



KARDAN N.V.

Management declaration

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

(i) The condensed consolidated semi-annual financial statements as at June 30, 2011 and for the six months ended June 30, 2011, attached hereto as Annex 1, give a true and fair view of the assets, liabilities, financial position and the result of Kardan N.V. and of the group companies included in the consolidation;

(ii) The semi-annual directors' report, attached hereto as Annex 1, gives a fair view of the information required pursuant to Article 5:25d sub 8 and 9 of the Financial Supervision Act.

Per August 30, 2011

Management Board:

A. Ickovics

W. van Damme

E. Oz-Gabber

J. Slootweg

Annex 1



PRESS RELEASE

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IMPROVED RESULTS; MARKETS STILL CHALLENGING

- **Q2-2010 results: EUR 14 million profit vs. EUR 15 million loss last year;**
- **Net profit H1-2010: EUR 1 million vs. loss of EUR 33 million in first half 2009**
- **Equity increase in first half 2010: EUR 74 million due to currency translation;**

Real Estate

- CEE: positive revaluation results after five negative quarters; H1-2010: 41% y-o-y increase in revenues;
- China: significant 250% increase y-o-y in apartments sales contracts (1,911 units versus 763 in H1-2009);

Financial Services

- Banking and Lending: growth in loan portfolios and deposits in first half 2010;
- Change of control of Insurance and Pension (TBIH) contributed EUR 24 million to results of equity holders; no further profits from subsequent sale;

(Water) Infrastructure

- Revenues in H1-2010 up by 29% y-o-y; major contracts signed in Africa.

Breakdown of the net result for equity holders of Kardan N.V. (EUR million) ¹	H1-2010	H1-2009	Q2-2010	Q2-2009	FY 2009
- Real Estate	2	(12)	(1)	(9)	(63)
- Financial Services – Banking and Lending	(30)	(25)	(13)	(11)	(29)
- Financial Services – Insurance and Pension	30	15	23	17	19
- (Water) Infrastructure – Projects	2	-	2	(1)	2
- (Water) Infrastructure – Assets	(1)	(1)	(1)	(2)	(4)
- Rental and Leasing of vehicles	2	(2)	-	(1)	1
- Sale of vehicles	4	2	2	-	5
- Other	(8)	(10)	2	(8)	(23)
Total net result attributable to equity holders	1	(33)	14	(15)	(92)
Profit (loss) per share (EUR)	0.01	(0.55)	0.14	(0.34)	(0.91)
Profit (loss) per share diluted (EUR)	-	(0.55)	0.13	(0.34)	(0.92)

Kardan N.V. – balance sheet (non consolidated)	June 30, 2010	December 31, 2009	June 30, 2009
Total Assets (in EUR million)	1,037	909	987
Total Equity (in EUR million)	368	293	343
Equity/Total assets (%)	35	32	35

¹ The table shows the contribution of each of the businesses to the results of Kardan. As profits attributable to minority shareholders have already been deducted, these figures do not represent the full net result realized in each segment.

The Management Board of Kardan N.V. ("Kardan") commented on the developments in the emerging markets and the results of H1-2010:

"Kardan is active in emerging markets to create long term value for its shareholders. The markets, in which Kardan operates, are to a large extent influenced by the growth and financial stability worldwide, and in particular from the developments in Europe. These markets have weathered the European sovereign debt crisis relatively well to date, as growth indicators continued to improve during the second quarter of 2010. This is further demonstrated by the fact that local currencies have appreciated against the Euro, and confidence in the banking systems in Ukraine and Russia has been growing, increasing deposit taking at our banks. Our real estate activities are showing increasing income from rents and services, and we are witnessing stabilizing yields. This has led to a positive revaluation of our investment properties in CEE for the first time in 5 consecutive quarters. The strong demand for our water infrastructure services persists, especially in China and Africa which are facing a severe lack of (clean) water. In order to capitalize on this demand we have raised a capital facility of up to USD 50 million (approx. EUR 40 million).

Our strategy to create long term value for our shareholders by building local platforms means that we need to "sow before we can reap". We are convinced that our focused approach to investments in our core activities in emerging markets will continue to lead to sustainable long term value."

Summary Results of first half of 2010

The net result of Kardan N.V. attributable to equity holders amounted to a profit of EUR 1 million in the first half of 2010 versus a loss of EUR 33 million in the same period of 2009. The increase is mainly attributable to the Real Estate division (EUR 14 million), and to the Financial Services division (EUR 10 million). Due to strengthening of the currencies against the Euro in most countries of operation, the value of the investments in these countries increased significantly. The increase in value is recognized directly in Equity, without effecting the income statement. Mainly as a result of this appreciation of local currencies, Equity attributable to shareholders increased in the first half of 2010 by EUR 75 million to EUR 368 million from EUR 293 million as at December 31, 2009.

The net contribution of the **Real Estate** division was a profit of EUR 2 million (H1-2009: loss of EUR 12 million), out of which revaluation gains net of tax in H1-2010 amounted to EUR 11 million against revaluation losses of EUR 9 million in H1-2009. The revaluation gains were reduced by finance expenses of the holding company amounting to EUR 4 million, and corporate income taxes (EUR 2 million, including one-off expenses) of the operating companies. Most of the positive revaluation result comes from China (EUR 10 million). GTC SA also recorded a positive revaluation result (EUR 3 million) for the first time after five consecutive quarters with valuation losses.

In the **Banking and Lending** segment (TBIF), the net, negative, contribution to equity holders increased from a loss of EUR 25 million in H1-2009 to a loss of EUR 30 million in H1-2010. This loss for the period is significantly impacted by the application of revised IFRS 3 on the increase of Kardan's indirect stake in the Ukrainian bank VAB Bank from 49% to 63%. Due to this standard, foreign exchange losses in prior years which were already recorded directly in Equity, now have to be reclassified to the income statement; the impact of the application of this standard is a loss of EUR 16 million, as was recorded in the Q1-2010 results

The total net result of all TBIF operating companies improved by EUR 14 million from a loss of EUR 22 million in H1-2009 to a loss of EUR 8 million. This is partly due to lower provisions for bad debts (EUR 27 million in H1-2010 vs. EUR 43 million in H1-2009) resulting from positive macro-economic developments in Russia. In H1-2010, general and administrative expenses, finance expenses less other income of the holding companies amounted to EUR 5 million (H1-2009: EUR 3 million).

The **Insurance and Pension** segment (TBIH) contributed a net profit of EUR 30 million (H1-2009: net profit EUR 15 million). Due to the change of control in TBIH, Kardan recorded a net profit of EUR 24 million in H1-2010. The agreement to sell 40% of TBIH will not lead to additional results for Kardan. In the first half of 2009, Kardan recognized a capital gain of EUR 16 million on the sale of part of the activities of TBIH to VIG.

The net contribution of the **(Water) Infrastructure** division amounted to a profit of EUR 1 million in H1-2010 (H1-2009: loss of EUR 1 million). Higher revenues (up 29% y-o-y) and gross margins (up 40% y-o-y) resulted in an operating profit (before fair value adjustments, disposal of assets and financial expenses) of EUR 5 million. The operating profit was off-set by finance expenses.

The Israeli Sale of vehicles and Rental and Leasing of vehicles segments contributed EUR 6 million (H1-2009: break-even) due to higher revenues and improvement in gross profit margins.

Finally, Other Results, mainly comprising of finance and general expenses not allocated to specific activities and the results of activities not attributable to a segment, amounted to a loss of EUR 8 million in H1-2010 (H1-2009: loss of EUR 10 million). Due to the revaluation of a forward transaction regarding Kardan's Israeli Shekel denominated debentures that were purchased through a subsidiary that did not qualify for hedge accounting, Kardan recorded additional EUR 3 million finance expenses in H1-2010 compared to H1-2009. In H1-2010, Kardan also realized a capital gain of EUR 6 million on the sale of a subsidiary active in Communications.

Developments within the divisions in H1-2010

GTC, Kardan's Real Estate division, realized strong growth in rental and service income throughout GTC SA's operations in the CEE region of 41% y-o-y. The increase in rental revenues reflects the high quality of GTC SA's office and retail assets, which was also illustrated by signing an agreement to sell two office buildings in Warsaw, Poland, at attractive yields. GTC SA's strong reputation and financial position, as well as its relationship with reputable banks, allowed GTC SA to continue the development of its portfolio and to increase its holdings in joint ventures. Residential sales declined as the number of apartments and houses available for sale decreased.

In the Chinese real estate operations, 1,911 apartment sales contracts were signed, significantly outpacing the H1-2009 level of 763. These sales will only be recognized as revenue upon delivery of the relevant apartments, which is expected between 14 and 18 months after signing the sales contract. The increasing real estate prices and the threat of a real estate bubble pushed the Chinese government to take action, in April 2010, in order to fight speculative purchases of apartments. This will, most likely, have a negative impact on the sales volume in the second half of the year though the impact should be partly mitigated by GTC China's strategy. GTC constructs apartments in Tier 2 and Tier 3 cities, the majority of which are for buyers' own use and not for speculative purposes. In addition, larger projects are constructed in phases, enabling easy adaptation to changing market conditions. The construction of GTC's first shopping mall in China (Chengdu) is on track and is expected to open in Q4 of this year.

Within the Banking and Lending segment (TBIF) of the Financial Services division (KFS), the developments in Russia are promising: the loan portfolio of the bank increased significantly as did the deposit taking, as demonstrated by the improved operating results of the bank. In the other countries in which TBIF operates (Ukraine, Romania and Bulgaria), the environment is still difficult, as governments are taking measures to reduce the fiscal deficit. However, a substantial increase in deposit taking in the Ukraine reflects growing confidence in the banking system. On the mid to long term, these governmental measures should translate into an improved competitive position of these countries' industries followed by recovering economies.

