Annual Report

2018

REAL ESTATE

WATER INFRASTRUCTURE

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.

After divesting its real estate and financial services activities in Central-Eastern Europe in 2013 and 2016, respectively, Kardan is now active in real estate in China through Kardan Land China, focusing 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 subway line.

The water infrastructure 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. In 2017 Kardan announced its intention to divest Tahal.

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	2018 **	2017 *	2016 *	2015 *	2014 *
Net profit (loss) from:					
Real estate	(17.4)	(14.6)	(15.2)	8.9	24.6
Water Infrastructure (discontinued operations)	0.1	13.1	0.9	21.5	(1.5)
Banking and Retail lending					
(discontinued operations)	–	–	21.6	16.2	7.6
Other (AVIS Ukraine)	(2.4)	1.7	1.4	(2.9)	–
Holding (Corporate G&A and finance)	(17.1)	(17.3)	(40.0)	(66.6)	(25.6)
Total net profit (loss)	(36.8)	(17.1)	(31.3)	(22.9)	5.1
Total equity	(53.8)	(0.8)	41.2	75.9	97.8
Equity attributable to the equity holders	(59.5)	(4.4)	37.3	71.4	92.4
Total stand-alone assets	351.2	380.0	409.7	574.3	459.0
Number of employees (as at year-end)	1,517	1,118	1,055	2,317	2,554

* Originally published figures; not adjusted to present discontinued operations of previous years
** Revenues include revenues of the water infrastructure segment which are presented as discontinued operations

€ per share *	2018	2017	2016	2015	2014
Basic and diluted earnings (loss)	(0.27)	(0.15)	(0.26)	(0.20)	0.05
Total equity	(0.44)	0.00	0.33	0.62	0.88
Equity attributable to the equity holders	(0.48)	0.00	0.30	0.58	0.83
Number of shares					
As at December 31	123,022,256	123,022,256	123,022,256	123,022,256	111,848,583
Weighted average for the year	123,022,256	123,022,256	123,022,256	116,428,981	110,753,633**

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

Key figures

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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 repay its debts, grow, execute its business model, and generate future financial returns (ii) from concentration of its business in Central Eastern Europe, Africa, India and 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

The business strategy of Kardan focuses on business opportunities arising in emerging markets, developing and managing assets and projects, currently focusing on 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. In real estate, Kardan is active in China, through its subsidiary Kardan Land China (KLC). Its activities in the water infrastructure sector are primarily in Asia, Africa and Central and Eastern Europe, through its subsidiary Tahal Group International.

Kardan's real estate activities comprise its existing projects, and currently the main focus is on increasing the income and value of its largest asset, Galleria Dalian, the shopping mall of its large Europark Dalian project and the development and marketing of the residential of the residential part of the Europark Dalian project.

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 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 support promotion management and online purchases. KLC considers Europark Dalian to be an important driver to increase the population and liveliness in the area, which is crucial for the residential part of the project. In addition, KLC continues to sell and develop residential apartments – together with its joint venture partner – in existing projects.

Kardan's activities in the water infrastructure sector, through its subsidiary Tahal Group International (Tahal), stem from the belief that emerging markets have an incremental need for adequate water infrastructure. 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 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 and offers this service to its clients.

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

In 2007 and 2008, at a time of significant growth, Kardan issued two debentures in Israel, initially to be redeemed between 2013 and 2020. In 2015 Kardan agreed a debt settlement with its debenture holders, entailing a postponement of the majority of the principal payments. In 2017, in order to generate cash to meet the payments in February 2018, the Company initiated the sale process of Tahal. At the beginning of 2018 it became apparent that Kardan would not be able to complete a sale transaction in a manner that would enable it to meet the repayment obligations in February 2018, so the Company engaged with the debenture holders with the aim to reach a new debt settlement. Kardan's current strategy is therefore primarily focused on the repayment of the debentures through generating cash by selling assets, whilst continuing to also focus on further improving the results of the subsidiaries and therefore their value.

Kardan Group's Business Strategy

Progress 2018

The February 2018 scheduled payment of principal and interest to the Company's debenture holders (series A and B) were not repaid up to and including today. Kardan started in 2018 negotiations with its debenture holders to reach a settlement.
The negotiations entail changes to the terms of the debentures series A and series B.

In October 2018, the Company has published the main principles of a debt settlement as negotiated and agreed with debenture holders series B. At present, the negotiations with the trustee to debenture holders series B is continuing, and management was informed that the discussions between debenture holders series A and series B are in an advanced stage to reach a final agreement between all parties. Management hopes the settlement will be finalized in 2019.

In parallel the Company is working hard on the sale process of Tahal, including considering alternatives.
In line with the Company's strategy to divest assets in a manner that will allow the Company to maximize value and proceeds and to mitigate the negative equity position, in March 2019, Kardan concluded the sale of Avis Ukraine.

Foreword of the Chairman

Kardan has, once again, faced a most challenging and disappointing year. Although the Company has made good progress in several aspects of its operating businesses, 2018 was a year dominated by efforts to reach a new debt settlement agreement and to divest assets to meet our repayment obligations. Results were particularly impacted also by adverse developments beyond the control of management. The following reports contain full details of all of our business segments and the results for the year.

As of the date of this report, negotiations with our debenture holders, which are taking far longer than we had hoped, are still ongoing. The complex process of reaching agreement on a revised debt settlement requiring that the Board respect the views of the holders of two series of debentures, operating from different perspectives, while being mindful of the interests of all Kardan stakeholders, has further delayed a final agreement.

The Board's most important task remains to reach an agreement as soon as possible that will allow the Company to move forward with its business activities. I would like to stress that the Executive team has received the full support and engagement of the non-executive Board members throughout this process. We realise that this situation has provided our stakeholders with uncertainty for longer than anticipated and we will continue to be as transparent as possible on developments throughout the process, as we have been since it commenced. In light of the progress we have made to date in the negotiations with our debenture holders, I remain confident that agreement will be reached between the parties involved in the near future.

Throughout the negotiations we remain conscious of the interests of all stakeholders and are committed to meeting our obligations. In doing so, after successfully divesting our stake in Avis Ukraine in early 2019, we are continuing with our efforts to divest our water infrastructure business, Tahal, in order to release capital to meet a significant part of our repayment obligations to our debenture holders.

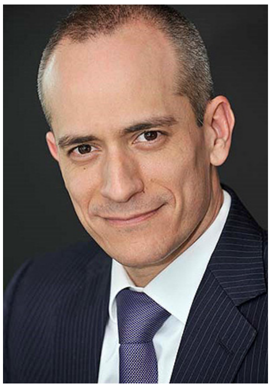
I would like to take this opportunity to thank all our employees around the world for their endeavours this past year. The leadership and dedication of the members of our Executive Management teams has ensured that the Company continues to head in the right direction. Leaning also on the professionalism and commitment of our employees, we have not allowed ourselves to be distracted in these difficult times and have continued to focus operations on our two core activities. This has further advanced the positive prospects of our activities despite the very severe impact on our results and financial position of interest on our borrowings and adverse currency movements.

As previously reported, in 2018 there were a number of changes to the Board. Mr. Ferry Houterman was appointed as a non-executive member at the AGM on 30 May 2018, while Mr. Bouke Marsman resigned from the Board of Directors with effect from 1 January 2018 to accept a position that did not allow for any ancillary positions. Furthermore, Mr. Max Groen resigned with effect from 1 February 2018 due to personal reasons, and in March 2018 Mr. Avner Schnur agreed to the Board's request to step down in order to balance the number of independent non-executive Board members. I would like to thank all former Board members for their contribution to the Company.

Last but by no means least I would like to express my gratitude to all our stakeholders for their ongoing trust and understanding as we continue to serve them to the best of our abilities.

Peter Sheldon,
Chairman of the Board

Letter of the Chief Executive Officer



In 2018, we continued doing our utmost to monetise assets and to arrive at a new debt settlement with our debenture holders, while further advancing our operating activities.

The negotiations with the debenture holders on reaching a new debt settlement, which commenced in early 2018, are still ongoing. Discussions are constructive and progressing, but are taking longer than expected. We continue to be fully committed to coming to an agreement to allow the company to move forward and repay its debt in the interest of all stakeholders. Management is in advanced negotiations with debenture holders series B on postponing the payments and agreed on the main principles of a new debt settlement. To the best of the Company's knowledge, discussions between series A and series B are in an advanced stage and most issues have been agreed upon. Looking at the current progress, we hope the settlement will be finalised in 2019.

As part of our efforts to monetise assets to meet our repayment obligations, we were able to sell our stake in AVIS Ukraine in the first quarter of 2019. Furthermore, we are working hard to advance negotiations for the intended sale of Tahal, and preparing alternatives in case such sale will be delayed.

From an operational review, our Real Estate activities in China showed progress in selling residential units in the Europark Dalian project. However, due to the construction cycle, a lower number of apartments were delivered compared to 2017, which impacted the operational results. Furthermore, all metrics at our shopping mall Galleria Dalian are gradually improving, reflected by an increasing trend in occupancy rate, footfall and rental income. The continuing high interest payment on the Dalian loan continue to burden the results of our real estate operations.

In our water infrastructure activities, through our subsidiary Tahal, several large projects have commenced in 2018, and it further expanded its backlog with new multi-year projects in existing and new markets. Tahal's regional divisions were further strengthened and are running multi-projects operations with adequate local capabilities and full support from its headquarters. However, delays in some projects resulted in less than expected operational results for Tahal.

Given our financial position, the future remains challenging for Kardan. As of the date of the financial statements, Kardan has negative equity, impacted by adverse foreign currency movements, and the obligation to repay a substantial debt to the debenture holders. We clearly remain fully committed to serve our obligations and will continue to do the utmost to divest assets in a manner that will allow us to maximize value and proceeds.

I wish to thank my colleagues for their hard work and unwavering commitment and dedication.

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, 2018 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, 2018.

DECEMBER 31, 2018
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)	21,119,927	17.17%
A. Schnur (2)(4)	17,802,629	14.47%
E. Rechter (3)(4)	1,862,455	1.51%
Kardan Israel Ltd. (5)	12,300,330	10.00%

(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. In January 2019 an Israeli court approved the debt settlement with his creditors.
(2) The shares are held through Raitalon Ltd., a company wholly-owned by Mr. Schnur, and directly by Mr. Schnur.
(3) The shares are held through Alotera Ltd., a company owned by Mr. Rechter and Mrs. Rechter, and directly by Mr. Rechter.
(4) Messrs. Grunfeld, Schnur and Rechter have a voting agreement which represents approximately 33% of the votes.
(5) Messrs. Grunfeld, Schnur and Rechter are (alone or together with others) the controlling shareholders in Kardan Israel Ltd.

1 Under Israeli Securities' Law, shareholders are required to disclose their shareholdings to TASE as of holdings of 5% or more.

The Kardan share in 2018

	Euronext (EUR)	Tel Aviv (NIS)*
Highest share price	0.209	85.90
Lowest share price	0.071	29.20
Year-end	0.074	31.60

* 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. The Company reported a net loss of € 36.8 million over 2018. The Company has committed towards its debenture holders not to distribute dividends until at least 75% of the debt has been repaid. Given the reported net loss and the Company's financial liabilities and commitments towards its debenture holders, the Board does not propose a distribution of dividend over 2018.

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.
De Cuserstraat 85B
1081 CN Amsterdam
The Netherlands
Telephone +31 (0) 20 305 0010

Other publications and information: www.kardan.nl

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Consolidated income statement Kardan N.V.

The 2018 consolidated income statement is shown in the table below in a condensed form.

€ in million	2018	2017
Total revenues	79.4	15.0
Total expenses	85.1	28.0
Loss from operations before fair value adjustments, disposal of assets and financial expenses	(5.7)	(13.0)
Gain (loss) from fair value adjustments and disposal of assets and investments, net	(7.2)	(3.3)
Result from operations before finance expenses	**(12.9)**	**(16.3)**
Financing income (expenses), net	(23.7)	(27.5)
Equity earnings, net	1.5	18.9
Profit (loss) before income tax	(35.1)	(24.9)
Income tax (expenses)/benefit	0.6	(5.2)
Profit (loss) from continuing operations	**(34.5)**	**(30.1)**
Profit from discontinued operations	(0.3)	12.7
Profit (Loss) for the period	(34.8)	(17.4)
Attributable to:		
Non-controlling interests	2.0	(0.3)
Net result for equity holders	**(36.8)**	**(17.1)**
	(34.8)	(17.4)
Other Comprehensive loss	(12.8)	(24.6)
Total Comprehensive loss attributable to Kardan equity holders	**(49.6)**	**(41.7)**

Summary of net profit (loss) by activity

Net profit (loss) € in million	2018	2017
Real Estate (development and investment property)	(17.4)	(14.6)
Water Infrastructure (discontinued operations)	0.1	13.1
Other (Avis - discontinued operations)	(2.4)	1.7
Total Operations	**(19.7)**	**0.2**
Holding (Corporate G&A and Finance)	(17.1)	(17.3)
Total	**(36.8)**	**(17.1)**

Results analysis

Kardan recognized a consolidated net loss attributable to equity holders of € 36.8 million in 2018 compared to a net loss of € 17.1 million in 2017.

The 2018 result includes a loss from fair value adjustment of investment property (Galleria Dalian) in the amount of € 8.6 million (in 2017 € 4.1 million), a € 2.3 million gain from liquidation of joint venture companies (in Real Estate) and a loss of € 4.8 million as a result of impairments of the value of investments in joint ventures which are to be sold.

The financing expenses in 2018 include a positive impact of foreign currency exchange differences, due to the devaluation of the EUR versus the NIS and the impact of the Israeli CPI on the Company's debentures of € 6.7 million (in 2017: positive impact of € 7.2 million).

Revenues of the Real Estate activities increased to € 73.5 million in 2018 (in 2017: € 9.2 million) following the delivery of building B in the Europark Dalian project, which was sold en-bloc. The rental revenues of Galleria Dalian remained stable in 2018 compared to 2017 over a lower cost base. It should be noted that in 2018 revenues included several one-off impairments and discounts relating to specific tenants.

Equity earnings from joint venture residential projects decreased in 2018 compared to 2017 as a result of lower delivery of residential units and amounted to € 1.5 million (€ 16.4 million in 2017). The Real Estate activities booked a net loss to equity holders of € 16.3 million (2017: net loss of € 14.6 million), mainly due to high interest expenses and a fair value adjustment of € 8.6 million (2017: € 4.1 million).

Revenue of our water infrastructure activities decreased slightly in 2018 to € 175.4 million compared to € 176.4 million in 2017. The gross profit increased compared to 2017 following increased profitability of several projects. The higher gross profit was partly offset by higher SG&A expenses that included a relatively higher provision for doubtful debts and one-off expenses. Equity losses were higher due to fair value impairment related to the sale of a joint venture. This resulted in a total profit of € 0.1 million attributable to equity holders compared to € 13.1 million in 2017 (including a net gain of € 7.1 million on the sale of Star Pumped Storage).

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 expense to Kardan N.V.'s shareholders amounted to € 49.6 million in 2018 compared to a comprehensive expense of € 41.7 million in 2017. The other comprehensive expense was mainly a result of changes in foreign exchange rates.

Financial position

Equity

Kardan N.V. (company only, € in million)	December 31, 2018	December 31, 2017
Total Assets	351.2	380.0
Total Equity	(59.5)	(4.4)
Equity/Total assets (%)	(16.9%)	(1.2%)

The shareholders' equity of Kardan N.V. decreased from € 4.4 million negative as of December 31, 2017 to a deficit of € 59.5 million as of December 31, 2018, due to the loss in the period and the first implementation of two new accounting standards (IFRS 9 and IFRS 15 –see also note 4 to the consolidated IFRS financial statements) which was reflected in a retrospective adjustment of € 6.6 million, net to the opening balance of shareholders' equity. Equity was also heavily affected by a foreign exchange impact of € 12.1 million negative, mainly due to the erosion of the Angolan currency against the EUR with respect to Tahal's investment in a subsidiary in Angola, and by the devaluation of the RMB against the EUR with respect to Investment property in China.

Negotiations with debenture holders

On January 11, 2018 the Company announced it would not be able to complete a transaction for the sale of its holdings in TGI in a manner that would enable the Company to meet the scheduled payments to the debenture holders in February 2018. Further to this announcement, the Company has not repaid the principal and interest payments which were due in February 2018. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, from March 31, 2018 and until the repayments are rescheduled, the debentures are presented as current liabilities. Management is in advanced negotiations with debenture holders series B on postponing the payments and agreed on the main principles of a new debt settlement. To the best of the Company's knowledge, discussions between series A and series B are in an advanced stage and most issues have been agreed upon. Under these circumstances, Management hopes that the final agreement will be approved in 2019.

Covenants

The Company did not meet the debt coverage ratio financial covenant as defined in the Deeds of Trust for the fifth consecutive quarter. In addition, as at

December 31, 2018, the Company's subsidiaries met their financial covenants, with the exception of one subsidiary which did not meet certain financial covenant attributed to a short-term bank credit line, for which a waiver was obtained, subsequent to the balance sheet date.

For additional information regarding covenants see note 24 to the consolidated IFRS financial statements.

Cash flow forecast [1]

The Company provides a cash flow forecast for a period of two years as of January 1, 2019.

In view of the fact that the date for making the payments to debenture holders that were scheduled for February 2018 passed without the Company having repaid these payments, that, as the date of this report, the Company reached agreements with the trustee of debenture holders series B regarding the principles of a new debt settlement with the debenture holders and that the Company is preparing to implement these principles, the cash flow forecast was prepared under the assumption that the terms of the debentures will be adjusted according to the New Debt Settlement Principles. Accordingly, the following cash flow forecast includes, inter alia, the interest payments to the debenture holders that were fixed for February 2018 (which have not yet been paid), the balance payments to debenture holders Series B as well as the early repayment of the debt to the debenture holders (pro-rata to Series A and B), according to the New Debt Settlement Principles.

It should be noted that to the best of the Company's knowledge, to date, the negotiations between the trustees of the debenture holders series A and B regarding the order of the repayments of debt between the two series are ongoing and that the Company is conducting negotiations with the debenture holders regarding the terms of the amended debt settlement. Accordingly, it is possible that the final agreement approved by the assemblies of the debenture holders will be different than the New Debt Settlement Principles according to which the cash-flow forecast was prepared. Such change would impact the sources detailed in the cash flow forecast, and the amounts paid to the debenture holders.

Therefore, the Company emphasizes that the assumptions used by the Company in deriving the cash flow forecast should be read carefully.

1 The cash flow forecast contains forward looking information. Please refer to the disclaimer on page 6.

Cash flow Forecast € in millions	January 1, 2019 - December 31, 2019	January 1, 2020 – December 31, 2020
Cash and cash equivalents at the beginning of the period	**20.7**	**2.8**
From operating activities		
General and administrative expenses	(3.4)	(3.1)
From investing activities		
Sale of shares and holdings in subsidiaries and joint ventures (2) - (3)	110.4	–
Dividend distribution (4)	8.0	7.5
Release of deposit (5)	4.0	–
Loan repayment (6)	1.1	1.1
Total Resources	**140.8**	**8.3**
From financing activities (7) - (10)		
Principal and interest payment of debentures – Series A	(5.8)	–
Principal and interest payment of debentures – Series B	(132.2)	–
Total Uses	**(138.0)**	**–**
Cash and cash equivalents at the end of the period	**2.8**	**8.3**

Main Assumptions to the Cash Flow Forecast

1. The cash flow forecast has been jointly prepared for Kardan NV (company-only) and its wholly owned subsidiaries GTC Real Estate Holding BV, Kardan Financial Services BV, and Emerging Investments XII BV, as the treasury of these companies is centralized. With respect to limitations regarding the transfer of funds between the companies, see note 12 of the annual accounts.
2. The cash flows from investing activities in 2019-2020 refer to considerations from the sale of TGI and Avis Ukraine, taking into account the assumptions, comments and reservations detailed below:
   a. As of the date of this report, the Company is conducting discussions with several parties regarding the possible sale or allocation of its holdings in TGI, in order to meet its obligations according to the New Debt Settlement Principles being formulated with the debenture holders (Series A and B). When preparing this cash flow forecast, it was assumed that all the amounts that will be received on the date of completing a transaction (during 2019) will be used by the Company to repay the debenture holders. However, as stated above, this is only an assumption, and there is no certainty that this assumption will actually materialize.
   b. The cash flow forecast was prepared under the assumption that the proceeds from the sale of TGI will be according to the considerations previously negotiated with third parties that did not materialize. It is emphasized that as of the date of this report, the Company is not conducting advanced negotiations with any party regarding the sale of TGI. Accordingly, the Company does not have accurate information regarding the net consideration which would be received from exercising its holdings in TGI and which would be used for repayments to the

debenture holders, and accordingly, there is no certainty that sale agreements will be signed, that the expected consideration will equal the consideration included in the cash flow forecast, and there is no certainty as to the date on which the consideration would be received by the Company.

c. It should also be noted that the Company is considering alternatives in the event that such sale is delayed. Due to the lack of certainty regarding the completion of the negotiations for the sale of TGI, including completion of a sale transaction in the timetables agreed upon with the representatives of the debenture holders, the option to include a provision in the debt settlement with the debenture holders to distribute TGI shares to the debenture holders as repayment of the Company's debt is being considered. Due to the fact that the terms of such distribution of TGI shares to the debenture holders and/or the distribution date have not yet been agreed, the cash flow forecast is prepared under the assumption that the distribution of TGI shares (if carried out) will be at a value reflecting the sale price of TGI shares to a third party, and therefore materializing TGI in such a manner will not affect the cash flow forecast. As mentioned above, as of the date of this report, the terms of the distribution of TGI shares to the debenture holders, the number of distributed shares, the distribution date etc. have not yet been agreed, and therefore, the distribution terms may be different. It should be emphasized that any change in the terms of the distribution in TGI shares will affect the cash flow forecast.

d. The cash flow forecast is taking into consideration that the proceeds from the sale of Avis Ukraine will equal the selling price as specified in the agreement signed in January 2019 (US$14.2 million) and completed on March 14, 2019.

e. It is noted that as of the date of this report, the Company is not conducting negotiations regarding the sale of its holdings in KLC (or in any of KLC's subsidiaries). The cash flow forecast therefore does not assume the receipt of proceeds from such transaction.

3. Generally, uncertainty is inherent in a forecast of sales of assets, mainly due to dependence on third parties, inter alia, due to: the need to find potential buyers and to reach agreements with them regarding the terms of the transaction, the need to receive relevant approvals, the Company's need to obtain the approval of the debenture holders to the transactions, and the need of potential buyers to reach agreements with financing parties in order to obtain funding for such acquisitions. The forecast readers must take these facts into account when assessing the Company's probability of meeting the cash flow forecast.
4. The 'Dividend distributions' line assumes the receipt of dividends from KLC, which will be received in KLC from Lucky Hope companies over several years. It is noted that as of the date of this report, no decision regarding distribution of dividends has been made in Lucky Hope companies and accordingly, such decision has not been made by KLC. Nevertheless, the assumption of the receipt of such dividends is in line with Lucky Hope companies' policy and the Company is not aware of any restrictions that may raise reasonable doubt regarding the distribution of such dividends. In addition, the Company is not aware of any restrictions on distributing the dividends detailed in the cash flow forecast by KLC.
5. The 'Release of deposit' line refers to the release of the remaining deposit of € 4 million, which, as of December 31, 2018, was pledged to secure various representations in respect of the sale of the subsidiary TBIF in 2016. As of the date of this report, the pledge was removed.
6. Within the framework of the sale agreement of AVIS Ukraine, it was determined that loans provided by KFS to AVIS Ukraine will continue to stand in force and be repaid according to the loan

agreement, and that AVIS Ukraine will provide collateral to secure repayment of these loans. As of the date of this report, the balance of the loans amounts to € 2.3 million and the loans are repaid in quarterly installments until December 2020.

7. As detailed in the press release issued by the Company on November 23, 2017, the Company approached the trustees of the debenture holders requesting them to conduct negotiations in relation to rescheduling the payments to the debenture holders (series A and B), due to reasonable possibility of delays in the sale process of TGI which may prevent the Company from meeting the coming payment due in February 2018. On January 11, 2018, the Company announced it was unable to complete the sale transaction of its holdings in TGI in a manner that will allow it to meet the payments to the debenture holders set for February 2018. On January 31, 2018, the Company issued an announcement clarifying and emphasizing that the Company will not be able to execute the payments to the debenture holders scheduled for February 2018 on time. In addition, according to the Company's announcements, as at the date of this report the Company has not yet repaid the payments to the debenture holders scheduled for February 2018 and February 2019.
8. As noted above, the cash flow forecast was prepared assuming that the settlement that will be approved by the assemblies of the debenture holders will be according to the new debt settlement principles (as defined above) and accordingly the cash flow forecast includes in the year 2019 the interest payments to debentures series B that were scheduled for February 2018 and were not yet repaid. The remaining outstanding payments are presented in the forecast based on the understandings with the trustees of the debenture holders Series B, according to which the balance payments to the debenture holders series B will be paid after the said interest payment, and thereafter the Company will repay the debt of each series according to the relative share of each series in the total debt. It should be noted that to the best of the Company's knowledge the terms of the interest payments and balance payments are being reviewed by the trustees of the debenture holders series A and B and may change. It is further noted, as mentioned above, that as of the date of this report, the Company does not have the resources to make payments to the debenture holders in 2019 and 2020.
9. It is also noted that due to the fact that the cash flow forecast is assuming that the deeds of trust will be amended according to the new debt settlement principles, according to which the debenture principal repayments (series A and B) will be delayed to December 2021, while the Company will be obligated to make early repayments from its available funds, the cash flow forecast assumes that the Company will make early repayments to the debenture holders out of the funds that will be made available to it from the sale of assets, dividends received and loan repayments. Accordingly, any change in the amounts that will be received in practice, will affect the amounts repaid to the debenture holders (series A and B). In light of the fact that the cash flow forecast assumes that the repayments to the debenture holders will be carried out of available funds, it does not include a split between the repayment of interest and principal to the debenture holders.
10. The cash flow forecast includes accrued interest up to the original payment date, in respect of payments that were scheduled for February 2018 and does not include interest for the subsequent period or interest in arrears resulting from failure to meet the repayment dates set out in the Deeds of Trust and deferment of payments to the debenture holders, in light of the fact that as of the date of this report, the Company is unable to estimate the dates of repayments to the debenture holders, and therefore the Company has no information regarding the date of actual payment to the debenture holders and is unable to calculate the final interest, if paid. Readers of the cash flow forecast should take these facts into consideration, with all that it might entail or imply.

11. The interest calculations are based on the Israeli CPI, exchange rates and interest rates which are applicable as of December 31, 2018, and as aforesaid, do not include interest on arrears. The principal and interest payments for the debentures are presented on the net outstanding balance, excluding the debentures held by GTC RE and Emerging Investment XII BV. A change of 5% in the Euro/NIS rate will lead to a change of approximately € 7 million, in the amount of principal and interest payment in the years 2019 and 2020.
12. Restrictions on transferring funds:
    Transfer of funds between Kardan NV, GTC RE, Emerging Investments XII, 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 31.12.18	Intercompany loan (€ million) as of 31.12.18
GTC RE	138.3	9.7
KFS	5.6	–
Emerging	65.2	–

Outlook 2019

The Company intends to continue the negotiations with the debenture holders with the aim to come to an agreement in the near future. At the same time, the Company will continue its efforts to advance a transaction for the sale of Tahal.

In addition, Kardan intends to fully focus on generating liquidity through asset transactions required to repay its outstanding debentures. In parallel, Kardan's Executive Management works on further improving the business operations of its group's companies, in order to optimise their value.

It is noted that Kardan is exposed to currency movements of the NIS and the RMB versus the Euro – as its liabilities are in NIS while its assets are predominantly in RMB and it reports in Euro – consequently, the Company's results are to a large extent dependent on these currency movements, which are out of the Company's control, and therefore the Company cannot give guidance on its results.

