Annual Report

2016

KARDAN N.V.

Profile

The origins of Kardan go back to the beginning of the 1990s when the Company started, focusing its activities on emerging markets in the belief and expectation that these markets would show superior economic growth compared to developed markets. The growing middle class of these countries would consequently lead to an increasing demand for housing, offices, shopping centers, access to (clean) water and financial services, among other things.

Accordingly, Kardan started its Central and Eastern European Real Estate activities in 1994 by founding Globe Trade Centre – listed on the Warsaw Stock Exchange in 2004 – its final remaining stake of which Kardan sold in November 2013. In 2005 Kardan expanded its real estate activities into China by founding Kardan Land China, which focuses on developing and managing mixed-use projects. Europark Dalian is the most prominent project, offering consumers and individuals a comprehensive lifestyle concept: a complete shopping and leisure area combined with luxury and business apartments situated in a green setting connected to the city's new subway line.

The water activities of Kardan predominantly take place in emerging markets worldwide through its subsidiary Tahal Group International. Tahal offers high quality integrated customized and sustainable solutions for one of the most critical challenges the world faces today: providing water and food (through agriculture) to people in developing and emerging countries. Tahal's former subsidiary KWIG (developing, constructing and managing water assets in China) was sold at the beginning of 2015.

Kardan also held retail banking and lending operations in Bulgaria and Romania, through TBIF Financial Services which the Company sold in 2016 and still holds some smaller activities, mainly Avis Ukraine.

Kardan's headquarters are located in Amsterdam, the Netherlands. The Company is listed on both Euronext Amsterdam and the Tel Aviv Stock Exchange.

Key figures

€ in million	2016	2015 *	2014 *	2013 **	2012 **
Revenues	140.8	173.9	194.3	208.0	161.8
Profit (loss) from continuing operations	(52.8)	(59.4)	(3.4)	(46.8)	(6.9)
Profit (loss) from discontinued operations	21.5	36.5	8.5	(75.2)	(132.0)
Net profit (loss)	(31.3)	(22.9)	5.1	(122.0)	(138.9)
Total equity	41.2	75.9	97.8	71.8	708.6
Equity attributable to the equity holders	37.3	71.4	92.4	66.1	166.2
Total stand-alone assets	409.7	574.3	459.0	486.3	641.6
Equity ratio (stand-alone)	9%	12%	20%	14%	26%
Number of employees (as at year-end)	1,055	2,317	2,554	2,875	3,056

* Published figures adjusted to exclude discontinued operations
** Published figures; not adjusted for discontinued operations of KWIG and TBIF

€ per share *	2016	2015	2014	2013	2012
Basic and diluted earnings (loss)	(0.26)	(0.20)	0.05	(0.92)	(0.30)
Total equity	0.33	0.62	0.88	0.65	6.41
Equity attributable to the equity holders	0.30	0.58	0.83	0.60	1.50
Number of shares					
As at December 31	123,022,256	123,022,256	111,848,583	111,848,583	111,824,638
Weighted average for the year	123,022,256	116,428,981	110,753,633**	110,575,647 **	110,419,779 **

* Calculated on the basis of the weighted average number of shares for the year
** Excluding treasury shares outstanding as of December 31

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KARDAN N.V.

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DISCLAIMER

This Annual Report contains forward-looking statements and information, for example concerning the financial condition, results of operations, businesses and potential exposure to market risks of Kardan N.V. and its group companies (jointly 'Kardan Group'). All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements (including 'forward looking statements' as defined in the Israeli Securities Law). Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. These forward-looking statements are identified by the use of terms and phrases such as 'anticipate', 'believe', 'could', 'estimate', 'expect', 'intend', 'may', 'plan', 'objectives', 'outlook', 'probably', 'project', 'will', 'seek', 'target', 'risks', 'goals', 'should' and similar terms and phrases. A variety of factors, many of which are beyond Kardan Group's control, affect our operations, performance, business strategy and results and could cause the actual results, performance or achievements of Kardan Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. For Kardan Group, particular uncertainties arise, amongst others but not limited to and not in any order of importance, (i) from dependence on external financing with the risk that insufficient access to capital threatens its capacity to grow, execute its business model, and generate future financial returns (ii) from concentration of its business in certain countries (such as China) as a result of which Kardan Group is strongly exposed to these particular markets (iii) from risks related to the financial markets as a result of Kardan N.V.'s listings on Euronext Amsterdam and the Tel Aviv Stock Exchange and (iv) from it being a decentralized organization with a large number of separate entities spread over different geographic areas in emerging markets, so that Kardan Group is exposed to the risk of fraudulent activities or illegal acts perpetrated by managers, employees, customers, suppliers or third parties which expose the organization to fines, sanctions and loss of customers, profits and reputation etc. and may adversely impact Kardan Group's ability to achieve its objectives and (v) from any of the risk factors specified in this Annual Report and in the related 'Periodic Report' (published by Kardan N.V. in Israel) published last March, which is also available via the Kardan website. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Kardan N.V. does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.

Kardan Group's Business Strategy

Kardan focuses on business opportunities arising in emerging markets, developing and managing assets and projects in the field of Real Estate and Water Infrastructure. By establishing local platforms in selected markets, based on identified demand, economic viability and legal infrastructure, Kardan combines international expertise with local knowledge. Accordingly, optimizing its opportunities and controlling its risks.

Kardan is stock listed at Euronext Amsterdam in the Netherlands and has a dual listing at Tel Aviv Stock Exchange in Israel. Furthermore, Kardan issued two debentures in Israel in 2007 and 2008, initially to be redeemed between 2013 and 2020. In 2015 Kardan agreed a Debt Settlement with the Debenture Holders, entailing a postponement of the majority of the principal payments. As a consequence, Kardan's current strategy is primarily focused on the repayment of the Debentures through generating cash either by selling assets or by attracting partners in projects, whilst continuing to also focus on further improving the results of the subsidiaries and therefore their value.

Real estate activities

Kardan's strategy regarding its real estate activities is driven by its vision that the economic growth in emerging markets, and the increasing economic power of their populations, lead to a growing demand for housing and retail centers. After building a track record with a successful venture in Poland that was floated on the Warsaw Stock Exchange in 2004, Kardan expanded its real estate activities into China by founding Kardan Land China (KLC) in 2005.

KLC has based its strategy on the trends and fundamentals as mentioned above and has accordingly developed both residential apartments in various joint venture projects and retail projects. KLC focuses on developing lifestyle oriented retail centres and residential apartments in selected tier 2 and tier 3 cities.

In the near term, KLC will primarily focus on its existing projects. Currently the main focus is on its largest asset Galleria Dalian, the shopping mall of its large Europark Dalian project which opened in August 2016. Europark Dalian offers consumers and individuals a comprehensive lifestyle concept: a complete shopping and leisure area combined with luxury and business apartments situated in a green setting connected to the city's new subway line. Galleria Dalian's offering focuses on a lifestyle oriented shopping experience with key themes as: family activities, sports, restaurants, cinema and fast fashion. The mall offers digital applications which supports promotion management and online purchases. KLC furthermore continues to sell and develop residential apartments – together with its joint venture partner – in existing projects.

Water infrastructure activities

Based on the belief that emerging markets have an incremental need for adequate water infrastructure, Kardan ventured into this sector with Tahal Group International, our water infrastructure company. Tahal is mainly active in emerging and frontier countries, addressing global challenges arising from a growing water shortage mainly due to population growth, industrialization and climate change.

Tahal's strategy is based on these developments and strives to transform ideas into reality by offering high quality integrated, customized, creative, sustainable and cost-effective solutions in the field of water related infrastructure projects, including agricultural and solid waste projects. Tahal provides high-quality integral EPC (Engineering, Procurement and Construction) project management expertise and delivers sustainable solutions based on its specialist engineering expertise. Tahal recognizes that besides delivering high quality engineering solutions and project management, it is of great importance to offer assistance in arranging appropriate funding for projects. This service is therefore included in Tahal's tender offers.

Kardan Group's Business Strategy

Moreover, Tahal continues to focus on agriculture, environment and natural gas projects by means of signing new contract licenses with governments or municipalities for substantial new projects.

Progress in 2016

As mentioned, the key element in Kardan's strategy is to generate cash to serve its obligation to debenture holders. In 2016, Kardan completed the sale of the remaining 25% of the Chinese water infrastructure company KWIG. Furthermore, Kardan sold TBIF, the holding company of its banking and retail lending activities, in 2016. The cash generated through these transactions has enabled Kardan to complete its 2017 principle repayment obligations, ahead of schedule, allowing time to further optimize assets until the next repayment in February 2018.

Foreword of the Chairman

On behalf of the Board, I am pleased to present the 2016 annual report. We look back at a year that was not easy, but one in which Kardan consistently delivered on its promises and continued on the path we embarked on in recent years.

The most notable developments of the past year were the successful completion of the sale of our remaining 25% of the shares in KWIG and the divestment of TBIF, which comprised our banking and retail lending activities. These transactions demonstrated Kardan's ability to add value to its investments, driven by its ongoing efforts to optimise activities. The resultant cash flow enabled the company to redeem debt ahead of schedule, with the next repayment obligation not being due until February 2018. Kardan is currently negotiating transactions with a number of prominent parties. The company is confident these transactions will generate adequate resources to meet the company's repayment obligations. However, the directors are aware that the realization of the company's plans depends on factors that are not wholly within the company's control.

A key development in 2016 was the change at the helm of the Company as we welcomed Ariel Hasson as CEO, succeeding Shouky Oren. Mr. Hasson previously headed Kardan's Financial Services division, where he turned our loss-making banking and retail lending activities into a significant sustainable profitable business.

I would like to take the opportunity to express my gratitude to Mr. Oren for leading Kardan to a much better place than it was than when he arrived. Under his leadership, Kardan substantially reduced its debt to banks and to its debenture holders as well as reaching an agreement for a two-year postponement of principal payments. At the same time Kardan also achieved a substantial improvement in contributions from its continuing operations.

In December Max Groen was appointed by the shareholders as non-executive member of the Board, I am pleased to welcome Mr. Groen back to our board. Furthermore, I would like to convey my appreciation to Guy Elias who resigned from the Executive Management team in January 2017 and has made a valuable contribution to the progress we have made.

We have taken notice of the publication of the revised Dutch Corporate Governance Code, having monitored the consultation process carefully. We regard changes in standards and regulations as useful developments that promote good corporate citizenship going forward.

I am extremely proud of the Board which I have the privilege to head and which again worked very well as a team in the past year as we take the company through these times of transition. I would also like to express my gratitude to the members of the Executive Management team for their unwavering resolve and dedication in this period of significant change, and to all of our employees around the world for their efforts and commitment. Furthermore, I want to thank all our stakeholders for their trust and belief as we, the Board, remain determined to continue to serve all our stakeholders to our best abilities.

Peter Sheldon, OBE, JP,

Chairman of the Board

Letter of the Chief Executive Officer

2016 has been a transition year for Kardan, in which we met important milestones. The Company was able to complete two important transactions, the sale of the remaining 25% of KWIG and the sale of TBIF, and use the proceeds to pre-pay the Debentures instalment due in 2017. We have witnessed considerable operational improvements in both our Chinese Real Estate business and our Water Infrastructure business. On the other hand, the high interest expense and the volatility in exchange rates contributed negatively to the net result.

In the first half of the year we completed the sale of the remaining 25% of KWIG for a net consideration of approximately $ 27.7 million. In the third quarter we successfully completed the sale of our 100% subsidiary TBIF, the holding company of our banking and retail lending activities. The total consideration from the sale amounted to € 82 million. The sale contributed a gain of € 15.2 million, representing a good return on investment. These transactions reflect Kardan's ability to increase the value of its investments.

With these transactions, we generated a substantial cash flow enabling us to early repay the next repayment of Debentures. We have completed our 2017 principal repayment obligations already in 2016, ahead of schedule, until the next repayment in February 2018, allowing us time to further optimise assets.

In Real Estate Asia we see positive developments in our flagship shopping mall Galleria Dalian. We welcomed new tenants, as is reflected in an increased signing rate of 77%. Furthermore, a food market will open soon, which will further enhance the mall positioning as a leading leisure and lifestyle destination in Dalian. Moreover, we see the surrounding of the mall gradually becoming populated which in turn, strengthens the catchment area of the mall. We have significantly invested in the marketing of Galleria Dalian, which paid off in an increase in footfall.

Our water infrastructure business Tahal further expanded its backlog of projects by winning a 7 year large scale agricultural project in Angola. The total gross proceeds of this project are estimated at $ 370 million, to Tahal and its 50% partner in the project. This project is an important milestone and allows Tahal to continue and strengthen its future profitability.

The 2016 results of Tahal were influenced by the completion of several large projects, resulting in lower revenues. Furthermore we continued to drive efficiency, resulting in a further reduction of overhead costs.

Our focus remains on generating liquidity to meet our repayment obligation, while strengthening the performance of our operating subsidiaries. The early repayments of the Debentures have put us in the position to continue to strengthen our assets. We believe that our actions are placing us on track for securing the repayment of our February 2018 obligations. Nevertheless, our ongoing efforts to secure the required funds take further time to materialize. As a consequence, the Company financial statements include an emphasis of matter regarding its ability to continue as a going concern. We will do our utmost to divest assets in a manner that will allow us to maximize value, in the interest of all Kardan's stakeholders.

I want to thank our stakeholders for their continued trust in our company and of course all our Kardan Group employees for their hard work, support and commitment in this past year.

Ariel Hasson,

Chief Executive Officer

Shareholder Information

Kardan shares

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

As at December 31, 2016 a total of 123,022,256 ordinary shares have been issued and are outstanding. Under the Dutch Supervision Act, shareholdings of 3% or more in any Dutch listed company must be disclosed by the relevant shareholders to the Dutch Authority for the Financial Markets (AFM). The following table presents the shareholders who have reported to the AFM or TASE[1] that they had an interest of 3% or more in the share capital of Kardan as at December 31, 2016[2].

DECEMBER 31, 2016
A TOTAL OF
123,022,256
ORDINARY SHARES HAVE BEEN ISSUED AND ARE OUTSTANDING

	Number of shares held (ordinary shares of € 0.20 each)	Holding rate
Y. Grunfeld (1)(4)(5)	21,493,927	17.47%
A. Schnur (2)(4)	20,362,629	16.55%
E. Rechter (3)(4)	4,249,604	3.45%
Kardan Israel Ltd. (6)	12,300,330	10.00%
Migdal Insurance & Financial Holdings Ltd.	4,020,756	3.27%

(1) The shares are held directly and indirectly through Talromit Financial Holdings (1995) Ltd., a company wholly-owned by Mr. Grunfeld. All the shares are pledged.
(2) The shares are held through Raitalon Ltd., a company wholly-owned by Mr. Schnur.
(3) The shares are held through Shamait Ltd., a company owned by Mr. Rechter and Mrs. Rechter.
(4) Messrs. Grunfeld, Schnur and Rechter have a voting agreement which represents approximately 37% of the votes.
(5) Mr. Grunfeld is in a receivership process from August 2015.
(6) Messrs. Grunfeld, Schnur and Rechter are (alone or together with others) the controlling shareholders in Kardan Yazamut (2011) Ltd. Kardan Yazamut (2011) Ltd. holds 80.59% of the shares in the share capital of Kardan Israel Ltd., which holds 10% of the shares in the Company.

1 Under Israeli Securities' Law, shareholders are required to disclose their shareholdings to TASE as of holdings of 5% or more.
2 Figures may differ as the reporting obligations of shareholders depend on certain thresholds being met, as further described in the Dutch Financial Supervision Act.

Shareholder Information

Key financial figures per share

€ per share	2016	2015	2014
Basic earnings (loss)	(0.26)	(0.20)	0.05
Diluted earnings (loss)	(0.26)	(0.20)	0.05
Total consolidated equity	0.33	0.62	0.88
Equity net of non-controlling interest *	0.30	0.58	0.83

* Attributable to equity holders

The Kardan share in 2016

	Euronext (EUR)	Tel Aviv (NIS)*
Highest share price	0.185	78.00
Lowest share price	0.115	51.50
Year-end	0.138	54.30

* in 0.01 NIS

Dividend policy

The dividend policy of Kardan will take into consideration the level of net income, liquidity and the capital position, future financing requirements and financial covenants of Kardan, all within the limitations of the law. If circumstances allow, the dividend policy recommends an annual distribution of between 20% and 30% of net income. Dividend pay-out may vary from year to year though. The Company reported a net loss of € 31.3 million over 2016. Given the Company's financial liabilities and commitments towards its Debenture Holders, the Board does not propose a distribution of dividend over 2016. For further information regarding the commitments towards the Debenture Holders see Note 22 of the Financial Statements.

Investor Relations

The Company acknowledges the importance of being transparent and explanatory towards its shareholders and other investors. As such, management engages, from time to time, in meetings with stakeholders.

Shareholders are given the opportunity to ask questions at the AGM and the Company has also addressed their questions over the course of the year. All is done in accordance with Kardan's Investor Relations Policy, as published on the Company's website.

Additional information

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

Other publications and information: www.kardan.nl

Financial calendar

Annual General Meeting of Shareholders – May 24, 2017

First Quarter 2017 results Kardan N.V. – May 24, 2017

Second Quarter 2017 results Kardan N.V. – August 24, 2017

Third Quarter 2017 Results Kardan N.V. – November 23, 2017

Shareholder Information

Financial Review 2016

Kardan witnessed considerable operational improvements in both its Real Estate Asia business and its Water Infrastructure business. On the other hand, the high interest expenses, both in the real estate division and on the holding level, and the volatility in exchange rates contributed negatively to the net result. For the full year 2016, Kardan recognized a consolidated net loss for equity holders of € 31.3 million (2015: € 22.9 million net loss).

Consolidated income statement Kardan N.V.

The 2016 consolidated income statement split into different segments of Kardan N.V. is shown in the table below in a condensed form. Given the sale, the results of TBIF are being reported as discontinued operations as part of 'Other' and 'banking and retail lending' is no longer presented as a separate segment.

€ in million	Real Estate	Water Infra-structure	Other	Total	Total
				12M - 2016	12M - 2015
Total revenues	8.5	129.7	2.6	140.8	173.9
Total expenses	16.2	122.8	5.6	144.6	185.5
Profit (loss) from operation before fair value adjustments, disposal of assets and financial expenses	(7.7)	6.9	(3.0)	(3.8)	(11.6)
Profit (loss) from fair value adjustments and disposal of assets and investments	(2.6)	0.5	(1.6)	(3.7)	21.1
Result from operations before finance expenses	**(10.3)**	**7.4**	**(4.6)**	**(7.5)**	**9.5**
Financing expenses, net	(12.4)	(1.9)	(34.9)	(49.2)	(64.9)
Share of profits (losses) of associates and joint ventures according to equity method	2.4	(1.1)	1.5	2.8	2.7
Profit (loss) before income tax	(20.3)	4.4	(38.0)	(53.9)	(52.7)
Income tax (expenses)/ benefit	5.1	(3.4)	(0.6)	1.1	(6.5)
Profit (loss) from continuing operations	**(15.2)**	**1.0**	**(38.6)**	**(52.8)**	**(59.2)**
Profit (loss) from discontinued operations	–	(0.1)	21.6	21.5	36.3
Profit (loss) for the period	(15.2)	0.9	(17.0)	(31.3)	(22.9)
Attributable to:					
Non-controlling interest	–	–	–	–	–
Net result for equity	**(15.2)**	**0.9**	**(17.0)**	**(31.3)**	**(22.9)**
Other comprehensive income/(loss)				(2.5)	(2.0)
Total Comprehensive Income / (loss) to Kardan equity holders				**(33.8)**	**(24.9)**

Results analysis

The segment Real Estate Asia showed a gradual improvement in revenues, mainly as a result of rental revenues from Galleria Dalian in China. The loss of € 15.2 million in 2016 resulted primarily from significantly increased finance expenses and negative revaluations of inventories and investment property, while the 2015 net profit of € 8.9 million included a significant fair value gain on Galleria Dalian.

The Water Infrastructure segment contributed a total profit of € 0.9 million in 2016 compared with a profit of € 21.5 million in 2015, which included a gain of € 20.1 million from the sale of KWIG. Despite lower revenues, the profit from continuing operations before financing expenses and income taxes remained stable in 2016 at € 6.4 million, due to strict cost control. The level of marketing activities increased, demonstrated by a large number of new tenders and by obtaining a 7-year large scale agricultural project in Angola which has doubled the backlog in Q4.

'Other' showed a net loss of € 17.0 million (2015: net loss of € 53.3 million), mainly due to financing costs on the Debentures. In 2016, the strengthening of the NIS versus the EUR and the decrease in the CPI resulted in a negative impact of € 13.9 million, compared to € 36 million in 2015. The financial services activities that were not sold in the TBIF transaction contributed positively to the results, following a positive one-off sale of a portfolio.
The profit from discontinued operations of € 21.5 million relate to the contribution of the activities of TBIF (banking and retail lending) in Bulgaria and Romania until these activities were sold in August 2016 and a profit of € 15.2 million on the sale of those activities.

Taking into account the direct equity impact of foreign currency translation differences and changes in the hedge reserves combined with the net result, the total comprehensive loss to Kardan N.V.'s shareholders amounted to € 33.8 million in 2016 compared to a total comprehensive loss of € 24.9 million in 2015.

Consolidated balance sheet

Total balance sheet
The total consolidated balance sheet decreased to € 665 million as at December 31, 2016, from € 976 million as at December 31, 2015, mainly due to the sale of TBIF and the 25% remaining interest in KWIG.

Shareholders' equity
The equity attributable to equity holders decreased to € 37.3 million as at December 31, 2016, from € 71.5 million as at December 31, 2015, predominantly resulting from the net loss in the period (€ 31.3 million).

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

€ in million	December 31, 2016	December 31, 2015
Total Assets	409.7	574.3
Total Equity	37.3	71.5
Equity/Total assets (%)	9%	12%

Total assets
Kardan N.V.'s total assets decreased by € 164.6 million, mainly due to the sale of TBIF and the 25% remaining interest in KWIG.

Financial position

Net debt

The following table summarizes the net debt of Kardan N.V. (company only) as of December 31, 2016:

Net Debt * € in million	
Liabilities:	
Debentures**	(295.9)
FIMI liability	(2.3)
Assets:	
Cash and short term investments	2.0
Net debt	(296.2)

* Net debt includes interest bearing loans and borrowings, debentures, less cash and cash equivalents and interest bearing receivables.
** The balance is presented net of debentures held by subsidiaries.

Interest bearing liabilities

Kardan N.V. has a decentralized funding structure. This implies that Kardan, its direct subsidiaries and the operational entities are mostly responsible for the funding of their own activities.

The table below presents the maturity of the Debentures of Kardan N.V., net of Debentures held by subsidiaries:

€ in million	2017*	2018	2019	2020	Total
Debentures – Series A	–	47.6	–	–	47.6
Debentures – Series B	–	49.1	98.3	98.3	245.7
Total	–	**96.7**	**98.3**	**98.3**	**293.3**

* The principal repayment that was due in 2017 was repaid ahead of schedule in 2016.

Kardan is currently negotiating transactions with a number of prominent parties. The Company is confident these transactions will generate adequate resources to meet the Company's repayment obligations. However, realization of the Company's plans depends on factors that are not wholly within the Company's control, and therefore there is uncertainty if such transactions will be completed or will generate sufficient resources. According to established guidelines, these conditions indicate the existence of a material uncertainty which casts significant doubt regarding the Company's ability to repay its liabilities when they become due and its ability to continue as a going concern.

Cash flow forecast

The Company provides a cash flow forecast for a period of two years as of December 31, 2016:

Forecast cash flow € in million	January 1, 2017 - December 31, 2017	January 1, 2018 - December 31, 2018
Cash and cash equivalents at the beginning of the period	**2.0**	**120.3**
Company only resources		
From operating activities		
General and administration expenses	(3.8)	(3.8)
From investing activities		
Sale of assets	126.3	115.0
Resources from investee companies		
From operating activities in investments – Management fees	0.2	0.2
Total Resources	**124.7**	**231.7**
Expected Uses		
From financing activities		
Interest payment of debentures – Series A	0.8	3.0
Interest payment of debentures – Series B	3.6	16.7
Principal payment of debentures – Series A	–	47.6
Principal payment of debentures – Series B	–	49.1
Total Uses	**4.4**	**116.4**
Cash and cash equivalents at the end of the period	**120.3**	**115.3**

Assumptions and Notes to the cash flow forecast:

1. The cash-flow projection has been jointly prepared for Kardan N.V. (company-only) and its wholly owned subsidiaries GTC RE and Emerging Investments XII B.V. as the treasury of these companies is centralized. With respect to limitations regarding the transfer of funds between the Company and GTC RE please see below under point 10.
2. The projected cash flow was prepared based on the Deeds of Trust effective July 3, 2015.
3. The forecasted general and administration expenses are based on estimates of the Company according to its past experience.
4. Following the sale of TBIF in 2016 and the completion of the sale of the remaining 25% in KWIG, the Company early repaid the full Debentures principal that was due in February 2017. The remaining payment of interest was made in February 2017 according to the dates stipulated in the Deeds of Trust, from the Company's sources.
5. With respect to sale of assets in 2017 and 2018 – the completion of the transaction to sell TBIF provided the Company a period of over a year to sell assets in order to repay its liabilities in 2018 and onwards. The Company is conducting processes, directly or through its subsidiaries, to sell any of its assets. These assets may include the subsidiaries KLC and/or TGI and/or part of their assets.

6. In this cash flow forecast, cash provided from the sale of assets in 2017 and 2018 will be used to repay principal and interest of the Debentures which are due in February 2018 and 2019, respectively, in accordance with the Deeds of Trust. Should the Company obtain funds prior to the expected repayment dates, the Company will make early repayments, as required in the Deeds of Trust.
7. The amount of management fees from investee companies is based on existing agreements between the Company and its subsidiaries as of the balance sheet date.
8. The Interest calculations are based on CPI, exchange rates and interest rates which are applicable as of December 31, 2016. The principal and interest payments of the debentures are presented net of the part which relates to the debentures held by the subsidiaries GTC RE and Emerging Investment XII B.V. A change of 5% in the EUR/NIS rate will lead to a change of approximately € 6 million in the amount of principal and interest payment.
9. The cash flow forecast does not include any additional investments which the Company will make once those will be approved by the appropriate bodies in the Company. As of the authorization of these financial statements, the Company did not approve any new investments. In addition, according to the Deeds of Trust there are certain limitations on new investments.
10. Limitations on transferring funds:
    Transfer of funds between Kardan N.V., GTC RE, Emerging Investments XII, TGI and KFS is mostly done through intercompany loans or distribution of dividend or capital reserves as permitted by Dutch law. Breakdown of distributable reserves according to Dutch law and intercompany loans balances is as follows:

Subsidiary	Distributable reserves (€ million) as of 31.12.16	Intercompany loan (€ million) as of 31.12.16
TGI	34.6	–
GTC RE	186.9	(14.5)
KFS	33.8	–
Emerging	53.5	–

11. 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.

Covenants

As at December 31, 2016, the Company and its subsidiaries met all their covenants.

See Note 25 to the Financial Statements for additional information on covenants.

Outlook 2017

In 2017, Kardan's focus remains on generating liquidity, amongst others, through asset transactions required to meet its repayment obligation in February 2018, while strengthening the performance of the operating subsidiaires. Kardan's Executive management in parallel continues to work with its business segments to improve their results and their value to Kardan.

Given that Kardan is exposed to the currency movements of the NIS and the RMB versus the EUR – as its liabilities are in NIS, its assets are predominantly in RMB and it reports in EUR – the Company's results are dependent to a large extent on these currency movements and therefore the Company cannot give guidance on its results.

Real Estate Division

TOTAL ASSETS
€ 518.2 million

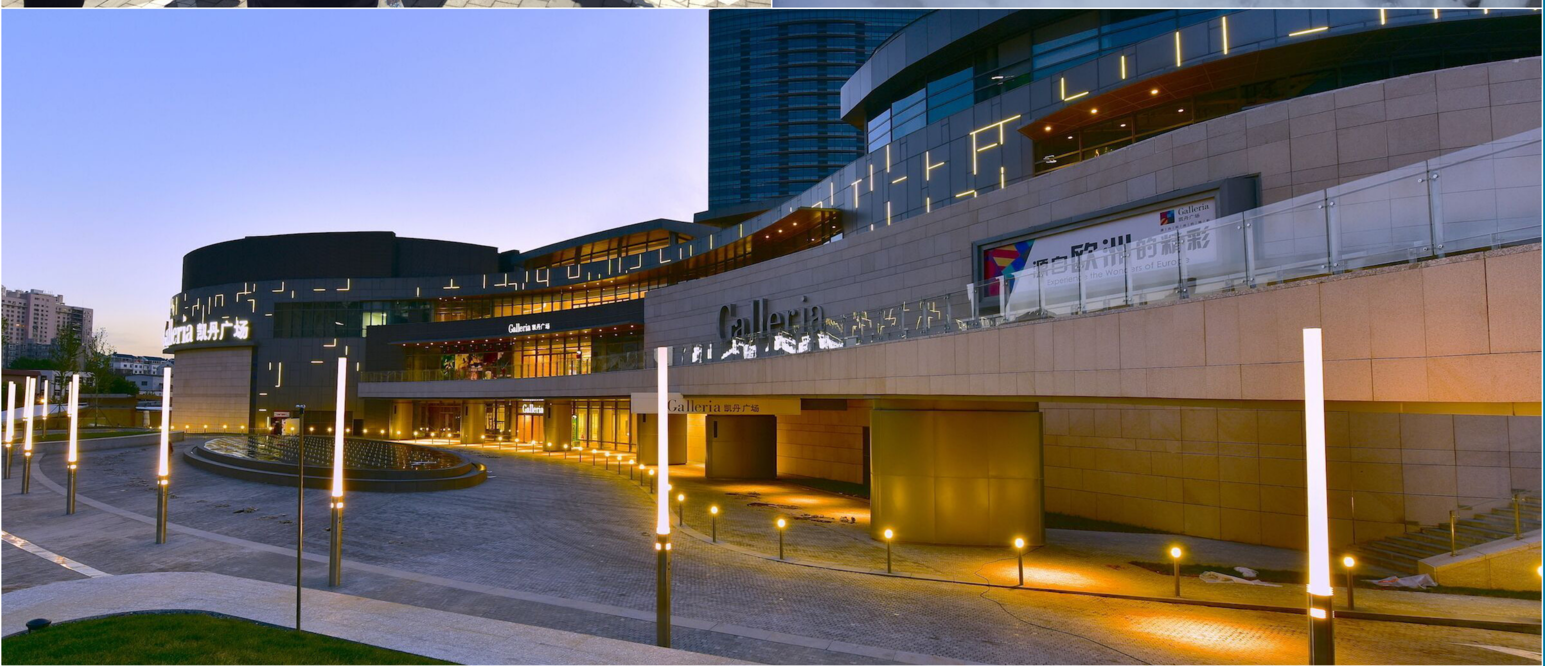
NUMBER OF PROJECTS
5

APARTMENTS SOLD IN 2016
1,323

NUMBER OF PEOPLE
150

Highlights

- Kardan N.V. operates in the Asian real estate sector through Kardan Land China (KLC).
- The focus of KLC is predominantly on the development of mixed-use projects, combining shopping centers under the Galleria branding with residential and small office apartments, like the current large project 'Europark' in Dalian.
- KLC is also active in asset management and is pursuing opportunities to develop this business by providing 3rd parties management services.
- In the residential market, KLC develops residential apartments, mostly with local partners, in the fast-growing Tier 2 and Tier 3 cities (Xi'an, Shenyang, Changzhou), tapping into the need for housing due to the urbanization.
- KLC has a strong track record in residential projects in China. It constructed in total 20,638 apartments, since it emerged, of which 20,161 were sold, and has rights and land to develop another 9,098 apartments.



Board Report

Real Estate

Kardan N.V. operates in the Asian real estate sector through KLC, which is engaged in the development and management of residential and commercial real estate initiation. In this context, KLC operates in five Tier 2 and Tier 3 cities throughout China.

KLC currently has five construction projects in four cities throughout China: two in Shenyang (the capital of Liaoning Province in North-east China and the largest city in this province), one in Xianyang (a city in North-east China bordering the city of Xian), one in Changzhou (a city located 160 kilometers to the North-west of Shanghai) and one in Dalian (the second largest city in Liaoning Province), involving over 15,000 residential units in projects which are under construction.

Furthermore, KLC holds, operates and manages shopping center Galleria Dalian in Dalian, which was officially opened in August 2015. Until the end of 2016 KLC also managed Galleria Chengdu, a shopping mall located in Chengdu, the capital of Sichuan Province. Galleria Chengdu was developed by KLC and opened in 2010. KLC had a stake in it until December 2014, when it sold its remaining stake to BlackRock.

The key drivers for KLC in the commercial real estate sector in China are: (1) the location of the properties in high-demand areas in Tier 2 and Tier 3 cities; (2) the reputation of the brand 'Galleria'; (3) management abilities in the Chinese market based on local management with connections to the Chinese government and business officials and unique connections with international commercial chains; (4) expertise in locating land and business opportunities for construction of projects; (5) proven ability for the whole or partial sale of the property; (6) access to sources of financing; (7) knowledge and expertise in managing, operating and marketing commercial areas; (8) creating and maintaining a diverse tenants mix that will provide the most comprehensive solution possible to the customers.

Market developments

As at 2016, China's economy comprised 17.8% of the gross world product, and maintained a total workforce of approximately 776 million people. Over the past 25 years, China has become the nation with the most accelerated economic growth rate in the world. However, in recent years the growth rate has slowed down somewhat from 10.3% in 2010 to 6.7% in 2016. As of March 2016, Chinese government lifted the restriction on having a single child. It is now permitted to have two children in each family, a policy which may bring an additional increase in local demand.

Over the last 30 years, the Chinese economy has gradually gone from being an economy controlled by the central government to a market economy that is more open to international markets. Other plans of the Chinese government include its commitment to remove the entire non-urban population from the poverty line by 2020, and to increase foreign investments by clarifying the rules and laws that are applicable to foreign investors.

Residential construction market in China

The real estate market in China is a highly decentralized and fragmented market, characterized by fierce competition, in which no market participant has a particularly large market share. The foreign companies are primarily engaged in the commercial real estate sector and in the construction of luxury residential projects in Tier 1 and Tier 2 cities. The Tier 1 cities are the four most developed cities in China (from the aspect of GDP and per-capita GDP, infrastructure, education, etc.), Shanghai, Beijing, Guangzhou and Shenzhen. The Tier 2 cities are less developed than the Tier 1 cities from the aspect of the features mentioned, they include provincial capitals and other major cities in China, such as Shenyang, Xian, Chengdu and Dalian, where KLC is active.

According to estimates, the ongoing process of Chinese urbanization is expected to bring about the creation of 170 million new city-dwellers by 2025 – a trend which is expected to bring about an improvement in the residential real estate market.