Tahal, Kardan's (Water) Infrastructure division, continued to see strong demand for its services, particularly in China and Africa which are facing a severe lack of (clean) water, resulting in an increase of revenues of 29% y-o-y. Tahal's excellent reputation led to the signing of agreements in H1-2010 with the governments of Angola (expected project revenue EUR 143 million) and of Ghana (expected revenues of EUR 83 million). To accommodate the many opportunities for (water) infrastructure projects, Tahal signed an agreement in July with a private equity investor (FIMI) to provide funds of up to USD 50 million (approx. EUR 40 million).

The Israeli automotive activities presented improved results in H1-2010 on the back of strong macro developments.

Outlook 2010 ²

In the Real Estate division, the portfolio of yielding properties in CEE should increase in 2010 by another 50,000 sqm due to the completion of shopping centres in the Czech Republic and Bulgaria. Residential sales in CEE will remain low due to the difficult markets and the increasing focus on commercial real estate. In China, we anticipate lower apartment sales in the second half of 2010 due

²: Reference is made to the disclaimer at the end of Part 1

to the measures taken by the government to cool down the property market. In Q4-2010, GTC China expects to open its first shopping mall in Chengdu.

Based upon the results in H1-2010 and assuming no deterioration of the Real Estate markets in which we are active, profit from operations before tax and financing expenses should be positive.

In Financial Services (mainly Banking and Lending) in CEE, the economic environment in Russia has shown signs of improvement. In the other countries where we operate, such as in Bulgaria, Romania and Ukraine, circumstances are more challenging. We expect that, on balance, lending activities should increase and provisions for bad debt will decrease throughout the full year 2010. On the other hand, profits on the investment in bonds should be lower as further upside will be limited. Overall, profit from continuing operations before tax in this sector may not end positive in 2010.

In the (Water) Infrastructure division, due to completion of waste water treatment plants in China in 2009 and 2010 (Tahal Assets) and the increase of backlog for the design, engineering and construction activities (Tahal Projects), management expects an increase in revenues and gross margins in 2010. Profit from operations before tax and finance expenses are expected to be positive.

About Kardan

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

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

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

Total assets as of June 30, 2010 amounted to EUR 6.5 billion (December 31, 2009 and June 30, 2009 respectively EUR 5.6 billion and 5.4 billion) with revenues of EUR 400 million in H1-2010 (EUR 753 million in 2009 and EUR 353 million in H1-2009).

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

For further information please contact:

Jan Slootweg
Management Board member Kardan N.V.
Office +31 (0)20 305 0010
www.kardan.nl

Caroline Vogelzang
Director Investor Relations
+31 (0)20 305 0010
Vogelzang@kardan.nl

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



KARDAN N.V.

SEMI ANNUAL FINANCIAL REPORTS 2010

The Semi Annual Financial reports contain the following sections:

PART 1 MANAGEMENT REPORT FOR THE 6 MONTHS PERIOD ENDED ON JUNE 30, 2010

1. Developments of divisions of Kardan and the respective markets
2. Main events in the period (January 1- June 30, 2010)
3. Subsequent events
4. Results and equity attributable to equity holders of Kardan
5. Value of investments of Kardan
6. Financial position of Kardan Group as of June 30, 2010
7. Risk management and Israeli Sox
8. Segmental key indicators for the period
9. Management declaration

PART 2 ADDITIONAL INFORMATION

1. Financial analysis of consolidated interim balance sheet, income statement and cash-flow statement
2. Fair value disclosure
3. Issuance of debt
4. Immaterial transactions procedure
5. Procedures for approving the financial statements

PART 3 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Condensed interim consolidated balance sheet
Condensed interim consolidated income statement
Condensed interim consolidated statement of comprehensive income
Condensed interim consolidated statement of changes in equity
Condensed interim consolidated cash flow statement
Notes to the condensed interim consolidated financial statements
Auditor's review report

PART 1³ MANAGEMENT REPORT FOR THE 6 MONTHS PERIOD ENDED ON JUNE 30, 2010

1.1 Development of divisions⁴ of Kardan and the respective markets

For the sake of clarity, the explanations of the following paragraphs 1.1 and in 2.1 are based upon the consolidated figures, thus including minority interests, unless specifically stated differently. Details on the percentage of ownership can be found in paragraph 1.5.

Details of division and segment results can be found on pages 21 and 22 of the Financial Statements.

Real Estate

Kardan is active in development and management of Real Estate mainly through GTC SA and GTC China, as well as through GTC Investments in Western Europe and Kardan Real Estate in Israel.

The largest holding, GTC SA, in which Kardan has a controlling 43% stake, operates mainly in Central and Eastern Europe. GTC China, 100% owned by Kardan, develops residential real estate in Tier 2 and Tier 3 cities in China, and focuses on developing mix use projects and operating commercial real estate as well.

In the first half year of 2010, the Real Estate division generated EUR 98 million revenues⁵ (H1-2009: EUR 129 million). Net profit attributable to equity holders of Kardan N.V. in H1-2010 amounted to EUR 2 million (H1-2009: loss of EUR 12 million).

General market developments Central and Eastern Europe (GTC SA)

Interest from tenants, both in the office market as well as in the retail market, is picking up, particularly in Poland, leading to effective rental rates firming up in Warsaw. Rental rates for offices are expected to pick up due to limited new office space supply. Yield compression is visible in office transactions in Warsaw.

In secondary cities and other CEE and SEE markets rental rates remain weak. The investment market has shown a sharp increase in transaction volumes (retail CEE: 34% q-o-q); however, the market is still volatile. The investment focus is on Poland and the Czech Republic mainly.

Residential Market: In the first half of 2010, banks in Poland became more willing to grant mortgage loans as interest rates remained low. However, sales in Q2-2010 lagged those of Q1-2010, and H2-2010 sales figures were 16% lower than in H1-2009. This indicates that buyers are still holding back. This sentiment, in general, can be seen in other CEE countries as well.

Developments GTC SA

- Total revenues from operations (EUR 78 million) decreased by 7% y-o-y, mainly due to lower income from residential sales (EUR 17 million vs. EUR 40 million in H1-2009) as completions were postponed and due to slower demand. Rental income increased 41% y-o-y to EUR 61 million, driven by income from newly completed buildings and improved occupancy rates in some of the existing buildings. The operating margin on rental activity was maintained at 78%. The gross margin on operations increased 16% y-o-y, to EUR 48 million.
- As of June 30, 2010 investment property was revalued based on external valuations. The profit from revaluation amounted to EUR 13 million in H1-2010. Yield compression, higher

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

⁴ For the percentage of ownership reference is made to paragraph 1.5

⁵ Reference is made to the Segment Information in the Financial Statements, page 21

occupancy and increased income were the main reasons for the higher valuation of some assets. In total, occupancy decreased, mainly due to opening of two office buildings in Q2-2010 with low occupancy. Profit from operations before tax, finance expenses and share of profit in associates in H1-2010 increased to EUR 50 million (+226% y-o-y).

- In general, GTC SA maintains a low average interest rate on its loan portfolio. In H1-2010 however, financial expenses were EUR 35 million (vs. EUR 21 million in H1-2009) mainly due to an increase of the loans for the investment property portfolio by approximately EUR 350 million compared to June 30, 2009.
- The net profit of EUR 3 million was also impacted by one-off tax expenses, mainly relating to appreciation of assets in local currency as well as impact of interest expenses for which deferred tax assets cannot be recognized.
- The balance sheet of GTC SA remains strong with EUR 203 million in cash and short term-deposits, while 50% of the debt matures in 2015 or later. The leverage ratio net of cash (54%) showed moderate increase due to borrowing and investing into assets that are not revalued yet. Residential inventory decreased as a result of delivery of completed apartments. The average occupancy rate is 90% with the exception of three buildings where vacancy is as yet significant but expected to improve in the coming quarters, which also holds true for retail centres in Romania.
- GTC SA focuses on cash and cash flow. A slow down on investment activity to EUR 200 million per year (versus approx. EUR 320 million in 2009) in line with market circumstances had been implemented. Lenders, such as the EBRD, extended to GTC SA EUR 100 million in new construction loans for projects in Warsaw, Croatia, Bulgaria and Slovakia. The average interest rate remained unchanged at approx. 6% per annum.
- During H1-2010, in line with improving market sentiment, GTC SA saw a turnaround in terms of new acquisitions and disposal of assets. A joint venture agreement was signed for the development of a modern shopping centre in one of the most affluent residential districts of Warsaw. Also, GTC SA agreed to sell two office buildings in Warsaw, Nefryt and Topaz, to an international investor.
- GTC SA's reputation as a developer of high quality assets resulted in conclusion of the largest pre-let office transaction in Poland in 2010, as the entire fourth building (about 13,000 sqm net rentable area) in Platinum Business Park in Warsaw was leased to Aviva Group.
- In 2011 and 2012 GTC SA plans to complete approximately 250,000 sqm of net office and retail space. In the first half of 2010, completions included office buildings in Katowice, Łódź and Budapest (GTC Metro), whilst for the second half of 2010 shopping centres in Prague and Stara Zagora (Bulgaria) are expected to be completed.
- Currently, GTC SA holds 517,000 sqm of net rentable office and retail space. As per June 30, 2010, the average yields in the valuation of GTC SA's investment property were:

	Poland	Other countries
Completed Property	7.4%	8.2%
Property under construction	7.7%	9.5%

General Market Developments in China (GTC China)

China's economy continues its strong growth, albeit at a slower pace. China's growth rate slowed to 10.3% in Q2-2010, down from 11.9% in the previous quarter, as the Government made efforts to cool the overheating economy. China's GDP in FY 2009 grew by 9.1%. In order to curb credit growth and combat soaring property prices, the Chinese government enacted tough property policies in April to reduce speculation. Analysts expect property policies will stay tight in H2-2010. Consequently, they have lowered China's growth projection for 2010 to 10.1% from 11.4%. The CPI is expected to rise throughout 2010 by 2.9%. It is expected, however, that China will maintain a moderately loose monetary policy throughout 2010.

