carrying value of each of the identified projects are based on the net present value of expenses made adjusted for an estimated gross margin, taking into account the construction and operating period.

The construction period consist of upgrading activities to the plants. As per December 31, 2011 all significant upgrading activities have finished, and all plants are operational.

The movement during the year for each project is as follows:

€ in millions	Carrying value December 31, 2010	Reclassification [1]	Upgrading investments	Exchange differences	Carrying value December 31, 2011
Tianjin Tanggu Huanke Xinhe Sewage treatment	9	–	–	1	10
Gulluk project – Turkey	2	–	–	(1)	1
Total	**11**	**–**	**–**	**–**	**11**

E Information regarding other intangible assets:

Other intangible assets were primarily created from purchase price allocations of business combinations in the financial services segment. These intangible assets are mostly amortized over a period of 5-10 years.

F Amortization and impairment expenses:

Amortization expenses of intangible assets are included in the following line items in the income statement:

- Cost of goods sold;
- Contract costs;
- Costs of banking and retail lending activities;
- Selling and marketing expenses;
- General and administration expenses; and
- Finance expenses
- Net profit (loss) from discontinued operations
- Impairment of goodwill

13 Inventories, Contract Work and Buildings Inventory in Progress

A Composition

€ in millions	December 31, 2011	December 31, 2010
Building inventory in progress [1]	437	560
Contract work in progress [2]	20	22
Merchandise inventories [3]	13	19
Vehicles	–	14
	470	615

1 Building inventory in progress:

(a) Residential projects financed by external debt are in most cases pledged as security in favor of the lending banks. The balance as of December 31, 2011, includes capitalized financing expenses amounting to €1 million (2010 - €8 million).

(b) Composition of cost of buildings in progress:

€ in millions	December 31, 2011	December 31, 2010
Current:		
Completed	80	94
Under construction	239	235
In design stage	12	–
	331	329
Non-current:		
Land and inventory in design stage *	106	231
	437	**560**

* Land and building in progress in design stage amounting to €106 million (2010 - €231 million) are presented as long-term inventory as starting date of the respective projects have not been determined yet.

(c) Building inventory is stated in gross figures. Customer advances are presented under other liabilities and amount to €144 million as of December 31, 2011 (December 31, 2010 - €158 million).

(d) Costs of buildings in progress are presented as inventories. Revenues from sale of inventory are accounted for under the completed contract method.

In 2011 and 2010 all impairment losses relates to inventory and landbank in the CEE region. In the CEE region external valuers have conducted an impairment test for each of the residential projects. The impairment test was conducted using the Residual method or Comparison method. In Residual method, a third-party theoretical developers' profit of 15%-20% was deducted. These impairment tests indicated an impairment of approximately €75 million recognized in the income statement under other expenses, mainly due to a delay in the projected commencement date and a decrease of the future expected sales' prices. During the fourth quarter of 2011, the write down adjustments of residential inventory and landbank amounted to € 24 million.

(e) During the past year the Group entered into 1,074 sales contracts of apartments, for which the total consideration is estimated at €77 million. The aggregated number of signed contracts of existing projects amounts to 7,511 contracts for which the aggregated consideration is estimated at €441 million.

2 Contract work in progress:

Contract work in progress relates to infrastructure projects, which are not considered service concession arrangements. Details are as follows:

€ in millions	December 31, 2011	December 31, 2010
Contract costs incurred	330	393
Recognized profits	–	14
	330	407
Less – revenues from customers	(323)	(402)
	7	5
Presented in statement of financial position:		
Current assets – contract work in progress costs	20	22
Current liabilities – advance payments from customers	(13)	(17)
	7	5

The above data referred to work done by subsidiary that provides engineering and design service primarily in water, sewage and agricultural and by a subsidiary that provide construction services.

3 In 2011 merchandise inventory primarily relates to repossessed assets in TBIF (€10.5 million). In 2010 the balance relates to consumer goods activities in the Kardan Israel group and mainly includes electrical appliances and white goods products.

B Additional information concerning long term construction works:

December 31, 2011 € in millions	Residential construction		Infrastructure works	
	For the year ended	Cumulative up to the end of the reporting period	For the year ended	Cumulative up to the end of the reporting period
Revenues recognized	67	291	72	322
Cost recognized	57	240	66	268

December 31, 2010 € in millions	Residential construction		Infrastructure works	
	For the year ended	Cumulative up to the end of the reporting period	For the year ended	Cumulative up to the end of the reporting period
Revenues recognized	107	336	95	366
Cost recognized	95	229	75	291

14 Trade Receivables

A Composition

€ in millions	December 31, 2011	December 31, 2010
Trade receivables [1]	36	92
Checks and credit card receivables	–	19
Accrued income from work performed [2]	1	–
	37	111

1 Net of provision for doubtful debts amounting to €5 million mostly due to tenant defaults in GTC (2010 - €7 million). The movement in the provision during the year was insignificant.

For terms and conditions relating to receivables, refer to Note 40.

Trade receivables are non-interest bearing and are generally on 30-120 days terms.

B As of December 31 the aging analysis of trade receivables is as follows

€ in millions	Neither past due nor impaired	Past due but not provided < 30 days	30 – 60 days	60 – 90 days	90 – 120 days	> 120 days	Total
2011	19	3	2	3	3	11 *	41
2010	66	3	2	3	1	24	99

* Subsequent to balance sheet date an amount of €5 million were collected, the reaming balance is expected to be collected during 2012.

The balance of trade receivables is mostly comprised out of receivables in the infrastructure segment which amounted to approximately €30 million in 2011 (2010: €67 million).

15 Other Receivables and Prepayments

€ in millions	2011	2010
Financial		
Central banks in Ukraine and Russia [1]	7	3
Loan to partner in a joint venture	25	14
Other	16	17
Non-Financial		
Prepaid expenses and accrued income	9	18
Advances to suppliers	6	19
Advance for land	5	32
VAT receivable [2]	16	25
Other	18	12
	102	**140**

1 Sovcom Bank is required to maintain, in the form of non-interest earning cash deposits, certain cash reserves with the local central banks (obligatory reserve), which are computed as a percentage of certain liabilities of the bank less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the central bank, however, if minimum average reserve requirements are not met, the bank could be subject to certain penalties. The Bank is obligated to maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The bank meets the obligatory reserve requirements for the whole year 2011 and 2010.

2 City Gate SRL and City Gate Bucharest SRL two Romanian subsidiaries of GTC S.A. filed a VAT reimbursement claim for the period up to September 30, 2009, in the amount of approximately €14 million. During 2011 the appeal of both subsidiaries was accepted. Accordingly during 2011 the entire VAT receivable was reimbursed for additional information referred to note 29.

16 Short-Term Investments

	Average interest rate	December 31, 2011	Average interest rate	December 31, 2010
	%	€ in millions	%	€ in millions
Bank deposits in NIS	–	–	1.95%	19
Bank deposits in other currencies	0.5%-2%	3	11%	4
Restricted bank deposits [1]	0.5%-2%	82	0.5%-2%	56
Securities held for trading [2]	9.7%	174	–	175
		259		**254**

1 The majority of the balance as of December 31, 2011 and 2010, is comprised of deposits ledged in connection with purchase of land and loans. The majority of the balance is in Euro.
2 Debt securities as of December 31, 2010 and 2011 consist mostly of a bond portfolio held by Sovcom Bank. The major parts of the portfolio are bonds issued by the Russian government and by some major facility provider companies .

17 Cash and Cash Equivalents

€ in millions	December 31, 2011	December 31, 2010
Cash at bank and in hand	126	192
Short-term deposits *	281	306
	407	**498**

* As of December 31, 2011 the average annual interest rate earned on short term deposits was 0.5-2% (December 31, 2010 – 0.5-2.5%).

18 Issued and Paid-In Capital

A Composition

Number of shares	December 31, 2011		December 31, 2010	
	Authorized	Issued and paid-in	Authorized	Issued and paid-in
Ordinary shares with nominal value of € 0.20 each	225,000,000	111,824,638	225,000,000	111,824,638

B Movement in issued and paid-in shares

	Number of shares	Par value in €
Balance as of January 1, 2010	111,824,638	22,364,927
Balance as of December 31, 2010	**111,824,638**	**22,364,927**
Balance as of December 31, 2011	**111,824,638**	**22,364,927**

C Changes in share capital

During 2011 and 2010, there were no changes in the Issued and paid-in capital of the Company.

D Movement in treasury shares

	Number of shares	Par value in €
Balance as of January 1, 2010	10,506,113	2,101,223
Treasury shares epurchased	1,794,217	358,843
Balance as of December 31, 2010	**12,300,330**	**2,460,066**

	Number of shares	Par value in €
Balance as of January 1, 2011	12,300,330	2,460,066
Treasury shares repurchased	1,661,268	332,254
Treasury shares granted to an officer	(392,846)	(78,569)
Treasury shares issued as part of the spin-off	(12,300,330)	(2,460,066)
Balance as of December 31, 2011	**1,268,422**	**253,685**

	December 31, 2011	December 31, 2010
Rate of treasury shares from the issued and paid in share capital	**1%**	**11%**

During 2011 the following share buy-backs took place:

In January 2011, the Company repurchased 20,000 shares which are held by the Company's liquidity provider.

In July and August 2011 the Company purchased 421,384 Kardan shares on the TASE and on Euronext Amsterdam at an average price of € 3.1 per share for a total amount of € 1.3 million. In August 2011, 392,846 shares were transferred to a former officer of one of Kardan's subsidiaries, in exchange for his shares in the subsidiary. As a result €3 million were booked in the Company equity as part of the non-controlling interest holder's transaction reserve.

In 2011, GTC Holding, a subsidiary of the Company, purchased 1,219,884 shares of the Company on TASE and Euronext at an average share price of €2.20 per share for a total of €2.7 million. Following the purchase, GTC Holding has a 1.1% stake in the

Company. These shares are presented in the Company's shareholders' equity as treasury shares.

During 2010 Kardan Israel acquired 1,794,217 shares of the Company on the Tel Aviv Stock Exchange in consideration of €6 million. The purchase amount was deducted from the Company's equity and was accounted as treasury shares. Following the purchase Kardan Israel held approximately 11% of the Company's share capital. As a result of the split of the Company's Israeli holdings, the treasury shares held by Kardan Israel were re-issued. Refer to Note 5C for additional information.

E Dividend:

In September 2011, the general meeting of shareholders approved to distribute the shares of Kardan Yazamut as dividend in kind to the Company's shareholders (see Note 5C).

F Reclassification according to Netherland civil code regulation:

In accordance to the Netherlands civil code, part of the retained earnings is restricted for distribution following the regulation to maintain revaluation reserve in respect of real estate unrealized fair value and other adjustments.

19 Share-Based Payments

A The expense recognized during the year is shown in the following table:

€ in millions	For the year ended December 31	
	2011	2010
Expense arising from equity-settled share-based payment transactions of subsidiaries	8	10
Expense arising from cash-settled share-based payment transactions of the Company and subsidiaries	(4)	4
	4	**14**

The expenses are presented as part of 'Payroll and related expenses' within the General and administrative expenses.

B Option plans:

Below is a description of the principle option plans granted by the Company and its subsidiaries:

(1) Kardan N.V.

a In October 2006, the Management Board, the Supervisory Board and the General Meeting of Shareholders of the Company approved a stock-option plan according to which the Company will grant to members of the Management Board, employees of the Company and employees of the Kardan Group, without consideration, 1,099,327 options (of which 716,927 options were granted to members of the Management Board) exercisable into up to 1,099,327 ordinary shares of the Company each having a par value of €0.20 (subject to adjustments). The exercise price of each option equaled to €8.7 (NIS 46.57) after certain adjustments. The options were exercisable for a period of five years from the date of grant. One third of the options could have been exercised one year following the date of grant, one third two years following the date of grant, and one third – three years from the date of grant. The total value of the options at date of grant was estimated at €4 million.

In 2011, the options related to the above grant expired.

In June 2008 the Annual General Meeting of shareholders of the Company approved the grant of additional 325,000 options to two members of the Management Board as follows:

1 150,000 options exercisable for into up to 150,000 ordinary shares in the capital of the Company at an exercise price of €6.615 per option, reflecting a price of 90% of the closing price of the Company's share on Euronext as of the date of grant, being April 1, 2008.

2 175,000 options exercisable into up to 175,000 ordinary shares in the capital of the Company at an exercise price per option of €9.22 reflecting 90% of the closing price of Kardan's share on Euronext on the date of grant.

The options were granted under the terms and conditions of the Company's Employees Option Plan with the following exceptions for the 175,000 options granted: the options will be granted in three equal portions over three years, with the vesting period commencing at the end of two years from the date of grant. The options will be exercisable as follows: up to two thirds of the options are first exercisable at the end of three years after the date of grant. The balance will be exercisable at the end of the fourth year after the date of grant. The options will be exercisable from the end of their vesting period until six years after the date of grant.

b In 2009 the Management Board of the Company approved the grant of 30,000 phantom options to an employee of the Company. The phantom options are exercisable only as cash settlement at an exercise price of €6 per option. The options can be exercised in 3 equal tranches starting on May 1, 2009. The phantom options will expire after 5 years from date of grant. In 2011, as a result of the employee resignation , the options expired.

c In May 2010, the Annual General Meeting of the Company adopted a Share Plan which is meant as an incentive plan for certain (limited) qualified key (management) employees of the Company. According to the Share Plan, a maximum of 2% of the issued share capital of the Company (as outstanding on January 1, 2009) will be granted to the qualified employees for the 3 years period ending on December 31, 2011. Such selected participants will receive a Notice of Grant which will specify the Date of Grant. The participants being members of the Management Board should achieve certain predefined targets over a performance measurement period of 3 years. After attainment of the targets, new non-listed shares of the Company ('the Unreleased Shares') will be issued against payment of the nominal value of the shares. The Unreleased Shares will be held in custody by the Company for two years, and will be released for trade at the later of (i) the expiration of the Performance Measurement Period, or (ii) at the moment the Participant has accumulated (at least) five consecutive years of service with the Company since January 1, 2009. The participants being members of the Management Board can elect to receive up to 50% of this incentive by way of a cash payment, subject to the approval of the Supervisory Board of the Company. For members of the Management Board, the definition of targets to be achieved, as well as the parameters of the maximum incentive to be received, takes place in accordance with the general principles of the Remuneration Policy (that was adopted by the Annual General Meeting of shareholders in May

2009) as well as the principles as applied by the Remuneration, Appointment and Selection Committee and the Supervisory Board. For other key employees, not being member of the Management Board, the targets will be set by the Management Board and may take the form of general performance targets.

As of the date of signing these financial statements, notices of grant have not been sent.

d The fair value of the majority of the options grants was calculated by an independent external valuator using the Merton and adjusted Black & Scholes model under the following assumptions:

Number of options	150,000	175,000
Exercise price (in €)	6.615	9.215
Risk free interest rate	3.68%	4.26%
Expected term of the options (in years)	5	6
Standard deviation	40.5%	40.4%
Valuation	External	External

The Company accounts for the options granted in accordance with IFRS 2, assuming equity payments will be affected.

Movement in the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of, and movement in, share options issued by the Company during the year:

	2011		2010	
	No.	WAEP €	No.	WAEP €
Outstanding at January 1	1,125,715	8.3	1,230,715	8.3
Expired during the year	(800,715)	8.4	(105,000)	8.4
Outstanding on December 31	325,000	8.0	1,125,715	8.3
Exercisable on December 31	266,667		997,391	

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

(2) GTC Holding and its subsidiaries

(a) GTC SA

Phantom shares

GTC S.A. has granted certain key management personnel Phantom Shares.

The Phantom Shares grant the entitled persons a right for a settlement from GTC SA in the amount equal to the difference between the average closing price of GTC SA's shares on the Warsaw Stock Exchange during the 30–day period prior to the date of delivery to GTC SA of the exercise notice, and settlement price ('strike') amount per share (adjustable for dividend).

Movement in number of phantom shares for the years ended December 31, 2011 and 2010 was as following:

	2011		2010	
	No.	WAEP PLN	No.	WAEP PLN
Outstanding at January 1	10,802,000	22	3,700,000	19
Granted during the year	300,000	22	7,300,000	23
Exercised during the year		–	(198,000)	19
Forfeited during the year	(2,992,000)	22	–	–
Expired during the year	(248,000)	22	–	–
Outstanding on December 31	7,862,000	22	10,802,000	22
Exercisable on December 31	3,919,878		2,292,000	

Scheme 1 – As at December 31, 2011, phantom shares issued were as follows:

Grant Date *	Lst.Ex.Date	Strike (PLN/share)		Total units
		18.15	22.50	
17/03/2009	31/12/2012	1,200,000	700,000	1,900,000
17/03/2009	31/12/2014	225,000	225,000	450,000
05/01/2009	31/12/2015	1,104,000	–	1,104,000
	Total	2,529,000	925,000	3,454,000

* Original grant date was 2007; however in 2009 there were changes in the scheme.

The Phantom shares (as presented in above mentioned table) have been provided for assuming equity payments will be effected, as GTC SA assesses that Scheme 1 is more likely to be settled in equity.

The 'Whaley' model was used considering the following parameters, volatility of 52.7%, risk free interest rate of 5.1%, 0% dividend yield, expected term of 3.2 years to calculate the value of options as of the granting date with half year volatility. As of the granting date, the average fair value of shares options amount to €4.40 per option.

Scheme 2 – As at December 31, 2011, phantom shares issued were as follows:

Grant Date	Lst.Ex.Date	Strike (PLN/share)			Total units
		20.00	22.00	22.50	
15/08/2010	31/12/2013	–	–	100,000	100,000
29/11/2010	30/06/2014	–	621,000	–	621,000
29/11/2010	31/12/2014	–	1,125,000	–	1,125,000
09/11/2010	31/12/2015	200,000	–	–	200,000
29/11/2010	31/12/2015	–	2,062,000	–	2,062,000
13/07/2011	31/12/2016	–	300,000	–	300,000
	Total	200,000	4,108,000	100,000	4,408,000

The Phantom shares (as presented in above mentioned table) have been provided for assuming cash payments will be effected, as GTC SA assesses that Scheme 2 is more likely to be settled in cash.

In October 2011, a key management personnel in GTC SA has forfeited 2,992,000 phantom options with a fair value of €616 thousand as of December 31, 2011.

GTC S.A. uses 'Whaley' model to calculate the value of options as of the grant date. In the valuation GTC S.A. uses half year volatility of 44.2% risk free interest rate of 4.9%, 0% dividend yield and expected term of 3.3 years. As of December 31, 2011 the average fair value of shares options amount to €1.2 per option (2010: €2.2).

(b) Kardan Land China

Employee Share Option Plan

During 2010 Kardan Land China adopted the Employee Share Option Plan (ESOP).

According to the ESOP share options of Kardan Land China are granted to eligible employees of Kardan Land China. The exercise price of the share options is calculated based on total capital injected plus interest under Libor/Euribor + 3%. The share options vest according to the following schedule: 50%, 25% and 25% of the share options shall be vested on the third, fourth and fifth anniversary of the date of commencement of services of the relevant option holder to Kardan Land China, respectively.

The fair value of the share options is estimated at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

The contractual term of each option granted is seven years. There are no cash settlement alternatives. Kardan Land China does not have a past practice of cash settlement for these share options.

In 2010 1,468 share options were granted under the ESOP.

Senior Executive Plan

Under the Senior Executive Plan (SEP), which was adopted in 2011, 2,539 share options of Kardan Land China were granted to a senior executive of Kardan Land China. The exercise price of the share options shall be an amount equal to the per-share equity investments provided to Kardan Land China by its shareholders as of each exercisable date. The options vest immediately upon the grant. Options which are not exercised by the end of the exercise period shall expire.