Residential prices experienced a spike in the first half of 2016, mainly in the Tier 1 cities and some of the Tier 2 cities in the Southeast coastal areas. However, starting from October 2016, over 20 cities announced restrictive housing policies to calm the overheating residential prices. According to the national bureau of statistics, the increase of real estate investment recorded 6.9% in 2016, as compared to the 1% increase in investment in 2015, which suggested signs of recovery.

The market of shopping centers

The market of shopping centers is highly dependent on the buying power of the local population. Retail sales of consumer goods grew by 10.6% in 2016. Growth in private consumption is a high priority of the Chinese government's policy and this may have a positive impact on shopping centers. In the estimation of KLC's management, a widespread trend of urbanization, government initiatives to encourage private domestic consumption and the rapid expansion of retail chains in China constitute positive growth factors in the commercial real estate market in China. Simultaneously, there is a trend of increasing competition in this area from both local entrepreneurs and international companies, which creates greater competition of land for development. Another challenge is online shopping, which is growing rapidly in China and has been driving the process of change in consumption habits (from shopping in shopping centers to online shopping). KLC, like other leading developers in the field, is adapting to this trend by increasing the percentage of tenants who provide entertainment services, food, sports, kids services, education services, and other activities that cannot be conducted online.

Operational developments Real Estate Asia

Residential projects KLC

Units sold in the period	2016	2015
*Joint Venture projects**		
Olympic Garden	593	563
Suzy	10	64
Palm Garden	88	70
City Dream	618	423
	1,309	1,120
100% owned		
Dalian	14	269
Total	**1,323**	**1,389**

* 100% number presented; KLC holds approx. 50%

In 2016, KLC sold 1,309 apartments in four JV projects in three different cities in China: City Dream in Changzhou, Suzy in Shenyang, Palm in Shenyang and Olympic Garden in Xian. In addition, in the Europark Project in Dalian, the Company sold 14 SOHO units.

The percentage of unsold completed units in inventory (including the inventory of joint venture projects) increased to 17% compared with 10% on December 31, 2015. However, the total unsold units in inventory decreased by 64%. Starting from the middle of 2017, a new building with luxury apartments in Kardan Dalian will be released to the market.

The total order backlog value, which is yet to be recognized as revenue, as of December 31, 2016 was € 196.8 million, slightly lower compared to the total order backlog value as of December 31, 2015 which was € 207 million.

2016 was the first full year in operation for Galleria Dalian. All operational indicators show a gradually increasing trend. The opening rate of shops grew from 43% at 31 December 2015 to 67% at 31 December 2016.

Board Report

Amongst others the marketing events contributed to the significant increase in footfall and translated into increased tenant proceeds.

Until the end of 2016 KLC also managed Galleria Chengdu, a shopping mall located in Chengdu, the capital of Sichuan Province. Galleria Chengdu was developed by KLC and opened in Q4 2010. KLC was its shareholder until December 2014, and since then provided asset management services.

Key figures Real Estate Asia

€ in millions	2016	2015
Delivery of units	0.8	0.8
Rental income	3.7	1.8
Management fee and other revenues	4.0	4.1
Total revenues	**8.5**	**6.7**
Cost of delivery of units	0.7	0.9
Cost of rental income	1.5	1.5
Other expenses and management & service recharge expenses, net	5.1	3.2
Gross profit	1.2	1.1
SG&A expenses	8.9	11.4
Adjustment to fair value (impairment) of investment property	(2.6)	20.9
Gain on disposal of assets and other income	–	0.4
Equity earnings (losses)	2.4	2.6
Result from operations before finance expenses	**(7.9)**	**13.6**
Financing expenses, net	(12.4)	(1.6)
Income tax (expenses) / benefit	5.1	(3.1)
Net profit (loss) to Equity holders	**(15.2)**	**8.9**

Additional information

€ in millions	2016 (31.12)	2015 (31.12)
Balance sheet		
Share of investment in JVs	69.2	69.6
Investment Property	240.5	250.3
Inventory	101.5	99.7
Cash & short term investments	33.5	43.0
Total Assets	518.2	523.2
Loans and Borrowings	111.2	100.7
Advance payments from buyers	50.0	34.3
Total Equity	302.5	324.5
Operational Information Residential	**2016**	**2015**
Revenue Residential - JV	57.5	69.6
Gross profit residential - JV	15.7	16.0
Apartments sold in period (a)	1,323	1,389
Apartments delivered in period (b)	1,417	2,012
Total apartments sold, not yet delivered (c)	2,114	2,208

(a) All residential apartments, incl. Dalian (100%).
(b) Includes 4 apartments delivered in the Dalian project in 2016 (2015 – 2 apartments).
(c) Includes approximately € 23.8 mn gross profit (KLC share) as of December 31, 2016.

Results analysis

The Real Estate Asia segment, fully comprising KLC, contributed a loss of € 15.2 million in 2016 compared with a net profit of € 8.9 million in 2015. The 2015 net profit included a fair value gain of € 20.9 which was recognized upon completion of Galleria Dalian in Q2 2015, while 2016 net loss includes a negative revaluation of € 2.6 related to Galleria Dalian.

In 2016 the total revenues increased to € 8.5 million compared with € 6.7 million in 2015, reflecting the growing rental revenues of Galleria Dalian shopping mall, which was opened in August 2015. Therefore Galleria Dalian's rental income was only € 1.8 million in 2015, versus € 3.7 million in 2016.

Delivery of units relates to the revenue resulting from the handover of apartments of the Europark Dalian project, which remained stable at € 0.8 million in 2016.

Management fee and other revenues predominantly relates to the asset management services provided to Galleria Chengdu and Galleria Dalian and the joint venture residential projects. These revenues remained stable at € 4.0 million. Due to start-up costs related to the opening of the Dalian shopping mall in August 2015, the results of the asset management activities were negative compared with a positive result in 2015.

A decrease was recognized in SG&A expenses mainly due to the decrease in staff costs and marketing expenses associated with the residential activities.

The above resulted in a decrease in the loss from operations before fair value adjustments, disposal of assets and financial expenses from € 10.3 million in 2015 to € 7.7 million for the full year 2016.

'Equity earnings' comprises the result of the residential activities from the joint venture projects, which contributed a profit of € 2.4 million in 2016 compared with a profit of € 2.6 million in 2015. The gross margin on the residential apartments increased to 27% compared to 23% in 2015 as a result of enhanced cost control and budgetary planning. The impact of the higher gross margin in 2016 was offset by inventory impairments taken by the joint ventures in 2016.

'Financing expenses, net, amounted € 12.4 million, compared with € 1.6 million in 2015. The financing expenses mainly include interest expenses related to the Europark Dalian project loan. A small negative impact of € 0.4 million was due to the deprecation of the RMB versus the EUR, compared with the substantial appreciation of the RMB during 2015 which contributed a gain of € 7.2 million.

Income tax (expenses) / benefit in 2016 include a deferred tax benefit which was created on tax losses. In 2015, this mainly included deferred tax expenses related to the fair value gain of Galleria Dalian.

Investment property fully relates to Galleria Dalian shopping mall, of which the value decreased by 4% (from December 31, 2015) due to the depreciation of the RMB versus the EUR and a decrease in its valuation.

'Loans and borrowings', which predominantly relate to the use of a construction loan for Europark Dalian, increased to € 111.2 million as at December 31, 2016 compared to year end 2015 (€ 100.7 million), mainly due to an additional withdrawal of RMB 100 million in February 2016. KLC works diligently on its refinancing requirements and is in constructive negotiations with its financing partners to extend the loan, which is due in November 2017. The management of KLC is confident regarding its ability to reach an agreement on this refinancing.

The decrease in equity in the reporting period by 7% (y-o-y) is attributable to the foreign currency effect and the loss for the year.

Risks

The real estate sector in China is a major factor in the economic development of the country. Whereas the government was forced to take measures to cool down specifically speculation on the real estate market in previous year, during 2015 it was deemed necessary to stimulate the market by cutting interest rates and initiating some other easing measures. Own home buyers had become increasingly cautious and hesitant in their buying behavior, while developers had not as yet adjusted their construction activities to a slower pace, resulting in substantial inventories. The effect of the financial easing actions taken by the government was noticeable during 2015 as the house prices in China's 70 largest cities started to increase again, reaching a level of an approximate 1.3% increase (y-o-y) by the end of 2015. At present, this trend is particularly visible in the Tier 1 and the large Tier 2 cities, and researchers expect the recovery of the market to further expand.

To the best of KLC's knowledge, residential prices rose relatively quickly in the first half of 2016, mainly in Tier 1 cities and some Tier 2 cities in the Southeast coastal areas. However, starting from October 2016, over 20 cities announced restrictive housing policies to moderate the continued rapid rise in housing prices. KLC is not active in the cities that announced restrictive housing policies.

KLC develops residential apartments for 'own use' buyers from the middle- to higher-middle-class. For the majority of its residential real estate projects KLC cooperates in a 50/50 joint venture with a Chinese partner in order to spread its risks and to deal with the political gamesmanship optimally. KLC operates with its ear to the ground: construction of projects is phased according to demand in order to minimize the number of apartments in inventory.

With respect to the retail real estate market: on the demand side this market is largely influenced by the proactive policies of the central government to stimulate internal demand and the increasing disposable income of the middle-class. The supply side is influenced by the fact that local governments are increasingly in need of cash and to a large extent rely on land sales to developers as an important source of funding. Combined, these fundamentals have led to an increase in competition and an oversupply of retail property in some locations.

As with its residential real estate development, KLC has chosen the locations for its retail development very carefully, taking into account economic and environmental factors, etc. With the Europark Dalian project, KLC does not only address the retail sector but also appeals to individuals with high quality living standards.

KLC is exposed to the Chinese market in which the government has large-scale involvement in the economy in general and in the real estate segment in particular. Changes in policies and regulations maintained by the Chinese government could impact on KLC's total real estate activity and results.

The policy of the Chinese government changes from time to time aiming to control the different developments in the real estate markets (both upwards and downwards). Accordingly, the Chinese government deploys various tools in order to influence the prices of apartments and the real estate market in general, including placing a limit on the number of residences a family may acquire in specific cities for certain periods. With this limit being the acquisition of just two residences in some instances, and measures pertaining to the mortgage market, such as a prohibition on granting a mortgage for a third residence, and changes relating to the amount of equity capital required in order to receive a mortgage. KLC's total real estate activity and the results of said activity could be impacted.

An overview of the main risk categories for the Kardan Group can be found in the chapter 'Risk Management' starting on page 33.

Water Infrastructure Division

TOTAL REVENUE
€ 130 million

GROSS MARGIN
16.2%

BACKLOG
US$ 606 million

NUMBER OF PEOPLE
889

Highlights

- Kardan's water infrastructure company, focuses on executing water and agriculture related projects worldwide
- Tahal Group meets one of the world's most critical challenges: providing (access to) water and food
- The company offers high quality integrated, customized, sustainable and cost-effective solutions for water-related infrastructure projects
- The activities revolve around engineering, procurement and construction (EPC) projects, design (consultancy) projects and operation and management (O&M) projects.
- Tahal Group is mainly active in Africa, Israel, India and Central and Eastern Europe.

The Quiminha project in Angola involves the development and construction of the water supply, sewage and drainage system for a new rural settlement and irrigation of farm land as well as the training of farmers.

Water Infrastructure

Tahal Group International (Tahal Group of Tahal), Kardan's water infrastructure company, focuses on executing water related projects worldwide and is active in three different continents: Asia (primarily in India and Israel), Africa (primarily in Ghana and Angola) and Central and Eastern Europe (currently primarily in Russia, Romania and Serbia). Tahal Group's subsidiary KWIG, which focuses on developing water assets (e.g. wastewater, water treatment and water supply plants) in China was sold at the beginning of 2015. The first phase of the sale (75%) was completed in 2015, and the second phase (25%) was completed in 2016.

Tahal Group provides engineering design services, as well as supervision and erection of projects in the water resources and supply sector, water and sewage treatment, agriculture and rural development, environmental engineering, land filling and natural gas. In addition, Tahal Group is engaged in the maintenance and development of water assets, such as: water and waste water treatment plants and permits for the operation and maintenance of municipal water systems.

Market developments

Water market

The water market (water capture and supply, water and wastewater treatment, and water and sewage networks) in developing countries, where most of Tahal Group's activities are concentrated, is a constantly growing market. This is a result, inter alia, of growth in demand for water that is twice the growth of the world's population, the low level of redundancy in existing water infrastructures, and changes in regulation. The main factors influencing the increase in water demand are the rapid growth of the world's population, economic development – mainly in developing countries, climate change, an acceleration of urbanization processes, the industrialization and development of the farmer – mainly in developing markets, and the increase in the demand for water by the agricultural and industrial sectors. According to estimates, if investments in water infrastructure are not made, the global demand for water will surpass the supply of the water infrastructure by a rate of 40% in 2030. The method of coping with the increasing demand for water varies between the different countries and regions in which Tahal Group operates. It is noted that in spite of global recognition of the challenges and risks stemming from the shortage of water, there is actually a delay in the creation of solutions for this problem, mainly in developing countries, which is the result of difficulties in achieving financing, the lack of infrastructure, and the need for coordination between countries.

Agricultural development

An additional area in which Tahal Group operates, separately and as part of its combined projects that include water and agricultural infrastructures, is the planning and execution of projects concerning agricultural development and the growing of agricultural crops. The trends of population growth, the increase of food consumption per person, the decrease in poverty and the expected continuation of these trends, mainly in developing markets, are the main factors for the increase in food demand. As of December 2016, the world's population was estimated at 7.5 billion people. According to some estimates, by 2050 the world's population is expected to exceed 9 billion people, while the main increase is expected to happen in developing countries. The increase in food demand requires an increase in agricultural production and the development of projects that serve the relevant demands.

According to estimates, by 2030 the area of farmed land will increase by 13% in developing countries (120 million hectares) along with an increase of 20% in the scope of crops, and in agricultural yields due to technological developments and improvements (e.g. fertilization and increased effectiveness) in machinery, increased knowledge by farmers, instruction and improved methods and management – segments in which Tahal Group has vast accumulated know-how and experience. Moreover, irrigation will become very significant in the development of agriculture. In order to promote agricultural development, governments of developing countries will be required to increase investment in infrastructures (water, irrigation, industry, and innovation) in order to increase the productivity of the agriculture industry.

Operational developments

From 2013 to 2015, multi-year revenues from execution projects increased year-on-year, however in 2016 there was a decrease in revenue from execution projects following the completion of a number of these types of projects. Furthermore 2016 saw a delay in the promotion of existing projects and the introduction of new projects that Tahal Group is expected to acknowledge in 2017.

During 2016, Tahal Group completed and delivered the planning, construction, broadening and upgrading of potable water systems in three regions in Ghana, and the project is in the trial run phase now. Furthermore, Tahal Group continued the execution of a planning and construction project for a water treatment plant and for a pumping system in the Russian city of Yakutsk. In addition, Tahal Group was contracted to construct a water treatment facility and to upgrade and renovate water pumping facilities in the city of Orenburg, in Russia's Ural Mountains.

In India, Tahal Group is further executing the planning, construction and operation of a 600 km water transportation system in the Gadag District, a project that started in 2015.

In the course of 2016, Tahal Group completed the construction and delivery of the Quiminha Project, where it was assigned by the government of Angola to provide a full range of services to make the land suitable for agricultural use and to build the infrastructure for full communal and commercial services for the farmers and inhabitants. As of the reporting date, Tahal Group and its partner ZRB are responsible for the management and operation of the Quiminha Project. The agreement is for a period of 7 years, with an extension option for an additional 5 years. Tahal Group and ZRB will operate and manage this agricultural project of 5,000 ha which includes 300 private farms, thousands of acres of crops, grains, vegetables and fruits in open areas and in green houses and chicken coops. The Project furthermore comprises water infrastructure and water treatment, irrigation, and various facilities in relation to crops, live-stock and the distribution of products. In addition, Tahal Group is in the process of initiating and developing additional projects in Angola, in the field of regional agricultural planning, construction, operation and development, and the construction of regional water supply systems.

At year-end 2016, Tahal Group had 889 employees compared to 638 employees as of 31 December 2015. This increase derives primarily from the increase of the number of employees in Angola due to the new Quiminha O&M Project, and from the increase of the number of employees in India. On the other hand, there has been a decrease in the number of employees as a result of the completion of large projects (mainly in Ghana and Angola) and due to the implementation of a cost reduction plan that was carried out in 2016.

Board Report

Key figures Water Infrastructure

€ in millions	For the year ended December 31	
	2016	2015
Contract revenues	129.7	167.9
Contract cost	108.6	142.9
Gross profit	**21.1**	**25.0**
In %	**16.2%**	**14.9%**
SG&A expenses	**14.2**	**17.4**
Equity earnings / (losses)	(1.1)	(1.5)
Gain on disposal of assets and other income	0.5	0.3
Result from operations before financing expenses	**6.3**	**6.4**
Financing income (expenses), net	(1.9)	(2.1)
Income tax expenses	(3.4)	(2.9)
Profit (loss) from continuing operations	**1.0**	**1.4**
Net profit (loss) from discontinued operations	**(0.1)**	**20.1**
Net profit (loss)	**0.9**	**21.5**
Attributable to:		
Equity holders (Kardan N.V.)	**0.9**	**21.5**

Results analysis

The Water Infrastructure segment contributed a total profit of € 0.9 million for the full year 2016 compared with a profit of € 21.5 million in FY 2015. The full year results 2015 included a gain of € 20.1 million on the sale of KWIG. The Water Infrastructure segment contributed a profit from continuing operations of € 1.0 million compared with a profit of € 1.4 million in FY 2015.

Revenue for the full year decreased from € 167.9 million in 2015 to € 129.7 million. This was mainly due to completion of two large projects. Revenue in the fourth quarter 2016 however showed an increase compared to Q4 2015, mainly due to significant progress achieved in a number of new projects.

As a result of projects mixture, the gross margin improved and stands at 16.2% in FY 2016 (FY 2015: 14.9%).

In 2016 SG&A expenses decreased mainly as a result of improved operational efficiency, which was especially notable in the fourth quarter of 2016.

For the full year, the gain on disposal of assets and other income amounts to € 0.5 million. This relates mainly to the sale of an asset in Bulgaria in Q2 2016, off-set by a provision for doubtful debts taken in Q4.

Financing expenses amounted to € 1.9 million for the full year 2016 (2015: € 2.1 million). This is due to the devaluation of the EUR, which resulted in financing expenses of € 2.4 million in the fourth quarter 2016. In 2015 financing expenses were impacted by a one-off charge of € 3 million following the early repayment of a loan during Q1 2015.

The small net loss from discontinued operations primarily relates to the weakening of the USD versus the EUR (as the consideration from the sale of the remaining 25% of KWIG was denominated in USD) and also due to additional tax expenses which are attributed to the sale.

Additional information

€ in millions	2016 (31.12)	2015 (31.12)
Balance sheet		
Cash & short term investments	19.2	24.0
Total Assets	159.7	171.2
Net debt / (cash)	(3.1)	(21.9)
Equity	43.8	64.8
Equity / Assets	27.4%	37.9%
Other (in US$ million)		
Backlog	606	311

The backlog nearly doubled in 2016 to $ 606 million at the end of 2016 compared to $ 311 million on 31 December 2015. The large project win in Angola is the main contributor to this increase.

Risks

Tahal Group's ability to take action in the various countries in which it operates is directly influenced by the level of investments included in the relevant country and the country's economic ranking according to international indexes. Political stability, improving the economic and security environment, and government decisions for the distribution of resources for the development or promotion of investments and industry are influencing factors for project execution and Tahal Group's business in these countries.

Tahal Group is occasionally required to include a proposal for project financing by third parties in its tender offer. This entails finding a commercial financial institution to provide a loan to the customer for financing a project. In such cases, the effective start of such a loan agreement is usually a precondition for the start of the project. Consequently, as it has become more difficult to attract funding in the past years, this may negatively impact the ability to close a new project or delay the tender process significantly. Tahal Group has significant experience in arranging financing for a project and considers this risk element to be part of the project scope.

Also in 2016, budgets for water related projects were negatively impacted in some countries following the collapse of the benchmark crude oil prices. Tahal Group accordingly encountered that some outstanding tenders for projects were put on hold and some other tender processes were delayed. Tahal Group has no influence on such developments. In order to spread its risks, Tahal Group aims to tender for projects in its core focal areas in diverse geographical markets. At present, Tahal Group has many such tenders outstanding.

As Tahal Group is operational in emerging and developing markets, it is exposed to risks stemming from activities in such markets, including political, regulatory, military and local economic risks. During 2016, Tahal Group's project activities were not materially affected by political or military instabilities.

Infrastructure construction and development projects are by nature subject to various performance risks, including the inability to complete the project within the timeframe, budget, guidelines and standards established in the specific agreement. In addition, projects may be delayed as a result of statutory reasons (such as delays in obtaining various permits and licenses, the release of goods from customs, and making the site available for the project). A lot of attention is dedicated to continuous improvement of project management in order to minimize risks.

However, risks do occur and at times cannot be avoided.

Many of Tahal Group's projects are executed in emerging and frontier countries, represent significant budgets, involve co-operating with sub-contractors and external parties and are frequently dependent on obtaining certain regulatory permissions. These combined factors could lead to situations of corruption, bribery and or fraud. Tahal Group has an anti-corruption policy in place complementing its existing policies and guidelines

An overview of the main risk categories for the Kardan Group can be found in the chapter 'Risk Management', starting on page 33.

Personnel and Organization

Kardan is a decentralized organization with majority owned subsidiaries that operate fairly autonomously in many different countries. Given this international character and our practice to 'be global but to act local', Kardan employs a very diverse group of employees representing many nationalities, age groups and backgrounds.

The decentralized and broadly diversified organization, both in terms of activities as geographies, requires specific/tailored personnel policies for its individual businesses. Kardan therefore does not have a centralized personnel policy in place, Nevertheless, there is one key common denominator; throughout the Group; we consider our employees as fundamental to our success. In order to be able to attract and retain highly competent personnel, Kardan puts a lot of effort in being an attractive employer by providing international career and talent development opportunities.

Kardan's headquarters is located in Amsterdam, the Netherlands. Apart from general activities related to ongoing operations as a listed company, the headquarters deals with supervising Kardan's operations and with the corporate finance, legal and positioning activities of the Group.

As at December 31, 2016, 16 people worked for Kardan Holding, in a ratio of 69% female and 31% male staff members. As at year-end 2015 Kardan Holding employed 17 people. The absence rate during the calendar year 2016 was 2%.

The staff working at the headquarters of Kardan contribute their business and specialist experience to the subsidiaries throughout the Group. Each subsidiary is headed by an experienced manager with an appropriate background, supported by a (lean) management team.

At year-end 2016, the number of people employed by Kardan Group totaled 1,055 compared to 2,317 employees as of December 31, 2015. The significant reduction of the number of employees is primarily the result of the sale of our financial services activities, TBIF.

The Company does not foresee significant changes in the number of staff in its current Group companies in 2017.

	Number of employees as of December 31, 2016 *			
	Kardan holding	Real Estate	Water Infra-structure	Total
Europe (mainly CEE)	15	–	67	82
China	–	150	–	150
Israel	1	–	357	358
Africa (mainly Angola)	–	–	379	379
India	–	–	74	74
Other	–	–	12	12
Total	**16**	**150**	**889**	**1,055**

* Excluding the employees working for the joint venture operations, in line with IFRS 11.

Real Estate

Kardan operates in real estate in China, through its wholly-owned subsidiary Kardan Land China (KLC). KLC's head office deals with the management and operation of the real estate assets and projects in China, as well as with business development in general. As of December 31, 2016, KLC employed 150 people (198 as of December 31, 2015). It is noted that the people working in the joint venture operations are not included. KLC has 47% female staff members and 53% male staff members. The absence rate remains stable at around 2%, evidence of KLC's proactive human resources approach which KLC attributes to its human resources policy.

Board Report

Water Infrastructure

As of December 31, 2016, Tahal employed 889 people (2015: 638). This increase is explained by the large new projects in Angola and India. In line with the focus on efficiency and with the dedicated strategy to grow specific expertise centers in selected geographical areas, Tahal's employees are more and more based locally, i.e. in other regions such as India, Africa and Russia. This explains the decreasing proportion of employees in Israel, 41% in 2016, compared to 61% in 2015 (2014: 70%).

With so many projects in so many places around the world taking place concurrently, it is clearly a challenge to create and maintain a corporate culture and corporate values. Tahal puts a lot of effort in being transparent in its objectives and in what it expects of its employees as well as in being a good and reliable employer in all aspects. The initiation of the Tahal Academy, an in-house training platform, underpins this dedication to professional development. In 2016 more than 60 employees have taken part in the Academy courses.

The Tahal head office in Israel has an equal balance between male and female staff in 2016, whilst the project companies still have more males (2.5:1) than females (2015: 5:1). The diversity in terms of nationality and background, particularly in the project companies, is high.

Risk Management

Kardan's business strategy inherently comprises risks

Kardan's operating subsidiaries are active predominantly in emerging markets. Hence we are inherently exposed to a relatively high degree of entrepreneurial, geopolitical, financial and legal risks in these markets which, by nature, have a different risk profile than developed markets. The global financial crisis of 2008 and the ensuing sovereign debt crisis negatively impacted the results of Kardan. As a result, the repayment of our two outstanding Debentures – which were issued in 2007 and 2008 by Kardan and are listed on the Tel Aviv Stock Exchange only – became all the more challenging. The current business strategy of Kardan is therefore fully focused on repaying our liabilities as agreed in the Debentures' Amended Deeds of Trust. This entails generating cash by means of selling assets or attracting partners in projects whilst simultaneously continuing to focus on further improving our subsidiaries' results and therefore value.

Our risk management approach

Taking risks is an integral part of doing business and can create opportunities which in turn can lead to positive results. We therefore deem it important to have a proper 'risk culture' throughout the Kardan Group, entailing that all employees share a joint responsibility in being risk aware and acting accordingly. Likewise, we believe that management should lead the way through example.

Risk management is, clearly, an integral part of our daily management responsibility. In order to ensure adequate knowledge and understanding of our local business environments, and thus to minimize risks, our management teams in all the markets in which we are active consist of local and international members.

We have a transparent and structured management information system in place, based on monthly management reports submitted and presented by the subsidiaries to enable sound analyses and decisions. Kardan is listed on both Euronext Amsterdam and the Tel Aviv Stock Exchange. Our governance structures are therefore solid and, given our dual listing, we are obliged to publicly report on the quarterly results of the Group. As a result, this means – among other things – that Executive Management discusses strategic, operational and budgetary issues with the management and boards of our subsidiaries at least on a quarterly basis. We refer to the Corporate Governance Statement 2016 which can be found on the corporate site, www.kardan.nl.

Our risk management framework and processes

Our risk management framework was originally based on the principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and has since been updated to COSO IC 2013. The COSO frameworks were designed to help organizations develop and maintain their internal control systems, to enhance the likelihood of achieving its targets and to be able to adapt effectively to changes in the business and operating environments. In response to the revised Dutch Corporate Governance Code and in anticipation of the proposed update to the COSO ERM Framework we are revising our risk management process for 2017 to secure alignment with best practices.

We consider our risk management framework and approach to constitute a link between strategy, policy-making and operational execution and to be instrumental in obtaining a clear view on our business environment and the challenges we face, and accordingly to provide us with reasonable assurance that we have sufficient and appropriate control measures in place to support the Group in achieving its objectives.

The Board holds at least one formal budget meeting per year, when the objectives of Kardan, and consequently the strategy and business development of its subsidiaries, are discussed at length. Furthermore, this topic is a recurring topic on the agenda of Board meetings during the year. Given the debt situation of Kardan, the Board has emphasized that the repayment of its Debentures is Kardan's prime objective. This has accordingly been discussed by the Executive Management with the managers of the subsidiaries in order for them to take this into consideration in their budgets and strategic plans. Furthermore, the Board and the Executive Management require the subsidiaries to identify business and operational risk factors and the relating control measures they have taken and implemented. After approval of the subsidiaries' budgets and strategic plans, the Executive Management prepares the final budget and strategic plan for the Board. This includes Kardan's main risk categories and the relating control measures as determined during an annual risk assessment session which is conducted by the Executive Management in close cooperation with external risk management professionals. Afterwards, the Executive Management may decide to integrate some of the identified risk categories and controls in ongoing management information systems. Furthermore, after the first half of the year, the Executive Management provides the Board with an update on risks throughout the Group in general and on certain identified risks and their controls specifically.

The internal audit, that is carried out by a third-party organization and is done independently of management's own risk assessment, plays an important role in monitoring the risk management framework. Internal audits were mainly undertaken on the operational subsidiaries' level, and no significant shortcomings were detected during 2016. Besides complying with Dutch Securities Law regulations, Kardan also complies with Israel's Securities Law regulations relating to the effectiveness of internal control over financial reporting and disclosure (Israeli SOX). During the year under review all steps have been taken to be able to provide a declaration regarding the effectiveness of the internal control as referred to previously. Based upon the work performed, the CEO and the CFO of Kardan N.V. have made a statement in the Israeli Annual Report that as of December 31, 2016 the control over financial reporting and disclosure is effective (the Control Statement) and the Group's external auditors audit the effectiveness of the above mentioned internal controls over financial reporting and disclosure. On top of this, Kardan's (main) subsidiaries provide Kardan with a representation letter on a yearly basis.

The In-Control Statement by the Board of Kardan, as required by Dutch Securities Law can be found at the end of this chapter.

Main risk categories and measures

During the Executive Management's annual risk management assessment all Kardan's risk categories are assessed on the likelihood of a certain risk occurring, the impact this risk could have on the objectives and results of Kardan and possible additional measures to be taken. As a result of a combination of factors, including risk control measures taken by the Group's management, the changed circumstances in the markets in which we operate and the financial situation of Kardan, the main risk categories are determined. The composition of the main risks may therefore vary year by year.

The ten most important risk categories (per type of risk and in alphabetical order) that Kardan currently faces are presented below, as well as the risk appetite, and the related measures in place to control these risks. Also the impact and likelihood of each risk category is presented. Reference is also made to the financial risks, as described in the 2016 Statutory Financial Statements. We note that there are other risks that were assessed as having a less significant potential impact on the business. Any significant new or changed risk exposure identified during the year is brought to the Executive Board's attention and the risk profile and corresponding control measures are revised as necessary.

Please note that in our view, the risk categories listed below should be seen as general guidance for considering the main risks related to our businesses and strategy. We deem all risk categories, as discussed during our annual risk assessments, to be relevant for our business performance and hence conscientiously monitor all of them.

Strategic Risks

Concentration

Our real estate activities are concentrated in China. Our water project activities are spread more globally; mainly in emerging and frontier markets, with some large projects in CEE and Africa. Our water infrastructure company Tahal recently gained a large 7-years contract in Angola, which doubled its backlog and hence increased the dependence on one project significantly. Consequently, the Kardan Group is specifically exposed to these regions and markets, their economic developments and, in some instances, the extent to which government policy affects the operations of local subsidiaries. The fact that the Kardan Group – in line with our strategy – has business activities across different sectors in different (locations in) emerging markets mitigates the above-mentioned risks to a certain extent. We do note, however, that our real estate activities are characterized by long-term investments and commitments, and as such make us less flexible in adapting our profile at short notice to changing market conditions.

Risk Appetite:

Our portfolio is consciously diversified, both in terms of type of business and geography. We have a medium to high tolerance to concentration risk.

Impact: High   Likelihood: Highly probable

Measures:

Our real estate activities in China are spread over various Tier 2 cities, all carefully selected and reflecting their growth potential which is generally higher than the country average. Moreover, we are active in both the residential and the commercial retail real estate sector which diversifies our risk further. Our water infrastructure company Tahal aims to attract additional projects worldwide in its identified emerging growth markets, which include EPC projects in the fields of water, agriculture, solid waste and natural gas. This will mitigate the dependency on the large 7-years contract in Angola. This will also shift the geographical spread of our operational activities gradually, albeit that – given the sector differences – this will not affect the value allocation of our portfolio on our balance sheet. We closely monitor risks related to the specific markets and segments we operate in and discuss these risks at length in the Board meetings in order to be able to make solidly based decisions

This risk is segmented as 'Sector Risk' in the Israeli annual report

Customer needs and Competition

The needs of customers are changing as markets and technologies develop. Moreover, a logical consequence of the economic development of emerging markets, is that competition will increase. Given that the sectors in which we are active are characterized by long-term efforts and investments, the flexibility to change our strategic focus or move to other markets is limited.

Risk Appetite:

Our business is characterized by long-term efforts and investments. We have a medium tolerance for impact on our results by changes in customer needs and competition.

Impact: High   Likelihood: Probable

Measures:

Kardan has a strong governance structure in place to support a communication process that ensures that crucial developments are discussed during all Board meetings and between management of the subsidiaries and the Executive Management. Based on regular customer and market surveys and the insights of management of the various subsidiaries (consisting of local and international managers) the choice of location, pace of development, geographical and product diversification and the need for possible strategic changes are discussed and decided upon.

This risk is segmented as 'Sector Risk' in the Israeli annual report

Partnering

In many of its activities the Kardan Group operates with external partners, such as joint venture partners, subcontractors, funding partners etc. Accordingly, we run the risk that ineffective alliance, joint venture, affiliate or other external relationships affect our reputation and our capability to achieve our goals due to for instance choosing the wrong partner, poor execution of agreements or failing to capitalize on partnering opportunities.

Risk Appetite:
Successful partnerships are key to realizing our strategy. We have low tolerance for any weaknesses in the partner engagement process.

Impact: Medium   Likelihood: Probable

Measures:
Before entering into a partnership extensive groundwork is undertaken to select an appropriate partner and to check references. In many cases Kardan's extensive business network is contacted to identify potential partner candidates. Subsequently, roles and responsibilities are clearly defined and agreed upon and accordingly laid down in legal agreements which are made by our in-house and legal counsels. Moreover, being partners entails frequent sharing of communication which is addressed by regular update meetings.

This risk is segmented as 'Unique Risk' in the Israeli annual report

Sovereign/political

As we operate in emerging markets, we can be confronted with unstable and unpredictable political situations. Such instabilities might adversely affect our operations and their results. In addition, the geopolitical situation of Israel in the global political universe could lead to certain countries refraining from doing business with Kardan.

Risk Appetite:
We have a conscious strategy to operate in emerging markets and correspondingly have a medium tolerance for adverse political developments.

Impact: High   Likelihood: Highly Probable

Measures:
The Executive Management and the management of our subsidiaries closely monitor the political situation of the countries in which we are located and adjust our positioning where necessary, desirable and possible. In order to enhance the understanding of the local political environments and the resulting consequences on our businesses, we carefully select local partners and appoint management teams consisting of local and international qualified managers.