Property Market

The fundamentals of China's property industry are strong: supported by strong GDP growth, increase in disposable income, urbanization in Tier 2 and Tier 3 cities (where GTC China operates) and higher demand. This will continue to keep demand high for new residential space. Increases in private consumption are driving the need for commercial centres throughout China. The reforms in the capital markets, which will allow financial institutions to invest in the property market, will increase the value of commercial properties in the coming years.

Developments GTC China

GTC China is mainly active in the residential and commercial real estate markets.

- In Q1 and Q2 of 2010, GTC China signed contracts for the sale of 990 and 921 apartments respectively. This is a significant increase in comparison to apartment sales in Q1 and Q2-2009 of 291 and 472 respectively. In the second quarter of 2010 the number of delivered apartments amounted to 514 versus 172 in Q1-2010. In comparison, in Q2-2009 the number of apartments handed over to buyers was 874 vs. 230 in Q1-2009. The decrease of deliveries in 2010 is due to the relatively low number of sales contracts concluded in 2008, when fewer apartments were sold due to economic measures taken by the government to cool down the economic growth.
- The Chinese government's current policy will have a negative impact on the sales volume in the second half of the year, though the impact is partly mitigated due to GTC China's strategy:
 - GTC China generally constructs apartments for first time home owners' self use and not for speculators. It is expected that the construction of these apartments will continue to be promoted by the Chinese government.
 - GTC China constructs its projects in phases, following the demand. The number of unsold apartments for which construction starts is limited.
- In Q1-2009, GTC China commenced the construction of a shopping mall with 34,544 sqm of net rentable area in Chengdu (Western China). It is expected that the shopping mall will be opened in Q4-2010. By the end of June 2010, over 40% of the mall was preleased. Currently, 54% of the mall is preleased and signing of prelease agreements for an additional 17% is pending.

Financial Services (KFS)

Kardan operates in the financial services sector through its 99% holding in KFS, which owns 90% of TBIF (banking and lending) and 40% of TBIH (Insurance and Pension). In July 2010, KFS signed an agreement to sell its shares in TBIH as further described under paragraph 1.3.

TBIF is active in the field of banking, consumer finance, leasing, mortgages and asset management in Russia and Ukraine mainly through its 66% stake in Sovcombank (Russia) and its 63% stake in VAB Bank (Ukraine), and in Romania and Bulgaria.

Revenues ⁶ in H1-2010 for KFS amounted to EUR 100 in comparison to EUR 67 million over the same period in 2009, out of which EUR 65million (H1-2009: EUR 35 million) attributable to TBIF and EUR 35 million (H1-2009: EUR 32 million) to TBIH. Over the first half of 2010, KFS's net profit attributable to equity holders of Kardan was break-even, consisting of a net loss of EUR 30 million (H1-2009: loss of EUR 25 million) for TBIF and a profit of EUR 30 million for TBIH in comparison to a profit of EUR 15 million over the same period last year.

General Market Developments CEE/CIS

Russia

Economic activity improved in Q2-2010 as a result of a recovery in domestic demand and a pick-up in bank lending. Analysts, however, have reduced growth expectations for H2-2010 (now at 5.3%) from earlier more optimistic expectations. The unemployment rate fell further and real wages have regained most of the crisis fall, but real disposable income remains far below the pre-crisis levels. The fiscal deficit this year will likely turn out to be lower than initially planned by the government due to higher than budgeted oil prices and a faster recovery in economic activity.

⁶ Reference is made to the Segment Information in the Financial Statements, page 21

Banks are gradually starting to expand their loan portfolios again. Recovery in investment, particularly credit-dependent construction, has also begun to catch up. Retail banking, primarily consumer lending, should be the main driver for the sector, while corporate lending growth will be subdued. Contracting net interest margins continue to be the main challenge for Russian banks this year.

Ukraine

Due to a surge in the export-oriented sectors and resumed cooperation with the IMF, the outlook for Ukraine has improved. The IMF's new lending program should substantially ease Ukraine's budget deficit financing pressures for the rest of the year by providing direct budget support and reopening access to other external financing for the country. Consequently, S&P upgraded Ukraine's sovereign rating by one notch to B+. However, two main risks remain: 1) the economy might lose momentum as underlying domestic demand remains weak and 2) implementation of the strict conditions of the IMF program.

After a 15.1% contraction in the Ukraine GDP in 2009, growth has rebounded strongly in H1-2010 on the back of export-oriented sectors benefiting from higher steel prices and a pick-up in activity from Ukraine's main trade partners. The Hryvna strengthened against the Euro. Analysts are concerned though that the strong growth will not be sustained in the coming quarters as steel prices have dropped on concerns of the global recovery slowing down in H2-2010, and the pace of growth in key export markets, EU and Russia, looks likely to be lower in Q3 after an exceptionally strong Q2. The CPI continued to decelerate, with 2010 expectations now at 10%, well below 2009 CPI of 15.9%. Public confidence in the banking system continues to improve leading to growth of deposit taking by local banks. As unemployment remains high, banks' lending is unlikely to pick up meaningfully this year.

Bulgaria and Romania

In Bulgaria and Romania, where KFS is mostly active in non-banking leasing and consumer finance, the economy remains challenging due to a significant drop in capital inflows and measures taken to reduce fiscal deficits which, on the short term, reduce purchasing power and demand for our products.

Romania has met IMF and EU conditions for continuing the EUR 20 billion bailout program, by cutting public spending, including public sector wages, and raising VAT. Given the weakness of the economy, IMF forecasts 0% growth for GDP in 2010. With the crisis mostly hitting the SME companies, there is still little demand for leasing or consumer financing.

In **Bulgaria**, the economy has bottomed out in Q4-2009 and has started to improve, with exports expanding at a healthy pace. However, it will not be enough to generate a sustained revival as domestic demand remains weak. Wages and employment are still under pressure. Consequently, there is still very little demand for consumer financing and leasing. GDP is expected to decrease 1% this year and to pick up growth to 1.8% in 2011 due to anticipated growth of net exports.

Developments KFS

Banking and Lending

Sovcom

- As a result of the improving macroeconomic environment, Sovcom (Kardan's bank in Russia) reported strong H1-2010 operating and net results. The deposit taking and lending have increased compared to December 31, 2009.
- The loan portfolio of Sovcom before deduction of provisions (gross loan portfolio) in H1-2010 increased by 32% to EUR 515 million in comparison to December 31, 2009, of which 52 % was retail. EUR 61 million of the increase was due to the weakening of the Euro against the Rouble.
- The non-performing loans overdue for more than 90 days (NPL) decreased from 6.8% as at December 31, 2009 to 6.6% as at June 30, 2010. The downward trend of provisions for bad loans continues: as at June 30, 2010 provisions represented 8.4% of the portfolio whereas this percentage amounted to 13.7% at year end 2009.
- The outstanding deposits increased by EUR 113 million from EUR 517 million as of December 31, 2009 to EUR 630 million as at June 30, 2010. EUR 75 million of the increase is due to the

weakening of the Euro against the Rouble. The retail deposits count for 81% of the total deposits (December 31, 2009: 78%).

- As a result of the developments, the loan to deposit ratio as at June 30, 2010 is 82%, in comparison to 75% as at December 31, 2009. The over-liquidity of the bank is partly used to invest in bonds of reputable companies and municipalities.
- The net profit of Sovcom in H1-2010 amounted to EUR 13.9 million versus a loss of EUR 18.1 million in H1-2009.

VAB Bank

TBIF increased its stake in VAB Bank from 49% to 63% in the first quarter of 2010. Consequently, the balance sheet of VAB Bank is fully consolidated as of March 31, 2010, and the results for the second quarter of 2010 have been fully included in the results for the first half of 2010.

- In line with the cautious sentiment in the country, the increase in deposits was vastly higher than the increase in loans. In the first half of 2010, deposits showed an increase of 45% to EUR 372 million versus December 31, 2009 (EUR 256 million), whereas the gross loan portfolio in H1-2010 grew with 14% to EUR 606 million in comparison to the EUR 533 million as at December 31, 2009. The weakening of the Euro against the local currency (Hryvna) accounted for a substantial part of the increases. Eliminating the exchange rate impact, the gross loan portfolio decreased by 4% and deposits increased by 22%.
- Of the total loan portfolio, 19% is overdue for more than 90 days (June 30, 2010), a continuation of the upward trend of the previous quarters (December 31, 2009: 15.5%). The provisions also continued to grow to a level of 18% as of June 30, 2010 (December 31, 2009: 14.6%), evidence to the fact that the economy is still weak.
- As a result of the developments, the loan to deposit ratio as of June 30, 2010 amounted to 163% in comparison to 208% as at December 31, 2009. In addition to deposits, the loan portfolio is funded through a line of support from the National Bank of Ukraine amounting to approximately EUR 80 million, and a bond amounting to EUR 100 million.
- The net loss of VAB Bank in H1-2010 amounted to EUR 23 million versus a loss of EUR 19 million in H1-2009. The increase of the loss is mainly due to increase in provisions.

The other financial services activities, which include non-banking leasing and consumer finance (mainly in Romania and Bulgaria), experienced a decrease of portfolios in all lines of business. The main reason for this is the challenging economic situation in those countries.