The fair value of the options granted is estimated at the date of grant using the Black-Scholes pricing model, taking into accounts the terms and conditions upon which the options were granted. The contractual life of each option granted is seven years.

Simultaneously, a Put option agreement was signed between a senior executive and Kardan NV allowing Kardan NV to pay the senior executive cash or shares of Kardan NV upon exercise of the options. The exercise of options (to cash or Company shares) is subject to the Kardan NV's discretion.

Movements in the year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2011		2010	
	No.	WAEP €	No.	WAEP €
Outstanding at January 1	1,468	4,394.48	–	–
Granted during the year	2,539	3,868.09	1,468	4,394.48
Outstanding on December 31	4,007	4,060.94	1,468	4,394.48
Exercisable on December 31	3,817		979	

The weighted average remaining contractual life for the share options outstanding as of December 31, 2011 is 6.25 years (2010: 6.83 years).
The weighted average fair value of options granted during the year per option was €1,858.74 (2010: €2,836.54).

The range of the exercise prices per option for options outstanding at the end of the year was €3,868.09 to €4,394.48 (2010: €4,394.48).
The following tables list the inputs to the models used for the two plans for the years ended December 31, 2011 and December 2010:

	2011 SEP	2010 ESOP
Dividend yield (%)	0	0
Expected volatility (%)	60.5	61.2
Risk-free interest rate (%)	1.85	2.02
Expected life of share options (years)	3.79	5.59
Weighted average share price (€)	3,956.76	4,885.03
Model used	Black-Scholes	Black-Scholes

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

(3) KFS and its subsidiaries

In 2011 and 2010 consolidated companies in the financial services sector incurred a total expenses amount of €0.5 million and €1.3 million, respectively, arising from options granted to senior managers in those companies.

The value of the options granted by these companies was estimated at the date of grant at an amount of €1 million.

(4) Tahal Group International and subsidiaries

a. TGI

In 2008, the Management Board, the Supervisory Board and the general meeting of Shareholders of TGI approved a stock option plan, according to which TGI has granted key management members of TGI 1,253 options exercisable up to 1,253 shares of TGI. The exercise price of the options has a range of €869 to €1,717 per option. The options can be exercised until December 31, 2012 and has different vesting periods for each of the option holders.
Upon exercise of the options the Supervisory Board of TGI will determine whether to allocate the full number of shares deriving from exercise of the options or the number of shares reflecting only the benefit component inherent in the options, as calculated at the exercise date, or alternatively, the Supervisory Board of TGI may elect to pay that benefit in cash.
The total value of the options at date of grant was estimated at €1.2 million. This fair value was determined by an independent external valuator, based on an internal valuation report. The expected life of the options is based on historical data.
TGI accounts for the options granted assuming equity payment will be effected.

Movements in the year

The following table illustrates the number and weighted average exercise price ('WAEP') of, and movement in, share options during the year:

	2011		2010	
	No.	WAEP €	No.	WAEP €
Outstanding at January 1	1,253	1,190	1,253	1,190
Granted during the year	771	4,085	–	–
Exercised during the year *	(578)	2,276	–	–
Expired during the year	–		–	
Outstanding on December 31	1,446	2,641	1,253	1,190
Exercisable on December 31	610	991	1,040	1,190

* for additional information, refer to Note 18

The following table lists the inputs to the models used to determine the fair value of the equity-settled share-based payments at the date of grant:

Expected volatility (%)	50.52%
Risk-free interest rate (%)	2.68%
Expected term of options (years)	3
Weighted average share price (€)	1.758,24
Model used	Black & Scholes

During 2011, 578 options of this stock option plan were exercised for a total consideration of €1,316 thousand. Reference is made to Note 18.

Newly issued stock option plan
During 2011, the supervisory board and the general meeting of shareholders of TGI formally approved a new stock option plan according to which TGI will grant to one management member of TGI 797 options, constituting approximately 3% of the shares of TGI, post-issuance. The newly issued stock option plan is divided into two agreements which have comparable option terms except from the vesting periods. Each option plan has been valuated separately.

The exercise price of the options amounts to €4,317 per option. The options can be exercised until December 31, 2017.

The total value of the options at date of grant was estimated at €1.9 million. This fair value was determined by an independent external valuator, based on an internal valuation report. The expected life of the options is based on historical data.

The following table lists the inputs to the models used to determine the fair value of the equity-settled share-based payments:

Expected volatility (%)	44.96%
Risk-free interest rate (%)	2.04%
Expected term of options (years)	6.4
Stock price (€)	4,999
Model used	Hull-White

TGI accounts for the options granted in accordance with IFRS 2, assuming equity payments will be affected.

b Kardan Water International Group Ltd.
During 2010, the management board of Kardan Water International Group Ltd. ('KWIG') formally approved a stock option plan to eligible employees of KWIG.
Pursuant to the plan 1,600 share options of KWIG were granted to the eligible employees, which constitute 3.4% of the total issued share capital. Under this plan, the eligible employees have the right to acquire 50% of the granted option shares on the 3rd anniversary of the date of commencement of services, 25% on the 4th anniversary, and 25% on the 5th anniversary. The option period will expire at the 5th anniversary for the first 50% of the vested options and at the 7th anniversary for the remaining 50%.

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

A net share-based payment transaction expense to the amount of €2 thousand has been recognized in the income statement.

The following tables illustrate the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2011		2010	
	No.	WAEP €	No.	WAEP €
Outstanding at January 1	1,600	1,061	–	–
Granted during the year	–		1,600	1,061
Forfeited during the year	(180)	1,061	–	–
Expired during the year	(250)	1,061	–	–
Outstanding on December 31	1,170	1,061	1,600	1,061
Exercisable on December 31	699	1,061	776	1,061

The weighted average remaining contractual life for the share options outstanding as at December 31, 2011 is 2.15 years (2010:2.54 years).

The following tables list the inputs to the Binomial model used for the Plan:

Expected volatility (%)	39.45%
Risk-free interest rate (%)	1.22%
Expected term of options (years)	2.54
Weighted average share price (€)	1,112

Newly issued stock option plan KWIG
In 2011, pursuant to a new Employee Stock Option Plan (the 'Plan'), 985 new share options were granted to a director of KWIG equalling 2% of shares of KWIG following such issuance. The option shares are fully vested upon grant.

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

The following tables illustrate the number (No.) and weighted average exercise prices (WAEP) and movements in share options during the year:

	2011	
	No.	WAEP €
Outstanding at January 1	–	–
Granted during the year	985	907
Outstanding at December 31	985	907
Exercisable on December 31	985	907

The following tables list the inputs to the Binomial model used for the Plan:

Dividend yield (%)	0
Expected volatility (%)	42.82
Risk-free interest rate (%)	2.94
Expected life of share options (years)	7
Weighted average share price (€)	1,291

The weighted average fair value of options granted during the year was €697 thousand.

The total share based payment expenses recognized in 2011 income statements are €687 thousand.

20 Non-Current Interest Bearing Loans and Borrowings

A Composition

	December 31, 2011		December 31, 2010	
	Weighted interest rate as of %	€ in millions	Weighted interest rate as of %	€ in millions
Banks				
In EUR	1.6-5.9	1,148	2.5-6.6	1,298
In USD	1.6-3.8	49	4.0	54
In NIS	7.25	3	4-5.5	197
Linked to other currencies	1.4-10.32	84	4-8.5	115
Others – in EUR	3.05-4.02	135	4.5	159
Others – in USD	4.9	12	9	10
Others – in NIS	–	–	7.5	28
		1,431		**1,861**
Less				
Deferred debt issuance costs		10		12
Current maturities		449		267
		972		**1,582**

B Maturities

€ in millions	December 31, 2011	December 31, 2010
First year – current maturities	449	267
Second year	127	177
Third year	78	158
Fourth year	89	211
Fifth year	99	82
Thereafter	589	966
	1,431	**1,861**

For details regarding covenants, refer to Note 29.

An amount of €228 million was classified as short term due to breach of covenants, refer to Note 29.

21 Banking Customers Accounts

A Composition

€ in millions	December 31, 2011	December 31, 2010
Deposits from corporate clients	89	84
Deposits from individual clients	431	294
	520	**378**

B Maturities

€ in millions	December 31, 2011	December 31, 2010
First year – current maturities	250	302
Second year	78	67
Third year	192	7
Fourth year	–	1
Fifth year and thereafter	–	1
	520	**378**

Under normal circumstances, banking customers accounts which can be redeemed on demand are considered covered by the banks' financial assets.

22 Other Long-Term Liabilities

€ in millions	December 31, 2011	December 31, 2010
Deposits from tenants	5	6
Deferred purchase price for shares in subsidiary	6	6
Long-term advances from buyers	6	9
Other	7	5
Total other long-term liabilities	**24**	**26**

23 Options and warrants

€ in millions	December 31, 2011	December 31, 2010
Warrants and call options granted to third parties [1]	7	7
Put options granted to non controlling shareholders – KFS Group [2]	9	17
Put options granted to non controlling shareholders – GTC Group [3]	–	1
Options on Group companies' share – Kardan Israel [4]	–	3
Put options granted to non-controlling shareholders – Kardan Israel [4]	–	1
	16	**29**

1 In March 2009, the Company has reached an agreement with Israel Discount Bank ('IDB') to buy back the 11% stake IDB holds in KFS.
Within the framework of the agreement, the Company has granted IDB an option to repurchase a 5% stake in KFS during the subsequent six years, at a price changing gradually, reflecting a valuation of KFS of €386 million plus an annual interest of 5% from the third year.

The balance includes the fair value of warrants granted to FIMI (which can be exercisable to TGI shares) in the amount of €5.5 million (December 31, 2010 - €6.2 million). The amount is offset with the fair value of a Call Option in the amount of €1.3 million (December 31, 2010 - €2.1 million). Refer to Note 5C for additional information regarding the FIMI transaction.

2 The balance of €9 million (December 31, 2010 - €16 million) relates to a put option granted to Cavebrook, a non controlling shareholder in TBIF. As of December 31, 2011 Cavebrook holds approximately 7.8% in TBIF shares (December 31, 2010 - 9.4%). In January 2012 KFS acquired the 7.8% stake in TBIF held by Cavebrook, and the abovementioned option was cancelled.

The fair value of the put options was determined based on external valuation reports used by the Group, among others uses, for goodwill impairment testing. For details regarding the underlying assumptions, please refer to Note 12.

3 In 2010 €1 million put options granted to non controlling shareholders in GTC Investments, The majority of the options were exercised in 2011.

4 Kardan Israel was distributed as part of the Spin-off of the Company's main Israeli activities - See note 5C.

24 Convertible Debentures

During March 2010, Kardan Real Estate issued NIS 80,867 thousand convertible debentures. Each 3.884 par value is convertible into one ordinary share of NIS 1 par value of Kardan Real Estate.
For additional information regarding the split of Kardan Yazamut refer to Note 5C.

25 Other Debentures

A Composition

	Par value as of December 31, 2011	Balance as of December 31, 2011	Balance as of December 31, 2010	Interest rate	Currency and linkage	Maturities principal
	€ in millions	€ in millions	€ in millions	%		
Issuer						
The Company – 2007 [4] [5] [6]	241	251	283	4.45	[1]	2013-2016
The Company – 2008 [4]	270	298	317	4.9	[1]	2014-2020
GTC SA – 2007 and 2008	242	263	290	7.45	PLN [2]	2012-2014
Kardan Israel – 2009	–	–	49	7.9	[1]	2013-2015
Dan Vehicle and Transportation D.R.T Ltd	–	–	82	4.9-5.3	[1]	2006-2018
Other subsidiaries [3]	–	25	25	4.6-9	In or linked to €, or USD	2008-2015
		837	1,046			
Less – current maturities		24	28			
Less – Debentures issuance expenses		2	2			
		811	**1,016**			

1 The company debentures are publically traded on the TASE. In NIS linked to the Israeli CPI .Following the issuance of the debentures, the Company has entered into several swap transactions which converted the cash received in NIS into Euro, refer to Note 40.
2 Following the issuance of the debentures, GTC SA has entered into several swap transactions which converted the cash received in PLN into Euro. Refer to Note 40 for additional information regarding swap transactions.
3 In January 2010, the Company has reissued NIS 150,555,233 par value Debentures series A it has repurchased through its subsidiary (TGI) in November 2008. The consideration received for the debentures amounted to NIS 161 million (€30 million), representing an effective interest rate of 6.8% p.a.
4 In 2011 GTC Holding has purchased NIS 48,311,499 par value Debentures Series B issued by the Company in 2008 at an average price of NIS 1.13 per debenture, for the consideration of NIS 54.4 million (approximately €11 million), and NIS 114,787,247 par value Debentures Series A issued by Kardan in 2007 at an average price of NIS 1.11 per debenture, for a consideration of NIS 127 million (approximately €25.9 million). The Company accounted for these transactions as early repayment of debentures, which resulted in a gain of €2.9 million which was included as 'finance income' in the income statement.
5 Subsequent to the balance sheet date, in January 2012, GTC Holding purchased additional NIS 40,711,000 par value Debentures Series A at an average price of NIS 1.1 for a consideration of NIS 44.8 million (€9.1 million). As a result of the purchase the Company will recognize a profit from early repayment of debentures amounting to €1 million.
6 In December 2011 Kardan's subsidiary Tahal Consulting Engineers Ltd. ('TCE') purchased NIS 18,846,589 par value Debentures Series A issued by Kardan in 2008, at an average price of NIS 1.061 per debenture for a consideration of NIS 20 million (approximately €4 million). As a result of the purchase the Company recognized a profit from early repayment of debentures amounting to €0.6 million.

Maturities:

€ in millions	December 31, 2011	December 31, 2010
First year – current maturities	24	28
Second year	158	37
Third year	271	201
Fourth year	109	325
Fifth year	105	147
Sixth year onwards	170	308
Total	**837**	**1,046**

26 Trade Payables

€ in millions	December 31, 2011	December 31, 2010
Trade payables	79	100
Checks payables	–	20
	79	**120**

Trade payables are non-interest bearing and are generally aged between current and 60 days overdue.

27 Intrest-bearing loans and borrowings

	Weighted average annual interest rate	December 31, 2011	Weighted average annual interest rate	December 31, 2010
	%	€ in millions	%	€ in millions
Short-term credit from banks				
In EUR	4.11	33	4.31-6.17	5
In USD	4.12	5	3.67-4	24
In NIS	–	–	4.45	76
In other currencies	4.82	49	3.67-4.55	57
Short-term credit from others		3		1
		90		**163**
Long-term interest-bearing loans related to current cost of buildings in progress		–		51
Current maturities of long-term liabilities:				
Loans (see Note 20) *		449		267
Debentures (see Note 25)		24		28
		563		**509**

For collaterals – see Note 29

* The balance include long term loans that were classified reclassified to short term due to breach of covens – refer to Note 29

28 Other Payables and Accrued Expenses

€ in millions	December 31, 2011	December 31, 2010
Financial:		
Accrued expenses	57	87
Promissory Notes	20	25
Put option *	3	7
Non Financial:		
Payroll and related expenses	9	14
Advances from customers	41	18
Unearned revenues	2	2
VAT payable	3	26
Related companies	34	15
Advance form sale of sovcom bank	33	–
Other	12	38
	214	**232**

* Includes the settlement price agreed on the put option granted to a non-controlling shareholder in GTC SA. For details regarding this option, refer to Note 23.

29 Liens, Contingent Liabilities and Commitments

A Liens and collaterals:

1.1 The Company

In connection with a loan agreement signed with a bank regarding loans amounting to approximately €30 million as of December 31, 2011 (€53 million as of December 31, 2010) the Company has undertaken to maintain certain financial covenants and has pledged certain assets, including, amongst others the following:

a. Maintain holdings of 51% in GTC Holding;
b. Commitment of the Company not to pledge all its assets;
c. Maintaining equity to stand-alone Company's balance sheet ratio of 21%; and 12% with respect to consolidated balance sheet and total equity;
d. Shareholders' equity will not be less than €160 million;
e. Prior approval of one of the lenders for any change in control, reorganization, capital reduction or de-listing.
f. The Company's shares should be traded on TASE during a certain loan period.
g. The Company's debentures will be rated by a rating agency; the rating will not drop below B-.

As of December 31, 2011, the Company did not meet financial covenants relating to maintaining a minimum equity level. As a result, long term loans in the amount of €30 million were classified as short term liabilities.

Within the Group, additional loans with the same covenant in the amount of €144 million were also classified as short term liabilities.

In March 2012, the Company received a signed letter from the lending bank describing principal agreements between the Company and the bank relating to a change in required financial covenants with respect to two loans in the amount of €15 million each. According to the principal agreements, the financial covenants will be amended so that the Company is required to maintain a minimum shareholders' equity of €160 million and a ratio of equity to total stand-alone balance sheet of the Company of 21%.

In addition it was agreed to early repay an amount of €35 million from the total outstanding loans of Kardan, GTC Holding and TGA.

It was also agreed that the semi-annual interest rate related to the loan in GTC Holding, will be increased by 1.5% to a semi-annual interest rate of Libor +3.3%. The Company is evaluating the potential impact of the amendment.

1.2 Covenants breached in previous quarters

At the end of third quarter the Company did not meet the financial covenants relating to maintaining a minimum equity level of €290 million and a ratio of equity to total stand alone balance sheet of 29% as a result of the breach as of September 2011, the Company reclassified an amount of €30 million as current liabilities. In November 2011, the Company and the lending bank signed an amendment to the loan agreement relating to a change in a financial covenant required with regard to two loans in the amount of €15 million each. The amendment is valid for a period of four quarters up to and including June 30, 2012.

According to the amendment to the loan agreement, the financial covenants were amended so that the Company is required to maintain the higher of a minimum shareholders' equity of €250 million or a ratio of equity to total stand-alone balance sheet of the Company of 27%.

Prior to signing the amendments as described above, the Company was in breach relating to minimum equity requirement and a minimal equity ratio requirement.

2 GTC S.A.

As of December 31, 2011 GTC SA and its subsidiaries were in breach of covenants relating to 2 loans in the amount of €54 million and therefore were classified as short term as of December 31, 2011. The breach relates mainly to maintaining certain loan to value ratio and debt service coverage ratio. For the first loan amounting to €24.7 million, in March 2012 GTC S.A. signed an annex with the bank that refrained from demanding an early repayment and which settles the covenants. For the second loan GTC S.A. and the subsidiary currently conduct discussions with the lending Banks for possible amendments to the loan agreement.

B Guarantees

Following are the guarantees provided by the Company and its Group companies as of December 31:

€ in millions	2011		2010	
	Limited in amount	Not limited in amount *	Limited in amount	Not limited in amount *
With respect to:				
– Subsidiaries	314	–	292	–
– Associated companies	–	–	25	12
	314	**–**	**317**	**12**

* The amount of the guaranteed liabilities as of December 31

As of December 31, 2011 and 2010, GTC S.A. provided guarantees to third parties in order to secure cost overrun and loans of its subsidiaries. The guarantees granted amounted to €222 million and €183 million, respectively.

As of December 31, 2011 and 2010 TGI provided bank guarantees in an amount aggregating to approximately €26 million and €41 million, respectively, in favor of customers in respect of advances received from them for projects and for performance and tender guarantees.

C Legal claims and contingencies

1 Subsidiaries have liabilities with respect of warranty for the quality of the services and the work which they perform. In order to cover these obligations, the subsidiaries are insured with liability insurance up to the amount of €11 million for each claim. Management of the subsidiaries believes – based, among others, on estimates of the insurance companies and on prior experience – that the provisions included in the financial statements with respect to the claims filed against them in excess of the existing insurance coverage and with respect to the deductible portion of the insurance are sufficient.