This risk is segmented as 'Macro Risk' in the Israeli annual report

Operational Risks

Budget and Planning

Budgeting and planning are crucial to all companies. The reliability of budgets depends on the ability of management to plan and control, combined with their best assessment of the situation of the (geographic) market(s) and the sector in which they operate. Kardan, with its real estate and water infrastructure activities in emerging markets, faces a number of elements in budgeting – such as periodic valuation of property assets which are affected by macroeconomic developments and consumer sentiment, as well as tendering for projects which may be delayed – creating uncertainties that are almost impossible to manage or foresee.

Risk Appetite:
The nature of the markets that we operate in inherently brings uncertainty and volatility. Consequently, we have high tolerance to adverse impacts on our financial results as a consequence of macroeconomic and other market effects beyond our control.

Impact: High Likelihood: Probable

Measures:
The budgets and strategic plans of all the subsidiaries of Kardan are presented to our Board and focus primarily on all those income statement line items that management can directly influence and control. Factors which are not under our control – such as foreign exchange rate impacts, macro-economic development and the resulting consumer and business sentiment, etc. – are usually not taken into account in the budgets. Monthly highlights, per subsidiary, ensure a proper understanding of the development within the subsidiaries and their operations. At the end of each quarter, a 'latest' result estimate is made compared to the budget, taking into consideration operational, market and economic realities and insights, according to which measures can and will be taken if considered necessary.

This risk is segmented as 'Sector Risk' in the Israeli annual report

Project Management
Project management is inherent to our business, in both our real estate and water infrastructure activities. Inadequate project management may negatively affect the achievement of the Company's objectives, its resources and future cash flows or may result in financial and/or reputational damage.

Risk Appetite:
Effective project management is a key value enabler for our business. We have low tolerance for weaknesses in project execution.

Impact: High Likelihood: Probable

Measures:
Kardan's operating companies are involved in many projects, of varying sizes and complexity, and in many different markets and each operates according to a specific growth strategy. In order to achieve their objectives and goals, it is considered essential to provide the relevant staff with appropriate project management training, including modules on management, operations, commerce and budget control among others. In addition, project reporting, on financial and non-financial aspects, has been implemented in the management information systems of the relevant Group companies.

This risk is segmented as 'Sector Risk' in the Israeli annual report

Financial Risks

Capital availability
Kardan has a substantial debenture debt at present. In order to finance the interest and capital repayments, the required funds need to be provided by our subsidiaries by means of dividend or repayment of shareholder loans, as well as through the sale of assets. As a result, capital availability – both in terms of equity and debt – is challenging for the Kardan Group as a whole. We are therefore exposed to the risk that

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insufficient access to capital may threaten our capacity to execute our objectives, as well as to grow and generate future financial returns.

It is noted that given Kardan's current financial position, the risk of capital availability can also be considered a strategic risk.

Risk Appetite:
Given our debenture debt, cash management is critical to our continuity. We cannot tolerate deficiencies in financing interest and capital repayments; orderly payments must be served.

Impact: Critical   Likelihood: Almost Certain

Measures:
In order to bring down debt at the level of Kardan, we aim to generate cash by, among other things, selling selected assets from our portfolio, taking into account the maturity of assets and the market conditions. Accordingly, we sold our remaining 50% stake in Galleria Chengdu in China at the end of 2014, in 2015 we sold our shares in KWIG (transaction completed in 2016), and in 2016 we sold our banking and retail lending subsidiary TBIF. This way, we secured our obligations until February 2018. Our obligations are according to a debt settlement with our Debenture Holders, as reflected in the Amended Deeds of Trust which were signed on July 2, 2015. In general we agreed to defer payment of the majority of the principal by 24 months against certain conditions, restrictions and collateral.

We manage the capital structure and liquidity position of Kardan and each of our subsidiaries intensely. In line with our financial strategy, our operating companies are largely responsible for their own funding. The Amended Deeds of Trust, however, do impact the ability of our subsidiaries to expand their credit facilities. Cash flow forecasts are made on a regular basis and discussed within the subsidiaries and with Kardan's Executive Management and Board, enabling us to control the cash situation optimally and to be able to make sound decisions.

This risk is segmented as 'Unique Risk' in the Israeli annual report

Financial markets
Kardan is a listed company and is strongly dependent on external financing. It has a high exposure to emerging markets in general and China in particular and it currently has a significant debt position. As such, we are exposed to fluctuations in currencies, prices, interest rates and indices which may affect the value of our financial assets, the size of our financial liabilities and the prices of our listed securities (equity and debt). Although we are not able to estimate the impact of this, developments in the financial markets could adversely affect our results, the equity base of Kardan, the value of our assets, our ability to comply with the covenants, repay our debt and the ability within the Group to raise financing as well as the terms of such financing. It is specifically noted that Kardan is exposed to fluctuations in the exchange rates of the various currencies in which the business affairs of Kardan are managed, which are largely beyond our control. These fluctuations may materially affect the financial status of Kardan as the Company reports in Euro, whereas it has NIS denominated debts and most of its assets are denominated in Chinese RMB.

Risk Appetite:
We operate in different emerging markets, different currencies and have a strong dependency on external financing. Correspondingly we have a high tolerance to the effects that developments in the financial markets may have outside of our influence of monitoring and hedging risks.

Impact: Critical   Likelihood: Almost Certain

Measures:
Kardan monitors the financial positions within its

businesses intensely and hedges these risks if and when deemed necessary and worthwhile. We focus on improving our capital position and further decreasing Kardan's debt, taking into consideration the undertakings towards the Debenture Holders, and on enhancing the direct financing of our operating activities within the subsidiaries. Moreover, we place a lot of emphasis on our investor relations activities by providing transparent and reliable disclosure as well as by maintaining regular contacts particularly with our debt holders all according to the applicable rules and regulations as well as to Kardan's policy on bilateral contacts.

This risk is segmented as 'Sector Risk' in the Israeli annual report

Compliance Risks

Fraud and illegal acts

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

Risk Appetite:
Having a decentral organization in emerging markets we are exposed to the risk of fraud and illegal acts but have a low tolerance to any deviations from our Code of Conduct.

Impact: Medium   Likelihood: Probable

Measures:
Our Code of Conduct provides guidance to all employees on ethical behavior with the aim of preventing fraud and illegal acts and is circulated throughout the Kardan Group annually. We have also embedded relevant policies and procedures, such as authorization schemes and segregation of duties, as much as possible in the daily operations in order to provide checks and balances for our activities, as well as a whistleblower policy. Moreover, in some of our operations, such as in our water infrastructure organization Tahal, in 2015, we introduced additional measures which enable us, at an early stage, to identify possible operational irregularities. As Kardan needs to comply with many regulations, entity level controls were implemented (also as part of the Israeli SOX) in order to prevent and detect fraud and illegal acts.

This risk is segmented as 'Unique Risk' in the Israeli annual report

Legal and Regulatory

Kardan operates in many diversely regulated markets and market segments and is consequently exposed to the risk that changing laws and regulations may threaten its capacity to consummate important transactions, enforce contractual agreements or implement specific strategies and activities.

Risk Appetite:
Adherence to laws, regulations and agreements secures our license to operate. We have a low tolerance to breaches and/ or lagging adoption of changed/ new regulations.

Impact: High   Likelihood: Highly Probable

Measures:
With the assistance of its internal and external legal counsels, Kardan continuously monitors the regulatory environments in which it operates, aiming to both anticipate and respond to changing regulations and the related consequences on its businesses. Moreover, the governance structure of Kardan and the compliance policies and procedures provide a

Board Report

structured framework within which all of the group companies operate.

This risk is segmented as 'Macro Risk' in the Israeli annual report

In-Control Statement of the Board

Based on its review of the risk management and internal control systems, and recognizing the inherent limitations as described earlier, the Board has concluded that there is reasonable assurance that:
- it understands to which extent Kardan's strategic and operational targets are being realized;
- Kardan's internal and external financial reports are reliable and do not include material misstatements;
- internal control over financial reporting is effective;
- the risk management and control systems worked properly in the year under review, within the boundaries of our risk appetite; and, applicable laws and regulations are being complied with.

Kardan's risk management and internal control systems, as described above, have been regularly discussed with the Audit Committee, the Board and the external auditors. During 2016 the Board evaluated the various risk categories as described above. In particular, attention was given to capital availability, financial markets and concentration risks and the possible impact on the going concern of the company should one (or more) of these risks materialize. The Board was content with the mitigating measures that were taken in 2016, such as securing debentures repayment, reducing concentration exposure by completing the sale of KWIG, and to CEE by selling TBIF.

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

Corporate and Social Responsibility

Focused on delivering sustainable solutions

Kardan incorporated CSR in its Group strategy and its subsidiaries. Kardan focuses on emerging markets; economies characterized by a high growth rate. Economic development in emerging markets frequently comes at the expense of the environment. As populations grow, there is an increasing need for food, water and energy and this frequently leads to significant pollution. Moreover, urbanization and industrialization have an exacerbating effect on the environment and climate. Kardan focuses on business opportunities arising in emerging markets economies, by also addressing global challenges resulting from the growth rate in these regions. As such, Kardan turns environmental and social challenges into business opportunities, and has Corporate and Social Responsibility (CSR) become an integral part Kardan's overall strategy and a core value of the Group as a whole. CSR is also integrated in our (risk) management framework.

Our subsidiaries – in real estate and water infrastructure – have all incorporated CSR principles and progressively aim to contribute to a more sustainable future. Our water infrastructure activities specifically focus on providing access to potable water and on agricultural projects, such as design and installation of water irrigation systems, to bring sustainable solutions to mainly emerging countries.

In our real estate activities, we aim to combine our tangible high-quality real estate assets with 'intangible values' in environmental aspects. Next to using sustainable materials and incorporating sustainability measures in the design and construction of properties, this also includes contributing to a healthy living environment, safety, providing facilities for disabled people, and encouraging a sustainable way of using properties.

Being a good corporate citizen

An important area in pursuing good corporate citizenship is living up to the established set of core values. Kardan demand its people to comply with its code of conduct, and to act accordingly in all interactions. In particular in emerging companies, being alert on human rights and a zero tolerance regarding unethical behavior of any kind is essential. Kardan also has a Whistleblower policy in place, providing employees the opportunity to report on incidents in violation of the Code of Conduct to the Group's senior management, upon which an investigation should be executed.

Being a good employer

Kardan aims to attract and retain people, develop human capital and grow the talent potential of its employees. Kardan pursues a diverse workforce, meaning an inclusive approach for people of various genders, ages, and cultural backgrounds. It is also the Group's strategy to attract and incorporate mainly local employees in its various local organizations. With the development of our organizations and through establishing new project locations, the Group creates positions for mainly local professionals, which we deem important as this ameliorates our insights into customers' requirements and market opportunities.

Implementing CSR

On a practical level we have introduced a number of guidelines, presented in the table below. Each operating company implements its own CSR strategy taking into account the effects of its activities on people, planet and profit for the three categories of stakeholders.

	People	Planet	Profit
Employees	– Equal opportunities – People should realize their potential (training) – Diversity – Health and safety	– Offices near public transport – Waste policies – (Video) conferencing – Travel policies – Energy saving policies	– Job security – Continuity – Career opportunities
Customers	– Long-term relationships – Retention of customers – Partnering – Creating local job opportunities	– LEED standards (real estate) – Sustainability standards in water infrastructure projects – Agricultural & water projects as ESG solutions to water and food security crisis – Responsible lending	– Price/quality ratio – Continuity – Reliability
Investors	– Corporate governance – Reporting & disclosure – Transparency – Accessibility	– CSR	– Consistency in reporting – Reliability and accessibility – Return on Investment

Real Estate

Kardan Land China (KLC) acknowledges that residential and retail real estate projects should comprise of more than only 'bricks and mortar'. Being energy-conscious, both during construction and in the way buildings are used and designed, is a core value of KLC. KLC also deems it important to be well respected by the local community because of the contribution malls and apartments make: both in terms of social positioning – such as employing local staff, business ethics, values and operating principles – and in terms of the architectural design.

KLC develops its real estate projects with great attention to green surroundings. Quality of living, environmental and sustainability attributes as well as connectivity to public transport have become important features which real estate developers need to take into consideration in their development programs. Working with the best (inter)national architects and consultants, KLC ensures that the buildings in its projects are safe, energy friendly, offer easy access to disabled people and incorporate, among others, fitness and leisure centers. Europark Dalian, for instance, is designed and will be operated according to the LEED (Leadership in Energy & Environmental Design) standard.

People

KLC realizes that success is to a large extent dependent on the dedication, professionalism and commitment of its employees. Hence, a lot of effort is put into recruiting the best people and offering them appropriate and attractive remuneration packages, training and internal promotion opportunities. In 2016, some 7% of total staff was promoted to more senior positions compared to 6% in 2015. Moreover, KLC recognizes that retaining people is important, many social events are organized during the year, ranging from in-house parties to sport and cultural events in the outdoors. KLC is dedicated to providing an inspiring working environment for its employees.

Water Infrastructure

Access to safe drinking water and sanitation is a human right and it is an essential resource in the production of most types of goods and services including food, energy and manufacturing. Kardan's subsidiary Tahal is specialized in developing comprehensive and innovative solutions for water resources management, wastewater treatment, integrated agricultural development and dealing with solid waste. Contributing to an improved environment and providing sustainable solutions are core attributes of Tahal's mission to address the critical challenge of providing access to water and food to people in need.

In most cases, significant water and agricultural related projects are put for tender by governments or municipalities which often do not have sufficient funding in place for such projects. Finding appropriate funding solutions is therefore part of Tahal's tender offers.

Tahal includes environmental impact assessments and appraises the relevant local regulatory and ethical behavior prior to embarking on a project. Besides this being an in-house prerequisite of Tahal, a sound evaluation on how the company will prevent and mitigate environmental risks occurring during a project is a pre-condition for leading commercial banks to consider funding (water) infrastructure projects.

Once an agreement for a project has been signed, Tahal combines its engineering, environmental, technological, training, financial and marketing expertise to deliver a complete, sustainable and customer-oriented high-quality result. Whether it regards a tailor-made solution to provide access to quality water for a variety of applications, treat wastewater to profitable reuse, and develop agricultural projects that enhance food security or create energy from solid waste.

Being environmentally aware and responsible is a corporate value of Tahal. Most of the communication with subsidiaries and customers is therefore conducted by means of conference calls in order to reduce unnecessary travel and a number of other energy saving measures (e.g. car-pooling, shared printer use, double-sided printing as default, recyclable paper, specific waste separation policies etc.) has been implemented at Tahal. To boost energy saving, light bulbs in public areas were replaced by energy efficient LED lighting, hot water saving devices were installed, air conditioning systems are set in energy saving modus and the company's relatively small car fleet is gradually being replaced by one with more economical fuel use and improved gas emissions.

Local impact

Tahal strives to contribute to sustainable solutions, not only for the environment but for the relevant local population too. There are many examples of how Tahal has created job opportunities for local professionals during a project, but also of how these projects – once finished – have led to more permanent positions. Many projects – such as the agricultural Quiminha project in Angola – generally inherently bring about employment. On occasion, therefore, Tahal also facilitates training as part of the project to ensure proper usage after transfer. In doing so, Tahal demonstrates clearly how it intertwines its economic with its environmental and social and ethical objectives.

In its aim of being a responsible and social corporate citizen, Tahal employees were involved in several community activities. For instance in Or Yehuda, the town in which the Israeli office is located. Besides actively helping children with after-school programs, various donations were made ranging from computers to toys, games and clothing. Similar activities, albeit on

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a smaller scale, also took place in several project locations.

People
With so many projects in so many places around the world taking place concurrently, it is clearly a challenge to create and maintain a corporate culture and corporate values. Tahal puts a lot of effort in being transparent in its objectives and in what it expects of its employees as well as in being a good and reliable employer in all aspects. The initiation of Tahal Academy, an in-house training platform, underpins this dedication to professional development. Furthermore, Tahal organized several social events for its staff to nurture corporate cohesion.

For Tahal staff, health and safety training programs were implemented, to assure a safe working environment in its worldwide offices and project sites. Tahal's quality assurance system is certified in compliance with ISO 9001:2008, and its environmental and occupational health & safety management systems are certified in compliance with ISO 14001:2004 and OHSAS 18001:2007.

Governance and Compliance

Introduction

Kardan is managed by a one-tier board, which currently consists of one executive Board Member, the CEO, and eight non-executive Board Members. The Board reports to the General Meeting of Shareholders of Kardan. The Board as a whole bears the ultimate responsibility for the management of Kardan, whilst the responsibility for the day-to-day management is assigned to the CEO of Kardan jointly with Executive Management, based on a limited power of attorney provided by the Board. During 2016 the Executive Management consisted of the CEO, the Deputy CEO and the CFO. The day-to-day management is supervised by, and may be subject to prior approval of, the Board in accordance with the Articles and the Board Regulations of Kardan as set out in the Corporate Governance Statement 2016. In 2016, no changes were made to the Company's governance framework.

Corporate Governance Statement

Pursuant to the Dutch governmental Decree of December 23, 2004, in which further instructions concerning the content of the annual report were established (Besluit van 23 december 2004 tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag; the 'Decree'), listed companies may provide certain information in a Corporate Governance Statement instead of in the annual report. Such information pertains to (i) the extent and manner of implementation of the Code (see www.commissiecorporategovernance.nl), (ii) the main characteristics of the risk management and internal control systems connected with Kardan's financial reporting process, (iii) the functioning of the General Meeting of Shareholders, (iv) the composition and functioning of the Board, and (v) the statement in light of Article 10 of the European Takeover Directive. Kardan's Corporate Governance Statement 2016 is available on its website and forms an integral part of this Annual Report.

Board

Composition, Mutations and Reappointment schedule

From the start of 2016 until April 15 and from 12 December until the end of 2016, the Board was comprised of nine Members, eight non-executive Members and one executive Member, being the CEO. In the interim period the Board was comprised of eight Members.

Mr. Oren resigned from the Board per April 15, 2016 and Mr. Hasson was appointed to the Board as executive Member, at the AGM on May 26, 2016. At the same AGM the statutory term of appointment of Messrs. Sheldon, Schnur and May ended. Messrs. Sheldon and Schnur were reappointed on the same occasion whilst Mr. May was not available for reappointment. In the EGM held on December 12, 2016, Mr. M. Groen was appointed as non-executive Board Member.

An overview of the composition of the Board and a reappointment schedule can be found in the table below.

Name	Committee	Date of birth	Nationality	Status	Date of first appointment	End of current term
Mr. P. Sheldon (Chairman)	Audit RAS*	1941	British	Non-executive Independent	May 26, 2016	AGM 2020
Mr. C. van den Bos (Vice-Chairman)	Audit (chairman)	1952	Dutch	Non-executive Independent	February 6, 2013	AGM 2017
Mr. M. Groen		1946	Dutch	Non-executive Independent	December 12, 2016	Nov 2020
Mr. Y. Grunfeld		1942	Israeli	Non-executive Non-independent	February 6, 2013	AGM 2017
Mr. A. Hasson (CEO)		1973	Israeli	Non-executive Non-independent	May 26, 2016	AGM 2021
Mr. B. Marsman	RAS* Audit	1974	Dutch	Non-executive Independent	August, 2015	AGM 2019**
Mr. E. Rechter		1949	Israeli	Non-executive Non-independent	February 6, 2013	AGM 2017
Mr. A.A. Schnur		1948	Israeli	Non-executive Non-independent	May 26, 2016	AGM 2020
Mrs. M. Seinstra	RAS*	1951	Dutch	Non-executive Independent	February 6, 2013	AGM 2017
Appointments ended in 2016						
Mr. A. May	RAS* (chairman) Audit	1955	Belgian	Non-executive Independent	May 31, 2012	Appointment ended at AGM 2016
Mr. S. Oren (CEO)		1959	Israeli	Executive	May 31, 2012	Resigned on April 15, 2016

* Remuneration, Appointment and Selection Committee.
** Mr. Marsman was appointed on the recommendation of the debenture holders as detailed in the Amended Deeds of Trust. Furthermore Mr. Marsman provided the Company with a letter, according to which he will undertake to submit his resignation immediately once certain relief conditions have been met as specified in the Amended Deeds of Trust.

Board Meetings

The Board meets at least once every quarter, principally at Kardan's headquarters in Amsterdam or, where necessary, by conference call. In 2016, the Board met eleven times. None of the Board Members were frequently absent from Board meetings. Resolutions of the Board are generally adopted by an absolute majority of the votes cast as defined in the Articles, except for extraordinary transactions, in which case resolutions made by the Board are adopted by a special Board majority. Each Board Member has one vote, except in the event of a conflict of interest, in which case the respective Board Member can neither participate in the relevant discussions nor vote on the subject matter. When deemed necessary, the Board consulted outside experts for advice and invited them to attend Board meetings.

During 2016, the Board extensively discussed the Company's strategy, objectives, financial position, financial forecasts, results and cash flow projections. In addition, cash-generating options and the Company's ability to service its debts, particularly in light of the Company's repayment obligations towards its Debenture Holders, were discussed frequently. Kardan Group's main focus in 2016 was to generate cash through the sale of assets and the restructuring of debt in order to meet the Company's payment obligations and those of its subsidiaries. The CEO updated the Board frequently on the progress of various processes such as the sale of the remaining 25% of the shares of KWIG, the sale of TBIF and other options to generate cash.

At the same time, the continuing effort to improve the operating subsidiaries' profitability was a major element of the Board's attention. The CEO provided detailed business updates to the Board through Board meetings and via e-mail, addressing major developments and events in all segments of the Kardan Group.

Once every year the board is given an extensive presentation on the main risks for the Kardan Group; at this occasion the Executive Management shares its conclusions on how these risks are being – or should be – managed. The Board was informed that continuous follow-up takes place by management and that, as much as possible, control measures of major risks are linked to the Company's strategy. As part of risk management, the Board discusses health and safety issues within the Kardan Group.

The Board extensively discussed the proposals as submitted by the RAS Committee for the remuneration of the CEO as well as the remuneration of the non-executive Board Members and the appointment of the CEO and the new non-executive Board Member. The Board was periodically updated by the chairmen of both the Audit Committee and the RAS Committee on the discussions that took place in the meetings of their respective committees. If so required, the Board was asked to resolve matters that were brought to the Board by the respective committees.

Board Evaluation

The Chairman conducted bilateral meetings with each individual member of the Board in 2016. The RAS Committee agreed to continue this process on an annual basis. Furthermore, as part of a self-assessment process, the Board Members submitted an extensive questionnaire to the RAS Committee in 2016. The RAS Committee distilled the main conclusions from the submitted questionnaires and shared them with the entire Board. Where required, follow-up is given to the items discussed.

Board Committees

The Board has established an Audit Committee and a RAS Committee, comprising only non-executive independent Board Members, without in any way derogating from the primary responsibilities of the Board as a whole. The respective chairmen of these committees report on their activities periodically to the

Board Report

entire Board. Both committees are subject to specific regulations, which form part of the Board Regulations.

Audit Committee
Mr. Van den Bos has been the chairman of the Audit Committee since the beginning of 2014. The other Members are Messrs. Sheldon and Marsman.

The members of the Audit Committee all possess extensive financial knowledge. The Audit Committee met six times during 2016 and extensively discussed the periodic and annual financial statements in the presence of Kardan's CEO, CFO and external auditor. Accounting issues and main assumptions, judgments and valuations were discussed, and the external auditor reported his findings. The Audit Committee specifically discussed the Company's going-concern assumption, the financial impact of currency fluctuations on the Company's equity and the possibilities of hedging foreign exchange risks, cash flow forecasts of Kardan, the valuation of real estate properties and inventory in China and bad debt provisions.

After reviewing the performances of PricewaterhouseCoopers Accountants N.V. as Kardan's external auditor for the financial year 2015, the Audit Committee recommended to the Board to propose the appointment of PricewaterhouseCoopers Accountants N.V. as Kardan's external auditor for the financial year 2016. In addition, the Audit Committee discussed annual compliance and integrity updates, from both the Dutch and the Israeli perspective, pursuant to which internal procedures have been implemented/ updated.

During the course of 2016, the chairman of the Audit Committee had frequent meetings with Kardan's financial executives and the external auditors in preparation of the Audit Committee meetings. Before every quarterly Board meeting the chairman of the Audit Committee met with the external auditors without the Executive Management being present.

Remuneration, Appointment and Selection Committee
From January 2016 until May 26, 2016 the RAS Committee consisted of four members, Mr. May (chairman), Mr. Sheldon, Mrs. Seinstra and Mr. Marsman. Mrs. Seinstra took over as Chairman of the RAS Committee when Mr. May left the Board on May 26, 2016 and since then this Committee comprises three members; Mrs. Seinstra and Messrs. Sheldon and Marsman. The RAS Committee met five times in 2016 either in physical meetings or via teleconference. The RAS Committee submitted a proposal to the Board for the nomination of Mr. Hasson as executive Board Member and prepared a proposal for the Board concerning his remuneration. The Committee also submitted a proposal for the nomination of Mr. Groen as a non-executive Board Member. All proposals were accepted by the Board and adopted in consecutive General Meetings of Shareholders during 2016.

Furthermore, the Committee discussed and analyzed the self-assessments 2016 submitted by the Board Members and approved some changes to the terms in employment agreements of senior executives of the Kardan Group.

Internal regulations and conflicts of interest of Board Members

Kardan's Articles include extensive provisions on conflicts of interest between Kardan and Holders of Control (as defined in the Articles), which are also applicable if these Holders of Control hold a position on the Board (for a further description of these provisions, see the section 'Related Party Transactions' in this chapter). In addition, Kardan endorses the principles and provisions of the Code that address conflicts of interest between Kardan and one or more Board Members. To this effect, provisions have been included in the Board Regulations covering best practice provisions II.3.1 through II.3.4 and III.6.1 through III.6.3 of the Code, which were adhered to in light of the conflicts of interest described hereafter.
At the beginning of each Board meeting the Chairman verifies whether any Board Member has a (potential)

conflict of interest with respect to any item on the agenda.

Remuneration and shareholdings of Board Members

The Shareholders approved a remuneration policy for the Board at the AGM 2012 according to which non-executive Board Members receive a fixed remuneration only, and a specific remuneration package, including a variable element, was adopted for the executive Board Member. The General Meeting of Shareholders determines the remuneration of each Board Member. In 2016, the Shareholders approved certain changes to the specific remuneration packages, as further described in the Remuneration Report on page 51 of this Annual Report.

The remuneration of the non-executive Board Members does not depend on the performance of Kardan's shares, and rights to shares are not granted to the non-executive Board Members as remuneration. Kardan has not granted personal loans, guarantees or the like to Board Members, all of which are prohibited by the Board Regulations unless in the normal course of business and with prior approval granted by the Board. According to the available information there are three non-executive Board Members who hold shares in the capital of Kardan: Mr.Grunfeld, Mr. Rechter and Mr. Schnur; more detailed information can be found in the Shareholder Information chapter on page 11 of this Annual Report.

Detailed information on the remuneration of all Board Members can be found in the Remuneration Report on page 51 of this Annual Report.

Related Party Transactions

Articles 7, 8 and 9 of the Articles of Kardan contain rules on the corporate resolution process in the case of dealings between Kardan and one or more Holders of Control, as defined in the Articles (Special Approval Procedure). Holders of Control are deemed to be any Person (as defined in the Articles) holding 25% or more of the voting rights in the General Meeting of Shareholders, if there is no other Person holding more than 50% of the voting rights. Certain transactions, as described in Kardan's Articles, between Kardan and a Holder of Control require special approval, as follows: (i) Board approval with an absolute majority of votes, including the affirmative vote of the majority of the independent Board Members (as defined in the Articles) and (ii) approval of the General Meeting of Shareholders with an absolute majority of votes, provided that either (a) such a majority includes the affirmative votes of at least half of all the votes of the shareholders who are present at the meeting and who do not have a Personal Interest (as defined in the Articles), or (b) the opposition votes of those shareholders who are present at the meeting and who do not have a Personal Interest, do not constitute more than 2% of the total number of votes that can be cast in a General Meeting of Shareholders. In 2016 no such dealings arose.

Shareholders

Kardan acknowledges the importance of being transparent towards its shareholders and other investors. As such, management engages, from time to time, in meetings with investors and shareholders. Shareholders are given the opportunity to ask questions at the General Meetings of Shareholders and, in addition, can contact the Investor Relations office of Kardan during the course of the year. All is done in accordance with Kardan's Investor Relations Policy, as published on Kardan's website.

Compliance

As a company listed on Euronext in Amsterdam and the Tel Aviv Stock Exchange, Kardan is subject to laws and regulations in the countries of listing. Moreover, as an internationally operating company, Kardan must comply with laws and regulations in every country in which it conducts its business. Compliance with applicable laws and regulations is embedded in

Board Report

Kardan's organization, amongst others by means of internal rules and procedures that have been put into place to safeguard compliance. In light thereof, Kardan has a Whistleblower Policy in place since 2008, enabling employees to adequately and safely report any suspicions they may have of irregularities of a general, operational or financial nature. In the same year Kardan also adopted a Code of Conduct designed to provide its employees with guidelines for their behavior and activities to comply with laws, regulations and ethical standards that govern Kardan's businesses. In order to safeguard a level playing field for investors, Kardan furthermore adopted an Insider Trading Policy in 2008. Later an Investor Relations Policy was adopted as well. All of the aforementioned policies are regularly updated and can be found on Kardan's website under 'Governance Policies and Documents'.

Due to its listing on Euronext in Amsterdam, Kardan is required to comply with the Dutch Securities Law and listing standards of Euronext as available on https://www.euronext.com/en/regulation. Supervision of the Dutch Securities Law is, to the extent relevant for Kardan, carried out by the Dutch Authority for Financial Markets ('AFM'), which is responsible for supervising the efficient operation of the financial markets in the Netherlands.

Due to its listing on the Tel Aviv Stock Exchange, Kardan is required to comply with Israeli Securities Regulations and listing standards of the Tel Aviv Stock Exchange (TASE), as available on www.tase.co.il/eng/pages/homepage.aspx. Supervision of the Israeli Securities Regulations is carried out by the Israeli Securities Authority (ISA). Any report required in Israel is conducted through the Electronic Disclosure System (MAGNA). Through the MAGNA system, the reports are sent to ISA and TASE, and can be reviewed by any investor online.

Reporting requirements in the Netherlands and Israel partly overlap and include (but are not limited to) the following:

(i) any Interested Party and any senior office holder (as defined in the Articles) of Kardan is required to report to Kardan about any change in their holdings in Kardan's shares, and Kardan has to report this via the MAGNA system (Israel);
(ii) Kardan has to make public material events which are not in the ordinary course of business or which can materially affect Kardan or which can be considered as price-sensitive information;
(iii) Kardan has to publish an Immediate Report about convening a General Meeting of Shareholders and the resolutions adopted in such meeting (Israel);
(iv) Kardan is required to publish its periodic reports, which include quarterly and annual financial statements and additional information. The additional information may differ between the Dutch and Israeli reporting requirements, in timing or in content. Both Dutch and Israeli reports are published on the Company's website; and
(v) Kardan is required to publish reports with respect to any change in its issued share capital including, inter alia, distribution of dividends (in cash or in kind), issuance of any new securities (including shares, options, debentures, etc.), conversion of any securities, the lapse of options on shares, purchase plans (buy back) and creation of treasury shares.

Given the fact that Kardan is not incorporated under Israeli law, it is not subject to Israeli Companies Law. However, where deemed appropriate, Kardan has adopted certain principles from Israeli Companies Law such as, but not limited to, the Special Approval Procedure for Extraordinary Transactions which are implemented in Kardan's Articles.

Remuneration Report

The Remuneration, Appointment and Selection Committee (RAS) Committee makes, among others, proposals to the Board regarding the fixed and variable remuneration (as applicable) of the individual Board Members. In accordance with the Articles, the final determination of the Board Members' remuneration (amount and composition) lies with the Company's General Meeting of Shareholders.

Remuneration policy for the non-executive Board Members

At the AGM of May 28, 2015 a new remuneration policy was adopted. This policy came into effect on June 1, 2015 and is as follows: each non-executive Board Member continues to receive a basic fee of € 26,000 per year. The Chairman of the Board receives a total fee of € 58,000 per year, including all committee fees. A committee chairman receives an additional fee of € 10,000 and committee members receive an additional € 8,000. In 2016 no changes were made to the remuneration policy.
The remuneration for non-executive Board Members consists of fixed remuneration only. A breakdown of the total remuneration as paid in 2016 is presented in the table below.

Mutations in Board positions during 2016

On April 15, 2016 Mr. Oren (the former CEO and executive Board Member) resigned from the Board. During the AGM held on May 26, 2016 Mr. Hasson (appointed as CEO on April 15, 2016) was appointed as executive Board Member. The statutory term of appointment of Messrs. Sheldon, Schnur and May ended during the AGM 2016. During the same meeting Messrs. Sheldon and Schnur were reappointed whilst Mr. May was not available for reappointment. In the EGM held on December 12, 2016, Mr. Groen was appointed as non-executive Board Member.

Mutations in Committee positions during 2016

Mrs. Seinstra was appointed as Chairman of the RAS Committee on May 25, 2016 and Mr. May left the Committee on May 26. Mr. Marsman was appointed as member of the Audit Committee on August 23, 2016.

Non-executive Board Member [1]		Gross Remuneration in 2016 in €
Mr. P. Sheldon	Chairman of the Board; member of the Audit Committee and of the RAS Committee	58,000
Mr. C. van den Bos	Vice-Chairman of the Board and Chairman of the Audit Committee	36,000
Mr. M. Groen		1,258
Mr. Y. Grunfeld [1]		26,000
Mr. B. Marsman	Member of the RAS Committee Member of the Audit Committee	36,804
Mr. A. May	Chairman of the RAS Committee and member of the Audit Committee	17,742
Mr. E. Rechter [1]		26,000
Mr. A. Schnur [1]		26,000
Mrs. M. Seinstra	Chairman of the RAS Committee	35,194

1 Pursuant to the Amended Deeds of Trust, the remuneration of the non-executive Board Members who are Holders of Control (Messrs. Grunfeld, Rechter and Schnur), shall not be paid if certain conditions as defined in the Amended Deeds of Trust are not met.

Pursuant to the Articles, Board Members receive indemnification for losses, damages and costs which they may incur as a result of a claim or proceedings related to the fulfillment of their duties as Board Members (willful misconduct and gross negligence excluded). The Company accordingly has entered into indemnity agreements with the Board Members and the members of the Executive Management. It is noted that any agreement with a Board Member who is also Holder of Control is only effective upon approval of the General Meeting of Shareholders. No indemnification was granted in 2016.

Remuneration of the (current and former) CEO in 2016

Remuneration of the (current) CEO

On April 15, 2016 Mr. Hasson was appointed as CEO of Kardan and during the AGM of 2016, the shareholders approved his remuneration package as it was proposed by the Board after the RAS committee analyzed the possible outcomes of the different variable components. This remuneration package entails an annual fixed remuneration, a variable remuneration consisting of a discretionary bonus and a severance payment as further detailed below.