Insurance and Pension

At the end of 2009, KFS and VIG agreed to a change of control whereby VIG would obtain full control over TBIH earlier than the originally scheduled date of December 31, 2010 (whereas prior to such changes it used to be joint control). This change of control came into effect in June 2010. In July 2010, KFS announced that it had signed an agreement to sell its 40% stake in TBIH to Vienna Insurance Group, pending regulatory approvals.

Net profit attributable to equity holders of Kardan doubled to EUR 30 million in comparison to H1-2009 (EUR 15 million). Due to the change of control in TBIH, Kardan recorded a profit of EUR 24 million in Q2-2010, and a profit appertaining to a revaluation of a put-option of EUR 7 million in Q1-2010. In the first half of 2009, Kardan recognized a capital gain of EUR 16 million on the sale of part of the activities of TBIH to VIG.

Water Infrastructure (Tahal)

Kardan is active in the infrastructure business and operates as a leading international engineering company, specializing in water-related infrastructure projects and water-related asset ownership through its 100% owned subsidiary Tahal Group International. Projects take place and assets are owned in approximately 40 countries, primarily in China, Africa and Israel.

Tahal Projects engages in two basic types of projects: engineering, procurement and construction (EPC) projects as well as design projects. Tahal Assets invests in water-related assets such as municipal water systems, desalination plants, waste water treatment plants and hydro power plants, mainly in China, Israel and Turkey. During the development phase these assets, like in real estate, do not generate cash. After completion of the development phase, water is delivered to municipalities and industrial areas on the basis of long term concession rights (twenty to thirty years).

Global Market Developments

The global water infrastructure market continues to be very robust. Population growth and industrial expansion continue to fuel the growing global demand. At the same time, the world's fresh water supply is shrinking due to pollution, draining of underground aquifers and climate change. According to Global Water Intelligence, despite the global economic crisis in 2009, the water market grew over 8.2% y-o-y to a value of nearly EUR 350 billion. The water market is expected to continue to grow in developing countries and in China (Tahal's regions of activity) by 10% and 20% over the next several years versus 3% to 5% in developed countries respectively.

Lack of funding is the main challenge faced by companies bidding for and developing projects. Financial institutions are restrictive in lending due to the deleveraging that is still in process.

Developments Tahal

- Revenues ⁷ in H1-2010 for Tahal Group International amounted to EUR 82 million in comparison to EUR 64 million over the same period in 2009, out of which EUR 51 million (H1-2009: EUR 40 million) was generated by Tahal Projects and EUR 31 million (H1-2009: EUR 24 million) by Tahal Assets. Net profit over the first half of 2010 attributable to Kardan equity holders amounted to EUR 2 million (H1-2009: break even) for Tahal Projects and to a loss of EUR 1 million for Tahal Projects (equal to the result over the same period last year).
- Tahal Projects' backlog increased 23% to EUR 223 million from EUR 181 million as at December 31, 2009. New orders received during the first half of 2010 amounted to EUR 83 million. As most orders are denominated in US Dollars, currently there is a substantial negative impact in the result due to currency translations. The main region that contributed to the growth is Africa.
- In Q1-2010, the plant in Dazhou (China) became operational. In addition, Tahal Assets won a tender in China for the acquisition of a waste water treatment plant in Xuanhua with a capacity of 120,000 cubic meters per day. The transaction is expected to be closed in the first half of 2011.

Kardan is active in Israel in the Rental and Leasing of Vehicles and Sale of Vehicles segments. Kardan holds a 74% stake in Kardan Israel. It is the intention of Kardan to decrease its holding in Kardan Israel to improve the transparency of the company.

General Market Developments Israel⁸

Throughout the economic crisis, Israel outperformed most countries in which Kardan is active. Israel's GDP growth rose 4.1% in H1-2010 and is expected to continue its recovery throughout H2-2010 and 2011, driven by private consumption. FY-2010 growth is expected to be 3.7% with only some inflationary pressure. There has been some slowdown in overall economic activity in recent months. But there is still some strong monetary stimulus coming through, and the economy is unlikely to stall in the coming quarters. Accordingly, the Bank of Israel is expected to continue to remove monetary stimulus gradually as it is still concerned about growing external risks, mainly the fiscal crisis unfolding in the Euro-zone and the ongoing slowdown in the US.

⁷ Reference is made to the Segment Information in the Financial Statements, page 21

⁸ This reflects market developments for both Rental & Leasing of vehicles as well as for Sale of vehicles

Rental and Leasing of vehicles

In this segment Kardan N.V. is active through AVIS Israel, of which it indirectly holds 24%. (Subsequent to the balance sheet date Kardan N.V. increased its indirect stake to 30%).

Developments of Rental and Leasing of vehicles

Due to the improving general market conditions, both finance availability and second hand vehicle prices improved since Q1-2010.

Developments AVIS Israel

The increase in prices of second hand vehicles and leasing, and a slight increase in the number of cars to be leased led to an increase of revenues of 6% y-o-y to EUR 87 million in H1-2010. In addition, due to lower interest expenses and reduction of the amortization rate of the car fleet from 15% to 14.5%, net profit significantly improved in H1-2010 versus H1-2009.

Sale of vehicles

Developments of sale of vehicles

In light of the improving general market conditions, Israeli automotive sales market increased by 33% in H1-2010 y-o-y (Q2-2010: 36% y-o-y) with approximately 104,000 vehicles being handed over in H1-2010. In this segment, Kardan owns a 30% indirect stake of UMI, the exclusive importer of the core brands of General Motors in Israel; Chevrolet, Buick and Cadillac.

Developments UMI

Due to an improved mix of more profitable vehicles and strengthening of the Israeli Shekel, net profit more than doubled y-o-y.

1.2 Main events in the period (January 1 – June 30, 2010)

Kardan

- In May 2010, Maalot, the Israeli subsidiary of Standard & Poor's, downgraded the rating of the debentures issued by Kardan to iIBBB+, outlook negative from iIA-, outlook negative. The negative outlook is due to the concern of Maalot that the economies in which Kardan is active will deteriorate.
- In May 2010, the board of directors of Kardan Israel Ltd. decided to purchase shares of Kardan N.V. on the stock exchange up to an amount of NIS 30 million (approximately EUR 6 million). In May and June 2010, Kardan Israel purchased approximately 1.5 million shares of Kardan N.V. in consideration for EUR 5 million. That amount is deducted from Kardan N.V. shareholders equity. Following those purchases, as at June 30, 2010 Kardan Israel's stake in Kardan N.V. is approximately 11%.

Real estate (GTC)

- In March 2010, GTC SA agreed on the terms of a joint venture with Polnord SA for the development of a modern shopping mall in Wilanow, one of the most affluent residential areas of Warsaw, Poland. The approximate size of the mall is 60,000 sqm. The construction is planned to start in H2-2010, after the receipt of the building permit. In May 2010, the joint venture agreement was signed.
- In May 2010, GTC SA signed a letter of intent with an international investor for the sale of two of its office buildings in Warsaw with a total area of approximately 27,000 sqm. The transaction reflects a price of about EUR 3,000 per net sqm and yields of 7.0 - 7.2% on current income. Closing of the transaction is also subject to due diligence.

Financial Services (KFS)

- In January 2010, TBIF signed an agreement to purchase additional shares in VAB bank, which will increase its stake in VAB Bank from 63% to 98%, subject to certain conditions precedent to be fulfilled by the seller and approval from Ukrainian authorities. The price to be paid is approximately EUR 24 million. As announced in January 2010, closing of the transaction was not expected before Q2-2010, and closing did not take place so far. In parallel and subsequent to the balance sheet date, 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, upon completion of the official registration procedures will increase from 63.0% to 71.3%.
- In March 2010, VAB Bank refinanced debentures in the amount of approximately EUR 90 million. Maturity was extended from June 2010 to June 2014, the interest rate increased from 10.125% to 10.5%. Investors who voted in favor of the restructuring before March 19, 2010, have received a prepayment of 10% of the principal.
- In April 2010, the 31% co-shareholder in the Russian bank Sovcom expressed its intention to exercise a call option to buy 19% of the shares in Sovcom Bank from TBIF. The option should be exercised before September 3, 2010. After closing of the transaction, TBIF and the buying shareholder will each own 50% of Sovcom Bank. If the option will be exercised, the cash consideration expected from the sale of the shares amounts to approximately EUR 36 million. The final purchase price will be determined upon closing. Although the accounting implications of this transaction are still under investigation, if the option is exercised and based upon the positions as of June 30, 2010 Kardan is expected to record a gain.
- In June, 2010, Kardan announced that as of June 30, 2010 the joint control arrangement between Vienna Insurance Group and Kardan Financial Services over TBIH Financial Services Group N.V. would terminate. TBIH is active in Insurance and Pension in Central and Eastern Europe. Up to June 30, 2010 the partners jointly controlled TBIH in which VIG holds 60% and KFS 40%. As a result, as of June 30, 2010, Kardan and KFS ceased to proportionately consolidate the financial statements of TBIH and from that date the investment in TBIH is presented according to the equity method.

(Water) Infrastructure (Tahal)

- In January 2010, the government of Angola awarded Tahal a contract for a project for the development, construction of the water supply, sewage and drainage system for a new rural settlement and the irrigation of farm land. The expected revenue from this agreement is EUR 143 million.
- In January 2010, Tahal assets won a tender in China for the acquisition of a waste water treatment plant in Xuanhua (180 km from Beijing) with a capacity of 120,000 cubic meters per day. The purchase price amounts to approximately EUR 28 million. The transaction is expected to be closed in Q3 2010.
- In May 2010, Tahal closed a transaction for the planning, construction, expansion and upgrading of drinking water systems in three regions in Ghana. The total revenues of this project should amount to approximately EUR 83 million. The agreement for the transaction was concluded with Ghana Water Company Ltd. A down payment of approximately EUR 13.3 million was received and the agreement came into force. The project is expected to take approximately three years from commencement until completion. Commencement of the project is subject to the finalization of certain administrative procedures.