2 After the split, the Group is not aware of any ongoing exposure to legal claims (including litigation regarding the Holyland claim) related to the operations of Kardan Israel, Refer to Note 5 for additional information.

3 In 2006 two Serbian subsidiaries ('the Subsidiaries') have engaged a general contractor for constructing two of its projects, Avenue 19 and GTC Square, both located in Belgrade. Following issuance of take over certificate and completion of works for the two projects, the general contractor filed a claim for additional costs and which the Subsidiaries rejected and counterclaimed damages for delay and general damages from the contractor.

   Further on, the general contractor initiated arbitration proceedings before the commercial court against the Subsidiaries claiming additional payment of €15.8 million for both projects. The above Subsidiaries refused this payment and filed a counterclaim of €18.6 millions in respect of amounts overpaid, contractual penalties and additional damages for delay of the construction. The independent supervisory engineer that has been appointed in accordance with the original agreement between the parties supports the position taken by the Subsidiaries. As the independent supervisory engineer is supporting the Subsidiaries claim and based on the assumption that the supervisory engineer is best placed to assess the positions of the parties, the Subsidies and their legal advisers believe that the Subsidiaries are more likely to prevail in arbitration proceedings.

4 Two Romanian subsidiaries in the Group filed a VAT reimbursement claim for the period up to September 30, 2009, in the amount of approximately €14 million. The VAT authorities in Romania rejected an amount of €8.2 million. Based on the fiscal code, both companies filed an appeal against the VAT authorities' decision claiming to full reimbursement of the VAT receivables. In December 2010, the VAT authorities sent a letter to both companies stating that they canceled the initial decision and will re-audit the related invoices during 2011.

During July 2011 the appeal of both subsidiaries was accepted. Accordingly during 2011 the entire VAT receivable was reimbursed.

D Commitments

1 To meet the financial needs of customers, TBIF and its subsidiaries enter into various irrevocable commitments and contingent liabilities. Even though these commitments may not be recognized on the statement of financial position, they contain credit risk and are therefore part of the overall risk of the TBIF Group. The total outstanding commitments include financial guarantees, letters of credit and undrawn commitments to lend and amount to €46 million as of December 31, 2011 (December 31, 2010 - €47 million).

   Letters of credit, guarantees (including standby letters of credit) commit the TBIF Group to make payments on behalf of customers in the event of a specific act. Guarantees and standby letters of credit carry the same credit risk as loans.

   Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

   However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The TBIF Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

2 As of December 31, 2011, the Group had commitments contracted for in relation to future building construction, amounting to €90 million. These commitments are expected to be financed from available cash and current financing facilities, other external financing or future installments under already contracted sale agreements and yet to be contracted sale agreements.

3 The Group owns concession agreements to provide water supply and waste water treatment services in China and Turkey. The agreements have a contract period between 15-32 years. Depending on the nature of the agreement, the plant facility developed under the concession agreement will be owned by the Group (BOO contracts) or transferred to the client (BOT projects). Until the day of this report there are no breaches relating to these concession agreements.

4 GTC S.A. undertakes to support its subsidiaries, allocation of resources shall be made on the basis of the financing and capital requirements of the subsidiaries taking into account the subsidiaries particular working capital needs.

E Operating lease commitments

1 Operating lease commitments – Group as lessor
The Group has entered into various operational lease contracts with tenants related to properties in Poland, Romania, Croatia, Serbia, Hungary and China. The aggregate amount of contracted future rental income as of December 31, 2011 and 2010 amounts to approximately €553 million and €612 million, respectively, and is due according to the table below:

€ in millions	2011 *	2010
First year	112	121
Second to fifth year	284	343
After the fifth year	157	148
	553	**612**

* The decrease in the operating lease commitment is due to the split of Kardan Yazamut

The Group has also entered into various lease contracts with lesees related to vehicles in Israel, The aggregate amount of contracted future rental income as of December 31, 2011 and 2010 amounts to approximately nil and €107 million referred to Note 5C.

Part of the above projected rental income relates to income from turnovers. For the year ended December 31, 2011 and 2010, the part of total rental income, that derived from a percentage of tenants' turnover ('turnover rent') is approximately €3 million and €4 million, respectively.

2 Operating lease commitments – Group as lessee
Subsidiaries within GTC Holding Group have commitments to pay annual lease payments and concession tax for the leased land totaling €25 million as of December 31, 2011 (December 31, 2010 – €32 million).

3 Financial lease commitments – Group as lessor
The TGI Group has entered into financial leases relating to plan and equipment (activity held for sale). Future minimum amounts payable under non-cancelable commitments as of December 31, 2011 amount to €0.8 million (December 31, 2010 – €1 million), all due after 1 years but less than 5 years.

30 Segment information

A General

The Group's operating businesses are organized and managed separately. Each segment represents a strategic business unit that offers different products and serves different markets. The segmentation was determined by the Company's CODM which is the management board. The Group's operating businesses included the operations of consolidated subsidiaries, joint ventures and associates. Each group company is assessed based on its sector of operations, asset base, country and contribution to the company and to the Group.

Following the split of Kardan Yazamut (for additional information refer to Note 5c) the Company's CODM re examined its operating segments. In the past, the results of Kardan Israel were included in 4 operating segments: 'Rental and leasing of vehicles', 'Sale of vehicles', 'Real estate' and 'Others'. The results of KMS were included in the 'Infrastructure – Assets' segment. Following the split, the Company is substantially no longer active in the 'Rental and leasing of vehicles' and 'Sale of vehicles' and 'Others' operating segments and their results are presented as discontinued operations. Due to the increase in its relative importance, subsequent to the split and the sale of VAB Bank, the CODM has decided also to split between 'Real estate – Asia' and 'Real estate – Europe'.

Financial Services
As a result of the transactions described in Note 5C (sale of VAB Bank, decrease in holding in Sovcom bank and sale of TBIH), the financial services activities currently include one segment – Banking and Retail Lending. During 2010 the Company sold its insurance and pension segment. As a result, the Company no longer considers it as a segment, and comparative information has been adjusted.

Real Estate
The Real estate activities are incorporated under GTC Holding and include the following two segments: Real estate in Europe and Real estate in Asia. In the past, the operations of the real estate segment were presented as one segment. Due to the increase in the relative importance of the real estate operations in Asia and in line with the information analyzed by the CODM and in order to provide the readers of the financial statements with additional relevant information the real estate operations were split into 2 segments. In the real estate operations the Company is involved in the construction of office buildings, shopping centers and in residential projects.

Infrastructure
The Infrastructure activities incorporated under TGI, and include the following two segments: Infrastructure Projects and infrastructure Assets.

Through its subsidiary, the Company develops and invests in infrastructure assets and provides engineering, consulting and design services. The Company undertakes projects in Latin America, Eastern Europe, Africa, China, and Israel and in other countries, mainly relating to the environment, water, sewage, drainage, irrigation, energy and agriculture.

The Group's segments are operating segments and are fully independent from each other. Apart from invoicing management fees or recharge of expenses, there is no material segment to segment invoicing. Allocated segment asset and liabilities are those directly linked to the segment activities in the operating companies. In most cases assets and liabilities of the holding companies are considered unallocated.

B Segments results

For the year ended December 31, 2011:

€ in millions	Real Estate		Banking and retail lending	Infrastructure		Total
	Asia	Europe		Projects	Assets	
Revenue	49	160	113	85	29	436
Other income/expense *	33	(235)	(55)	1	2	(254)
Total Income	82	(75)	58	86	31	182
Segment result	29	(242)	(35)	(12)	6	(254)
Unallocated expenses						(10)
Loss from operations and share in profit of associates companies before finance expenses, net						264
Finance expenses, net						123
Loss before income tax						387
Income tax expenses						38
Loss from continuing operations						425
Profit from discontinued operations						16
Loss for the year						**409**

* Other income/expense includes fair value adjustments of investment properties, goodwill impairment, equity earnings, gains from disposal of assets and investments and other adjustments.

For the year ended December 31, 2010:

€ in millions	Real Estate		Banking and retail lending	Infrastructure		Total
	Asia	Europe		Projects	Assets	
Revenue	39	175	42	112	26	394
Other income/expense *	29	48	(25)	2	2	56
Total Income	68	223	17	114	28	450
Segment result	19	117	(31)	8	4	117
Unallocated expenses						21
Gain from operations and share in profit of associates companies before finance expenses, net						105
Finance expenses, net						125
Loss before income tax						20
Income tax benefit						24
Loss from continuing operations						44
Profit from discontinued operations						15
Loss for the year						**29**

* Other income/expense includes fair value adjustments of investment properties, goodwill impairment, equity earnings, gains from disposal of assets and investments and other adjustments.

For the year ended December 31, 2009:

€ in millions	Real Estate		Banking and retail lending	Infrastructure		Total
	Asia	Europe		Projects	Assets	
Revenue	45	163	48	101	24	381
Other income/expense *	–	(178)	1	2	1	(174)
Total Income	45	(15)	49	103	25	207
Segment result	5	(107)	4	2	(14)	(110)
Unallocated expenses						(7)
Loss from operations and share in profit of associates companies before finance expenses, net						117
Finance expenses, net						87
Loss before income tax						204
Income tax						22
Loss from continuing operations						182
Profit from discontinued operations						6
Loss for the year						**176**

* Other income/expense includes fair value adjustments of investment properties, goodwill impairment, equity earnings, gains from disposal of assets and investments and other adjustments.

C Segments assets

€ in millions	December 31, 2011	December 31, 2010
Real estate – Asia	387	319
Real estate – Europe	2,065	2,545
Banking and Retail lending	988	1,360
Infrastructure – Assets	164	183
Infrastructure – Projects	116	146
Others	–	720
	3,720	**5,273**
Unallocated assets	635	726
	4,355	**5,999**

D Segments liabilities

€ in millions	December 31, 2011	December 31, 2010
Real estate – Asia	201	155
Real estate – Europe	285	253
Banking and Retail lending	777	1,158
Infrastructure – Assets	10	73
Infrastructure – Projects	74	16
Other	–	303
	1,347	**1,958**
Unallocated liabilities *	2,268	2,974
	3,615	**4,932**

* Most of the unallocated liabilities relate to the holding companies.

E Segments capital expenditure

€ in millions	December 31, 2011	December 31, 2010
Real estate – Asia	185	145
Real estate – Europe	49	20
Banking and Retail lending	24	24
Infrastructure – Assets	12	26
Infrastructure – Projects	2	7
	272	**222**

F Information about geographical areas

1 Revenues by geographical markets (according to location of customers):

€ in millions	For the year ended December 31,		
	2011	2010	2009
Poland	90	98	91
Hungary	19	20	4
China	69	51	62
Russia	102	20	70
Israel	26	33	36
Other	130	172	118
	436	**394**	**381**

2 Non-current assets by geographical areas (according to location of assets):

€ in millions	December 31, 2011	2010
Poland	658	903
Hungary	241	237
China	225	184
Israel	20	613

Non-current assets include the Investment properties, goodwill and intangible assets and property plant and equipment.

31 Revenues from Retail Lending Activities

€ in millions	For the year ended December 31, 2011	2010	2009
Revenues of lending and fiduciary activities			
Interest income	143	69	54
Finance costs	(53)	(28)	(16)
	90	41	38
Commission and service fees	62	16	17
Finance advisory and fiduciary fees	–	1	1
Impairment of loans granted	(45)	(23)	(16)
	107	35	40

After Q3, 2010 the Group decreased its stake in Sovcom bank from full consolidation to proportionate consolidation (50%), as a result the cost of revenue of the first 9 months of 2010 was reclassified to 'Net profit from discontinued operations', and for Q4 2010 it is presented proportionally.

32 Cost of Retail Lending Activities

€ in millions	For the year ended December 31, 2011	2010	2009
Staff costs	39	21	13
Other operating expenses	48	22	28
	87	**43**	**41**

After Q3, 2010 the Group decreased its stake in Sovcom bank from full consolidation to proportionate consolidation (50%), as a result the cost of revenue of the first 9 months of 2010 was reclassified to 'Net profit from discontinued operations', and for Q4 2010 it is presented proportionally.

33 Other Expenses, net

€ in millions	For the year ended December 31, 2011	2010	2009
Impairment of properties and inventory [1]	75	3	12
Loss on disposal of investment	2	–	1
Cost of services	–	–	2
Other expenses, net [2]	11	10	7
	88	**13**	**22**

1 In 2011 and 2010 all impairment losses relate to inventory and landbank in the CEE region, for additional information refer to Note 13.

2 During the second quarter of 2011, a subsidiary of the Company (TCE) initiated an efficiency plan, including the dismissal of several employees. Currently, TCE estimates the total retirement costs for the abovementioned employees in approximately €2.2 million which has been accounted for as other expense.

34 Selling and Marketing Expenses

€ in millions	For the year ended December 31,		
	2011	2010	2009
Payroll and related expenses	7	7	5
Commissions	2	3	1
Marketing and advertising	7	6	4
Other	5	4	3
	21	**20**	**13**

35 General and Administrative Expenses

€ in millions	For the year ended December 31,		
	2011	2010	2009
Payroll and related expenses	28	19	21
Share-based payment (see Note 19)	2	13	4
Management fees	3	3	1
Office maintenance	5	2	3
Professional fees	10	10	8
Depreciation and amortization	1	2	2
Other	12	8	7
	61	**57**	**46**

1 Payroll and related expenses are as follows:

€ in millions	For the year ended December 31,		
	2011	2010	2009
Wages and salaries	27	17	20
Unemployment contributions	–	1	–
Other social expenses	1	1	1
	28	**19**	**21**

Labor costs are included in the income statement under various expense categories.

36 Gain on Disposal of Assets and Other Income

€ in millions	For the year ended December 31, 2011	2010	2009
Gain on disposal of investment in companies *	17	1	18
Release of negative goodwill	–	–	5
Other	5	6	(14)
	22	**7**	**9**

* Refer to Note 5C with regards to capital gains which were recognized due to disposal of assets.

37 Other Financial Income and Expenses

€ in millions	For the year ended December 31, 2011	2010	2009
Income			
Income from bank deposits	6	4	10
Interest income with respect to long-term loans and receivables	1	1	7
Exchange differences	6	11	30
Other	9	3	1
Total financing income	**22**	**19**	**48**
Expenses			
Interest on long-term loans and borrowings	82	83	73
Interest on debentures and convertible debentures	23	25	20
Exchange differences	16	21	38
Short-term loans and borrowings	1	1	–
Other	19	13	6
Total financing expenses	**141**	**143**	**137**

38 Taxes on Income

A The Company has its statutory seat in the Netherlands, and therefore is subject to taxation according to the Dutch law.

The Company benefits from the Participation Exemption ('Participation Exemption'). According to the Participation Exemption, all capital gains and dividends income derived from qualifying participations are exempt from Dutch corporate income tax. Capital losses realized with respect to qualifying participations are, however, not deductible.

Pre-2010 regime

Starting from 2007 until 2009, the Participation Exemption applies to any shareholding of 5% or more in the nominal paid-up share capital of a company with a capital divided into shares. However, the Dutch Participation Exemption will not be applicable for income derived from an interest in a so-called ‘Low-Taxed Portfolio Participation’. In determining whether income derived from a participation falls under the credit regime for Low Taxed Portfolio Participations (rather than under the general exemption regime) a two pronged test applies: (i) an ‘Asset Test’ and (ii) a ‘Low Taxed Test’.

The Asset Test requires that 50% or more of the assets of the participation are directly or indirectly (deemed to be) Free Portfolio Investments. Free Portfolio Investments are those investments that are not reasonable required within the enterprise of the company holding these investments. Whether or not an asset is considered a Free Portfolio Investment is of a very factual nature and should be judged on case by case basis. If a participation in turn holds interest in other entities, the Asset Test should be applied on a consolidated basis.

If a participation does not meet the ‘Asset Test’, it has to be subject to a certain level of taxation in order to enjoy the exemption regime (so-called ‘Low Taxed Test’). The threshold for determining whether or not a participation should be considered low taxed, is set at an effective tax rate of 10% of a taxable basis determined under Dutch principles. The taxable profit is the profit before tax loss compensation and relief for double taxation.

Real Estate Participations are specifically excluded from the definition of a Low-Taxed Portfolio Participation. As a result, the Dutch Participation Exemption is applicable to benefits from a Real Estate Participation. A participation can be qualified as a Real Estate Participation if the assets of the company in which the Dutch shareholder/taxpayer has a participation, on a consolidated basis (taken into account only shareholdings of at least 5% and taking into account fair market values), consist for at least 90% of immovable property.

A general credit is allowed for income (including capital gains) derived from a Low-Taxed Portfolio Participation. The credit is set at 5% of such income. For income derived from a Low Taxed Portfolio Participation that qualifies under the EU Parent Subsidiary Directive, the taxpayer can alternatively chose to credit the actual underlying tax. Finally portfolio participations of which 90% or more of the assets consist of portfolio investments, should be ‘marked to market’ by the Dutch taxpayer.

As of January 1, 2010

As of January 1, 2010, the Participation Exemption regime in the Netherlands has been changed. The Dutch Participation Exemption applies to all shareholdings of 5% or more of the nominal paid-up capital of the subsidiary, unless the participation is a ‘Portfolio Participation’. Effective as of January 2010, this newly introduced non-portfolio requirement or ‘Motive Test’ is based on old legislation (pre-2007) and long-standing Dutch case law. In general, the Motive Test is met if the shares in the subsidiary are not held only for a return that may be expected from normal (passive) asset management. In a limited number of specific situations, the participation is deemed to be held as a portfolio investment, which is generally determined based on the function and assets of the subsidiary. However, even if the Motive Test is not met, the Dutch holding company may still benefit from the participation exemption if the ‘Reasonable Tax Test’ or ‘RT Test’) or the Asset Test is met.

A participation meets the RT Test, if it is subject to a profit tax that results in a reasonable levy of profit tax in accordance with Dutch tax standards. Based on the parliamentary history, in principle, the local tax system needs to be compared to the Dutch tax system. The main criteria that are taken into account for this assessment are the local tax base and the local statutory corporate income tax rate. In general, a statutory profit tax rate of at least 10% qualifies as a reasonable levy if no significant deviations exist between the local tax system and the Dutch tax system. Such significant deviations include, among others, a tax holiday, a cost-plus base with a limited cost base and the absence of limitation provisions with respect to the interest deduction.

The Asset Test requires that generally less than 50% of the assets of the participation are, directly or indirectly (deemed to be) Low-Taxed Free Portfolio Investments. Free Portfolio Investments are assets that are not used in the course of business of the company like ordinary portfolio investments, group receivables and assets made available to group companies. An Aggregated Asset Test applies in case the participation holds interests in other entities. For the purpose of performing the Aggregated Asset Test, a so-called aggregated balance sheet should be drawn up. Assets of all underlying participations of the direct participation should be included in this aggregated balance sheet at fair values (pro rata parte according to the percentage of shares), unless it concerns participations of less than 5% of the paid-up share capital. If at least 70% of the assets of a participation are other assets (non free portfolio investments), then all of the participations assets will be considered ‘acceptable’ for the purposes of the Aggregated Asset Test.

Real estate is excluded from the definition of portfolio investment. Accordingly, the Participation Exemption applies to real estate companies under the condition that either the RT Test or Asset Test is met.