Real Estate Division

TOTAL ASSETS
€ 403.4 million

NUMBER OF PROJECTS
5

APARTMENTS SOLD IN 2018
842

NUMBER OF PEOPLE
141

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 23,609 apartments, since it emerged, of which 22,235 were sold, and has rights and land to develop another 2,163 apartments.

Real Estate

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KLC has a strong track record in residential projects in China. It constructed in total 23,609 apartments, since it emerged, of which 22,235 were sold, and has rights and land to develop another approximately 2,163 apartments. In addition KLC owns land in Palm Garden and 2 plots in Xi'an for further development.

Kardan N.V. is engaged in the development and management of residential and commercial real estate projects. In this context, KLC operates in four Tier 2 and Tier 3 cities throughout China.

KLC currently has five projects under ongoing development and construction, located 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 Xi'an), 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.

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

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, which was seen in a decline in growth from 10.3% in 2010 to 6.6% in 2018. Additionally, over the last 30 years, the Chinese economy has been undergoing a gradual process of change, from an economy controlled by the government to a market economy that is more open to international markets.

As of 2018, China's economy comprised 15.9% of the gross world product, and maintained a total workforce of approximately 776 million people. The trade war between China and the US, which has gained force during 2018 and may adversely affect the development of the Chinese economy. However, according to assessments, the US and China might reach consent on trade agreements, which would put an end to the tension between the two countries regarding trade matters. In addition, in order to alleviate the pressure on economic growth, China is considering a corporate benefits program, including tax reforms.

Board Report

Residential construction market in China

The real estate market in China is a highly decentralized and fragmented market, characterized by fierce competition. Although there are some very large and strong local real estate companies and there is an increasing consolidation, currently still no single 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, Xi'an, 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 during the period 2015 - 2025 – a trend that is expected to bring about an improvement in the residential real estate market.

In addition, as of March 2016, it is permitted to have two children in China, a policy that may lead to an increase in local demand. It should be noted that despite the legislative amendments, the birth rate in China has not grown compared with previous years (based on data measured in 2018).

During 2018 the prices of new-completed residential apartments in China rose by 9.7% in 70 of China's central cities (December 2018 compared with December 2017), whereas prices increased in a stable way in the first tier cities with increase rate at 2.8%, 2.2 percentage points higher than that of 2017. However, please note that such changes can vary significantly per city and hence local analyses should be made to understand the relevant pricing levels.

According to the National Bureau of Statistics of China, in 2018 real estate investment in China grew by 9.5%, as compared to the 7.0% increase in investment in 2017.

The market of shopping centers

The market of shopping centers is highly dependent on the buying power of the local population. An increase in private consumption is one of the highest priorities of the Chinese government policy, and this may have a positive impact on shopping centers. In 2018, a 9.0% increase in the retail sales of consumer goods was recorded, as well as an 8.7% increase in disposable income per capita, and an inflation of 2.2%.

Next to government initiatives to encourage domestic private consumption, the management of KLC estimates an extensive urbanization trend and rapid expansion of retail chains in China which constitute positive growth factors in the commercial real estate market in China. Simultaneously, we see an increase in competition in this field, both from local entrepreneurs and from international companies, which creates greater competition for land for development. Another challenge is the fast-growing online shopping market in China which is growing rapidly and is driving a change in consumption habits (from shopping malls to online purchases). Kardan Land China anticipates this trend by attracting tenants which provide entertainment, food, sports, children and educational services, as well as additional activities which cannot be provided online.

Operational developments Real Estate Asia

Residential projects KLC

Units sold in the period	2018	2017
*Joint Venture projects**		
Olympic Garden	295	688
Suzy	230	332
Palm Garden	13	47
City Dream	199	51
	737	1,118
100% owned		
Dalian	105	111
Total	**842**	**1,229**

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

	For the year ended December 31,	
	2018	2017
Operational Information		
Revenue Residential - JV	80.0	57.5
(in € million) *	25.0	80.0
Gross profit Residential - JV	8	25
(in € million) *		
Apartments sold in period (a)	842	1,229
Apartments delivered in period (b)	649	1,397
Total apartments sold, not yet delivered (c)	**1,896**	1,703

(a) All residential apartments, incl. Dalian (100%).
(b) In 2018 295 apartments were delivered in the Dalian project compared to 42 apartments in 2017.
(c) KLC part in the gross profit from apartments sold is € 36.1 million as of 31 December 2018.

In 2018, KLC sold 737 apartments in four JV projects in three different cities in China: Olympic Garden in Xian, Suzy in Shenyang, Palm Garden in Shenyang and City Dream in Changzhou. In addition, in the Europark Project in Dalian, the Company sold 15 SOHO units and 90 residential apartments.

The total number of units in inventory increased from 3,181 at December 31, 2017 to 3,265 as at December 31, 2018. The number of unsold units in inventory (including the inventory of joint venture projects) decreased to 1,385 as at December 31, 2018 (vs 1,478 as at December 31, 2017). The rate of unsold units for which construction was completed slightly decreased to 9% compared with 10% at 31 December, 2017.

The total order backlog value, which is yet to be recognized as revenue, was € 166 million as of December 31, 2018, compared to the total order backlog value € 178 million at December 31, 2017.

The operational trends at shopping mall Galleria Dalian are positive. The occupancy level increased from 80.7% at year-end 2017 to 90.8% as at 31 December 2018, and the opening rate from 74.6% to 79.9% as at 31 December 2018. Shopping mall Galleria Dalian integrates multiple aspects in its offering, including entertainment, food, sports and health, and fashion. In addition, Kardan Land China has entered into lease agreements with international fashion chains.

Results analysis

Kardan is active in development and management of Real Estate in China through its 100% subsidiary Kardan Land China Ltd. ('KLC'). In order to better reflect the underlying activities, the Company presents the results of the Real Estate activity as two operational segments: Real Estate – Development and Real Estate – Investment Property. The Real Estate – Investment Property segment only includes the results of operation of the Galleria Dalian shopping mall; the Real Estate – Development segment includes the results of the residential development of the Europark Dalian project as well as the results of residential real estate projects under joint control.

€ in millions	For the year ended December 31, 2018	2017
Real Estate - Development		
Sale of apartments	73.5	9.2
Cost of sales	(69.2)	(8.1)
Gross Profit	**4.3**	**1.1**
SG&A expenses	(2.7)	(3.1)
Gain from disposal of fixed assets and investments, net	2.3	0.8
Equity earnings (losses)	1.5	16.4
Operational profit - Real Estate Development segment	**5.4**	**15.2**
Real Estate - investment Property		
Rental revenues	5.9	5.8
Cost of rental revenues	(3.7)	(4.1)
Gross Profit	**2.2**	**1.7**
SG&A expenses	(4.4)	(4.9)
Adjustment to fair value (impairment) of investment property	(8.6)	(4.1)
Operational loss - Real Estate Investment Property segment	**(10.8)**	**(7.3)**
Total operational profit (loss) - Real Estate	**(5.4)**	**7.9**
Other unallocated expense	(2.3)	(2.7)
Profit (loss) before finance expenses and income tax	**(7.7)**	**5.2**
Finance expenses, net	(10.5)	(14.9)
Tax benefits (expenses)	0.8	(4.9)
Loss for the period – attributed to Company's shareholders	**(17.4)**	**(14.6)**

Real Estate – Development

The Real Estate Development segment relates to the residential projects of Europark Dalian and the joint venture residential projects.

Revenue from sale of apartments relates to the handover of apartments in the Europark Dalian project. In 2018 a total of 295 units in the Dalian project were delivered (including 33 units from building A, building B was sold and delivered in one transaction), compared to 42 deliveries in 2017. By now all units in building A are sold.

In the third quarter of 2017, KLC commenced the sale of the C2 tower of the Europark Dalian project. In 2018 76 apartments in the C2 tower were sold (138 apartments to date). In July 2018 KLC started the sale of the new C1 tower of the Europark Dalian project. In 2018 14 apartments in building C1 were sold (21 apartments to date).

SG&A expenses decreased to € 2.7 million in 2018 compared to € 3.1 million in 2017, reflecting the selling and marketing activities related to the C2 tower in Europark Dalian project, which sales process commenced in 2017, and which are somewhat levelling off now the sales are progressing.

'Equity earnings', comprises the result of the residential activities from joint venture projects, which contributed a profit of € 1.5 million in 2018, compared with a profit of € 16.4 million in 2017, due to low deliveries of apartments. Since most of the inventory is under construction, only a few apartments were delivered in 2018. Revenue from the residential joint venture projects in 2018 amounted to € 25 million compared to € 80 million in 2017. In addition, the results of this segment include a gain of € 2.3 million related to the liquidation of two companies.

The profit from operations from Real Estate development amounted to € 5.4 million in 2018, compared to a profit of € 15.2 million in 2017. The lower result is fully attributable to the lower contribution of the joint venture projects.

Real Estate – Investment Property

The Real Estate Investment Property segment relates to the results of operation of the Galleria Dalian shopping mall. The result of operations of this segment came in at a loss of € 10.8 million in 2018 (2017: € 7.3 million loss).

Revenues of the Investment Property segment amounted to € 5.9 million in 2018, in line with 2017 (€ 5.8 million). As is reflected by the increase in occupancy level from 80.7% at 31 December 2017 to 90.8% as at 31 December 2018), and the opening rate (from 74.6% at December 31, 2017 to 79.9% as at December 31, 2018) the operational trends at Galleria Dalian are positive. The positive trends did not result yet in higher revenues, mainly due to a few onetime adjustments of rental contracts in 2018.

The improved trends in 2018 were reflected in an increased gross margin of the Investment Property segment to 37% compared to 29% in 2017.

SG&A decreased from € 4.9 million in 2017 to € 4.4 million in 2018, mostly due to increased cost efficiencies and a decrease in marketing costs.

Real Estate – Total

The above resulted in an operational losses of the Real Estate activities of € 5.4 million in 2018 compared to an operational profit of € 7.9 in 2017.

The net financing expenses amounted to € 10.5 million, compared to € 14.9 million in 2017. The financing expenses mainly include interest expenses related to the Europark Dalian project loan. Financing expenses also included a negative foreign exchange impact of € 0.1 million, compared with a negative foreign exchange impact of € 3.6 million in 2017.

Tax was a benefit of € 0.8 million as a result of the change in deferred, taxes partially offset by tax on dividend received from joint ventures (2017: an expense of € 4.9 million mostly related to tax on dividend).

The net loss amounted to € 17.4 million in 2018 (2017: € 14.6 million net loss).

Additional balance sheet information:

€ in millions	2018 (31.12)	2017 (31.12)
Real Estate – Development		
Share of investment in JVs	37.6	56.4
Inventory	64.0	116.4
Real Estate – Investment Property		
Investment Property	213.6	221.1
Cash & short term investments	44.5	37.0
Total Assets	403.4	502.6
Loans and Borrowings	100.8	115.1
Advance payments from buyers (**Real Estate – Development**)	32.5	61.2
Total Equity	213.8	270.1

The value of the investment property, representing the shopping mall Galleria Dalian, was € 214 million as per 31 December 2018 compared to € 221 million at year-end 2017. The decrease in value was a result of the depreciation of the RMB versus the EUR, in the amount of € 1.2 million in 2018 and a decrease in the valuation of € 8.6 million (including capital expenditure of € 2.3 million). The devaluation in 2017 amounted to € 19.4 million and included a negative impact of € 15.2 million as a result of the depreciation of the RMB versus the EUR. 'Loans and borrowings', predominantly relate to the use of a construction loan for Europark Dalian. The decrease in equity in the reporting year is attributable to foreign currency effect and the loss for the year.

Risks

An economic downturn, globally or in China, could impact on Kardan Land China, inter alia, by reducing demand of real estate in China, drop in real estate prices and rental fees, change in government policy in the real estate sector, restricting sources of financing, damaging the financial strength of buyers, tenants and subcontractors.

Kardan Land China 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 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.

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.

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.

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.

Investment property is presented at fair value. The fair value is determined by an independent appraiser using generally accepted valuation methods, and it is subject to judgment, estimates and assumptions made by the appraiser.

An overview of the main risk categories for the Kardan Group can be found in the chapter ‘Risk Management’ starting on page 35.

Water Infrastructure Division

TOTAL REVENUE
€ 175 million

GROSS MARGIN
15.4%

BACKLOG
US$ 687 million

NUMBER OF PEOPLE
1,367

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 Asia (primarily in India and Israel), Africa and Eastern Europe.

Water Infrastructure

Tahal Group International B.V. (Tahal), Kardan's water infrastructure company, focuses on the design, execution, operation and management of projects in the water and agricultural segments and is active in three different continents: Asia (primarily in India and Israel), Africa (primarily in Angola) and Europe (Eastern Europe, primarily in Russia, Serbia and Romania).

Tahal provides engineering design services, as well as supervision and execution of projects in the water resources and supply sector, water and sewage treatment, agriculture and rural development, environmental engineering, solid waste collection and treatment and the entire value chain of natural gas. In addition, Tahal 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.

As of the date of this report, Kardan is negotiating the sale of its holdings in Tahal.

Market developments

Water market

The water market (water conveyance and supply, water and sewage treatment, and water and sewage networks) in developing countries is the long-standing sector of Tahal, in which it has material operations. The water market is a constantly growing market. 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 agriculture production – 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 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 area in which Tahal increasingly operates is the planning and execution of projects concerning agricultural development and the operation of farms for growing agricultural crops and products. Some projects are agricultural only, some are combined projects that include water supply and agricultural infrastructures. 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. In 2018, the world's population was estimated at 7.6 billion people. According to some estimates, by 2050 the world's population is expected to exceed 9 billion people. 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. Moreover, climate change stemming from global warming is causing changes in the global agricultural map. Adjusting to these changes requires additional investments, mainly in irrigation segments.

According to estimates, in order to supply the increasing demand for food arising from the growth of the population, by the year 2050 an increase of almost 50% in agricultural production will be required compared to 2012. This requires technological developments and improvements (for example, irrigation, fertilization, pest control and genetics) machinery, increased knowledge, building capabilities and improved management methods – segments in which Tahal 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 are required to increase investment in infrastructures (water, irrigation, industry, and innovation) in order to increase the productivity of the agriculture industry.

The water market (water transportation and supply, water and sewage treatment, and water and sewage networks) in developing countries, which is the most important segment of Tahal, is a constantly growing market. This is a result, inter alia, of growth in demand for water, the low level of redundancy in existing water infrastructures, and changes in regulation.

As of the report date, the water market is facing challenges and difficulties stemming from climate change, urbanization, and decline in green space[1]. Due to the global water shortage, among other things, more than 1.1 billion people suffer from lack of access to safe potable water, poor agricultural crops, damaged ecosystems and lack of advanced sanitation and water systems, which could result in infections and widespread illnesses. It should be noted that, despite global recognition of the challenges and risks stemming from the water shortage, there is, in fact, a delay in creating solutions for the problem, mainly in developing countries, mostly on the back of difficulties in raising funding, lack of adequate infrastructure, and the need to coordinate between countries.

Operational developments

In 2018 Tahal signed nine new EPC projects in India, Russia, and Ukraine, totaling US$ 207M, and significantly increased its backlog, to a level of more than triple the 2018 revenues.

From an organizational point of view, Tahal's territorial divisions reached operational and managerial independency, and are running successfully multi-projects operations with adequate local capabilities and full support from company HQ. At year-end 2018, Tahal had 1,367 employees compared to 951 employees as of 31 December 2017. This increase stems mainly from the increase in the activity in India (as a result of winning new projects) and in Angola (as a result of recruiting manual workers in order to operate the Quiminha project).

Africa

The international position of Tahal in the agricultural sector was in the past few years clearly strengthened by a number of large agricultural projects. The largest project, the Quiminha Project in Angola, covering more than 5,000 ha, is managed and operated by Tahal together with its partner ZRB.

In 2017 Tahal, together with third parties, signed three commercial EPC contracts to construct three new Agriculture and Water Infrastructure projects, in three different regions in Angola, with a total scope of US$ 291 million. In August 2018 Tahal received a formal governmental approval for these projects, and an additional US$ 72 million contract regarding a large scale agriculture project in Africa. During the year parties acted to advance the conditions precedent for the execution of the projects (including securing financing packages and insurance coverage). As of December 31, 2018, and as of the report publication date, the projects' financial closing has not been secured and some of the conditions precedent have not yet been met. Furthermore, the depreciation of the Angolan currency has had a material impact on Tahal's income in Angola this year.

India

In February 2018, Tahal India was awarded a project in the city of Bangalore for a total amount of approximately US$ 28 million (Appr. € 22.7 million). The project consists of the renewal, expansion, upgrading and operation of a water supply network. Furthermore, in the third quarter of 2018, Tahal

1 Source: http://www.unwater.org/publications/world-water-development-report-2018/

expanded its presence in India with 3 new projects awarded and signed, for a total of US$ 46 million.

The Gadag EPC project, the first EPC project in India, started in 2015, was completed and commissioned, and the operating phase commenced.

Overall in 2018 Tahal India was awarded with six new projects with a value of approximately US$ 100 million, and executed 14 projects in parallel, including these six projects which were kicked off. Tahal India achieved prominent presence in the Indian market in 2018, with significant order backlog and excellent professional and operational capabilities.

Central and Eastern Europe
In the beginning of 2018 Tahal was awarded another project in the city of Ivanovo, Russia, which is a continuation of the project executed and successfully completed by Tahal. The project consists of the renovation of a biological facility of waste water treatment. As of the reporting date, the project is being executed.

In May 2018, Tahal was awarded a US$ 60 million (appr. € 52 million) project for the planning and execution of works for the reconstruction of two waste water and sludge treatment facilities in the city of Kharkiv, the Ukraine.

In Q4 2018, Tahal completed the planning, construction and operation of a water treatment plant and pumping systems in the city of Yakutsk, and the project's testing period commenced. In January 2019, Tahal completed the construction of a water treatment and pumping facility in Orenburg. As of the report date, the project is in the running-in phase.

Key figures Water Infrastructure

€ in millions	For the year ended December 31	
	2018	2017
Contract revenues	175.4	176.4
Contract cost	148.4	152.8
Gross profit	27.0	23.6
SG&A expenses	(16.2)	(12.9)
Equity losses	(2.9)	(1.1)
Gain (loss) on disposal of assets and other income	0.4	7.8
Result from operations before financing expenses	**8.3**	17.4
Financing income (expenses), net	(4.2)	0.4
Income tax expenses	(2.0)	(5.0)
Net profit	**2.1**	12.8
Attributable to:		
Non-controlling interest holders	2.0	(0.3)
Equity holders (Kardan N.V.)	**0.1**	13.1

Results analysis

Tahal operations contributed a profit of € 0.1 million attributable to equity holders in 2018, compared to € 13.1 million in 2017, including a net gain of € 7.1 million on the sale of Star Pumped Storage.

Revenues in 2018 remained stable at € 175.4 million compared to € 176.4 million in 2017.

The gross margin increased from 13.4% in 2017 to 15.4% in 2018 following improved profitability in a number of projects, despite delays in projects in Africa with relatively high profitability in the second half of 2018.

Despite the relatively high gross profit, the operational result eroded compared to 2017, as a result of increased SG&A expenses from € 12.9 million in 2017 to € 16.2 million in 2018 mostly due to higher provision for doubtful debts and onetime expenses (a total of € 2.1 million).

The segment encountered higher equity losses in 2018 compared to 2017, mostly due to the fair value impairment of a joint venture, following the agreement to sell the investment, which resulted in an equity loss of € 1.5 million.

Financing expenses increased to € 4.2 million in 2018 compared to income of € 0.4 million in 2017, mostly due to interest expenses on utilization of credit lines. In 2017 the finance income was positively impacted by foreign exchange differences.

The income tax expenses amounted to € 2.0 million in 2018. In the same period in 2017 tax expenses were

€ 5.0 million and mainly related to a tax provision recognized due to a tax assessment in respect of prior years and tax expenses related to the sale of Star Pumped Storage.

Additional information

€ in millions	2018 (31.12)	2017 (31.12)
Balance sheet (in € million)		
Cash & short term investments	14.0	9.3
Total Assets	227.9	184.6
Net debt	(37.5)	(13.2)
Equity	40.9	50.9
Equity / Assets	17.9%	27.7%
Other (in US$ million)		
Backlog	687	672

Equity of Tahal decreased mainly due to the negative impact of foreign exchange differences on Tahal's subsidiary in Angola in 2018 amounting to € 11.4 million.

Upon fulfillment of conditions precedent, mainly related to the financial closing of the four agriculture projects in Angola, the signed contracts amounting to US$ 363.0 million will be added to the existing backlog.

As a result of delays in closing these projects and in receiving advance payments from certain projects, Tahal had to extend some of its available credit lines. In order to address any adverse outcome that these uncertainties may result in, Tahal developed a contingency plan which, if needed, should generate sufficient positive cash flows for its operations. The auditors of Tahal included an emphasis of matter paragraph in their auditor's opinion on Tahal's financial statements in relation to these uncertainties. For additional details, see note 5 to the consolidated IFRS financial statements.

Risks

Tahal's ability to take action in the various countries in which it operates is directly influenced by the level of investments 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's business in these countries. The exposure includes, inter alia, the risks of changes in regulations such as regulations that regulate the business of foreign companies, regulations regarding the environment, and others.

A recession and slowdown in the growth rate in the developing countries is liable to negatively impact Tahal's growth rate. The Tahal Group, the value of its assets, its results, the amount of its capital, the ability to realize assets, the state of its business, and Tahal's ability to fulfill its financial obligations in which it has committed itself to loans and to raise funds and financing packages for projects and for holding assets (including for the matter of financing terms) are exposed to negative repercussions of the macro factors in the short, medium and long term. The global economic situation also influences the readiness of developing countries to offer financing packages or to insure projects in developing countries. Moreover, Tahal's projects require significant capital. In light of the aforesaid, the slowdown in the global economy is liable to adversely affect Tahal's business results and/or development since the Group might not be able to raise the required capital for the aforementioned projects or the capital it raises will be at financing terms that are inferior to those of the past.

Tahal 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 commencing of the project significantly. Tahal has significant experience in facilitating finance for a project and considers this risk element to be part of the project scope.

A drop in global oil prices could cause these countries to reduce the budgets designated for water treatment and agricultural development and could even lead to the delay in receiving new projects by Tahal, the cancellation of agreements for the execution of projects that Tahal has committed to carry out and the delay in receiving compensation for the aforementioned projects. In order to spread its risks, Tahal aims to tender for projects in its core focal areas in diverse geographical markets. At present, Tahal has many such tenders outstanding.

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. 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. 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). Delays are also liable to cause a rise in costs and lower returns on capital investments and reduce profits as well as a failure to meet the loan payment schedule. In addition, delays by the countries requesting the implementation of the projects may affect the financing packages necessary for the execution of the projects, which could harm the ability of Tahal to complete the project within the determined project schedule established for the project. If the customer does not meet his financial obligations to Tahal and/or when the customer delays, cancels or does not meet his financial obligations to Tahal and/or when the customer delays, cancels or does not act to complete the project, after Tahal has made significant promotional investments this could have a negative impact on Tahal, its business, financial condition and financial results.

Many of Tahal'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 has an anti-corruption policy in place complementing its existing policies and guidelines.

The environmental risks associated with the activities of Tahal are characterized by the type of activity and include groundwater and river pollution, soil pollution and air pollution. In general, Tahal has quality standards requiring its employees to apply high standards on environmental issues and environmental control procedures, procurement, hiring sub-contractors, project management method, submission of bids etc. In addition, there is an integrated quality system which is designated to enable systematic and organized work, control and monitoring of processes and protecting the environment and safety at work.

An overview of the main risk categories for the Kardan Group can be found in the chapter 'Risk Management', starting on page 35.

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 its liabilities in full. 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. The Company sold it holdings in AVIS Ukraine in the first quarter of 2019. Furthermore, the company is working hard to advance the intended sale of Tahal. For more details, including on the progress of the negotiations with the debenture holders, please refer to the Kardan Group's Business Strategy chapter.

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 analysis 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 Executive Management discusses strategic, operational and budgetary issues with the management and boards of our subsidiaries at least on a quarterly basis.

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 incorporate the updates to the COSO frameworks. Last year our risk management process was further updated to incorporate the principles of the revised Dutch Corporate Governance Code to secure alignment with best practices, while remaining fit for purpose for Kardan. In 2018 we continued evolving our reporting to align better with the principles of the Code and other best practices, including the COSO ERM Framework (2017). The revised Code includes an increased focus on risk management. It links 'long-term focus on value creation' and 'risk management reinforcement' and emphasizes the importance of reporting thereof. This also echoes closely what the update of the COSO ERM framework is highlighting around a more strategic approach to risk management.

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

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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 item 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.

In 2017 the Board decided to rotate the appointment of the external advisory firm providing internal audit services at Kardan level, and engaged a new advisor for these services. As a starting point, the advisor has performed a risk assessment and prepared an internal audit plan for a period of three years. In 2018 two internal audits were performed. The main one relates to fraud risk assessment, no significant shortcomings were detected. The second audit relates to Kardan's Internal Enforcement Plan (an internal compliance program according to Israeli Securities Authority guidelines), which provided useful insights which are now being evaluated and implemented where applicable.

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 per December 31, 2018 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. Overall, Management concluded that the composition of the main risks the Company faces had not changed significantly in 2018. The risk of capital availability, and more specifically the risk of not being able to timely repay the debt, significantly increased in likelihood, and ultimately materialized in February 2018 as described before. This has been a key priority for Executive Management and the Board of Kardan throughout the 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 2018 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

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, as well as through the sale of assets by the subsidiaries or by Kardan. 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 insufficient access to capital may threaten our capacity to achieve our objectives, as well as to grow and generate future financial returns.

Risk Appetite:
Given our debenture debt, cash management is critical to our continuity, meaning that our tolerance in this respect is very low. In 2018 this risk has materialized and Kardan was not able to repay the February 2018 repayment to its debenture holders. Consequently, Kardan is negotiating a new debt settlement with its debenture holders.

Impact: Critical
Likelihood: Certain

Measures:
In order to bring down debt at the level of Kardan, the Company aims 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, in the past years, Kardan sold some significant assets by which the Company secured its obligations until February 2018. Due to various circumstances, not entirely under the control of the Company, Kardan was unable to complete a sale transaction of Tahal in a manner that enabled Kardan to timely repay its debt in February 2018. Executive Management and the Board are focused on managing the potential impact by negotiating a new debt settlement, which is in an advanced stage. In parallel, Executive Management and the Board continue in their efforts to sell assets, focusing on Tahal and AVIS Ukraine. In October 2018, the Company has published the main principles of a debt settlement as negotiated and agreed with debenture holders series B. At present, the negotiations with the trustee to debenture holders series B is continuing, and management was informed that the discussions between debenture

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holders series A and series B are in advanced stage to reach a final agreement between all parties. There is however no certainty whether Executive Management and the Board will succeed in these efforts. In line with our financial strategy, our operating companies are largely responsible for their own funding. 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

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. At the end of 2016 and during 2017, our water infrastructure company Tahal signed several large-scale projects in Africa, mainly in Angola and Zambia, specifically one large 7-year contract in Angola which doubled Tahal's backlog. During 2018 Tahal expanded its activities in India which became the second largest market of Tahal, after Africa. 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: Almost Certain

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, environment and natural gas. This could shift the geographical spread of our operational activities gradually, which, to some extent, occurred in 2017 and continued in 2018 following the award of new projects in India, and in other countries such as Russia and Ukraine. Furthermore, all large projects in Africa are setup with a 50% partnership. 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 communication process in place 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 particular, Kardan monitors the developments in the countries where it operates, even if such development may not have immediate and direct impact (for example, US-China trade war). 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

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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 on our budgets 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

Financial markets

Kardan is a listed company with operations in emerging and frontier markets and is strongly dependent on external financing. 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. 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. During 2017 and 2018 Kardan's equity was heavily negatively impacted by the foreign currency exchange rates, which triggered a breach of covenants, with respect to the Company's debentures.