Kardan Israel

- In June, 2010, Kardan Israel announced that Kardan Communications Ltd., a wholly owned subsidiary of Kardan Israel had completed a transaction to sell its 45% stake in Teledata Networks Ltd. to Enablece Technologies Inc., a Canadian listed company. Following completion of the transaction, Kardan N.V. recorded a capital gain of approximately EUR 6 million.

1.3 Subsequent events

Financial Services (KFS)

- In July 2010, KFS signed an agreement to sell its 40% holding in TBIH to Vienna Insurance Group, which already held 60% of TBIH. The consideration of approximately EUR 126 million will mainly be used to reduce the overall debt of KFS. In addition to the sale transaction, KFS is buying from VIG a transferable five year call option for EUR 10 million to purchase 92.6% of the shares of Doverie Pension Fund AD, the leading Bulgarian pension fund currently owned by TBIH. The exercise price of this call option is EUR 150 million for the first three years and EUR 160 million for the last two years. This call option will allow KFS to benefit from a potential increase in value of this Bulgarian pension fund as the improvement in the global financial markets continues. Doverie, with a market share of 33% in Bulgaria, has 1.3 million members. In 2009 the company reported revenues of EUR 12.1 million, a profit of EUR 3.8 million with total assets of EUR 567 million.

(Water) Infrastructure (Tahal)

- In July 2010, Tahal Group International signed an agreement with FIMI, an Israeli private equity fund, pursuant to which FIMI undertakes to provide Tahal a loan of up to USD 50 million (approximately EUR 40 million). According to the agreement, FIMI would receive warrants in an amount of up to USD 50 million (approximately EUR 40 million) to purchase an equity stake in Tahal based on a pre-money company valuation for Tahal 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 transaction was closed in August 2010.

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

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

Breakdown of the net result for equity holders of Kardan N.V. (EUR million) ⁹	H1-2010	H1-2009	Q2-2010	Q2-2009	FY 2009
- Real Estate	2	(12)	(1)	(9)	(63)
- Financial Services – Banking and Lending	(30)	(25)	(13)	(11)	(29)
- Financial Services – Insurance and Pension	30	15	23	17	19
- (Water) Infrastructure – Projects	2	-	2	(1)	2
- (Water) Infrastructure – Assets	(1)	(1)	(1)	(2)	(4)
- Rental and Leasing of vehicles	2	(2)	-	(1)	1
- Sale of vehicles	4	2	2	-	5
- Other	(8)	(10)	2	(8)	(23)
Total net result attributable to equity holders	1	(33)	14	(15)	(92)
Profit (loss) per share (EUR)	0.01	(0.55)	0.14	(0.34)	(0.91)
Profit (loss) per share diluted (EUR)	-	(0.55)	0.13	(0.34)	(0.92)

⁹ The table shows the contribution of each of the businesses to the results of Kardan. As profits attributable to minority shareholders have already been deducted, these figures do not represent the full net result realized in each segment.

Kardan N.V. – balance sheet (non consolidated)	June 30, 2010	December 31, 2009	June 30, 2009
Total Assets (in EUR million)	1,037	909	987
Total Equity (in EUR million)	368	293	343
Equity/Total assets (%)	35	32	35

- **First Half 2010 results**

The net profit attributable to equity holders of Kardan N.V. amounted to EUR 1 million in the first half of 2010, compared to a loss of EUR 33 million in the same period in 2009.

Real Estate (GTC)

The net results of GTC increased by EUR 14 million to a profit of EUR 2 million in H1-2010 (H1-2009: loss of EUR 12 million) as a result of the following:

- The profit of the GTC's operating companies net of tax in H1-2010 amounted to EUR 6 million, which is an improvement of EUR 12 million compared to the loss of EUR 6 million in the same period of last year. The main elements of the improved result are:
 - In H1-2010 the total revaluation profits net of tax amounted to EUR 11 million (H1-2009: loss of EUR 9 million). GTC China recorded a revaluation profit net of tax of EUR 10 million (H1-2009: nil) on the shopping centre under construction in Chengdu, for which completion is expected in Q4-2010. The profit is the result of the progress in construction and advancing in pre-leasing of the mall. GTC SA booked a revaluation profit net of tax of EUR 3 million (H1-2009: loss of EUR 9 million), the first positive revaluation result since Q4-2008. Slightly decreasing yields and improving rents in some of the properties were the drivers for the positive revaluation. In Israel, an impairment loss amounting to EUR 2 million was recognized due to uncertainties with regard to getting building permits for the second phase of the "Holyland" project in Jerusalem (H1-2009: nil).
 - Losses from the operating companies before tax, excluding revaluation results, amounted to EUR 3 million. This was caused by the Chinese operations which delivered a relatively low number of apartments in the first half of 2010.
 - Income taxes other than taxes relating to the revaluation results amounted to EUR 2 million, similar to last year's first six months.
- Finance expenses and general and administrative expenses on the level of GTC Real Estate Holding, the holding company of the Real Estate division, amounted to EUR 4 million (H1-2009: EUR 5 million).

Financial Services (KFS)

KFS realized a break-even result in H1-2010, a significant improvement compared to the H1-2009 net loss of EUR 10 million. The profit can be explained as follows:

The Banking and Lending segment (TBIF) recorded a net loss of EUR 30 million in H1-2010 versus a net loss of EUR 25 million in H1-2009. The main elements of the results are:

- The result of the operating companies (excluding provisions) net of tax amounted to a profit of EUR 19 million in H1-2010 (EUR 21 million in H1-2009).
- Provisions on the loan portfolio decreased to EUR 27 million in H1-2010 from EUR 43 million in H1-2009, due to lower non-performing loans in Russia resulting from the significant improvement of the economy.
- Net finance expenses relating to the funding of acquisitions and equity investment of the operational companies, and general and administrative expenses less other income of the holding companies, of this sector amounted to EUR 5 million in H1-2010 (H1-2009: EUR 3 million).
- In H1-2010, TBIF increased the holding in VAB Bank from 49% into 63%. According to IFRS this transaction is recorded as two transactions: on the one hand the "sale" of the (joint controlled) 49% stake and on the other hand the "acquisition" of (majority controlled) 63% of the shares. The "sale" resulted in the recognition of a net loss amounting to EUR 16 million mainly due to releasing the foreign exchange translation reserve on this investment to the

income statement. In prior years, these translation results, created due to the devaluation of the local currency against the Euro, were already recorded directly in Equity.

The Insurance and Pension segment (TBIH) contributed a profit of EUR 30 million in H1-2010 versus a profit of EUR 15 million in H1-2009. This result can mainly be explained as follows:

- The net loss of the operating companies in H1-2010 was EUR 1 million (H1-2009: loss of EUR 5 million).
- At the end of 2009, KFS and VIG, the partner in TBIH, agreed that the control over TBIH would be transferred to VIG. Regulatory approvals for this change of control were received in Q2-2010. After June 30, 2010 KFS signed an agreement with VIG to sell its 40% holding in TBIH to VIG for an amount of approximately EUR 126 million. Due to the change of control in TBIH, Kardan recorded a profit of EUR 24 million in H1-2010. In addition, in Q1-2010 a EUR 7 million revaluation profit was realized appertaining to a put-option. In the first half of 2009, Kardan recognized a profit of EUR 3 million due to revaluation of the put option referred to before, and a capital gain of EUR 16 million on the sale of part of the activities of TBIH to VIG.

(Water) Infrastructure (Tahal)

Tahal realized a profit of EUR 1 million in H1-2010 versus a net loss of EUR 1 million in H1-2009. Tahal operates through two segments: Tahal Projects and Tahal Assets.

- Tahal Projects realized a profit of EUR 2 million (H1-2009: break even). The increase is mainly the outcome of increased revenues to EUR 51 million (+ 29%).
- The pipeline increased from EUR 181 million as at December 31, 2009 to EUR 223 million as at June 30, 2010; the pipeline does not include the project in Angola with an expected value of EUR 143 million (reference is made to par. 1.2). This project will be added once the first advance payment for the project is received.
- Tahal Assets realized a net loss of EUR 1 million (H1-2009: loss of EUR 1 million). Increased revenues to EUR 31 million (+ 29% versus the first half of 2009) resulted in a higher operating profit off-set by increased finance expenses and tax. In H1-2009, the net result was impacted by a loss on the impairment of assets (EUR 3 million) and capital gain realized on the increase of the share in the Chinese water activities (EUR 2 million).

Rental and Leasing of vehicles

The segment made a profit of EUR 2 million in H1-2010 (H1-2009: loss of EUR 2 million). The increase in second hand vehicle prices contributed to an increase of 7% in revenues in Q1-2010, y-o-y. In addition, the net profit significantly improved due to lower interest expenses and reduction of amortization rate of car fleet from 15% to 14.5%.

Sale of Vehicles

In H1-2010, the contribution of UMI (General Motors franchiser in Israel) to the profit for equity holders of Kardan was EUR 4 million (H1-2009 EUR 2 million). In H1-2010, revenues increased by 27% y-o-y due to improved market conditions. Gross profitability improved from 15.2% to 17.4%.

Other

Other activities include investments that are relatively immaterial ("Communications and Technology", "Import and Sale of white goods" and "El Har" which performs building construction works in Israel), general and administrative expenses, and finance expenses of Kardan N.V. and Kardan Israel Ltd. The total loss of these activities amounted to EUR 8 million (H1-2009: loss of EUR 10 million).

Due to the sale of an (indirect) stake of approximately 33% in Teledata Networks Ltd, Kardan realized a capital gain of EUR 6 million in H1-2010.