Instead of the Participation Exemption, a Tax Credit system applies if the participation is held as a portfolio investment (Motive Test) and neither the RT Test nor the Asset Test is met. Under this system, the income is grossed up and taxed at the standard Dutch corporate income tax rate, and a credit is allowed for underlying taxes. For income derived from a portfolio participation that qualifies under the EU Parent-Subsidiary Directive, the Dutch holding company can alternatively choose to credit the actual underlying tax.

Portfolio participations in which a minimum 25% shareholding is held and of which 90% or more of the assets, directly or indirectly, consist of free portfolio investments, should be marked to market by the Dutch holding company on an annual basis.

B The statutory corporate income tax rates in the various countries were as follows:

Tax rate	2011	2010
Bulgaria	10%	10%
China	25%	22%
Croatia	20%	20%
Hong Kong	16.5%	17.5%
Hungary	10-19%	10-19%
Israel	24%	25%
Poland	19%	19%
Romania	16%	16%
Russia	15.5-20%	15.5-20%
Serbia	10%	10%
Slovakia	19%	19%
The Netherlands	25%	25.5%
Turkey	20%	20%
Ukraine	23%	25%

C Tax presented in the consolidated income statement is broken down as follows:

€ in millions	For the year ended December 31, 2011	2010	2009
Current taxes	35	12	19
Deferred taxes	3	12	(41)
	38	**24**	**(22)**

D The reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:

€ in millions	For the year ended December 31, 2011	2010	2009
Accounting profit (loss)	(387)	(12)	(204)
Tax expense (tax benefit) computed at the weighted average taxable rate	(97)	9	(22)
Increase (decrease) in tax expense (tax benefit) due to:			
Unrecognized tax losses	62	8	6
Taxes related to prior year	–	2	–
Equity in net earnings of associated companies and gain on issuances of shares to third parties which are not taxable	–	(1)	–
Tax effect of unrealized foreign currency gain/losses related to investment property	3	1	(9)
Tax effect of revenues exempt from tax	21	–	–
Non deductible expenses (income) and others	7	11	2
Tax losses for which no deferred tax assets were recognized	56	(6)	1
	38	**24**	**(22)**

* The average weighted taxable rate differs from year to year due to different mix of revenues, costs and profits or losses generated in the various countries of operations, each subject to a different tax rate, as indicated in B above.

E Composition of deferred taxes

€ in millions	Consolidated statement of financial position		Recorded in the income statement		
	December 31, 2011	December 31, 2010	Movement for the year ended December 31,		
			2011	2010	2009
Deferred income tax assets (deferred tax liabilities) with respect to:					
Investment properties	(128)	(151)	10	(17)	31
Tangible fixed assets	–	(18)	1	(1)	1
Long-term inventory	–	1	–	1	–
Contract work in progress	–	–	–	–	–
Temporary differences relating to investments in companies	–	(3)	–	(3)	–
Temporary differences relating to investments in leases and loans to customers	–	4	–	–	–
Financial assets	(1)	(1)	2	(1)	–
Temporary differences in reserves and allowances	(3)	(8)	(4)	–	3
Carry forwards losses available for offset against future taxable income	12	15	(2)	–	6
Basis differences in non-current assets	4	7	(2)	2	3
Financial liabilities	(16)	(5)	(8)	2	3
Other	3	(1)	–	5	(6)
	(129)	**(160)**	**(3)**	**(12)**	**41**

F Carry forward losses and final tax assessments

The Group has tax losses of €226 million that are available for offset between five years and indefinitely.

Deferred tax assets have not been recognized in respect of tax losses carry forward amounting to €216 million as they may not be used to offset taxable profits elsewhere in the Group and the losses are of subsidiaries that have generated losses for extended periods.

The Company has received final tax assessments for the years 2003 till 2008.

G Settlement of a contingent tax asset:

According to the Corporate Income Tax Act costs with regard to (indirect) foreign (non-EU) participation are non-deductible. The Company, upon the advice of its advisors, has decided to appeal against corporate tax assessments raised by the inspector of taxes with regards to the fiscal years 2001-2003 on the basis that the decision of the European Court of Justice (C-168/01), upon which the Dutch Supreme court amended the Corporate Income Tax Act should be extended to cover not only the EU and Economic European Area (EEA) but also countries who have association agreements with the EU based on article 56 EC (free movement of capital with third countries), Romania is one such country.
For the year 2001 the appeal has been made to the Tax Court, and for the years 2002 and 2003 at the Tax Authorities.

In 2010 the Company and several other Group companies have reached a settlement agreement with the Dutch tax authorities with respect to the abovementioned appeals. Accordingly, all appeals were withdrawn, the losses for the years 2001-2003 were agreed upon, and the Group received a tax refund of approximately €1.1 million.

H Tax presented in the consolidated statement of financial position is broken down as follows:

€ in millions	December 31, 2011	December 31, 2010
Net deferred income tax asset	20	22
Net deferred income tax liability	(149)	(182)
	(129)	**(160)**

I Tax regulations in Eastern Europe

Restrictive tax regulations exist in Eastern European countries regarding value-added tax, company tax and national insurance (social security) payments. Since these regulations were enacted in recent years, they often include internal contradictions that cause problems in their interpretation. Differences in interpretation of the tax regulations between various tax-related entities and tax authorities, and the taxpayers cause numerous disputes. Arrangements regarding taxation and other areas of activity (such as foreign currency transactions) may be subject to supervision by the tax authorities and by other authorities that are empowered to levy material penalties including interest on the penalties. In these circumstances, business activity in Eastern European countries includes more serious tax risks than in countries with a more stable tax base. Eastern European countries do not have a formal procedure for determining the amount of the final tax. Tax arrangements may be audited at any time during a number of years. A risk exists that the tax authorities' interpretation of the tax legislation will be different from the interpretation of the subsidiaries in Eastern Europe, a fact that may affect the tax liability of those companies.

Regulations regarding VAT, corporate income tax and social security contributions are subject to frequent changes. These frequent changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies. Tax settlements and other areas of activity (e.g. customs or issues related to foreign currency) may be subject to inspection by administrative bodies authorized to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in the Group's countries than in countries that have a more established taxation system.

39 Earnings per Share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, less the weighted average number of treasury shares.
Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent, after adjusting for interests on convertible shares of the Company and Group companies, by the weighted average number of ordinary shares outstanding during (less the weighted average number of treasury shares) the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, adjusted for the effects of dilutive options and dilutive convertible debentures of the Company and of Group companies.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2011	2010	2009
Net profit (loss) attributable to ordinary equity holders of the parent (€ in millions)	(148)	(27)	(92)
Effect of dilution of earnings of group companies	(2)	–	(1)
Effect of dilution of convertibles and options of the Company	–	–	–
	(150)	**(27)**	**(93)**
Weighted average number of ordinary shares for basic earnings per share (in millions)	111	101	101
Effect of dilution:			
Shares options	–	–	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**111**	**101**	**101**

Certain warrants, employee options and convertibles issued by the Group were excluded from the calculation of diluted earnings per share as they did not result in a dilutive effect ('out of money') as of December 31, 2011, 2010 and 2009.

To calculate earnings per share amounts for discontinued operations, the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above.
The profit (loss) used is €16 million, €15 million and €6 million for the years 2011, 2010 and 2009, respectively.

In addition, as a result of the distribution of the Israeli activities as described in Note 5C, 11% of the Company's shares which were held by Kardan Israel as treasury shares, were re-issued and the Company retrospectively reduced its earnings (losses) per share by a ratio of 11% as the distribution such of shares is considered issue of bonus shares.

40 Financial Instruments and Risk Management

A Introduction

This Note deals with various disclosures required by IFRS 7 pertaining to risk management. Section B covers the Group as a whole and addresses the following:

1 Risk Management (financial and capital risk management and structuring thereof)
2 Market risk
3 Price risk
4 Political risk
5 Credit risks
6 Interest rate risk including sensitivity analysis
7 Derivatives
8 Liquidity risk including maturity profile of financial assets ,liabilities and guarantees
9 Foreign currency risk including sensitivity analysis
10 Fair value disclosures

Section C covers additional information on financial instruments in the financial services sector; Banking and addresses the following:

Banking:
1 Capital adequacy
2 Liquidity
3 Credit risk
4 Indicators of liquidity risk

B The Kardan Group

1 Risk management

Financial risk management

The Group's principal financial instruments, other than derivatives, comprise of bank loans, debentures, convertible liabilities, cash deposits and loans granted. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

Operations of the Group expose it to various financial risks, e.g., market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group employs derivative financial instruments, principally interest rate swap transactions, to hedge certain exposures to risks.

At this time there is instability in the global financial markets which has affected other global markets. These economic trends could possibly have consequences for the future results of the Group, its equity base, the value of its assets, its ability to comply with the covenants agreed upon with lenders, its ability to raise financing, as well as the terms of such financing, and collection and vacancy risks.

Management is closely monitoring the financial position of the Group.

The Group operates primarily in emerging markets. It is vulnerable to the dangers which exist in developing countries, mostly of political nature, and involving local economies. The Group is exposed to fluctuations of supply and demand in the real estate markets in which it operates.

The Management Boards, Supervisory Boards and Boards of Directors (as applicable) of the various Group's companies provide overall risk-management principles, and also the specific policy on certain exposure to risks, e.g., exchange rate risk, interest rate risk, credit risk and use of derivative financial instruments.

Capital risk management
The primary objective of the Group's capital management aims to ensure capital preservation and maintain healthy capital ratios in order to support its business and maximize shareholder value and monitor the status of bank covenants. The Group considers its equity to be its capital.
In addition, capital management objectives ensure that relevant group companies, mainly in the financial segment, comply with externally imposed capital requirements (e.g. banks). The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group decides on leverage policy, repayment of loans, investment or divestment of assets, dividend policy and the need, if any, to issue new shares or debentures.

Risk management structuring
The Management Board of Kardan N.V. and of each Group company is ultimately responsible for identifying and controlling risks. However, there are separate independent bodies within the Group that are responsible for managing and motoring risks.

(i) Corporate level
The Supervisory Board of Kardan N.V. has the responsibility to monitor the overall risk process. The Management Board is responsible for the overall risk-management approach and for approving the risk strategies and principles. Within the Management Board of Kardan, the Chief Operating Officer ('COO') is responsible for risk management. The COO works closely with risk managers within the Group, and together the COO has developed functional lines of responsibility and has the overall responsibility for the development of the risk strategy and implementation of principles, frameworks, policies and limits.

(ii) Group companies
Some of the Kardan Group companies have appointed risk managers at corporate levels as well as at country levels or subsidiary levels (e.g. in TBIF). When a country has a risk manager, the risk manager is in charge of all risk-related issues in that country. The country risk manager is guided from a professional point of view by the chief risk manager of the relevant subsidiary.

(iii) Risk mitigation
Kardan uses the analysis of the structure of its portfolios in order to mitigate excessive risk in each of the countries and each of the business segments. The risk is spread among the different activities of the Kardan Group. The diversification of the businesses (commercial and residential real estate, banking and lending, infrastructure projects and asset ownership) as well as collateral management are useful risk mitigation tools as well.

(iv) Excessive risk concentration
Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. Concentrations indicate the relative sensitivity of Kardan's performance to development affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, Kardan's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (CEE, CIS, China etc.); industry diversification (financial services, real estate, infrastructure); product diversification (i.e. residential and commercial real estate, lending, banking, etc.).

2 Market risk
The Group operates in various sectors, primarily in emerging markets. The Group is exposed to inherent risks in developing countries, mainly political and other risks which include local economic and legal issues.

Success of the Group in the emerging markets depends on the continued development of these markets, continued development of real-estate business, development of financial services and infrastructure. Decreased development rates of these markets may have an adverse impact on the business of the Group. It should also be noted that due to high volatility of developing countries, the complex nature of operations, and the lack of consistent data and agreed upon definitions providing one set of official information is complex.

The Group conducts considerable operations in Central-Eastern Europe, mainly in the real estate and financial services sectors, and in China, where the Group operates in the real estate and infrastructure sectors. The Company continues to direct management and financial resources to investments in Central-Eastern Europe, following the economic growth experienced by this region in recent years and in expectation that the trend of decreasing general and economical differences between Eastern to Western Europe will continue and apply to investments in China as well. China is considered to be the largest economy in the world, which has been gradually shifting over the last 25 years from a central government controlled economy to an open market economy, that opens up to international markets. A change in these trends in countries where the Group operates may have an adverse impact on its operations.

Throughout 2009, 2010 and 2011, significant market turmoil was still experienced in the credit markets, a general banking liquidity crisis followed and European debt crisis followed. Management is carefully reviewing and monitoring the impact of the crisis on its financing position, valuation of assets, and liquidity position. Through a range of bond offerings it has secured a good cash position.

The home mortgage market in the countries of operation is not yet sufficiently developed. Difficulty in obtaining loans on easy terms for purchasing apartments may affect the demand for home units in the projects undertaken by the Group.

The Management of the Company believes that the following factors contribute significantly to its operating success and handling of the above-mentioned risks.
1 Skilled and experience management team and a constant local presence in the countries of operation.
2 Close working relations with international financing institutions.
3 Focus on selection of major projects which are developed in stages, according to demand.
4 Strict due diligence before embarking on a project, and adherence to project completion dates committed to.

3 Price risk
Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest-rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
Kardan's price-risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investments in each country.
Because of the Group's operations in different countries, it has no significant concentration of price risk, and accordingly there is no significant exposure to equity price risk.

4 Political risk
The Group has significant business in China, Africa, Central and Eastern Europe, CIS and in Israel. These markets have a different risk profile than the Western European area. Political and economic changes in these regions can have consequences for the Group's activities there, as well as an impact on the results and financial positions of the Group. By closely monitoring these businesses the Management intends to limit the risks of those changes.

5 Credit risks
Credit risk is a risk the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk is also applicable for derivatives, financial guaranties and loan commitments. The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, deposits, and other financial assets (including granted loans, derivative assets), financial guarantees and loan commitments. It is the policy of the Group to trade generally with recognized third parties with good credit ratings.

The Group companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from provision of credit, with respect to specific debts whose collection is doubtful. As a result, the Group's exposure to bad debts outside the financial services segment is not considered significant (refer to Note 14).

Credit risks, or the risk of counter-parties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. To manage this risk the Group companies periodically assess the financial viability of customers.

A concentration of credit risk exists when changes in economic, industry, or geographic factors similarly affect groups of counter-parties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instruments is broadly diversified along product and geographic lines, and transactions are entered into with diverse creditworthy counter-parties, thereby mitigating any significant concentration of credit risk. The Group performs ongoing credit evaluations of their customers' financial condition and requires collateral as deemed necessary.

Counter-parties to financial instruments consist of a large number of financial institutions. The Group has no significant concentration of credit risk with any single counterpart or group of counter-parties.

With respect to trade receivables, the maximum exposure equals to the amount on the face of the statement of financial position (refer to Note 14).

As of December 31, 2011 and 2010, cash and cash equivalent amounted to €407 million and €498 million, respectively, and restricted deposits in banks amounted to €82 million and €56 million, respectively (refer to note 16 and 17). All deposits are deposited with the high rated financial institutions primarily in the countries of operation.

Securities and other credit risk mitigators
The Group employs credit risk mitigators in order to decrease its credit risk, which exists primarily in its financial segment. As of December 31, 2011, credit and loans given by the Company and its subsidiaries to its customers in the amount of €86 million, is mitigated using pledge of certain assets such as vehicles, real estate and equipment.

Maximum exposure to credit risk
The sum of all financial assets presented in table 10.4 shows the maximum exposure to credit risk for the components of the Group. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

6 Interest-rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term

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

The possible exposure on financial assets such as loans to bank customers is considered immaterial.

The tables below present the sensitivity of the consolidated OCI and profit and loss of the Group to changes in certain interest rates. Further a detailed analysis performed by the Company, The percentages of the analysis changed from 10-70% in 2010 to 10-50% in 2011, due to the Company's expectations regarding the possible changes in the below market indicators.

1 The tables below present the sensitivity of the OCI and the profit and loss (before tax) due to change in EURIBOR and Israeli NIS interest:

The fair values of the derivatives are determined by taking into account the EURIBOR and Israeli NIS interest anticipated future curves.

6.1

€ in millions	2011			
	Effect on OCI			
	+50%	+25%	-25%	-50%
EURIBOR	10	5	(5)	(11)
	+20%	+10%	-10%	-20%
Israeli NIS interest	(4)	(2)	2	4

6.2

€ in millions	2010			
	Effect on OCI			
	+50%	+25%	-25%	-50%
EURIBOR	19	10	(10)	(21)
	+70%	+40%	-10%	
Israeli NIS interest	(21)	(12)	3	

2 The tables below present the sensitivity of the consolidated profit (loss) of the Group before tax due to change in interests rates, not including derivatives. The sensitivity analysis regarding derivatives is presented in the tables above. Further a detailed analysis performed by the Company, The percentages of the analysis changed from 10-70% in 2010 to 10-50% in 2011, due to the Company's expectations regarding the possible changes in the below market indicators.

6.3

€ in millions	Sensitivity to change in EURIBOR Effect on profit and loss			
	+50%	+25%	-25%	-50%
2011	(1)	–	–	1
	+50%	+25%	-25%	-50%
2010	(3)	(2)	2	3

6.4

€ in millions	Sensitivity to change in Israeli NIS interest Effect on profit and loss			
	+20%	+10%	-10%	-20%
2011	–	–	–	–
	+70%	+40%	-10%	
2010	(4)	(2)	–	

6.5

€ in millions	Sensitivity to change in Russian interest Effect on profit and loss			
	+50%	+25%	-25%	-50%
2011	18	9	(9)	(18)
	+50%	+25%	-25%	-50%
2010	17	8	(8)	(17)

6.6

€ in millions	Sensitivity to change in UAH interest Effect on profit and loss			
	+50%	+25%	-25%	-50%
2011	1	–	–	(1)
	+50%	+25%	-25%	-50%
2010	–	–	–	–

7 Derivatives

Details of Group companies' hedge transactions are presented as follows:

7.1 Breakdown of the Group's derivatives:

Party	Loan/Debenture hedged	Commence	Expiration date	Hedged amount € in millions	Interest rate on bank loan (swapped)
Discount Bank	Debentures *	Aug-07	Jan-16	59.90	4.45% + CPI
Ben-leumi Bank	Debentures *	March-07	Jan-16	36.0	4.45% + CPI
Discount Bank	Debentures *	March-07	Jan-16	37.0	4.45% + CPI
Leumi Bank	Debentures *	Feb-07	Jan-16	38.0	4.45% + CPI
Leumi Bank	Debentures *	Feb-07	Feb-20	100.2	4.9%+CPI
Discount Bank [1]	Debentures *	Dec-07	Jan-20	35.3	4.9%+CPI
Discount Bank [1]	Debentures *	Sep-08	Jan-20	81.6	4.9%+CPI
MKB Bank	Center point 1 office building	Jan-09	Jan-14	24.5	Floating
MKB Bank	Center point 2 office building	Oct-08	Oct-11	28.7	Floating
MKB Bank	Spiral 2 office building	Sep-09	Sep-12	20.3	Floating
Bank PEKAO S.A	Bonds	Apr-07	Apr-12	18.3	Floating PLN
Bank PEKAO S.A	Bonds	Apr-07	Apr-14	164.8	Floating PLN
Bank PEKAO S.A	Bonds	May-08	May-13	79.9	Floating PLN
Bank PEKAO S.A	Galleria Jurajska shopping center	Feb-10	Jan-15	108.1	Floating
Bank PEKAO S.A	Galleria Kazimierz shopping center	Feb-09	Jan-13	42.8	Floating
WBK Bank	Newton office building	Feb-08	May-13	11.1	Floating
WBK Bank	Kazimierz office	Jan-09	Dec-15	28.9	Floating
WBK Bank	Edisson office building	Feb-08	May-13	11.8	Floating
WBK Bank	Globis Poznan office building	Jul-08	Jun-14	16.4	Floating
ING Bank	Platinium 1 + 2 office building	July-08	Dec-15	39.5	Floating
ING Bank	Nothus + Zephirus office building	March-08	Dec-15	33.9	Floating
ING Bank	Platinum 4	Sep-11	Aug-16	21.3	Floating
ING Bank	Francuska	Dec-11	Oct-13	17.9	Floating
BPH bank	Globis Wroclaw office building	March-09	March-15	27.3	Floating
Berlin bank	Galleria Mokotow shopping center	Nov-09	Nov-14	–	Floating
Berlin bank	Platinium 3 office building	Jul-10	Jun-15	19.4	Floating
Raffaisen Bank	GTC House office building	May-06	Aug-11	–	Floating
Credit Suisse	Durango office building	Apr-11	Apr-16	32.3	Floating
Raffaisen Bank	Osijek shopping	Oct-11	Jul-17	18	Floating
Erste Group Bank AG	City gate office buildings	Nov-11	Dec-15	99.4	Floating
Other					

* Relates to the Kardan N.V Company only.

