



KARDAN N.V.

## S&P IMPROVES OUTLOOK RATING OF DEBENTURES FROM STABLE TO POSITIVE

**Amsterdam, June 14, 2011 - Kardan N.V. (“Kardan”), active in Real Estate, Water Infrastructure and Financial Services in emerging markets, announces that Maalot, the Israeli subsidiary of Standard & Poor’s (“S&P”), reported yesterday that it has changed the outlook on the rating of the debentures issued by Kardan (iIBBB+), from stable to positive.**

The Report of Maalot is attached as an annex to this Press Release.

S&P states that the change of the outlook is based upon Kardan’s actions to reduce the debt of its holding companies (Kardan NV, GTC Real Estate Holding BV and Kardan Financial Services BV) resulting in increased liquidity and financial flexibility. The trigger for a rating increase with one notch to A- would be a further sustainable reduction of the Loan to Value ratio to 40%.

### **About Kardan**

Kardan identifies and develops assets in promising emerging markets, mainly in Central and Eastern Europe, China and CIS. Its activities are mainly focused on three sectors that benefit from the rising middle class: Real Estate, Water Infrastructure and Retail Lending. In addition, the company has some investment activities in Israel. Company headquarters are in the Netherlands. Kardan aims at holding controlling interests in its investments and, through the development of local business platforms, is actively involved in the definition and implementation of their strategy. Total assets as of March 31, 2011 amounted to EUR 5.6 billion; revenues totaled EUR 181 million in the first quarter of 2011. Kardan is listed on NYSE Euronext Amsterdam and the Tel-Aviv Stock Exchange.

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

Annex: Rating Report Maalot

Please note that this translation was made for the company's use only and under no circumstances obligates Maalot. In the case of any discrepancy with the official Hebrew version published on June 13, 2011, the Hebrew version shall apply.

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13 June 2011

## Kardan N.V.

# 'ilBBB+' Rating Affirmed; Outlook Revised To Positive On Debt Reduction Focus And Improved Liquidity

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### Overview

- Netherlands-based Kardan N.V. has improved its liquidity and financial flexibility following significant asset disposals, with most of the proceeds used to lower debt.
- We believe that management will continue its efforts on further debt reduction, lowering LTV to about 40%.
- We are revising the outlook on our rating to positive from stable and affirming the 'ilBBB+' rating on operating holding company, Kardan N.V.
- The positive outlook reflects Kardan's continued efforts to reduce debt, the group's adequate liquidity and its increased financial flexibility.

### Rating action

On June 13, 2011 Standard & Poor's Maalot affirmed the 'ilBBB+' rating on Kardan N.V., a Netherlands-based operating holding company, and at the same time revised the outlook to positive from stable.

### Rationale

The outlook revision reflects Kardan's increased efforts on debt reduction, mainly through asset disposals. Recent asset disposals (16% of Globe Trade Center S.A. for €195 million and 40% of its insurance operations for €127 million) have strengthened liquidity, slightly reduced leverage, and increased the company's financial flexibility; Kardan's loan to value ratio (LTV), based on our estimate of its portfolio value, fell to 49% as of March 31, 2011, from 52% at year-end 2010. This compares with our guidance ratio at the current rating level of about 50%. According to our estimates, Kardan's portfolio value was €1.2 billion as of March 31, 2011, down from €1.5 billion in 2010 and about €1.8 billion in 2009. The decrease in the portfolio value can be attributed primarily to asset disposal and to a devaluation of its unlisted assets, mainly TBIF and Tahal

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Group. However, Kardan's net debt also contracted to €610 million as of March 31, 2011 from €790 million in 2009.

We understand that Kardan's management will continue its efforts to further reduce debt, which we believe can be achieved mainly through additional full or partial disposals. We would view a sustained LTV target of about 40% as a trigger for us to review the rating for an upgrade.

In addition, we consider the group's adequate liquidity profile, and what we perceive as a less aggressive financial policy as additional supporting elements for the outlook revision.