Risk Appetite:
We operate in different 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: Certain

Measures:
Kardan monitors the financial positions within its businesses intensely and hedges these risks if and when deemed feasible given the specific relevant circumstances. 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. As described under 'capital availability' risk, Kardan is negotiating a new debt settlement with its debenture holders. In this respect, specific discussions are held in relation to equity ratio covenants and the impact of foreign currency fluctuations.

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.

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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 we have 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. Further, as described above, in 2018 an internal audit was performed on fraud risk assessment. Although no significant deficiencies were detected, Kardan continues to address fraud risk as a recurring item, also for internal audits.

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: Critical
Likelihood: Highly Probable

Measures:
With the assistance of its internal and external legal counsels, Kardan continuously monitors its exposure and the regulatory environments in which it operates, aiming to both anticipate and respond to a changing context or changing regulations and the related consequences on its businesses. Moreover, the governance structure of Kardan and the compliance policies and procedures provide a structured framework within which all of the group companies operate. In 2018 Kardan put focus on the new GDPR requirements in order to ensure compliance to the extent possible, acknowledging the fact that there is always a certain level of exposure. In 2019, Kardan intends to put more focus on cyber risks which are inherent to every organization.

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

In-Control Statement of the Board (2018)

Kardan's risk management and internal control systems, as described above, have been regularly discussed with the Audit Committee, the Board and the internal and external auditors. During 2018 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. During 2018 one of the risk materialized when it became clear that the Company was unable to repay its obligations due in February 2018. The Company started negotiations with its debenture holders to come to a settlement. As of the date of this report, these negotiations are in an advanced stage, however a final settlement has not been signed yet. The Board realizes that it is dependent on external parties to manage various risks, currently in particular in relation to the sale of assets and to reaching a debt settlement.

Based on its review of the risk management and internal control systems, and recognizing the inherent limitations as described earlier, the Board is of the opinion that

i. the report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
ii. the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
iii. based on the state of affairs as per 31 December 2018, it is justified that the financial reporting is prepared on a going concern basis. Reference is made to note 1B of the statutory financial statements regarding the Company's financial position and going concern; and
iv. the report states those material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of twelve months after the preparation of the report.

Corporate and Social Responsibility

Focused on delivering sustainable solutions

Kardan incorporated Corporate and Social Responsibility (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 Corporate and Social Responsibility as 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. Kardan is committed to observing environmental standards in all countries in which the group operates. Kardan strives to minimize the negative impact of its business on the environment and attaches importance to durable innovative measures which lower total costs and raise flexibility, whilst simultaneously relieving the pressure on the environment.

All our activities have 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, increasingly, 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.

Implementing CSR

On a practical level we have introduced a number of guidelines. Each operating company implements its own CSR strategy taking into account the effects of its activities on people, planet and profit.

Being a good corporate citizen
An important area in pursuing good corporate citizenship is living up to the established set of core values. Kardan calls on its people to comply with its code of conduct, and to act accordingly in all interactions. In particular in emerging markets, being alert on human rights and a zero tolerance regarding unethical behavior of any kind is essential. All Kardan companies and Kardan-operated joint ventures must comply with local legislation and regulations, and must conduct their activities in line with Kardan's core values.

Human rights
Respect for human rights is reflected in our Code of Conduct. Certain areas of our supply chain may pose a higher risk to labor rights due to their location and the nature of the goods and services we procure. In these cases, we use criteria to identify potential supply-chain risks and, where we see risk, we ask suppliers to undertake due diligence studies before considering awarding a contract. 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 or to a third party advisor, upon which an investigation should be executed.

Anti-bribery
Kardan strives to deal with all of its customers, suppliers and government agencies in a straightforward and aboveboard manner and in strict

compliance with any legal requirements. Employees are prohibited from paying any bribe, kick-back or other similar unlawful payment to any public official, or government, or other individual, regardless of nationality, to secure any concession, contract or favorable treatment for Kardan or the employee. No undisclosed or unrecorded fund or asset of Kardan may be established. Payments on behalf of Kardan can be made only on the basis of adequate supporting documentation, may be made only for the purpose described by the documents supporting the payment, and must be made in accordance with appropriate corporate accounting procedures.

For instance, Tahal employees are informed and trained about anti-corruption policies and procedures, including on line training for relevant employees and extensive training and follow up for staff that is more exposed. Furthermore regular audits take place in this regard to safeguard that policies and protocols are followed. At KLC anti-corruption and anti-fraud trainings are included in the introduction training for new staff. All staff sign the various policies.

Employees are encouraged to report any violation of any of the standards and practices as laid down in the Code of Conduct to their direct supervisor or a senior executive. Such report may be made anonymously via the Company's Whistleblower Policy, as posted on the Company's website. In the past year no such incident has been reported.

In its aim of being a responsible and social corporate citizen, employees were involved in several community activities. Various activities, ranging from volunteering at the Amsterdam food bank to donating clothes in India, are taking place.

Being a good employer

Kardan aims to attract and retain people, develop human capital and grow the talent potential of its employees. 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 pursues a diverse workforce, meaning an inclusive approach for people of various genders, ages, and cultural 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. Over 70% of all employees receive regular performance and career development reviews. More than 90% of the employees are employed under a permanent contract.

Kardan does not tolerate discrimination on the basis of race, colour, religion, ethnic or national origin, political opinion, gender, sexual preference, age or disability, as defined in the Code of Conduct. This applies to recruitment, hiring, training, promotion, and other terms and conditions of employment. No incidents have been reported in this respect.

Employees in numbers

At year-end 2018, the number of people employed by Kardan Group totaled 1,517 compared to 1,118 employees as of December 31, 2017. This sharp increase is fully contributable to the water infrastructure activities, following the increased activities across all regions.

Number of employees as of December 31, 2018 *

	Kardan holding	Real Estate	Water Infrastructure	Total
Europe (mainly Russia)	9		126	135
China		141	–	141
Israel			411	411
Other countries in Asia (mainly India)			253	253
Africa (mainly Angola)			577	577
Total	9	141	1,367	**1,517**

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

Kardan Holding

As at December 31, 2018, 9 people worked for Kardan Holding (year-end 2017: 12 people), in a ratio of 78% female and 22% male staff members. The absence rate during the calendar year 2018 was 8.6% (2017: 5.8%). The increase was due to two long-term illness situations in the past year.

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.

Real estate

As of December 31, 2018, KLC employed 141 people (155 as of December 31, 2017), excluding employees of the joint venture operations. KLC has 60% female staff members and 40% male staff members. The absence rate amounted to around 0.77% (2017: 5%).

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 2018, some 14% of total staff was promoted to more senior positions compared to 10% in 2017. 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. A company trip (to Xia Men) as well as a social company outing were organized in 2018. KLC is dedicated to providing an inspiring working environment for its employees.

A variety of trainings and courses were organized for KLC staff in the past year. At the headquarters in Beijing, orientation trainings were given to new staff, at the Asset Management company there were safety production and management trainings as well as different training tailored to the needs of the different departments. An example is various emergency trainings for the property department. For the Dalian Project Company also various trainings including IT training and tax related training were organized.

Water infrastructure

As of December 31, 2018, Tahal employed 1,367 people (2017: 951). This increase is largely explained by the intensified activities at the Quiminha project in Angola. Furthermore, Tahal grew significantly in India and is now running 14 projects in parallel. In Europe the increased project activity in Russia and the Ukraine contributed to the growth in employees. 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. The average training amounted to 10 hours per employee in 2018 (12 hours in 2017). Furthermore, Tahal organizes several social events for its staff to nurture corporate cohesion, in both HQ and local branches and projects.

Tahal has 32% female staff members and 68% male staff members. At its office in Israel, Tahal had an equal balance between male and female staff in 2018, whilst the project companies still have more males than females. The diversity in terms of nationality and background, particularly in the project companies, is high.

For Tahal staff, health and safety training programs are 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. Tahal's employees are going through annual health & safety training, and emergency and evacuation drills are being conducted according to an authorized safety plan.

Local employment

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. There are many examples of how Tahal for example 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.

Contributing to a more sustainable world

In our real estate activities we acknowledge that residential and retail 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, our real estate company. 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

Board Report

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 operated according to the LEED (Leadership in Energy & Environmental Design) standard. Led lighting is the standard in both the residential projects and Galleria Dalian. Furthermore in 2018 a control system to control air conditioning and air supply was installed. The energy used for outer network heating was lowered by adjusting the heating to the weather conditions in winter.

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, natural gas infrastructures 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.

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.

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 and combined transportation, shared printer use, double-sided printing as default, using recyclable and recycled paper, specific waste separation policies etc.) has been implemented at Tahal. Tahal is moving to a greener car fleet of its headquarters' staff, with fuel-efficient hybrid cars representing 22% as per year-end 2018 (2017:12%), leading to significant fuel savings in 2018.

At the HQ in Amsterdam, environmental indicators were part of the selection criteria for its relocation. The HQ moved to a greener office location, using efficient LED lighting and smart technology, including motion sensors, to save energy consumption. Garbage is being recycled. HQ Staff is encouraged to use public transportation.

Governance and Compliance

Introduction

Kardan is managed by a one-tier board, which per 31 December 2018 consisted of one executive Board Member, the CEO, and six 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 Chief Executive Officer (CEO) of Kardan jointly with Executive Management, based on a power of attorney provided by the Board. During 2018, the Executive Management consisted of the CEO and the CFO. The CFO joins the meetings of the Board on a regular basis. 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 2018.

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 inhoud bestuursverslag; 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,
(v) the diversity policy of the Board and
(vi) the statement in light of Article 10 of the European Takeover Directive. Kardan's Corporate Governance Statement 2018 is available on its website and forms an integral part of this Annual Report.

Board Report

Board

Composition, Mutations and Reappointment schedule

During 2018, the composition of the Board changed as follows: Mr. Marsman resigned effective 1 January 2018, Mr. Groen resigned per 1 February 2018, and Mr. Schnur stepped down on 21 March 2018. Mr. Houterman was appointed as non-executive member of the Board at the AGM on 30 May 2018.

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/ Israeli	Non-executive Independent	31 May 2012	AGM 2020
Mr. C. van den Bos (Vice-Chairman)	Audit (chairman)	1952	Dutch	Non-executive Independent	6 February 2013	AGM 2021
Mr. Y. Grunfeld		1942	Israeli	Non-executive Non-independent	6 February 2013	AGM 2021
Mr. A. Hasson (CEO)		1973	Dutch	Executive	26 May 2016	AGM 2021
Mr. F.I.M. Houterman		1949	Dutch	Non-executive Independent	30 May 2018	AGM 2022
Mr. E. Rechter		1949	Israeli	Non-executive Non-independent	6 February 2013	AGM 2021
Mrs. Y.C.M. Tall	RAS* (Chairwoman)	1967	French	Non-executive Independent	4 May 2017	AGM 2021
Appointments ended in 2018						
Mr. B. Marsman	Audit RAS*	1974	Dutch	Non-executive Independent	25 August 2015	1 January 2018
Mr. M. Groen		1946	Dutch	Non-executive Independent	12 December 2016	1 February 2018
Mr. A.A. Schnur		1948	Israeli	Non-executive Non-independent	31 May 2012	21 March 2018

* Remuneration, Appointment and Selection Committee.

Board Meetings

The Board meets at least once every quarter, principally at Kardan's headquarters in Amsterdam or, when necessary, by conference call. In 2018, the Board met 11 times. All Board Members attended all 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 2018, the Board extensively discussed the Company's strategy, objectives, financial position, financial forecasts, results, negative equity and cash flow projections. In addition, the Company's ability to service its debts, particularly in light of the Company's repayment obligations towards its debenture holders, were discussed frequently. As the Company was unable to make the payment obligations towards its debenture holders in February 2018, the Board also frequently discussed its position *vis-à-vis* the debenture holders and the subsequent negotiations to reach a settlement with the debenture holders.

The CEO updated the Board frequently on the progress of various processes such as the sale of Tahal and other options, including the sale of AVIS Ukraine, 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 a presentation on the main risks for the Kardan Group and the Executive Management's conclusions after a structured process is conducted 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 far as possible, control measures of major risks are linked to the Company's strategy. As part of risk management, the Board discusses the main risk categories of the company, mainly in relation to capital availability and foreign exchange impact and topics such as Health and Safety issues within the Kardan Group as well as its internal control systems.

The Board extensively discussed the proposal as submitted by the RAS Committee for the appointment and remuneration of 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.

At the request of the debenture holders, the Company appointed an observer to the Board in October 2018, Mr. J. Rotenberg. Mr. Rotenberg attends the meetings of the Board since his appointment and reports his observations to the Trustees of the debenture holders.

Board evaluation

During the year the Chairman conducted bilateral meetings with all individual members of the Board. As part of a self-assessment process, the Board Members have submitted an extensive questionnaire to the RAS Committee in 2019.

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 chairman and chairwoman of these committees report on their activities periodically to the entire Board. Both committees are subject to specific regulations, which form part of the Board Regulations.

Audit Committee

The members of the Audit Committee all possess extensive financial knowledge. The Audit Committee met 5 times during 2018 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, also in light of its inability to service its obligations towards its debenture holders, the financial impact of currency fluctuations on the Company's equity, its negative 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 2017, 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 2018, which proposal was adopted at the AGM. In addition, the Audit Committee discussed internal audits and annual compliance and integrity updates, from both the Dutch and the Israeli perspectives, pursuant to which internal procedures have been implemented and/or updated.

During the course of 2018, 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

The RAS Committee, met 3 times in 2018 either in physical meetings or via teleconference. The RAS Committee submitted a proposal to the Board for the nomination of Mr. Houterman as non-executive Board Member and prepared a proposal for the Board concerning his remuneration. The proposal was accepted by the Board and adopted during the AGM on 30 May 2018. Furthermore a proposal for the bonus of Mr. Hasson, CEO of the Company, was submitted and accepted by the Board and adopted during the EGM on 22 October 2018.

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 2.7.1. through 2.7.6 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 2015 according to which non-executive Board Members receive a fixed remuneration only. At the AGM 2016, a specific remuneration package was adopted for the executive Board Member. At the EGM held in October 2018, a proposal for the variable remuneration for the executive Board Member was adopted.

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 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 two non-executive Board Members who hold shares in the capital of Kardan: Mr. Grunfeld and Mr. Rechter; 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 55 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. During the 2018, the Board and the AGM approved the amendment of the Service Agreement entered into by the Company with Kardan Israel Limited, which transaction was subject to the Special Approval Procedure as described above, as certain Holders of Control have a personal interest in this transaction.

Investor Relations

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 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 and an Investor Relations Policy in 2008. 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'), who 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 online by any investor.

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) 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

The remuneration of the non-executive Board Members is based on the remuneration policy as adopted at the AGM of May 28, 2015: each non-executive Board Member receives 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 2018 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 2018 is presented in the table on the right.

Non-executive Board Member [1]		Gross Remuneration in 2018 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		2,167
Mr. Y. Grunfeld [1]		26,000
Mr. F. Houterman		15,214
Mr. E. Rechter [1]		26,000
Mr. A. Schnur [1]		5,706
Mrs. C. Tall	Chairwoman of the RAS Committee	35,167

1 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 certain 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 2018.

Changes in Board positions during 2018

Mr. Marsman resigned as non-executive Board Member effective 1 January 2018; Mr. Groen resigned as non-executive Board Member with effect on 1 February 2018; and Mr. Schnur stepped down from his position of non-executive Board Member effective 21 March 2018. On the AGM in 2018 Mr. Houterman was appointed as non-executive Board Member for a term of 4 years.

Changes in Committee positions during 2018

During 2018 there were no changes in Committee positions.

Remuneration of the CEO in 2018

The remuneration of Mr. Hasson, CEO of Kardan, was approved by the shareholders during the AGM of 2016. The remuneration package entails an annual fixed remuneration, including allowances, a variable remuneration consisting of a discretionary bonus and a severance payment as further detailed on the next page. During the EGM held on 22 October 2018, the General Meeting approved the variable remuneration plan for the CEO for 2018.

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 is entitled to customary social benefits in the Netherlands, car, cellular telephone, etc.

Variable remuneration – short term

The Board may decide 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. A proposal for the variable remuneration for 2018 for the CEO, was submitted to the General Meeting for approval during the EGM held on 22 October 2018. For the year 2018 the Board proposed a bonus of a maximum of € 400,000 conditional upon the divestment of a substantial asset, and the level of the bonus dependent on successful completion, price level and timeline as well as continued employment with Kardan at the time of the bonus payment being due. On 27 March 2019, the Board concluded that the condition for awarding the bonus was not fulfilled, and therefore no bonus was granted for the year 2018.

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, he will only be entitled to receive payment for 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.

Total remuneration

A breakdown of the total costs of the remuneration for the current CEO in 2018 is presented in the following table:

Element	Remuneration in 2018
Base remuneration (including social benefits and allowances)	€ 353,000
Allowances in kind	company car/allowance, cell phone (costs are included in base remuneration)
Annual Bonus	€ -
Pension	included in base remuneration
Total	**€ 353,000**

Pay-ratio

In line with the revised Dutch Corporate Governance Code, the internal ratio of the remuneration of directors of the Company and that of a representative reference group needs to be determined. For this ratio, Kardan deems most relevant the total remuneration of the executive Board member (the Base Remuneration as specified in the table above) compared to the total average remuneration of all the employees of Kardan in the Netherlands. For the CEO a ratio of 4 applies, the same as in 2017.

Employee Options

In 2018 no options to acquire shares in Kardan were granted and no existing options were exercised by employees nor expired. The total number of outstanding options granted to senior employees is therefore 100,000 as at December 31, 2018.

For further details regarding share-based payments see Note 17 of the consolidated financial statements.

Remuneration 2019

The remuneration package for Mr. Hasson entails a yearly fixed remuneration and a variable remuneration. The fixed remuneration of Mr. A. Hasson consists of a salary for management services provided by him in the Netherlands and in respect of the activities and investments of the Kardan Group, with respect to its non-Dutch operation and certain allowances ('Base Remuneration'). The amount of the Base Remuneration remains unchanged. The total annual cost for the Base Remuneration for 2019 is therefore estimated at € 355,000.

The Board is proposing a variable remuneration for Mr. Hasson for 2019 of a maximum of € 330,000, conditional upom the realization of specific targets in relation to:

- Servicing of the debt to and relations with the debenture holders.
- The orderly and optimized divestment of assets and specifically the sale of TGI based on understandings to be agreed with the debenture holders.
- The continuation of improvement in the performance of the Company's operating subsidiaries.

Mr. Hasson has shared his view on his own remuneration with the RAS Committee, which view was considered in the evaluation of Mr. Hasson's remuneration package.

The Board believes that the proposal for the remuneration of Mr. Hasson for 2019 is appropriate, given the performance of Mr. Hasson during his years of service and his valuable contribution to the realization of the long term value creation objectives of Kardan. Moreover, the Board is of the opinion that the proposed remuneration package is aligned with the position of all stakeholders of Kardan.

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 Financial Statements for the 2018 financial year give a true and fair view of the assets, liabilities, financial position and results of Kardan and of the companies included in the consolidation.

(ii) The Annual Report 2018 gives a true and 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 2018 financial year, and all material risks to which Kardan and its affiliated companies are exposed.

Amsterdam, April 16, 2019

Board of Directors

P. Sheldon (Chairman)
A. Hasson (CEO)
C. van den Bos (Vice-Chairman)
Y. Grunfeld
F. Houterman
E. Rechter
C. Tal

Statutory Financial Statements

for the year ended December 31, 2018 by Kardan N.V., Amsterdam, The Netherlands

Notes to the Consolidated Financial Statements

Consolidated Statement of Financial Position

Audited € in '000	Note	December 31, 2018	December 31, 2017
Assets			
Non-current assets			
Deferred tax assets	32	313	464
Tangible fixed assets, net	6	748	627
Investment property	7	213,577	221,089
Investments in joint ventures	9	23,114	49,889
Loans to joint ventures	9	14,859	25,432
Long-term loans and receivables	10	3,878	8,123
		256,489	**305,624**
Current assets			
Apartments inventory	11	64,734	117,900
Trade receivables	12	7,416	5,401
Current tax assets		2,452	1,502
Other receivables and prepayments	13	3,515	5,686
Short-term investments	14	17,427	11,969
Cash and cash equivalents	15	51,949	37,140
		147,493	**179,598**
Assets classified as held for sale	5	240,909	183,354
Total current assets		388,402	362,952
Total assets		**644,891**	**668,576**

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

Audited € in '000	Note	December 31, 2018	December 31, 2017
Equity and liabilities			
Equity attributable to equity holders of the parent	16		
Issued and paid-in capital		25,276	25,276
Share premium		206,482	206,482
Foreign currency translation reserve		(12,049)	37
Property revaluation reserve		25,179	31,637
Revaluation reserve, other		4,837	5,586
Accumulated deficit		(309,222)	(273,386)
		(59,497)	**(4,368)**
Non-controlling interests		**5,740**	**3,542**
Total equity		**(53,757)**	**(826)**
Non-current liabilities			
Interest-bearing loans and borrowings	18	87,287	104,933
Other long-term liabilities	19	1,033	1,054
Financial instruments	20	–	1,306
Debentures	21	–	188,708
Deferred tax liabilities	32	4,955	6,355
		93,275	**302,356**
Current liabilities			
Trade payables		3,159	2,294
Current maturities of debentures	21	282,703	95,452
Interest-bearing loans and borrowings	22, 18	13,510	10,187
Current tax liabilities		1,185	1,342
Financial instruments	20	678	–
Advances from apartment buyers	11	32,509	61,208
Other payables and accrued expenses	23	87,301	63,765
		421,045	**234,248**
Liabilities directly associated with assets classified as held for sale	5	**184,328**	**132,798**
Total current liabilities		**605,373**	**367,046**
Total liabilities		**698,648**	**669,402**
Total equity and liabilities		**644,891**	**668,576**

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

Consolidated Income Statement

Audited € in '000	Note	For the year ended December 31, 2018	2017	2016
Revenues from sale of apartments		72,711	8,556	761
Rental revenues		3,862	3,883	3,732
Management fees and other revenues		2,885	2,584	6,615
Total revenues		**79,458**	**15,023**	**11,108**
Cost of apartment sold	26	69,002	7,993	676
Rental cost	26	1,145	1,346	1,493
Management fees and other expenses, net	27	2,817	2,847	5,521
Total expenses		**72,964**	**12,186**	**7,690**
Gross profit		**6,494**	**2,837**	**3,418**
Selling and marketing expenses	28	4,083	5,668	3,760
General and administration expenses	29	8,126	10,180	10,501
Loss from operations before fair value adjustments, disposal of assets and investment and other (loss) income		**(5,715)**	**(13,011)**	**(10,843)**
Adjustment to fair value of investment properties	7	(8,610)	(4,181)	(2,588)
Gain (loss) on disposal of assets and other income, net	30	1,507	836	(1,580)
Loss from fair value adjustments, disposal of assets and investments and other income, net		**(7,103)**	**(3,345)**	**(4,168)**
Loss from operations		**(12,818)**	**(16,356)**	**(15,011)**

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

Consolidated Income Statement (continued)

Audited € in '000	Note	For the year ended December 31,		
		2018	2017	2016
Financial income	31	11,813	6,845	475
Financial expenses	31	(35,516)	(34,321)	(47,843)
Total financial expenses, net		**(23,703)**	**(27,476)**	**(47,368)**
Loss before share of profit from investments accounted for using the equity method		**(36,521)**	**(43,832)**	**(62,379)**
Share of profit of investments accounted for using the equity method, net	8, 9	1,491	16,424	2,468
Loss before income taxes		**(35,030)**	**(27,408)**	**(59,911)**
Income tax expenses (benefit)	32	(605)	5,180	(4,504)
Loss for the period from continuing operations		(34,425)	(32,588)	(55,407)
Net (loss) profit from discontinued operations	5	(311)	15,212	24,081
Loss for the year		**(34,736)**	**(17,376)**	**(31,326)**
Attributable to:				
Equity holders		(36,775)	(17,101)	(31,330)
Non-controlling interest holders		2,039	(275)	4
		(34,736)	**(17,376)**	**(31,326)**
Earnings (loss) per share attributable to shareholders	33			
Basic and diluted from continuing operations		(0.27)	(0.25)	(0.45)
Basic and diluted from discontinued operations		–	0.10	0.19
		(0.27)	**(0.15)**	**(0.26)**

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

Consolidated Statement of Other Comprehensive Income

Audited € in '000	For the year ended December 31,		
	2018	2017	2016
Net loss for the year	**(34,736)**	**(17,376)**	**(31,326)**
Foreign currency translation differences	(15,014)	(15,202)	(362)
Change in hedge reserve, net of tax (1)	(751)	(1,051)	(1,362)
Share of other comprehensive expense of associates and joint ventures accounted for using the equity method	(1,279)	(8,498)	(579)
Other comprehensive expense for the year to be reclassified to profit or loss in subsequent periods	(17,044)	(24,751)	(2,303)
Total comprehensive expenses	**(51,780)**	**(42,127)**	**(33,629)**
Attributable to:			
Equity holders	(49,612)	(41,705)	(33,816)
Non-controlling interests holders	(2,168)	(422)	187
	(51,780)	**(42,127)**	**(33,629)**

1 Mainly relates to unwinding of hedge transactions in prior periods. The amounts are presented net of tax amounting to €250 thousand, €346 thousand and €522 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.

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

Consolidated Statement of Changes in Equity

Audited	Attributable to equity holders of the parent								
€ in '000	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, 2018	**25,276**	**206,482**	**37**	**31,637**	**5,586**	**(273,386)**	**(4,368)**	**3,542**	**(826)**
Adjustments on adoption of IFRS 15	–	–	–	–	–	688	688	–	688
Adjustments on adoption of IFRS 9	–	–	–	–	–	(7,246)	(7,246)	–	(7,246)
Balance as of January 1, 2018 (after adjustments on the adoption of IFRS 15 and IFRS 9)	**25,276**	**206,482**	**37**	**31,637**	**5,586**	**(279,944)**	**(10,926)**	**3,542**	**(7,384)**
Other comprehensive expense	–	–	(12,086)	–	(751)	–	(12,837)	(4,207)	(17,044)
Loss for the year	–	–	–	–	–	(36,775)	(36,775)	2,039	(34,736)
Total comprehensive expense	**–**	**–**	**(12,086)**	**–**	**(751)**	**(36,775)**	**(49,612)**	**(2,168)**	**(51,780)**
Share-based payment (Note 17)	–	–	–	–	2	–	2	289	291
Transaction with non-controlling interest (Note 20, 35)	–	–	–	–	–	1,039	1,039	4,077	5,116
Reclassification according to the Netherlands civil code requirements, net of tax (*)	–	–	–	(6,458)	–	6,458	–	–	–
Balance as of December 31, 2018	**25,276**	**206,482**	**(12,049)**	**25,179**	**4,837**	**(309,222)**	**(59,497)**	**5,740**	**(53,757)**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 7B and 16E).

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

Consolidated Statement of Changes in Equity (continued)

Audited € 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, 2017	**25,276**	**206,482**	**23,590**	**34,772**	**6,633**	**(259,420)**	**37,333**	**3,850**	**41,183**
Other comprehensive expense	–	–	(23,553)	–	(1,051)	–	(24,604)	(147)	(24,751)
Loss for the year	–	–	–	–	–	(17,101)	(17,101)	(275)	(17,376)
Total comprehensive expense	**–**	**–**	**(23,553)**	**–**	**(1,051)**	**(17,101)**	**(41,705)**	**(422)**	**(42,127)**
Share-based payment (Note 17)	–	–	–	–	4	–	4	77	81
Transaction with non-controlling interest (Note 20)	–	–	–	–	–	–	–	37	37
Reclassification according to the Netherlands civil code requirements, net of tax (*)	–	–	–	(3,135)	–	3,135	–	–	–
Balance as of December 31, 2017	**25,276**	**206,482**	**37**	**31,637**	**5,586**	**(273,386)**	**(4,368)**	**3,542**	**(826)**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 7B and 16E).