Interest/currency to be paid by the company	Installments	Accounting treatment as of December 31, 2011	Accounting treatment as of December 31, 2010	Fair value as of December 31, 2011 € in millions	Fair value as of December 31, 2010 € in millions
5.64%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	22.4	25.7
5.43%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	11.2	13.2
5.43%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	8.3	9.8
5.54%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	–	13.7
5.94%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	–	36.8
6.44%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	9.2	11.2
7.06%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	4.7	8.5
Collar 3.77%-4.15%	Quarterly installments	Profit and Loss	Profit and Loss	(1.2)	(1.5)
Collar 3.89%-4.6%	Quarterly installments	Profit and Loss	Profit and Loss	(0.1)	(1)
Fixed 2.39%	Quarterly installments	Cash flow hedge accounting	Cash flow hedge accounting	(0.1)	(0.4)
Fixed Euro 5.745%	Semiannual installments	Cash flow hedge accounting	Cash flow hedge accounting	(3.5)	(1.7)
Fixed Euro 5.745%	Semiannual installments	Cash flow hedge accounting	Cash flow hedge accounting	(39.1)	(19)
Fixed Euro 6.63%	Semiannual installments	Cash flow hedge accounting	Cash flow hedge accounting	(28.5)	(20.6)
Fixed 2.50%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(5.3)	(3.0)
Fixed 3.11%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(2.3)	(2.0)
Fixed 3.56%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(0.3)	(0.6)
Fixed 2.72%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(1.5)	(1.0)
Fixed 3.9%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(0.6)	(0.8)
Fixed 4.99%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(1.5)	(1.6)
Fixed 4.83%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(5.6)	(5.1)
Fixed 4.74%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(4.7)	(4.2)
Fixed 1.97%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(0.7)	–
Fixed 1.11%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(0.2)	–
Fixed 4.81%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(3.3)	(3.2)
Fixed 2.70%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	–	(2.7)
Fixed 2.04%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(0.5)	0.1
Fixed 3.85%	Quarterly installments	Cash flow hedge accounting	Cash flow hedge accounting	–	(0.2)
Cap 2.1%	Quarterly installments	Profit and loss	–	(0.2)	–
Fixed 2%	Quarterly installments	Cash flow hedge accounting	–	(0.4)	–
Fixed 1.95%	Quarterly installments	Cash flow hedge accounting	–	(1.9)	–
				–	0.6
			Total	**(45.7)**	**51**

In 2011 the ineffective portion which was recognized in the income statements amounts to €8 million (2010: immaterial amount).

7.2 The movement in the fair value of derivatives for the years ended December 31, 2011 and 2010 was as follows:

€ in millions	2011	2010
Derivatives Cycle:		
Fair value at the beginning of the year	51	(29)
Charged directly to OCI	3	11
Charged to income statement	(55)	98
Sale of hedge instruments	(45)	(29)
Fair value at the end of the year	**(46)**	**51**

8 Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

To limit this risk, the Group finances its operations through diversified, short-term and long-term credit obtained from the public, institutional investors and from financial institutions. The Group raises financing according to needs and market conditions at that time. The tables below summarize the maturity profile of the Group's financial assets and liabilities as at December 31, 2011 and 2010. The liabilities are based on contractual undiscounted cash flow, and the maturity of financial assets is based on expected cash flow in conformity with the way they are managed by the Group. The tables include repayments of principal amounts as well as interest due. Interest due was estimated based on actual amortization schedules of the financial liabilities.

8.1 Liquidity table 2011:

€ in millions	December 31, 2011							
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Assets								
Cash and cash equivalents	407	–	–	–	–	–	–	407
Deposits in bank	1	85	1	–	–	–	–	87
Trade receivables	18	19	–	–	–	–	–	37
Balances with central banks	7	–	–	–	–	–	–	7
Marketable debt securities	171	–	–	–	–	–	–	171
Short-term investment	–	–	–	–	–	–	–	–
Contract in progress	–	–	–	–	–	–	–	–
Consumer credit and mortgage loans	55	31	15	6	4	3	9	123
Banking loans granted	92	169	112	62	27	6	3	471
Finance leases	20	20	17	9	4	1	1	72
Long-term loans and receivables (including maturities)	13	8	18	18	15	47	60	179
Available for sale financial assets	–	–	–	–	–	–	–	–
Other receivables	9	74	–	–	–	–	–	83
Other financial assets	–	–	–	–	6	–	–	6
Other	–	–	–	–	–	–	–	–
	793	**406**	**163**	**95**	**56**	**57**	**73**	**1,643**

€ in millions	December 31, 2011							
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Liabilities								
Short-term credit	50	–	–	–	–	–	–	50
Trade payables	17	62	–	–	–	–	–	79
Other payables and accrued expenses	13	87	5	3	1	–	–	109
Income tax payable	–	4	–	–	–	–	–	4
Banking customers accounts	173	82	90	238	–	–	–	583
Interest-bearing loans and borrowings	261	347	196	155	146	172	700	1,977
Convertible debentures	–	–	–	–	–	–	–	–
Other debentures	27	41	187	286	117	107	185	950
Other financial liabilities	–	21	11	–	–	9	–	41
Other	–	–	1	–	–	–	–	1
	541	**644**	**490**	**682**	**264**	**288**	**885**	**3,794**

8.2 Liquidity table 2010:

€ in millions	December 31, 2010							
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Assets								
Cash and cash equivalents	498	–	–	–	–	–	–	498
Deposits in bank	8	53	–	–	–	–	–	61
Trade receivables	50	65	–	–	–	–	–	115
Balances with central banks	3	–	–	–	–	–	–	3
Marketable debt securities	170	3	–	–	–	–	–	173
Consumer credit and mortgage loans	23	18	–	–	–	–	–	41
Banking loans granted	–	8	–	–	–	–	–	8
Finance leases	62	37	22	9	3	3	11	147
Long-term loans and receivables (including maturities)	69	111	69	27	23	2	3	304
Other financial assets held for sale	29	27	24	13	5	1	2	101
Other receivables	9	27	13	20	1	84	29	183
Reinsures and insurance companies	14	–	3	–	–	–	–	17
Insurance premium	21	25	–	–	–	–	–	46
Others	–	1	–	–	10	–	–	11
	956	**375**	**131**	**69**	**42**	**90**	**45**	**1,708**

€ in millions	December 31, 2010							
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Liabilities								
Short-term credit	129	57	–	–	–	–	–	186
Trade payables	80	41	–	–	–	–	–	121
Other payables and accrued expenses	33	102	9	8	2	–	–	154
Income tax payable	2	–	–	–	–	–	–	2
Banking customers accounts	161	151	82	10	–	–	–	404
Interest-bearing loans and borrowings	83	218	280	248	253	463	1,015	2,560
Convertible debentures	–	1	1	1	18	–	–	21
Other debentures	36	54	97	240	340	150	321	1,238
Other financial liabilities	–	–	3	16	–	3	6	28
Insurance contract liabilities	26	12	2	–	2	–	–	42
	550	**636**	**474**	**523**	**615**	**616**	**1,342**	**4,756**

** Includes put options and conversion component of convertible debentures which were all presented on the face of the statement of financial position as non-current liabilities.

The maturity table does not include any non financial assets. However, the Group's most significant commitments relate to completed real estate projects and under construction and infrastructure projects. Besides financial assets held by the group, cash inflows from operations (for example from infrastructure service concession agreements and real estate rental agreements) will be available to meet these cash outflows.

Contingent liabilities and commitments:

8.3 Breakdown of current commitments and contingent liabilities as of December 31, 2011:

€ in millions	December 31, 2011							
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Financial guarantees *	28	21	11	3	2	1	1	67
Letters of credit	–	–	–	–	–	–	–	–
Other undrawn commitment to lend	16	10	5	1	–	–	–	32
	44	**31**	**16**	**4**	**2**	**1**	**1**	**99**

€ in millions	December 31, 2010							
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Financial guarantees *	6	8	1	1	–	–	–	16
Letters of credit	1	1	2	1	–	–	–	5
Other undrawn commitment to lend	12	13	4	3	1	1	–	34
	19	**22**	**7**	**5**	**1**	**1**	**–**	**55**

* In addition to the guarantees presented in the table above, GTC S.A. provided guarantees to third parties in connection with cost overruns and loans of its subsidiaries. As of December 31, 2011 and 2010, the guarantees granted amounted to €222 million and €183 million respectively. As the guarantees are combined (financial and performance) it is impractical to assign them to a specific time bucket.

a Expected realization periods of material financial assets, grouped in accordance to IAS 39 classification:

8.4 IAS 39 classification

€ in millions	December 31, 2011						
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Financial Assets at fair value through profit or loss:							
Debentures	173	–	–	–	–	–	173
Other	6	–	–	–	–	–	6
Derivatives that are designated as hedging instruments	(1)	9	13	13	13	10	57
Cash, Loans and receivables	995	99	55	27	6	4	1,186
	1,173	**108**	**68**	**40**	**19**	**14**	**1,422**

€ in millions	December 31, 2010						
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Financial Assets at fair value through profit or loss:							
Debentures	173	–	–	–	–	–	173
Other	17	–	10	–	–	–	27
Derivatives that are designated as hedging instruments	1	1	14	23	23	59	121
Cash, Loans and receivables	1,094	128	69	32	90	42	1,455
	1,285	**129**	**93**	**55**	**113**	**101**	**1,776**

9 Foreign currency risk

Since the Group conducts business in a variety of countries, it is exposed to a foreign currency exchange rate risk, resulting from exposure to different currencies. The foreign currency exchange rate risk arises from transactions conducted in a currency that is not the functional currency of each company in the Group.

Group companies conduct currency translation transactions at times to hedge the exposure to the foreign currency risk. Additional details of hedging transactions are presented in the derivatives tables above.

a Currency exposure – statement of financial position

As of December 31, 2011:

9.1

€ in '000	In €	in USD
Assets		
Property and equipment	–	–
Investment properties	–	–
Goodwill	–	–
Other financial assets	–	–
Investments in associates	30	16
Long-term receivables	162	21
Loans to bank customers	19	48
Derivatives	–	–
Deferred tax assets	–	–
Inventory	–	–
Cost of building in progress	3	18
Account receivable	5	3
Other receivables	16	10
Restricted bank deposits	79	12
Cash and cash equivalents	180	25
Assets classified as held for sale	1	–
	495	**153**
Liabilities		
Deferred tax liability	–	–
Interest bearing loans and borrowing	1,308	79
Derivatives	–	–
Warrants and options	3	4
Debentures **	289	–
Other non-current liabilities	–	–
Other long term liabilities	13	–
Other payables and accrued expenses	63	16
Trade payables	12	4
Advances from apartment buyers	–	–
Income Tax payable	2	–
Banking customers accounts	40	41
	1,730	**144**
Differences between assets and liabilities	**(1,235)**	**9**

in NIS (Israeli)	in PLN (Polish)	in RMB (Chinese)	in Rub (Russia)	in other currencies *	At faire value	Non Monetary	Total
–	–	–	–	–	–	103	103
–	–	–	–	–	–	1,885	1,885
–	–	–	–	–	–	94	94
–	–	–	–	–	6	–	6
–	–	–	–	1	–	7	54
1	–	59	10	30	–	12	295
–	–	–	355	–	–	–	422
–	–	–	–	–	58	–	58
–	–	–	–	–	–	19	19
–	–	–	–	–	–	118	118
–	–	–	–	–	–	331	352
15	3	2	1	8	–	–	37
2	8	31	10	11	–	18	106
–	–	3	161	1	4	–	260
47	34	66	42	13	–	–	407
–	–	–	–	–	–	138	139
65	**45**	**161**	**579**	**64**	**68**	**2,725**	**4,355**
–	–	–	–	–	–	149	149
3	1	42	51	27	–	–	1,511
–	–	–	–	–	103	–	103
–	–	–	–	–	5	4	16
546	–	–	–	–	–	–	835
2	–	–	–	–	–	–	2
5	–	–	–	–	–	5	23
6	3	31	25	32	–	38	214
4	12	38	–	9	–	–	79
–	–	–	–	–	–	157	157
–	–	2	–	1	–	–	5
–	–	–	439	–	–	–	520
566	**16**	**113**	**515**	**69**	**108**	**353**	**3,614**
(501)	**29**	**48**	**64**	**(5)**	**(40)**	**2,372**	**741**

As of December 31, 2010:

9.2

€ in millions	In €	USD or linked to it
Assets		
Cash and cash equivalent	247	37
Short-term investments	39	1
Trade receivables	16	21
Inventories, contract work and cost of buildings in progress	–	–
Account receivables and tax receivables	23	4
Contract work in progress	2	11
Merchandise inventories	–	–
Investments in associates and others	29	16
Derivatives	–	–
Other financial assets	–	–
Long term investments and receivables and current maturities of long term receivalbes	72	8
Consumer finance, mortgage activities, loans to bank customers and others (including current maturities)	127	44
Long-term inventories	–	–
Investment properties, under construction, fixed assets, deferred purchase expenses, other assets and deferred taxes	–	–
Goodwill and other intangible assets	–	–
Assets held for sale	–	–
	555	**142**
Liabilities		
Trade payable	25	5
Other payables and accrued expenses and taxes payable	16	10
Prepayments less construction in progress cost	–	–
Derivatives	–	–
Convertible debentures and other debentures	914	–
Interest bearing loans and borrowings (including current maturities)	1,517	85
Banking customers accounts	21	39
Deferred taxes	3	–
Other liabilities	15	–
Liabilities directly associated with the assets classified as held for sale	–	–
	2,511	**139**
Differences between assets and liabilities	**(1,956)**	**3**

China RMB	Romanian Ron	Russian Rouble	In other Currency or linked to it	In NIS linked to Israeli CPI	In NIS not linked	Non-monetary items	Total
39	7	49	81	–	38	–	498
–	–	171	7	–	36	–	254
2	2	1	6	–	63	–	111
–	–	–	–	–	–	328	328
62	14	10	8	–	14	26	161
–	–	–	9	–	–	–	22
–	–	–	–	–	–	20	20
–	–	–	–	34	–	78	157
–	–	–	–	–	–	120	120
–	–	–	28	–	–	–	28
37	–	–	1	–	11	7	136
–	48	226	4	–	–	–	449
–	–	–	–	–	–	231	231
–	–	–	–	–	–	2,730	2,730
–	–	–	–	–	–	169	169
–	–	–	–	–	–	585	585
140	**71**	**457**	**144**	**34**	**162**	**4,294**	**5,999**
11	3	–	30	–	47	–	121
43	8	38	47	30	36	12	240
–	–	–	–	–	–	175	175
–	–	–	2	–	–	69	71
–	–	–	–	118	–	–	1,032
57	12	54	35	139	192	–	2,091
–	–	318	1	–	–	–	379
–	–	–	1	–	5	173	182
–	–	–	23	–	2	14	54
–	–	–	–	–	–	587	587
111	**23**	**410**	**139**	**287**	**282**	**1,030**	**4,932**
29	**48**	**47**	**5**	**(253)**	**(120)**	**3,264**	**1,067**

a The following table demonstrates the sensitivity of the Group's profit and loss before tax to a reasonably realistic change in exchange rates compared to other main currencies in which the Group operates, when all other variables are held constant:

9.3

€ in millions	Sensitivity to change in EUR\USD			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2011	1	–	–	(1)
2010	1	1	(1)	(1)

9.4

€ in millions	Sensitivity to change in EUR\PLN			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2011	3	1	(1)	(3)
2010	4	2	(2)	(4)

9.5

€ in millions	Sensitivity to change in EUR\RUB			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2011	4	2	(2)	(4)
2010	(1)	–	–	1

9.6

€ in millions	Sensitivity to change in EUR\RON			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2011	–	–	–	–
2010	3	2	(2)	(3)

9.7

€ in millions	Sensitivity to change in EUR\NIS			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2011	31	15	(15)	(31)
2010	–	–	–	–

9.8

€ in millions	Sensitivity to change in EUR\RMB			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2011	12	6	(6)	(12)
2010	7	4	(4)	(7)

9.9

€ in millions	Sensitivity to change in Israeli CPI			
	Effect on profit and loss			
	+3%	+2%	-2%	-3%
2011	(8)	(5)	5	8
2010	(8)	(5)	5	8

9.10

€ in millions	Sensitivity to change in EUR Other currencies			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2011	(2)	(1)	1	2
2010	(3)	(2)	2	3

9.11

€ in millions	Sensitivity to change in USD\RUB			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2011	(2)	(1)	1	2
2010	(1)	(1)	1	1

10 Fair value disclosure:

A Set out below is a comparison by class of the differences between the carrying amounts and fair values of the Group's financial instruments.

10.1 Fair value schedule

€ in millions	Methods of determining fair value	Carrying amount		Fair value		
		2011	2010	2011	2010	Comment
Assets						
Cash and cash equivalents		407	498	407	498	A
Short-term investment		85	79	85	79	A
Held for trading financial assets	(1)	174	175	174	175	A
Loans to bank customers		430	255	435	258	F
Long-term loans and receivables		287	330	293	343	G
Loans to associates		47	78	47	77	D
Liabilities						
Short-term credit from banks and others		(90)	(163)	(90)	(163)	C
Banking customers accounts		(520)	(378)	(522)	(379)	I
Convertible debentures		–	(16)	–	(17)	B
Non-convertible debentures		(859)	(1,072)	(753)	(1,099)	H
Interest-bearing loans and borrowings		(1,431)	(1,861)	(1,429)	(1,891)	C
Long-term liabilities and derivatives	(3)	(103)	(71)	(103)	(71)	E
Warrants and options	(3)	(16)	(29)	(16)	(29)	E

Methods of determining the fair value of the financial assets and liabilities:

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2 – Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3 – Techniques which use inputs which have a significant effect on the recorded fair value that that is not based on observable market data.

Financial instruments for which fair value could not be determined are immaterial.

Comments regarding determining the fair value:

A The carrying amount of cash and cash equivalents and short-term investments, which only include bank deposits, approximates their fair values, due to the nature of such financial assets refer to Note 16, 17.

B Market values have been used to determine the fair value of listed debentures and bonds issued by the Group. Please refer to Note 24.

C The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. Refer to Note 20 for carrying amount reconciliation of long term interest bearing loans and borrowings and refer to Note 27 for reconciliation of short term credit from banks and others.

D Includes loans granted to associates that are deemed to be equity investments.