Fixed remuneration of the CEO

The CEO is entitled to receive a fixed monthly remuneration consisting of a salary for management services provided by him in the Netherlands, and a fee for consultancy services primarily in respect of the activities and investments of the Kardan Group, related to its non-Dutch operations. In addition the CEO was entitled to customary social benefits in the Netherlands, car, cellular telephone, etc. The total annual fixed remuneration is estimated at € 355,000. Since the CEO came into office on April 15 his fixed remuneration in 2016 was € 219,000.

Variable remuneration – short term[2]

The Board may decide, upon its sole discretion, to propose to grant the CEO a variable remuneration in the form of a bonus for each calendar year, based on his achievements during the relevant year and taking into account his total remuneration package. Proposals for bonuses, if applicable, will be submitted to the General Meeting for approval. For the year 2016 the Board has proposed a bonus of € 100,000 conditional upon the achievement of specific targets, principally in relation to the repayment of the maturities of existing outstanding debt due in February 2017. On January 24, 2017, the Board concluded that the CEO had met the specified target and consequently proposed the payment of the bonus for 2016 of € 100,000 in the full amount.

Severance Payment

The agreement between Kardan and the CEO can be terminated by either party. Each party has to give a 6 months' notice (the 'Notice Period') of an intention to terminate the agreement. If the CEO gives such notice, at any time after December 31, 2016, he will only be entitled to receive payment during the period in which he rendered services to the Company during the Notice Period. Should the Board decide that the CEO's services are not required during the entire Notice Period, he would still be entitled to receive the full six months' payment. If the Company initiates the termination, the CEO will be entitled to receive a full payment during the Notice Period, even if he was requested not to render any services to the Company during the Notice Period.

No severance payment will be due in the event that the Company terminates the CEO's engagement for cause.

2 Pursuant to the Amended Deeds of Trust, the CEO's bonus, if applicable in any year, shall be reduced by 20% if certain conditions as defined in the Amended Deeds of Trust are not met. The bonus has been paid to the CEO.

Total remuneration

A breakdown of the total costs of the remuneration for the current CEO in 2016 as per April 15, 2016 is presented in the following table:

Element	Remuneration in 2016
Base Remuneration (including social benefits)	€ 219,000
Allowances	company car, cell phone
Annual Bonus	€ 100,000
Pension	included in Base Fee
Total	**€ 319,000**

It is noted that the CEO has an incentive plan granted to him by TBIF in 2012 which was not affected by his appointment as CEO of the Company.

Remuneration of the former CEO

Mr. Oren, who resigned as CEO per April 15, 2016, was entitled to a six months' paid notice period that ended effectively on September 30, 2016. The fixed remuneration for Mr. Oren in the year 2016 amounted to € 421,000. Mr. Oren received no variable remuneration for activities performed during 2016 and no options to acquire shares in the Company in 2016. No prior granted options were exercised by Mr. Oren in 2016 and they all expired in 2016.

Employee Options

In 2016 no additional options to acquire shares in Kardan were granted and no existing options were exercised by employees. However, 50,000 options expired and the total number of options granted to senior employees is therefore 250,000 as at December 31, 2016.

For further details regarding share-based payments see Note 18 of the consolidated financial statements.

Declaration by the Board

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

(i) The Consolidated Financial Statements for the 2016 financial year give a fair view of the assets, liabilities, financial position and results of Kardan and of the companies included in the consolidation.

(ii) The Annual Report 2016 gives a fair view of Kardan's condition on the balance sheet date, the development of Kardan and its affiliated companies (subsidiaries, joint ventures, and associated companies) during the 2016 financial year, and all material risks to which Kardan and its affiliated companies are exposed.

Amsterdam, April 12, 2017

Board of Directors

P. Sheldon (Chairman)

A. Hasson (CEO)

C. van den Bos (Vice-Chairman)

M. Groen

Y. Grunfeld

B. Marsman

E. Rechter

A. Schnur

M. Seinstra

Statutory Financial Statements

for the year ended December 31, 2016 by Kardan N.V., Amsterdam, The Netherlands

Consolidated Financial Statements

Company-only Financial Statements

Notes to the Consolidated Financial Statements

Consolidated Statement of Financial Position

€ in '000	Note	December 31, 2016	December 31, 2015
Assets			
Non-current assets			
Tangible fixed assets, net	6	13,689	24,161
Investment property	7	240,461	250,310
Investments in associates	8	12,888	9,540
Investments in joint ventures	9	96,039	95,964
Other financial assets		–	5,485
Loans to bank customers	5	–	83,143
Long-term loans and receivables	10	11,695	23,570
Intangible assets and goodwill, net	11	6,156	6,361
Deferred tax assets	33	2,452	3,065
		383,380	**501,599**
Current assets			
Inventories, contract work, buildings and apartments inventory progress	12	119,421	109,818
Current maturities of long-term loans and receivables	10	–	16,749
Loans to bank customers	5	–	55,112
Trade receivables	13	66,447	67,318
Current tax assets		1,345	1,155
Other receivables and prepayments	14	26,773	40,383
Short-term investments	15	10,218	7,787
Cash and cash equivalents	16	57,783	143,920
		281,987	**442,242**
Assets held for sale	5	–	31,901
Total current assets		281,987	474,143
Total assets		**665,367**	**975,742**

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

€ in '000	Note	December 31, 2016	December 31, 2015
Equity and liabilities			
Equity attributable to equity holders of the parent	17		
Issued and paid-in capital		25,276	25,276
Share premium		206,482	206,482
Foreign currency translation reserve		23,590	24,711
Property revaluation reserve		34,772	36,713
Revaluation reserve, other		6,633	8,144
Accumulated deficit		(259,420)	(229,865)
		37,333	**71,461**
Non-controlling interests		**3,850**	**4,477**
Total equity		**41,183**	**75,938**
Non-current liabilities			
Interest-bearing loans and borrowings	19	419	40,550
Banking customers accounts		–	129
Other long-term liabilities	20	4,004	2,544
Financial instruments	21	3,966	2,495
Debentures	22	288,978	356,272
Deferred tax liabilities	33	4,763	13,909
Accrued severance pay, net		1,090	1,415
		303,220	**417,314**
Current liabilities			
Liability due to work in progress	12	38,889	47,709
Banking customers accounts	5	–	191,933
Trade payables		20,440	20,268
Interest-bearing loans and borrowings	23	126,816	68,448
Current tax liabilities		6,734	3,933
Advances from apartment buyers	12	50,011	34,263
Advance from customers	24	15,814	17,102
Other payables and accrued expenses	24	62,260	98,834
Total current liabilities		**320,964**	**482,490**
Total liabilities		**624,184**	**899,804**
Total equity and liabilities		**665,367**	**975,742**

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

Consolidated Income Statement

€ in '000	Note	For the year ended December 31,		
		2016	2015	2014
Contract revenues	27	129,665	167,861	142,794
Rental revenues		3,732	1,822	–
Sale of apartments		761	791	46,866
Management fees and other revenues		6,645	3,398	4,670
Total revenues		**140,803**	**173,872**	**194,330**
Contract costs	27	108,612	141,930	118,425
Costs of rental revenues		1,493	1,473	–
Cost of sale of apartments		676	889	44,217
Other expenses, net	28	5,555	7,078	5,771
Total expenses		**116,336**	**151,370**	**168,413**
Gross profit		**24,467**	**22,502**	**25,917**
Selling and marketing expenses	29	8,127	9,963	8,192
General and administration expenses	30	20,169	24,202	21,251
Loss from operations before fair value adjustments, disposal of assets and investment and other income		**(3,829)**	**(11,663)**	**(3,526)**
Adjustment to fair value of investment properties	7	(2,588)	20,907	8,859
Gain (loss) on disposal of assets and other income, net	31	(1,100)	3	17,268
Profit (loss) from fair value adjustments, disposal of assetsand investments and other income		**(3,688)**	**20,910**	**26,127**
Profit (loss) from operations		**(7,517)**	**9,247**	**22,601**

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

Consolidated Income Statement (continued)

€ in '000	Note	For the year ended December 31, 2016	2015	2014
Financial income	32	1,169	1,518	2,061
Financial expenses	32	(50,394)	(66,431)	(21,799)
Total financial expenses, net		**(49,225)**	**(64,913)**	**(19,738)**
Profit (loss) before share of profit (loss) from investments accounted for using the equity method, net		**(56,742)**	**(55,666)**	**2,863**
Share of profit of investments accounted for using the equity method, net	8, 9	**2,869**	**2,683**	**6,712**
Profit (loss) before income taxes		**(53,873)**	**(52,983)**	**9,575**
Income tax expenses (benefit)	33	(1,060)	6,493	12,969
Loss for the year from continuing operations		(52,813)	(59,476)	(3,394)
Net profit from discontinued operations	5	21,487	36,518	8,456
Net profit (loss) for the year		**(31,326)**	**(22,958)**	**5,062**
Attributable to:				
Equity holders		(31,330)	(22,915)	5,091
Non-controlling interest holders		4	(43)	(29)
		(31,326)	**(22,958)**	**5,062**
Earnings (loss) per share attributable to shareholders (in €)	34			
Basic from continuing operations		(0.43)	(0.51)	(0.03)
Basic from discontinued operations		0.17	0.31	0.08
		(0.26)	**(0.20)**	**0.05**
Diluted from continuing operations		(0.43)	(0.51)	(0.03)
Diluted from discontinued operations		0.17	0.31	0.08
		(0.26)	**(0.20)**	**0.05**

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

Consolidated Statement of Other Comprehensive Income

€ in '000	For the year ended December 31,		
	2016	2015	2014
Net profit (loss) for the year	**(31,326)**	**(22,958)**	**5,062**
Foreign currency translation differences, net of tax	(941)	1,100	28,638
Change in hedge reserve, net of tax [1]	(1,362)	(2,784)	(1,676)
Other comprehensive income (expense) for the year to be reclassified to profit or loss in subsequent periods [2]	(2,303)	(1,684)	26,962
Total comprehensive income (expenses)	**(33,629)**	**(24,642)**	**32,024**
Attributable to:			
Equity holders	(33,816)	(24,931)	32,038
Non-controlling interests holders	187	289	(14)
	(33,629)	**(24,642)**	**32,024**

1 Including reclassification of reserve due to the sale of derivative instruments in the amount of €(2,087) thousand, €(1,413) thousand, and €(1,300) thousand for the years ended December 31, 2016, 2015 and 2014, respectively (see also Note 35). The amounts presented are net of tax amounting to €522 thousand, €477 thousand and €(1,659) thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

2 Including the impact resulting from associates and joint ventures for the years 2016, 2015 and 2014 amounting to €(579) thousand, €4,721 thousand and €2,166 thousand, respectively.

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

Consolidated Statement of Changes in Equity

€ in '000	Attributable to equity holders of the parent								
	Issued and paid-in capital	Share premium	Foreign currency translation reserve *	Property revaluation reserve *	Revaluation reserve, other *	Accumulate deficit *	Total	Non-controlling interest	Total equity
Balance as of January 1, 2016	**25,276**	**206,482**	**24,711**	**36,713**	**8,144**	**(229,865)**	**71,461**	**4,477**	**75,938**
Other comprehensive income (expense)	–	–	(1,121)	–	(1,365)	–	(2,486)	183	(2,303)
Profit (loss) for the period	–	–	–	–	–	(31,330)	(31,330)	4	(31,326)
Total comprehensive income (expense)	**–**	**–**	**(1,121)**	**–**	**(1,365)**	**(31,330)**	**(33,816)**	**187**	**(33,629)**
Share-based payment (Note 18)	–	–	–	–	(146)	–	(146)	(527)	(673)
Dividend distributed to minority shareholders	–	–	–	–	–	–	–	(379)	(379)
Disposal of a subsidiary	–	–	–	–	–	–	–	92	92
Transaction with non-controlling interest (Note 21)	–	–	–	–	–	(166)	(166)	–	(166)
Reclassification according to the Netherlands civil code requirements *	–	–	–	(1,941)	–	1,941	–	–	–
Balance as of December 31, 2016	**25,276**	**206,482**	**23,590**	**34,772**	**6,633**	**(259,420)**	**37,333**	**3,850**	**41,183**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 17F).

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

Consolidated Statement of Changes in Equity (continued)

€ in '000	Attributable to equity holders of the parent									
	Issued and paid-in capital	Share premium	Foreign currency translation reserve *	Property revaluation reserve *	Revaluation reserve, other *	Treasury shares	Accumulate deficit *	Total	Non-controlling interest	Total equity
Balance as of January 1, 2015	**23,041**	**208,002**	**23,943**	**21,033**	**10,765**	**(2,625)**	**(191,761)**	**92,398**	**5,362**	**97,760**
Other comprehensive income (expense)	–	–	768	–	(2,784)	–	–	(2,016)	332	(1,684)
Loss for the period	–	–	–	–	–	–	(22,915)	(22,915)	(43)	(22,958)
Total comprehensive income (expense)	**–**	**–**	**768**	**–**	**(2,784)**	**–**	**(22,915)**	**(24,931)**	**289**	**(24,642)**
Issuance of shares (Note 17)	2,235	789	–	–	–	–	–	3,024	–	3,024
Release of treasury shares (Note 17)	–	(2,309)	–	–	–	2,625	–	316	–	316
Share-based payment (Note 18)	–	–	–	–	163	–	–	163	918	1,081
Dividend distributed to minority shareholders in subsidiaries	–	–	–	–	–	–	–	–	(780)	(780)
Transaction with non-controlling interest (Note 21)	–	–	–	–	–	–	491	491	119	610
Deconsolidation of subsidiary (Note 5B)	–	–	–	–	–	–	–	–	(1,431)	(1,431)
Reclassification according to the Netherlands civil code requirements *	–	–	–	15,680	–	–	(15,680)	–	–	–
Balance as of December 31, 2015	**25,276**	**206,482**	**24,711**	**36,713**	**8,144**	**–**	**(229,865)**	**71,461**	**4,477**	**75,938**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 17F).

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

Consolidated Statement of Changes in Equity (continued)

€ in '000	Attributable to equity holders of the parent									
	Issued and paid-in capital	Share premium	Foreign currency translation reserve *	Property revaluation reserve *	Revaluation reserve, other *	Treasury shares	Accumulate deficit *	Total	Non-controlling interest	Total equity
Balance as of January 1, 2014	**23,041**	**208,117**	**(4,680)**	**34,300**	**12,296**	**(2,786)**	**(204,193)**	**66,095**	**5,655**	**71,750**
Other comprehensive income (expense)	–	–	28,623	–	(1,676)	–	–	26,947	15	26,962
Profit (loss) for the period	–	–	–	–	–	–	5,091	5,091	(29)	5,062
Total comprehensive income (expense)	**–**	**–**	**28,623**	**–**	**(1,676)**	**–**	**5,091**	**32,038**	**(14)**	**32,024**
Share-based payment (Note 18)	–	–	–	–	191	–	–	191	593	784
Issuance of treasury shares (Note 17)	–	(115)	–	–	(46)	161	–	–	–	–
Transaction with non-controlling interest (Note 18)	–	–	–	–	–	–	(5,926)	(5,926)	(872)	(6,798)
Reclassification according to the Netherlands civil code requirements *	–	–	–	(13,267)	–	–	13,267	–	–	–
Balance as of December 31, 2014	**23,041**	**208,002**	**23,943**	**21,033**	**10,765**	**(2,625)**	**(191,761)**	**92,398**	**5,362**	**97,760**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 17F).

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

Consolidated Cash Flow Statement

€ in '000	For the year ended December 31,		
	2016	2015	2014
Cash flow from operating activities			
Profit (Loss) from continuing operations before taxes on income	(53,873)	(52,983)	9,575
Profit from discontinued operations before taxes on income (see Note 5B)	23,108	40,380	11,972
Adjustments to reconcile profit (loss) to net cash (see A below)	(21,179)	16,469	7,202
Net cash provided by (used in) operating activities	**(51,944)**	**3,866**	**28,749**
Cash flow from investing activities			
Acquisition of tangible fixed assets and investment properties	(7,764)	(33,276)	(45,257)
Investments and granting of loans to companies accounted for using the equity method, net (see Note 8 and 9)	(2,381)	(2,489)	(1,958)
Proceeds from sale of assets and investments	2,813	488	496
Change in loans to bank customers, net	(6,404)	(11,220)	8,200
Change in long-term loans and receivables	(6,517)	(15,612)	(35,105)
Change in short-term investments	(8,925)	(4,322)	(632)
Disposal of an investment accounted for using the equity method (see Note 9)	–	331	74,369
Disposal of a previously consolidated subsidiary (see B below)	103,670	119,086	–
Change in deferred brokerage fees and other assets	–	–	70
Net cash provided by investing activities	**74,492**	**52,986**	**183**

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

Consolidated Cash Flow Statement (continued)

€ in '000	For the year ended December 31,		
	2016	2015	2014
Cash flows from financing activities			
Issuance of debentures	–	–	2,155
Repayment of debentures (See Note 22)	(86,458)	(6,725)	(68,538)
Change in loans from bank customers, net	(6,117)	2,593	51,748
Proceeds from long-term loans	14,481	105,004	89,152
Repayment of long-term loans	(1,391)	(162,546)	(48,003)
Change in short-term loans and borrowings	13,582	239	(1,415)
Release (increase) of pledged deposit	–	(2,317)	8,025
Repayment of long term liability	–	–	(8,031)
Change in short-term deposits	–	–	(351)
Debentures settlement payment	–	(750)	–
Costs related to issuance of loans	–	–	(267)
Change in other long term liabilities	(64)	65	75
Dividend to Non-Controlling interest holders of a subsidiary	(379)	(780)	–
Transaction with non-controlling interest holders (see Note 18)	–	(4,006)	(6,791)
Net cash provided by (used in) financing activities	**(66,346)**	**(69,223)**	**17,759**
Increase (decrease) in cash and cash equivalents	(43,798)	(12,371)	46,691
Foreign exchange differences relating to cash and cash equivalents	(1,797)	7,746	5,127
Change in cash of assets held for sale	(40,542)	–	(21,541)
Cash and cash equivalents at the beginning of the year (see Note 16)	143,920	148,545	118,268
Cash and cash equivalents at the end of the year (see Note 16)	**57,783**	**143,920**	**148,545**

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

Consolidated Cash Flow Statement (continued)

€ in '000	For the year ended December 31, 2016	2015	2014
A. Adjustments to reconcile net profit (loss) to net cash charges / (credits) to profit (loss) not affecting operating cash flows:			
Gain from disposal of investments in subsidiary, net (see B below and Note 5B)	(15,861)	(21,969)	–
Share of profit of companies accounted for using the equity method, net (see Note 8 and 9)	(2,869)	(2,683)	(6,712)
Impairment of goodwill and other intangible assets	–	–	5,429
Gain on disposal of assets and investments, net	–	–	(16,739)
Share-based payment	594	1,039	1,302
Depreciation and amortization	3,538	4,755	5,473
Fair value adjustments of investment properties (see Note 7)	2,588	(20,907)	(8,859)
Financial expense and exchange differences, net	54,637	65,004	30,268
Capital loss (gain) from sale property plant and equipment	(451)	26	(19)
Increase in provision for bad debts in the financial services operations	1,914	6,553	7,797
Changes in operating assets and liabilities:			
Change in trade and other receivables	(17,892)	(52,195)	(32,298)
Change in inventories and in contract work in progress, net of advances from customers	(8,305)	27,585	13,683
Change in trade and other payables	(2,422)	11,954	1,566
Increase of concession finance receivables	–	–	(7,358)
Movement in pledged time deposit	–	–	(1,752)
Interest paid	(56,565)	(35,076)	(17,151)
Interest received	22,464	42,509	35,476
Income taxes paid	(2,549)	(9,434)	(3,124)
Other	–	(692)	220
	(21,179)	**16,469**	**7,202**

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

Consolidated Cash Flow Statement (continued)

€ in '000	For the year ended December 31,		
	2016	2015	2014
B. Disposal of a previously consolidated subsidiary			
Working capital (excluding cash and cash equivalents)	(68,489)	13,488	–
Non-current assets (excluding fixed assets and concession assets)	121,864	14,006	–
Fixed assets	11,231	39,165	–
Concession assets	–	86,637	–
Non-controlling interests	–	(1,431)	–
Long-term liabilities	(2,108)	(14,773)	–
Recycling of reserves to the income statement	4,137	(13,287)	–
Gain on disposal of investment, net of tax	15,179	18,965	–
Asset classified as held for sale	21,856	(23,684)	–
	103,670	119,086	–
C. Material non cash transaction			
Liability to purchase shares from non-controlling interest holders (see Note 18)	–	–	3,380
Issuance of shares and allocation of treasury shares to the debenture holders (see Note 17)	–	3,340	–
	–	3,340	3,380

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

Notes to the Consolidated Financial Statements

December 31, 2016

1. GENERAL

A. INTRODUCTION

Kardan N.V. ('Kardan' or 'the Company') having its legal seat in Amsterdam, the Netherlands, was incorporated on May 2, 2003, and acts as an active investment company which is engaged in the development of real estate in Asia and water infrastructure, through its subsidiaries, joint ventures and associated companies (for additional segment information, see Note 26).

The Company and its subsidiaries are referred to as 'the Group'.

The total number of employees in the Company and its subsidiaries as of December 31, 2016 was 1,055 (December 31, 2015 – 2,317) of which 151 are part of the real estate segment, 1,290 are part of the water infrastructure segment and 16 of which form the headquarters of the Company.

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

These statutory financial statements were approved by the Board of Directors of the Company on March 22, 2017.

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

B. FINANCIAL POSITION AND GOING CONCERN

As at December 31, 2016 the Company had, on a stand-alone basis and in the consolidated financial statements a working capital deficit of €1.5 million and €39 million, respectively (excluding debentures held by subsidiaries).

In 2016 the Company completed the sale of TBIF, generating a total of €82 million, and the sale of the remaining 25% in KWIG (see Note 5). The Company early repaid in full the principal amount of the debentures that was payable in February 2017 using the proceeds from these transactions. The remaining interest of approximately €4 million was paid in February 2017. The sale of TBIF allows the Company a period of more than one year to sell assets in order to pay its obligations in 2018 and onwards.

Management prepared a two year liquidity analysis as part of its normal course of business which addresses the required liquidity to be able to repay interest and principal of the Company's debentures and all other liabilities in the year 2017 and onwards and to finance its operating activities. Included in this analysis are, among others, the current cash balances and the projected cash from future operations and transactions. The Company is currently negotiating transactions (sale of assets and refinancing of loans) with a number of prominent parties which, it is confident will generate adequate resources to meet future liabilities in the next 12 months, as well as strengthening its financial position.

The directors are confident that, taking into account their plans to realize the transactions and the progress which has been made in that respect, the Company has the ability to obtain the required resources for repaying its obligations and continue its business operations in the future. Accordingly, the directors are satisfied that it is appropriate to prepare the statutory consolidated financial statements on a going concern basis.

However, the directors are aware that the realization of the Company's plans depends on factors that are not wholly within the Company's control, and therefore there is uncertainty that such transactions will be completed or will generate sufficient resources to meet its liabilities according to their contractual maturities. According to established guidelines, these conditions indicate the existence of a material uncertainty which casts significant doubt regarding the Company's ability to repay its liabilities when they become due and its ability to continue as a going concern.

The financial statements do not include any adjustments to the carrying amounts and classifications of assets and liabilities that would result if the Company is unable to continue as a going concern.

2. BASIS OF PREPARATION

A. BASIS OF PREPARATION

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

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

The Company has elected to present the comprehensive income in two statements – the income statement and the statement of comprehensive income.

The period of the operational cycle of the Group exceeds one year, especially in connection with real estate and infrastructure construction projects that may last for 2-4 years. Accordingly, assets and liabilities derived from construction works include items that may be realized within the abovementioned operational business cycle.

B. STATEMENT OF COMPLIANCE

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

C. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2016.

Subsidiaries are fully consolidated from the date the Group obtains control. Control is present when the Group is exposed, or has rights, to variable returns from its involvement with the investee companies and has the ability to affect those returns through its power over the investee companies. This principle applies to all investees companies, including structured entities.

Determination of control
Existence of control over investee companies is determined by management by examining if the Group has the influence and over the investee company and is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

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

If the Group loses control over a subsidiary, it:

- Derecognizes all assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the entire carrying amount of any NCI;
- Derecognizes amounts of other comprehensive income deferred in equity, as appropriate;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in the income statement;
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

D. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2016.

The adoption of these amendments did not have a material impact on the current period or any prior period.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Revaluation of investment properties
Completed investment properties are measured at fair value as at the balance sheet date. Any changes in the fair value are included in the income statement. Change in fair value is usually determined by independent real estate valuation experts in accordance with recognized valuation techniques. These techniques include among others: the Income Approach to Value (which includes the Discounted Cash Flow Method and the Yield Method), the

Residual Method and the Direct Comparison Method. These methods include estimate future cash flows from assets and estimates of discount rates applicable to those assets. In some cases the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the company's assets (Direct Comparison Method). Refer to Note 7 for a sensitivity analysis of profit (loss) before tax due to changes in certain key parameters.

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

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

Contract revenues and costs
The Group has construction contracts at fixed prices. Revenues from construction contracts are recognized by the percentage of completion of engineering stages. Costs associated with the work performed and for which the respective billings have not yet been received, are estimated based, among others, on the information it has. Actual costs could differ from the above estimates.

Impairment losses on inventory
Inventory is stated at the lower of cost and net realizable value ('NRV'). NRV is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions. In connection with residential units under construction which classify as inventory, impairment is tested by comparing the estimated selling price per unit and the expected cost per unit on completion.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

B. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

The Group's investments in its associates and in joint ventures are accounted for using the equity method. An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associates or joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount as impairment in the income statement.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the income statement. Amounts deferred in OCI are reclassified to the income statement or transferred directly to retained earnings.

C. FOREIGN CURRENCY TRANSLATION

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

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

D. FAIR VALUE MEASUREMENT

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability

Or

In the absence of a principal market, in the most advantageous market for the asset or liability.

The principle or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

A. Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
B. Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
C. Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted available for sale financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operations.

External valuers are involved for valuation of significant assets, such as investment property. Involvement of external valuers is decided upon annually by the management after discussion with the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Group's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

E. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

Discontinued operations is defined as a component of an entity that either has been disposed of or is classified as held for sale and:

a. represents a major separate line of business or geographical area of operations;
b. is a part of a single cooperated plan to dispose of a separate major line of business or geographical area of operations; or
c. is a subsidiary acquired with a view to resale.

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

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

F. TANGIBLE FIXED ASSETS

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

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

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

Office furniture and equipment	3-16 years (mainly 10 years)
Property, plant and equipment	10-20 years (mainly 10 years)
Motor vehicles	2-7 years (mainly 5 years)
Buildings (not including land)	25-50 years (mainly 50 years)
Leasehold improvement	over the term of the lease or management's estimation of the useful lives (mainly 5 years)

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. Any item of tangible fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

G. INVESTMENT PROPERTIES

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

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

Both completed investment properties and investment properties under construction, where management deemed that fair value can be reliably measured, are externally valued (in most cases) based on open market values. For a description of these valuation techniques and assumptions, see Note 7 and Note 3.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

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

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

H. CONTRACT WORK AND BUILDING INVENTORY IN PROGRESS

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

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

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

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

The carrying amounts are tested for impairment as of each reporting date. Impairment is assessed to have occurred if the estimated future selling price of the residential units falls below the estimated cost per unit. Impairment is subsequently calculated on a discounted cash flow basis. Commissions paid to sales or marketing agents on the sale of pre-completed real estate units, which are not refundable, are expensed in full when payable.

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

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

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

I. OTHER INTANGIBLE ASSETS

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

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

J. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses recognized in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

Investment in associates or Joint ventures
After applying the equity method, the Company examines whether it is necessary to recognize an additional impairment of investment in associates or in joint ventures. Each balance sheet date an examination is carried out to check if there is objective evidence of impairment of an investment in an associate or joint venture. The assessment of impairment is made considering the total investment, including the goodwill attributable to the associates or joint ventures.

K. FINANCIAL ASSETS

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

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

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Gains or losses on investments held for trading are recognized in profit or loss as part of the financing income or expenses.

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

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

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

L. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

M. IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each balance sheet date whether an impairment objective evidence exists and financial asset or group of financial assets should be impaired.

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

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

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

N. TREASURY SHARES

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

Any difference between the carrying amount and the consideration, if reissued, is recognized in share premium. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

O. BORROWING COSTS

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

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

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

P. FINANCIAL LIABILITIES

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

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

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

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

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

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

Debentures
Debentures are initially recognized at fair value net of costs associated with the issuance of the Debentures. After initial recognition, the Debentures are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the consideration, and using the effective interest method. The proceeds received in consideration for the issuance of Debentures and detachable warrants are allocated between the Debentures and warrants based on their relative fair value.

Q. OFFSETTING OF FINANCIAL INSTRUMENTS

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

R. DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets
A financial asset is derecognized when:
- The rights to receive cash flows from the asset have expired; or
- The Group retains the right to receive cash flows

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

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

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

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

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

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

S. PROVISIONS

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

T. SHARE-BASED PAYMENT TRANSACTIONS

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (‘equity-settled transactions’). Some employees are granted share appreciation rights, which can only be settled in cash (‘cash-settled transactions’).

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 18.

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

The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 34).

Cash-settled transactions
The cost of cash-settled transactions is measured initially at fair value at the grant date using mostly the binomial model, further details of which are given in Note 18. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense (see Note 18 and 21).

U. LEASES

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

Group as a lessee
Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

Leased assets, which are not classified as investment properties, are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

Contingent rents are recognized as revenue in the period in which they are earned.

V. REVENUE RECOGNITION

General
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Contract revenues
Revenue from work performed under a contract, which qualifies as a construction contract is recognized by reference to the stage of completion when the outcome can be measured reliably. The stage of completion is measured based on engineering estimates. When the contract outcome cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable. In the period in which it is determined that a loss will result from the performance of the contract, the entire amount of the estimated ultimate loss is charged against income. Contract revenue is recognized within the Group's infrastructure segment.

Rental income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms. Costs of rental operations are recorded in the same period as rental income is recognized. The aggregate cost of rental incentives is recognized as a reduction of rental income over the lease term on a straight-line basis. Rental income is recognized within the Company's real estate segments.

Sale of apartments
Revenue from the sale of properties is recognized when the significant risks and rewards of ownership of the properties have passed to the buyer. Revenues are recognized only when there is no longer any material uncertainty regarding the consideration for the transaction, when the related expenses are known, and when there is no longer any continuing management involvement relating to the apartments that were transferred. Normally, this criterion is considered to be met when construction is substantially completed, when the legal title of the apartment has been transferred to the buyer and the buyer is substantially committed to pay the full consideration.

Rendering of services (including management fees)
Revenues from services are recognized as the services are provided and when the outcome of such transactions can be estimated reliably. Where the outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

W. TAXES

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the balance sheet date.

Current income tax relating to items recognized outside the income statement is recognized in OCI or equity, in correlation to the underlying transaction, and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to the situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary difference, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be used except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized outside the income statement is recognized outside the income statement. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority and expected to settle net or simultaneously.

At each balance sheet date, the Group companies re-assess unrecognized deferred tax assets and the carrying amount of deferred tax assets. The companies recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Conversely, the companies reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilized.

X. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations.

For financial instruments where there is no active market, the estimated fair value is determined by the Group by using valuation models.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

The Group has estimated that the fair value of some of the financial instruments does not differ significantly from their current carrying amounts. This is valid for cash items, receivables from banks, customers' loans, and other current receivables and current liabilities. The Group believes that the current carrying amount of these assets and liabilities approximates their fair value, especially when they are short term or their interest rates are changing together with the change in the current market conditions.

Y. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by independent valuators using agreed-upon valuation models.

At the inception of the hedge relationship, the Group classifies and documents the type of hedge it wishes, the use for the purpose of financial reporting and its strategic goals for risk management relating to the specific hedging relationship. The documentation includes identification of the hedging instrument, the hedged item, and the nature of the hedged risk and how the Group assesses hedge effectiveness.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges
Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an

identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the income statement. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the income statement.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the income statement over the remaining term to maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in the income statement.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement. The changes in the fair value of the hedging instrument are also recognized in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flow that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the income statement. The effective portion of the gain or loss on the hedging instrument is recognized in OCI through the hedge reserve, while the ineffective portion is recognized in the income statement.

Amounts taken to OCI are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in OCI are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in OCI remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

Z. PUT OPTION GRANTED TO NON-CONTROLLING SHAREHOLDERS

The Group recognizes a financial liability under such contract at its fair value. The non-controlling interest reported in the financial statements is subsequently reclassified as a financial liability. This happens only when the significant risks and rewards relating to NCI have been transferred to the parent. Any difference between the carrying value of non-controlling interest and the liability is adjusted against another component of equity. Any changes in the fair value of that financial liability in subsequent periods are taken to the income statement.

Dividends paid to the other shareholders are recognized as an expense of the group, unless they represent a repayment of the liability. If the put option is exercised, the carrying amount of the financial liability at that date is extinguished by the payment of the exercise price. If the put option expires unexercised, the liability is derecognized with the non-controlling interest being reinstated. Any difference between the liability and non-controlling interest is recognized against another component of equity, generally the same component reduced when the liability was initially recognized.

AA. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding during the period (after adjusting for treasury shares).

Diluted earnings per share amounts are calculated by dividing the net profit attributable to the equity holders of the parent (after adjusting for interest on convertible Debentures and options classified as derivative instruments) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. In addition, securities that were converted during the period are included in the diluted earnings per share calculation to the date of conversion, and from that date they are included in the basic earnings per share. Potential ordinary shares are only included in diluted earnings per share when their conversion would decrease earnings per share (or increase loss per share) from continuing operations. Options and warrants are dilutive when they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period.

BB. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

Pensions and other post-employment benefits are either classified as defined contribution or defined benefit plans. Under defined contribution plans, contributions during the period are expensed when incurred.

Defined contribution plans

The Group operates a defined contribution plans that are funded through independent pension funds or similar organizations. Contributions fixed in advance (e.g. based on salary) are paid to these institutions, and the beneficiary's right to benefits exists against the pension fund. The employer has no legal or constructive obligation beyond payment of the contributions and therefore is immaterial for the Group.

Under retirement plans in the form of defined contribution plans, the entity pledges to pay the beneficiary benefits at a predefined level. This effectively releases the entity from any further obligations beyond the contributions payable and at the same time precludes the entity from participating in the investment success of the contributions.

CC. CASH FLOW STATEMENT

Cash flow statements are prepared using the indirect method. Cash flows in foreign currencies have been translated into Euros using the weighted average rates of exchange for the periods involved. Cash flows from derivative instruments that are accounted for as fair value hedges or cash flow hedges are classified in the same category as the cash flows from the hedged items. Cash flows from other derivative instruments are classified consistent with the nature of the instrument.

DD. BIOLOGICAL ASSETS

Biological assets are measured at fair value less costs to sell except for bearer plants, which are used solely to grow produce over several periods and has a remote likelihood of being sold as agricultural produce. These plants are treated as part of IAS 16 as fixed assets.
Gains and losses that arise on measuring biological assets at fair value less costs to sell are recognized in the statement of income in the period in which they arise.
Selling costs include all costs that would be necessary to sell the property.
The agricultural produce transferred to inventory in its fair value less costs to sell at the point of harvest.