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

Consolidated Statement of Changes in Equity (continued)

Audited € 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 year	–	–	–	–	–	(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 17)	–	–	–	–	(146)	–	(146)	(527)	(673)
Dividend distributed to non-controlling interest holders	–	–	–	–	–	–	–	(379)	(379)
Disposal of a subsidiary	–	–	–	–	–	–	–	92	92
Transaction with non-controlling interest holders (Note 20)	–	–	–	–	–	(166)	(166)	–	(166)
Reclassification according to the Netherlands civil code requirements, net of tax (*)	–	–	–	(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 7B and 16E).

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

Consolidated Cash Flow Statement

Audited € in '000	Note	For the year ended December 31, 2018	2017	2016
Cash flow from operating activities				
Loss from continuing operations before taxes on income		(35,030)	(27,408)	(59,911)
Profit from discontinued operations before taxes on income	5	1,683	20,309	29,146
Adjustments to reconcile profit (loss) to net cash (see A below)		36,637	(43,097)	(21,179)
Net cash provided by (used in) operating activities		**3,290**	**(50,196)**	**(51,944)**
Cash flow from investing activities				
Acquisition of tangible fixed assets and investment properties		(8,211)	(13,641)	(7,764)
Investments and collecting (granting) of loans to companies accounted for using the equity method, net	8,9	12,757	3,274	(2,381)
Proceeds from sale of assets and investments in associates	5	56	22,738	2,813
Change in loans to bank customers, net		–	–	(6,404)
Change in long-term loans and receivables		–	(934)	(6,517)
Change in short-term investments		(2,923)	183	(7,335)
Disposal of a previously consolidated subsidiary (see B below)		–	(1,008)	103,670
Acquisition of a subsidiary (see C below)		(332)	(537)	–
Change in pledged deposits, net		–	1,519	(1,590)
Net cash provided by investing activities		**1,347**	**11,594**	**74,492**

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

Consolidated Cash Flow Statement (continued)

Audited € in '000	Note	For the year ended December 31,		
		2018	2017	2016
Cash flows from financing activities				
Repayment and of debentures	21	–	–	(86,458)
Change in loans from bank customers, net		–	–	(6,117)
Proceeds from long-term loans		–	117,304	14,481
Repayment of long-term loans		(16,540)	(106,076)	(1,391)
Change in short-term loans and borrowings, net		27,042	8,156	13,582
Increase of pledged deposit		16	–	–
Change in short-term deposits		–	176	–
Change in other long-term liabilities, net		1,306	5,538	(64)
Dividend to non-controlling interest holders of a subsidiary		–	–	(379)
Net cash provided by (used in) financing activities		**11,824**	**25,098**	**(66,346)**
Increase (decrease) in cash and cash equivalents		16,461	(13,504)	(43,798)
Foreign exchange differences relating to cash and cash equivalents		2,979	1,910	(1,797)
Change in cash of assets held for sale	5C	(4,631)	(9,049)	(40,542)
Cash and cash equivalents at the beginning of the year	15	37,140	57,783	143,920
Cash and cash equivalents at the end of the year	15	**51,949**	**37,140**	**57,783**

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

Consolidated Cash Flow Statement (continued)

Audited € in '000	Note	For the year ended December 31, 2018	2017	2016
A. Adjustments to reconcile net profit (loss) to net cash charges / (credits) to profit (loss) not affecting operating cash flows:				
Impairment of joint venture held for sale	5	3,323	–	–
Gain from disposal of investments in subsidiaries, net (see B below)	5	–	–	(15,861)
Share in loss (profit) of companies accounted for using the equity method, net	9,5	499	(17,770)	(2,869)
Gain on disposal of assets and investments in associates, net	5	(51)	(8,390)	–
Share-based payment		735	81	594
Depreciation and amortization		262	449	3,538
Fair value adjustments and impairment of investment properties	7	8,610	4,181	2,588
Financial expense and exchange differences, net		27,897	27,178	52,224
Capital gain from sale tangible fixed assets		(838)	(831)	(451)
Fair value adjustments of derivative financial instrument		(184)	240	–
Increase in provision for bad debts in the financial services operations		–	–	1,914
Changes in operating assets and liabilities:				
Change in trade and other receivables		(52,064)	(29,195)	(17,892)
Change in inventories		51,825	(13,918)	(5,565)
Change in contract work in progress, net of advances from customers		(52,056)	26,408	(2,740)
Change in trade and other payables		60,464	(18,453)	(2,422)
Dividend received	9	12,160	13,386	2,413
Interest paid		(14,696)	(16,781)	(56,565)
Interest received		1,062	304	22,464
Income taxes paid		(10,311)	(9,986)	(2,549)
		36,637	**(43,097)**	**(21,179)**

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

Consolidated Cash Flow Statement (continued)

Audited € in '000	Note	For the year ended December 31, 2018	2017	2016
B. Disposal of a previously consolidated subsidiaries				
Working capital (excluding cash and cash equivalents)		–	–	(68,489)
Non-current assets (excluding fixed assets and concession assets)		–	–	121,864
Fixed assets		–	–	11,231
Long-term liabilities		–	–	(2,108)
Recycling of reserves to the income statement		–	–	4,137
Gain on disposal of investment, net of tax		–	–	15,179
Asset classified as held for sale		–	(1,008)	21,856
		–	(1,008)	103,670
C. Acquisition of a subsidiary (in discontinued operation)				
Working capital (excluding cash and cash equivalents and bank borrowings)		2,120	726	–
Property, plant and equipment		(51)	(66)	–
Intangible assets		(745)	(237)	–
Goodwill		(1,656)	(960)	–
		(332)	(537)	–
D. Material non-cash transactions				
Reserve from transaction with NCI		1,047	–	–

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

Notes to the Consolidated Financial Statements

December 31, 2018

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.

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, 2018 was 1,517 (December 31, 2017 – 1,248) of which 141 are part of the real estate segments, 1,367 are part of the water infrastructure activity (discontinued operations – see Note 5) and 9 form the headquarters of the Company.

The registered office address of the Company is located at De Cuserstraat 85B, Amsterdam, the Netherlands.

The Company is listed for trade both in Amsterdam (the Netherlands) and Tel Aviv (Israel). The Company has prepared these non-statutory financial statements in order to meet Israeli reporting requirements to publish the Israeli 2018 annual report in Israel on or before March 31, 2019. The non-statutory financial statements do not include specific Dutch legal requirements. The Dutch statutory financial statements will be prepared in accordance with Dutch law and will be published by the Company at a later stage.

These non-statutory financial statements were approved by the Board of Directors of the Company on March 27, 2019.

For additional information included in the Israeli 2018 annual 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

a. As at December 31, 2018 the Company had, on a stand-alone basis and on a consolidated basis, a working capital deficit of €267 million and €217 million, respectively (excluding debentures held by subsidiaries), as a result of the classification of the debentures as short-term liabilities, see detailed below. For the year ended December 31, 2018, the Company recorded a (consolidated and on a stand-alone basis) net loss of €37 million, and generated positive cash flow from operating activities of €14 million on a stand-alone basis, and positive cash flow from operating activities of €3 million on a consolidated basis. In addition, as at December 31, 2018 the Company had a deficit of €59 million in its equity attributable to equity holders. The Company has not repaid the February 2018 principal and interest payments to the debenture holders and is in default according to the Deeds of Trust – see below.

b. On January 11, 2018 the Company announced that it would not be able to complete a transaction for the sale of its holdings in TGI in a manner that would enable the Company to meet the scheduled payments to the debenture holders in February 2018. Further to this announcement, the Company has not repaid the principal and interest payments which were due in February 2018. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, from March 31, 2018 and until the repayments are rescheduled, the debentures are presented as current liabilities. Management is currently conducting advanced discussions with the representatives of the Debenture Holders in order to reach an agreement on postponing the payments as part of a new debt settlement, see

also below.
In February 2018, following the announcement that the Company will not make the February 2018 repayments, Maalot, the Israeli subsidiary of Standard & Poor's, has adjusted the rating of the Company and its Debentures Series A and Series B to "D".

c. In October 2018, the Company has published the main principles of a debt settlement as negotiated and agreed with debenture holders series B, which include among others, the following: The principal amount of the Debentures and the interest rate will remain unchanged; the final repayment date of the Debentures will be postponed to December 2021, and in parallel the Company will commit to sell assets – and in relation to one asset, according to an agreed upon timetable – and to use the funds received from such disposals for early repayment of Debentures A and B, and other uses according to terms agreed with the representatives of the Debentures. In addition, the Company will pay each year interest at a rate of 4% p.a.; the remaining interest will be payable at each date the Company repays (part of) the principal of the Debentures; the Company shall issue to Debenture Holders A and B shares of the Company; the funds to be used for repayment will be used first to make the balance payments (as defined in the existing deeds of trust) to Debenture Holders B, and each subsequent amount will be repaid pro-rata to the two debenture series; each material transaction of the Company and its subsidiaries will be subject to approval of a joint meeting of the debenture holders A and B; a mutual exemption from claims shall be determined at a form to be agreed between the parties.
The negotiations with the trustee to debenture holders series B have been completed, and management was informed that as of the date of the approval of these financial statements, the discussions between series A and series B are in advanced stage and most issues have been agreed between the two series. It is noted that to reach a binding agreement the approval of both debenture holders is needed. Accordingly, management estimates that a debt settlement with the debenture holders will be signed in 2019.

d. In order to assess the liquidity position of the Company, management prepared a two-year liquidity analysis which indicates the required liquidity to be able to repay interest and principal of the Company's debentures 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 main source of cash for the Company, in order to repay its debt, will be generated from the sale of assets. The Company is conducting processes with a number of parties for the sale or allocation of its holdings in TGI, in order to meet its liabilities, according to the principles of the debt settlement being formulated with debenture holders (series A and B). In addition, the Company is acting to improve its assets in China; assuming the Company will have sufficient time to continue improving these assets, the Company estimates it will be able to maximize their value in future sales transactions while making an orderly sale. The Company expects that these actions will strengthen its financial and equity position. The Company estimates, in the abovementioned liquidity analysis, that the consideration will be received in 2019.

As mentioned above, the Company is working to advance negotiations with respect to the intended sale of TGI with a number of parties, and preparing alternatives in case such sale will be delayed. In view of the lack of certainty of completing these negotiations, including completing a sale transaction in the timetables agreed upon with the representatives of the debenture holders in particular, the option to include a provision in the arrangement with debenture holders to distribute

TGI shares to the debenture holders as repayment of the Company's debt is being considered.
For details regarding the financial position of TGI, see note 5C.
In addition, in January 2019 the Company signed an agreement to sell its investment in its joint venture AVIS Ukraine for a consideration of approximately USD 14.2 million. The investment is accordingly presented as held-for-sale as at December 31, 2018. On March 14, 2019 the transaction was completed.

As announced, according to the intentions of the Company, the net consideration to be received from the sale of AVIS Ukraine, together with funds available within the Company, and the additional amounts it expects to receive by March 31, 2019, amounting to a total of €38 million, will be used to repay the Company's debenture holders, upon the completion of the debt settlement.

e. The directors expect that, taking into account the current status of the discussions with the Debenture Holders and the expected terms of the debt settlement, and taking into account the process of realizing the holdings in TGI and the sale of AVIS Ukraine, and potential future value of the Company's assets in China, the Company has the ability to obtain the required resources for repaying its obligations and continue its business operations in the future. Management believes that a controlled sale of assets is in the best interest of all stakeholders. Accordingly, the directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

   However, the directors emphasize that the realization of the Company's plans depends on factors that are not within the Company's control, including the approval of debenture holders to a debt settlement, transaction value of the Company's assets, and macroeconomic developments, and therefore there is uncertainty that transactions for the sale of assets as aforesaid, will be completed according to the forecasted consideration and timing or that the discussions with the Debenture Holders will result in rescheduling of payments. These conditions indicate the existence of a material uncertainty which casts significant doubt regarding the Company's ability to continue as a going concern and therefore it may be unable to realize its assets in order to repay the principal and interest payments which were due in February 2018 and its other liabilities in the normal course of business.

   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 non-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.

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 (real estate projects 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, 2018.

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 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. 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, 2018.
The adoption of these amendments had a material impact on the current period or any prior period (for additional information see note 4Z and 4AA).

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.

Going Concern
The financial statements have been prepared on a going concern basis – for additional information see Note 1B.

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), 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. 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.

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.

Asset held for sale and discontinued operation
When certain conditions are met, the Company presents certain operations as discontinued and classify their assets and liabilities as held for sale. The company estimates that although TGI has been presented as Held for sale for more than one year the conditions of IFRS 5 are still met.

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 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 recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation 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 (both equity and loans) 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 initially recognized at cost and adjusted thereafter to recognize the Group's share of the 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. Any change in OCI of those investees is presented as part of the Group's OCI.

In addition, 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.

When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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.

When the group no longer applies the equity method 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 of the primary economic environment in which the entity operates. 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. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

E. 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 principal 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.

F. 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 sell 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 coordinated 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.

G. 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 shorter of 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.

H. 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 is initially stated at cost and subsequently is measured 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.

Investment properties 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 (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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.

I. APARTMENTS 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.

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.

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. INVESTMENTS AND OTHER FINANCIAL ASSETS

Classification

From 1 January 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.
For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The group reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition
Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Measurement
At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.
Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Impairment
From 1 January 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.
For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 12(c) for further details.

Debt instruments
Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other

gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

– FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments
The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Accounting policies applied until 31 December 2017
The group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Until 31 December 2017, financial assets within the scope of IAS 39 were 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.

Impairment of Financial assets
The Group assesses at each balance sheet date whether an impairment objective evidence of an impairment exists and such that the 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.

L. CASH AND CASH EQUIVALENTS

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

M. 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.

N. FINANCIAL LIABILITIES

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.
All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

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 as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. 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 recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 22.

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.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Until 31 December 2017, financial liabilities within the scope of IAS 39 were 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.

O. 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.

P. 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.

Q. 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 17.

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 33).

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 17. 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 17 and 20).

R. LEASES

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) 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.

S. REVENUE RECOGNITION

The accounting policy applied as of January 1, 2018 in respect of revenue recognition is as follows:

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.

Sale of apartments
The Group develops and sells residential properties. Revenue is recognised when or as the control of the goods or service is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the properties may be transferred over time or at a point in time. In most cases for the Company it will at a point in time. Revenue is recognised when a performance obligation is satisfied by transferring control of the promised properties to a customer in an amount that reflects the consideration expected to be collected in exchange for those properties.

The Group determines whether control of a property is transferred to a customer over time or at a point in time based on the analysis of the following three criteria. Revenue is recognised over time if any of such criteria are met that the Group:
- provide all of the benefits received and consumed simultaneously by the customer; or
- create and enhance an asset that the customer controls as the Group perform; or
- do not create an asset with an alternative use of the Group and the Group have an enforceable right to payment for performance completed to date.

A performance obligation is satisfied at a point in time if none of the above criteria for satisfying a performance obligation over time are met.

The revenue is measured at the transaction price agreed under the contract. In most cases, the consideration is due when legal title has been transferred. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component.

The costs related to the real estate development incurred during the construction period are capitalised in inventory. Once revenue is recognised, the costs in respect of sold units are expensed.

The accounting policy applied until December 31, 2017 in respect of the revenue recognition is as follows:

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 generated by the Group's water infrastructure activities.

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 generated by the Company's real estate activity.

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.

T. 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.

U. 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.

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 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.

V. 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.

W. 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.

X. 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.

Y. 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.

Z. CHANGE IN ACCOUNTING POLICIES

The impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with costumers on the Group's financial statements:

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 of financial assets measured at fair value and amortized cost. In July 2017 the IASB confirmed the accounting for modifications of financial liabilities under IFRS 9. That is, when a financial liability measured at amortized cost is modified without this resulting in an extinguishment, a gain or loss should be recognized in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

In July 2015, the terms of the debentures issued by the Company in 2008 were changed. During the period of application of IAS 39, it was determined that in case of an unsubstantial modification in the terms of a financial liability, which does not lead to the extinguishment of the financial liability, the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate is amortized over the remaining term of the modified liability.

Under IFRS 9, even if the change is considered immaterial, it immediately affects the debentures financial liability, which is measured after the change as the present value of the balance of the new contractual cash flows discounted at the original effective interest rate and the difference between the financial liability in the books (in its original terms) The new consideration is charged as an expense to the statement of profit or loss. As a result of the initial implementation of IFRS 9, the balance of debentures as at January 1, 2018 was changed from €302,106 thousand to €309,352 thousand, against an increase in deficit for an amount of €7,246 thousand as at the said date. As the Company has not yet reached a debt settlement, the contractual cash flows which were in place as of 31 December 2017 have been used to calculate the impact.

As described in Note 2D regarding the first-time implementation of International Financial Reporting Standard No. 15 - Revenues from Customer Contracts ("the Standard"), the Company applied IFRS 15 in accordance with the transitional directive. The company did not use the practical expedients. The modified retrospective application allows recognition of the cumulative effect of the initial application as an adjustment of the opening balance of retained earnings in the period of initial application as at January 1, 2018 in the amount of €0.7 million. Comparative prior period/year are not adjusted.

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

IFRS 16 Leases

International Financial Reporting Standard 16 Leases (IFRS 16) replaces IAS 17 Leases, and 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. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (leases with a lease term of 12 months or less).

IFRS 16 will be effective retrospectively for annual periods beginning on or after January 1, 2019, taking into account the reliefs specified in its transitional provisions.

At the commencement date of a lease, the Company, as a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The Company estimates that the impact expected of IFRS 16 adoption on its Consolidated Financial Statements, may result in lease assets and liabilities in the approximate amount of € 8.4 million, causing an increase in operating activity in its cash flows in the approximate amount of €320 thousand, and a decrease in the Group's cash flow from financing activities in the approximate amount of €464 thousand. The impact of IFRS 16 adoption on the Group's consolidated statement of income is expected to be in an insignificant amount.

The Group will elect to use the exemptions proposed by the standard on 'low value' and short term lease contracts.

IAS 28 – Investment in associates and joint ventures

The IASB has issued a narrow scope amendment to IAS 28. The amendment clarifies that long-term interests in an associate or joint venture to which the equity method is not applied, should be accounted for using IFRS 9. The application of this amendment will become effective from 1 January 2019. Management of the Company does not anticipate that the application of the amendment will have a significant impact on the Company's financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 "Income Tax" are applied where there is uncertainty over income tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that approach will be accepted by the tax authority. Uncertainty may exist until the relevant taxation authority or a court takes a decision in the future. Consequently, a dispute or examination of a particular tax treatment by the taxation authority may affect an entity's accounting for a current or deferred tax asset or liability arising from that tax position. IFRIC 23 provides guidance as to accounting for the following income tax-related uncertainties:

- How an entity determines the measurement unit for considering the accounting treatment (i.e. whether an entity needs to consider uncertain tax treatments separately).
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, relating to uncertainties.
- How an entity considers changes in facts and circumstances.

IFRIC 23 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted. The company examines the expected impact of IFRIC 23 on its financial statements.

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

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

Kardan Land China or KLC – Kardan Land China Ltd.

KLC Group – Kardan Land China, its subsidiaries and joint ventures

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 and indirect holding as of December 31	
			2018	2017
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
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
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
	Tahal Angola Ltd.	Angola	70	70
	Tahal Consulting Engineers India Pvt. Ltd.	India	100	100
	Evergreen for Development B.V.	The Netherlands	100	100
	Tahal Romania Ltd.	Romania	100	100
	Tahal Russ	Russia	100	100
	Sterna B.V.	The Netherlands	90.75	91.3
	TMNG Ltd.	Israel	62.9	65

Holding company	Name of subsidiary	Country of incorporation	% equity interest by the direct and indirect holding as of December 31	
			2018	2017
Tahal Group Assets B.V.	Task Water B.V.	The Netherlands	100	100
	Agri Products N.V.	The Netherlands	51	51
	Food-Yard Holding JSC	Bulgaria	44.6	44.6
	Mast Foods S.A.	Greece	60.7	60.7

B Significant transactions and business combinations

1. Sale of the investment in Joint venture – TBIF Dan Leasing ('Avis Ukraine')

Subsequent to the balance sheet, in January 2019, KFS, a 100% subsidiary of Kardan, signed an agreement to sell its 66% stake in TBIF Dan Leasing Limited ('TDLL') and its shareholder's loans to its partner in TDLL, Universal Transportation Solutions Ltd. ('UTS'). TDLL is the sole shareholder of 'company with Foreign Investment VIP Rent' which operates the AVIS franchise in the Ukraine ('AVIS Ukraine').

The consideration for KFS' 66% stake in TDLL will amount to USD 14.2 million (approximately €12.4 million).

In accordance with IFRS 5, the investment in Avis Ukraine is presented as Held for Sale and measured at the lower of carrying amount and fair value less costs to sell, which resulted in devaluation of the investment of approximately €3.3 million in the fourth quarter of 2018. The transaction was completed on March 14, 2019. Following the completion of the transaction, the company estimate it will release a capital reserve in the amount of €1.3 million.

2. 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 prior to 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 was reduced to €5 million after one year. According to an agreement between the parties, in August 2018 additional €1 million was released from pledge, and the pledge on the remaining €4 million was extended till March 2019. Subsequent to the balance sheet date on March 2019 the pledge was removed.

As a result of the transaction, the Company recorded in 2016 a profit of approximately €15 million

3. Sale of Star Pump Storage

On June 7, 2017, Water Planning for Israel Ltd. (‘WPI’), signed an agreement for the sale of its entire holdings (40.5%) in Star Pumped Storage Ltd. to Noy Fund (‘the Agreement’ and ‘the Buyer’, respectively), for a total consideration of NIS 81 million (approximately € 20 million) in a two-part transaction.

In addition, in July and December 2017 WPI received an amount of NIS 37 million (approximately €8.9 million) as reimbursement of expenses and repayment of loans granted to the project company on behalf of third parties.

Following the transaction, the Company recognized in 2017 a gain of €8.4 million (before tax) which is included in ‘Net profit from discontinued operations’.

C. Discontinued operations and assets held for sale

Further to Note 1B above, due to the various sale transactions conducted by the Company, the terms of classifying the investment in TGI and Avis Ukraine as Held-For-Sale and its results as discontinued operations, in accordance with IFRS 5, were met. In 2016, following the sale of TBIF (as described in 5B above), the results of TBIF were classified as discontinued operations.

Regarding the financial position of TGI, see also 5 below.

1) Assets held for sale and liabilities associated with assets held for sale:

€ in '000	December 31, 2018			December 31, 2017
	TGI	Avis Ukraine	Total	TGI
Assets				
Trade receivable	72,111	–	72,111	96,401
Accrued income	50,603	–	50,603	–
Other current assets	48,668	–	48,668	35,730
Tangible fixed assets, net	17,689	–	17,689	19,822
Other non-current assets	25,731	–	25,731	22,352
Cash and cash equivalents	13,680	–	13,680	9,049
Investment in Joint venture Avis Ukraine	–	12,427	12,427	–
Total assets	**228,482**	**12,427**	**240,909**	**183,354**
Liabilities				
Interest bearing loans and borrowings	50,195	–	50,195	21,903
Advances from customers	35,987	–	35,987	48,147
Other liabilities	98,146	–	98,146	62,748
Total liabilities	**184,328**	**–**	**184,328**	**132,798**
Net asset value	**44,154**	**12,427**	**56,581**	**50,556**

2) Net (loss) profit from discontinued operations:

€ in '000	For the year ended December 31, 2018			For the year ended December 31, 2017			For the year ended December 31, 2016			
	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	TBIF *	Total
Income	–	175,397	175,397	–	176,442	176,442	–	138,455	20,545	159,000
Operating and finance expenses and Share of profit of investments accounted for using the equity method, net	908	(171,677)	(170,769)	2,429	(166,357)	(163,928)	1,528	(134,425)	(13,297)	(146,194)
Other income, net	–	378	378	–	7,795	7,795	–	480	–	480
Profit before tax	908	4,098	5,006	2,429	17,880	20,309	1,528	4,510	7,248	13,286
Income tax expenses, net	–	1,994	1,994	–	5,097	5,097	–	3,444	796	4,240
Profit from discontinued operations	908	2,104	3,012	2,429	12,783	15,212	1,528	1,066	6,452	9,046
Discontinued operation items related to the sales transactions:										
Net loss from devaluation of investment - Avis	(3,323)	–	(3,323)	–	–	–	–	(144)	–	(144)
Capital gain	–	–	–	–	–	–	–	–	19,316	19,316
Release of capital reserves due to sale	–	–	–	–	–	–	–	–	(4,137)	(4,137)
Net (loss) profit from discontinued operations	(2,415)	2,104	(311)	2,429	12,783	15,212	1,528	922	21,631	24,081
Attributable to:										
Equity holders	(2,415)	65	(2,350)	2,429	12,582	15,011	1,528	918	21,631	24,077
Non-controlling interest holders	–	2,039	2,039	–	201	201	–	4	–	4
	(2,415)	2,104	(311)	2,429	12,783	15,212	1,528	922	21,631	24,081

* The results of TBIF for the period July 1st till August 11 2016 were immaterial, therefore the figures presented in the table above are for the six months period ended June 30, 2016 plus the gain from the sale of TBIF.

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

€ in '000	For the year ended December 31, 2018			For the year ended December 31, 2017			For the year ended December 31, 2016			
	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	TBIF *	Total
Net cash used in operating activities	(2,415)	(19,280)	(21,695)	2,429	(27,821)	(25,392)	1,528	(8,378)	(3,672)	(10,522)
Net cash (used in) provided by investing activities	–	(7,219)	(7,219)	–	3,401	3,401	–	16,919	38,714	55,633
Net cash provided by (used in) financing activities	–	28,347	28,347	–	13,940	13,940	–	12,876	(138)	12,738

* The results of TBIF for the period July 1st till August 11 2016 were immaterial, therefore the figures presented in the table above are for the six months period ended June 30, 2016 plus the gain of the sale of TBIF.

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

€ in '000	For the year ended December 31, 2018			For the year ended December 31, 2017			For the year ended December 31, 2016			
	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	TBIF *	Total
Adjustments arising from translating financial statements of foreign operations	409	(13,338)	(12,929)	(1,919)	(3,746)	(5,665)	589	1,903	4,135	6,627
Change in hedge reserve, net	–	–	–	–	(13)	(13)	–	203	–	203
Total other comprehensive income (expense)	409	(13,338)	(12,929)	(1,919)	(3,759)	(5,678)	589	2,106	4,135	6,830
Attributable to:										
Equity holders	409	(9,280)	(8,871)	(1,919)	(3,345)	(5,264)	589	1,897	4,135	6,621
Non-controlling interest holders	–	(4,058)	(4,058)	–	(414)	(414)	–	209	–	209
	409	(13,338)	(12,929)	(1,919)	(3,759)	(5,678)	589	2,106	4,135	6,830

* The results of TBIF for the period July 1st till August 11 2016 were immaterial, therefore the figures presented in the table above are for the six months period ended June 30, 2016 plus the gain from the sale of TBIF.

5) Financial position of a subsidiary:

a) In 2018 TGI had EUR 17.3 million negative cash flows from operating activities (2017: EUR 27.8; 2016: EUR 8.4 million, negative in both years).

b) TGI uses short term credit lines from banks and financial institutions to finance its operations. As a result of the delays in receiving advance payments from certain projects, TGI had to extend some of those credit lines. TGI management estimates that these credit lines will be extended if needed.

c) One of TGI's group companies did not meet certain covenants in relation to a short-term credit from a bank, for which a waiver was received subsequent to the balance sheet date (see also note 24).

d) Management of TGI expects a positive outcome regarding all uncertain events described above, i.e. that the credit lines will be approved, and the advance payments will be received. In order to address any adverse outcome that may result from some or all of the uncertain events as described above, TGI developed a contingency plan which, if needed, should generate sufficient positive cash flows as of the date of the approval of these financial statements, even if the credit lines are not approved, the waiver from the bank is not granted nor extended, and the advance payments are not received during the above-mentioned period.

e) The external auditor of TGI issued for group reporting purposes an opinion with an emphasis of matter referring to the matters described above.