The ratings continue to reflect the weak characteristics of Kardan's investment portfolio, including: our assessment of very weak credit quality of its main holdings, a low level of asset liquidity with a majority of the portfolio in private companies, and low trading volumes of its listed assets, high leverage and negative cash flow at the holding level (after operating and interest expenses). The rating also reflects Kardan's diversified underlying asset base, both geographically and operationally, its existing financial flexibility, albeit limited, which the company enjoys as a result of its listed and unlisted investments, and its high standards of corporate governance.

### *Liquidity*

In our view, Kardan's liquidity is adequate. As of the end of the first quarter, 2011, the company (including its fully owned financial vehicles) had cash balances of €109 million. We believe that current cash on hand and repayment of loans given to subsidiaries will likely be sufficient to pay interest and maturities over the next two years (about €5 million outstanding in 2011, about €35 million in 2012, and about €80 million in 2013). We believe that cash flow at the holding company level will likely continue to be negative and Kardan will continue to cover financing expenses through its cash balances, additional debt or realization of investments.

Kardan has no investment commitments in subsidiaries, and we believe Kardan will likely be able to extract funds back from its subsidiaries in the medium term. Kardan has pledged some of its subsidiaries' shares in favor of the banks. Its bank loans include financial covenants and a margin call, though Kardan satisfies the covenants with ample headroom. The company has large quantities of unencumbered negotiable assets, and is capable of providing other collateral.

### *Outlook*

The positive outlook reflects Kardan's focus on deleveraging as shown by recent asset disposal with most of the proceeds being used to redeem debt. The resulting increased financial flexibility mitigates some of the risks derived from the weakness of the portfolio. The outlook is also supported by what we regard as Kardan's adequate level of liquidity. We believe Kardan will continue to manage risks associated with its activities in banking and real estate and will maintain adequate liquidity also at the subsidiary level. We would consider a one-notch upgrade if Kardan continued its efforts to reduce leverage, mainly through asset disposal, to about 40% on a sustainable basis, and if it adjusted its financial policy accordingly. We believe that Kardan could reach this target by the end of 2011 or beginning of 2012, indicating an outlook horizon of 6-10 months. We could

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revise the outlook back to stable if Kardan's LTV remains higher than 40%, assuming no major changes in the current portfolio.

## Methodology

We classify Kardan as an operating holding company, with investments in operating subsidiaries (with a significant influence on their management and business strategy). Despite Kardan's having control over most of its holdings, we analyze Kardan as a holding company, since its investments are managed mostly as independent operating entities and are regarded by the company as long-term financial investments. Our analysis focuses mostly on the risk inherent in the investment portfolio, with the dominant factor being the risk of losing the equity invested in the subsidiary. The value of the held assets is highly volatile, reflecting the company's performance, the investors' risk appetite, liquidity, macroeconomic factors, and various macro-political risks. The result is great instability, often volatility, and an inability to forecast asset values.

Our ratings on operating holding companies reflect, inter alia, the size of the investment portfolio, the business diversification, the asset concentration, the liquidity, the number of companies held, the geographic diversification, as well as the creditworthiness of the companies concerned. Among other important factors are the company's readiness to sell assets, if required, and its ability to correctly manage its investment portfolio.

In analyzing Kardan's LTV, we estimate the value of the portfolio against the level of net debt of Kardan and its fully owned financial vehicles (GTC Real Estate N.V. and debt held at Kardan Financial Services).

## Related Research and Criteria

*Criteria | Corporates | Rating Methodology for European Investment Holding and Operating Holding Companies, May 28, 2004*

This may be found at <http://www.standardandpoors.com>



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**Ratings List:**

	<b>To</b>	<b>From</b>
Kardan N.V.	ilBBB+/Positive	ilBBB+/Stable
Series A bonds	ilBBB+	ilBBB+
Series B Bonds	ilBBB+	ilBBB+

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