EE. NEW STANDARDS AND AMENDMENTS NOT YET ADOPTED BY THE GROUP

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.
IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2018. The Group is still assessing the impact that the adoption of IFRS 9 will have on the classification and measurement of the Group's financial assets, but no material impact on the classification and measurement of the Group's financial liabilities is expected.

IFRS 15 Revenue from Contracts with Customers
The IASB has issued IFRS 15, "Revenue from Contracts with Customers" ('IFRS 15'), which is a new standard for the recognition of revenue. IFRS 15 will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.
IFRS 15 is based on the core principle that revenue is recognized when control of a good or service transfers to a customer, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 establishes a single revenue recognition model, according to which an entity recognizes revenue in accordance with that core principle by applying the following five steps:
1) Identify the contract(s) with a customer;
2) Identify the performance obligations in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to the different performance obligations in the contract; and
5) Recognize revenue when (or as) the entity satisfies a performance obligation.

Other provisions include capitalization of certain costs to obtain or fulfil a contract with a customer, consideration of the time value of money in the transaction price, deciding whether performance obligations are satisfied over time or at a point in time and performing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. IFRS 15 also requires enhanced qualitative and quantitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

In July 2015, the IASB has published an update to IFRS 15 deferring the effective date to annual reporting periods beginning on or after January 1, 2018 ('the Effective Date'). Early adoption is permitted. The

Company is expecting to adopt IFRS 15 at the Effective Date, using the modified retrospective method, i.e., recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at the Effective Date, with no adjustments to comparative periods.

With respect to its residential real estate activities, the Company has yet to finalize the evaluation of the potential impacts of applying IFRS 15 on its statement of financial position and the cumulative effect of the initial application on its balance of retained earnings, whereas according to IFRS 15, under certain conditions, revenues from sale of apartments should be recognized along the construction period instead of the current accounting policy the Company of recognizing revenue from sale of apartments upon delivery.

Except for the above mentioned potential impact in the real estate segment, the Company is of the opinion that applying IFRS 15 will not have a material effect on its consolidated financial statements.

IFRS 16 Leases

International Financial Reporting Standard 16 Leases (IFRS 16) sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. As the Company has only a limited number of operational leases the impact of this standard is not expected to be material.

DEFINITIONS

The following definitions are used throughout these financial statements:

Kardan or the Company – Kardan N.V.

The Group or Kardan Group – Kardan N.V. and its subsidiaries

GTC RE – GTC Real Estate Holding B.V.

GTC Group – GTC RE and its subsidiaries, joint ventures and associates

GTC SA – Globe Trade Centre S.A.

KFS – Kardan Financial Services B.V.

KFS Group – KFS and its subsidiaries, joint ventures and associates

TBIF – TBIF Financial Services B.V.

TBIF Group – TBIF and its subsidiaries, joint ventures and associates

Kardan Israel – Kardan Israel Ltd.

TGA – Tahal Group Assets B.V.

TGI – Tahal Group International B.V.

TGI Group – TGI and its subsidiaries, joint ventures and associates

KWIG- Kardan Water International Group Limited

Kardan Land China or KLC – Kardan Land China Ltd.

TASE – The Tel-Aviv Stock Exchange

EI XII – Emerging Investment XII B.V.

5 Business combinations and investment in subsidiaries

A Principle subsidiaries (consolidated into the Group)

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Following is a list of the main Company's directly and indirectly held subsidiaries.

Holding company	Name of subsidiary	Country of incorporation	% equity interest by the direct holding as of December 31		
			2016	2015	
Kardan N.V.	Kardan Financial Services B.V.	The Netherlands	100	100	
	GTC Real Estate Holding B.V.	The Netherlands	100	100	
	Tahal Group International B.V.	The Netherlands	98.43	98.43	
	Emerging Investments XII B.V.	The Netherlands	100	100	
Kardan Financial Services B.V.	TBIF Financial Services B.V.	The Netherlands	–	100	See B(2) below
TBIF Financial Services B.V.	TBI Credit IFN SA	Romania	–	99.99	
	TBI Leasing IFN SA	Romania	–	99.99	
	TBI Bank EAD	Bulgaria	–	100	
	TBIF Bulgaria EAD	Bulgaria	–	100	
TBIF Bulgaria EAD	TBI Leasing EAD	Bulgaria	–	100	
GTC Real Estate Holding B.V.	Kardan Land China Limited	Hong Kong	100	100	
Kardan Land China Limited	Kardan Land (BJ) Management & Consulting Co. Ltd.	China	100	100	
	GTC (China) Investment Co. Ltd	China	100	100	
	Kardan Land Dalian (HK) Ltd.	Hong Kong	100	100	
Tahal Group International B.V.	Tahal Group B.V.	The Netherlands	100	100	
	Tahal Group Assets B.V.	The Netherlands	100	100	

Holding company	Name of subsidiary	Country of incorporation	% equity interest by the direct holding as of December 31		
			2016	2015	
Tahal Group B.V.	Tahal Consulting Engineers Ltd.	Israel	100	100	
	Water Planning for Israel Ltd.	Israel	99.99	99.99	
	Sitahal 'Hagal' (Talia) Partnership	Israel	100	100	
	Palgey Maim Ltd.	Israel	55.5	55.5	
	Fideco DOO	Serbia	100	100	
	Tahal Angola Ltd.	Angola	70	70	
	TMNG Ltd.	Israel	65	65	
Tahal Group Assets B.V.	Task Water B.V.	The Netherlands	100	100	
	Agri Products N.V.	The Netherlands	51	51	
	Kardan water International Group Limited (KWIG)	Hong-Kong	–	25	See B(3) below

B Significant transactions and business combinations

1. GTC Group (Real Estate)

Sale of GTC SA and Claw back liability

On November 22, 2013, GTC RE completed the sale of its investment in GTC SA for a consideration of €160 million.

The share purchase agreement contained a ‘claw-back’ clause which is conditional upon GTC SA achieving two specific business targets, one by March 31, 2015 and one by December 31, 2015. If a target is not met in time, the buyer has the right to receive an amount of €3.15 million per target.

In February 2016, after the Company and GTC RE received demands from Lone Star Real Estate fund (‘the Buyer’), claiming the targets were not met, the parties signed a settlement agreement, according to which GTC RE paid the Buyer an amount of €4 million, in exchange for a final and absolute waiver by the Buyer of all its existing and future claims and demands towards the Company and GTC RE in relation to the Buyer’s demands according to the ‘claw-back’ clause, and of mutual cancellation and deletion of any proceedings taken in this matter. Following the signing of the settlement agreement the amount was paid. The settlement did not have an impact on the Company’s income statement in 2016 as it was fully provided for as at December 31, 2015.

2. KFS Group (Banking and Retail Lending)

A. Sale of TBIF

On February 24, 2016, KFS has signed an agreement to sell its 100% holding in TBIF to a third party (4finance Holding S.A. (‘the Buyer’)). On August 11, 2016, the transaction was completed.

The total consideration for the transaction was comprised of two parts (‘the Consideration’): on the completion date (‘the Completion date’) the Buyer paid KFS an amount of approximately €69 million and in October 2016 the Consideration was adjusted to take into account the reviewed result of the sold asset in the period January 1, 2016 until

the Completion date ('the Adjustment'), and the Company received in October 2016 the Adjustment amount which totaled to €13 million.
According to the agreement, TBIF transferred certain non-lending assets including the investment in Avis Ukraine, with a net value of approximately €32 million to KFS before the Completion date.

KFS undertook to indemnify the Buyer for costs and damages which might occur under circumstances which have been specifically detailed in the agreement, including a breach of the customary representations and warranties given by KFS. Accordingly, on the Completion date KFS deposited an amount of €6 million for a period of two years and pledge this in favor of the Buyer as collateral for the indemnification, which amount will be reduced to €5 million after one year (see Note 10). In addition, Kardan guaranteed KFS's obligation in this respect.
As a result of the transaction, the Company recorded in 2016 a profit of approximately €15 million.

Since TBIF was considered by management as a distinguishable major geographical and operating line of business, the results of the sold investment in TBIF in all represented periods were classified, in accordance with IFRS 5, to discontinued operations.

B. Sale of TBIF Bulgaria

In October 2016, KFS signed an agreement to sell its investment in TBIF BG.
As a result, KFS recorded a loss in the amount of €1.7 million (see Note 31).

C. Sale of TBI Credit

In October 2014, TBIF signed an agreement to sell its investment in TBI Credit EAD (a fully-owned Bulgarian subsidiary) for a total consideration of approximately €8.9 million, subject to adjustments. On February 11, 2015 TBIF finalized the sale of TBI Credit EAD. The final consideration amounted to €9.9 million was received by TBIF which recognized a small gain of €1 million upon the completion of the sale which has been recorded in 2015.

3. TGI Group (water infrastructure)

Sale of KWIG

On January 15 2015, TGA signed a share purchase agreement ('the Agreement') with China Gezhouba Group Investments Holding Co Ltd. ('the Purchaser'), to sell all of its holdings in KWIG. KWIG operates 11 wastewater treatment facilities and water supply projects in China and was the main subsidiary in the Group's 'Water Infrastructure - Assets' segment.

The total consideration for the shares amounts to RMB 630 million (paid in USD at a predetermined exchange rate of 6.24 RMB/USD; approximately €90.3 million as at March 4, 2015) (the 'Consideration'). Additionally, as part of the transaction, all outstanding loans provided to KWIG by Group companies, totaling approximately to €42 million, were repaid.

The sale of KWIG took place in two phases: in March 2015 the first phase of the transaction in which 75% of KWIG shares were sold was completed; the Purchaser paid 75% of the consideration and all outstanding loans from Group companies were repaid. On June 30, 2016 TGA completed the second phase of the transaction and sold the remaining 25% of its holding in KWIG for a total consideration of USD 27.7 million (approximately €25 million), including interest as detailed in the agreement.

As a result of the transaction, the Group recorded a net gain of approximately €20.1 million in 2015 mainly due to the release of equity reserves transferred to the statement of income following the sale. In 2016, the Group recorded a net loss of approximately €0.1 million mainly due to exchange rate differences and an update of tax liability in respect of the transaction.

Since KWIG was considered by management as a distinguishable major geographical and operating line of business, the results of the investment in KWIG (including the gain from the sale of the investment) in all represented periods were classified, in accordance with IFRS 5 to discontinued operations.

C. Assets held for sale

Assets held for sale as at December 31, 2015 consisted of €24.8 million related to the sale of KWIG, and of €7.1 million of repossessed assets held for sale in TBIF Group.

D. Discontinued operations related the sale of TBIF and KWIG

The activities of TBIF and KWIG were classified as discontinued operations in 2016, 2015 and 2014, following the sale transactions as described in B above. These activities were clearly distinguishable, operationally and for financial reporting purposes as TBIF and KWIG represented a separate business and major geographical area of operations.

1) Composition of the income and expenses related to discontinued operations:

€ in '000	For the year ended December 31, 2016		For the year ended December 31, 2015		For the year ended December 31, 2014	
	TBIF	KWIG	TBIF	KWIG	TBIF	KWIG
Income	20,545	–	42,177	–	36,038	27,463
Expenses	(13,297)	–	(23,785)	–	(24,960)	(19,597)
Profit before tax	7,248	–	18,392	–	11,078	7,866
Income tax expenses, net	796	–	1,973	–	33	3,483
Profit from discontinued operations before revaluation and release of capital reserves	6,452	–	16,419	–	11,045	4,383
Gain (loss) from revaluation of investment (*)	–	(144)	–	6,812	–	(6,972)
Release of capital reserves due to deconsolidation	–	–	–	13,287	–	–
	6,452	(144)	16,419	20,099	11,045	(2,589)
Discontinued operation items related to the sale transactions:						
Capital gain	19,316	–	–	–	–	–
Release of capital reserves due to sale	(4,137)	–	–	–	–	–
Net gain (loss) from discontinued operations	21,631	(144)	16,419	20,099	11,045	(2,589)
Attributable to:						
Equity holders	21,631	(142)	16,419	19,783	11,045	(2,548)
Non-controlling interest holders	–	(2)	–	316	–	(41)
	21,631	**(144)**	**16,419**	**20,099**	**11,045**	**(2,589)**

* Including tax impact for the year ended December 31, 2016 and 2015 amounting to €825 thousand and €1,889 thousand, respectively.

2) Composition of other comprehensive income items related to discontinued operations:

€ in '000	For the year ended December 31,				
	2016	2015		2014	
	TBIF	TBIF	KWIG	TBIF	KWIG
Adjustments arising from translating financial statements of foreign operations	4,135	(86)	13,287	40	9,474
Attributable to:					
Equity holders	4,135	(86)	13,078	40	9,325
Non-controlling interest holders	–	–	209	–	149
	4,135	**(86)**	**13,287**	**40**	**9,474**

3) Composition of the cash flow statements related to discontinued operations:

€ in '000	For the period of January 1 2016 till August 11, 2016	For the year ended December 31, 2016	For the year ended December 31, 2015		Year ended December 31, 2014	
	TBIF	KWIG	TBIF	KWIG	TBIF	KWIG
Net cash provided by (used in) operating activities	(3,672)	–	(11,666)	–	26,680	3,594
Net cash provided by (used in) investing activities	38,714	21,856	(1,679)	91,960	(5,293)	(493)
Net cash used in financing activities	(138)	–	(764)	–	(1,526)	(6,839)

* In 2016 the group paid tax in the amount of €3 million relating to the sale of KWIG.

E. Collaterals:

As of December 31, 2016, the shares the Company (indirectly) owns in GTC RE, KLC, KFS, TGI, and EI XII were pledged or will be pledged in favor of the trustees of the Company's debenture holders.

F. Dividend

The following dividend amounts were received in the reporting period:

€ in '000	2016	2015
Subsidiaries	167,740	56,302

The amounts above relate to transfers from TGI and KFS following the sales of KWIG and of TBIF, respectively, (see B above), and from EI XII.

6 Tangible fixed assets

€ in '000	Freehold Land, buildings and assets under construction	Production equipment	Motor vehicles	Office furniture and equipment	Leasehold improve-ments	Total
Cost:						
Balance as of January 1, 2015	38,371	28,175	10,849	11,330	2,473	91,198
Additions	158	1,017	3,237	596	250	5,258
Reclassified from Inventory	2,121	–	–	–	–	2,121
Disposals	(91)	(98)	(1,251)	(77)	(83)	(1,600)
Exchange rate differences	19	1,448	99	441	209	2,216
Discontinued operation	(30,423)	(5,807)	(302)	(4,975)	(105)	(41,612)
Balance as of December 31, 2015	**10,155**	**24,735**	**12,632**	**7,315**	**2,744**	**57,581**
Additions	1,499	852	439	1,331	28	4,149
Disposals	(3,882)	(5,796)	(11,519)	(1,387)	–	(22,584)
Exchange rate differences	41	569	37	189	54	890
Balance as of December 31, 2016	**7,813**	**20,360**	**1,589**	**7,448**	**2,826**	**40,036**
Accumulated depreciation:						
Balance as of January 1, 2015	3,102	18,092	4,599	4,225	755	30,773
Depreciation for the year	308	1,033	1,795	858	372	4,366
Disposals	(16)	(69)	(794)	(40)	(70)	(989)
Exchange rate differences	12	1,368	41	247	49	1,717
Discontinued operation	(1,304)	(191)	(302)	(545)	(105)	(2,447)
Balance as of December 31, 2015	**2,102**	**20,233**	**5,339**	**4,745**	**1,001**	**33,420**
Depreciation for the year	77	793	179	693	376	2,118
Disposals	(924)	(3,326)	(4,582)	(944)	–	(9,776)
Exchange rate differences	9	461	13	102	–	585
Balance as of December 31, 2016	**1,264**	**18,161**	**949**	**4,596**	**1,377**	**26,347**
Net book value						
December 31, 2015	8,053	4,502	7,293	2,570	1,743	24,161
Net book value						
December 31, 2016	**6,549**	**2,199**	**640**	**2,852**	**1,449**	**13,689**

7 Investment property

A General

As of December 31, 2016 and 2015 investment property solely comprises the shopping mall in the city of Dalian, China ('Galleria Dalian') which construction was completed in April 2015.

B The movements in investment property are as follows:

€ in '000	2016	2015
Opening balance	250,310	181,072
Additional capitalized subsequent expenditure	–	37,102
Additional capitalized borrowing costs	–	4,785
Fair value adjustments	(2,588)	20,907
Foreign currency translation differences	(7,261)	6,444
Closing balance	**240,461**	**250,310**

The investment property is pledged as security of a loan (see Note 19).

C Fair value adjustments comprise:

€ in '000	For the year ended December 31, 2016	2015	2014
Valuation gains from newly completed investments properties	–	20,262	–
Valuation loss from investments properties completed in prior years	(2,588)	–	–
Adjustment to fair value of investment property under construction	–	645	8,859
Total fair value adjustments, impairments, reversal for the year	**(2,588)**	**20,907**	**8,859**

D Fair value measurement of investment property (Level 3 of fair value hierarchy) – significant assumptions:

The fair value of investment properties has been determined on a market value basis in accordance with RICS (Royal Institution of Chartered Surveyors) Valuation – Professional Standards, as set out by the RICS. In arriving at their estimates of market values, the external appraiser has relied on their market knowledge and professional judgment and not only relied on historical transaction comparables.

To assess the fair value of investment property under construction (until Q1 2015), the Residual Method and Cost Approach have been adopted, whereas for Gross Development Value ('GDV'), the Discounted Cash Flow ('DCF') Approach and Direct Comparison Method have been adopted for the retail portion. The Direct Capitalisation method has been adopted for the car park portion.

Starting Q2 2015, the construction was completed, and the investment property under construction was transferred to completed investment property. As of December 31, 2016 and 2015, DCF Approach and Direct Comparison Method have been adopted to assess the fair value of the investment property.

Significant assumptions used in the valuations of the completed investment property are presented below:

	December 31, 2016	December 31, 2015
DCF method		
Estimated rental value per sqm per month (in €)	23	23
Discount rate	10.5%	10.5%
Rental growth	5%-15%	5%-15%
Terminal cap rate	5.5%	5.5%
Occupancy rate	77%-96%	89%-96%

E Sensitivity analysis:

The table below presents the sensitivity of the profit (loss) before tax due to change in the following assumptions (the values are presented in absolute numbers as a change can either be positive or negative):

€ in '000	December 31, 2016
Investment property	
Change of 25 BP in discount rate and terminal yield	5,474
Change of 5% in estimated rental income	5,337
Change in general vacancy by 1%	1,369

8 Investments in associates

A Main associates include:

Holding company	Name of associate	% of ownership and control by the direct holding company as of		
		December 31, 2016	December 31, 2015	Country
Sterna B.V.	MVV Water Utility Pvt Ltd.	26.0	26.0	India
Water Planning for Israel Ltd.	Star Pumped Storage Ltd.	40.5	40.5	Israel

B Composition*:

€ in '000	December 31, 2016	December 31, 2015
Total of equity investments	201	134
Loans	12,687	9,406
Total investment	**12,888**	**9,540**

* mostly related to the investment in Star Pumped Storage Ltd.

C Movement in the equity investments in associates is as follows:

€ in '000	2016	2015
Balance as of January 1	9,540	7,379
Change in loans, net	2,793	1,312
Share of loss of investments accounted for using the equity method, net	(971)	(658)
Foreign currency translation differences	416	785
Interest income from loan to associate company	1,110	722
Balance as of December 31	**12,888**	**9,540**

D Loans:

The investment in associated companies includes loans as follows:

€ in '000	Interest rate (p.a.)	December 31, 2016	December 31, 2015
In NIS	8.85% linked to the Israeli CPI	12,687	9,406

The loans are expected to be repaid according to the liquidity position of the associates.

9 Investments in joint ventures

A Main Joint Ventures:

The Company indirectly holds through its subsidiaries the following main joint ventures that are accounted using the equity method:

Holding company	Name of joint venture	% of ownership and control by the direct holding company as of		Country	Nature of activities
		December 31, 2016	December 31, 2015		
Kardan Land China Limited	Shenyang Taiying Real Estate Development Ltd.	50.0	50.0	China	Real estate development and property management
	GTC Lucky Hope Dadong Ltd.	50.0	50.0	Hong Kong	Holding
	Sino Castle Development Ltd.	50.0	50.0	Hong Kong	Real estate development
	Green Power Development Ltd	50.0	50.0	Hong Kong	Holding
	Rainfield Development Ltd.	50.0	50.0	Hong Kong	Holding
	Shaanxi GTC Lucky Hope Real Estate Development Ltd.	50.0	50.0	China	Real estate development, property lease and property management
Task water B.V	Akfen SU Kanalizasyon	50.0	50.0	Turkey	Management and construction establishments for producing drinking water
Sitahal 'Hagal' (Talia) Partnership	Energy Hagal-Talia Partnership	50.0	50.0	Israel	Electricity (biogas)

Holding company	Name of joint venture	% of ownership and control by the direct holding company as of		Country	Nature of activities
		December 31, 2016	December 31, 2015		
Tahal Consulting Engineers Ltd.	Tahal South Africa (PTY) Ltd.	–	37.5	South Africa	Water Projects
Tahal Consulting Engineers Ltd.	Lahat Joint Venture	50.0	50.0	Israel	Water desalination
GTC Real estate Holding B.V	GTC Investments B.V.	48.75	48.75	Netherlands	Netherlands
Kardan Financial Services B.V.	TBIF-Dan Leasing Ltd.	66.0	66.0	Cyprus	Holding

B The composition of the interest in joint venture is as follow:

€ in '000	December 31, 2016	December 31, 2015
Total of equity investments	57,442	53,469
Goodwill	7,697	8,208
Deemed cost on real estate projects (*)	384	1,180
Loans and other long-term balances	39,753	40,682
	105,276	103,539
Less impairments	(9,237)	(7,575)
Total investment in joint ventures	**96,039**	**95,964**

* Deemed cost is the Group's financial cost which was capitalized to projects in joint ventures prior to the adoption of IFRS 11.

C Loans:

The investment in joint ventures companies includes loans as follows:

€ in '000	Interest rate (p.a.)	December 31, 2016	December 31, 2015
In EUR	–	7,017	7,017
In EUR	3 months Euribor + 3.5%	3,438	3,330
In EUR	6 months Euribor + 3.5%	2,521	2,528
In EUR	6 months Euribor + 3.125%	–	1,156
In EUR	12.5%	1,960	1,796
In USD	–	24,134	24,202
In USD	6 months libor + 3.5%	658	636
In HKD	–	25	17
		39,753	**40,682**

The loans are expected to be repaid according to the liquidity position of the joint ventures

D Summary of financial data of immaterial joint ventures on aggregated level

€ in '000	For the year ended December 31, 2016	2015	2014
Profit/(loss) from continuing operations	3,840	(1,496)	4,363
Other comprehensive income	(995)	3,347	13,101
Total comprehensive income	2,845	1,851	17,464

E Summary of financial data of material joint venture companies accounted using the equity method:

Shaanxi GTC Lucky Hope Real Estate Development Ltd.

Summary of financial data from the statement of financial position:

€ in '000	December 31, 2016	December 31, 2015
Current assets (not including cash and cash equivalent)	108,084	120,234
Cash and cash equivalent	12,347	5,352
Non-current assets	14,298	20,248
Current liabilities	(83,485)	(95,700)
Current financial liabilities	(4,538)	(6,810)
Total equity attributed to the owners	46,706	43,324
% held in the joint venture	50	50
Total investment in joint ventures	**23,353**	**21,662**

Summary of financial data from the income statement:

€ in '000	For the year ended December 31, 2016	2015	2014
Revenues from operations	35,040	71,316	28,488
Cost of operations	(21,573)	(49,574)	(15,316)
Selling and marketing, other income (expenses), and administrative expenses	(5,262)	(8,542)	(4,802)
Interest income	25	26	82
Profit before tax	8,230	13,226	8,452
Income tax expenses	(3,614)	(3,310)	(2,114)
Profit for the year attributed to equity holders	4,616	9,916	6,338
% held of the joint venture	50	50	50
	2,308	4,958	3,169
Realizing of deemed cost on projects	–	(121)	(195)
Group's share of profit for the year	2,308	4,837	2,974
Total other comprehensive income (expenses) attributed to equity holders	(1,232)	1,360	3,446
% held of the joint venture	50	50	50
Group share of the total other comprehensive income (expenses)	(616)	680	1,723

F Additional information per company regarding joint ventures that are accounted using the equity method:

€ in '000	December 31, 2016		December 31, 2015	
	Goodwill include in the investment	Impairments to the investment	Goodwill include in the investment	Impairments to the investment
TASK SU kanalizasyon SU	1,059	–	1,059	–
Shenyang Taiyling Real Estate Development Ltd.	140	(140)	140	(140)
GTC Lucky Hope Dadong Ltd.	–	(2,599)	–	–
TBIF-Dan leasing Ltd.	6,498	(6,498)	7,007	(7,435)
	7,697	(9,237)	8,206	(7,575)

G Additional information

Kardan Land China

1. *Capital commitments:*
   As of December 31 2016, KLC's share in the contractual commitments of joint ventures amount to €6,565 thousand (December 31, 2015: €2,977 thousand).

2. *Guarantees:*
   As of December 31, 2016, the joint ventures of KLC and its subsidiaries provided guarantees of €74.4 million (December 31, 2015: €86.2 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of properties of the joint ventures of Kardan Land China and its subsidiaries properties, which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiration date of the guarantees, the joint ventures of Kardan Land China and its subsidiaries are responsible for repaying the outstanding mortgage principals and interest to the banks.

   The guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties. The fair value of the guarantees is not significant. The management of the joint ventures of Kardan Land China and its subsidiaries consider that in the case of default on payments, the net realizable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalties, and therefore no provision has been made in the financial statements for the guarantees.

10 Long-term loans and receivables

A Composition

€ in '000	December 31, 2016	December 31, 2015
In EUR*	–	43,464
In other currencies*	–	30,180
	–	73,644
Less – current maturities*	–	(16,749)
	–	56,895
Provision for doubtful debts*	–	(39,720)
Pledged deposit (See Note 5B(2))	5,000	–
Fit-out prepaid expenses	4,166	4,679
Other	2,529	1,716
	11,695	**23,570**

* Related to the former 'banking and retail lending' segment - see Note 5B(2) regarding the sale of TBIF.

11 Intangible assets and goodwill

A Movement:

€ in '000	Goodwill	Service concessions	Other intangibles	Total
Balance as of January 1, 2015	8,043	8,688	909	17,640
Additions	–	–	382	382
Change due to disposal of subsidiaries	–	–	(128)	(128)
Discontinued operation[1]	(2,880)	(8,688)	–	(11,568)
Amortization	–	–	(308)	(308)
Foreign currency exchange differences	194	–	149	343
Balance as of December 31,2015	5,357	–	1,004	6,361
Additions	462	–	265	727
Amortization	–	–	(248)	(248)
Foreign currency exchange differences	62	–	(2)	60
Discontinued operation[2]	–	–	(744)	(744)
Balance as of December 31, 2016	**5,881**	–	**275**	**6,156**

1 The decrease is due to the sale of KWIG – for additional information see Note 5B.
2 The decrease is due to the sale of TBIF – for additional information see Note 5B.

B Information regarding goodwill balance at the level of the different subsidiaries:

€ in '000	December 31, 2016	December 31, 2015
Water infrastructure segment:		
Tahal Consulting Engineers Ltd. (TCE)	3,508	3,508
TMNG	1,436	1,390
Palgey Maim	475	459
Z. Weinstein	462	–
	5,881	**5,357**

Goodwill acquired in a business combination is allocated, at the acquisition date, to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination. Relevant cash-generating units within the reportable segments could be individual subsidiaries, activities in a certain country, or total operating segments before aggregation.

The recoverable amount of the goodwill has been determined based on the values used for valuations of each cash-generating unit, according to methods and assumptions applicable to such cash-generating unit. The Company annually assesses impairment, or more frequently if deemed required.

C Impairment of goodwill

The entire goodwill balance relates to the water infrastructure segment.

The recoverable amount has been determined based on a value in use calculation. The method used for calculating the value in use is the Discounted Cash Flow ('DCF') method. This approach is based on the estimation of future returns on an investment in terms of cash flows, and the calculation of the present value of the expected cash flows by discounting them according to the required rate of pre-tax Weighted Average Cost of capital (WACC).The period used in the DCF method is 5 years, which is based on the nature of the operations of the cash-generating units. For the years 2016 and 2015 no impairment of goodwill was recorded.

The assumptions regarding the recoverable amount evaluation can be presented as follows:

	WACC	Annual growth rate	Gross profit margin	Operating income margin
2016	12.5%	2%	14%-20%	5.9%-12.0%
2015	13.0%	3%	14%	5.9%

D Amortization and impairment expenses:

Amortization expenses of intangible assets are included in the following line items in the income statement:

- Contract costs;
- Net profit (loss) from discontinued operations.

12 Inventories, contract work, buildings and apartments inventory in progress

A Composition:

€ in '000	December 31, 2016	December 31, 2015
Buildings and apartments inventory [1]	103,035	101,286
Contract work in progress [2]	11,946	5,125
Merchandise inventory [3]	4,440	3,407
	119,421	**109,818**

(1) Building and apartments inventory:

a. As of December 31, 2016 and 2015 inventory in the amount of €54,513 thousand and €56,117 thousand, respectively, is pledged as security for a loan (see also Note 25).

b. Inventory is presented at cost including finance expenses capitalized during the construction of the project.

c. Composition of cost of buildings and apartments inventory:

€ in '000	December 31, 2016	December 31, 2015
Current:		
Completed	21,723	23,060
Under construction	81,312	78,226
	103,035	**101,286**

d. Buildings and apartments inventory is stated in gross figures. Advances from apartment buyers are presented under current liabilities and amount to €50,011 thousand as of December 31, 2016 (December 31, 2015: €34,263 thousand).

e. During the past year the Group entered into 6 sale contracts of apartments (in 2015 - 266 contracts), for which the total consideration is estimated at €1.1 million (RMB 8.1 million) (in 2015 - €68.6 million). As of December 31, 2016, the aggregated number of signed contracts of existing projects for which revenues were not recognized amounts to 265 contracts (in 2015 – 263) for which the aggregated consideration is estimated at approximately €66.3 million (RMB 484.5 million) (in 2015 - €68 million).

(2) Contract work in progress:

Contract work in progress relates to infrastructure projects.

The composition of contract work in progress:

€ in '000	December 31, 2016	December 31, 2015
Contract costs incurred	584,375	761,078
Less – invoices on account of progress	(611,318)	(803,662)
	(26,943)	(42,584)
Presented in statement of financial position:		
Current assets – contract work in progress costs	11,946	5,125
Current liabilities – Liabilities due to work in progress	(38,889)	(47,709)
	(26,943)	**(42,584)**

The above data refers to work done by TGI which provides engineering and design service primarily in the fields of water, sewage and agriculture that provide construction services. The results of TGI are presented as part of the water infrastructure segments.

(3) Merchandise inventory mainly relates to inventory of the subsidiary Mast Foods S.A. (Greece).

B Additional information concerning long-term construction works in inventory:

December 31, 2016 € in '000	Residential construction		Infrastructure works	
	For the year ended 2016	Cumulative up to the end of the reporting period	For the year ended 2016	Cumulative up to the end of the reporting period
Revenues recognized	761	72,402	113,826	552,139
Cost recognized	676	64,515	82,574	430,618

December 31, 2015 € in '000	Residential construction		Infrastructure works	
	For the year ended 2015	Cumulative up to the end of the reporting period	For the year ended 2015	Cumulative up to the end of the reporting period
Revenues recognized	791	71,641	29,253	152,281
Cost recognized	889	63,839	25,679	157,857

13 Trade receivables

A Composition:

€ in '000	December 31, 2016	December 31, 2015
Trade receivables	71,837	71,232
Less provision for doubtful debt	(5,390)	(3,914)
	66,447	**67,318**

As of December 31, 2016 an amount of €61,550 thousand (December 31, 2015: €62,455 thousand) derives from the water infrastructure segment.

Trade receivables are non-interest-bearing and are generally on 30-120 days terms.

B As of December 31 the aging analysis of trade receivables is as follows:

€ in '000	Neither past due nor impaired	Past due (net of impairment) < 30 days	30 – 60 days	60 – 90 days	90 – 120 days	120 – 365 days	> 365 days	Total
2016	46,655	5,709	1,362	2,527	1,342	2,611	6,241	66,447
2015	23,880	3,289	12,436	9,452	2,934	7,222	8,105	67,318

C Movement in the provision for doubtful debts:

€ in '000	2016	2015
Opening balance	3,914	2,681
Addition during the year	1,831	1,094
Collection during the year	(185)	(92)
Foreign currency translation	6	231
Disposal of a subsidiary	(176)	–
Closing balance	**5,390**	**3,914**

14 Other receivables and prepayments

€ in '000	December 31, 2016	December 31, 2015
Central bank in Bulgaria[1]	–	16,118
Accrued income	4,624	4,621
VAT receivable	2,786	1,196
Receivables from joint ventures in China	928	2,799
Prepaid expenses	4,868	5,586
Advances to suppliers	4,734	1,383
Deposit receivable	7,357	5,755
Other	1,476	2,925
	26,773	**40,383**

1 In 2015 the balance is due to TBI Bank which was required to maintain, in the form of non-interest earning cash deposits, certain cash reserves with the local central bank (obligatory reserve). There are no restrictions on the withdrawal of funds from the central bank provided that the minimum reserve requirements are met. If the minimum average reserve requirements are not met, the banks could be subject to certain penalties. The bank is obligated to maintain the minimal cumulative average reserve calculated on a daily basis over a monthly period. In 2016 TBI Bank was sold as part of the sale of TBIF – for additional information see Note 5B.

15 Short-term investments

	Average interest rate	December 31, 2016	December 31, 2015
	%	€ in '000	€ in '000
Bank deposits in Euro	0%-1%	1,131	130
Bank deposits in NIS	0%-0.5%	8	107
Restricted bank deposits *	0%-3%	2,524	5,975
Government bonds	4.75%-6.75%	–	542
Bank deposits in RMB	1.8%-3.4%	6,555	1,033
		10,218	**7,787**

* In 2016 mostly in RMB; in 2015 mainly RMB and Euro.

16 Cash and Cash Equivalents

€ in '000	December 31, 2016	December 31, 2015
Cash at bank and in hand	50,759	72,900
Short-term deposits *	7,024	71,020
	57,783	**143,920**

* As of December 31, 2016 the range of the annual interest rate earned on short-term deposits was 0.5%-1.5% (December 31, 2015 - up to 1.5% p.a).