D. Collaterals

As of December 31, 2018, the shares the Company (indirectly) owns in GTC RE, KLC, KFS, TGI, and EI XII are pledged in favor of the trustees of the Company's debenture holders.

E. Dividend

The following dividend amounts were received in the reporting period:

€ in '000	2018	2017
Subsidiaries	17,500	19,430

6 Tangible fixed assets

€ in '000	Motor vehicles	Office furniture and equipment	Leasehold improve-ments	Total
2018				
Cost:				
Balance as of January 1, 2018	189	1,540	1,014	2,743
Additions	–	307	80	387
Disposals	–	(9)	–	(9)
Exchange rate differences	(1)	(31)	(6)	(38)
Balance as of December 31, 2018	**188**	**1,807**	**1,088**	**3,083**
Accumulated depreciation:				
Balance as of January 1, 2018	136	1,090	890	2,116
Depreciation for the year	18	216	28	262
Disposals	–	(7)	–	(7)
Exchange rate differences	(1)	(30)	(5)	(36)
Balance as of December 31, 2018	**153**	**1,269**	**913**	**2,335**
Net book value December 31, 2018	**35**	**538**	**175**	**748**

€ in '000	Motor vehicles	Office furniture and equipment	Leasehold improve-ments	Buildings	Production equipment	Total
2017						
Cost:						
Balance as of January 1, 2017	1,589	7,630	2,826	7,813	20,178	40,036
Additions	7	326	94	–	–	427
Disposals	–	(5)	–	(1,965)	–	(1,970)
Exchange rate differences	(12)	(57)	(62)	(94)	–	(225)
Reclassification of Assets as held for sale	(1,395)	(6,354)	(1,844)	(5,754)	(20,178)	(35,525)
Balance as of December 31, 2017	**189**	**1,540**	**1,014**	**–**	**–**	**2,743**
Accumulated depreciation:						
Balance as of January 1, 2017	949	4,756	1,377	1,264	18,001	26,347
Depreciation for the year	18	158	200	28	–	404
Disposals	–	(3)	–	(163)	–	(166)
Exchange rate differences	(8)	(24)	(51)	(9)	–	(92)
Re classification of Assets as held for sale	(823)	(3,797)	(636)	(1,120)	(18,001)	(24,377)
Balance as of December 31, 2017	**136**	**1,090**	**890**	**–**	**–**	**2,116**
Net book value December 31, 2017	**53**	**450**	**124**	**–**	**–**	**627**

7 Investment property

A General

As of December 31, 2018 and 2017 investment property solely comprises the shopping mall in the city of Dalian, China ('Galleria Dalian').

B The movements in investment property are as follows:

€ in '000	2018	2017
Opening balance	221,089	240,461
Capital expenditure	2,281	–
Fair value adjustments (1)	(8,610)	(4,181)
Foreign currency translation differences	(1,183)	(15,191)
Closing balance	**213,577**	**221,089**
Total accumulated unrealized gains as of the end of the period which recognized in the statement of profit and loss	33,572	42,182

(1) The fair value adjustment in 2018 includes an impairment of capital expenditure in the amount of €2.3 million

The investment property is pledged as security to a loan (see Note 18).

C Fair value adjustments comprise:

€ in '000	For the year ended December 31,		
	2018	2017	2016
Valuation loss from investments properties completed in prior years	(8,610)	(4,181)	(2,588)

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.

As of December 31, 2018 and 2017, a weighted average between the DCF Approach and the Direct Comparison Method has been adopted to assess the fair value of the investment property.

Significant assumptions used in the valuation of the investment property:

	December 31, 2018	December 31, 2017
DCF method		
Estimated rental value per sqm per month (in €)	34	35
Discount rate	10.5%	10.5%
Rental growth	10%-15% (Y) 1-6 8% (Y) 7-8 5% (Y) 9-10	10%-20% (Y) 1-6 and thereafter 5% p.a.
Terminal cap rate	5.25%	5.5%
Occupancy rate	93%-97%	80%-97%
Capitalization rate	6.5%	6.5%
Direct Comparison method		
Adopted unit rate (RMB/sqm)	16,579	16,587

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, 2018
Increase of 25 BP in discount rate and terminal cap	(9,557)
Decrease of 25 BP in discount rate and terminal cap	10,576
Increase of 5% in estimated rental income	10,067
Decrease of 5% in estimated rental income	(9,940)
Increase in general vacancy by 1%	(2,676)

8 Investments in associates

Main associates include:

Holding company	Name of associate	% of ownership and control by the direct holding company as of		
		December 31, 2018	December 31, 2017	Country
Tahal Group B.V.	Agroquiminha	20.0	20.0	Angola
Tahal Group Assets B.V.	MVV Water Utility Pvt Ltd.	23.0	23.0	India

The entire balance of investment in associates is presented under assets held for sale.

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 by the direct holding company as of December 31, 2018	2017	Country	Nature of activities
Kardan Land China Limited	Shenyang Taiying Real Estate Development Ltd. (***)	–	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	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 of establishments for producing drinking water
Sitahal 'Hagal' (Talia) Partnership *	Energy Hagal- Talia Partnership	50.0	50.0	Israel	Biogas 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	Holding
Kardan Financial Services B.V.**	TBIF-Dan Leasing Ltd.	66.0	66.0	Cyprus	Holding

* These joint ventures are included in 'Assets held for sale' therefore are not included in the below tables.

** KFS has a joint control agreement with its 34% partner in this company, therefore the Company does not consolidate TBIF-Dan Leasing Ltd. in its financial statements. As of December 31, 2018 the investment is presented as 'Assets held for sale'. See note 5.

*** During 2018 the joint venture was liquidated.

B The composition of the investment in joint venture is as follows:

€ in '000	December 31, 2018 *	December 31, 2017
Total of equity investments	25,356	52,122
Goodwill	–	6,498
Deemed cost on real estate projects (**)	193	202
Less impairments	(2,435)	(8,933)
	23,114	49,889
Loans and other long-term balances	14,859	25,432
Total investment in joint ventures	**37,973**	**75,321**

* During the year 2018 dividend in the amount of €12 million was distributed from joint venture companies.
** 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, 2018	December 31, 2017
In EUR	–	7,022	7,017
In EUR	3 months Euribor + 3.5%	–	2,952
In EUR	6 months Euribor + 3.5%	–	2,520
In USD	–	7,816	12,338
In USD	6 months libor + 3.5%	–	581
In HKD	–	21	24
		14,859	**25,432**

The movement in 2018 is due to repayment of loan from joint ventures and reclassification of investment as 'Held for Sale'.
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,		
	2018	2017	2016
(Loss) profit from continuing operations	(2,273)	11,329	160
Other comprehensive expense	(1,008)	(6,302)	(1,345)
Total comprehensive (expense) income	(3,281)	5,027	(1,185)

The total investment in immaterial joint ventures amounts to €22 million.

E Summary of financial data of material joint venture company 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, 2018	December 31, 2017
Current assets (not including cash and cash equivalent)	93,374	83,640
Cash and cash equivalent	33,858	27,342
Non-current assets	15,020	13,390
Current liabilities	(5,903)	(6,702)
Current financial liabilities	(104,505)	(88,496)
Total equity attributed to the owners	31,844	29,174
% held in the joint venture	50	50
Total investment in joint ventures	**15,922**	**14,587**

Summary of financial data from the income statement:

€ in '000	For the year ended December 31,		
	2018	2017	2016
Revenues from operations	31,376	60,712	35,040
Cost of operations	(18,193)	(40,066)	(21,537)
Selling and marketing, other expenses and administrative expenses (of which depreciation and amortization expenses amounted to €1 million, €0.4 million and €0.15 million for the year 2018,2017 and 2016 respectively)	(4,237)	(7,178)	(5,262)
Interest income	–	–	25
Other Financial income	963	120	–
Profit before tax	9,909	13,588	8,266
Income tax expenses	(2,378)	(3,396)	(3,614)
Profit for the year	7,531	10,192	4,616
% held of the joint venture	50	50	50
Group's share of profit for the year	**3,765**	**5,096**	**2,308**
Total other comprehensive income attributed to equity holders	7,326	7,038	3,382
% held of the joint venture	50	50	50
Group share of the total other comprehensive income	**3,663**	**3,519**	**1,691**

F Additional information

Kardan Land China

1. *Capital commitments:*
   As of December 31 2018, KLC's share in the contractual commitments of its joint ventures amount to €18,765 thousand (December 31, 2017: €21,034 thousand).

2. *Guarantees:*
   As of December 31, 2018, the joint ventures of KLC provided guarantees amounting to €42.5 million (December 31, 2017: €24.5million) 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 KLC , 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 KLC 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 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, 2018	December 31, 2017
Long term loans	2,597	–
Long term prepaid expenses	1,259	5,407
Other	22	2,716
	3,878	**8,123**

11 Apartments inventory, contract work and merchandise inventory

Composition:

€ in '000	December 31, 2018	December 31, 2017
Apartments inventory (1)	64,734	117,900

(1) Apartments inventory:

a. As of December 31, 2018 and 2017 inventory in the amount of €56,427 thousand and €55,325 thousand, respectively, is pledged as security for a loan (see also Note 24).

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, 2018	December 31, 2017
Current:		
Completed	8,307	12,675
Under construction	56,427	105,225
	64,734	**117,900**

d. Buildings and apartments inventory is stated in gross figures. Advances from apartment buyers are presented under current liabilities and amount to €32,509 thousand as of December 31, 2018 (December 31, 2017: €61,208 thousand).

e. During the past year the Group entered into 105 sale contracts of apartments (in 2017 - 112 contracts), for which the total consideration is estimated at €29.9 million (RMB 233.7 million) (in 2017 - €26.9 million). As of December 31, 2018, the aggregated number of signed contracts of existing projects for which revenues were not recognized amounts to 148 contracts (in 2017 – 72) for which the aggregated revenues is estimated at approximately €42.4 million (RMB 331 million) (in 2017 - €17.6 million).

f. Additional information concerning long-term construction works in inventory:

€ in '000	Residential construction		Residential construction	
	For the year 2018	Cumulative up to the end of the reporting period	For the year 2017	Cumulative up to the end of the reporting period
Revenues recognized	72,711	153,669	8,556	80,958
Cost recognized	69,002	141,510	7,993	72,508

12 Trade receivables

A Composition:

€ in '000	December 31, 2018	December 31, 2017 *
Trade receivables	9,207	6,751
Less provision for doubtful debts	(1,791)	(1,350)
	7,416	**5,401**

Trade receivables are non-interest-bearing and are generally on 0-120 days terms.

B As of December 31 the aging analysis of trade receivables, net of provision for doubtful debts is as follows:

€ in '000	Neither past due nor impaired	Past due (net of impairment)						Total
		< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	120 – 365 days	> 365 days	
2018	3,443	2,344	306	239	202	412	470	7,416
2017	3,310	336	434	89	244	946	42	5,401

C Movement in the provision for doubtful debts:

€ in '000	2018	2017
Opening balance	1,350	5,390
Reclassification to assets as held for sale	–	(4,666)
Addition during the year	1,056	685
Collection during the year	(605)	(83)
Foreign currency translation	(10)	24
Closing balance	**1,791**	**1,350**

13 Other receivables and prepayments

€ in '000	December 31, 2018	December 31, 2017
VAT receivable	43	43
Receivables from joint ventures of KLC	854	817
Prepaid expenses	1,577	3,271
Deposit receivable	393	1,280
Other	648	275
	3,515	**5,686**

14 Short-term investments

	Average interest rate	December 31, 2018	December 31, 2017
	%	€ in '000	€ in '000
Bank deposits in NIS	0%-0.5%	5	7
Bank deposits in RMB	1.1%-4.4%	10,704	6,793
Restricted bank deposits in RMB	0.4%	2,549	–
Restricted bank deposits in EUR	0%	4,169	5,169
		17,427	**11,969**

15 Cash and Cash Equivalents

€ in '000	December 31, 2018	December 31, 2017
Cash at bank and in hand	51,508	26,480
Short-term deposits *)	441	10,660
	51,949	**37,140**

* As of December 31, 2018 and 2017 the range of the annual interest rate earned on short-term deposits was 0.5%-1.5%.

16 Issued and Paid-In Capital

A Composition

Number of shares	December 31, 2018		December 31, 2017	
	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 2017 and 2018 there were no movements in the issued and paid-in shares.

	Number of shares	Par value in €
Balance as of December 31, 2017 and 2018	123,022,256	24,604,451

C Changes in share capital and treasury shares

During 2018, 2017 and 2016, no transactions took place.

D Dividend

In 2018 and 2017, the Company did not distribute dividends.

E Restrictions on distribution

In accordance with the Netherlands civil code, part of the retained earnings is restricted for distribution following the regulation to maintain reserves in respect of unrealized fair value revaluation of real estate ('Property Revaluation Reserve'), cash flow hedges, foreign currency translation differences on investment in foreign operations, and equity gains from associates and joint ventures ('Other revaluation reserve').

It is further noted that according to the Deeds of Trust there are limitations of distribution of dividend: dividend will not be distributed before 75% of the debentures outstanding as at December 31, 2014 are repaid.

17 Share-Based Payments

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

€ in '000	For the year ended December 31		
	2018	2017	2016
Expense arising from equity-settled share-based payment transactions of the Company and the subsidiaries	2	4	254
Expense arising from cash-settled share-based payment transactions of a subsidiary	–	–	339
	2	**4**	**593**

The expenses are presented as part of 'Payroll and related expenses' within the General and administrative expenses (see Note 29 and Note 4Q).

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.

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). In August 2015 the plan was modified. According to the modification, the exercise price would be €0.2807 or NIS 1.191 and 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 grant was accounted for assuming equity settlement and the total expense booked in the year was less than €2 thousand and were included in 'General and administration expenses' in the income statement.

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:

	2018		2017	
	No.	WAEP NIS	No.	WAEP NIS
Outstanding on January 1	100,000	1.191	250,000	1.191
Expired during the year		1.191	(150,000)	1.191
Outstanding on December 31	100,000	1.191	100,000	1.191
Exercisable on December 31	100,000	1.191	91,743	1.191

In 2017 150,000 options expired due to termination of two contracts of 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) TGI (discontinued operations)

a. In March 2016, 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. The exercise price was determined at USD 1,594 per option, reflecting TGI's value post distributions in 2015 and 2016.

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 using the Black & Scholes model. The exercise price of the options amounts to €1,567 per option (after adjustments).

c. In March 2013, TGI granted two senior employees stock options totaling to 2.2% of TGI's issued and paid-in capital (185 options). TGI accounted for these options as equity settled based on B&S model, the total fair value of the options is €0.6 million. The exercise price of the options amounts to €1,794 per option (after adjustments). The options can be exercised until March 31, 2019.

d. During 2012, the supervisory board and the general meeting of shareholders of TGI approved a grant 797 options, constituting approximately 3% of the shares of TGI at that time, post-issuance to the CEO of TGI. 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 amounts to €1,370 per option (after adjustments). The options can be exercised until December 31, 2018. 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, assuming equity payments will be affected.

The following table lists the inputs to the models used to determine the fair value of the equity-settled share-based payments:

	2016	2014	2013	2012
Number of options granted	560	499	185	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	$1,594	€1,567	€1,794	€1,370
Weighted average share value	$6,131	$6,360	€3,495	€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:

	2018 No.	2017 No.	2018 WAEP €	2017 WAEP €
Outstanding on January 1	2,041	2,041	1,787	1,497
Granted for the year	–	–	–	–
Outstanding on December 31	2,041	2,041	1,787	1,497
Exercisable on December 31	2,041	2,041	1,787	1,497

On November 19, 2018 the Supervisory Board of TGI has approved an extension of the options of certain executives, which were about to expire. The extension was granted through September 30, 2019. The total benefit of the extension is approximately USD 0.3 million and was calculated by the Company using the Black&Scholes model.

18 Non-Current Interest-Bearing Loans and Borrowings

A Composition

	December 31, 2018		December 31, 2017	
	Weighted interest rate as of %	€ in '000	Weighted interest rate as of %	€ in '000
Banks:				
Others – In RMB *	11.6-13.3	100,797	11.6-13.3	115,120
Less:				
– Current maturities		(13,510)		(10,187)
		87,287		**104,933**

* On October 24, 2017 the Project Company, Kardan Land Dalian HK Ltd. (as a pledgee) and KLC (as a guarantor) have entered into the agreement with two subsidiaries of the investment fund China Hua Rong International Holding Ltd.: Hua Rong (China) Investment Management Ltd ('HR Beijing') and Hua Rong Holdings (Shenzhen) Equity Investment Fund Management Ltd. ('HR Shenzhen') in China and with China Merchant Bank Dalian Shahekou Branch ("CMB Dalian") regarding a credit facility of RMB 900 million (€ 115 million) for a period of 3 years. The credit facility will primarily be used to refinance the outstanding debt from the Fund amounting to RMB 800 million as at December 31, 2017, and remaining RMB 100 million, will be used to finance the additional funding requirement of Europark Dalian project.

During 2018, the Company made an early repayment in the amount of €16.5 million.

For additional information regarding collaterals and covenants, see Note 24A.

B. Maturities

€ in '000	December 31, 2018	December 31, 2017
First year	13,510	10,187
Second year	87,287	–
Third year	–	104,933
	100,797	**115,120**

19 Other Long-Term Liabilities

€ in '000	December 31, 2018	December 31, 2017
Deferred revenues	1,033	1,054

20 Financial instruments: Options and warrants

€ in '000	December 31, 2018	December 31, 2017
PUT option liability	678	1,306

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. In 2018, the parties entered into an agreement cancelling 50% of the PUT option. As a result of the cancellation an amount of €0.4 million was recorded in the non-controlling interest reserve.

21 Debentures

A Composition

	Par value (net) as of December 31, 2018	Balance as of December 31, 2018	Balance as of December 31, 2017	Nominal Interest rate	Effective interest rate	Currency and linkage	Maturities principal
	NIS	€ in ‘000	€ in ‘000	%	%		
Issuer							
The Company – 2007	160,993,886	45,560	46,420	6.325	4.45%	(1)	2017-2018
The Company – 2008	832,452,875	237,143	237,740	6.775	4.9%	(1)	2017-2020
		282,703	284,160				
Less – current maturities		(282,703)	(95,452)				
		–	188,708				

(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) The Company has not repaid the principal and interest payments which were due in February 2018. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, from March 31, 2018 and until the repayments are rescheduled, the debentures are presented as current liabilities. For additional information see note 1B.

(3) *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.

The settlement also included an increase to the interest rate as well as register primary, an exclusive pledges with no limitations of amounts over all of the Group's interests in GTC RE, KLC, KFS, TGI, EMERGING (the 'Pledged Subsidiaries'). In addition, to secure the Company's commitments, KLC provided a guarantee in favor of the trustees limited to an amount of €100 million. 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.

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.

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%. As of December 31, 2018 the Company did not meet the abovementioned coverage ratio. For additional details see Note 24.

Restrictions on business activities

It was agreed that the Company and its subsidiaries will have certain restrictions which related mostly to initiate any new business activity, making new investments and shall not be allowed to raise any new credit.

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.
The adoption of IFRS 9 as of January 1, 2018 resulted in a change of the accounting of modifications of financial liabilities. For additional information, see Note 4Z.

(4) 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).

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

As at December 31, 2018, 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).

For details regarding financial covenants and pledges, please refer to the above and to Note 24.

22 Interest-bearing loans and borrowings

€ in '000	December 31, 2018	December 31, 2017
Current maturities:		
Loans (see Note 18)	13,510	10,187
Debentures (see Note 21)	282,703	95,452
	296,213	**105,639**

23 Other payables and accrued expenses

€ in '000	December 31, 2018	December 31, 2017
Financial:		
Accrued expenses	68,969	50,032
Payroll and related expenses	997	987
Payable to joint ventures of KLC accounted using the equity method	12,426	8,917
Deposit from tenants	2,928	2,349
Other	1,981	1,480
	87,301	**63,765**

24 Liens, contingent liabilities and commitments

A Financial covenants, Liens and collaterals:

1. Financial Covenants

a The Company's financial covenants, as defined within the framework of the Deeds of Trust, as described in Note 21 above, relate to the debt coverage ratio of the Company. Non-compliance with the debt coverage ratio for five consecutive quarters would be considered as a breach of the covenants. As at December 31, 2018, the Company did not meet the coverage ratio as agreed with the Company's debenture holders. In addition, in February 2018, the Company did not make the scheduled repayments to the debenture holders. Accordingly, as of the date of this report, the debenture holders have the right to call the debentures for immediate repayment.

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. As of December 31, 2018 TGI Group companies met all their financial covenants except for one subsidiary that is not in compliance with certain covenants relating to one of its short-term credit lines, for which a waiver had been received subsequent to the balance sheet date.

c KLC Group committed towards a financial institutions which granted a construction loan amounting to up to RMB 900 million, to meet an initial loan-to-value ratio of not more than 50%. As of December 31, 2018 the covenant was met.

2. Pledges

a Within the framework of the Deeds of Trust, as described in Note 21 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, KLC, EI XII, TGI and KFS, certain bank accounts, and the Company's debentures held by the subsidiaries GTC RE and EI XII.

b As of December 31, 2018 long-term loans amounting to €98.3 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 in 2016, 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, this amount was reduced to € 5 million after one year and reduced to €4 million in August 2018 which expected to be released in March 2019.

3. Guarantees

a As of December 31, 2018 and 2017, TGI provided bank guarantees in an aggregated amount of approximately €101.4 million and €65.9 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, 2018, Kardan Land China provided guarantees of €8,410 thousand (December 31, 2017 - €1,328 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 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.

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 Deeds of Trust, refer to Note 21.

b As of December 31, 2018 Kardan Land China Group had commitments of €4.5 million (December 31, 2017: €10.2 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 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 TGI and ZRB; (2) TGI 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.

On May 1, 2017 the above mentioned Cooperation Framework with ZRB was amended in order to include cooperation in Zambia as well.

d With respect to such guarantees provided in joint ventures 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, 2018 and 2017:

€ in '000	2018	2017
First year	7,397	4,714
Second to fifth year	18,272	19,621
After the fifth Year	11,201	19,131
	36,870	**43,466**

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 €1.4 million (2017 - €0.7 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, 2018 and 2017:

€ in '000	2018	2017
First year	2,311	2,520
Second to fifth year	4,957	6,566
After the fifth Year	3,259	3,346
	10,527	**12,432**

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, 2018 and 2017:

€ in '000	2018	2017
First year	1,487	1,537
Second to fifth year	619	2,178
	2,106	**3,715**

d KLC leases various offices under non-cancellable operating lease agreements. The lease terms are up to 1 year, and the majority are renewable at market rate. The total commitment as of December 31, 2018 amounts to €0.2 million (December 31, 2017 - €0.5 million).

e KNV leases offices under non-cancellable operating lease agreements. The lease period is 5 years ending on December 31, 2022.

Future minimum rental payables:

€ in '000	2018	2017
First year	93	56
Second year	93	93
Third year	111.4	93
Forth year	111.4	111.4
Fifth year	–	111.4
	408.8	**464.8**

25 Operating segments

A. General:

The Group's operating businesses are organized and managed separately. Each segment represents a strategic business activity that offers different products and serves different markets. The segmentation was determined by the Company's CODM – the CEO 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.

Real Estate

The real estate activities are incorporated under GTC RE and currently include real estate in China. The real estate activity is divided into 2 separate segments: the development and sale of residential property, and the development and lease of investment properties ('Real Estate development' segment and 'Real Estate investment property' segment). For comparative purposes, 2016 segment information was retroactively adjusted in accordance with the updated segment presentation.

The CODM examines the various segments performances in terms of various line of activity on the basis of the segment revenues, cost of sales, selling and marketing expenses, and general and administration expenses. The Investment Property segment also includes adjustments to fair value of investment property. The Real Estate Development segment also includes the share in the profit of investments accounted for using the equity method, which comprise a significant part of the results of this segment of operations.

Water Infrastructure

Further to Note 1B above, due to the sale process of the Company's holdings in TGI, as of March 31, 2017 the terms of classifying the investment in TGI (as Held-For-Sale and its results as discontinued operations, in accordance with IFRS 5, were met.

Accordingly, starting the first quarter of 2017, the results of TGI are no longer presented as an operating segment and are included in 'Profit (loss) from discontinued operations'.

B Segments results

For the year ended December 31, 2018:

€ in '000	Real Estate		
	Development	Investment property	Total
Revenues	73,634	5,824	79,458
Fair value adjustments of investment property	–	(8,610)	(8,610)
Total income	73,634	(2,786)	70,848
Share in profit of investment accounted using the equity method	1,491	–	1,491
Segment result	5,490	(10,890)	(5,400)
Unallocated expenses			(5,927)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net			(11,327)
Finance expenses, net			(23,703)
Loss before income tax			(35,030)
Income tax benefit			(605)
Loss from continuing operations			(34,425)
Loss from discontinued operations			(311)
Loss for the period			**(34,736)**

For the year ended December 31, 2017:

€ in '000	Real Estate		Total
	Development	Investment property	
Revenues	9,275	5,748	15,023
Fair value adjustments of investment property	–	(4,181)	(4,181)
Total income	9,275	1,567	10,842
Share in profit of investment accounted using the equity method	16,424	–	16,424
Segment result	15,331	(7,440)	7,891
Unallocated expenses			(7,823)
Profit from operations and share in profit of investment accounted using the equity method before finance expenses, net			68
Finance expenses, net			(27,476)
Loss before income tax			(27,408)
Income tax expense			5,180
Loss from continuing operations			(32,588)
Profit from discontinued operations			15,212
Loss for the period			**(17,376)**

For the year ended December 31, 2016:

€ in '000	Real Estate		Other	Total
	Development	Investment property		
Revenue	1,670	6,866	2,572	11,108
Fair value adjustments of investment property	–	(2,588)	–	(2,588)
Total income	1,670	4,278	2,572	8,520
Share in profit of investment accounted using the equity method	2,468	–	–	2,468
Segment result	1,563	(6,175)	(873)	(5,485)
Unallocated expenses				(7,058)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net				(12,543)
Finance expenses, net				(47,368)
Loss before income tax				(59,911)
Income tax benefit				(4,504)
Loss from continuing operations				(55,407)
Profit from discontinued operations				24,081
Loss for the period				**(31,326)**

C Segments assets

€ in '000	December 31, 2018	December 31, 2017
Real Estate – Residential	107,506	176,320
Real Estate – Commercial	219,186	232,326
	326,692	408,646
Assets held for sale (former water infrastructure segment and investment in Avis Ukraine)	240,909	183,354
Unallocated assets (*)	77,290	76,576
	644,891	**668,576**

* Most unallocated assets relate to cash balances at the level of the holding companies.

D Segments liabilities

€ in '000	December 31, 2018	December 31, 2017
Real Estate – Residential	68,193	101,538
Real Estate – Commercial	10,127	7,958
	78,320	**109,496**
Liabilities associated with assets held for sale (former water infrastructure segment)	184,328	132,798
Unallocated liabilities (*)	436,000	427,108
	698,648	**669,402**

* 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, 2018	2017	2016
China	79,458	15,023	8,536
Bulgaria and Romania	–	–	2,572
	79,458	**15,023**	**11,108**

The Company does not have any income generating activity in the Netherlands.