The loss derives mainly from general and administrative expenses and finance expenses related to the funding of the equity investments in subsidiaries of Kardan Israel and Kardan amounting to EUR 17 million in H1-2010 versus EUR 9 million in H1-2009. Due to the revaluation of a forward transaction regarding Kardan N.V.'s Israeli Shekel denominated debentures that were purchased through a subsidiary that did not qualify for hedge accounting and the accounting implications of the hedging transaction, Kardan N.V. recorded in H1-2010 additional EUR 5 million finance expenses compared to H1-2009.

- **Second Quarter 2010 results**

In the second quarter of 2010, the net profit attributable to equity holders significantly increased to EUR 14 million against a loss of EUR 15 million in the second quarter of 2009.

In Q2-2010 the Real Estate division recorded a loss of EUR 1 million, an improvement of EUR 8 million compared to the loss of EUR 9 million in the same period of last year.

The improvement mainly stems from the positive revaluation result net of tax of EUR 5 million versus a revaluation loss net of tax of EUR 10 million in Q2-2009. From the revaluation profits, EUR 2 million were recorded in GTC China and EUR 3 million in GTC SA.

In Q2-2010 the operating companies lost EUR 3 million (excluding revaluation results after tax) and the finance and general and administrative expenses of the holding company amounted to EUR 2 million.

The Banking and Lending segment lost EUR 13 million in Q2-2010, slightly higher than the loss of EUR 11 million in the same period last year. The provisions for bad loans halved in Q2-2010 to EUR 11 million from EUR 23 million in Q2-2009. At the same time, however, the profit made on investment in bonds reduced in Q2-2010 compared to Q2-2009 due to stabilizing bond prices.

The net profit from the Insurance and Pension segment increased from EUR 17 million in Q2-2009 to EUR 23 million in Q2-2010. In Q2-2010, a profit of EUR 24 million stems from the change of control in TBIH. In Q2-2009, the main contribution to the profit was a capital gain realized on the sale of part of the insurance and pension activities to VIG.

The (Water) Infrastructure division realized a net profit of EUR 1 million in Q2-2010 compared to a loss of EUR 3 million in Q2-2009 when an amount of EUR 3 million was lost due to impairment of one of the assets.

The net result attributable to equity holders of Rental and Leasing of vehicles was break-even in Q2-2010, whereas in Q2-2009 a small loss of EUR 1 million was reported, mainly due to lower finance expenses.

Sale of vehicles realized a net profit attributable to equity holders of EUR 2 million in the second quarter of 2010 (Q2-2009: break-even) due to an increase of the gross profit resulting from increased deliveries of new vehicles by 15% to 3,425 units, and gross margin improvement. Higher finance expenses and general and administrative expenses partly off-set the higher gross profit.

The "other activities" contributed a net profit of EUR 2 million versus a loss of EUR 8 million in the second quarter of 2009. The main contributor to the net profit in Q2-2010 is the capital gain on the sale of Teledata Networks Ltd. Finance expenses and general and administrative expenses amounted to EUR 8 million (Q2-2009 EUR 6 million).

- **Equity attributable to the shareholders of Kardan N.V. as of June 30, 2010**

As of June 30, 2010, the shareholder's equity of Kardan increased by EUR 75 million, to EUR 368 million, compared to EUR 293 million at year-end 2009. This increase in the shareholders' equity is resulting from the EUR 1 million net profit recorded in the first half of 2010, and to a large extent from an increase of foreign currency reserves (including the VAB Bank transaction influence; reference is made to page 16, TBIF) and hedge reserves. This increase was partly offset by the loss in Q1-2010.

The solvency ratio (shareholder's equity/total assets) of Kardan as of June 30, 2010 increased and is 35% compared to 32% at year-end 2009.

As a result of transactions in 2010, the net debt position of Kardan as of June 30, 2010 increased to EUR 387 million from EUR 362 million as of December 31, 2009.

1.5 Value of investments Kardan N.V.

The following table summarizes the book value of the companies held directly by Kardan as at June 30, 2010 and December 31, 2009 (amounts in EUR million):

Holding Company	Name of subsidiary	Share in subsidiary	Book Value in Kardan N.V.	Loans granted by Kardan N.V.	Total Investment in books 30.06.10	Total Investment in books 31.12.09
Kardan N.V.	GTC RE Holding (*) (1)	100%	337	90	427	396
	KFS (**) (1)	99.1%	150	101	251	209
	Tahal (2)	100%	13	84	97	107
	Kardan Israel	73.9%	79	-	79	71

(*)

Holding Company	Name of subsidiary	Share in subsidiary	GTC Holding Book Value	Loans granted by GTC Holding	Total Investment in books 30.06.10	Total Investment in books 31.12.09
GTC RE Holding	GTC SA	43.1%	405	-	405	407
	GTC China	100%	168	31	199	161
	GTC Investments	46.3%	6	10	16	16

(**)

Holding Company	Name of subsidiary	Share in subsidiary	KFS Book Value	Loans granted by KFS	Total Investment in books 30.06.10	Total Investment in books 31.12.09
KFS	TBIF	90.4%	148	130	278	255
	TBIH (3)	40%	126	-	126	67

- (1) The main difference in the total investments in GTC RE Holding and KFS as of June 30, 2010 compared with December 31, 2009 is a change in the translation reserves as well as the results of H1-2010.
- (2) The main difference in the total investments in Tahal as of June 30, 2010 compared with December 31, 2009 is a result of dividend distribution in H1-2010.
- (3) This reflects the agreement to sell TBIH to VIG (see also paragraph 1.3)

1.6 Financial Position of Kardan Group as of June 30, 2010

• Maturity loans

Kardan has a decentralized funding structure. This means that Kardan, its direct subsidiaries (all being holding companies of the operational entities), and the operational entities mostly are responsible for the funding of their own activities. As a consequence, within the Kardan group many agreements with lenders are in place with different covenants. Two covenants have not been met. None are of material nature for the Group. Waivers have been received for the relevant covenants.

The following table gives an overview of the cash positions and refinance obligations for convertible and non convertible debentures and other interest bearing loans as at June 30, 2010 for Kardan N.V. and its divisions¹⁰;

¹⁰ The table provides consolidated figures for each division. It should be noted however that the cash and debt positions of an individual company within a division cannot always be compensated with the position of another company. The data in the table do not include the liabilities due to deposit holders of the banking activities in Russia and Ukraine.

EUR Millions	Free Cash & Cash equivalents	Debt/loans maturing					Total
		Before June 30, 2011	Before June 30, 2012	Before June 30, 2013	Before June 30, 2014	After June 30, 2014 and until June 30, 2031	
Kardan N.V.	68	11	6	76	120	437	650
GTC Group	267	151	107	191	242	979	1,670
KFS	429	325	64	72	145	114	720
Tahal Group International	25	46	15	11	13	27	112
Kardan Israel	65	138	40	68	55	115	416
Total	854	671	232	418	575	1,672	3,568

From the total debt payable after June 30, 2014, the total amounts due in the next five years are respectively EUR 478 million, EUR 184 million, EUR 238 million, EUR 136 million and EUR 254 million.

- **Net debt**¹¹

The following table summarizes the net debt of Kardan N.V. and if applicable of its directly owned subsidiaries (company only) as of June 30, 2010:

Company	Net Debt (in EUR million)
Kardan NV	Liabilities: Debentures (*) (501) Loans from banks (55) Assets: Loan to KFS 101 Cash and short term investments <u>68</u> Net debt (387)
GTC RE Holding	Liabilities: Loans from banks (159) Assets: Cash and short term investments = Net debt (159)
KFS	Liabilities: Loans from Kardan N.V. (101) Loans from banks (188) Assets: Cash and short term investments 1 Loans to minority in subsidiary 20 Loans to TBIF <u>130</u> Net debt (138)

¹¹ Net debt includes interest bearing loans and borrowings, debentures and convertible debentures, less cash and cash equivalents and interest bearing receivables

Kardan Israel	Liabilities:	
	Debentures	(46)
	Loans from banks	(49)
	Assets:	
	Loan to subsidiary	8
	Cash and short term investments	<u>16</u>
	Net debt	(71)

(*) Approximately 80% par value of the Debentures are presented in EUR in accordance with the currency hedging transactions

1.7 Risk management and Israeli SOX

1.7.1 Risk Management

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

The annual report 2009 describes the main risks relating to Kardan's strategy, such as interest rate and currency risks, capital availability and financial market risks etc. These risks are deemed incorporated and repeated in this report by reference.

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

Starting Q2-2009 the worldwide capital markets have stabilized; improvement in funding as well as some other positive indicators. Nevertheless, due to concerns regarding the economic situation in some countries like Greece, Spain and Portugal which were reflected in their credit downgrading as well as recent declines in the worldwide capital markets starting Q2-2010, there is uncertainty that the above mentioned economic improvements are signaling the end of the global economic crisis.

1.7.2 Israeli SOX

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

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

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

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

The person responsible for implementation of the project at Kardan is Mr. Jan Slootweg, a member of the Kardan management board.

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

The processes that were identified as very significant to financial reporting and disclosure were as follows:

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

B. The documentation of business processes and the existing internal controls over the financial reporting and disclosure was made on the basis of risk assessment of the internal control.

C. The Company analyzed the existing design gaps in the internal control over the financial reporting and disclosure.

1.8 Segmental Key Indicators for the period

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

Key Indicators

The following tables contain balances as of June 30, 2010 and results for the period of 6 months ending June 30, 2010.

Real Estate

Commercial Properties

Completed

	Unit	Total	Poland*	Other CEE	Czech R. pr**
NRA Pro-Rata to GTC's holdings ("pr")	[SQM '000]	517	286	219	12
Average vacancy*	[%]	18%	16%	17%	68%
Average yield used in valuations	[%]	7.8%	7.4%	8.2%	8.0%
Book value	[EUR mn]	1,609.3	879.6	717.9	11.7

* Two assets have been completed during Q2 2010.