17 Issued and Paid-In Capital

A Composition

Number of shares	December 31, 2016		December 31, 2015	
	Authorized	Issued and paid-in	Authorized	Issued and paid-in
Ordinary shares with nominal value of €0.20 each	225,000,000	123,022,256	225,000,000	123,022,256

B Movement in issued and paid-in shares

During 2016 there were no movements in the issued and paid-in shares.

	Number of shares	Par value in €
Balance as of January 1, 2015	111,848,583	22,369,716
Issuance of shares to the debenture holders in 2015	11,173,673	2,234,735
Balance as of December 31, 2015 and 2016	**123,022,256**	**24,604,451**

C Movement in treasury shares:

	Number of shares	Par value in €
Balance as of January 1, 2014	1,240,590	248,119
Treasury shares granted to a former officer	(73,005)	(13,871)
Balance as of December 31, 2014	1,167,585	234,248
Treasury shares granted to the Debenture Holders	(1,167,585)	(234,248)
Balance as of December 31, 2015 and 2016	**–**	**–**

D Changes in share capital and treasury shares

During 2016 and 2015, the following transactions took place:

In July 2015, according to the Deeds of Trust (see Note 22), the Company allocated to the Debenture Holders, without consideration, 12,341,258 shares of the Company (out of which 1,167,585 shares were treasury shares held by the Group), which constituted approximately 10% of the Company's issued and paid in capital immediately after the allocation.

E Dividend:

In 2016 and 2015, the Company did not distribute dividends.

F Restrictions on distribution:

In accordance with the Dutch civil code, part of the retained earnings is restricted for distribution following the regulation to maintain reserves in respect of real estate unrealized fair value revaluation, cash flow hedges, foreign currency differences from investment in foreign operations, and equity gains from associates and joint ventures.
It is further noted that according to the debentures Amended Deeds of Trust there are limitations of distribution of dividend: Dividend will not be distributed before 75% of the outstanding debentures as at December 31, 2014 are repaid.

18 Share-Based Payments

A The expenses recognized during the year are shown in the following table:

€ in '000	For the year ended December 31		
	2016	2015	2014
Expense arising from equity-settled share-based payment transactions of the Company and the subsidiaries	254	1,080	776
Expense arising from cash-settled share-based payment transactions of a subsidiary	339	(41)	526
	593	**1,039**	**1,302**

The expenses are presented as part of 'Payroll and related expenses' within the General and administrative expenses (see Note 30).

B Option plans:

Below is a description of the principles of the main option and share incentive plans granted by the Company and its main subsidiaries:

(1) Kardan N.V.

a. The Company granted to its former CEO options exercisable to shares of the Company representing approximately 2% of the outstanding share capital of the Company (prior to the shares issued to the debenture holders as part of the Final Settlement agreement (see also Note 22). The options were granted in 2012, and in 2015 a modification to the option plan was approved by the general meeting of shareholders. According to the modified plan, the exercise price would be €0.2807 or NIS 1.191.

The options will vest in two equal tranches, 50% of the options would be exercisable from December 31, 2016 and 50% of the options would be exercisable from June 30, 2018. The modification was accounted for under the requirements of IFRS 2.

The total benefit of the modified grant is valued at approximately €0.2 million and was calculated using the Black & Scholes model, based on the following assumptions:

Number of options	2,282,624
Expected volatility (%)	63.2%-67.8%
Risk-free interest rate (%)	-0.06%-0.77%
Expected term of options (years)	3.8
Dividend yield (%)	0%

During 2016, all the options expired following the resignation of the CEO.

b. In September 2013 (the 'Grant Date'), the Board of the Company approved a stock-option plan according to which the Company granted to several employees of the Company a total of 250,000 options exercisable into up to 250,000 ordinary shares of the Company, each having a par value of €0.20 (subject to adjustments). The exercise price of each option is equal to NIS 6.136. The options were exercisable in four annual equal portions, starting June 2012 (the 'Effective Date'), of which the first 25% are exercisable two years following the Effective Date. The total value of the options at date of grant was immaterial. The Company share price on Grant Date was approximately NIS 1.9052. The grant was accounted for assuming equity settlement and the total expenses booked in the period were immaterial and were included in 'General and administration expenses' in the income statement.

The total additional expense relating to the management stock option plan is less than €0.1 million.

Movement in the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of, and movement in, share options issued by the Company during the year:

	2016		2015	
	No.	WAEP NIS	No.	WAEP NIS
Outstanding on January 1	2,582,624	1.191	2,532,135	6.136
Granted during the year	–	–	100,489	1.191
Expired during the year	(2,332,624)	1.191	(50,000)	1.191
Outstanding on December 31	250,000	1.191	2,582,624	1.191
Exercisable on December 31	125,000	1.191	–	–

Subsequent to the balance sheet date, additional 150,000 options will expire due to termination of two employees.

The expected life of the options was based on historical data and was not necessarily indicative of exercise patterns that may have occurred. The expected volatility reflected the assumption that the historical volatility was indicative of future trends, which may also not have necessarily been the actual outcome.

(2) Kardan Land China

Under the Employee Share Option Plan (ESOP), share options of the Company are granted to eligible employees of the Company. The exercise price of the share options is calculated based on total capital injected plus interest under Libor/Euribor + 3%. The share options vest according to the following schedule: 50%, 25% and 25% of the share options shall be vested in the Option Holder on the third, fourth and fifth anniversary of the date of commencement of services to the Group, respectively. The contractual term of each option granted is seven years.

The options are fully cancelled as at December 31, 2016 and the liability under the Agreement has been settled in full and no options outstanding under the Agreement. For year ended December 31, 2016, KLC has recognized €94 thousand of share-based payment expenses in the statement of profit or loss (2015: €41 thousand income).

(3) KFS

In March 2012, the CEO of TBIF was granted an incentive plan. The incentive plan includes:

a) Options at a range of 2%-4% in four operations of TBIF. The exercise price for these options was determined to be the base value at the time of grant plus interest. The options vest in four equal portions on 30 June 2012, 2013, 2014 and 2015. This option plan is treated under IFRS 2.
b) A phantom option scheme relating to TBI Bank, treated under IAS 19.
c) A bonus scheme relating to the loans granted to VAB Bank and VAB Leasing.

During 2016 KFS recognized an expense of €245 thousands related to this option plan.

(4) TGI

a. In March 2015, the supervisory board of TGI decided to grant the CEO 560 options to purchase 2% of TGI's share capital at that time. The total fair value of the grant is approximately USD 1 million approximately (€ 0.7 million) and was calculated using the Black& Scholes model.

b. In August 2014, the supervisory board of TGI decided to grant five executive managers options to purchase 1.9 % of TGI's share capital. The total value of the grant is approximately USD 1 million (€ 0.7 million) and was calculated by the company using the Black & Scholes model.

c. In March 2013, TGI granted three senior employees stock options totaling to 2.2% of TGI's issued and paid-in capital (580 options). TGI accounted for these options as equity settled (except for the CEO options – see Note 21). Based on B&S model, the total fair value of the options is €0.6 million which will be recognized in the income statements during the remaining vesting period of 4 years.

d. During 2011, the supervisory board and the general meeting of shareholders of TGI formally approved TGI to grant to the CEO of TGI 797 options, constituting approximately 3% of the shares of TGI at that time, post-issuance. The newly issued stock option plan was divided into two agreements which have comparable option terms except for the vesting periods. Each option plan has been valued separately.
The exercise price of the options amounted to €4,317 per option. The options can be exercised until December 31, 2017.
The total value of the options at date of grant was estimated at €1.9 million. This fair value was determined by an independent external valuator. The expected life of the options is based on historical data.
TGI accounts for all the options granted, as described above, in accordance with IFRS 2, assuming equity payments will be affected.

The following tables list the inputs to the models used for the two plans:

	2015	2014	2013	2011
Number of options granted	560	499	580	797
Expected volatility (%)	36%	35%	46.4%	44.96%
Risk-free interest rate (%)	0%	0.429%	0.7%	2.04 %
Expected term of options (years)	4	4	5	6.4
Weighted average share exercise price	$5,978	$6,044	€3,495	€1,350
Weighted average share value	$6,131	$6,360	€4,868	$4,999
Model used	Black-Scholes	Black-Scholes	Black-Scholes	Hull-White

Movements in the year

The following table illustrates the number and weighted average exercise price ('WAEP') of, and movement in, share options during the year:

	2016		2015	
	No.	WAEP €	No.	WAEP €
Outstanding on January 1	2,041	1,787	1,481	1,884
Granted for the year	–	–	560	1,532
Outstanding on December 31	2,041	1,787	2,041	1,787
Exercisable on December 31	1,650	1,764	1,339	1,693

It should be noted that during 2015 and 2016, following dividend distribution, all exercise prices in the above mentioned option plans were adjusted to reflect such change in TGI's equity.

19 Non-current interest-bearing loans and borrowings

A Composition

	December 31, 2016		December 31, 2015	
	Weighted interest rate as of %	€ in '000	Weighted interest rate as of %	€ in '000
Banks:				
In EUR	3.2-5.8	95	6.4	5,589
In NIS	3.7-6.7	222	4-7	197
Others – in EUR	3.2-5.8	147	4.59	1,016
Others - In RMB *	12.5	111,232	12.5	100,667
Linked to other currencies	3.7-6.7	178	4-7	236
		111,874		**107,705**
Less:				
– Current maturities		(111,455)		(4,577)
– Long-term interest-bearing loans related to current inventory **		–		(62,578)
		419		**40,550**

* On October 27, 2015, Kardan Land Dalian Ltd. ('the Project Company') entered into a framework agreement with the investment fund Shenzhen Ping An Da Hua Huitong Wealth Management Co., ('the Fund') in China, with respect to a credit facility (the 'Credit') amounting up to RMB 1 billion (approximately €142 million) for the Europark Dalian project and to replace the bank loan at the time. In November 2015 the Project Company withdrew an amount of RMB 700 million (approximately €105 million) from the Credit. The withdrawn funds was used, together with additional existing cash reserves, to repay the current project loan in full. In February 2016, additional RMB 100 million was withdrawn from the Credit. The Credit is for a period of 2 years from the date of the initial drawdown, which can be extended by one year with the mutual consent of both parties. The parties are negotiating the extension of the loan, and management of the Project Company is confident the loan will be extended. As of December 31, 2016 the loan balance is presented as current liability as such extension has not been signed yet.
For additional information regarding collaterals and covenants, see Note 25A.

** The amount presented as of December 31, 2015 relates to a long term loan that as of December 31, 2016 presented entirely as current maturity

B Maturities

€ in '000	December 31, 2016	December 31, 2015
First year – current maturities	111,455	67,155
Second year	272	40,002
Third year	–	225
Fourth year	–	219
Fifth year	–	54
Thereafter	147	50
	111,874	**107,705**

20 Other Long-Term Liabilities

€ in '000	December 31, 2016	December 31, 2015
Site coverage and rehabilitation provision *	2,669	2,544
Deferred revenues in China	833	–
Other	502	–
	4,004	**2,544**

* The movement in the year is due to foreign currency exchange differences.

21 Financial instrument: Options and warrants

€ in '000	December 31, 2016	December 31, 2015
Liability to FIMI[1]	2,745	2,495
PUT option liability[2]	976	–
Share-base payment liability[3]	245	–
	3,966	**2,495**

1 On September 10, 2015 TGI and the Company signed an amended agreement with FIMI (the 'Amended Agreement') to replace existing agreements which were signed in 2010 (the 'Agreements'). According to the Amended Agreement, FIMI will be entitled to receive from TGI a cash consideration (and not the right to receive shares as stipulated in the previous warrant agreements) under the following conditions:
- If an exit event occurs during the period from the date of signing of the Amended Agreement until July 31, 2021 (the 'Exercise Period') at a TGI company value of up to USD 173 million, FIMI will receive an amount USD 3 million (the 'Basic Amount') the Basic Amount is subject to adjustments in the event of investments in TGI or distribution of dividends by TGI, excluding distribution of dividends of up to a maximum of USD 27 million following the sale transaction of KWIG.
- If an exit event occurs at a TGI company value which is higher than USD 173 million, FIMI will receive an amount of USD 3 million plus 8% of the difference between the value of the underlying transaction and the Basic Amount and up to a maximum amount of USD 7.5 million.
- If no exit event occurred during the Exercise period FIMI will receive an amount of USD 0.5 million.

According to the Amended Agreement there will be no restrictions on TGI's right to distribute dividends and/or to repay shareholder loans. Following signing the Amended Agreement, the Company and TGI signed an agreement whereby the Company undertakes towards TGI to bear payment to FIMI exceeding USD 0.5 million. The valuation of the liability was based on the estimates of management with regards to the probability of an exit event and value.

2 The Company entered into a PUT option agreement with a CEO of a subsidiary, according to which the Company granted the CEO an option to sell to the Company (following the employment termination date) all the shares which he will choose to exercise under his option agreement with the subsidiary. The exercise price of the PUT option will be determined based on the fair value of the option shares as of the date of the PUT notice. The value of the liability as of December 31, 2016 amounts to €0.9 million.

3 The share base payment liability relating to phantom options as described in Note 18C.

22 Debentures

A Composition

	Par value (net) as of December 31, 2016	Balance as of December 31, 2016	Balance as of December 31, 2015	Nominal Interest rate	Effective interest rate	Currency and linkage	Maturities principal
	€ in '000	€ in '000	€ in '000	%	%		
Issuer							
The Company – 2007	160,993,886	47,232	85,760	6.325	7.05%	1	2017-2018
The Company – 2008	832,452,875	241,746	270,512	6.775	7.64%	1	2017-2020
		288,978	356,272				

1 The Company's Debentures (series A and series B) are traded on the TASE. The Debentures are denominated in NIS and are linked to the Israeli CPI. The amount presented above is net of Debentures held by the Company's subsidiaries.

2 *Debt settlement between the Company and its Debenture Holders*
In 2015 the Company reached a debt settlement with its Debenture Holders. The amended Deeds of Trust dated July 3, 2015 constitute new deeds of trust to series A and B and replace the original deeds of trust, including all related amendments ('the Deeds of Trust'). This debt settlement postponed the debt repayment dates that were determined in the original deeds of trust while repaying the debt in full to the Debenture Holders. Below are the main principles of the Deeds of Trust.

Series A:

a. The principal payments (and linkage differences in respect thereof) which the Company originally would have had to pay on February 25, 2015 and February 25, 2016 were postponed to February 25, 2017 and February 25, 2018, respectively.
b. No changes occurred in the interest payment dates (except the February 2015 interest payment). The interest set in the original deed of trust was increased by 1.875%, so that the principal of Debentures Series A bears an annual nominal interest rate of 6.325%, payable once a year, on February 25 of each year from 2016 up to and including 2018.

Series B:

a. The principal payments (and linkage differences in respect thereof) which the Company originally would have had to pay on February 1, 2015-2018 were postponed by 24 months, excluding the principal payments of 2019 and 2020, which remained unchanged (and grew, due to the postponement of the principal payments of this series from 2017 and 2018 to 2019 and 2020).
b. No changes occurred in the interest payment dates (except the February 2015 interest payment). The interest set in the deed of trust was increased by 1.875%, so that the principal of Debentures Series B bears an annual nominal interest rate of 6.775%, payable once a year, on February 1 of each year from 2016 up to and including 2020.

Pledges and guarantees in favor of the Debentures holders

The Company committed to establish and register primary, exclusive pledges with no limitations of amounts over all of the Group's interests in GTC RE, KLC, KFS, TGI, EMERGING (the 'Pledged Subsidiaries'), including all benefits which will emanate from these interests and all the rights of the Group in loans granted to the Pledged Subsidiaries. As long as the aforesaid pledges have not been exercised the Company shall be allowed to use the benefits derived from these interests and from loan repayments. Issuance or sale of shares in the Pledged Subsidiaries will be used to early repay the Debentures.
Most of the aforesaid pledges were established and registered as of December 31, 2016.

In addition, the Company established in favor of the trustees primary exclusive pledges with no limitations of amounts over the bank accounts of the Company ('the Pledged Accounts'). All the funds in the Company's possession, were deposited and kept in the Pledged Accounts, excluding the Free Amount ('Free Amount' signifies a maximum of €3 million, which will serve for the payment of the Company's general and administrative expenses), which will not be pledged in favor of the trustees and which can be deposited in a bank account which is not pledged in favor of the trustees. Insofar the said pledge has not been exercised, the Company may use the funds freely.

In addition, to secure the Company's commitments, KLC provided a guarantee in favor of the trustees limited to an amount of €100 million which will expire upon meeting the Relief Conditions as detailed below. The trustees will not be able to use the guarantee or to take any action against KLC as long as the construction loan to the Dalian project has not been fully repaid, as well as loans that will be obtained, if obtained, in relation to the Dalian project.

Financial Covenants

The Company's debt coverage ratio shall not be below 100% during the years 2015 till 2017 (including), and shall not be below 120% from 2018 onwards. The coverage ratio is the total value of the assets according to the Company's stand-alone financial statements divided by the total stand-alone liabilities of the Company, net of certain amounts as detailed in the Deeds of Trust. If the Company's coverage ratio in the years 2015-2017 shall be lower than 110%, and as of 2018 – lower than 130%, KLC's coverage ratio shall not be lower than 180%.

Additional provisions

Some additional provisions have been established to guarantee the rights of the Debenture Holders including: provisions which regulate the early repayment of debt to the Debenture Holders from sources which will become available to the Company, restrictions on dividend distribution, limitations on general and administrative expenses of the Company and payments to controlling shareholders, restrictions on specific new investments, various restrictions on raising credit and the right to appoint a director on behalf of the debenture holders to the Company's board of the directors and KLC's board. In addition the approval by both general meetings of the Debenture Holders (by a regular majority or a special one as the case may be) will be required before certain actions, including transferring of the control in the Company and transactions with controlling shareholders.
It was also agreed that the Company may retain certain amounts, prior to an early repayment, for general and administrative expenses, interest payment to the debenture holders, as well as for supporting its subsidiaries.

Restrictions on business activities

It was agreed that the Company and GTC RE shall not initiate any new business activity, shall not make any new investments and shall not be allowed to raise any new credit (unless it is subordinated to the Debentures).

KFS and any company under its control shall not be allowed to enter into new business activities except for the ones detailed in the Deeds of Trust. KFS shall not be allowed to make any new investments, however any corporation under their control shall be allowed to invest in existing and new projects in its area of operations, provided that the source of the funds is the ongoing operations of such corporation. KFS shall not be allowed to raise any credit, except for short term credit that will be taken from a corporation under their control in an aggregate amount not exceeding €5 million. Any corporation under its control shall be allowed to obtain unlimited credit, for the purpose of its business activity subject to the conditions detailed in the Deeds of Trust.

KLC and any corporation under its control shall not be allowed to enter into new business activities or to invest in new projects or activities even if they are within the current area of operations. In addition, KLC shall not expand the Dalian Project, and the Lucky Hope joint venture companies shall not initiate or develop any new projects beyond the existing projects which will be developed on the land plots they currently own. Proceeds from the sale of assets owned by KLC or companies under its control shall serve only for that project. Unless approved by a 66% majority by each of the meetings of the debenture holders of the two series, KLC or any entity under its control shall not be allowed to raise credit except under the certain limitations which are detailed in the Deeds of Trust.

TGI and TGA or any entity under their control (except TG and entities under its control) shall not be allowed to enter into new business activities except for those detailed in the Deeds of Trust. They can make investments and obtain credit insofar the source of the investments is from the operating activities of any of the entities controlled by TGI; and the securities for such credit will be provided by TGI and entities under its control and not by other Group companies.

Relief Conditions

Upon meeting both of the following conditions: (1) Repayment (taking into account repurchase of Debentures which would be done after the date of completion of the Final Settlement) of 55% of the par value of the Debentures (which are not owned by the Company or its subsidiaries) as of December 31, 2014; and (2) the coverage ratio of the Company calculated according to the Company's most recent stand-alone financial statements (quarterly or annual, according to the date), will stand at more than 180% ('Relief Conditions'), all the restrictions on purchase of Debentures by the Company or any corporation under its control will be removed, the Free Amount will increase to €6 million, pledges over TGI or KFS (or both) will be revoked, provided that the coverage ratio calculated using the remaining pledged assets after the revocation of said pledges and the Company's debt shall be at least 180%, restrictions on the business activities of subsidiaries as described above will be revoked, restriction on dividend distribution will be revoked (distribution will be allowed after the Company will repay 75% of the par value of the Debentures) and the right to appoint a board member on behalf of the Debenture Holders will be cancelled. In addition, after the Relief Conditions have been met the Company shall be obligated to repay only 35% of the funds received from disposal of certain assets (as detailed in the Deeds of Trust).

Accounting

The Company examined the changes in the terms of Debentures series A and B in accordance with IAS 39 provisions for substantial modification of the terms of an existing financial liability. The Company concluded, based on its examination that the modified terms are not substantially different than the existing terms of the debentures prior to signing the Amended Deeds of Trust, and therefore it is not regarded an extinguishment. Accordingly, the debt settlement would be accounted for as of July 3, 2015 by an adjustment of the effective interest rate resulted from the modification of the interest rate and the issuance of shares and one-time payment. Such adjustment shall not result in recognition of profit or loss from the modification of the terms. The effective interest of the series A debentures and the series B debentures post settlement amounts to 7.05% and 7.64% respectively.

(3) Early repayments

On July 24, September 2, and November 14, 2016 the Company early repaid the total amount of principal which was due to be repaid in February 2017 for both series A and series B debentures amounting to approximately €86.4 million and accumulated interest of approximately €17.7 million to Debenture Holders series A and series B (net of the relative portion of debentures held by the Company's subsidiaries). The total repayment amounted to approximately €104.1 million (approximately NIS 439 million).

On March 31, 2015 the Company early repaid principal amounting to approximately €6.7 million, additionally the Company paid the interest deferred to August 2015 in the amount of approximately €18.7 million to Debenture Holders series A and series B. The total repayment amounted to approximately €25.4 million.

(4) Kardan N.V. Debentures held by subsidiaries

As at December 31, 2016, the Company's subsidiaries hold NIS 136,506,115 par value Debentures Series A (which represent 45.9% of the outstanding par value of Debentures Series A) and NIS 120,381,443 par value Debentures Series B (which represent 12.6% of the outstanding par value of Debentures Series B).

(5) For details regarding covenants and pledges, please refer to the above and Note 25.

Maturities:

€ in '000	December 31, 2016	December 31, 2015
Second year	109,281	101,296
Third year	95,790	95,520
Fourth year	83,907	84,998
Fifth year	–	74,458
Total	**288,978**	**356,272**

23 Interest-bearing loans and borrowings

	Weighted annual interest rate	December 31, 2016	Weighted annual interest rate	December 31, 2015
	%	€ in '000	%	€ in '000
Short-term credit from banks:				
In EUR	3.2-5.8	2,623	–	–
In USD	3.7	11,590	–	–
Other	4.5	1,148	6.5	1,295
		15,361		**1,295**
Long-term interest-bearing loans related to current inventory *		–		62,578
Current maturities:				
Loans (see Note 19)		111,455		4,575
		126,816		**68,448**

* The amount presented as of December 31, 2015 relates to a long term loan that as of December 31 2016 presented entirely as current maturity.

Collateral – see Note 25.

24 Other payables and accrued expenses

€ in '000	December 31, 2016	December 31, 2015
Financial:		
Accrued expenses	38,859	63,725
Payroll and related expenses	5,325	7,521
Payable to joint ventures in China accounted using the equity method	11,574	11,920
Claw back liability	–	4,000
Liability regarding share-based payment	–	117
Derivatives	–	36
Other	5,264	8,803
Non-Financial:		
Advances from customers	15,814	17,102
VAT payable	7	332
Unearned revenues	–	949
Other	1,231	1,431
	78,074	**115,936**

25 Liens, contingent liabilities and commitments

A Financial covenants, Liens and collaterals:

1. Financial Covenants

For the year 2016 and as of December 31, 2016 all Group companies met their financial covenants, which are described below:

a The Company committed to maintain certain financial covenants within the framework of the Deeds of Trust, as described in Note 22 above.

b TGI Group committed towards banks, with respect to long-term and short-term loans, credit facilities and guarantees, to maintain certain financial covenants such as minimum equity and EBITDA, the ratio of equity to total assets, the ratio of equity to net debt and the ratio of financial debt to total assets. Furthermore some restrictions relating to dividend distribution were imposed on TCE (an indirectly fully owned subsidiary of TGI).

c KLC Group committed towards a financial institution which granted a construction loan amounting to up to RMB 1 billion, to meet an initial loan-to-value ratio of not more than 50%.

2. Pledges

a Within the framework of the Amended Deeds of Trust, as described in Note 22 above, the Company pledged in favor of the trustees of the debenture holders of the Company all its rights in shares and loans of the subsidiaries GTC RE, EI 12, TGI and KFS, certain bank accounts, and the Company's debentures held by the subsidiaries GTC RE and EI 12. Additional pledges, as described in Note 22, are in process of being established.

b As of December 31, 2016 long-term loans amounting to €109.5 million granted to a subsidiary of KLC was secured by mortgages over investment property, inventory and trade receivables.

c Within the framework of the sale of TBIF, KFS undertook to indemnify the buyer for costs and damages which might occur under circumstances which have been specifically detailed in the share purchase agreement, including a breach of the customary representations and warranties given by KFS. Accordingly, KFS has deposited an amount of € 6 million for a period of two years and pledged this in favor of the buyer as collateral for the indemnification, which amount will be reduced to € 5 million after one year.

3. Guarantees:

a As of December 31, 2016 and 2015, TGI provided bank guarantees in an aggregated amount of approximately €43.3 million and €27.1 million, respectively, in favor of customers in respect of advances received from them for projects and for performing works.

b A subsidiary of TGI, TCE, is a guarantor by an irrevocable guarantee for the fulfillment of its subsidiary's obligations by means of placing the subsidiary's real estate properties as securities, or in any means as it will be agreed from time to time.

c As at December 31, 2016, Kardan Land China provided guarantees of €9,150 thousand (December 31, 2015 - €6,761 thousand) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Kardan Land China Group's properties, which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiry of the guarantees, the Kardan Land China Group is responsible for repaying the outstanding mortgage principals and interest to the banks.

Kardan Land China guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties. The fair value of the guarantees is not significant. The management of Kardan Land China considers that in the case of default on payments, the net realizable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalties and therefore no provision has been made in the financial statements for the guarantees.

d The Company provided a performance guarantee in favor of the Dutch Government (via Atradius Dutch State Business NV), the body securing the loan agreement between the Government of Angola and a commercial bank ('the Insurer'), regarding financing of a Tahal Group project in Quiminha ('the Lender'). In accordance with the said guarantee, Kardan NV secured Tahal Group's liabilities towards the Insurer to pay sums which the Insurer will pay the Lender in case of a breach by Tahal Group of the provisions of the commercial agreement between Tahal Group and the customer in the aforementioned project. Kardan NV's said guarantee is for the payments that have been paid and/or will be paid to Tahal Group in accordance with the milestones set by the project. Kardan NV's Performance Guarantee with respect to the project entered into force, the balance of which is € 98.8 million as of December 31, 2016 (December 31, 2015 € 93 million).

e In relation to KFS's undertaking towards the buyer of TBIF as described above, the Company has guaranteed the due and punctual performance of each obligation of KFS contained in the share purchase agreement.

f With respect to such guarantees provided in joint ventures companies, refer to Note 9.

4. Legal claims and contingencies:

a The Company and its main subsidiaries do not have any material legal claims, except as described below.

b From time to time, Kardan Land China is involved in discussions with customers relating to the fulfillment of certain contractual obligations. To the extent there are gaps between the current performance of KLC and the relevant terms in the underlying agreements, these gaps may expose KLC to risks which may result in future cash out flows. As of the date of issuance of these financial statements, none such discussions resulted in legal claims being lodged or asserted and management of KLC concluded that the exposure to such risks is, in most cases, remote, and when the exposure is assessed to be between remote and probable, it is not practicable to estimate the related amount. Consequently, no provision is included in the accounts in respect of any such risks.

5. Commitments:

a With respect to commitments towards the debenture holders of the Company as outlined in the Amended Deeds of Trust, refer to Note 22.

b As of December 31, 2016 Kardan Land China Group had commitments of €3.1 million (December 31, 2015: €7 million) principally relating to the property development cost of the construction projects of the KLC Group.

c On May 2, 2016 a Cooperation Framework was signed between the TGI and ZRB Consulting Finance & Development Limited ('ZRB'), in which the parties agreed to fully cooperate in Angola in any future project/activity for any project and activity from January 1, 2016 to December 31, 2020

According to the cooperation agreement: (1) All projects in Angola will be managed jointly by Tahal and ZRB; (2) Tahal has the right to acquire majority in voting by means of purchasing a casting vote, in a case of deadlock in relation to management decisions and relating to all aspects of the cooperation, without change in its rights to profits and for a payment of USD 1 million.

d On October 13, 2016 TGI signed together with its partner, ZRB, a project agreement regarding the operation and management of a large scale agricultural project in the Quiminha area in Angola. The agreement was signed for a period of 7 years, with an extension option for an additional 5 years. The expected revenues from the Project are USD 370 million which will be recognized by Tahal Group throughout the 7 year period. The parties commenced the Project immediately and first revenues were recognized in the fourth quarter of 2016 and had an immaterial effect on the Group's results.

e With respect of commitments relating to Joint Venture companies, refer to Note 9.

B. Operating lease commitments:

1. *Operating lease commitments – Group as lessor*
   KLC Group has entered into various operational lease contracts with tenants related to its property portfolio. The commercial property leases typically have lease terms between 2 and 20 years and include clauses to enable periodically upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease terms.

Future minimum rentals receivable under non-cancellable operating leases as of December 31, 2016 and 2015:

€ in '000	2016	2015
First year	3,309	3,090
Second to fifth year	12,075	13,281
After the fifth Year	11,130	11,139
	26,514	**27,510**

2. *Operating lease commitments – Group as lessee*

a TGI Group companies have entered into commercial operating lease agreements on commercial vehicles. These leases have an average life of three years with no renewal option included in the contracts. The annual rentals total approximately €0.9 million (2015 - €0.6 million).

b TGI Group companies have entered into operating lease agreements with respect of office buildings rental. Future minimum rentals payables under non-cancellable operating leases as of December 31, 2016 and 2015:

€ in '000	2016	2015
First year	2,410	2,366
Second to fifth year	8,080	6,356
After the fifth Year	5,240	500
	15,730	**9,222**

c With respect to b above, one of the buildings was sub-leased to a third party under an operating lease agreement for a period of eight years. Future minimum rentals payables under non-cancellable operating leases as of December 31, 2016 and 2015:

€ in '000	2016	2015
First year	1,550	1,334
Second to fifth year	4,424	5,334
After the fifth Year	–	556
	5,974	**7,224**

d KLC leases various offices under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years, and the majority are renewable at market rate. The total commitment as of December 31, 2016 amounts to €0.4 million (December 31, 2015 - €0.8 million).

26 Operating segments

A. General:

The Group's operating businesses are organized and managed separately. Each segment represents a strategic business unit that offers different products and serves different markets. The segmentation was determined by the Company's CODM – the CEO. The Group's operating businesses included the operations of consolidated subsidiaries, joint ventures and associates. Each group company is assessed based on its sector of operations, asset base, country and contribution to the Company and to the Group.

Following the sale of TBIF in 2016 and KWIG in 2015 (for additional information see Note 5B), the Company's CODM re-examined the operating segments. In the past, the results of TBIF and the results of KWIG were the Company's main activities included in 'Banking and Retail lending' and 'Infrastructure - Assets' segments, respectively. Following the sales of these subsidiaries, the Group is substantially no longer active in the 'Banking and Retail lending' and 'Infrastructure-Assets' segments. The results of TBIF and KWIG have been presented as discontinued operation and thus no longer form a reportable operating segment. The comparative information has been amended accordingly.

The CODM examines the various segment performance in terms of various line of activity (real estate and water infrastructure) on the basis of the segment revenues, other income including adjustment to fair value of investment property, capital gains, impairments of goodwill and equity earnings as well as on the basis of the segment results which are based on the total revenues net of cost of sale, selling and marketing expenses and general and administration expenses.

Real Estate
The real estate activities are incorporated under GTC RE and currently include real estate in China. In its real estate operations, the Group is primarily engaged in development and sale of residential property and development and lease of commercial properties.

Water Infrastructure
The water infrastructure activities are incorporated under TGI Group.
Through its affiliates, TGI Group undertakes engineering, consulting and planning projects in Latin America, Eastern Europe, Africa, China, Israel and in other countries, mainly relating to the environment, water, sewage, drainage, irrigation, energy and agriculture.

The Group's operating segments are fully independent. Allocated segment assets and liabilities are those directly linked to the segment activities in the operating companies. In most cases assets and liabilities of the holding companies are considered unallocated.

B Segments results

For the year ended December 31, 2016:

€ in '000	Real Estate Asia	Water Infra-structure	Other	Total
Revenue	8,536	129,695	2,572	140,803
Other expense *	(81)	(647)	(91)	(819)
Total income	8,455	129,048	2,481	139,984
Segment result	(7,815)	6,268	655	(892)
Unallocated expenses				(3,756)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net				(4,648)
Finance expenses, net				(49,225)
Loss before income tax				(53,873)
Income tax benefit				1,060
Loss from continuing operations				(52,813)
Profit from discontinued operations				21,487
Loss for the period				**(31,326)**

* Other income/expense includes fair value adjustments of investment property, equity earnings, gains from disposal of assets and investments and other adjustments.

For the year ended December 31, 2015:

€ in '000	Real Estate Asia	Water Infra-structure	Other	Total
Revenue	6,726	167,861	(715)	173,872
Other income (expense) *	23,954	(1,241)	880	23,593
Total income	30,680	166,620	165	197,465
Segment result	13,648	6,378	(3,014)	17,012
Unallocated expenses				(5,082)
Gain from operations and share in profit of investment accounted using the equity method before finance expenses, net				11,930
Finance expenses, net				(64,913)
Profit before income tax				(52,983)
Income tax expenses				(6,493)
Profit from continuing operations				(59,476)
Profit from discontinued operations				36,518
Loss for the period				**(22,958)**

* Other income/expense includes fair value adjustments of investment property, equity earnings, gains from disposal of assets and investments and other adjustments.

For the year ended December 31, 2014:

€ in '000	Real Estate Asia	Water Infra-structure	Other	Total
Revenue	51,957	142,794	(409)	194,342
Other income (expense) *	32,861	(690)	668	32,839
Total Income	84,818	142,104	259	227,181
Segment result	28,390	8,987	(1,988)	35,389
Unallocated expenses				(6,075)
Gain from operations and share in profit of investment accounted using the equity method before finance expenses, net				29,314
Finance expenses, net				(19,739)
Loss before income tax				9,575
Income tax expenses				(12,969)
Loss from continuing operations				(3,394)
Profit from discontinued operations				8,456
Loss for the period				**5,062**

* Other income/expense includes fair value adjustments of investment property, equity earnings, gains from disposal of assets and investments and other adjustments.