E Warrants, options and certain long-term receivables were valued by independent external valuators. The valuations were based on Discounted Cash Flows or Residual methods. Management concurred with the outcome of these valuations. Please refer to Note 23. This amount includes derivatives and long term liabilities; please refer to the face of the statement of financial position for reconciliation.

F Please refer to Note 10.

G Accounted for as receivables. In 2011, the carrying amount includes the long term loans and receivables in the amount of €172 million with the related current maturities in the amount of €115 million, totaling to €287 million. In 2010 the amount includes long term loans and receivables in the amount of €171 million and current maturities in the amount of €159 million.

H The carrying amount includes current maturities and accrued interest in the amount of €47 million refers to Note 25, 28.

I This amount includes both short term and long term banking customers account, please refer to Note 21.

B Financial assets and liabilities measured at fair value

10.2 Fair value levels schedule:

December 31, 2011 € millions	Level 1	Level 2	Level 3	Total
Financial assets				
Debentures	145	26	–	171
Derivatives that are designated as hedging instruments	–	–	58	58
Call options	–	–	–	–
Available for sale financial assets:				
Debentures	–	–	–	–
Shares	–	–	6	6
Financial Liabilities at fair value through profit or loss:				
Derivatives that are designated as hedging instruments	–	–	103	103
Derivatives that are not designated as hedging instruments	–	–	–	–
Put Options	–	–	8	8
Warrants and call options	–	–	5	5
Other	–	–	–	–

December 31, 2010 € millions	Level 1	Level 2	Level 3	Total
Financial assets				
Debentures	155	12	4	171
Derivatives that are designated as hedging instruments	–	1	121	122
Call options	–	–	10	10
Available for sale financial assets:				
Debentures	–	–	–	–
Shares	57	–	16	73
Financial Liabilities at fair value through profit or loss:				
Derivatives that are designated as hedging instruments	–	–	(70)	(70)
Derivatives that are not designated as hedging instruments	–	–	–	–
Put Options	–	(2)	(17)	(19)
Warrants and call options	–	–	(4)	(4)
Other	–	(1)	(1)	(2)

During 2010 and 2011 there have been no transfers between financial instruments valuated in level 1 to level 2 or between level 2 to level 1.

C Level 3 financial assets reconciliation

10.3 Level 3 reconciliation:

	As of January 1, 2011	Additions	Fair Value gain (loss) recorded in P&L	Fair value gain in OCI	Settlements	As of December 31, 2011	Total gains (losses) for the period included in P&L
Debentures	4	–	–	–	(4)	–	–
Assets related to put options	–	–	–	–	–	–	–
Derivative assets	121	–	(12)	(6)	(45)	58	(12)
Shares	94	3	(3)	–	(66)	28	(3)
Call options	10	–	(4)	–	–	6	(4)
Other assets	–	–	–	–	–	–	–
Total assets	**229**	**3**	**(19)**	**(6)**	**(115)**	**92**	**(19)**
Liabilities related to put options	(17)	–	9	–	–	(8)	9
Derivative liabilities	(70)	–	(38)	3	(2)	(103)	(38)
Warrants and call options	(4)	–	(1)	–	–	(5)	(1)
Other liabilities	(1)	–	1	–	–	–	1
Total liabilities	**(92)**	**–**	**(29)**	3	**(2)**	**(115)**	**(29)**

10.3 Level 3 reconciliation:

	As of January 1, 2010	Additions	Fair Value gain (loss) recorded in P&L	Fair value gain in OCI	Settlements	As of December 31, 2010	Total gains (losses) for the period included in P&L
Debentures	–	4	–	–	–	4	–
Assets related to put options	48	–	(11)	–	(37)	–	(11)
Derivative assets	49	–	86	15	(29)	121	86
Shares	74	6	14	–	–	94	14
Call options	–	10	–	–	–	10	–
Other assets	2	–	(2)	–	–	–	(2)
Total assets	**173**	**20**	**87**	**15**	**(66)**	**229**	**87**
Liabilities related to put options	(17)	–	–	–	–	(17)	–
Derivative liabilities	(77)	–	10	(3)	–	(70)	10
Warrants and call options	–	(4)	–	–	–	(4)	–
Other liabilities	(1)	–	–	–	–	(1)	–
Total liabilities	**(95)**	**(4)**	**10**	**(3)**	–	**(92)**	**10**

10.4 IAS 39 classification of financial assets and liabilities:

€ in millions	December 31, 2011	December 31, 2010
Financial assets:		
Financial assets at fair value through profit or loss:		
Held for trading	173	173
Designated at fair value through P&L	6	27
Cash, Loans and receivables	1,186	1,455
Derivatives that are designated as hedging instruments	57	121
	1,422	**1,776**
Financial Liabilities:		
Financial liabilities presented at amortized cost	2,946	3,763
Derivatives that are not designated as hedging instruments	2	8
Derivatives that are designated as hedging instruments	101	16
Put option	16	22
	3,065	**3,809**

1 Other Information

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital of the banks in the Group is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ('BIS rules/ratios') and adopted by the National Bank of Ukraine and National Bank of Russia in supervising the banks.

During the past year, the banks in the Group have complied in full with all their externally imposed capital requirements.

Capital management

The Group considers its equity to be its capital. The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders, issue shares or debentures, adjust the leverage policy, invest in or dispose of assets. No changes were made in the objectives, policies and processes from the previous years.

Regulatory capital requirements

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision, as implemented by the National Bank of Russia, National

Bank of Ukraine and Bulgarian National Bank for supervisory purposes. The minimum Tier 1 ratio is 4% and the minimum total capital ratio is 8% of all risk-weighted assets including off-balance sheet items and market risk associated with trading portfolios.

Regulatory capital Bulgaria (TBI Bank)

€ in millions	2011	2010
Tier 1 capital	8	–
Tier 2 capital	–	–
Total capital	**8**	**–**
Risk-weighted assets	**32**	**–**
Tier 1 capital ratio	26.3%	–
Total capital ratio	26.3%	–

Regulatory capital Russia (Sovcombank)

€ in millions	2011	2010
Tier 1 capital	84	104
Tier 2 capital	62	14
Total capital	**146**	**118**
Risk-weighted assets	**1,250**	**911**
Tier 1 capital ratio	6.7%	11.4%
Total capital ratio	11.7%	12.9%

The numbers in the table relate to 100% of the capital of Sovcombank, regardless of TBIF's shareholdings in the bank.

Regulatory capital Ukraine (VAB Bank)

€ in millions	2011	2010
Tier 1 capital	–	62
Tier 2 capital	–	39
Total capital	**–**	**101**
Risk-weighted assets		**525**
Tier 1 capital ratio	–	11.9%
Total capital ratio	–	19.2%

Risk mitigation

TBIF uses the analysis of the structure of its portfolios in order to mitigate excessive risk in each of the countries. The risk is spread among the corporate and retail financial services. Furthermore, this structure is also controlled on a product level and according to portfolio limits. The diversification of the businesses (banking, consumer finance, leasing) as well as collateral management are useful risk mitigation tools as well.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activity in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to development affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, TBIF's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (Russia, Ukraine, Romania and Bulgaria); industry concentration (banking, leasing, consumer finance and mortgage); product concentration (ie. overdrafts, credit cards, mortgage) and product feature (secured, unsecured).

2 Credit risk

Credit risk is the risk that the Group will incur a loss because of the inability of its customers to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(i) Credit related commitments risks

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

(ii) Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

€ in millions	December 31, 2011	December 31, 2010
Cash and cash equivalents (excluding cash on hand)	47	74
Deposits in banks	1	1
Balances with central banks	7	3
Marketable debt securities	171	170
Consumer credit and mortgage loans	86	111
Banking loans granted	430	255
Finance leases	56	83
Other loans and long-term receivables	16	8
Other receivables	8	8
	822	713
Financial guarantees	14	14
Undrawn commitments to lend	32	34
	46	48
Total credit risk exposure	**868**	**761**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

(iii) Risk concentrations of the maximum exposure to credit risk

The tables below show the maximum exposure to credit risk for the components of the statement of financial position and the off-balance sheet commitments and contingencies, broken down according to TBIF main lines of business and geographical regions, before the effect of mitigation through the use of collateral agreements.

Risk concentration of the maximum exposure to credit risk as of December 31, 2011:

€ in millions	Banking	Consumer; mortgage	Leasing	Asset management	Others	Total
Ukraine	–	–	11	–	–	11
Russia	630	–	10	–	–	640
Romania	–	46	27	–	–	73
Bulgaria	42	58	17	1	1	118
Others	–	–	–	–	25	25
	672	**104**	**65**	**–**	**26**	**867**

Risk concentration of the maximum exposure to credit risk as of December 31, 2010:

€ in millions	Banking	Consumer; mortgage	Leasing	Asset management	Others	Total
Ukraine	–	–	19	–	–	19
Russia	517	–	9	–	–	526
Romania	–	56	31	–	–	87
Bulgaria	–	87	27	1	–	115
Others	–	–	–	–	14	14
	517	**143**	**86**	**1**	**14**	**761**

(iv) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Cash deposits, both in retail and in corporate lending (mostly small and medium enterprises)
- Non-commercial premises in the large cities (high liquidity) for retail lending
- Moveable assets (cars, equipment)
- Commercial premises (in good shape and condition) for corporate lending

The Group obtains guarantees from parent companies for loans to their subsidiaries, but the benefits are not included in the above table.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Repossessed collateral

During 2011 the Group repossessed assets with carrying value as of 31 December 2011 of € 10.5 million (2010 – 12.3 million) which the Group is in the process of selling. The carrying value is deemed to approximate the fair value of the repossessed assets.

(v) Credit quality per class of financial assets

The credit quality of financial assets is managed by TBIF's subsidiaries using internal credit ratings. The systems of internal credit ratings are developed individually for each company in the Group in accordance with the specifics of the local market. High grade equates to very low probability of default, standard grade equates to low to moderate probability of default and low grade equates to moderate to high probability of default. The tables below show the credit quality by class of assets, based on these internal credit rating systems.

Credit quality per class of financial assets as of December 31, 2011:

€ in millions	Neither past due nor impaired				
	High grade	Standard grade	Low grade	Past due/not individually impaired	Total
Cash in banks	7	40	–	–	47
Deposits in banks	–	1	–	–	1
Balances with central banks	7	–	–	–	7
Consumer credit and mortgage	–	64	–	65	129
Banking loans granted	–	394	–	63	457
Finance leases	–	41	–	30	71
Other loans and receivables	–	13	–	4	17
Held-for-trading assets	11	160	–	–	171
Other receivables	–	8	–	–	8
	25	**721**	**–**	**162**	**908**

Credit quality per class of financial assets as of December 31, 2010:

€ in millions	Neither past due nor impaired				
	High grade	Standard grade	Low grade	Past due/not individually impaired	Total
Cash in banks	28	45	–	–	73
Deposits in banks	–	1	–	–	1
Balances with central banks	3	–	–	–	3
Consumer credit and mortgage	–	73	–	62	135
Banking loans granted	–	239	–	31	270
Finance leases	–	54	–	42	96
Other loans and receivables	–	8	–	–	8
Held-for-trading assets	53	117	–	–	170
Other receivables	–	9	–	–	9
	84	**546**	**–**	**135**	**765**

(vi) Aging analysis of past due but not impaired loans and receivables

Aging analysis of past due but not impaired loans and receivables as of December 31, 2011:

€ in millions	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Consumer credits and mortgages	5	2	1	50	58
Banking loans granted	9	3	2	12	26
Finance leases	5	1	1	5	12
Other receivables	–	–	–	1	1
	19	**6**	**4**	**68**	**97**

Aging analysis of past due but not impaired loans and receivables as of December 31, 2010:

€ in millions	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Consumer credits and mortgages	6	3	2	25	36
Banking loans granted	7	4	1	12	24
Finance leases	6	2	1	10	19
Other receivables	–	–	–	–	–
	19	**9**	**4**	**47**	**79**

(vii) Carrying amount per class of financial assets whose terms have been renegotiated, that would otherwise be past due or impaired

€ in millions	December 31, 2011	December 31, 2010
Banking loans granted	–	3
Finance leases	3	4
Total credit risk exposure	**3**	**7**

(viii) Impairment assessment
The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances
The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

The following table presents the amounts of individually impaired assets:

€ in millions	December 31, 2011	December 31, 2010
Consumer credit and mortgage loans	7	26
Banking loans granted	36	7
Finance leases	18	22
	61	**55**

Collectively assessed allowances
Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy. Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

3 Liquidity risk and funding management
Liquidity risk is the risk that the Group will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To limit this risk, management has arranged diversified sources in additional to deposit bases (only in the banking subsidiaries), manages assets with liquidity in mind and monitors future cash flow and liquidity on a daily basis. This incorporates assessments of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

TBIF's subsidiaries maintain a portfolio of marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. Some of TBIF subsidiaries have certain committed lines of credit that are available to meet liquidity needs. In addition, all banks in the Group maintain statutory deposits with the central banks in their countries of incorporation in compliance with the requirements of the local legislation.

The Group uses maturity tables in managing its liquidity risk by performing maturity gap analysis, including estimations of deposit roll forwards for the banks in the Group. The Group focuses on maintaining a diversified mix of assets that allows for secured funding. The tables below show an analysis of assets and liabilities according to their expected maturities, including future interest payments, as well as the expected expiry by maturity of the Group's contingent liabilities and commitments. The expected maturity of liabilities agrees with their contractual maturity.

Maturity analysis of the Group's assets and liabilities as of December 31, 2011:

€ in millions	0-3 months	4-12 months	1-3 years	3-5 years	Thereafter	Total
Consumer credits and mortgage	55	31	22	6	9	123
Bank loans granted	93	169	174	33	3	472
Finance leases	20	20	26	5	1	72
Other long-term receivables	–	7	6	4	–	17
Short-term investments	171	–	–	–	–	171
Trade and other receivables	8	–	–	–	–	8
Balances with central banks	7	–	–	–	–	7
Bank deposits	–	1	–	–	–	1
Cash and cash equivalents	80	–	–	–	–	80
	434	**228**	**228**	**48**	**13**	**951**
Bank customer accounts	173	84	328	–	–	585
Loans to banks and others	72	39	43	7	105	266
Non-convertible debentures	1	4	21	5	–	31
Other liabilities	15	7	8	1	–	31
	261	**134**	**400**	**13**	**105**	**913**
Liquidity gap	**173**	**94**	**(172)**	**35**	**(92)**	**38**

Maturity analysis of the Group's assets and liabilities as of December 31, 2010:

€ in millions	0-3 months	4-12 months	1-3 years	3-5 years	Thereafter	Total
Consumer credits and mortgage	62	37	31	6	11	147
Bank loans granted	58	111	96	25	14	304
Finance leases	28	27	37	6	3	101
Other long-term receivables	4	–	3	1	–	8
Short-term investments	170	–	–	–	–	170
Trade and other receivables	9	–	–	–	–	9
Balances with central banks	3	–	–	–	–	3
Bank deposits	–	1	–	–	–	1
Cash and cash equivalents	92	–	–	–	–	92
	426	**176**	**167**	**38**	**28**	**835**
Bank customer accounts	160	151	92	–	–	403
Loans to banks and others	97	33	43	13	136	322
Non-convertible debentures	1	4	22	4	–	31
Other liabilities	16	14	8	2	–	40
	274	**202**	**165**	**19**	**136**	**796**
Liquidity gap	**152**	**(26)**	**2**	**19**	**(108)**	**39**

The Group estimates that the contractual maturity of non-trading financial assets and liabilities matches their expected maturity, due to the following:

- The Group expects that its financial liabilities will be settled on the earliest date on which Group entities can be required to pay;
- There is no active market for the majority of financial assets (except for held for trading assets) held by the Group and they are not readily saleable;
- The Group does not have very diverse funding sources.

Maturity analysis of the Group's contingent liabilities and commitments as of December 31, 2011:

€ in millions	0-3 months	4-12 months	1-3 years	3-5 years	Total
Financial guarantees	6	5	3	–	14
Undrawn commitments to lend	16	10	5	1	32
Total	**22**	**15**	**8**	**1**	**46**

Maturity analysis of the Group's contingent liabilities and commitments as of December 31, 2010):

€ in millions	0-3 months	4-12 months	1-3 years	3-5 years	Total
Financial guarantees	6	6	1	–	13
Undrawn commitments to lend	12	13	7	2	34
Total	**18**	**19**	**8**	**2**	**47**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

41 Related Parties Disclosures

The Group has entered into a variety of transactions with its related parties. The Group has adopted the policy to enter into such transactions, which are being concluded in the normal course of business, on an arm's-length basis. The sales and purchases from related parties are made at comparable normal market prices. Outstanding balances relating to such sales and purchases at year-end are unsecured, interest free, and settlement occurs in cash. Outstanding loans from related parties are unsecured and presented with accrued interest. The most significant of these balances and transactions are as follows:

A Balances

€ in millions	December 31, 2011	December 31, 2010
Assets		
Long-term loans and receivables granted to associates:		
Associates in GTC Holding Group	47	43
Associates in TGI Group	–	8
Associates in Kardan Israel Group	–	27
	47	**78**
Capital Note issued by a related party	1	1

Long-term loans and receivables include loans granted to associates. For details regarding these loans refer to Note 11.

Capital Note issued by a related party relates to one of the controlling shareholders. For details refer to Note 11.

B Transactions

€ in millions	For the year ended December 31,		
	2011	2010	2009
Management fees from associated companies	1	2	4
Financing income from associated companies, net	6	3	4

Management fees from associated companies primarily relates to management fees paid by the associates of Kardan Israel and GTC SA. Financing income relates to interest on the loans granted to associates as described above.

In September 2011, the Company has extended the services agreement, with its former subsidiary, Kardan Israel. The Company will pay for services rendered an amount of approximately €156 thousand per quarter, linked to the Israeli CPI as of June 2011. The agreement will be valid for a period of three years starting October 2011.

The Company has a receivable in the amount of NIS 113 (approximately €23) thousand which related to reimbursement of issuance and distributions expenses from Kardan Yazamut.

In February 2010, Kardan Real estate its subsidiary of Kardan Israel has entered into an acquisition agreement with Tahal of leasehold rights for building in Tel Aviv (hereby permutations deal).
At the same time Tahal will rent 5300 sq. subject to adjustment at Karden building phase B (hereby lease deal) for a period of five years with an option to extend for a further period of five years. Rent fees for the property will be 65 NIS per square meter linked to CPI, for the additional period rent will be raised by 10%.

Accordance with the permutations deal Kardan real will receive the building in Tel Aviv which will rebuild or renew from the ground up all built-up areas of land, As part of construction residential units will be built and will be sold Company and its selling be entitled to 50% of the proceeds.

Tahal has received a loan in the amount of a cumulative amount of NIS 40 million its be made in installments over a period of five years, bearing interest respect to loan agreements with Kardan Israel to Kardan real estate. As well as, the suspending conditions will not fulfill on the determined dates Tahal will pay off the loan plus interest within 90 days of termination of the agreement.