** GTC SA holds c. 32% of the operations and thus does not consolidate the results in the financial statements.

Under construction

	Unit	Total	Poland	Other CEE	Czech R. pr	China pr
NRA pr	[SQM '000]	231	36	141	20	35
Accumulated cost	[EUR mn]	323.7	19.0	205.5	34.7	64.6
Profit from revaluations	[EUR mn]	27.9	(11.3)	14.2	8.0	17.0
Minority interest in commercial properties	[EUR mn]	(35.3)	-	(35.3)	-	-

Residential Properties

Under construction & completed

	Unit	Total	CEE	Czech pr	China pr*
Area pr	[SQM '000]	723	58	8	657
Book value	[EUR mn]	186.1	63.9	18.8	103.4

* The selling rights of areas which are not yet under construction amounts to 834 thousand SQM.

Net Debt

	Unit	Total	CEE	Czech R. pr	China pr
Net financial liabilities (assets)	[EUR mn]	1,127.7	1,133.7	29.5	(35.5)

Financial Services

Banking Activities

	Unit	Sovcom	VAB***	TBI Bulgaria	TBI Romania
Holding Revenues (100%)*	[%]	66%	63%	100%	100%
Net profit / loss (100%)	[EUR mn]	71.1	7.9	8.8	10.3
Equity (100%)	[EUR mn]	14.0	(23.5)	(1.2)	(1.9)
Equity /Total Assets	[%]	95.4	29.8	11.7	31.3
Loan portfolio (100%)**	[EUR mn]	11%	4%	10%	26%
Provisions	[EUR mn]	466.1	497.4	105.2	95.8
Book value in TBIF - equity and loans	[EUR mn]	9%	18%	9%	15%
	[EUR mn]	87.9	46.2	41.5	64.7

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

** According to IFRS.

*** After the balance date, the holding of TBIF increased to 71% following conversion of shareholders loan to equity.

Infrastructure

Projects Segment

Backlog	[EUR mn]	<u>Total*</u> 223
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* In January Tahal signed agreements to execute projects in Angola with expected total revenues of EUR 143mn.

Assets Segment

Book value (incl. shareholder loans)	[EUR mn]	<u>KWIG*</u> 69.1	<u>Task</u> 7.4	<u>Milgam</u> 20.0
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* Includes Dingzou & Xuanhua plants which are currently under other subsidiaries.

1.9 Management declaration

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

(i) The condensed consolidated semi-annual financial statements as at June 30, 2010 and for the six months ended June 30, 2010 give a true and fair view of the assets, liabilities, financial position and the result of Kardan N.V. and of the group companies included in the consolidation;

(ii) The semi-annual directors' report gives a fair view of the information required pursuant to Article 5:25d sub 8 and 9 of the Financial Supervision Act.

Disclaimer

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

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

- CEE Real Estate market: **ING**, *Polish Strategy, July 2010*; **CB Richard Ellis**, *CEE Property Market, H1-2010*
- China Real Estate market: **Goldman Sachs**, *Real Estate Developers, July 2010*; **Jones Lang LaSalle**, *China Property Market Monitor, July 2010*;
- Financial Services market: **Goldman Sachs**, *New Markets Analysis, July 2010*; **IMF website**
- (Water) Infrastructure market: **Global Water Intelligence**, *Global Water Market, July Review*
- Automotive market: **Car Importers Association** (Israel) *website*

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

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

Balance	30.6.10	30.6.09	31.12.09	Notes
Total balance sheet	6,451	5,447	5,633	The increase as of June 30, 2010 compared to December 31, 2009 is mainly a result of the first time full consolidation of VAB Bank following the increased interest from 50% (proportionate consolidation) to 63% (see also the main events in this segment).
Current assets	2,365	1,923	2,064	The increase as of June 30, 2010 compared to December 31, 2009 is mainly a result of the first time full consolidation of VAB Bank following the increased interest from 50% (proportionate consolidation) to 63% (see also the main events in this segment).
Non current assets	4,086	3,524	3,569	The increase as of June 30, 2010 compared to December 31, 2009 is mainly a result of the first time full consolidation of VAB Bank following the increased interest from 50% (proportionate consolidation) to 63% (see also the main events in this segment).
Current liabilities	2,068	1,459	1,600	The increase as of June 30, 2010 compared to December 31, 2009 is mainly a result of the first time full consolidation of VAB Bank following the increased interest from 50% (proportionate consolidation) to 63% (see also the main events in this segment).
Other debentures	1,064	875	866	The increase as of June 30, 2010 compared to December 31, 2009 is mainly a result of the first time full consolidation of VAB Bank as mentioned above and in addition, as a result of Kardan Real Estate's issue of Debentures through an IPO, Kardan Israel debentures issuance and the partial reissuance of Kardan N.V. series A debentures, this balance increased.
Interest-bearing loans and borrowings	1,722	1,476	1,698	The increase as of June 30, 2010 compared to June 30, 2009 is mainly a result of receipt of bank loans for the funding of projects in the GTC Group.
Options	28	51	28	The decrease as of June 30, 2010, compared to June 30, 2009 is mainly a result of devaluating and exercising of "Put" options for the purpose of acquiring shares from minority shareholders and managers in the various KFS Group companies.
Equity attributable to equity holders of the parent	368	343	293	The increase as of June 30, 2010 compared to December 31, 2009 is mainly a result of the movements in the translation reserves which derived from strengthening of local currencies versus the EUR in some of the countries of operation.

2.1.2 Income Statement of Business Operations (in EUR million):

	1-6/2010	1-6/2009	4-6/2010	4-6/2009	1-12/2009	Notes
Revenues						
Sale of goods	59	80	34	39	145	The decrease in sale of goods in H1-2010 vs. H1-2009 is mainly a result of decrease in delivery of apartments for which income could be recognized.
Contract revenues	98	74	52	37	173	The income mainly represents the revenues from projects in the (Water) Infrastructure segment operated by Tahal Group. The increase in H1-2010 in comparison to H1-2009 is a result of increase in the activity of Tahal in most of the operating areas.
Revenues from renting vehicles	56	55	30	29	108	The income mainly represents the revenues from the rental activities of AVIS.
Revenues from sale of rental vehicles	35	27	16	14	58	The increase in H1-2010 in comparison to H1-2009 is a result of increase in the number of vehicles sold as well as their prices all generated by AVIS operation.
Insurance activities	33	30	18	15	59	The increase in H1-2010 in comparison to H1-2009 is mainly a result of increase in the operation of TBH in Georgia.
Banking and retail lending activities	65	35	30	23	96	This income is presented net of provisions for doubtful debts in the Russian and Ukrainian banks which decreased in H1-2010 vs. H1-2009. In addition, the increase is also a result of the first time full consolidation of VAB Bank results starting Q2-2010.
Property rental revenues	51	48	26	24	105	The increase in property rental revenues in H1-2010 in comparison to H1-2009 is mainly as a result of completion of construction and leasing of a number of commercial projects during 2009 which generated rental income starting 2010.
Services and management fees	3	4	2	3	9	-
Total Revenues	400	353	208	184	753	
Expenses						
Cost of goods sold	40	63	20	32	114	See explanations for the changes in sale of goods.
Contracts costs	78	59	47	30	138	See explanations for the changes in revenues from contract works.
Cost of rental vehicles	41	41	21	21	78	See explanations for the changes in revenues from sale of vehicles
Cost of sale of rental vehicles	32	26	15	13	54	See explanations for the changes in revenues from renting of vehicles.

Operating expenses of insurance activities	32	31	17	17	68	-
Cost of banking and lending activities	70	65	40	33	124	See explanations for the changes in revenues from banking and lending activities

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

	1-6/2010	1-6/2009	4-6/2010	4-6/2009	1-12/2009	Notes
Cost of property rental operations	14	10	7	5	24	See the explanations for the changes in rental revenues.
Other expenses , net	5	13	-	7	30	The other expenses in 2009 are mainly due to impairment of assets in the (Water) Infrastructure segment (see also the net result analysis in this segment) as well as the write down to net realizable value to the cost of building in progress in the real estate segment.
Total expenses	312	308	167	158	630	-
Gross margin	88	45	41	26	123	-
Sales and marketing expenses	14	11	7	5	24	-
General and administration expenses	34	30	19	15	62	-
Profit (loss) from operations before fair value adjustments, disposals of assets and financial expenses	40	4	15	6	37	-
Adjustment to fair value of investment properties	28	(18)	17	(34)	(179)	All the investment properties at fair value were revaluated to their fair value in GTC Group and resulted in a profit of EUR 32 million in H1-2010 and a loss of EUR 137 million in 2009. In addition, due to impairment testing done for the entire investment properties carried at cost in GTC Group, additional loss of EUR 5 million was recognized in H1-2010 and EUR 33 million was recognized in 2009.
Impairment losses on goodwill	(3)	-	(3)	-	(1)	-

Gain on issuance of shares in associated companies and subsidiaries to third parties	-	1	-	1	1	-
Gain (Loss) on disposal of assets and other income	26	6	34	3	30	The profit in H1-2010 is mainly a result of transfer of full control in TBIH to VIG as well as gain on the sale of Teledata Networks (see also main events in the period for the relevant segments). The profit was partly offset against the release of translation reserves following the increased interest in VAB Bank. The income in 2009 includes the revaluation of a "Put" option granted to KFS with respect to its holding in TBIH as well as the profit from the sale of 3% of GTC SA shares.
Profit (loss) on disposal of assets and investments	51	(11)	48	(30)	(149)	-
Profit (loss) before finance expenses and income taxes	91	(7)	63	(24)	(112)	-