C Segments assets

€ in '000	December 31, 2016	December 31, 2015
Real Estate – Asia	469,982	488,944
Banking and Retail Lending *	–	294,382
Water infrastructure	155,536	143,504
Others	–	40
	625,518	**926,870**
Discontinued operation	–	24,760
Unallocated assets **	39,849	24,112
	665,367	**975,742**

* Following the sale of TBIF in August 2016 the Company does not present this segment (see A above).

** Most unallocated assets relate to cash balances at the level of the holding companies and as of December 31, 2016 also include assets of the former 'Banking and Retail Lending' segment.

D Segments liabilities

€ in '000	December 31, 2016	December 31, 2015
Real estate – Asia	215,754	198,651
Banking and Retail Lending *	–	210,815
Water infrastructure	111,671	102,156
	327,425	**511,622**
Unallocated liabilities **	296,759	388,182
	624,184	**899,804**

* Following the sale of TBIF in August 2016 the Company does not present this segment (see A above).

** Most unallocated liabilities relate to financing at the level of the holding companies.

E Information about geographical areas:

1 Revenues by geographical markets (according to location of customers):

€ in '000	For the year ended December 31, 2016	2015	2014
China	8,536	6,726	51,953
Bulgaria and Romania	2,572	566	19,280
Israel	47,595	39,235	21,410
Other	82,100	127,345	101,687
	140,803	**173,872**	**194,330**

The Company doesn't have any income generating activity in the Netherlands.

2 Non-current assets by geographical areas (according to location of assets):

€ in '000	December 31, 2016	December 31, 2015
China	243,035	253,293
Bulgaria and Romania	–	11,737
Israel	11,441	10,321
Other	5,830	5,486

Non-current assets include investment properties, goodwill and intangible assets and property plant and equipment.
The Company doesn't have non-current assets in the Netherlands.

3 Revenues from major customers, responsible for more than 10% of the revenues:

€ in '000	For the year ended, December 31		
	2016	2015	2014
Customer A - water infrastructure	23,052	34,780	21,688
Customer B - water infrastructure	21,320	7,763	–
	44,372	**42,543**	**21,688**

27 Contract revenues

A. Contract revenues:

€ in '000	For the year ended, December 31		
	2016	2015	2014
Revenue from construction projects	98,517	135,235	106,009
Revenue from planning projects	25,770	27,987	29,860
Other	5,378	4,639	6,925
	129,665	**167,861**	**142,794**

B. Cost of contract revenues:

€ in '000	For the year ended, December 31		
	2016	2015	2014
Payroll and related expenses	20,065	23,621	29,648
Subcontracted work (including equipment)	61,718	94,697	58,371
Changes in inventory of finished goods	3,370	2,092	3,496
Depreciation expenses	1,632	1,428	1,746
Materials	10,878	9,035	9,062
Other expenses	10,949	11,057	16,102
	108,612	**141,930**	**118,425**

28 Other expenses, net

€ in '000	For the year ended December 31,		
	2016	2015	2014
Cost of asset management services	4,128	2,616	2,600
Other expenses, net	1,427	4,462	3,171
	5,555	**7,078**	**5,771**

29 Selling and marketing expenses

€ in '000	For the year ended December 31,		
	2016	2015	2014
Payroll and related expenses	3,428	3,898	3,307
Commissions	31	317	195
Marketing and advertising	2,020	2,152	1,160
Other	2,648	3,596	3,530
	8,127	**9,963**	**8,192**

30 General and administrative expenses

€ in '000	For the year ended December 31,		
	2016	2015	2014
Payroll and related expenses (*)	11,211	13,941	10,643
Share-based payment (see Note 18)	593	1,039	805
Management fees	1,200	681	2,171
Office maintenance	2,374	2,367	1,906
Professional fees	2,652	2,970	2,988
Depreciation and amortization	177	462	238
Other	1,962	2,742	2,500
	20,169	**24,202**	**21,251**

(*) Payroll and related expenses are as follows:

€ in '000	For the year ended December 31,		
	2016	2015	2014
Wages and salaries	9,364	12,451	9,574
Unemployment contributions	309	348	598
Other social expenses	1,538	1,142	471
	11,211	**13,941**	**10,643**

Payroll and related expenses are also included in the income statement under various expense categories.

31 Gain (loss) on disposal of assets and other income

€ in '000	For the year ended December 31,		
	2016	2015	2014
Gain (loss) on disposal of investment in companies [1]	(1,734)	–	16,768
Gain (loss) from sale of fixed assets	460	(423)	–
Other	174	426	498
	(1,100)	**3**	**17,268**

1 In 2016, relates to revaluation of the remaining mortgage activity in light of its disposal (see Note 5B). In 2014, mainly relates to gain from the disposal of an investment.

32 Financial income and expenses

€ in '000	For the year ended December 31,		
	2016	2015	2014
Income:			
Income from bank deposits	321	1,147	432
Revaluation of warrant	–	–	329
Income from interest bearing loans to associates	686	202	–
Exchange differences, net	–	–	874
Other	162	169	426
Total financing income	**1,169**	**1,518**	**2,061**
Expenses:			
Interest on long-term loans and borrowings	13,182	13,497	2,949
Interest on debentures	19,990	24,126	17,290
Exchange differences, net	16,016	25,193	–
Devaluation of warrant	236	–	–
Other	970	3,615	1,560
Total financing expenses	**50,394**	**66,431**	**21,799**

33 Taxes on income

A. The Company has its statutory seat in the Netherlands, and therefore is subject to taxation according to the Dutch law.

For 2016 and 2015, the standard Dutch corporate income tax rate amounts to 25%. A tax rate of 20% applies to the first € 200,000 of taxable income.

Dutch Participation Exemption

The Company benefits from the Dutch Participation Exemption regime ('Participation Exemption'). The Participation Exemption exempts income, such as dividends, capital gains, but also capital losses realized with respect to a qualifying participation, held by a Dutch shareholder.

Interest deduction limitation rule regarding Participation Debt

The Company might be subject to an interest deduction limitation rule, aimed on the limitation of the deduction of 'Excessive Interest' expenses allocated to 'Participation Debt' from the Dutch taxable profit (section 13L CITA). Based on this rule both intercompany and third party interest relating to debt that is deemed to be used to finance participations on which the Dutch Participation Exemption applies (Participation Debt) is not deductible. The amount of Participation Debt is determined based on a mathematical formula. This rule applies only if the amount of non-deductible Excessive Interest expenses exceeds € 750,000.

It is noted that certain exceptions exist. The impact of Section 13L CITA can be limited if and to the extent that the interest held in an operational participation can be considered an expansion of the operational activities of the group ('expansion investment escape'). Also a grandfathering rule applies for participations held by the Dutch tax payer on or before 1 January 2006.

In December 2013 the Company has filed a ruling request with the Dutch Tax Authorities regarding the (non-)applicability of Section 13L CITA for 2013 and further years. The Dutch Tax Authorities followed the position taken in the 2013 tax return of the Company that the deduction of interest expenses should not be limited pursuant to Section 13L CITA.

Substance requirement regulations

The Company might be subject to substance requirement regulations for companies engaged in inter-company financing and/or licensing activities. Dutch companies that claim the benefits of a tax treaty or EU Directive should now declare in their annual Dutch corporate income tax return whether the tax payer meets a defined set of substance requirements. If one or more of these requirements are not met and if the company has claimed treaty benefits, the Dutch Tax Authorities notify the foreign tax authorities.

The Company has analyzed the impact of the new substance requirement regulations and concluded that these do not apply to the Company and its Dutch group companies.

New transfer pricing documentation requirements

As per 2016, additional transfer pricing documentation requirements have been introduced for Dutch tax payers that are part of a multinational group. These revised standards consist of:

- a ‘Master file’ containing high-level information regarding the Company’s global business operations and transfer pricing policies; and
- a specific ‘Local file’ containing information regarding material related party transactions and the company’s analysis of the transfer pricing determinations; and
- a Country-by-Country Reporting (‘CbCR’) template containing aggregate information relating to the amount of revenue, profit (loss) before income tax, income tax paid and accrued, number of employees, stated capital, accumulated earnings and tangible assets other than cash or cash equivalents per entity in each jurisdiction in which the group operates.

Although the Company is not required to submit the CbCR template regarding financial year 2016 to the Dutch Tax Authorities, it has the obligation to prepare a Master file and Local file before filing of the 2016 corporate income tax return. The Company is currently in the process of preparing a Master file and Local file.

B The statutory corporate income tax rates in the main various countries were as follows:

Country	Tax rate	
	2016	2015
Bulgaria	10%	10%
China	25%	25%
Hong-Kong	16.5%	16.5%
Israel	25%	26.5%
Romania	16%	16%
The Netherlands	20-25%	20-25%

C Tax presented in the consolidated income statement is broken down as follows:

€ in '000	For the year ended December 31,		
	2016	2015	2014
Current taxes	3,522	2,368	6,131
Tax expenses related to previous years	135	610	1,537
Deferred taxes (see also E below)	(4,717)	3,515	5,301
	(1,060)	**6,493**	**12,969**

D The reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:

€ in '000	For the year ended December 31,		
	2016	2015	2014
Accounting profit (loss)	(53,873)	(52,983)	9,575
Tax expense (tax benefit) computed at the statutory tax rate 25%	(13,468)	(13,246)	2,394
Increase (decrease) in tax expense (tax benefit) due to:			
Carry forwards tax losses for which no deferred tax assets were recognized	9,600	15,403	6,591
Adjustment in respect to tax of previous years	135	610	1,537
Share of results of investments accounted using the equity method	(717)	(666)	(1,678)
Non-deductible expenses and others, net	2,347	883	1,096
Impact of different tax rates	842	3,685	1,637
Other	201	(176)	1,392 *
	(1,060)	**6,493**	**12,969**

* Relates mainly to land tax in China.

E Composition of deferred taxes

€ in '000	Consolidated statement of financial position		Recorded in the income statement		
	December 31, 2016	December 31, 2015	Movement for the year ended December 31,		
			2016 *	2015 *	2014
Deferred income tax assets (deferred tax liabilities) with respect to:					
Investment properties	(12,124)	(13,156)	(646)	5,227	2,215
Financial instruments	–	(3,178)	–	(74)	5,613
Temporary differences in reserves and allowances	–	195	–	40	440
Carry forwards losses available for offset against future taxable income	8,723	4,555	(3,807)	926	127
Differences in measurement basis	1,417	(2,279)	785	(185)	(132)
Timing differences of projects	(965)	2,390	(1,039)	(310)	–
Non-current assets eliminated for rendering of service among group companies	–	–	–	–	99
Other	638	629	(10)	(2,143)	(273)
	(2,311)	**(10,844)**	**(4,717)**	**3,481**	**8,089**

* In 2016 and 2015 the difference between the movements in the deferred taxes in table E to the tax expenses in table C are mostly due to discontinued operation (see Note 5B).

Tax presented in the consolidated statement of financial position is broken down as follows:

€ in '000	December 31, 2016	December 31, 2015
Net deferred income tax asset	2,452	3,065
Net deferred income tax liability	(4,763)	(13,909)
	(2,311)	**(10,844)**

F Losses carry-forwards and final tax assessments

Under the 2010 Dutch Tax legislation the carry back of losses is restricted to one year and furthermore the carry forward of losses is restricted to nine years. The accumulated unused tax losses as at December 31, 2016 of Kardan NV company-only amount to €273.9 million (according to the filed 2015 tax return, net of tax losses evaporated in 2016). The tax losses expire as follows: €14.9 million – in 2017, €17.5 million in 2018, €85.5 million in 2019, €29.1 million in 2020, €41.1 million in 2022, €24.1 million in 2023 and €61.7 million in 2024.

The Company received final tax assessments up to and including the year 2013. The Company does not expect the year 2016 to result with a tax liability. The Company has not recorded any deferred tax assets for these losses.

34 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, less the weighted average number of treasury shares.
Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent, after adjusting for interests on convertible shares of the Company and Group companies, by the weighted average number of ordinary shares outstanding during (less the weighted average number of treasury shares) the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, adjusted for the effects of dilutive options and dilutive convertible Debentures of the Company and of Group companies.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

€ in '000	2016	2015	2014
Net profit (loss) attributable to ordinary equity holders of the parent (€ in thousands)	(52,813)	(22,915)	5,091
Effect of dilution of earnings of group companies	(10)	(231)	(98)
	(52,823)	**(23,146)**	**4,993**
Weighted average number of ordinary shares for basic earnings per share (in thousands)	123,022	116,429	110,754
Effect of dilution:			
Shares options	–	–	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**123,022**	**116,429**	**110,754**

Certain warrants, employee options and convertibles issued by the Group were excluded from the calculation of diluted earnings per share as they did not result in a dilutive effect ('out of the money') as of December 31, 2016, 2015 and 2014.

To calculate earnings per share amounts for discontinued operations, the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The profit used is €21,487 thousand, €36,518 thousand and €8,456 thousand for the years 2016, 2015 and 2014, respectively.

35 Financial instruments and risk management

A Introduction

This Note deals with various disclosures required by IFRS 7 pertaining to risk management. Section B covers the Group as a whole and addresses the following:

1) Risk Management (financial and capital risk management and structuring thereof);
2) Market risk;
3) Price risk;
4) Political risk;
5) Credit risks;
6) Interest rate risk including sensitivity analysis;
7) Liquidity risk including maturity profile of financial assets, liabilities and guarantees;
8) Foreign currency risk including sensitivity analysis;
9) Fair value disclosures

B The Kardan Group

1) Risk management

Financial risk management

The Group's principle financial instruments comprise of bank loans, Debentures, receivables and cash deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The operations of the Group expose it to various financial risks, e.g. market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. On occasions, the Group employs derivative financial instruments, principally interest rate swap transactions, to hedge certain exposures to risks.

The current instability in the global financial markets, affecting the worldwide economic development, could have consequences for the future results of the Group, its equity base, the value of its assets, its ability to comply with the covenants agreed upon with lenders, its ability to raise financing, as well as the terms of such financing and collection risks.

Management is closely monitoring the financial position of the Group. Reference is made to Note 1 for additional information.

Kardan Group is predominantly active in emerging markets. In its operations the Group is therefore inherently exposed to a relatively high degree of entrepreneurial, geopolitical and legal risks in these markets which, by nature, have a different risk profile than developed markets. Moreover, particularly in the real estate market in which it operates, the Group is exposed to fluctuations in supply and demand.

In their regular business updates, the boards of directors (as applicable) of the various Group companies provide overall risk-management principles and specific measures with respect to certain risks to which they are exposed to the Board of Kardan, e.g. exchange rate risk, interest rate risk, credit risk and use of derivative financial instruments.

Capital risk management

The primary objective of the Group's capital management is to ensure capital preservation and maintain healthy capital ratios in order to support its business activities, optimize stakeholder value and monitor the status of existing covenants. Each Group company considers its equity to be its capital.

The Group manages its capital structure and makes adjustments to it, according to changes in economic conditions. To maintain or adjust the capital structure, the Group decides on leverage policy, repayment of loans, investment or divestment of assets, dividend policy and the need, if any, to issue new shares or Debentures.

For additional information regarding the capital risk management with respect to the Company's liquidity position and uncertainties, see Note 1.

Risk management structuring
The Board of Kardan N.V. and of each Group company is ultimately responsible for identifying and controlling risks. However, there are separate independent bodies within the Group that are responsible for managing and motoring risks.

(i) Corporate level
The Executive Management of Kardan N.V. (CEO, CFO) work closely with chief risk managers within the Group, by means of functional lines of responsibility and jointly they have overall responsibility for the execution of the risk strategy and implementation of principles, frameworks, policies and limits. The Board of Kardan N.V. is responsible for monitoring the overall risk process, including the overall risk-management approach and for approving the risk strategies and principles.

(ii) Group companies
Some of the Kardan Group companies have appointed risk managers at their corporate levels as well as at country levels or subsidiary levels.

(iii) Risk mitigation
Kardan uses the analysis of the structure of its portfolios in order to mitigate excessive risk in each of the countries and each of the business segments. The risk is spread among the different activities of the Kardan Group. The diversification of the businesses (commercial and residential real estate, infrastructure projects) as well as collateral management are useful risk mitigation tools as well. In addition, management may change its targets and focus in order to mitigate specific (excessive) risk.

(iv) Excessive risk concentration
A concentration of risk may arise from financial instruments with similar characteristics that are affected likewise by changes in economic or other conditions. Concentrations indicate the relative sensitivity of Kardan's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, Kardan's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (CEE, CIS, China, etc.); industry diversification (real estate and water infrastructure); product diversification (f.e. residential and commercial real estate).

2) Market risk
Achieving the Group's objectives in emerging markets depends on, among other things, the pace of economic development of these markets and in particular the pace of development of the real estate sector and water infrastructure sectors. Diminishing development rates of these markets and sectors may have an adverse impact on the business objectives of the Group.

The Group conducts operations in China where it is active in commercial and residential real estate and in the Ukraine where it is active in car leasing business. The Company closely monitors the economic developments in and the countries of operations and directs management and financial resources to and from these regions based on its revised strategy. China is considered to be the largest emerging economy in the world, which has been gradually shifting over the last decades from a central government controlled economy to an open market economy and consequently more interlinked with international markets. A change in trends in countries where the Group operates may have an adverse impact on its operations.

The management of the Company believes that the following factors are instrumental in handling the above-mentioned risks:
(1) Skilled and experienced management team, combining local expertise with international experience in the countries of operation.
(2) Focus on selection of major projects which are developed in stages, according to demand (real estate).
(3) Strict due diligence before embarking on a project combined with high quality project management.

3) Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.
Kardan's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investments in each country.
Kardan N.V. does not have a material exposure to financial instruments which are impacted by market prices, therefore it has no significant price risk, and accordingly there is no significant exposure to equity price risk.

4) Political risk

The Group has significant business activities predominantly in China, Africa and Central and Eastern Europe. Political and economic changes in these regions can have consequences for the Group's activities, as well as an impact on the results and financial positions of the Group. By closely monitoring these businesses, management intends to limit the risks of those changes.

5) Credit risk

Credit risk is a risk that the Group may incur a loss because its customers or counterparties fail to meet their contractual obligations. Credit risk is also applicable to derivatives, financial guarantees and loan commitments. The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, deposits, and other financial assets, financial guarantees and loan commitments. It is the policy of the Group, in general, to enter into trade agreements with reputable third parties with good credit ratings.

The Group companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from provision of credit, with respect to specific debts whose collection is doubtful. As a result, the Group's exposure to bad debts is not considered significant.

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. To manage this risk, the Group companies periodically and regularly assess the financial viability of their customers.

A concentration of credit risk exists when changes in economic, industry, or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instruments is diversified along product and geographic lines and transactions are entered into with various creditworthy counterparties, thereby mitigating any significant concentration of credit risk. The Group performs ongoing credit evaluations of their customers' financial condition and requires collateral as deemed necessary.

Counterparties to financial instruments consist of a large number of financial institutions. The Group has no significant concentration of credit risk with any single counterpart or group of counterparties.

With respect to trade receivables, the maximum exposure is equal to the amount on the face of the statement of financial position. Refer to Note 13 for more information regarding trade receivables and their aging analysis.

As of December 31, 2016 and 2015, cash and cash equivalent amounted to €57,783 thousand and €143,920 thousand, respectively, and deposits in banks amounted to €10,218 thousand and €7,245 thousand, respectively (see Note 15 and 16). All deposits are deposited with highly rated financial institutions primarily in the countries of operation.

Maximum exposure to credit risk
The sum of all financial assets presented in the table below and the sum of all financial guarantees is presented in the table below, showing the maximum exposure to credit risk for the components of the Group. The maximum exposure is presented gross, before the effect of mitigation through the use of collateral agreements.

6) Interest-rate risk
The Group's exposure to market risk for changes in interest rates usually relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest cost using a combination of debt with fixed and variable interest rates. Interest rate risk management aims to limit the impact of fluctuations in interest rates on the results and reduce total interest expenses as much as possible.

The majority of the Group's financial liabilities (debentures, loans and borrowings) bear a fixed interest rate and are therefore not exposed to interest rate risk.

7) Liquidity risk
Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
To limit this risk, the Group finances its operations through diversified, short-term and long-term credit obtained from the public and institutional investors and from financial institutions. The Group raises financing according to needs and market conditions when required.
The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2016 and 2015. The liabilities are based on contractual undiscounted cash flow. The tables include repayments of principal amounts as well as interest due. The amount of interest due was estimated based on contractual terms of the financial liabilities.
For additional information regarding the liquidity risk management with respect to the Company's liquidity position and uncertainties, see Note 1 and 25, respectively.

7.1 Liquidity table 2016:

€ in '000	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
Liabilities					
Trade payables	16,752	3,688	–	–	20,440
Other payables and accrued expenses	12,980	42,476	2,888	–	58,344
Interest-bearing loans and borrowings	5,168	134,195	272	147	139,782
Other debentures	4,453	–	113,398	216,574	334,425
Other long term liabilities	–	–	–	8,327	8,327
Total liabilities	**39,353**	**180,359**	**116,558**	**225,048**	**561,318**

7.2 Liquidity table 2015:

€ in '000	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
Liabilities					
Trade payables	20,121	152	–	–	20,273
Other payables and accrued expenses	28,403	45,024	–	–	73,427
Banking customers accounts	53,142	140,118	17	113	193,390
Interest-bearing loans and borrowings	2,917	13,877	113,344	383	130,521
Other debentures	23,669	–	109,963	318,017	451,649
Other long term liabilities	–	–	–	5,230	5,230
Total liabilities	**128,252**	**199,171**	**223,324**	**323,743**	**874,490**

8 Foreign currency risk

Since the Group conducts business activities in multiple countries, it is exposed to a foreign currency exchange rate risk, resulting from exposure to different currencies. The foreign currency exchange rate risk arises from transactions conducted in a currency that is not the functional currency of the relevant company in the Group.
Group companies conduct currency translation transactions at times to hedge the exposure to the foreign currency risk.

As of December 31, 2016:

8.1

€ in '000	in Euros	In US Dollars	In NIS (Israeli)	In RMB (Chinese)	In Rub (Russia)	In other currencies	Non-monetary	Total
Assets								
Property and equipment	–	–	–	–	–	–	13,689	13,689
Investment properties	–	–	–	–	–	–	240,461	240,461
Goodwill	–	–	–	–	–	–	6,156	6,156
Investments in companies accounted for using the equity method	14,936	24,792	–	–	–	12,712	56,487	108,927
Long-term receivables	5,000	–	2,530	–	–	–	4,165	11,695
Deferred tax assets	–	–	–	–	–	–	2,452	2,452
Inventory	–	–	–	–	–	–	119,421	119,421
Accounts receivable	7,329	10,497	40,452	4,897	–	3,272	–	66,447
Other receivables	20	1,467	4,993	5,686	1,731	895	13,326	28,118
Short-term investments	1,507	–	243	8,468	–	–	–	10,218
Cash and cash equivalents	20,062	4,535	6,961	19,424	2,666	4,135	–	57,783
	48,854	**41,291**	**55,179**	**38,475**	**4,397**	**21,014**	**456,157**	**665,367**
Liabilities								
Deferred tax liability	–	–	–	–	–	–	4,763	4,763
Interest-bearing loans and borrowing	2,865	11,590	1,486	111,232	62	–	–	127,235
Warrants and options	–	3,966	–	–	–	–	–	3,966
Debentures	–	–	288,978	–	–	–	–	288,978
Other long-term liabilities	169	–	4,092	–	–	–	833	5,094
Other payables and accrued expenses	1,712	171	11,630	43,804	–	3,559	17,198	78,074
Trade payables	5,198	2,108	6,330	3,985	–	2,819	–	20,440
Advances from apartment buyers	–	–	–	–	–	–	88,900	88,900
Income tax payable	–	–	–	–	–	–	6,734	6,734
	9,944	**17,835**	**312,516**	**159,021**	**62**	**6,378**	**118,428**	**624,184**
Differences between assets and liabilities	**38,910**	**23,456**	**(257,337)**	**(120,546)**	**4,335**	**14,636**	**337,729**	**41,183**

As of December 31, 2015:

8.2

€ in '000	In Euros	In US Dollars	In NIS (Israeli)	In RMB (Chinese)	In Rub (Russia)	In other currencies	Non-monetary	Total
Assets								
Property and equipment	–	–	–	–	–	–	24,161	24,161
Investment properties	–	–	–	–	–	–	250,310	250,310
Goodwill	–	–	–	–	–	–	6,361	6,361
Investments in associates	15,826	24,837	–	–	–	9,424	55,417	105,504
Long-term receivables	26,305	174	1,125	–	–	12,715	–	40,319
Loans to bank customers	90,813	–	–	–	–	47,442	–	138,255
Deferred tax assets	–	–	–	–	–	–	3,065	3,065
Inventory	–	–	–	–	–	–	109,818	109,818
Accounts receivable	9,906	17,703	27,741	4,434	–	7,534	–	67,318
Other receivables	579	1,023	5,795	5,274	38	21,713	7,116	41,538
Short term investments	3,260	–	1,071	2,914	–	542	–	7,787
Cash and cash equivalents	62,748	12,997	26,558	34,362	1,230	6,025	–	143,920
Other financial assets	–	–	–	–	–	5,485	–	5,485
Assets classified as held for sale	–	24,760	–	–	–	–	7,141	31,901
	209,437	**81,494**	**62,290**	**46,984**	**1,268**	**110,880**	**463,389**	**975,742**
Liabilities								
Deferred tax liability	–	–	–	–	–	–	13,909	13,909
Interest-bearing loans and borrowing	7,901	–	430	100,667	–	–	–	108,998
Warrants and options	–	2,495	–	–	–	–	–	2,495
Debentures	–	–	356,272	–	–	–	–	356,272
Other long-term liabilities	120	–	3,839	–	–	–	–	3,959
Other payables and accrued expenses	9,435	7,446	28,151	46,743	1,063	4,436	18,662	115,936
Trade payables	2,885	2,877	5,152	4,655	109	4,590	–	20,268
Advances from apartment buyers	–	–	–	–	–	–	81,972	81,972
Income tax payable	–	–	–	–	–	–	3,933	3,933
Banking customers accounts	150,127	5,754	–	–	–	36,181	–	192,062
	170,468	**18,572**	**393,844**	**152,065**	**1,172**	**45,207**	**118,476**	**899,804**
Differences between assets and liabilities	**41,760**	**65,799**	**(326,402)**	**(103,196)**	**205**	**70,263**	**327,509**	**75,938**

b The following table demonstrates the sensitivity of the Group's profit and loss before tax to a reasonably realistic change in exchange rates compared to other main currencies in which the Group operates, when all other variables are held constant:

8.3

€ in '000	Sensitivity to change in EUR\USD			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2016	3,021	1,511	(1,511)	(3,021)
2015	5,475	2,738	(2,738)	(5,475)

8.4

€ in '000	Sensitivity to change in EUR\ NIS			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2016	(59,157)	(29,579)	29,579	59,157
2015	(74,156)	(37,078)	37,078	74,156

8.5

€ in '000	Sensitivity to change in RMB/EUR			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2016	1,026	513	(513)	(1,026)
2015	3,350	1,675	(1,675)	(3,350)

8.6

€ in '000	Sensitivity to change in Israeli CPI			
	Effect on profit and loss			
	+3%	+2%	-2%	-3%
2016	(8,876)	(5,917)	5,917	8,876
2015	(10,674)	(7,611)	7,611	10,674

9 Fair value disclosure:

A Set out below is a comparison by class of the differences between the carrying amounts and fair values of the Group's financial instruments.

9.1 Fair value schedule

€ in '000	Methods of determining fair value	Carrying amount		Fair value		
		2016	2015	2016	2015	Comment
Assets						
Short-term investment		10,218	7,245	10,218	7,245	A
Long-term loans and receivables		11,695	40,319	11,695	46,150	E
Loans to associates and joint ventures		52,440	49,251	52,440	49,251	C
Liabilities						
Debentures	(1)	291,509	379,767	213,056	250,542	B
Interest-bearing loans and borrowings		127,235	108,996	127,235	108,996	C
Other long-term liabilities	(3)	3,171	2,544	3,171	2,544	D
Financial instruments - warrants and options	(3)	3,966	2,495	3,966	2,495	D

Methods of determining the fair value of the financial assets and liabilities:

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2 – Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3 – Techniques which use inputs which have a significant effect on the recorded fair value that is not based on observable market data.

Financial instruments for which fair value could not be determined are immaterial.

Comments regarding determining the fair value:

1) The carrying amount of cash and cash equivalents and short-term investments, which only include bank deposits, approximates their fair values, due to the short-term nature of such financial assets. Refer to Note 15 and 16 for additional information.

2) Market prices of Debentures Series A and Series B of the company have been used to determine the fair value of the listed Debentures which were issued by the Group. Please refer to Note 22 for additional information. The carrying value includes accrued interest in the amount €2,531 thousand for 2016 and €23,495 thousand in 2015.

3) As of December 31, 2016 and 2015 most of the loans bear a fixed interest rate, and management estimates that this rate is approximately the same as the one at yearend. Refer to Note 8, 9, 19 and 23 for additional information.

4) Warrants, options and certain long-term liabilities were valued internally by the Group. The valuations were based on the DCF approach using the following assumptions: the exercise price, the price of the underlying asset, the contractual term of the option, the expected volatility of the asset price and the dividend yield. Refer to Note 18 and 21 for additional information.

5) In determining that the carrying value approximated the fair value, management considered the continuous process for determining whether the value of these financial assets was impaired. Refer to Note 10 for additional information.

6) The carrying value of cash and cash equivalents and other financial instruments such as trade and other receivables, trade and other payables, which were not included in the table above, is assumed to approximate their fair value due to their short-term nature.

B Financial assets and liabilities measured at fair value through profit and loss

9.2 Fair value levels schedule:

December 31, 2016 € in '000	Level 1	Level 2	Level 3	Total
Financial assets:				
Held for trading securities and other	238	–	–	238
Financial liabilities at fair value through profit or loss:				
Warrant and call option	–	–	2,745	2,745
Put option	–	–	975	975
Phantom options	–	–	245	245

December 31, 2015 € in '000	Level 1	Level 2	Level 3	Total
Financial assets:				
Held for trading securities and other	7,086	9	46	7,141
Financial liabilities at fair value through profit or loss:				
Warrant and call option	–	–	(2,495)	(2,495)
Claw-back liability	–	–	(4,000)	(4,000)

During 2016 and 2015 there have been no transfers between financial instruments valuated in Level 1 to Level 2 or between Level 2 to Level 1.

C Level 3 financial assets and liabilities reconciliation

9.3 Level 3 reconciliation:

€ in '000	As of January 1, 2016	Fair value gain (loss) recorded in P&L	Additions	Disposals	As of December 31, 2016	Total gains (losses) for the period included in P&L
Securities	46	–	–	(46)	–	–
Total assets	**46**	**–**	**–**	**(46)**	**–**	**–**
Warrants and call options	(2,495)	(250)	–	–	(2,745)	(250)
Claw-back	(4,000)	–	–	4,000	–	–
Put option	–	–	(976)	–	(976)	–
Phantom options	–	–	(245)	–	(245)	–
Total liabilities	**(6,495)**	**(250)**	**(1,221)**	**4,000**	**(3,966)**	**(250)**

€ in '000	As of January 1, 2015	Fair value gain (loss) recorded in P&L	Gains recorded in other compre-hensive income	Additions	Transfers	As of December 31, 2015	Total gains (losses) for the period included in P&L
Securities	45	1	–	–	–	46	1
Total assets	**45**	**1**	**–**	**–**	**–**	**46**	**1**
Warrants and call options	(428)	64	–	(2,559)	428	(2,495)	64
Put option	(1,014)	(133)	–	–	1,147	–	(133)
Claw-back	(3,150)	(850)	–	–	–	(4,000)	(850)
Total liabilities	**(4,592)**	**(919)**	**–**	**(2,559)**	**1,575**	**(6,495)**	**(919)**

9.4 IAS 39 classification of financial assets and liabilities:

€ in '000	December 31, 2016	December 31, 2015
Financial assets:		
Cash, loans and receivables	209,210	506,867
Derivatives that are designated as hedging instruments	–	5,485
	209,210	**512,352**
Financial liabilities:		
Financial liabilities presented at amortized cost	497,529	770,520
Financial liability through P&L	3,171	6,544
Put option	976	–
Phantom options	245	–
FIMI liability	2,745	2,495
	504,666	**779,559**

36 Related Parties

The Group has entered into a variety of transactions with its related parties. The Group has adopted the policy to enter into such transactions, which are being concluded in the normal course of business, on an arm's-length basis. The sales and purchases from related parties are made at comparable normal market prices. Outstanding balances relating to such sales and purchases at year-end are unsecured, interest free, and settlement occurs in cash. Outstanding loans from related parties are unsecured and presented with accrued interest. The significant of these balances and transactions are as follows:

A Balances

As of December 31, 2016:

€ in '000	Note	Associates	Joint ventures
Trade receivables	13	–	794
Other receivables and prepayments	14	–	928
Loans and long-term assets (including current maturities)	8,9	12,687	12,159
Other payables and accrued expenses	24	–	11,574

As of December 31, 2015:

€ in '000	Note	Associates	Joint ventures
Trade receivables	13	–	1,997
Other receivables and prepayments	14	–	2,660
Loans and long-term assets (including current maturities)	8,9	9,406	13,828
Other payables and accrued expenses	24	–	11,920

B Transactions

For the year ended December 31, 2016:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Management fee, net		–	960	–
Finance income	32	686	137	162

For the year ended December 31, 2015:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Management fee, net		–	1,477	–
Finance income	32	202	264	168
Other		–	–	1,276

For the year ended December 31, 2014:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Management fee, net		–	2,122	–
General and administrative expenses	30	–	–	1,676
Finance income	32	–	287	–

1. Management fees for the years 2016, 2015 and 2014 relate mostly to management fees from joint ventures received by Kardan Land China. Finance income from associates and joint ventures are from loans granted the associates and joint ventures.

2) In May 2015 the services agreement between the Company and Kardan Israel (a company controlled by the Company's controlling shareholders) has been amended. According to the amended agreement, effective March 1, 2015, the scope of services will be reduced and accordingly, the corresponding service fees would be reduced to a total of approximately €212 thousand per year, linked to Israeli CPI. This agreement is effective for three years.

3) Kardan Israel provides various services to the Group which are not part of the abovementioned services agreement, including, among others, the provision of office space and services. In addition, Kardan Israel is entitled to reimbursement of expenses incurred in connection with such services. With respect of the aforesaid services provided in 2016, the Company paid to Kardan Israel a total of €30 thousand (2015 - € 19 thousand).

C Remuneration to related parties:

Remuneration of members of the Board of Directors and executive management, of the Company:

1. Board

€ in '000	For the year ended December 31,		
	2016	2015	2014
	263	**269**	**249**

2. Executive Management:

€ in '000 For the year ended Dec 31,	Short-term employee benefits	Post-employment pension and medical benefits	Share-based payment transaction	Total
2016 *	1,324	152	359	1,835
2015	1,335	120	170	1,625
2014	1,551	112	181	1,844

* The amounts in 2016 include the new CEO fees from his appointment as CEO on April 15, 2016 and the former CEO until termination of employment on September 30, 2016.
Short term employee benefits include bonuses over the years 2014, 2015 and 2016.