C Remuneration to related parties [1]

Compensation of management board and supervisory board of the Company:

Fees to Supervisory Board:

€ in '000	Short-term employee benefits	
	2011	2010
J. Krant	39	38
I. Fink	23	22
J. Pomrenze	27	26
M.I. Groen	27	26
A. Schnur	23	22
K. Rechter	23	26
H. Benjamins	27	26
	189	**186**

Fees to Management Board:

€ in '000	Short-term employee benefits	Post employment pension and medical benefits	Share based payment transaction	Total
2011				
A. Shlank [2]	57	–	–	57
E. Oz-Gabber	218	16	–	234
W. van Damme	248	19	14	281
A. Ickovics	339	–	–	339
J. Slootweg	284	21	114	419
	1,146	**56**	**128**	**1,330**

€ in '000	Short-term employee benefits	Post employment pension and medical benefits	Share based payment transaction	Total
2010				
A. Ickovics [1]	328	–	–	328
A. Shlank [2]	345	–	–	345
E. Oz-Gabber	227	14	–	241
W. van Damme	253	16	75	344
J. Slootweg	296	16	232	544
	1,449	**46**	**307**	**1,802**

1 Amounts paid directly by the Company and by Group companies.
2 Resigned from the Management Board in January 2011.

Fees and salaries to shareholders employed by the Group:

€ in '000	Short-term employee benefits	
	2011	2010
Y. Grunveld *	316	385
A. Rechter *	398	482
	714	**867**

* The amounts in 2011 represent the salary and fees paid until the split of Kardan Yazamut in October 2011.

The remuneration of the members of the Management Board and Supervisory Board is presented every year to the Annual General Meeting of Shareholders of the Company and is approved by it.

Options granted by the Company:

	No. of options
W. van Damme	150,000
J. Slootweg	175,000
	325,000

42 Subsequent Events

Acquisition of non controlling stake in TBIF

In January 2012, an agreement was signed between KFS and the minority shareholder in TBIF, Cavebrook, according to which KFS has acquired the 7.82% stake in TBIF held by Cavebrook and became the owner of 100% of TBIF. In line with that agreement, all prior agreements between KFS and Cavebrook were cancelled including the option agreement detailed in Note 23. The consideration for the minority stake in TBIF was paid by way of set off of a loan KFS granted to Cavebrook. The loan balance as of December 31, 2011 amounted to €8.1 million. The acquisition had no impact on KFS' and the Company's income statement or equity statement for 2012.

B Proceeds related the sale of TBIF's stake in Sovcom bank

During the first quarter of 2012 TBIF received an additional amount of €7.8 million from Sovcom bank and Sovco Capital Partners B.V, Additionally, in February 2012 the regulatory approvals required for the purchase TBIF's stake in Sovcombank were attained. The Company estimated the closing will be expected to be finalized in June, and that contractually it may close till December 2012, for additional information see Note 5C.

C Purchase of Debentures

Subsequent to the balance sheet date, in January 2012, GTC Holding purchased additional NIS 40,711,000 par value Debentures Series A – for additional information see Note 25.

D Grant of Phantom options in TBIF

In March 2012 an agreement was signed between a company fully owned by a manager in TBIF and TBIF, according to which the manager will be granted phantom options in TBIF active subsidiaries (excluding Sovcom bank). Such options represent 4% of TBIF's holdings in the subsidiaries. The agreements includes an anti-dilution mechanism according to which equity investments in in TBI Bank and in other TBIF subsidiaries reach €50 million and €5 million, respectively, will not dilute the percentage of the capital represented by the phantom options. The options vest in 4 equal annual parts commencing on the 30th of June 2012 and until the 30th of June 2015. The options are exercisable each year between 2016 and 2018 for a period of 60 days after the approval of TBIF's financial statements. In case of a change of control in one of TBIF's subsidiaries, the options relating to that company will fully vest and be immediately exercisable. Upon the exercise of the options in each of the subsidiaries, the manager's company will be entitled to a cash payment amounting to the difference between the net investments in the subsidiary and its fair value at the exercise date. The fair value shall be calculated based on formulas detailed in the agreement.

E Amendment to loan agreement

In March 2012, the Company received a signed letter from the lending bank describing principal agreements between the Company and the bank relating to a change in required financial covenants, for additional information refer to Note 29.

F GTC S.A. Rights Issue

Subsequent to the balance sheet date, on April 16, 2012, the general shareholders meeting of GTC S.A. approved a rights issue of up to 100 million new shares of GTC S.A. having a nominal value of PLN 0.10 each. The record date has been set on June 4, 2012. The details of the rights issue and the timeframe will be specified in a prospectus to be published by GTC S.A.

The Rights Issue is subject to market conditions, as well as obtaining all the necessary regulatory approvals, including, in particular, the approval of the prospectus by the Polish Financial Supervision Authority. The Company informed GTC S.A. of its intention to participate in the rights offering in its full pro-rata share (27.75%).

Company-only Dutch GAAP Financial Statements

Statement of Financial Position

December 31, 2011 – Before Appropriation of Net Result

€ in millions	Note	December 31, 2011	December 31, 2010
Assets			
Non-current assets			
Intangible fixed assets	3	8	18
Derivatives	4	57	119
Investments in consolidated subsidiaries	5A	474	583
Loans to consolidated subsidiaries	5C	288	277
		827	**997**
Current assets			
Cash and cash equivalents	6	28	10
Short-term investments	7	6	7
Other receivables	8	3	16
		37	**33**
Total assets		**864**	**1,030**
Equity and liabilities			
Equity	9		
Share capital		23	23
Share premium		208	235
Property revaluation reserve		52	114
Revaluation reserve, other		5	–
Foreign Currency translation reserve		7	9
Non-controlling interest holders transaction reserve		19	(1)
Retained earnings (accumulated deficit)		37	(19)
Result for the period		(148)	(27)
		203	**334**
Long-term liabilities			
Debentures	10	593	602
Loans from banks and others	11	–	43
Options and other long-term liabilities	12	9	8
		602	**653**
Current liabilities			
Current from banks and loans	11	30	11
Other Payables	14	29	32
		59	**43**
Total equity and liabilities		**864**	**1,030**

See accompanying Notes.

Company-only Dutch GAAP Income Statement

Year ended December 31, 2011

€ in millions	Note	2011	2010
Net result from investments for the year	5D	(124)	–
Other income (expense), net	14	(24)	(27)
Net profit (loss)		**(148)**	**(27)**

See accompanying Notes.

Notes to the company-only Dutch GAAP Financial Statements

December 31, 2011

1 General

The description of the Company's activity and the Group structure, as included in the Notes to the consolidated IFRS financial statements, also apply to the Company-only Dutch GAAP statutory financial statements, unless otherwise stated.

2 Significant Accounting Policies

The Company-only Dutch GAAP financial statements are drawn up in accordance with accounting policies generally accepted in The Netherlands (Dutch GAAP) and are the same as described in the Notes to the Consolidated IFRS financial statements with the exception of the following: investments in consolidated subsidiaries are stated at the Company's share in their net asset value.

In accordance with Article 402 of part 9, Book 2, of the Netherlands Civil Code, the company-only Dutch GAAP income statement is presented on a condensed basis, as its income statement is already included in the consolidated IFRS income statement.

3 Intangible Fixed Assets

a Intangible fixed assets include goodwill arising on the acquisition of subsidiaries and other intangibles created in various transactions. Movement is as follows:

b 2011

€ in millions	Goodwill	Other intangibles	Total
Balance as of January 1	8	10	18
Goodwill impairment losses [1]	(8)	–	(8)
Amortization	–	(2)	(2)
Balance as of December 31	**–**	**8**	**8**

€ in millions	2010 Total	Goodwill *	Other intangibles	2011 Total
At January 1				
Cost	118	–	–	118
Less accumulated amortization and impairment losses	(100)	(8)	(2)	(110)
At December 31	**18**	**(8)**	**(2)**	**8**

1 The impairment related to decrease of value of subsidiaries in the Real estate Europe segment.

2010

€ in millions	Goodwill	Other intangibles	Total
Balance as of January 1	41	13	54
Additions	–	–	–
Goodwill impairment losses	(23)	–	(23)
Amortization	–	(2)	(2)
Disposals [2]	(10)	(1)	(11)
Balance as of December 31	**8**	**10**	**18**

€ in millions	2009 Total	Goodwill	Other intangibles	2010 Total
At January 1				
Cost	129	(10)	(1)	118
Less accumulated amortization and impairment losses	(75)	(23)	(2)	(100)
At December 31	**54**	**(33)**	**(3)**	**18**

2 The impairment related to decrease of value of subsidiaries in the banking and retail lending segment.
3 Relates to the sale of the banking and retail lending segment.

c The total goodwill amounts to nil (December 31, 2010 - €8 million), which is allocated to the following segments:

€ in millions	2011	2010
Banking and retail lending	–	1
Real Estate – Europe	–	7
Real Estate – Asia	–	–
Total	**–**	**8**

Impairment testing

The above mentioned goodwill has been subject to impairment testing. The impairment testing is performed by each group company separately. For further information and results hereof, reference to Note 12 of the consolidated IFRS financial statements.

d The other intangible assets amounted to €8 million and €10 million as of December 31, 2011 and 2010, respectively, and relate only to the banking and retail lending segment. The intangibles are amortized through the period of their useful life.

4 Derivatives

Long-term receivable relates to the fair value of derivatives, all relate to swap transactions on the Company's debentures. Further details of these derivatives are described in Note 40 to the consolidated IFRS financial statements.

€ in millions	2011	2010
Opening balance as of January 1	119	48
Revaluation of derivatives	(18)	100
Sale of derivatives	(45)	(29)
	56	**119**

5 Financial Fixed Assets

A Investments in consolidated subsidiaries

1 The movement in the investment in consolidated subsidiaries can be summarized as follows:

€ in millions	2011	2010
Balance as of January 1	583	465
Conversion of loan granted to subsidiary to equity	–	41
Disposal of subsidiary, net **	(25)	–
Purchase of treasury shares (by a subsidiary)	(3)	(6)
Change in capital reserves *	33	60
Dividend distributed	–	(13)
Share in profit/(loss) of investments for the year	(114)	36
Balance as of December 31	**474**	**583**

* Primarily relates to foreign currency exchange differences arising on translation of foreign operations.
** Refer to note 5 to the consolidated financial statements for information related to the Spin-off of Kardan Yazamut.

2 The impact of the treasury shares is as follows:

€ in millions	2011	2010
Gross investment in subsidiaries, as of January 1	477	610
Treasury shares	(3)	(27)
Net investment in subsidiaries, as of December 31 *	**474**	**583**

* Under the Dutch GAAP, the goodwill presented separate from the investment.

3 Further specification of the investments in subsidiaries is as follows:

	2011		2010	
	Ownership %	Total value € in millions	Ownership %	Total value € in millions
Names of significant subsidiaries				
Kardan Israel Ltd.	–	–	73.67	73
GTC Real Estate Holding B.V.	100	360	100	342
Kardan Financial Services B.V.	100	60	100	112
Tahal Group International B.V.	100	54	100	56
Total investments in significant consolidated subsidiaries *		**474**		**583**

* Refer to Note 5 to the consolidated financial statements for a complete list of all significant subsidiaries, jointly ventures in the Group.

B Additional information

2011 Events

a **Spin-off of the Company's main Israeli activities**
In September 2011 the Extraordinary Shareholders' Meeting of Kardan approved a transaction according to which Kardan would spin-off its 73.7% holdings in Kardan Israel Ltd. ('Kardan Israel') and its indirect 97% holdings in Milgam Municipal Services Ltd. ('Milgam', a subsidiary Kardan Municipal Services Ltd. – 'KMS', formerly named Tahal Assets Israel Ltd.).

The Company restructured some of its holdings in Israel and transferred the Company's shares in Kardan Israel and in KMS to its newly incorporated Israeli 100% owned subsidiary, Kardan Yazamut (2011) Ltd. ('Kardan Yazamut'). Kardan Yazamut financed the purchase of these shares through external financing in the amount of €39.6 million. Kardan used the proceeds to deleverage.

In October 2011, after receipt of all the required approvals, the shares of Kardan Yazamut were distributed as dividend in kind to the Company's shareholders and Kardan Yazamut shares were listed for trade on the TASE. For additional information refer to Note 5 in the consolidated financial statements.

b **Revaluations and impairment tests in Europe**
Refer to Note 8 in the consolidated financial statements for information related to the Revaluations and impairment tests in Europe.

c **Purchase of treasury shares**
Refer to Note 18 in the consolidated financial statements for information related to the purchase of additional treasury shares.

2010 Events

a During 2010, Tahal Group International B.V distributed dividend to the Company in the amount of €13 million.

b During 2010 the Company acquired an additional stakes (1.4%) from non controlling shareholders of KFS bringing its stake to 100%, in consideration of €3 million.

c For information regarding transaction with FIMI, refer to note 5 in the consolidated financial statements.

d For information regarding the purchase of additional treasury shares refer to note 18 in the consolidated financial statements.

C Loans to consolidated subsidiaries:

Loans to consolidated subsidiaries include a loan to TGI amounting to €44.5 million, a loan to KFS amounting to €92.6 million, and a loan to GTC Holding amounting to €150.5 million. The loans are primarily denominated in Euro.

The main loan to KFS bears an interest of Euribor +2.875 per annum. The loan to TGI bears interest of Euribor +3% per annum. The loan to GTC Holding bears interest of Euribor +3% per annum.

The movement in the loans is as follows:

€ in millions	2011	2010
Balance as of January 1	277	256
Loans granted to subsidiaries	18	114
Loans repaid by subsidiaries	–	(62)
Conversion of loan into capital *	–	(41)
Accrued interest and foreign currency differences, net	(7)	9
Balance as of December 31	**288**	**277**

* In 2010, due to the transaction with FIMI, as described in Note 5 to the consolidated IFRS financial statements, loans granted to TGI amounting to approximately of €41 million were converted into equity of TGI.

D Net result from investments for the year

€ in millions	2011	2010
Net profit/(loss) of investments for the year	(114)	36
Impairment losses	(8)	(23)
Disposal *	–	(11)
Amortization	(2)	(2)
Net result as presented in the income statement	**(124)**	**–**

* Refer to Note 5 in the consolidated financial statements.

6 Cash And Cash Equivalents

Cash and cash equivalents comprise only short-term deposits.
The average interest earned in 2011 on short-term deposits is 0.8% (2010 - 1.4%).

7 Short-term Investments

€ in millions	December 31, 2011	December 31, 2010
Pledged deposits in EUR	6	7
	6	**7**

The pledged deposits relate to security provided for a loan and certain swap transactions, which are linked to the repayment of debentures, and are used to secure the Company's payments.

The average interest earned was 6.5% (2010 - 6.5%).

8 Other Receivables

€ in millions	December 31, 2011	December 31, 2010
Interest receivables from subsidiaries	–	9
Other	3	7
	3	**16**

9 Dutch GAAP Shareholders' Equity

€ in millions	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Non-controlling interest holders transactions reserve	Retained earnings	Total
Balance as of January 1, 2011	**23**	**235**	**114**	**–**	**9**	**(1)**	**(46)**	**334**
Currency translation differences	–	–	–	–	(1)	–	–	(1)
Change in unrealized revaluation reserve	–	–	–	(1)	–	–	–	(1)
Net profit/(loss) for the period	–	–	–	–	–	–	(148)	(148)
First time consolidation	–	–	–	–	–	1	–	1
Issuance Company's shares to non-controlling interest	–	–	–	6	(1)	22	–	27
Shares purchased in consolidated subsidiaries	–	–	–	–	–	(3)	–	(3)
Distribution of dividend in kind	–	–	–	–	–	–	(3)	(3)
Purchase of treasury shares	–	(27)	–	–	–	–	24	(3)
Reclassification according to requirements *	–	–	(62)	–	–	–	62	–
Balance as of December 31, 2011	**23**	**208**	**52**	**5**	**7**	**19**	**(111)**	**203**
Comprises of:								
Balance before treasury shares	23	208	52	5	7	19	(108)	206
Treasury shares ***	–	–	–	–	–	–	(3)	(3)
Balance as of December 31, 2011	**23**	**208**	**52**	**5**	**7**	**19**	**(111)**	**203**

€ in millions	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Non-controlling interest holders transactions reserve	Retained earnings	Total
Balance as of January 1, 2010	**23**	**235**	**93**	**(14)**	**(52)**	**–**	**8**	**293**
Currency translation differences	–	–	–	–	61	–	–	61
Change in fair value of hedge instrument	–	–	–	13	–	–	–	13
Change in unrealized revaluation reserve	–	–	–	1	–	–	–	1
Net profit/(loss) for the period	–	–	–	–	–	–	(27)	(27)
Issuance Company's shares to non-controlling interest	–	–	–	–	–	1	–	1
Other transactions with non-controlling shareholders	–	–	–	–	–	(2)	–	(2)
Purchase of treasury shares	–	–	–	–	–	–	(6)	(6)
Reclassification according to requirements *	–	–	21	–	–	–	(21)	–
Balance as of December 31, 2010	**23**	**235**	**114**	**–**	**9**	**(1)**	**(46)**	**334**
Comprises of:								
Balance before treasury shares	23	235	114	–	9	(1)	(19)	361
Treasury shares **	–	–	–	–	–	–	(27)	(27)
Balance as of December 31, 2010	**23**	**235**	**114**	**–**	**9**	**(1)**	**(46)**	**334**

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

** During 2010 Kardan Israel acquired shares of the company for an amount of €6 millions, which increased the total treasury shares amount from €21 million to €27 million.

*** During 2011, GTC Holding, a subsidiary of the Company, acquired shares of the company for an amount of €3 millions.
Following this purchase, GTC Holding has a 1.1% stake in the Company. These shares are presented in the Company's shareholders' equity as treasury shares.

10 Debentures

Composition:

€ in millions	December 31, 2011	December 31, 2010
Debentures – issued in 2007	282	287
Debentures – issued in 2008	316	321
	598	**608**
Less – debt issuance expenses	(3)	(4)
Less – discount	(2)	(2)
	593	**602**

In 2011, GTC Holding and Tahal Consulting Engineers Ltd (subsidiaries purchased debentures of the Company, for the amount of approximately €41 million on the Tel-Aviv Stock Exchange ('TASE'), therefore the net outstanding debenture balance of the company will not directly reconcile to the consolidated note of debentures.

For further details please refer to Note 25 to the consolidated IFRS financial statements regarding debentures issued by the Company.

During 2011, the Company sold hedge instruments, in consideration of €45 million (December 31, 2010 - €29 million), as a result of the sale the Company recognized a positive equity movement in the amount of €8 million.

11 Loans From Banks

Composition:

€ in millions	December 31, 2011	December 31, 2010
Mercantile Discount Bank [1]	–	8
Israel Discount Bank [2]	30	30
Leumi Bank [3]	–	12
Union Bank [4]	–	4
	30	**54**
Less – current maturities	(30)	(11)
	–	**43**

The fair value of the long term loans from banks at year end 2011, being the present values of the liabilities, calculated using estimated interest rates, approximates the book value (see also Note 40 to the consolidated IFRS financial statements).

(1) In May 2007, the Company signed a loan agreement with Mercantile Discount Bank Ltd. ('Mercantile'). The loan was granted for a period of 4 years, amounting €6.01 million and bears interest at a rate of LIBOR + 1.4% per annum and is repayable in 4 equal annual installments during the years 2008-2011. Interest is payable per quarter.

In June 2009, the Company signed an additional loan agreement with Mercantile. The loan was granted for a period of 5.5 years, amounting €9.17 million and bears interest at a rate of LIBOR + 2.6% per annum. The principal and interest is repaid in quarterly installments. The interest rate for the loan was increased by 0.25% in May 2010 due a change in the credit rating of the Company.

In the first quarter of 2011, the remainder of the loan was early repaid by the Company.

(2) In March 2009, the Company received 2 loans from Israel Discount Bank Ltd. ('Discount Bank') in

the total amount of €30 million. One loan in the amount of €15 million, bears interest of LIBOR + 2.4% paid semi annually. The principal of the loan will be repaid in 5 yearly installments starting March 30, 2014; and an additional loan also of €15 million, will be repaid in March 2019 in one installment. The covenants of the loans are as follows:

a. Maintain holdings of 51% in GTC Holding;
b. Commitment of the Company not to pledge all its assets;
c. Maintaining equity to stand-alone Company's balance sheet ratio of 21%; and 12% with respect to consolidated balance sheet and total equity;
d. Shareholders' equity will not be less than €160 million;
e. Prior approval of one of the lenders for any change in control, reorganization, capital reduction or de-listing.
f. The Company's shares should be traded on TASE during a certain loan period.
g. The Company's debentures will be rated by a rating agency; the rating will not drop below B-.