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

	1-6/2010	1-6/2009	4-6/2010	4-6/2009	1-12/2009	Notes
Financial Income	21	45	8	8	63	Financial income in H1-2010 is mainly the result of devaluation of EUR denominated financial liabilities, versus local currencies in some of the countries of operation. In addition, the income in the reported period also includes interest income on the cash balances of the group.
Financial expenses	(102)	(105)	(58)	(41)	(186)	Financial expenses for the reported period include the financing costs of loans and debentures in the group. In addition, the increase in the financial expenses in H1-2010 compared to H1-2009 are also a result of devaluation of EUR denominated financial assets, versus the local currencies in some of the countries of operations.
Adjustments to fair value of other financial instruments	1	-	3	(1)	3	-
Total financial expenses, net	(80)	(60)	(47)	(34)	(120)	-
Profit (loss) from operations	11	(67)	16	(58)	(232)	-

Share of profit (loss) of associates accounted for using the equity method	7	2	4	(1)	7	-
Net profit (loss) before income taxes	18	(65)	20	(59)	(225)	-
Income tax (benefit) expenses	16	6	9	(9)	(27)	Main tax expenses/benefits are a result of provision for deferred taxes due to revaluation/devaluation of investment properties. Additional tax expenses were recorded in H1-2010 due to impact of a higher tax base in local currencies caused by the devaluation of these currencies versus the Euro.
Net profit (loss) for the year from continuing operations	2	(71)	11	(50)	(198)	-
Net profit (loss) for the year from discontinued operations	-	16	-	16	22	In 2009 the profit derives from the sale of the pension activity in Romania.
Net profit (loss) for the period	2	(55)	11	(34)	(176)	-
Net profit (loss) attributed to equity holders of the parent	1	(33)	14	(15)	(92)	See also analysis of the net result to the equity holders of Kardan N.V.
Net profit (loss) attributed to minority interest holders	1	(22)	(3)	(19)	(84)	-

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

	1-6/2010	1-6/2009	4-6/2010	4-6/2009	1-12/2009	Notes
Net cash provided by (used in) operating activities	(30)	(7)	10	11	51	-
Net cash provided by (used in) investing activities	(157)	(248)	(162)	(131)	(566)	<p>In H1-2010, EUR 118 million were used for acquisition of tangible fixed assets and investment properties, EUR 93 million were used for granting loans to bank customers, and EUR 52 million were generated from short term investment.</p> <p>In H1-2009, EUR 181 million were used for acquisition of tangible fixed assets and investment, EUR 108 million were used for short term investment, EUR 91 million were used for granting long term loans and EUR 143 million were generated from long term loans and receivables.</p> <p>In 2009, EUR 313 million were used for acquisition of tangible fixed assets and investment properties and EUR 256 million were used for short term investment.</p>
Net cash provided by financing activities	188	98	98	56	472	<p>In H1-2010, EUR 106 million were generated from change in loans to bank customers, EUR 168 million were generated from proceeds of long term loans and EUR 87 million were used in repayment of long term loans.</p> <p>In H1-2009, EUR 577 million were generated following the receipt of long term loans, EUR 21 million were generated from issuance of debentures and EUR 483 million were used for repayment of long term loans.</p> <p>In 2009, EUR 886 million were generated following the receipt of long term loans, EUR 178 million were generated from short term loans and borrowings, EUR 22 were generated from issuance of debentures and EUR 585 million were used for repayment of long term loans.</p>

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

This assumption is based on the cash flow forecast of Kardan N.V., including a breakdown of the resources, uses and the available assets for pledge as of June 30, 2010.¹²

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

¹² This estimate is forward looking information as defined in the Israeli Securities Act, based on management assumptions and expectations. The aforesaid may not materialize completely or part thereof, or materialize in a different manner, including materially different from what is expected as a result of changes in the state of the market, difficulties in raising credit, decrease in value of investments and change in cash amounts expected to be received from affiliated companies



KARDAN N.V.

2.2 Fair value disclosure

GTC Group

In the first half of 2010 the Investment properties in GTC Group were valued. The following table indicates the main assumptions, methods and valuations of investment properties that had a material impact of Kardan N.V. results:

Country	City	Property Name	GTC Poland group share	Property Use	Title Type	Net Sq./m for Rent	Gross Sq./m for Rent	Original Construction Cost (€million) (1)	Occupancy rate for 30.06.10	Valuation method	Yield	Project Value in Financial statements (€million)	Average rent per sq. m (4)	NOI Per sq. m per month		NOI (€'000) per Quarter	The main source for change in value	
														1-3/10	4-6/10			
Croatia	Zagreb	Avenue Mall	70%	shopping center	Owners hip	26,500	34,500	65.8	%100	DCF	%7.25 (2)	169.2	€30.1	€29.0	€28.2	2,919	2,836	Discounts for tenants and free parking for visitors.
Croatia	Zagreb	Avenue center	70%	Offices	Owners hip	7,000	8,500	11.0	%100	DCF	7.5%	Incl. above	€15.2	Incl. above	Incl. above	Incl. above	Incl. above	Incl. above
Poland	Warsaw	Galleria Mokotow (3)	50%	shopping center	Lease	32,100	40,000	43.3	100%	DCF	6.7%	192.9	€30.6	€29.4	€30.4	2,739	2,834	Incl. above
Poland	Lodz	University business park	100%	Offices	Lease	18,500	23,000	29.5	5%	DCF	8.5%	21.0	€12.8	N/A	N/A	N/A	N/A	First valuation upon completion
Poland	Czestochowa	Galleria Jurajska	100%	shopping center	Lease	48,500	65,000	126.5	95%	DCF	7.5%	172.6	€23.1-€25.7	€25.1	€24.7	3,508	3,440	Decrease in income and ERV
Romania	Bucharest	City Gate (Puarta) (5)	59%	Offices	Lease	43,000	53,300	121.6	89%	DCF	7.1%	170.3	€21.4	€ 9.9	€12.2	1,063	1,306	Decrease in the yield, end of rent free period

(1) Including land costs.

(2) On certain elements of the income the yield are 7.85%.

(3) Data represent 50% the project which is consolidated on a pro-rata basis in GTC Poland's financial statements.

(4) Average rent per sq. m relates only to leased area.

(5) Operation started at the beginning of 2010 – not reflected the expected NOI after stabilization

Country	City	Asset name	Valuation method	External valuator	Value in Euro million as June 30, 2010	Completion percent	Average rent per SQM	Pre-lease agreement / Letter of intent	Yield	Date of last valuation
China	Chengdu	Galleria Chengdu	Residual	(1)CBRE	83.2	78%	23.6 (195RMB)	41%	9% comm. 5% parking	06.30.2010

(1) The valuation as of June 30, 2010 were made by the company based on the external valuation (CBRE) made as of March 31, 2010.



KARDAN N.V.

2.3. Issuance of debt

The following are details regarding the marketable debentures of Kardan N.V. as of June 30, 2010:

	<u>Debenture series A</u>	<u>Debenture series B</u>
Par value of issued debentures	EUR 250 million (NIS 1,190,000,000)	EUR 280 million (NIS 1,333,967,977)
Linkage basis	Principal and interest linked to Israeli CPI (CPI of January 2007)	Principal and interest linked to Israeli CPI (CPI of December 2006)
Par value of debentures as of June 30, 2010	EUR 250 million (NIS 1,190,000,000 par value)	EUR 280 million (NIS 1,333,967,977 par value)
Interest rate (per annum)	4.45%	4.9%
Principal repayment	Four equal installments: from February 2013 to February 2016	Seven equal installments: from February 2014 to February 2020
Interest payment dates	Nine annual installments from February 2008 to February 2016	13 annual installments from February 2008 to 2020
Total debt up to the date of the balance sheet (including interest and Israeli CPI linkage)	EUR 285 million (*)	EUR 320 million (*)
Market capitalization as of June 30, 2010	EUR 248 million	EUR 266 million
The trustee	Aurora Fidelity Trustees Ltd (Adv. Iris Shlaien)	Hermatic trustee (1957) (Adv. Dan Avnun)
Rated by	S&P Maalot	S&P Maalot
Rating at the time of issuing	AA - (February 2007)	AA - (February 2007)
Updated rating	BBB+ (May 2010)	BBB+ (May 2010)

(*) Approximately 80% par value of the debentures are swapped to EUR by currency hedging transactions

2.4 Immaterial transactions procedure

For the selling of property, the relevant criterion to determine whether a transaction is 'immaterial' (without prejudice to the Company's discretion as described in the immaterial transactions procedure) will be the Equity ratio (next to the contribution to profit/loss ratio) instead of the Assets ratio.

2.5. Procedure for approving the financial statements

The Management Board of Kardan N.V. holds a special meeting prior to the approval of the financial statements in order to discuss all relevant related issues. Kardan N.V.'s external auditors in Israel and the Netherlands and Kardan N.V.'s audit committee are invited to attend and take part in such meeting. This meeting is in addition to the regularly scheduled Management Board meeting in which the financial statements are discussed and approved and which are held on a date closer to the actual approval of the financial statements.

During the course of this special comprehensive meeting, the members of the Management Board are given a detailed presentation by Kardan N.V.'s officers, auditors and others. During the meeting the following issues are discussed: all substantive material issues in the financial report, significant assumptions, and critical estimates, the reliability of the data and the accounting policies used and changes therein, and the implication of including according the principle of transparency and compatibility of the financial statements and accompanying information. Additional meetings of this type are held as needed.

August 31, 2010

Management Board:

A. Ickovics

W. van Damme

E. Oz-Gabber

A. Shlank

J. Slootweg



PART 3 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As of June 30, 2010