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

€ in '000	December 31, 2018	December 31, 2017
China	214,211	221,587
Other	114	128

Non-current assets include investment properties and property plant and equipment.
The Company does not have material 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		
	2018	2017	2016
Costumer A	57,251	–	–

26 Cost of sale

A. Rental cost:

€ in '000	For the year ended, December 31		
	2018	2017	2016
Payroll and related expenses	12	12	127
Property management fee	22	103	221
Utility fees	178	209	74
Property Tax	911	922	1,020
Others	22	100	51
	1,145	**1,346**	**1,493**

B. Cost of apartment sold:

€ in '000	For the year ended, December 31		
	2018	2017	2016
Land Cost	21,869	2,847	240
Construction Cost	36,958	3,863	325
Project Management and supervision	3,588	298	25
Finance Cost	3,179	508	46
Other	3,408	477	40
	69,002	**7,993**	**676**

27 Management fees and other expenses, net

€ in '000	For the year ended December 31,		
	2018	2017	2016
Payroll and related expenses	730	918	1,551
Property management fee	376	110	639
Cleaning related cost	128	150	159
Safety and engineering system management fee	328	240	200
Car park management fee	137	183	459
Utility fees	663	681	830
Other	455	565	1,683
	2,817	**2,847**	**5,521**

28 Selling and marketing expenses

€ in '000	For the year ended December 31,		
	2018	2017	2016
Payroll and related expenses	746	728	792
Commissions	338	205	31
Marketing and advertising	1,907	3,225	1,772
Other	1,092	1,510	1,165
	4,083	**5,668**	**3,760**

29 General and administrative expenses

€ in '000	For the year ended December 31,		
	2018	2017	2016
Payroll and related expenses (*)	3,740	3,891	6,042
Share-based payment (see Note 17)	2	4	193
Management fees	439	876	741
Office maintenance	520	921	932
Professional fees	2,447	2,471	1,503
Depreciation and amortization	86	84	89
Other	892	1,933	1,001
	8,126	**10,180**	**10,501**

* Payroll and related expenses are as follows:

€ in '000	For the year ended December 31,		
	2018	2017	2016
Wages and salaries	3,142	3,230	5,128
Unemployment contributions	429	419	626
Other social expenses	169	242	288
	3,740	**3,891**	**6,042**

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

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

€ in '000	For the year ended December 31,		
	2018	2017	2016
Gain (loss) on disposal of investment in companies (1)	2,322	–	(1,734)
Gain (loss) from sale of fixed assets	–	836	39
Other	(815)	–	115
	1,507	**836**	**(1,580)**

1 In 2018 the amount is due to liquidation of a JV in China. In 2016, relates to revaluation of the remaining mortgage activity in light of its disposal.

31 Financial income and expenses

€ in '000	For the year ended December 31, 2018	2017	2016
Income:			
Income from bank deposits	621	373	314
Exchange differences, net	11,082	6,335	–
Other	110	137	161
Total financing income	**11,813**	**6,845**	**475**
Expenses:			
Interest on long-term loans and borrowings	11,083	11,758	13,124
Interest on debentures	20,378	21,038	19,990
Exchange differences, net	–	–	14,110
Devaluation of warrant	–	–	236
Other	4,055	1,525	383
Total financing expenses	**35,516**	**34,321**	**47,843**

32 Taxes on income

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

For 2018 and 2017, 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 and 2014 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.

Amendments of Dutch fiscal unity regime announced

The Company is the parent of a fiscal unity for Dutch corporate income tax purposes with its subsidiaries GTC Real Estate Holding B.V. and Emerging Investments XII BV.

On 22 February 2018 it was ruled by the European Court of Justice that some elements of the Dutch fiscal unity regime are not compatible with EU law. In response to this decision, the Dutch government published draft legislation to amend the Dutch fiscal unity regime. In short, the legislative proposal as published on 6 June 2018 stipulates that for the application of certain provisions a fiscal unity would be deemed not to exist. These provisions include certain interest deduction limitation rules, specific elements of the participation exemption rules and loss relief rules in case of change of ownership. If enacted, the Dutch fiscal unity regime will be amended with retroactive effect to 1 January 2018.

The Company is in the process of analyzing the impact of the proposed amendment of the fiscal unity regime on the 2018 corporate income tax position of all Dutch group companies that are part of a fiscal unity. As there is no final legislation available yet, it is not possible to quantify the impact at this stage, if at all.

Changes in Dutch corporate income tax law that might impact the tax position of Kardan N.V.

The following amendments of the Dutch CITA as per 1 January 2019 could impact the tax position of the Company for financial years as of 2019:

- The statutory Dutch corporate income tax rates will be reduced in the period 2019 through 2021. The standard rate of currently 25% will be reduced to 22.55% in 2020 and 20.5% in 2021, while the step-up rate of currently 20% for the first € 200.000 taxable profit will be reduced to 19% in 2019, 16.5% in 2020 and 15% in 2021.
- The carry forward of losses (on which the Company has not recorded any deferred tax assets) is restricted to six years, for fiscal years starting 1 January 2019.
- The interest deduction limitation rule of Section 13L CITA will be abolished as per 1 January 2019.
- As per 1 January 2019, a new interest deduction limitation rule will become effective (the earnings stripping rule). The earnings stripping rule is a general interest deduction limitation which limits the deduction of the surplus of interest expenses based on a fixed percentage of the gross operating income (EBITDA). Based on this rule, net borrowing costs on debt attracted

from both related and unrelated parties by a Dutch taxpayer will only be tax-deductible up to the higher of 30% of a taxpayer's corrected taxable profit, or a threshold of € 1 million. The non-deductible amount of net borrowing costs can be carried forward indefinitely in time.
- As per 1 January 2019, the Netherlands introduced Controlled Foreign Company-rules (or CFC-rules). Based on these rules, all undistributed passive income of a CFC will be included in the Dutch taxpayer's taxable income. A CFC is defined as (i) a foreign entity in which the Dutch taxpayer has a direct or indirect interest of more than 50% (vote or value) or (ii) a permanent establishment of a Dutch taxpayer, which foreign entity or permanent establishment is tax resident of a country that is either on the EU Blacklist or has a statutory CIT-rate of <9% (exhaustive list of such countries will be published by the Ministry of Finance on an annual basis). The CFC-rules will however not apply if the CFC carries out genuine economic activities in the foreign jurisdiction.

The Company is in the process of analyzing the (potential) impact of these amendments on its Dutch CIT-position for 2019.

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 2018 to the Dutch Tax Authorities, it has the obligation to prepare a Master file and Local file for financial year 2018 before filing of the 2018 corporate income tax return. The Company is currently in the process of preparing a Master file and Local file for financial year 2018

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

Country	Tax rate	
	2018	2017
Bulgaria	10%	10%
China	25%	25%
Hong-Kong	16.5%	16.5%
Israel	23%	24%
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,		
	2018	2017	2016
Current taxes	649	1,544	34
Tax expenses related to previous years	(22)	20	(228)
Deferred taxes (see also E below)	(1,232)	3,616	(4,310)
	(605)	**5,180**	**(4,504)**

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, 2018	2017	2016
Accounting loss	(35,030)	(27,408)	(59,911)
Tax (tax benefit) expense computed at the statutory tax rate 25%	(8,757)	(6,852)	(14,978)
Increase (decrease) in tax expense (tax benefit) due to:			
Carry forwards tax losses for which no deferred tax assets were recognized	4,928	10,299	9,529
Adjustment in respect to tax of previous years	(22)	20	(227)
Share of results of investments accounted using the equity method	(373)	(4,106)	427
Withholding tax for dividends distributed from joint ventures	407	1,277	–
Impact of different tax rates	3,078	4,385	727
Other	134	157	18
	(605)	**5,180**	**(4,504)**

E Composition of deferred taxes

€ in '000	Consolidated statement of financial position		Recorded in the income statement		
	December 31, 2018	December 31, 2017	Movement for the year ended December 31,		
			2018	2017	2016 *
Deferred income (tax liabilities) tax assets with respect to:					
Investment properties	(8,142)	(10,778)	(2,149)	(588)	(646)
Carry forwards losses available for offset against future taxable income	3,074	4,223	681	4,224	(3,807)
Differences in measurement basis	426	664	219	–	785
Timing differences of projects	–	–	–	–	(1,039)
Other	–	–	–	–	(10)
	(4,642)	**(5,891)**	**(1,249)**	**3,636**	**(4,717)**

* In 2016 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, 2018	December 31, 2017
Net deferred income tax asset (Non-current)	313	464
Net deferred income tax liability (Non-current)	(4,955)	(6,355)
	(4,642)	**(5,891)**

A Losses carry-forwards and final tax assessments

Under the 2018 Dutch Tax legislation the carry back of losses is restricted to one year and furthermore the carry forward of losses (on which the Company has not recorded any deferred tax assets) is restricted to nine years. The accumulated unused tax losses up to 2018 of Kardan N.V. company-only amount to €315.1 million (according to the filed 2017 tax return, net of tax losses evaporated as per 1 January 2018). The tax losses expire as follows: €17.5 million on 1 January 2019, €85.5 million on 1 January 2020, €29.1 million on 1 January 2021, €41.1 million on 1 January 2023, €24.1 million on 1 January 2024, €61.7 million on 1 January 2025, €39.5 million on 1 January 2026, and €16.7 million on 1 January 2027.

The Company received final tax assessments up to and including the year 2014. The Company does not expect the year 2018 to result with a tax liability.

In September 2017, TCE signed a final tax assessment with the Israeli tax authorities for the years 2011 until and including 2014. Subsequently TCE recorded an additional tax expense in the amount of €1.9 million. These tax expenses are included in the income statement as part of 'Profit from discontinued operation, net'.

33 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	2018	2017	2016
Net loss attributable to ordinary equity holders of the parent (€ in thousands)	(36,775)	(17,101)	(31,330)
Effect of dilution of losses of group companies	–	(83)	(10)
	(36,775)	**(17,184)**	**(31,340)**
Weighted average number of ordinary shares for basic earnings per share (in thousands)	123,022	123,022	123,022
Effect of dilution:			
Shares options	–	–	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**123,022**	**123,022**	**123,022**

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, 2018, 2017 and 2016.

To calculate earnings per share amounts for discontinued operations, the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The profit (loss) used is €(311) thousand, €15,212 thousand and €24,081 thousand for the years 2018, 2017 and 2016, respectively.

34 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) Liquidity risk including maturity profile of financial assets, liabilities and guarantees;
3) Foreign currency risk including sensitivity analysis;
4) Market risk;
5) Price risk;
6) Political risk;
7) Credit risks;
8) Interest rate 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.

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.

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.

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.

Risk management structuring
The Board of Kardan N.V. and of each Group company is 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. The risk is spread among the different activities of the Kardan Group and in the countries of operation. The diversification of the businesses (investment property and development real estate, infrastructure projects) as well as collateral management are useful risk mitigation tools as well. In addition, management may change its targets 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 (PRC, India, CEE, CIS, etc.); industry diversification (real estate and water infrastructure); product diversification (investment property and development real estate, different operations of water infrastructure projects).

2) 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 Company has not repaid the principal and interest payments which were due in February 2018. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, from March 31, 2018 and until the repayments are rescheduled, the debentures are presented as current liabilities. Management is currently conducting advanced discussions with the representatives of the Debenture Holders in order to reach an agreement on postponing the payments as part of a new debt settlement.

The main liquidity risk of the Company is meeting its future obligations to repay the principal and interest to the Company's Debenture Holders as will be agreed on in the new agreement. The Company manages this risk by preparing a liquidity analysis which indicates the required liquidity to be able to repay interest and principal of the Company's debentures 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. It should be noted that the realization of the Company's plans depends on factors that are not within the Company's control and therefore there is uncertainty that such transactions will be completed at all (for additional information see note 1B).

With respect to TGI subsidiary, as of December 31 2018 TGI group has several available short term credit lines. In view of delays in obtaining advances from certain projects, the TGI Group extended these credit lines. As at the date of approval of the financial statements, the Company's management estimates that it will be possible to extend all the credit lines used by it. In order to deal with the uncertainty regarding the required liquidity, the TGI management prepared an emergency plan that includes an efficiency plan, the execution of transactions for the sale of assets and the creation of a sufficient positive cash flow in 2019. For further details, see Note 5.

The following tables present the payment dates for financial liabilities as of December 31, 2018 and 2017. The table includes repayment as per forecasted cash flow not capitalized. The table includes repayments of principal and interest. The calculation of the expected interest is done as per an estimation based on the repayment table for the financial liabilities.

Liquidity table 2018:

€ in '000	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
Liabilities					
Trade payables	23,400	–	–	–	23,400
Other payables and accrued expenses	15,173	38,287	7,899	–	61,359
Interest-bearing loans and borrowings	2,995	61,550	110,225	–	174,770
Debentures	317,007	–	–	–	317,007
Other long-term liabilities	–	–	–	1,073	1,073
Total liabilities	**358,575**	**99,837**	**118,124**	**1,073**	**577,609**

Liquidity table 2017:

€ in '000	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
Liabilities					
Trade payables	11,389	11,090	–	–	22,479
Other payables and accrued expenses	13,045	41,586	3,277	–	57,907
Interest-bearing loans and borrowings	3,445	34,490	13,658	126,529	178,122
Debentures	113,688	–	109,018	102,514	325,220
Other long-term liabilities	–	–	–	1,052	1,052
Total liabilities	**141,567**	**87,166**	**125,953**	**230,095**	**584,780**

3 Foreign currency risk

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.

Because of the Company's activities in different countries, it is exposed to changes in the exchange rates of different currencies including Euro, US Dollar, RMB, Cuanza and NIS. In order to mitigate these risks the Group companies evaluate, from time to time, the need to hedge the different currencies transactions.

Most of the Company's assets are denominated in RMB whereas it has NIS denominated debt. Consequently, changes in the currency rates have a significant effect both on Kardan NV's results and equity. Foreign currency changes during 2018 had a material effect on the Group's financial statements, in light of the strengthening of EUR against the RMB.

Linkage terms of monetary balances:

As of December 31, 2018:

€ in '000	In euros	In US dollars	In NIS (Israel)	In RMB (China)	In AOA (Angola)	In INR (India)	In Rub (Russia)	In other currencies	Non-monetary	Reconciliation (*)	Total
Assets											
Property and equipment	–	–	–	–	–	–	–	–	18,436	(17,688)	748
Investment properties	–	–	–	–	–	–	–	–	213,577	–	213,577
Goodwill	–	–	–	–	–	–	–	–	9,150	(9,150)	–
Investments in companies accounted for using the equity method	11,651	7,817	–	–	–	–	–	65	27,740	(9,300)	37,973
Long-term receivables	2,619	–	1,554	–	–	–	–	–	1,259	(1,554)	3,878
Deferred tax assets	–	–	–	–	–	–	–	–	3,930	(3,617)	313
Inventory	–	–	–	–	–	–	–	–	86,326	(21,592)	64,734
Trade receivables	9,871	20,258	22,179	7,416	14,678	45,266	10,420	42	–	(122,714)	7,416
Other receivables	762	893	1,110	982	–	739	1,732	1,303	27,338	(28,892)	5,967
Short-term investments	4,344	–	124	13,253	–	–	–	–	–	(294)	17,427
Cash and cash equivalents	22,047	14,242	6,513	16,046	1,172	1,564	2,426	1,620	–	(13,681)	51,949
Assets classified as held for sale	12,427	–	–	–	–	–	–	–	–	228,482	240,909
	63,721	**43,210**	**31,480**	**37,697**	**15,850**	**47,569**	**14,578**	**3,030**	**387,756**	**–**	**644,891**
Liabilities											
Deferred tax liability	–	–	–	–	–	–	–	–	6,104	(1,149)	4,955
Interest-bearing loans and borrowing	2,687	43,869	4,512	100,800	–	431	–	–	–	(51,502)	100,797
Options	–	3,228	–	–	–	–	–	–	–	(2,550)	678
Debentures	–	–	282,703	–	–	–	–	–	–	–	282,703
Other long-term liabilities	300	–	5,853	–	461	–	–	128	1,033	(6,742)	1,033
Other payables and accrued expenses	2,745	1,820	40,320	45,416	-	12,530	13,589	147	33,902	(63,168)	87,301
Trade payables	4,509	196	5,599	3,087	1,351	5,940	2,164	555	–	(20,242)	3,159
Advances from customers in respect of contracts	–	–	–	–	–	–	–	–	35,987	(35,987)	–
Advances from apartment buyers	–	–	–	–	–	–	–	–	32,509	–	32,509
Income tax payable	–	–	–	–	–	–	–	–	4,173	(2,988)	1,185
	10,241	**49,113**	**338,987**	**149,303**	**1,812**	**18,901**	**15,753**	**830**	**113,708**	**(184,328)**	**514,320**
Differences between assets and liabilities	**53,480**	**(5,903)**	**(307,507)**	**(111,606)**	**14,038**	**28,668**	**(1,175)**	**2,200**	**274,048**	**184,328**	**130,571**

* Reconciliation due to the reclassification of TGI and Avis as Held for Sale.

As of December 31, 2017:

€ in '000	in Euros	In US Dollars	In NIS (Israeli)	In RMB (China)	In Rub (Russia)	In other currencies	Non-monetary	Reconciliation (*)	Total
Assets									
Property and equipment	–	–	–	–	–	–	20,449	(19,822)	627
Investment properties	–	–	–	–	–	–	221,089	–	221,089
Goodwill	–	–	–	–	–	–	6,908	(6,908)	–
Investments in companies accounted for using the equity method	15,876	18,971	–	–	–	23	49,453	(9,002)	75,321
Long-term receivables	667	–	1,133	2,563	–	–	5,537	(1,777)	8,123
Deferred tax assets	–	–	–	–	–	–	3,111	(2,647)	464
Inventory	–	–	–	–	–	–	129,999	(12,099)	117,900
Trade receivables	11,105	11,044	62,653	5,401	1,676	9,923	–	(96,401)	5,401
Other receivables	3,530	8,006	1,705	1,461	67	5,767	12,024	(25,372)	7,188
Short-term investments	5,346	–	105	6,793	–	–	–	(275)	11,969
Cash and cash equivalents	7,583	4,348	5,668	25,498	853	2,241	–	(9,051)	37,140
	44,107	**42,369**	**71,264**	**41,716**	**2,596**	**17,954**	**448,570**	**(183,354)**	**485,222**
Liabilities									
Deferred tax liability	–	–	–	–	–	–	7,538	(1,183)	6,355
Interest-bearing loans and borrowing	1,806	16,248	4,518	115,122	–	–	–	(32,761)	104,933
Options	–	3,740	–	–	–	–	–	(2,434)	1,306
Debentures	–	–	284,160	–	–	–	–	–	284,160
Other long-term liabilities	3,628	1,572	4,251	–	–	–	1,054	(9,451)	1,054
Other payables and accrued expenses	3,898	–	25,694	44,846	–	5,051	10,724	(16,261)	73,952
Trade payables	6,916	7,370	1,336	2,195	30	4,632	–	(20,185)	2,294
Advances from customers in respect of contracts	–	–	–	–	–	–	48,147	(48,147)	–
Advances from apartment buyers	–	–	–	–	–	–	61,208	–	61,208
Income tax payable	–	–	–	–	–	–	3,718	(2,376)	1,342
	16,248	**28,930**	**319,959**	**162,163**	**30**	**9,683**	**132,389**	**(132,798)**	**536,604**
Differences between assets and liabilities	**27,859**	**13,439**	**(248,695)**	**(120,447)**	**2,566**	**8,271**	**316,181**	**(50,556)**	**(51,382)**

* Reconciliation due to the reclassification of TGI as Held for Sale.

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:

€ in '000	Sensitivity to change in EUR\USD Effect on profit and loss			
	+10%	+5%	-5%	-10%
2018	(1,152)	(2,305)	1,152	2,305
2017	(119)	(59)	59	119

€ in '000	Sensitivity to change in EUR\NIS Effect on profit and loss			
	+10%	+5%	-5%	-10%
2018	(32,387)	(16,193)	16,193	32,387
2017	(30,359)	(15,179)	15,179	30,359

€ in '000	Sensitivity to change in RMB/EUR Effect on profit and loss			
	+10%	+5%	-5%	-10%
2018	(1,931)	(966)	966	1,931
2017	(2,813)	(1,406)	1,406	2,813

€ in '000	Sensitivity to change in EUR/AOA Effect on profit and loss			
	+50%	+10%	-10%	-50%
2018	7,019	1,404	(1,404)	(7,019)

The sensitivity analysis of the EUR/AOA in the year 2017 was immaterial.

€ in '000	Sensitivity to change in Israeli CPI Effect on profit and loss			
	+3%	+2%	-2%	-3%
2018	(8,481)	(5,654)	5,654	8,481
2017	(8,595)	(5,730)	5,730	8,595

4) Market risk

Market risk is the risk that the fair value or future cash flows from a financial instrument will change as a result of changes in market prices. Market risk includes three types of risk: interest rate risk, currency risk, and other price risks such as share price risk and commodity price risk. Financial instruments that are affected by market risk include, inter alia, loans and credit, deposits and investments available for sale.

The Company operates in different segments, mainly emerging markets. The Group is exposed to structured risks in developing countries, especially political and others that include economic and local legal matters.

Achieving the Group's objectives in emerging markets depends on, among others, the pace of economic development of these markets and in particular the pace of development of the real estate sector and water infrastructure sectors. Low development pace in these markets and sectors may have a negative impact on Group's business objectives.

The Group operates in investment property and development real estate in China, water infrastructure activities mostly in CEE, India and Africa. In addition, the Group operates in the car leasing business in the Ukraine (which was sold in 2019). The Company closely monitors the economic developments in the countries of operations and directs management and financial resources to and from these regions based on its current 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.

In the water infrastructure activities the company operates, among others in Africa, a region that is exposed to frequent political changes. These changes might influence the economic status and cause economical, fiscal and monetary instability and frequent changes in the economic legislation. As a result, the company's activity in Africa might be negatively affected including its ability to continue to operate and to collect debts.

A change in trends in these countries may negatively affect the Groups 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.

5) Price risk

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.

The Group does not have a material exposure to financial instruments which are impacted by market prices, therefore it has no significant price risk.

6) 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 on the Group's activities, as well as an impact on the results and financial positions of the Group. The management is mitigates the risks which might derive from changes in the political trends by strict supervision, keeping up with changes and working closely with consultants in the field and relevant countries.

7) Credit risk

Credit risk is the risk that the counterparty will not meet its obligations as a customer or its liabilities arising from a financial instrument and as a result the Group will incur a loss. 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, 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. It should be noted that for TGI, most of its customers are various government and municipal entities, and the projects usually include a guaranteed financial closing. However, there are delays, sometimes significant, in payments that may cause the Group losses due to the need to use credit lines.

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 12 for more information regarding trade receivables and their aging analysis.

As of December 31, 2018 and 2017, cash and cash equivalent amounted to €51,949 thousand (not including an amount of €13,681 thousand of TGI which are included in the 'Assets held for Sale') and €37,140 thousand, respectively, and deposits in banks amounted to €4,169 thousand (not including an amount of €293 thousand of TGI which are included in the 'Assets held for Sale') and €11,969 thousand, respectively (see Note 14 and 15). All deposits are deposited with highly rated financial institutions primarily in the countries of operation. As of December 31, 2018, the Group operates primarily in PRC, where a majority of the banks and financial institutions are endorsed by the national credit and therefore the credit risks for banks and financial institutions are considered remote.

Maximum exposure to credit risk
The sum of all financial assets presented in the table 9B 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.

8) Interest-rate risk

Interest risk is the risk that the fair value or future cash flows from a financial instrument will change as a result of changes in market interest rates.

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.

9 Fair value disclosure:

Fair value risk is the risk that the book value of the financial instruments measured at fair value would vary as a result of market conditions.

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 2018			Fair value 2018			Comment
		Carrying value	Reconciliation *	Total	Fair value	Reconciliation *	Total	
Assets								
Short-term investment		17,721	(294)	17,427	17,721	(294)	17,427	1
Long-term loans and receivables		5,432	(1,554)	3,878	5,432	(1,554)	3,878	5
Loans to associates and joint ventures		19,533	(4,674)	14,859	19,533	(4,674)	14,859	3
Liabilities								
Debentures	(1)	322,844	–	322,844	84,674	–	84,674	2
Interest-bearing loans and borrowings		152,301	(65,014)	87,287	152,301	(65,014)	87,287	3
Financial instruments - options	(3)	3,228	(2,195)	1,033	3,228	(2,195)	1,033	4

€ in '000	Methods of determining fair value	Carrying amount 2017			Fair value 2017			Comment
		Carrying value	Reconciliation *	Total	Fair value	Reconciliation *	Total	
Assets								
Short-term investment		12,244	(275)	12,169	12,244	(275)	12,169	1
Long-term loans and receivables		9,899	(1,776)	8,123	9,899	(1,776)	8,123	5
Loans to associates and joint ventures		34,337	(8,905)	25,432	34,337	(8,905)	25,432	3
Liabilities								
Debentures	(1)	301,484	–	301,484	177,856	–	177,856	2
Interest-bearing loans and borrowings		137,692	(22,572)	115,120	137,692	(22,572)	115,120	3
Financial instruments - options	(3)	3,740	(2,434)	1,306	3,740	(2,434)	1,306	4

(*) Reconciliation due to the reclassification of TGI as Held for Sale.

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 14 and 15 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 21 for additional information. The carrying value includes accrued interest in the amount €40,142 thousand for 2018 and €17,325 thousand in 2017.
3) As of December 31, 2018 and 2017 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 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 20 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, 2018 € in '000	Level 1	Level 2	Level 3	Reconciliation *	Total
Financial assets:					
Held for trading securities and other	12,937	–	–	(119)	12,818
Financial liabilities at fair value through profit or loss:					
Warrant and call option	–	–	2,550	(2,550)	–
Put option	–	–	678	–	678

9.2 Fair value levels schedule:

December 31, 2017 € in '000	Level 1	Level 2	Level 3	Reconciliation *	Total
Financial assets:					
Held for trading securities and other	100	–	–	(100)	–
Financial liabilities at fair value through profit or loss:					
Warrant and call option	–	–	2,434	(2,434)	–
Put option	–	–	1,306	–	1,306

* Reconciliation due to the reclassification of TGI as Held for Sale.

During 2018 and 2017 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

2018

€ in '000	As of January 1, 2018	Fair value gain (loss) recorded in P&L	Disposals	As of December 31, 2018
Put option	(1,306)	184	444	(678)

2017

€ in '000	As of January 1, 2017	Fair value gain (loss) recorded in P&L	Disposals	Reconciliation (*)	As of December 31, 2017
Warrants and call options	(2,745)	311	–	2,434	–
Put option	(976)	(330)	–	–	(1,306)
Phantom options	(245)	6	239	–	–
Total liabilities	**(3,966)**	**(13)**	**239**	**2,434**	**(1,306)**

D Changes in financial liabilities that the cash flows from which are classified as cash flows from financing activities

2018

€ in '000	Short term loans and credit	Long term loans	Total
Opening balance	21,617	121,759	143,376
Cash received	27,778	1,531	29,309
Cash paid	(744)	(26,822)	(27,566)
Amounts recorded in P&L	(79)	7,420	7,419
Amounts recorded in other comprehensive income			
– foreign currency translation	(443)	(50)	(493)
Closing balance	48,129	103,916	152,045

2017

€ in '000	Short term loans and credit	Long term loans	Total
Opening balance	13,333	112,247	125,580
Cash received	9,245	122,842	132,087
Cash paid	(1,091)	(106,076)	(107,167)
Amounts recorded in P&L	(18)	(7,221)	(7,239)
Amounts recorded in other comprehensive income			
– foreign currency translation	148	(33)	115
Closing balance	**21,617**	**121,759**	**143,376**

E. 9.4 IFRS 9 classification of financial assets and liabilities:

€ in '000	December 31, 2018	December 31, 2017
Financial assets:		
Cash and cash equivalent, loans and receivables	257,137	220,029
	257,137	**220,029**
Financial liabilities:		
Financial liabilities presented at amortized cost	578,115	536,037
Financial liability through P&L	2,524	2,601
Put option (See note 20)	678	1,306
FIMI liability	2,550	2,434
	583,867	**542,378**

35 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

€ in '000	Note	December 31, 2018	December 31, 2017
		Joint ventures	Joint ventures
Trade receivables	12	798	743
Other receivables and prepayments	13	854	817
Loans and long-term assets	8, 9	19,302	25,432
Other payables and accrued expenses	23	12,426	8,917

B. Transactions

€ in '000	Note	Joint ventures	Fellow subsidiaries
For the year ended December 31, 2018:			
Management fee, net		962	(48)
Finance income	31	109	–
For the year ended December 31, 2017:			
Management fee, net		765	(109)
Finance income	31	137	–
For the year ended December 31, 2016:			
Management fee, net		960	(162)
Finance income	31	137	–

1) On December 2018, Tahal Angola Lda, a subsidiary of Tahal Group B.V. (70%) had signed a shareholders Agreement with a non-controlling interest holder, according to which approximately USD13.8 million were converted into equity capital according to an approved shareholders scheme, which is different from their current holdings. As a result of the transaction, the Company recorded €1 million in reserve.