As of December 31, 2011, the Company did not meet financial covenants relating to maintaining a minimum equity level. As a result, long term loans in the amount of €30 million were classified as short term liabilities.

In March 2012, the Company received a signed letter from the lending bank describing principal agreements between the Company and the bank relating to a change in required financial covenants with respect to two loans in the amount of €15 million each. According to the principal agreements, the financial covenants will be amended so that the Company is required to maintain a minimum shareholders' equity of €160 million and a ratio of equity to total stand-alone balance sheet of the Company of 21%.

In addition it was agreed to early repay an amount of €35 million from the total outstanding loans of the Company and its subsidiaries.

For additional information refer to note 29 in the consolidated financial statements.

(3) In April 2006 the Company signed a credit facility agreement with Leumi Bank regarding a total facility of €16.4 million. The loan drawn under this facility bears interest of LIBOR + 1.3% and is repayable in 5 equal annual instalments during the years 2007-2011. Interest is payable per quarter.

In March 2008 the Company has signed an additional loan agreement with Leumi Bank for €13.7 million loan, bearing interest of Libor + 1.43% per annum. The loan is repayable in 5 installments during the years 2009-2013. The interest is paid on a quarterly basis.

The interest rate for both loans was increased by 0.7% per annum in October 2008 and by additional 0.5% per annum in May 2010 due a change in the credit rating of the Company.

As security for both loans the Company pledged its holdings in KFS in favor of Leumi Bank and, in addition, committed itself to maintain an equity-to-balance sheet ratio of 26% and also has guaranteed that the equity of the Company will not fall below USD 98 million. Further, the Company has committed itself not to pledge shares of TBIH for purposes other than those described in the agreement, and that KFS will hold at least 51% of TBIF and 35% of TBIH.

In February 2011, the Company has fully repaid the outstanding balance of both the loans.

(4) In February 2009, the Company has signed a new loan agreement amounting to €5.8 million with Union Bank, The new loan bears interest of Libor + 2.5% and is repayable is 8 semi-annual

installments during the years 2009-2013. As a security to the loan, the Company has pledged shares of Kardan Israel which equal 120% of the outstanding balance of the loan. In addition, the Company has committed to maintain shareholders' equity of at least 25% of the company-only total balance sheet, and that Kardan will continue to control Kardan Israel.

In February 2011, the Company fully repaid the outstanding balance of the loan.

12 Options

The Company issued 2 put options related to Kardan Financial Services B.V amounting to €3 million. During 2010 put options amounting to €3 million related to the 1.4% increase in KFS were exercised. As a result of the exercise, the Company holds 100% of KFS. The exercise did not have an impact over the company's results or equity.

13 Taxes on income

Up to and including 2009 Kardan N.V. has tax losses of €60.22 million (2009: €17.45 million; 2010: not known yet) that are available for carry forward. The carry back of losses is restricted to one year, whereas the carry forward of losses is limited to nine years. In principle, Kardan can only set off its tax losses which originate from holding and finance activities against future taxable profits as far as those profits are also realized with holding and finance activities. Compensation of losses is disallowed if the balance of the related-party receivables and the related-party payables of a company with holding losses, during the year in which a profit was realized, exceed that balance in the financial year the losses were incurred.

Deferred tax assets have been recognized only with respect to potential tax liability in relation with the Company's hedge transactions. Deferred taxes amounted to € nil as of December 31, 2011.

The Company has received final tax assessments for the years 2003 to 2008.

Net loss for the year amount to €148 million (2010: €27 million), including net result from investments of €124 million losses (2010: nil), which are not deductable/taxable, due to the participation exemption, described above. The Company assumes that the remaining other expenses and income will not result in tax benefits or tax expenses due to the available tax losses from previous years of the Company.

For more information regarding to taxes on income refer to Note 38 to the Consolidated Financial Statements.

14 Other Payables

€ in millions	December 31, 2011	December 31, 2010
Accrued expenses (mainly accrued interest)	25	25
Others	4	7
	29	**32**

15 Other Income (Expense)

In 2011, other income (expense), net comprise mainly finance expense of €16 million, management fees income of €1 million, and general and administrative and other income and expenses amounting to €9 million.

In 2010, other income (expense), net comprise mainly finance expense of €22 million, management fees income of €1 million, and general and administrative and other income and expenses amounting to €6 million.

Share based payments and other remunerations to related parties amount to less than €1 million. For additional information refer to note 19 to the consolidated IFRS financial statements

16 Audit Fees

The table below summarizes the fees invoiced to the Company's by its auditors, Ernst & Young Accountants and others in:

€ in millions	Ernst & Young	Others	Total
2011			
Audit services - Kardan NV	0.6	–	0.6
Audit services - Subsidiaries	3	0.3	3.3
Total statutory audit fees	**3.6**	**0.3**	**3.9**
Other services relevant to taxation	0.3	*	0.3
Other non audit services	*	*	*
Total non audit services	**0.3**	*****	**0.3**
Total	**3.9**	**0.3**	**4.2**

* Represent an amount under €100 thousands.

€ in millions	Ernst & Young	Others	Total
2010			
Audit services - Kardan NV	0.6	0.6	1.2
Audit services - Subsidiaries	2.9	0.2	3.1
Total statutory audit fees	**3.5**	**0.8**	**4.3**
Other services relevant to taxation	0.3	0.1	0.4
Other non audit services	0.1	*	0.1
Total non audit services	**0.4**	**0.1**	**0.5**
Total	**3.9**	**0.9**	**4.8**

* Represent an amount lower than €100 thousands.

17 Remuneration of Management Board and Supervisory Board

The Company's Management Board and Supervisory Board received remuneration in 2011 and 2010 as described in Note 42 to the statutory consolidated IFRS financial statements.

18 Commitments, Contingent Liabilities, Guarantees and Subsequent Events

For commitments, contingent liabilities, guarantees, and subsequent events please refer to Notes 29 and 42 respectively of the statutory consolidated IFRS financial statements.

Management Board	**Supervisory Board**
A. Ickovics	J. Krant
J. Slootweg	A. Schnur
E. Oz-Gabber	K. Rechter
W. van Damme	I. Fink
	J. Pomrenze
	M. Groen
	H. Benjamins

Other Information

Statutory arrangements in respect of the appropriation of net result

The Articles of Association of the Company provide that the appropriation of the net result for the year is decided upon at the Annual General Meeting of Shareholders.

Proposed appropriation of 2011 result

The proposal is to deduct the result of 2011 from the reained earnings.
The dividend policy of Kardan N.V. recommends an annual dividend distribution between 20% and 30% of net income, taking into consideration, among others, the liquidity and capital position and future financing requirements. Due to the loss for the year and taking into account the financial position of Kardan N.V., the Management Board, with the approval of the Supervisory Board, has decided not to distribute any dividend from the reserves for the financial year 2011.

Subsequent events

For subsequent events please refer to Note 42 of the consolidated financial statements.

Independent Auditor's Report

To: The Management and Shareholders of Kardan N.V.

Report on the statutory financial statements

We have audited the accompanying statutory financial statements for the year ended December 31, 2011 of Kardan N.V., Amsterdam (as set out on pages 108 till 290). The statutory financial statements include the Consolidated IFRS Financial Statements and the Company only Dutch GAAP Financial Statements. The Consolidated IFRS Financial Statements comprise the consolidated statement of financial position as at December 31, 2011, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. The Company only Dutch GAAP Financial Statements comprise the company only balance sheet as at December 31, 2011, the company only income statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these statutory financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch standards on auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the Consolidated IFRS Financial Statements

In our opinion, the Consolidated IFRS Financial Statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2011, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the Company only Dutch GAAP Financial Statements

In our opinion, the Company only Dutch GAAP Financial Statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2011, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, April 17, 2012

Ernst & Young Accountants LLP
signed by W.C. van Hoeven

Additional Financial Information

According to Rule 9C of the Israeli SEC

Herewith financial data and separate financial information related to the company-only derived from the consolidated financial statements of the Company as of December 31, 2011 which is published as part of the annual report (herewith – Consolidated Financial Statements), presented according to Rule 9c to the Israeli Securities and Exchange Regulations (Periodic and Immediate Reports), 1970. The main accounting policies that were used for this financial information are described in the notes to the Consolidated Financial Statements. The notes to this financial information are those not included in the notes to the Consolidated Financial Statements.

Additional Financial Information from the Company's Statement of Financial Position

December 31, 2011

€ in millions	Additional information	December 31, 2011	December 31, 2010
Assets			
Non-current assets			
Long-term receivable (mainly fair value of derivatives)		57	119
Financial fixed assets			
Investments in consolidated subsidiaries		482	601
Loans to consolidated subsidiaries		288	277
		770	**878**
Current assets			
Cash and cash equivalents	1	28	10
Short-term investments	2	6	7
Other receivables	3	3	16
		37	**33**
Total assets		**864**	**1,030**
Equity and liabilities			
Equity attributable to equity shareholders			
Share capital		23	23
Share premium		208	235
Property revaluation reserve		52	114
Revaluation reserve, other		5	–
Currency translation reserve		8	9
Non-controlling interest holders transaction reserve		18	(1)
Treasury shares		(3)	(27)
Accumulated deficit		(108)	(19)
		203	**334**
Long-term liabilities			
Debentures		593	602
Loans from banks and others		–	43
Warrants and other long term liabilities		9	8
		602	**653**
Current liabilities			
Current maturities of long-term liabilities	5	30	11
Other payables		29	32
		59	**43**
Total equity and liabilities		**864**	**1,030**

Additional Information from the Company's Income Statement

€ in millions	For the year ended December 31,		
	2011	2010	2009
Net result from investments for the year	(124)	–	(73)
Other income	1	1	1
Total revenues	**(123)**	**1**	**(72)**
General and administrative expenses, net	7	8	5
Other expenses, net	–	1	2
Total expenses	**7**	**9**	**7**
Loss from operations before financing expenses	(130)	(8)	(79)
Financing income expenses, net	(16)	(22)	(13)
Income tax expense (benefit)	2	(3)	–
Loss for the year	**(148)**	**(27)**	**(92)**

Additional Information from the Company-only Statement of Comprehensive Income

€ in millions	For the year ended December 31,		
	2011	2010	2009
Loss for the year	**(148)**	**(27)**	**(92)**
Foreign currency translation differences	(1)	61	(9)
Change in hedge reserve, net	–	13	22
Unrealized revaluations, net of tax	(1)	1	(1)
Other comprehensive income (expense) for the period	(2)	75	12
Total comprehensive income (expense)	**(150)**	**48**	**(80)**

Additional Information from the Company-only Cash Flow Statement

€ in millions	For the year ended December 31, 2011	2010	2009
Cash flow from operating activities of the Company			
Loss for the year	(148)	(27)	(92)
Adjustments to reconcile Loss to net cash of the Company			
Share based payment	–	–	1
Change in fair value of hedge instruments	12	(14)	(12)
Financial expense	35	35	26
Dividend received	–	13	–
Equity losses	124	–	73
Changes in working capital of the Company			
Change in receivables	1	2	8
Change in payables	(1)	2	(4)
Cash amounts paid and received during the year			
Interest paid	(29)	(29)	(27)
Interest received	–	5	8
Net cash used in operating activities of the Company	**(6)**	**(13)**	**(19)**
Cash flow from investing activities of the company			
Short-term investments, net	2	(1)	26
Granting of loans to subsidiaries, net	(18)	(52)	32
Investments in subsidiaries	(16)	–	(48)
Proceeds from sale of investee companies	41	–	(48)
Net cash provided by (used in) investing activities of the Company	**9**	**(53)**	**10**
Cash flow from financing activities			
Investment in shares of a subsidiary	(4)	–	–
Dividend distributed	(3)	–	–
Proceeds from long-term debt	–	–	59
Proceeds from sales of hedge instruments	45	29	–
Share purchase from non-controlling interest	–	(3)	–
Repayment of long-term debt	(23)	(11)	(98)
Net cash provided by financing activities of the Company	**15**	**15**	**(39)**
(Decrease) / increase in cash and cash equivalents of the Company	18	(51)	(48)
Cash and cash equivalents at beginning of the period	10	61	109
Cash and cash equivalents at end of the period of the Company	**28**	**10**	**61**

Notes to the Additional Information

1 Cash and Cash Equivalents

€ in millions	December 31, 2011	December 31, 2010
Short-term deposits in EURO	28	–
Short-term deposits in NIS	–	10
	28	**10**

The cash is primarily comprised out of short term deposits.
The average interest rate on short term deposits was 0.8% p.a. in 2011 (in 2010 – 1.4%).

2 Short-Term Investments

€ in millions	December 31, 2011	December 31, 2010
Pledged deposits in EUR	**6**	**7**

The pledged deposits relate to security provided for a loan and certain swap transactions.
The average interest earned in 2011 and 2010 was 6.5%.

3 Other Receivables

€ in millions	December 31, 2011	December 31, 2010
Derivatives	1	1
Interest receivable from subsidiaries	1	9
VAT receivable	–	1
Income tax receivable	–	3
Other	1	2
	3	**16**

4 Details of material financial assets in accordance with IAS 39

€ in millions	December 31, 2011	December 31, 2010
Financial assets at fair value through profit or loss:		
Loans to subsidiaries	288	277
Derivatives	57	119
Receivables	3	16
Short-term investments	6	7
Cash and cash equivalents	28	10
	382	**429**

5 Expected realization periods of material financial assets and liabilities grouped in accordance with IAS 39 classifications:

Financial assets as of December 31, 2011

€ in millions	Up to 1 year	1-2 years	2-3+ years	Total
Cash and short-term investments	34	–	–	34
Loans and receivables	3	–	288	291
	37	**–**	**288**	**325**

Financial assets as of December 31, 2010

€ in millions	Up to 1 year	1-2 years	2-3+ years	Total
Cash and short-term investments	17	–	–	17
Loans and receivables	16	–	277	293
	33	–	**277**	**310**

Financial liabilities as of December 31, 2011

€ in millions	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Debentures *	28	99	141	135	130	203	736
Loans **	30	–	–	–	–	–	30
Payables	–	–	–	–	6	–	6
Put Option	3	–	–	–	–	–	3
Total	**61**	**99**	**141**	**135**	**136**	**203**	**775**

* Inclusing interest
** For more information refer to Notes 27 to the Consolidated Financial Statements

Financial liabilities as of December 31, 2010

€ in millions	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Debentures *	29	29	100	143	137	338	776
Loans	12	7	6	6	4	27	62
Payables	–	–	–	–	–	5	5
Put Option	3	–	–	–	–	–	3
Total	**44**	**36**	**106**	**149**	**141**	**370**	**846**

* Including interest

The substantial majority of the Company's financial assets, other than cash, are denominated in EURO.

6 Taxes on income

For more information regarding to taxes on income refer to Note 38 to the Consolidated Financial Statements.

7 Loans, mutual balances, commitments and transactions with investee companies

A Balances with investee companies

€ in millions	December 31, 2011	December 31, 2010
Short-term deposit	3	3
Long-term loans to subsidiaries	288	277
Debentures held by subsidiary	41	–
Treasury shares	3	–
The largest amount of loans and current debts during the year	288	282
Collaterals in favor of investee companies *	31	122

* Collaterals were provided to secure loans undertaken by subsidiaries.

B Transactions with investee companies

€ in millions	December 31, 2011	2010	2009
Management fees	1	1	1
Guarantee fees	–	1	1
General and administrative expenses	(1)	(1)	(1)
Financial income	12	16	21
Financial expenses	–	–	(8)

C Commitments

The Company has entered into service agreements with its subsidiaries and certain investee companies to pay the amount of approximately €1 million, as yearly fee for services rendered.

In addition, the Company provided guarantees to third parties in relation to loan agreements signed by some subsidiaries and investee companies. In such event, the Company has entered into guarantee fee agreement with the relevant subsidiaries and investee companies. The amount of the guarantee fee depends on the outstanding loan.

The Company collects yearly management fees from its subsidiaries and investee companies in the amount of €1 million.

8 Commitments, contingent liabilities, guarantees, and subsequent events

For commitments, contingent liabilities, guarantees, and subsequent events please refer to Notes 29 and 42 respectively to the Consolidated Financial Statements.

9 Additional information:

a. Spin-off of the Company's main Israeli activities

In September 2011 the Extraordinary Shareholders' Meeting of Kardan approved a transaction according to which Kardan would spin-off its 73.7% holdings in Kardan Israel Ltd. ('Kardan Israel') and its indirect 97% holdings in Milgam Municipal Services Ltd. ('Milgam', a subsidiary Kardan Municipal Services Ltd.- 'KMS', formerly named Tahal Assets Israel Ltd.).

The Company restructured some of its holdings in Israel and transferred the Company's shares in Kardan Israel and in KMS to its newly incorporated Israeli 100% owned subsidiary, Kardan Yazamut (2011) Ltd. ('Kardan Yazamut'). Kardan Yazamut financed the purchase of these shares through external financing in the amount of €39.6 million. Kardan used the proceeds to deleverage.

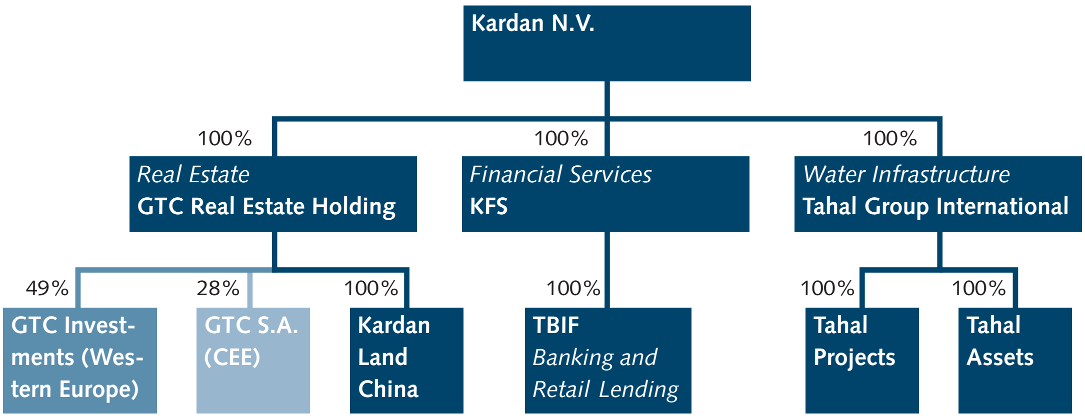
In October 2011, after receipt of all the required approvals, the shares of Kardan Yazamut were distributed as dividend in kind to the Company's shareholders and Kardan Yazamut shares were listed for trade on the TASE. For additional information refer to Note 5c in the consolidated financial statements.

b. Revaluations and impairment tests in Europe
Refer to Note 8 in the consolidated financial statements for information related to the Revaluations and impairment tests in Europe.

c. Purchase of treasury shares
Refer to Note 18 in the consolidated financial statements for information related to the purchase of additional treasury shares.

Management Board	**Supervisory Board**
A. Ickovics	J. Krant
E. Oz-Gabber	A. Schnur
W. van Damme	K. Rechter
J. Slootweg	I. Fink
	J. Pomrenze
	M. Groen
	H. Benjamins

Organogram Kardan N.V. (April 2012)



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