3. Options granted by the Company as of December 31, 2016 *:

	No. of options
Total options granted to two Executive management	**200,000**

* 100,000 options are to be cancelled in 2017 following termination of employment. For additional information see also Note 18B.

37 Subsequent events

A subsidiary of TGI is currently in advanced negotiations with an Israeli fund for selling 19.84% of Star Pumped Storage Ltd. in consideration of approximately NIS 40-50 million. The sale is subject to various conditions, including the approval of financing institutions and regulatory approvals which will be stipulated in the sale agreement and are being discussed between the parties.

As of the date of the approval of these financial statements, the parties are also in negotiations for selling the remaining 20.66% of Star Pumped Storage Ltd., held by TGI.

Company-only Financial Statements

Statement of Financial Position

After Appropriation of Net Result

€ in '000	Note	December 31, 2016	December 31, 2015
Assets			
Non-current assets			
Tangible fixed assets		95	114
Investments in subsidiaries	5	406,692	550,493
Loans to subsidiaries		23	22
		406,810	**550,629**
Current assets			
Cash and cash equivalents	6	1,754	22,867
Short-term investments	7	131	137
Other receivables	4	1,005	687
		2,890	**23,691**
Total assets		**409,700**	**574,320**
Equity and liabilities			
Equity	8		
Share capital		25,276	25,276
Share premium		206,482	206,482
Property revaluation reserve		34,772	36,713
Foreign currency translation reserve		23,590	24,711
Other reserves		6,633	8,144
Retained earnings (accumulated deficit)		(259,420)	(229,865)
		37,333	**71,461**
Non-current liabilities			
Debentures	9	364,159	468,407
Options and other long-term liabilities	10	3,246	2,035
		367,405	**470,442**
Current liabilities			
Other payables	12	4,962	32,417
		4,962	**32,417**
Total equity and liabilities		**409,700**	**574,320**

See accompanying Notes.

Company-only Income Statement

€ in '000	Note	For the year ended December 31, 2016	2015
General and administration expenses	13	(3,379)	(4,585)
Loss from operations		**(3,379)**	**(4,585)**
Financial expenses, net	14	(47,426)	(63,680)
Loss before share of profit from investments accounted for using the equity method		**(50,805)**	**(68,265)**
Share of profit of investments accounted for using the equity method, net	5	20,049	45,827
Loss before income taxes		**(30,756)**	**(22,438)**
Income tax expenses	11	574	477
Loss for the year		**(31,330)**	**(22,915)**

See accompanying Notes.

Company-only Cash Flow Statement

€ in '000	For the year ended December 31,		
	2016	2015	2014
Cash flow from operating activities of the Company			
Profit (loss) for the year	(31,330)	(22,915)	5,091
Adjustments to reconcile profit (loss) to net cash of the Company			
Financial expense	49,020	64,013	23,561
Dividend received	113,284	53,742	78,557
Share-based payment	(146)	163	191
Equity earnings	(20,049)	(45,827)	(31,079)
Changes in working capital of the Company			
Change in receivables	(873)	(138)	(730)
Change in payables	548	(1,154)	1,474
Cash amounts paid and received during the year			
Interest paid	(41,120)	(18,676)	(2,997)
Interest received	8	20	10
Net cash provided by operating activities of the Company	**69,342**	**29,228**	**74,078**
Cash flow from investing activities of the Company			
Short term investments, net	6	659	57
Net cash provided by investing activities of the Company	**6**	**659**	**57**
Cash flow from financing activities			
Investment in shares of a subsidiary	(4,003)	(150)	(21,966)
Debentures settlement payment	–	(750)	–
Repayment of long term debt	(86,458)	(6,725)	(67,788)
Net cash used in financing activities of the Company	**(90,461)**	**(7,625)**	**(89,754)**
Increase / (decrease) in cash and cash equivalents of the Company	(21,113)	22,262	(15,619)
Cash and cash equivalents at beginning of the year	22,867	605	16,224
Cash and cash equivalents of the Company at end of the year	**1,754**	**22,867**	**605**

Notes to the company-only Financial Statements

December 31, 2016

1 General

The description of the Company's activity and the Group structure, as included in the Notes to the consolidated financial statements, also apply to the Company-only financial statements, unless otherwise stated.

2 Significant Accounting Policies

The Company's statutory financial statements are prepared based on the accounting principles of recognition, measurement and determination of profit, as applied in the statutory consolidated financial statements. These principles also include the classification and presentation of financial instruments, being equity instruments or financial liabilities.

In case no other policies are mentioned, refer to the accounting policies as described in the accounting policies in the statutory consolidated financial statements. For an appropriate interpretation, the company-only statutory financial statements of Kardan NV should be read in conjunction with the statutory consolidated financial statements.

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

3 Investments in subsidiaries

Investments in consolidated subsidiaries are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities and determination of profit based on the principles applied in the consolidated financial statements.

4 Other receivables

€ in '000	December 31, 2016	December 31, 2015
Intercompany debtors	896	468
Prepaid expenses	109	208
Other	–	11
	1,005	**687**

5 Financial Fixed Assets

Investments in consolidated subsidiaries

1 The movement in the investment in consolidated subsidiaries can be summarized as follows:

€ in '000	2016	2015
Balance as of January 1	550,493	456,880
Investment in a subsidiary (a)	4,003	103,892
Change in treasury shares (held by a subsidiary)	–	290
Change in capital reserves (b)	(454)	(94)
Dividend distributed	(167,740)	(56,302)
Share in profit of investments for the year	20,049	45,827
Balance as of December 31	**406,351**	**550,493**

(a) In 2015 the Company capitalized a shareholder's loan to Emerging Investments XII B.V. in the amount of €103.6 million.
(b) Primarily relates to foreign currency exchange differences arising on translation of foreign operations.

2 Further specification of the investments in subsidiaries is as follows:

Names of subsidiaries	2016		2015	
	Ownership %	Total value € in '000	Ownership %	Total value € in '000
GTC Real Estate Holding B.V.	100	276,412	100	307,599
Kardan Financial Services B.V.	100	36,610	100	51,986
Tahal Group International B.V.	98.43	39,856	98.43	60,442
Emerging Investments XII B.V.	100	53,473	100	130,490
Other	100	–	100	(24)
Total investments in significant consolidated subsidiaries		**406,351**		**550,493**

6 Cash And Cash Equivalents

€ in '000	December 31, 2016	December 31, 2015
EURO	1,496	3,942
NIS	257	18,603
USD	1	322
	1,754	**22,867**

The cash is primarily comprised out of short term deposits.
The average interest rate on short term deposits was 0.2%-1.5% p.a. in 2016 and 2015.

7 Short-term Investments

€ in '000	December 31, 2016	December 31, 2015
Deposits	131	130
Trust account	–	7
	131	**137**

In 2016 and 2015, the average interest rate earned was 0.5%.

8 Statement of changes in Shareholders' Equity

€ in '000	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Retained earnings**	Total
Balance as of January 1, 2016	**25,276**	**206,482**	**36,713**	**8,144**	**24,711**	**(229,865)**	**71,461**
Other comprehensive income (expense)	–	–	–	(1,365)	(1,121)	–	(2,486)
Profit (loss) for the period	–	–	–	–	–	(31,330)	(31,330)
Share-based payment	–	–	–	(146)	–	–	(146)
Transaction with non-controlling interest	–	–	–	–	–	(166)	(166)
Reclassification according to the Netherlands civil code requirements law *	–	–	(1,941)	–	–	1,941	–
Balance as of December 31, 2016	**25,276**	**206,482**	**34,772**	**6,633**	**23,590**	**(259,420)**	**37,333**

* In accordance with the Dutch civil code, part of the retained earnings is restricted for distribution following the regulation to maintain reserves in respect of real estate unrealized fair value revaluations, cash flow hedges, foreign currency differences from investments in foreign operations and equity gains from associates and joint ventures (as also disclosed in Note 17F to the consolidated financial statements).

** As of December 31, 2016 and 2015, amounts of €32,778 and €29,909 thousand respectively resulted from equity gains in associates and joint ventures held by the Company subsidiaries, and therefore the distribution of these amounts is pending on approval of the shareholders and partners. This part of the retained earnings is therefore restricted for distribution.

€ in '000	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Retained earnings **	Total
Balance as of January 1, 2015	**23,041**	**208,002**	**21,033**	**10,765**	**23,943**	**(194,386)**	**92,398**
Other comprehensive income (expense)	–	–	–	(2,784)	768	–	(2,016)
Profit (loss) for the period	–	–	–	–	–	(22,915)	(22,915)
Share-based payment	–	–	–	163	–	–	163
Issuance of treasury shares	2,235	(1,520)	–	–	–	2,625	3,340
Transactions with non-controlling interest	–	–	–	–	–	491	491
Reclassification according to the Netherlands civil code requirements law *	–	–	15,680	–	–	(15,680)	–
Balance as of December 31, 2015	**25,276**	**206,482**	**36,713**	**8,144**	**24,711**	**(229,865)**	**71,461**

* In accordance with the Dutch civil code, part of the retained earnings is restricted for distribution following the regulation to maintain reserves in respect of real estate unrealized fair value revaluations, cash flow hedges, foreign currency differences from investments in foreign operations and equity gains from associates and joint ventures (as also disclosed in Note 17F to the consolidated financial statements).

** As of December 31, 2016 and 2015, amounts of €32,778 and €29,909 thousand respectively resulted from equity gains in associates and joint ventures held by the Company subsidiaries, and therefore the distribution of these amounts is pending on approval of the shareholders and partners. This part of the retained earnings is therefore restricted for distribution.

9 Debentures

Composition:

€ in '000	Par value as of December 31, 2016	Balance as of December 31, 2016	Balance as of December 31, 2015	Interest rate %	Maturities principal
Issuer:					
The Company – 2007	297,500,001	87,285	158,490	6.325	2017-2018
The Company – 2008	952,834,318	276,874	309,917	6.775	2017-2020
		364,159	**468,407**		

Maturities:

€ in '000	December 31, 2016	December 31, 2015
First year – current maturities	–	–
Second year	158,350	146,977
Third year	109,709	138,745
Fourth year	96,100	97,379
Fifth year	–	85,305
Total	**364,159**	**468,406**

Repayment of debentures:

On July 24, September 2, and November 14, 2016 the Company early repaid principal amounting to approximately €86.4 million to Debenture Holders series A and series B, and accumulated interest of approximately €17.7 million to Debenture Holders series A and series B (net of the relative portion of debentures held by the Company's subsidiaries). The total repayment amounted to approximately €104.1 million (approximately NIS 439 million).

On March 31, 2015 the Company early repaid principal amounting to approximately €6.7 million to Debenture Holders series A and Series B and paid the interest deferred to August 2015 in the amount of approximately €18.7 million to Debenture Holders series A and series B and. The total repayment amounted to approximately €25.4 million.

10 Share plan

In 2012 the Company granted to its former CEO 2,282,624 options exercisable to 2,282,624 shares of the Company, comprising approximately 2% of the outstanding share capital of the Company (prior to the shares issued to the debenture holders as part of the Final Settlement agreement (see also Note 22 to the consolidated financial statements). In 2015 a modification to the option plan was approved by the general meeting of shareholders. According to the modified plan, the exercise price would be €0.2807 or NIS 1.191. The options will vest in two equal tranches, 50% of the options would be exercisable from December 31, 2016 and 50% of the options will be exercisable from June 30, 2018. The modification was accounted for under the requirements of IFRS 2. During 2016, the options expired following the resignation of the CEO.

In September 2013 (the 'Grant Date'), the Board of the Company approved a stock-option plan according to which the Company granted to several employees of the Company a total of 250,000 options exercisable into up to 250,000 ordinary shares of the Company, each having a par value of €0.20 (subject to adjustments). The exercise price of each option is equal to NIS 6.136. The options were exercisable in four annual equal portions, starting June 2012 (the 'Effective Date'), of which the first 25% are exercisable two years following the Effective Date. The total value of the options at date of grant was immaterial. The Company share price on Grant Date was approximately NIS 1.9052. The grant was accounted for assuming equity settlement and the total expenses booked in the period were immaterial and were included as 'General and administration expenses' in the income statement. In 2015, the senior management stock options were modified in line with the above modification of the CEO option plan, as described above.
During 2015, 100,000 new options were granted and 50,000 options expired. During 2016 50,000 expired. Subsequent to the balance sheet date, in January 2017 additional 150,000 options expired. The total additional expense relating to the management stock option plan is less than €0.1 million.

For additional information refer to Note 18B to the consolidated financial statements.

11 Taxes on income

The Company has received final tax assessments for the years 2003 to 2013.
Loss for the year amounts to €(31.3) million (2015: €22.9 million), including net result from investments of €20.0 million profits (2015: €45.8 million losses), which is not deductible/taxable under the Participation Exemption described above. The Company assumes that the remaining other expenses and income will not result in tax benefits or tax expenses due to the available tax losses from previous years of the Company.

Up to and including 2016, Kardan N.V. has estimated tax losses of €273.9 million that are available for carry forward (according to the filed 2015 tax return, net of tax losses evaporated in 2016). The carry back of losses is restricted to one year, whereas the carry forward of losses is limited to nine years. Special provisions apply for compensation of tax losses incurred in years during which a company's activities consists (almost) exclusively of holding activities and the direct or indirect financing of related parties. Such tax losses can only be offset against future taxable profits of years during which the company's activities also consists (almost) exclusively of holding and finance activities. Furthermore compensation of losses is disallowed if the balance of the related-party receivables and the related-party payables of a company with holding and financing losses, during the year in which a profit was realized, exceeds that balance in the financial year the losses were incurred, unless it can be demonstrated that the increase of the balance of related-party receivables and related-party payables has increased for business reasons and was not predominantly aimed at the compensation of the holding and financing losses. According to the final tax assessment for the fiscal year 2013, Kardan N.V. has tax losses available for carry forward as per December 31, 2013 which are not considered holding and financing losses and can therefore be compensated with future taxable profits, taking into account the statutory carry forward period.

Deferred tax assets have been recognized only with respect to potential tax liability in relation with the Company's former hedge transactions. Deferred taxes amounted to €1,311 thousand as of December 31, 2016 (as of December 31, 2015 amounted to 1,331 thousand). As of December 31, 2016 no deferred tax assets are presented in the balance sheet. For more information regarding to taxes on income refer to Note 33 to the Consolidated Financial Statements.

12 Other Payables

€ in '000	December 31, 2016	December 31, 2015
Accrued expenses (mainly accrued interest on debentures)	3,170	30,574
Others	1,792	1,843
	4,962	**32,417**

13 General and administration expenses

€ in '000	December 31, 2016	December 31, 2015
Payroll and related expenses	1,834	2,343
Share-based payment	(146)	162
Management fees	473	523
Office maintenance	340	334
Professional fees	1,014	731
Depreciation and amortization	28	29
Other	(164)	463
	3,379	**4,585**

14 Financial income (expenses), net

€ in '000	For the year ended	
	December 31, 2016	December 31, 2015
Income:		
Income from bank deposits	6	23
Exchange differences	3,194	8,945
Total financing income	4,060	8,968
Expenses:		
Interest on debentures	30,818	27,332
Exchange differences	18,585	42,557
Revaluation of warrant	236	2,035
Loss from early repayment of debentures	1,019	–
Other	827	724
Total financing expenses	51,486	72,648
Total financing expenses	**47,426**	**63,680**

15 Audit Fees

The tables below summarizes the fees invoiced to the Company's by its auditors, PricewaterhouseCoopers Accountants N.V. and Ernst & Young in 2016 and in 2015, respectively:

€ in '000	PwC	Others	Total
2016			
Audit services – Kardan N.V.	455	–	455
Audit services – subsidiaries	647	17	664
Total statutory audit fees	**1,102**	**17**	**1,119**
Other services relevant to taxation	29	–	29
Total	**1,131**	**17**	**1,148**

€ in '000	PwC	Ernst & Young	Others	Total
2015				
Audit services - Kardan N.V.	355	134	–	489
Audit services - subsidiaries	632	509	51.4	1,192.4
Total statutory audit fees	**987**	**642.9**	**51.4**	**1,681.3**
Other services relevant to taxation	59	167	–	226
Other non-audit services	–	–	–	–
Total non-audit services	**59**	**167**	**–**	**226**
Total	**1,046**	**809.9**	**51.4**	**1,907.3**

16 Remuneration of Management and Board of Directors

The Company's management and Board received remuneration in 2016 and 2015 as described in Note 36 to the consolidated financial statements.

17 Commitments, contingent liabilities, guarantees, and subsequent events

For commitments, contingent liabilities, guarantees, and subsequent events please refer to Notes 25 and 37, respectively of the consolidated financial statements.

18 Financial instruments and risk management

For disclosures required by IFRS 7 regarding financial instruments and risk management, refer to Note 35 to the consolidated financial statements.

Board of Directors

P. Sheldon (Chairman)

A. Hasson (CEO)

C. van den Bos (Vice-Chairman)

M. Groen

Y. Grunfeld

B. Marsman

E. Rechter

A. Schnur

M. Seinstra

Other Information

Statutory arrangements in respect of the appropriation of net result

The Articles of Association of the Company provide that the appropriation of the net result for the year is decided upon at the Annual General Meeting of Shareholders.

Proposed appropriation of 2016 result

The proposal is to deduct the result of 2016 from the reained earnings.
The dividend policy of Kardan N.V. will take into consideration the level of net income, liquidity and the capital position, future financing requirements and financial covenants of the Company, all within the limitations of the law. If circumstances allow, the dividend policy recommends an annual distribution of between 20% and 30% of net income.
Dividend pay-out may vary from year to year. Taking into account the financial position of Kardan N.V. as well as the concession granted to the Debenture holders that no dividend will be distributed until 75% of the debentures are repaid, the Board has decided not to distribute any dividend from the reserves for the financial year 2016.

Subsequent events

For subsequent events please refer to Note 37 of the consolidated financial statements.

Independent Auditor's Report

To: the general meeting of shareholders and board of directors of Kardan N.V.

Report on the statutory financial statements 2016

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Kardan N.V. as at 31 December 2016 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company-only financial statements give a true and fair view of the financial position of Kardan N.V. as at 31 December 2016 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying statutory financial statements 2016 of Kardan N.V., Amsterdam ('the Company'). The statutory financial statements include the consolidated financial statements of Kardan N.V. and its subsidiaries (together: 'the Group') and the company-only financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the following statements for 2016: the consolidated income statement and the consolidated statements of other comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company-only financial statements comprise:

- the company-only statement of financial position as at 31 December 2016;
- the company-only income statement for the year then ended;
- the company-only statement of changes in equity for 2016; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the statutory financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company-only financial statements.

Material uncertainty related to going concern

We draw attention to the financial position and going concern paragraph in note 1B of the statutory financial statements, which indicates that the Company is currently negotiating transactions (sale of assets and refinancing of loans) with a number of prominent parties, which it is confident, will generate adequate resources to meet future liabilities in the next twelve months. The realisation of the Company's plans depends on factors that are not wholly within the Company's control.

These conditions indicate the existence of a material uncertainty, which casts significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing.
Our responsibilities under those standards are further described in the section 'Our responsibilities for the

audit of the statutory financial statements' of our report.

Independence

We are independent of Kardan N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview and context

Kardan N.V. is engaged in the development of real estate in Asia and water infrastructure projects, through its subsidiaries, joint ventures and associated companies. The Group comprises of several components and therefore, we considered our Group audit scope and approach as set out in 'The scope of our Group audit section'. We paid specific attention to the areas of focus driven by the operations of the Company, as set out below.

We designed our audit by determining materiality and assessing the risks of material misstatement in the statutory financial statements. In particular, we looked at where the board of directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In Note 3 to the statutory financial statements, the Company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. The valuation of the investment property at fair value is subject to significant estimation uncertainty due to the underlying assumptions. We therefore considered this to be a key audit matter. Revenue recognition of water infrastructure projects (contract revenues) was also a key audit matter, considering the subjective elements including estimated percentage of completion. We furthermore addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the board of directors that may represent a risk of material misstatement due to fraud as key audit matter. For further information refer to the 'Key audit matters' section of this report.

Besides the above mentioned key audit matters, other areas of focus in our audit were the valuation of trade receivables, the valuation of investments in joint ventures, the sale of TBIF Financial Services B.V., the valuation of the liability relating to the debentures and the accounting for foreign exchange rate differences.

We ensured that the audit teams both at Group and at component levels included the appropriate skills and competences, which are needed for the audit of an international Group, active in real estate and water infrastructure projects. We have included specialists in the areas of valuation of investment property and tax in our team.

The outlines of our audit approach were as follows:

Materiality
- Overall materiality: €7.7 million which represents 1% of the average of total assets as at 1 January 2016 and as at 31 December 2016.

Audit scope
- We conducted audit work in three locations.
- Site visits were conducted in two countries – China, where the real estate activities of Kardan Land China Ltd. are performed (the main subsidiary of GTC Real Estate Holding B.V.) and the Ukraine where a short term car rental operation is carried out (a joint venture of Kardan Financial Services B.V.).
- Audit coverage: 99.8% of consolidated revenue and 99.0% of consolidated total assets.

Key audit matters
- Valuation of investment property.
- Revenue recognition of water infrastructure projects (contract revenues).
- Risk of management override of controls.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the statutory financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the statutory financial statements as a whole as follows:

Overall group materiality
€7.7 million (2015: €9.8 million).

How we determined it
1% of the average of total assets as at 1 January 2016 and as at 31 December 2016.

Rationale for benchmark applied
We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the statutory financial statements. The Company's current strategy is primarily focused on the repayment of the debentures and thus on generating cash by selling some of its assets, whilst continuing to focus also on further improving the results of the subsidiaries and therefore, their value. On this basis, we believe that the average of total assets as at 1 January 2016 and as at 31 December 2016 is an important metric for the financial performance of the Company.

Component materiality
To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €4.0 million and €5.2 million. Certain components were audited with a local statutory

audit materiality that was also less than our overall group materiality.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the audit committee that we would report to them misstatements identified during our audit above €386,000 (2015: €515,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Kardan N.V. is the parent company of a group of entities. The financial information of this Group is included in the consolidated financial statements of Kardan N.V.

At Group level, we have audited centrally those aspects, which are managed by Kardan N.V., the application of the going concern assumption, the sale of TBIF Financial Services B.V. and the debentures. In addition to these items, we have focused on the two significant components of Kardan N.V., being GTC Real Estate Holding B.V., of which Kardan Land China Ltd. is the main subsidiary, and Tahal Group International B.V. of which Tahal Consulting Engineers Ltd. is the main subsidiary. In 2016, the Company sold TBIF Financial Services B.V., following this sale the total number of components decreased from three to two components.

These two components were subject to audits of their complete financial information, as those components are individually significant to the Group. The joint venture operation in the Ukraine, a short-term car rental operation, has been subject to specific risk-focused audit procedures performed by the Group audit team as part of incorporating unpredictability into our procedures, in addition to the local statutory audit, performed by the respective component auditor.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	99.8%
Total assets	99.0%

None of the remaining components represented individually more than 1% of total Group revenue or total Group assets. For those remaining components, we performed, amongst others, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

For the operating entities of the components Kardan Land China Ltd. and Tahal Consulting Engineers Ltd., we used component auditors who are familiar with the local laws and regulations to perform the audit work. The joint venture operation in the Ukraine has been subject to a local statutory audit, performed by a component auditor.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.
In this respect, we performed amongst others, the following procedures:

1. we have issued detailed audit instructions to the component auditors prescribing the scope of work to be performed, our risk assessment, the key audit areas, materiality to be applied and the reporting requirements to the Group engagement team;
2. the reports of the component auditors were assessed by the Group engagement team and observations were discussed with the component auditors and with Group management; and
3. the Group engagement team has met the component teams and management of local operations and performed file reviews. In the current year the Group audit team visited China (Kardan Land China Ltd.) given the importance of

the judgements involved in the valuation of the investment property (refer to key audit matters section). With respect to Tahal, we have met local management in Amsterdam and we have reviewed the audit files of the component auditor in Amsterdam, given the importance of revenue recognition of water infrastructure projects (refer to key audit matters section). We have also visited the Ukraine, where a short-term car rental operation is run (part of Kardan Financial Services B.V.). Although the operations in the Ukraine are not material for Kardan N.V., we have visited this location as part of our unpredictability procedures.

We furthermore have performed review engagements on the condensed consolidated interim financial information for the quarterly reporting for the periods ended 31 March 2016, 30 June 2016 and 30 September 2016 and issued unqualified review reports dated 25 May 2016, 24 August 2016 and 23 November 2016.

By performing the procedures above at components, combined with additional procedures at Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the statutory financial statements. We have communicated the key audit matters to the board of directors and the audit committee, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the statutory financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the statutory financial statements. Any comments we make on the results of our procedures should be read in this context.

In addition to the matter described in the section 'Material uncertainty related to going concern', we have determined the matters described below to be the key audit matters to be communicated in our report.

Due to the nature of the company's business, we recognise that key audit matters, which we reported in our independent auditor's report on the financial statements 2015, may be long-standing and therefore, may not change significantly year over year. As compared to prior year, there have been some changes in our key audit matters. Following the sale of TBIF Financial Services B.V., the key audit matter relating to valuation of loans to bank customers, as included in our 2015 independent auditor's report is no longer relevant. The key audit matter related to going concern is now an emphasis of matter 'Material uncertainty related to going concern'.

Key audit matter	*How our audit addressed the matter*
Valuation of investment property **Note 3 and Note 7 in the statutory financial statements** The investment property of the Company's subsidiary Kardan Land China Ltd., represents a significant part of the total assets (36%) of the Group and is valuated at fair value for an amount of € 240 million at year-end 2016. Management is determining the fair value of its investment property on a quarterly basis and has used an external appraisal to support the valuation as at 30 June 2016 and as at 31 December 2016. The valuation of the investment property at fair value is highly dependent on estimates and assumptions, such as estimated rental value per square meter, discount rates, rental growth rates, terminal cap rate, occupancy rates, market knowledge and historical transactions. The disclosures relating to the assumptions are relevant, given the estimation uncertainty and sensitivity of the valuations. Given the size, complexity and estimation uncertainty of the valuation of investment property and the importance of the disclosures relating to the assumptions used in the valuation, we addressed this as a key audit matter.	We have challenged the assumptions and estimates made by management and the external appraiser in the valuation methodology about the appropriateness of the property related data supporting the (movements in) fair value of the investment properties. In this process, we were supported by PwC real estate specialists. Amongst other, we have determined an acceptable bandwidth based on market data with respect to the key assumptions and we have assessed the objectivity, independence and expertise of the external appraisers.

Key audit matter	How our audit addressed the matter
Revenue recognition of water infrastructure projects (contract revenues) **Note 3 and Note 27 in the statutory financial statements** The revenue recognition of water infrastructure projects at the Company's subsidiary Tahal represents a significant part of total revenue in 2016 of the Group (91%) amounting to €129 million and is affected by subjective elements including estimated percentage of completion. We have therefore identified revenue recognition, in specific the percentage of completion, as a key audit matter.	We have tested internal controls with respect to revenue recognition of water infrastructure projects, which include among others, budget controls, progress-monitoring controls of the projects and controls with respect to determining the completion stage of projects. We have performed detailed substantive procedures on the three largest projects and evaluated management assumptions in the determination of the percentage of completion of a project and hence the amount of recognised revenue. We have reconciled invoices sent to clients and confirmations received from clients with respect to the progress of projects.
Risk of management override of controls The Company operates in multiple jurisdictions and is, due to its geographical footprint and decentralised structure, subject to the risk of (local) management override of controls and fraud. Ethical and compliance requirements are impacting the control environment, tone at the top, culture and behaviour of the Group's management and employees. In order to address this risk, the Company has established a comprehensive governance structure as detailed in the corporate governance section of the annual report and has defined a compliance risk appetite to manage compliance risks divided into counterparty conduct, employee conduct, services conduct and organisational conduct. In view of the considerations outlined above, we addressed the risk of management override of controls as a key audit matter.	In our audit, we performed procedures, which allow us to rely, to the extent possible, on management's governance structure. We performed audit procedures designed to identify the risk of management override of controls. These procedures included, amongst others, an assessment of the 'tone-at-the-top' and the compliance with Kardan's policies, laws and regulations. We have applied professional scepticism and assessed key internal controls and the follow up on whistle blower allegations and integrity incidents, business ethics, revenue recognition principles, cost cut off procedures and year-end estimates of accruals. We tested a selection of manual journal entries and we included unpredictability as part of our audit. We made specific enquiries at different levels in the organisation on fraud risk.

Report on the other information included in the annual report

In addition to the statutory financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the directors' board report, consisting of the Financial Review 2016, Real Estate Division, Water Infrastructure Division, Personnel and Organization, Risk Management, Corporate and Social Responsibility, Governance and Compliance, the Remuneration Report and the Declaration by the board;
- other information, consisting of: Profile, Key figures, Kardan Group's Business Strategy, foreword of the Chairman, Letter of the Chief Executive Officer, Shareholder Information, Glossary and the Organizational Chart.
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the statutory financial statements and does not contain material misstatements;
- contains all information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the statutory financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the statutory financial statements.

The board of directors is responsible for the preparation of the other information, including the directors' report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Kardan N.V. by the shareholders at the annual meeting held on 28 May 2015 and the appointment has been renewed in 2016 by shareholders representing a total period of uninterrupted engagement appointment of two years.

Responsibilities for the statutory financial statements and the audit

Responsibilities of the board of directors for the statutory financial statements

The board of directors is responsible for:

- the preparation and fair presentation of the statutory financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the board of directors determines is necessary to enable the preparation of the statutory financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the statutory financial statements, the board of directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board of directors should prepare the statutory financial statements using the going-concern basis of accounting unless the board of directors intends either to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The board of directors should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the statutory financial statements.

The board of directors is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the statutory financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the statutory financial statements are free from material misstatement. Reasonable assurance is a high, but not absolute, level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the statutory financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 12 April 2017

PricewaterhouseCoopers Accountants N.V.

Original has been signed by drs. E. Hartkamp RA

Appendix to our auditor's report on the statutory financial statements 2016 of Kardan N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the statutory financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the statutory financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the statutory financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the statutory financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Concluding on the appropriateness of the board of directors' use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the statutory financial statements or, if such disclosures are inadequate, to modify our opinion.
  Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the statutory financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the statutory financial statements, including the disclosures, and evaluating whether the statutory financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the Company's statutory financial statements we are responsible for the direction, supervision and performance of the Group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the statutory financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of Group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected Group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the board of directors and the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the board of directors and the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors and the audit committee, we determine those matters that were of most significance in the audit of the statutory financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Glossary

AFM
The Dutch Authority for the Financial Markets

Articles
The articles of association of Kardan N.V.

Barnea
A report describing Kardan's business operations published in Israel together with the annual financial statements

Board
The board of directors of Kardan N.V. has a one tier structure comprising both executive and non-executive members

Code
Dutch Corporate Governance Code adopted on December 9, 2003, as amended per January 1, 2009

Company
Kardan N.V.

CPI
The Israeli consumer price index

Debentures
Debentures Series A and Series B issued by Kardan N.V., listed on the Tel Aviv Stock Exchange

Debt Settlement
The agreement with the Debenture Holders regarding debt restructuring.
Reference is made to Note 22 of the Financial Statements

Deeds of Trust
The amended deeds of trust dated July 2, 2015 replace the original deeds of trust as signed at the time of the issuance of Kardan's Debentures Series A and Series B and reflect the agreed upon principles of the Debt Settlement. For details regarding the Debt Settlement, reference is made to note 22 of the financial statements

EUR
The official common currency of 19 European Union nations

Executive Management
The CEO (who is also the executive Board Member) together with the CFO

GDP
Gross Domestic Product

GTC RE
GTC Real Estate Holding B.V., a wholly owned subsidiary of Kardan N.V.

IAS
International Accounting Standard

IFRS
International Financial Reporting Standards. Kardan N.V. reports its financial results according to these standards

ISA
Israeli Securities Authority

Kardan Group
Kardan and all its group companies as defined in article 2:24b of the Dutch Civil Code

Kardan
Kardan N.V.

KFS
Kardan Financial Services B.V., a wholly owned subsidiary holding company of Kardan (and formerly 100% owner of TBIF), active in the financial services sector

KLC
Kardan Land China Ltd., the wholly owned subsidiary of GTC RE, active in real estate in China

KWIG
Kardan Water International Group Ltd., a water assets company active in China, used to be a wholly owned subsidiary of Tahal Assets Group B.V.

NIS
The Israeli currency, New Israeli Shekel

RAS Committee
The Remuneration, Appointment and Selection committee of the Board of Kardan

RMB
The Chinese currency, the Renminbi

TBIF
TBIF Financial Services B.V., the holding company of the former banking and retail lending segment

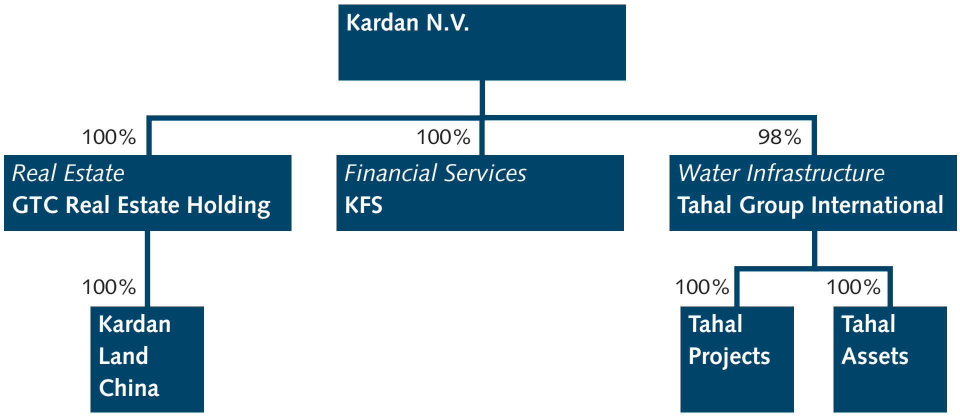
TGI
Tahal Group International B.V., a 98% subsidiary of Kardan N.V., is a leading global provider of sustainable infrastructure development projects in developing countries worldwide, focusing on integrated project execution in the water,

wastewater, agriculture, solid waste and natural gas segments. TGI is also referred to as 'Tahal Group' or 'Tahal'

Tier 1, 2 and 3

In respect of China: The four most developed cities in China (Beijing, Shanghai, Gungzhou and Shenzhen) are refered to as Tier 1 cities.
The Tier 2 and Tier 3 cities are less developed than Tier 1 cities but are considered to be the fast growing cities in China which are most impacted by urbanization

Organization Chart Kardan N.V. (April 2017)



The Annual Report 2016 is produced by the
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