2) Management fees for the years 2018, 2017 and 2016 relate mostly to management fees from joint ventures received by Kardan Land China. Finance income from joint ventures are from loans granted to joint ventures.

3) In May 2017 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 January 1, 2017, the scope of services will be reduced and accordingly, the corresponding service fees would be reduced to a total of approximately €130 thousand per year (550 NIS thousand per year), linked to Israeli CPI.

4) In September 2017 the services agreement between the Company and Kardan Israel has been further amended. According to the amended agreement, effective September 1, 2017, the scope of services will be reduced and accordingly, the corresponding service fees would be reduced to a total of approximately €48 thousand per year (200 NIS thousand per year), linked to Israeli CPI, subject to the approval of the general meeting of shareholders.

5) 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. In 2018 and 2017 Kardan Israel did not provide such services (in 2016 €30 thousand were paid to Kardan Israel for such services).

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,		
	2018	2017	2016
	204	263	263

* The amounts for the year 2018 related to 8 Board members, in 2017 and 2016 relate to 9 Board members.

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
2018	592	21	3	616
2017	665	20	4	689
2016 (**)	1,324	152	359	1,835

* The amounts for the year 2018, 2017 and 2016 relate to 2, 2 and 4 executives, respectively.
** 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 2016 and 2017.

3. Options granted by the Company as of December 31, 2018 and 2017 (*):

	No. of options
Options granted to one executive manager	**100,000**

* For additional information see also Note 17B.

36 Subsequent events

After balance sheet date in January 2019, KFS, signed an agreement to sell its 66% stake in TBIF Dan Leasing Limited. For additional information see note 5B. In March 2019 the transaction was completed.

Company-only Financial Statements

Statement of Financial Position

After Appropriation of Net Result

€ in '000	Note	December 31, 2018	December 31, 2017
Assets			
Non-current assets			
Tangible fixed assets		114	128
Investments in subsidiaries	5	290,610	322,761
Loans to subsidiaries		24	24
		290,748	**322,913**
Current assets			
Short-term investments	7	169	169
Other receivables	4	1,798	1,406
Cash and cash equivalents	6	17,595	5,979
		19,562	**7,554**
Assets classified as held for sale		40,878	49,495
Total current assets		60,440	57,049
Total assets		**351,188**	**379,962**
Equity and liabilities			
Equity			
Share capital		25,276	25,276
Share premium		206,482	206,482
Foreign currency translation reserve		(12,049)	37
Property revaluation reserve		25,179	31,637
Revaluation reserve, other		4,837	5,586
Accumulated deficit		(309,222)	(273,386)
		(59,497)	**(4,368)**
Non-current liabilities			
Debentures	8	–	216,087
Options and other long-term liabilities	9	–	3,323
		–	**219,410**
Current liabilities			
Current portion of debentures	8	355,656	141,901
Option liability		2,791	–
Other payables	11	52,238	23,019
		410,685	**164,920**
Total equity and liabilities		**351,188**	**379,962**

See accompanying Notes.

Company-only Income Statement

€ in '000	Note	For the year ended December 31, 2018	2017
General and administration expenses	12	(2,602)	(3,459)
Loss from operations		**(2,602)**	**(3,459)**
Financial expenses, net	13	(17,722)	(16,081)
Loss before share of profit from investments accounted for using the equity method		**(20,324)**	**(19,540)**
Share of (loss) profit of subsidiaries	5	(16,125)	(10,035)
Loss before income taxes		**(36,449)**	**(29,575)**
Income tax expenses	10	250	346
Loss for the period from continuing operations		**(36,699)**	**(29,921)**
Net profit (loss) from discontinued operations		(76)	12,820
Loss for the year		**(36,775)**	**(17,101)**

See accompanying Notes.

Company-only Comprehensive Income Statement

€ in '000	For the year ended December 31, 2018	2017
Net loss for the year	(36,775)	(17,101)
Foreign currency translation differences	(12,086)	(23,553)
Change in hedge reserve, net	(751)	(1,051)
Other comprehensive expense for the year to be reclassified to profit or loss in subsequent periods	(12,837)	(24,604)
Total comprehensive expense	**(49,612)**	(41,705)

Company-Only 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*	Accumulated deficit *	Total
Balance as of January 1, 2018	**25,276**	**206,482**	**31,637**	**5,586**	**37**	**(273,386)**	**(4,368)**
Adjustments on adoption of IFRS 15	–	–	–	–	–	688	**688**
Adjustments on adoption of IFRS 9	–	–	–	–	–	(7,246)	**(7,246)**
Balance as of January 1, 2018 (after adjustments on the adoption of IFRS 15 and IFRS 9)	**25,276**	**206,482**	**31,637**	**5,586**	**37**	**(279,944)**	**(10,926)**
Other comprehensive expense	–	–	–	(751)	(12,086)	–	**(12,837)**
Loss for the year	–	–	–	–	–	(36,775)	**(36,775)**
Total comprehensive expense	–	–	–	(751)	(12,086)	(36,775)	**(49,612)**
Share-based payment (Note 9)	–	–	–	2	–	–	**2**
Transaction with non-controlling interest	–	–	–	–	–	1,039	**1,039**
Reclassification according to the Netherlands civil code requirements, net of tax (*)	–	–	(6,458)	–	–	6,458	**–**
Balance as of December 31, 2018	**25,276**	**206,482**	**25,179**	**4,837**	**(12,049)**	**(309,222)**	**(59,497)**

€ 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, 2017	**25,276**	**206,482**	**34,772**	**6,633**	**23,590**	**(259,420)**	**37,333**
Other comprehensive expense	–	–	–	(1,051)	(23,553)	–	**(24,604)**
Profit (loss) for the period	–	–	–	–	–	(17,101)	**(17,101)**
Total comprehensive income (expense)	–	–	–	(1,051)	(23,553)	(17,101)	**(41,705)**
Share-based payment	–	–	–	4	–	–	**4**
Reclassification according to the Netherlands civil code requirements law, net of tax (*)	–	–	(3,135)	–	–	3,135	**–**
Balance as of December 31, 2017	**25,276**	**206,482**	**31,637**	**5,586**	**37**	**(273,386)**	**(4,368)**

* In accordance with the Dutch civil code, equity attributable to equity holders 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 7B and 16E to the Consolidated IFRS Financial Statements).

** As of December 31, 2018 and 2017 amounts of €53,122 thousand and €51,631 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.

Company-only Cash Flow Statement

€ in '000	For the year ended December 31, 2018	2017
Cash flow from operating activities of the Company		
Loss for the year	(36,775)	(17,101)
Adjustments to reconcile profit (loss) to net cash of the Company		
Financial expense	17,580	16,317
Share-based payment	2	4
Equity earnings	16,201	(2,785)
Fair value adjustments of derivative financial instrument	(184)	240
Changes in working capital of the Company		
Change in receivables	(128)	(89)
Change in payables	(50)	(352)
Cash amounts paid and received during the year		
Dividend received	17,500	18,170
Interest paid	–	(4,457)
Net cash provided by operating activities of the Company	**14,146**	**9,947**
Cash flow from investing activities of the Company		
Short term investments, net	–	(38)
Investments in subsidiary	(2,560)	(5,684)
Net cash used in investing activities of the Company	**(2,560)**	**(5,722)**
Increase in cash and cash equivalents of the Company	**11,586**	**4,213**
Foreign exchange differences relating to cash and cash equivalents	30	12
Cash and cash equivalents at beginning of the year	5,979	1,754
Cash and cash equivalents of the Company at end of the year	**17,595**	**5,979**

Notes to the company-only Financial Statements

December 31, 2018

1 General

The description of the Company's activity and the Group structure, as included in the Notes to the non-statutory consolidated IFRS financial statements, also apply to the Company-only non-statutory financial statements, unless otherwise stated.

2 Significant Accounting Policies

The Company prepared its non-statutory financial statements in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union. In case no other policies are mentioned, refer to the accounting policies as described in the accounting policies in the non-statutory consolidated financial statements. For an appropriate interpretation, the company-only non-statutory financial statements of Kardan N.V. should be read in conjunction with the non-statutory consolidated financial statements.
The company non-statutory financial statements are presented in Euros and all values are rounded to the nearest thousand (€ in thousands) except when otherwise indicated.

The company-only non-statutory financial statements, are prepared in accordance with IFRS.

3 Investments in subsidiaries

Investments in consolidated subsidiaries are accounted for using the equity method.

4 Other receivables

€ in '000	December 31, 2018	December 31, 2017
Intercompany debtors	1,748	1,227
VAT	16	13
Prepaid expenses	34	166
	1,798	**1,406**

5 Financial Assets

1 The movement in the investment in consolidated subsidiaries can be summarized as follows:

€ in '000	2018	2017
Balance as of January 1	372,256	406,531
Implementation of new accounting standards	1,866	–
Investment in a subsidiary	2,560	5,684
Change in capital reserves (*)	(11,493)	(23,314)
Dividend distributed	(17,500)	(19,430)
Share of (loss) profit of subsidiaries	(16,201)	2,785
Balance as of December 31	**331,488**	**372,256**

* 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	2018		2017	
	Ownership %	Total value € in '000	Ownership %	Total value € in '000
GTC Real Estate Holding B.V.	100	203,358	100	233,645
Kardan Financial Services B.V.	100	22,006	100	23,905
Tahal Group International B.V.	98.43	40,877	98.43	49,495
Emerging Investments XII B.V.	100	65,247	100	65,211
Total investments in significant consolidated subsidiaries		**331,488**		**372,256**

6 Cash And Cash Equivalents

€ in '000	December 31, 2018	December 31, 2017
EURO	17,493	5,558
NIS	100	419
USD	2	2
	17,595	**5,979**

The cash is primarily comprised out of short term deposits.

The average interest rate on short term deposits is 0.2%-1.5% p.a. in 2018 and 2017.

7 Short-term Investments

€ in '000	December 31, 2018	December 31, 2017
Deposits	169	169
	169	**169**

In 2018 and 2017, the average interest rate earned was 0.5%.

8 Debentures

Composition:

€ in '000	Par value as of December 31, 2018 NIS	Balance as of December 31, 2018	Balance as of December 31, 2017	Interest rate %	Maturities principal
Issuer:					
The Company – 2007	297,500,001	84,190	86,459	6.325	2017-2018
The Company – 2008	952,834,318	271,466	271,529	6.775	2017-2020
		355,656	**357,988**		

The Company has not repaid the principal and interest payments which were due in February 2018. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, from March 31, 2018 and until the repayments are rescheduled, the debentures are presented as current liabilities.

9 Share plan

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). In August 2015 the plan was modified. According to the modification, the exercise price would be €0.2807 or NIS 1.191 and 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 grant was accounted for assuming equity settlement and the total expense booked in the year was less than €2 thousand and were included in 'General and administration expenses' in the income statement.

10 Taxes Tax Expenses

The Company has received final tax assessments for all the years up to and including 2014.

Loss for the year amounts to €36.7 million (2017: €17.1 million), including net result from investments of €16.2 million loss (2017: €2.8 million profit), which is not deductible/taxable under the Participation Exemption. 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 2018, Kardan N.V. has estimated tax losses of €315.1 million that are available for carry forward (according to the filed 2017 tax return, net of tax losses evaporated as per 1 January 2018). The carry back of losses is restricted to one year, whereas the carry forward of losses is limited to nine years. Carry forward period will be reduced to 6 years for losses incurred as of 2019. 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, however these restrictions will be abolished in 2019 (i.e. will not be applicable anymore on losses incurred as of 2019). 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 2014, Kardan N.V. has tax losses available for carry forward as per December 31, 2014 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 €65 thousand as of December 31, 2018 (as of December 31, 2017 amounted to €316 thousand). As of December 31, 2018 no deferred tax assets are presented in the balance sheet. For more information regarding to taxes on income refer to Note 32 to the Consolidated IFRS Financial Statements.

11 Other Payables

€ in '000	December 31, 2018	December 31, 2017
Accrued expenses (mainly accrued interest on debentures)	50,850	21,581
Others	1,388	1,438
	52,238	**23,019**

12 General and administration expenses

€ in '000	December 31, 2018	December 31, 2017
Payroll and related expenses	799	1,161
Share-based payment	2	1
Management fees	254	371
Office maintenance	143	436
Professional fees	1,818	1,174
Depreciation and amortization	34	27
Revaluation of PUT option	(307)	408
Other	(141)	(119)
	2,602	**3,459**

13 Financial expenses, net

€ in '000	For the year ended	
	December 31, 2018	December 31, 2017
Income:		
Exchange differences	13,857	12,084
Total financing income	13,857	12,084
Expenses:		
Interest on debentures	26,531	26,396
Other	5,048	1,769
Total financing expenses	31,579	28,165
Total financing expenses	**17,722**	**16,081**

14 Audit Fees

The tables below summarizes the fees invoiced to the Company's by its independent auditor, PricewaterhouseCoopers Accountants N.V. (PwC) in 2018 and in 2017, respectively:

2018

€ in '000	For the year ended December 31, 2018			
	PWC NL	PWC IL	PWC China	Total
Audit services – Kardan N.V.	217	205	–	422
Audit services – subsidiaries	55	317	280	652
Total statutory audit fees	272	522	280	1,074
Other services relevant to taxation	–	7	–	7
Total	**272**	**529**	**280**	**1,081**

2017

€ in '000	For the year ended December 31, 2017			
	PWC NL	PWC IL	PWC China	Total
Audit services – Kardan N.V.	223	228	–	451
Audit services – subsidiaries	55	281	281	617
Total statutory audit fees	278	509	281	1,068
Other services relevant to taxation	–	49	–	49
Total	**278**	**558**	**281**	**1,117**

15 Assets held for sale

For additional information relating to assets held for sale see note 5C to the consolidated financial statements

16 Remuneration of Management and Board of Directors

The Company's management and Board received remuneration in 2018 and 2017 as described in Note 35 to the Consolidated IFRS Financial Statements.

17 Commitments, contingent liabilities, guarantees, and subsequent events

For commitments, contingent liabilities, guarantees, and subsequent events please refer to Notes 24 and 36, respectively of the Consolidated IFRS Financial Statements.

18 Financial instruments and risk management

For disclosures required by IFRS 7 regarding financial instruments and risk management, refer to Note 34 to the Consolidated IFRS Financial Statements.

Board of Directors

P. Sheldon
A. Hasson
C. van den Bos
J. Grunfeld
F. Houterman
E. Rechter
C. Tall

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.

Independent Auditor’s Report

To: the general meeting and the board of directors of Kardan N.V.

Report on the statutory financial statements 2018

Our opinion

In our opinion, Kardan N.V.’s statutory financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, and of its result and its 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.

What we have audited

We have audited the accompanying statutory financial statements 2018 of Kardan N.V., Amsterdam (‘the Company’). The statutory financial statements include the statutory consolidated financial statements of Kardan N.V. together with its subsidiaries (‘the Group’) and the statutory company-only financial statements.

The statutory financial statements comprise:

- the consolidated and company-only statement of financial position as at 31 December 2018;
- the following statements for 2018: the consolidated and company-only income statement, the consolidated and company-only statement of other comprehensive income, the consolidated and company-only statements of changes in equity and the consolidated and company-only cash flow statements; and;
- the notes, comprising significant accounting policies and other explanatory information.

The financial reporting framework 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.

Material uncertainty related to going concern

We draw attention to note 1B of the statutory financial statements regarding the financial position and going concern, which indicates that the Company had on a stand-alone basis and on a consolidated basis, a working capital deficit as at 31 December 2018 of € 267 million and € 217 million, respectively. For the year ended 31 December 2018, the Company recorded a net loss of € 37 million and generated positive cash flows from operating activities of € 14 million on a stand-alone basis and positive cash flows from operating activities on a consolidated basis of € 3 million. In addition, as at 31 December 2018, the Company had a deficit of € 59 million in its equity attributable to equity holders.

It also indicates that in February 2018 the Company did not repay the principal and interest payments which were due in February 2018. Hence, the Company is in default according to the Deeds of Trust as of February 2018. The Company is negotiating a new debt settlement with its debenture holders.

The realization of the Company’s plans depends on factors that are not within the Company’s control, including the approval of the debenture holders to a debt settlement, the transaction of the Company’s assets, and macroeconomic developments and therefore there is uncertainty that transactions for the sale of assets, will be completed according to the forecasted consideration and timing or that the discussions with the debenture holders will result in rescheduling of payments. These conditions indicate the existence of a material uncertainty which casts significant doubt regarding the Company’s ability to continue as a going concern and therefore it may be unable to realize its assets in order to repay the principal and interest payments which were due in February 2018 and its other liabilities in the normal course of business. 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. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the statutory financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Kardan N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

Kardan N.V. is engaged in the development of real estate in Asia, water infrastructure projects and a short term car rental operation, through its subsidiaries, joint ventures and associated companies. The Company is currently in the process to sell its water infrastructure business, Tahal Group International B.V. ('TGI'). The Company sold its short term car rental operation ('Avis Ukraine') in March 2019. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. During our audit the going concern assessment, as described in the paragraph 'Material uncertainty related to going concern', was a prominent issue that led us to allocate significant time and resources on. In addition, we paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the statutory financial statements. In particular, we considered where the board of directors made important 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 judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation of investment property, we considered this matter as key audit matter as set out in the section 'Key audit matters' of this report. Furthermore, we identified management override of controls as key audit matter because 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.

Other areas of focus, that were not considered as key audit matters, were the impairment losses on inventory, the classification of TGI and Avis Ukraine as asset held for sale, valuation of trade receivables, the valuation of investments in joint ventures, the valuation of the debentures and the accounting for foreign exchange rate differences.

We ensured that the audit teams at both group and component level 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 included real estate valuation experts and tax specialists in our team.

The outline of our audit approach is as follows:

Materiality

- Overall materiality: €6.4 million.

Audit scope

- We conducted audit work in four locations.
- Site visits were conducted in three countries: China (we visited three sites), the Ukraine and Israel.
- The component auditor of TGI visited us in the Netherlands.
- Audit coverage: 100% of consolidated revenue and 99% of consolidated total assets and 99% of consolidated loss before tax.

Key audit matters

- Valuation of investment property.
- 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'.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the statutory financial statements as a whole as set out in the table below. 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, both individually and in aggregate, on the statutory financial statements as a whole and on our opinion.

Overall group materiality

€6.4 million (2017: €6.1 million).

Basis for determining materiality

We used our professional judgment to determine overall materiality. As a basis for our judgment, we used 1% of the total assets as at 31 December 2018. Last year we took the average of total assets as at 31 December 2017 and 31 December 2016, we changed this as total assets were stable in 2018.

Rationale for benchmark applied

We applied this benchmark, based on our analysis of the common information needs of users of the statutory financial statements. The Company and its stakeholders focus on the asset value of the Company as the Company is focussed on repaying its debentures. Cash should be generated by selling the assets, whilst continuing to focus also on further improving the results of the subsidiaries and therefore, their value.

Component materiality

To each component in our audit scope, we, based on our judgement, allocated materiality that is less than our overall group materiality. The range of materiality allocated across components was between €2.1 million and €3.9 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 report to them misstatements identified during our audit above

€300,000 (2017: €305,000) 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 statutory financial statements of Kardan N.V.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the statutory consolidated financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the Group engagement team and by each component auditor.

At Group level, we audited centrally those aspects, which are managed by Kardan N.V., including the application of the going concern assumption and the accounting and disclosures of the debentures. In addition to these items, we focused on the two significant components of Kardan N.V., being GTC Real Estate Holding B.V. (GTC), of which Kardan Land China Ltd. is the main subsidiary, and Tahal Group International B.V. (TGI), currently recorded as 'Asset Held for Sale', of which Tahal Consulting Engineers Ltd. is the main subsidiary.

These two components were subject to audits of their complete financial information, as those components are individually significant to the Group. The joint venture in the Ukraine (short-term car rental operation), was subject to specific risk-focused audit procedures performed by the Group audit team (mainly the lease classification), in addition to the local statutory audit, performed by the concerning component auditor.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	100%
Total assets	99%
Loss before tax	99%

None of the remaining components represented more than 1% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we obtained sufficient appropriate audit evidence as a basis for our opinion on the statutory consolidated financial statements as a whole.

In this respect, we performed amongst others, the following procedures:

- we issued instructions to the component audit teams in our audit scope. These instructions included amongst others our risk analysis, procedures for fraud risk assessments, materiality and scope of the work. We explained to the component audit teams the structure of the Group, the main developments relevant for the component auditors, the risks identified, the materiality levels to be applied and our global audit approach;
- we had individual calls with each of the in-scope component audit teams during the year, including upon conclusion of their work. During these calls, we discussed the significant accounting and audit issues identified by the component auditors, the fraud risks assessments, the reports of the component auditors, the status and findings of their

procedures and other matters, which could be of relevance for the statutory consolidated financial statements;
- we discussed the emphasis of matter paragraph, with respect to the financial position of TGI, which the component auditor of TGI reported to us, as disclosed in note 5 to the financial statements, with the audit committee and the board of directors of Kardan N.V. We reviewed the work performed by the component auditor with respect to the financial position of TGI and assessed the impact of this matter on the valuation of TGI and on our going concern assessment;
- 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
- the Group engagement team has met the component teams and management of local operations and performed reviews of selected working papers. In the current year the Group audit team visited China (Kardan Land China Ltd. in three different locations) given the importance of the real estate operations in China and the judgements involved in the valuation of the investment property (refer to key audit matters section). We visited the Ukraine and met the local team and management of Avis. With respect to TGI, we met local management and senior members of the local audit team in Amsterdam and Israel and we reviewed the audit files of the component auditor in Amsterdam.

By performing the procedures above at components, combined with additional procedures at Group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the statutory 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 consolidated financial statements. We have communicated the key audit matters to the audit committee. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed with the audit committee. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the statutory consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the statutory consolidated financial statements. Any comments or observations we made 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 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 statutory financial statements 2017, may be long-standing and therefore, may not change significantly year over year. As compared to prior year, there have been no changes in our key audit matters.

Key audit matter	*Our audit work and observations*
Valuation of investment property **Note 3 and Note 7 in the statutory consolidated financial statements** The investment property of the Company's subsidiary Kardan Land China Ltd., represents a significant part of the total assets (33%) of the Group and is valuated at fair value for an amount of € 213.6 million at year-end 2018 (2017: € 221.1 million). The valuation of investment property is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income for the property. Given the level of management judgement and complexity involved as well as a high degree of estimation uncertainty, we considered this to be a key audit matter as deviations or changes in assumptions could have a significant impact on result and equity. Management determines the fair value of its investment property on a semi-annual basis and has used an external appraisal firm to support the valuation as at 30 June 2018 and as at 31 December 2018. In 2018 management used the same appraisal firm (Savills) as in 2017. The appraisal firm has been engaged by the Group and performed their work in accordance with RICS (Royal Institution of Chartered Surveyors) Valuation – Professional Standards, as set out by the RICS. The appraisal firm used by the Group is a well know firm, with experience in the Chinese market, in which the Group operates. The appraisal firm calculates the investment property by using the average of the Discounted Cashflow Approach (DCF) and the Direct Comparison Approach. For the Direct Comparison Approach the appraisal firm uses comparable historical transactions. The investment property classifies as a level 3 valuation under IFRS 13. The key assumptions are the estimated rental value per square meter per month, discount rate, rental growth, terminal capitalization rate, occupancy rate, capitalization rate, and gross retail rental income. *Continues on next page, first column*	**External valuation** We read and analyzed the valuation report for the property and discussed the outcome with the appraisal firm. We confirmed that the valuation approach was in accordance with professional valuation standards and suitable for us in auditing the carrying value of the investment property as at 31 December 2018. It was evident from our discussions with management and the appraisal firm and our review of the valuation report that close attention has been paid to the property's individual characteristics and its overall quality, geographic location and marketability as a whole. There was no evidence of management bias or influence on the appraisal firm. We assessed the appraisal firm's qualifications and expertise and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We also considered other engagements which might exist between the Group and the appraisal firm. We found no evidence to suggest that the objectivity of the appraisal firm was compromised. We carried out procedures, on a sample basis, to test whether specific information supplied to the appraisal firm by the Group reflected the underlying property record held by the Group. As group auditor we have visited the property ourselves. No issues were identified. **Assumptions** We challenged the most important assumptions, i.e. estimated rental value per square meter per month, discount rate, rental growth, terminal capitalization rate, occupancy rate, capitalization rate and gross retail rental income and estimates made by management and the external appraiser in the valuation methodology. In challenging these assumptions, we considered the reliability and comparability of the market data used. We *Continues on next page, second column*

Key audit matter	*Our audit work and observation*
In determining the property's valuation from a DCF perspective, the appraisal firm takes into account property specific current information such as the current tenancy agreements and rental income earned. The DCF model assumes a resale of the asset at the end of a 10-year holding period. They then apply assumptions in relation to future cash flows from assets (such as lettings, tenant' 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. Future revenue streams, for example comprise contracted rent (passing rent) and estimated rental income after the contract period. The estimated rental value is determined based on the market comparatives adjusted for possible discounts to existing tenants, location, class of the property, year of construction and fit-out. These analysis result in a range of valuation outcomes, which the appraisal firm derive a point estimate for the DCF method. The applied discount rate reflects the likely return required by investors and developers based on the desired rate of return. The discount rate has been determined based on observable inputs, inputs from third party financial analysts and Group-specific inputs. The Group has adopted the assessed value determined by the appraisal firm.	also engaged our own in-house valuation experts to assist us to critique and challenge the work performed and assumptions used by the appraisal firm. In particular, we compared projected future cash flows from assets and capital values of fixtures and fittings to actual budgeted data as prepared by the Group and we challenged these data based upon actual current data of revenue streams and capital values of the investment property. We used back testing of the budgeted revenue streams in last year's valuation and compared those with the actual rental income of the tenants of the investment property to ascertain it is in line with budgeted revenue streams. We compared discount rates with comparable market data for discount rates. When calculating the property value under the Direct Comparison Approach, we challenged the comparable historical transactions by verifying that the properties used are comparable with the property of the Group. Based on our audit work on the draft valuation reports, adjustments and clarifications have been made in the final valuation report. We found the assumptions used to be within an acceptable range and the comparables applied reasonable. **Overall valuation estimates** Because of the judgement involved in determining the valuation of the property and the existence of alternative assumptions and valuation methods, we determined a range of values that were considered reasonable to evaluate the independent property valuation used by management. The valuation adopted by the Group fell within an acceptable range. We assessed and corroborated the adequacy and appropriateness of the disclosure in Note 7, including the sensitivity disclosures, made in the statutory consolidated financial statements.

Key audit matter	*Our audit work and observations*
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 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 both at Group and at component level, which allow us to rely, to the extent possible and relevant to our audit, on management's governance structure. We performed audit procedures at group and component level 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 the Group's policies, laws and regulations, both at Group level and component level. We have discussed the risk of fraud with the Audit Committee and the board of directors and we have read minutes of the Board of Directors. We have applied professional scepticism and assessed key internal controls, such as approval of any project including the pricing and the follow-up on whistle blower allegations and integrity incidents (including the risk of bribery) and business ethics. We have used questionnaires at component level with respect to fraud and bribery to assess the risk of management override of controls and we have performed audit procedures on revenue recognition principles, cost cut-off procedures and year-end estimates of accruals. We tested a risk based selection of journal entries and we included unpredictability, such as visiting different components and performing certain audit procedures on non-significant accounts as part of our audit. We made specific inquiries at different levels in the organisation on fraud risk. With respect to the procedures performed above, we did not note significant findings.

Report on the other information included in the statutory annual report

In addition to the statutory financial statements and our auditor's report thereon, the statutory annual report contains other information that consists of:

- the Board Report; consisting of the Financial Review 2018, Real Estate Division, Water infrastructure Division, Risk Management, Corporate and Social Responsibility, Governance and Compliance, Remuneration Report and 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 the 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 of 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 board report and the other information in accordance with Part 9 of 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 general meeting held on 28 May 2015. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 4 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 14 to the statutory company-only financial statements.

Responsibilities for the statutory financial statements and the audit

Responsibilities of the board of directors and the audit committee 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 either intends 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, refer to note 1B 'Financial position and going concern' for disclosures.

The audit committee 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.

Rotterdam, 16 April 2019

PricewaterhouseCoopers Accountants N.V.
M.P.A. Corver RA

Appendix to our auditor's report on the statutory financial statements 2018 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 statutory consolidated 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 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. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide 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 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 of December 2016

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

Pay-ratio
The total remuneration of the executive Board member compared to the total remuneration of all the employees of Kardan in the Netherlands

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

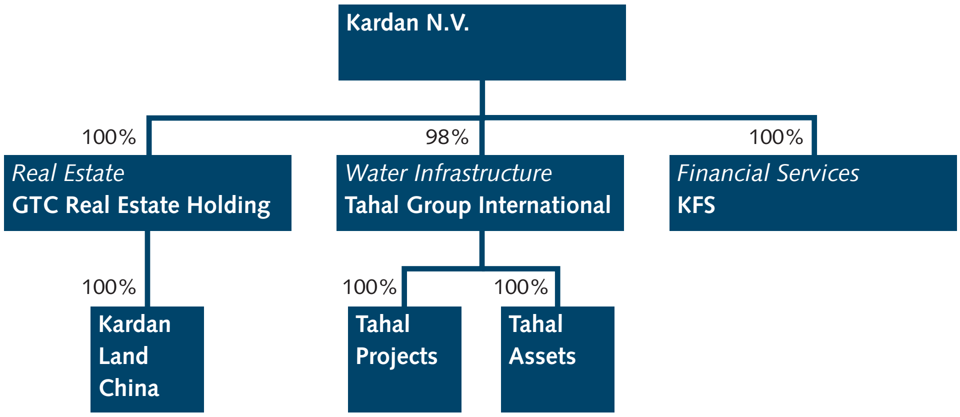
TGI

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 referred 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

Organizational Chart Kardan N.V. (April 2019)



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Corporate Governance Statement

2018

This Corporate Governance Statement 2018 forms an integral part of the 2018 Annual Report of Kardan N.V.

KARDAN N.V.

Corporate Governance Statement 2018 Kardan N.V.

Kardan's corporate governance statement[1] has been prepared in accordance with article 2a of the Decree of December 23, 2004, establishing further instructions concerning the content of annual reports *(Besluit inhoud bestuursverslag; the 'Decree')*. The information required to be included in this statement as described in articles 3, 3a and 3b of the Decree is as follows:

1. the extent and manner of implementation of the Dutch Corporate Governance Code;
2. the main characteristics of the risk management and internal control systems connected with Kardan's financial reporting process;
3. the functioning of the General Meeting of Shareholders;
4. the composition and functioning of the Board;
5. the diversity policy for the Board; and
6. statement in light of Article 10 of the European Takeover Directive.

1. The extent and manner of implementation of the Dutch Corporate Governance Code

Pursuant to the Decree, companies listed in the Netherlands are required to comply with the Dutch Corporate Governance Code (the 'Code'), or in case of non-compliance explain the reason thereof.

The full text of the Code can be found on www.commissiecorporategovernance.nl.

The Code sets out sound business principles of corporate governance and contains certain normative standards that pertain, among other things, to the relationship between the various corporate bodies of a company.

In the Code, long-term value creation forms the starting point for corporate governance. The Code stipulates that the executive board should focus on long-term value creation, and take the stakeholder interests that are relevant in this context into account. The way in which the Board puts this into practice must be explained in the annual board report.

Focusing on long-term value creation is an ongoing process. Depending on the dynamics of the market within which the Company is operating, it may be necessary to make short-term adjustments to strategy. Discussions about larger trends, and asking disruptive questions, will help keep the company on the right track. In some situations, a company may explicitly decide to focus on the short term. Kardan's current short and long term strategy is primarily focused on the repayment of its Debentures through generating cash by selling assets, assuring the going concern of Kardan, whilst continuing to also focus on further improving the results of the subsidiaries and therefore their value.

Although the Code is focused on a dualistic governance model (i.e. two-tier governance structure), it also provides guidelines for companies with a one-tier governance system, which are laid down in Chapter 5 of the Code.

It is emphasized that independent supervision by non-executive directors must be sufficiently ensured, and that those provisions in the Code which pertain to supervisory board members also apply to non-executive directors, without prejudice to the other responsibilities these non-executive directors may have. Where this is not possible, the Company should explain why it cannot apply such principle and relate it to the company-specific situation.

The Board attributes great value to clear and transparent reporting, which it believes to benefit all of its stakeholders, and fully endorses the main principle of the Code, namely that compliance with the Code is more a matter of tailored governance than checking boxes. The Board takes a pragmatic approach in applying the Code to its one-tier governance system and will consequently explain where and why Kardan deviates from the Code. When it is deemed necessary,

1 Definitions used in this Corporate Governance Statement shall have the meaning as set out in Kardan's Annual Report 2018.

the Board will explain how certain principles and provisions of the Code are applied to Kardan's one-tier governance system.

Deviations from the Code

Provision 2.1.7 and 2.1.8 – Independence of the non-executive Board Members: As of December 31, 2018 and the date of this report, the Board comprises a majority of independent non-executive Board Members. The non-executive Board Members which are non-independent are the founders of Kardan and given their extensive knowledge of the sectors in which Kardan operates, which bring invaluable expertise to the Board, this justifies the deviation from the Code.

Provision 2.2.1 – Appointment management board: Given the fact that the operations and the business model of Kardan are by nature long term, it is deemed in the best interest of Kardan and its stakeholders to include in the Articles the provision that the CEO is appointed for a period of five years with the possibility of reappointment. The intention of this is to establish a stable, long-term commitment of management. Although this term constitutes a deviation from the Code, Kardan is of the opinion that it contributes to the (long-term) best interests of Kardan and its stakeholders and as such adheres to the broader sense and interpretation of the Code.

Provision 2.3.6 – Tasks of the Chairman: Under the Whistleblower Policy (published on www.kardan.nl) currently in place, (suspicions of) material misconduct and irregularities are in first instance reported to the compliance officer who reports this to the CEO. Under specific circumstances as further specified in the Whistleblower Policy, suspicions are reported directly to the Chairman of the Board.

2. Main characteristics of the risk management and internal control systems connected with Kardan's financial reporting process

Taking risks is an integral part of doing business and can create opportunities which in turn can lead to positive results. Kardan therefore deems 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, Kardan believes that management should lead the way through example.

Kardan considers risk management to be an integral part of the daily management responsibility. In order to ensure adequate knowledge and understanding of local business environments, and thus to minimize risks, the management teams of all Kardan group companies consist of both local and international members.

Kardan has 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. The Company is listed on both the Euronext Amsterdam and the Tel Aviv Stock Exchange. Its governance structures are therefore solid and, given its dual listing, Kardan is 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.

Kardan's 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 incorporate the COSO frameworks. Kardan is of the view that its risk management framework and approach should constitute a link between strategy, policy-making and operational execution and should be instrumental in obtaining a clear view on its business environment and the challenges it faces; and that accordingly it should provide reasonable assurance that sufficient and appropriate control measures are in place to support the Group in achieving its objectives.

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. 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, 2018 the control over financial reporting and disclosure is effective ('the Control Statement').

The effectiveness of the internal controls over financial reporting and disclosure was also audited by the Group's external auditors. Kardan's (main) subsidiaries also provide Kardan with a representation letter on a yearly basis.

The In-Control Statement of the Board, as required by Dutch Securities Law, can be found on page 43 of the Annual Report 2018.

3. Functioning of the General Meeting of Shareholders

General Meeting

The Annual General Meeting of Shareholders is the forum in which the Board accounts for the manner in which it has performed its duties. The CEO gives a presentation on business developments over the preceding year and shareholders are given the opportunity to raise questions on the business and current matters. Kardan considers it to be in its interest that the shareholders take part in the decision-making process in the General Meeting of Shareholders as much as possible.

Each shareholder has the right to attend the General Meeting of Shareholders which is held in the Netherlands, either in person or represented by proxy, and to address the meeting and to exercise voting rights subject to the provisions of the Articles and Dutch law. A shareholder has the aforementioned rights if he/she is registered as a shareholder on the applicable record date as set by the Board and announced in the convocation notice. To the extent practically feasible, investors located in Israel can participate in a General Meeting of Shareholders by means of a conference call or a video conference.

A General Meeting of Shareholders is held at least once a year in order to, among other things, discuss the report of the Board, to adopt the statutory financial statements, to appoint the external auditor, to adopt any proposal concerning dividends, to, if applicable, appoint and reappoint board members, to amend the Articles and to consider any other matters proposed by the Board or the shareholders in accordance with the Articles and Dutch law. Pursuant to both Dutch law and the Articles, the General Meeting of Shareholders discusses and passes, under a separate agenda item, resolutions discharging board members from their responsibilities for the performance of their respective duties in the preceding financial year. This discharge only pertains to matters known to Kardan and the shareholders at the time the resolution is adopted. The external auditor will attend and be entitled to address the General Meeting of Shareholders.

Other General Meetings of Shareholders may be held as often as the Board deems necessary. In addition, one or more shareholders holding at least 10% of Kardan's issued share capital can request the Board, in writing, to convene a General Meeting of Shareholders, specifying in detail the items to be discussed. If the Board fails to convene and hold a meeting, the requesting shareholder(s) may call the meeting, observing Dutch law and the Articles.

The Annual General Meeting of Shareholders was held on 30 May 2018. The meeting topics included amongst others the Annual Report 2017, an Extraordinary Transaction as described in the Company's Articles and a new Board member appointment. An Extraordinary General Meeting of Shareholders was held on 22 October 2018, during which the proposal for the variable remuneration for the CEO for 2018 was adopted.

Voting

Each share carries one vote. Kardan has only one class of shares, being ordinary shares with a nominal value of € 0.20 each. Dutch law requires Kardan to set the record date for the exercise of the voting rights and the rights relating to General Meetings of Shareholders on the twenty-eighth day prior to the day of the General Meeting of Shareholders. Unless provided otherwise by Dutch law or the Articles, there are no quorum requirements. At present, Kardan does not facilitate electronic voting.

As a general rule, resolutions are adopted by an absolute majority of the votes cast. Dutch law and the Articles can stipulate that certain resolutions are adopted by a qualified or special majority of the votes cast.

Furthermore, the Articles and Dutch law require that certain important resolutions made by the Board are subject to the prior approval of the General Meeting of Shareholders, for example the entering into Extraordinary Transactions, as defined in the Articles.

Proposed resolutions

One or more shareholders representing at least 3% of Kardan's issued share capital has/have the right to request the Board to place items on the agenda of a General Meeting of Shareholders provided such request is duly motivated and explained or accompanied by a draft resolution. The Board shall then add the item to the meeting's agenda, provided that the request is received by the Board in writing no later than on the sixtieth day before the day of the General Meeting of Shareholders.

Notice of a General Meeting of Shareholders shall be given ultimately on the forty-second day prior to the day of the General Meeting of Shareholders.

Changes to rights

Rights of shareholders may change pursuant to an amendment of the Articles, a statutory merger or demerger or dissolution of the Company. A resolution of the General Meeting of Shareholders is required to effect these changes.

4. The composition and functioning of the Board

Board and CEO

Kardan is managed by a one-tier Board. In 2018, Mr. Marsman, Mr. Groen and Mr. Schnur stepped down as non-executive Board Members and during the AGM on 30 May 2018, Mr. Houterman was appointed as non-executive Board Member, pursuant to which the Board consists of six non executive Board Members and one executive Board Member at the date of this Annual Report.

The Board reports to the General Meeting of Shareholders of Kardan.

The Board Members have a shared responsibility for Kardan's general course of affairs and are collectively responsible for: a) Kardan's strategy and objectives; b) Kardan's financial status; c) Kardan's organizational structure; d) the publication of prospectuses or shelf prospectuses by Kardan; e) the financial and periodic reports issued by Kardan; f) the fairness and reasonableness of the highest remunerated employees within the Kardan Group; and g) issuance of debenture series and/or other securities.

The responsibility for the day-to-day management is assigned to the CEO based on a power of attorney provided by the Board. The CEO is authorized to represent Kardan, jointly with a member of the Executive Management, but needs the Board's prior approval with respect to material transactions such as, but not limited to acquiring or alienating assets with a value exceeding € 10,000,000 or providing guarantees to parties outside the Kardan Group for an amount exceeding € 10,000,000. These restrictions are included in the Articles and in the Board Regulations. Moreover, the CEO will ensure that he provides the Board Members with all information required to carry out their duties in a timely and well-founded manner.

In any case, certain duties remain the exclusive domain of the non-executive Board Members, such as supervising the CEO and nominating Board Members for appointment by the General Meeting of Shareholders.

Although management and supervisory duties are allocated between executive and non-executive Board Members, the principle of collective responsibility applies to the entire Board, executive and non executive Board Members alike.

The Board supervises the performance of the CEO's duties by assessing, for example: a) the achievement of Kardan's objectives; b) the implementation of the corporate strategy; c) the risks inherent in the business activities and the design and effectiveness of the internal risk management and control systems; d) the financial reporting process; e) compliance with legislation and regulations; f) close involvement in the case of a takeover bid; and g) the company/ shareholder relationship.

The Board acts in accordance with the Articles and Board Regulations, both published on Kardan's website. The Board is supported by the Company Secretary who ensures that the correct procedures are followed and that the Board acts in accordance with its statutory obligations and its obligations under the Articles and the Code.

Chairman

The Chairman of the Board is an independent, non-executive Board Member. The Chairman sets the agenda, chairs the Board meetings and monitors the proper composition and functioning of the Board, the Audit Committee and the RAS Committee. Furthermore, the Chairman is responsible for ensuring that the members of the Board receive, in a timely manner, all information from the CEO and other senior members of the management team, which is required for the proper performance of their duties. He also oversees the decision-making process itself and actively monitors any potential conflict of interest when matters are discussed and decisions need to be taken by the Board. In the absence of the Chairman, the Vice-Chairman shall replace him.

The Chairman meets, at least once a year, individually with each non-executive director to ensure that any issues of interest or concern to either party in relation to the Board and its functioning are fully aired.

Appointment and composition of the Board

Following a recommendation of the RAS Committee, the Board has the right to make nominations for Board candidates that are subsequently put forward for appointment by the General Meeting of Shareholders. Each non-executive Board Member is appointed for a period of four years, ending no later than at the end of the General Meeting of Shareholders held in the fourth year after the year of appointment. Each non executive Board Member may be reappointed for a new term of office. The executive Board Member (CEO) is appointed for a period of five years.

The Board itself determines its size, provided that the Board must comprise at least three members and a maximum of fifteen. Each Board Member must be capable of assessing the broad outline of Kardan's overall policy and must have the specific expertise required for the fulfillment of the duties assigned to the role designated to him/her in the Board profile. In addition, a Board Member must have sufficient time to allocate to the duties required from him/her.

The Board can request its members to retire early in the event of inadequate performance or a structural incompatibility of interests. It is considered desirable for the Board to represent, to the extent possible, a wide range of expertise so that it has relevant knowledge of, and experience in, business management, financial administration, legal and accounting for listed companies. Although the composition of the Board is currently not in full accordance with the statutory requirements on gender diversity, having only one female Board Member, the Board recognizes the importance of a gender balanced composition and takes this into account when selecting potential Board nominees. However, as gender is only part of diversity, the Board will continue to select members on the basis of their background, knowledge and experience.

The Board Members comply with the rules under Dutch corporate law pertaining to the limitation of the number of board positions in Dutch large companies. Pursuant to Kardan's insider trading policy, the Board Members cannot trade in Kardan's securities during closed periods prior to the publication of annual or periodic results.

Biographies

An overview of the Board Members and their biographies, as of the date of this report, is presented below.

Peter Sheldon (1941) – Chairman
Chairman of the Board, non-executive Board Member, member of the Audit Committee and member of the RAS Committee.
Nationality: British and Israeli
Mr. Sheldon started his career as a chartered accountant in London, UK, in 1958 and since 1971, when he left professional practice, has built a very successful international career in senior, executive and non-executive positions in a wide range of international listed and private companies, including Hambros Bank plc. Mr. Sheldon served as non executive chairman of BATM Advanced Communications Ltd., an Israeli technology company listed on the London and Tel Aviv Stock Exchanges for 15 years until December 31, 2014. As a result of his varied professional and commercial career, Mr. Sheldon has acquired total familiarity with the capital markets, their institutions and all aspects of corporate governance.

Ariel Hasson (1973) - CEO
Executive Board Member and CEO
Nationality: Dutch
Mr. A. Hasson holds a BA in management and economics from the Tel Aviv University as well as an MBA from the Kellogg School of Management at the Northwestern University (Illinois, US). He worked for the Boston Consulting Group and subsequently joined Bank Hapoalim, Israel's largest bank, as chief advisor to the CEO and later as Executive Vice President, Head of Emerging Markets Banking. Since 2010 Mr. Hasson served as the CEO of TBIF Financial Services B.V., a fully-owned subsidiary of Kardan N.V. holding the group's banking and retail lending businesses. In April 2016 Mr. Hasson was appointed as CEO of Kardan N.V.

Cor van den Bos (1952) – Vice-Chairman
Vice-Chairman of the Board, non-executive Board Member and chairman of the Audit Committee
Nationality: Dutch
Mr. Van den Bos has a master's degree in business economics and in auditing/accountancy from Erasmus University Rotterdam. He started his extensive career at AEGON, a Dutch insurance company, where he ultimately served on the executive board of AEGON Netherlands N.V. In this capacity he was responsible for, among other things, general insurance business

lines, Life Insurance Bank, ICT, and finance. Mr. Van den Bos consecutively served as a member of the executive boards of Athlon Groep N.V., a Dutch listed leasing company and SNS Reaal N.V., a bank and insurance company, which became listed during his tenure. Mr. Van den Bos is currently supervisory board member at ASR Nederland N.V. (Vice – Chairman of the board and Chairman of the Audit Committee).

Yosef Grunfeld (1942)
Non-executive Board Member
Nationality: Israeli
After founding the Kardan group of companies in 1990, Mr. Grunfeld was active as a director in various Israeli companies that were or still are either subsidiaries of, or associated with the Kardan Group. Currently, Mr. Grunfeld is chairman of the Board of Directors of Kardan Israel Ltd., as well as Director in various other companies in Israel. He currently holds 17.17% of the issued share capital and voting rights of Kardan.

Additionally, Mr. Grunfeld has a voting agreement with Mr. Rechter and Mr. A. Schnur (a former member of the Board), which represents a combined total of approximately 33.15% of the voting rights of Kardan N.V. (excluding their voting rights on account of their respective shareholdings in Kardan Israel Ltd., which holds 10% of the issued share capital of Kardan N.V.). Given the above, Mr. Grunfeld is considered a non-independent, non-executive Board Member within the meaning of the Code.

Ferry Houterman (1949)
Non-executive Board Member
Nationality: Dutch
Mr. Houterman holds a teaching degree business administration and the NIMA marketing certificates A and B. Mr. Houterman has extensive experience as executive and non-executive director of various companies, such as Rabobank Amsterdam and Hampshire Hotel Group. Mr. Houterman also serves as member of the supervisory board of Tahal Group International B.V. and therefore has valuable knowledge of part of the business of the Company. Mr. Houterman is the current owner of HMC B.V., a consultancy firm.

Eytan Rechter (1949)
Non-executive Board Member
Nationality: Israeli
As one of the founders of the Kardan Group, Mr. Rechter has a long-term involvement in the Kardan Group. Mr. Rechter currently holds board positions in various companies including Kardan Israel Ltd., Kardan Real Estate Ltd. and Kardan Technologies Ltd. (none of which are part of the Kardan Group).

Mr. Rechter currently holds 1.51% of the issued share capital and voting rights of Kardan. Additionally, Mr. Rechter has a voting agreement with Mr. Grunfeld and Mr. Schnur (a former member of the Board), which represents a combined total of 33.15% of the voting rights of Kardan (excluding their voting rights on account of their respective shareholdings in Kardan Israel Ltd., which holds 10% of the issued share capital of Kardan). Furthermore, Mr. Rechter holds 94,137 Debentures Series B as issued by Kardan. Given the above, Mr. Rechter is considered a non independent, non-executive Board Member within the meaning of the Code.

Cécile Tall (1967)
Non-executive Board Member, chairman of the RAS Committee
Nationality: French
Mrs. Tall holds master degrees in corporate law, international and European law, as well as in public and private law, and a master degree in tax and finance from the ESCP Business School. She held various positions at Polyconcept Investments BV in the Netherlands and Polyconcept Holding in Paris. Currently she is a consultant at Poseidon Consulting SAS.

Corporate Governance Statement 2018

Board meetings

The Board meets at least every quarter, at the Company's headquarters in Amsterdam and where necessary, by conference call.

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. In general, the Board strives to resolve matters with full consensus. The Chairman does not have a casting vote.

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 the chapter 'Governance and Compliance' in the Annual Report 2018).

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 2.7.1 through 2.7.6 of the Code.

Board Committees

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

Both committees are subject to specific regulations which form part of the Board Regulations, and which can all be found on the corporate website.

Audit Committee

The Audit Committee in 2018 consisted of Messrs. Van den Bos (Chairman) and Sheldon.

Its tasks are:

a) to review on an annual basis the accounting policies, practices and going-concern assumption of Kardan and to discuss compliance with accounting standards, regulatory and legal requirements;
b) to review the adequacy of coordination between the internal and external auditors and to discuss annually with the auditors (internal and external) the scope of the audit, the cost effectiveness of their work and their independence;
c) to review the state and effectiveness of the financial reporting and internal control systems used throughout Kardan (including effectiveness of business risk assessment);
d) to review and discuss the auditor's report on Kardan's accounts, review the results of the internal and external audit, the contents of the (consolidated) management letters and responses from management;
e) to review and discuss the financing of Kardan, the policy of Kardan on tax planning and the applications of information and communication technology;
f) to discuss major judgmental areas and significant legal action commenced against or by the business;
g) to assume the responsibilities of a balance sheet committee as defined under Israeli regulations;
h) to review the annual and periodic (quarterly) financial statements of Kardan before the Board and recommend to the Board whether to approve them or not; and

i) to review any other matter within the terms of reference as the Audit Committee deems appropriate.

The Audit Committee acts as the principal contact for the external auditor, should the auditor discover irregularities in the content of the financial statements. The Audit Committee is authorized to request advice from outside experts if deemed necessary.

There should be at least one financial expert on the Audit Committee. The Chairman of the Board is not permitted to chair the Audit Committee.

Remuneration Appointment and Selection Committee

In 2018, the RAS Committee consisted of Mrs. Tall (Chairwoman) and Mr. Sheldon.

The tasks of this committee include, among other things,

(a) preparing a remuneration policy for the Board, to be adopted by the General Meeting of Shareholders;
(b) preparing a remuneration policy for the Executive Management, to be adopted by the Board;
(c) preparing a proposal concerning the individual remuneration of the CEO and non-executive Board Members, to be adopted by the General Meeting of Shareholders;
(d) preparing the Board's remuneration report for inclusion in Kardan's annual report;
(e) preparing the selection criteria and appointment procedures for Board Members;
(f) periodically evaluating the scope and composition of the Board;
(g) periodically evaluating the functioning of individual Board Members and the members of executive management;
(h) proposing (re)appointment of the CEO and non-executive Board Members to the Board, to be adopted by the General Meeting of Shareholders; and
(i) supervising the policy of the CEO in relation to the selection and appointment of the executive management. In accordance with the policy on the remuneration of senior management of the Kardan Group, the RAS Committee approves, on an annual basis, a list of senior managers whose remuneration is deemed to be governed by the policy and assesses and advises the CEO on the packages of such senior managers prior to such package being offered.

5. Diversity policy for the Board

Kardan aims to attract and retain people, develop human capital and grow the talent potential for all its employees, including the Board. Kardan pursues a diverse workforce, meaning an inclusive approach for people of various genders, ages and cultural background throughout its entire organization. The Board regulations stipulate that the Board should have broad representation with respect to expertise in financial and accounting areas and specific know-how in various aspects of the Company's business, be aware of relevant developments and that a balanced age breakdown is sought for. The Board has a diverse composition in terms of knowledge and expertise, gender, age and nationality. The Board will continue to strive for a diverse composition in the process of appointing and reappointment. Kardan does not comply with article 2:166 of the Dutch Civil Code, which requires the Board to be composed in a balanced way, meaning that at least 30% of the seats in the Board are to be occupied by women and at least 30% by men. Kardan strives to arrive at a balanced apportionment of the seats in the Board with new appointments, to the extent that suitable candidates are available.

6. Statement in light of Article 10 of the European Takeover Directive

In accordance with Article 10 of the European Takeover Directive, companies with securities that are admitted to trading on a regulated market are obliged to disclose certain information in their annual report. Kardan must therefore disclose the following information and/or make the following statements:

a. An overview of Kardan's capital structure is included on page 118 of the Annual Report 2018.
b. Shares in the capital of Kardan are freely transferable.
c. Substantial shareholdings within Kardan are included on page 11 of the Annual Report 2018.
d. There are no special control rights attached to Kardan's shares.
e. Several senior officers have been granted options to purchase shares in Kardan, which is further described on page 57 of the Annual Report 2018.
f. There are no limitations to voting rights on the shares of Kardan's capital.
g. Kardan is not aware of any agreements that might result in a limitation of the transferability of the voting rights on shares in Kardan's capital.
h. The provisions regarding the appointment and dismissal of Board Members, and the provisions regarding amendments of the Articles are described in the Articles, which are available on Kardan's website.
i. The General Meeting of Shareholders may authorize the Board (i) to purchase shares in its own capital, and (ii) to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares. Further information can be found in Kardan's Articles and in the minutes of the relevant General Meetings of Shareholders of Kardan with respect to authorizations that have been granted to the Board.
   At the AGM 2018, the shareholders authorized the Board for a period of eighteen months as of that day, 30 May 2018, to resolve for the Company to acquire shares in the Company, within the limits of the law and the articles of association of the Company, which acquisition may not result in the Company (and/or one of its subsidiaries) holding (jointly) more than ten percent (10%) of the shares in the Company's capital. At the AGM 2018 the authorization to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares which was granted at the AGM 2015 for a period of five years was extended with one year, i.e. until 29 May 2021, taking into account the limits provided by law and the Articles and provided that no more than 10% of the non-issued shares of the Company's authorized capital can be issued annually and that with respect to no more than 5% of the total number of the issued shares at any time, rights to issue shares can be granted.
j. There are no important agreements to which Kardan is a party and which will come into force, be amended or be terminated under the condition of a change of control over Kardan as a result of a public offer.
k. There are no agreements between Kardan and Board Members or other employees that entitle them to any compensation rights upon termination of their employment as a result of the completion of a public offer on Kardan's shares.

Amsterdam, April 16, 2019

Board of Directors

P. Sheldon (Chairman)
A. Hasson (CEO)
C. van den Bos (Vice-Chairman)
Y. Grunfeld
F. Houterman
E. Rechter
C. Tall