

Annual Report

2019



KARDAN N.V.

Profile

Kardan is active in real estate in 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. Kardan also develops residential apartments together 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.

Kardan is also active in water infrastructure. These activities predominantly take place in emerging markets worldwide through its subsidiary Tahal Group International. Tahal offers high quality integrated customized and sustainable solutions relating to providing water and food (through agriculture) to people in developing and emerging countries.

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	2019	2018	2017 *	2016 *	2015 *
Real estate	11.5	(17.4)	(14.6)	(15.2)	8.9
Water Infrastructure (discontinued operations)	(32.2)	0.1	13.1	0.9	21.5
Banking and Retail lending (discontinued operations)	–	–	–	21.6	16.2
Other (AVIS Ukraine)	1.5	(2.4)	1.7	1.4	(2.9)
Holding (Corporate G&A and finance)	(64.5)	(17.1)	(17.3)	(40.0)	(66.6)
Total net profit (loss)	(83.7)	(36.8)	(17.1)	(31.3)	(22.9)
Total equity (deficiency)	(152.7)	(53.8)	(0.8)	41.2	75.9
Equity attributable to the equity holders	(150.6)	(59.5)	(4.4)	37.3	71.4
Total stand-alone assets	294.7	351.2	380.0	409.7	574.3
Number of employees (as at year-end)	1,492	1,517	1,118	1,055	2,317

* Originally published figures; not adjusted to present discontinued operations of previous years

€ per share *	2019	2018	2017	2016	2015
Diluted earnings (loss)	(0.72)	(0.27)	(0.15)	(0.26)	(0.20)
Total equity	(1.24)	(0.44)	0.00	0.33	0.62
Equity attributable to the equity holders	(1.22)	(0.48)	0.00	0.30	0.58
Number of shares					
As at December 31	123,022,256	123,022,256	123,022,256	123,022,256	123,022,256
Weighted average for the year	123,022,256	123,022,256	123,022,256	123,022,256	116,428,981

* Calculated on the basis of the weighted average number of shares for the year

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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 the impact of the coronacrisis (vi) from the inability to finalize the negotiations TGI is conducting with its financing banks and (vii) from any of the risk factors specified in Kardan N.V.'s Annual Report to be published in April and in the related "Periodic Report" (published by Kardan N.V. in Israel), and which is also available at 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. Kardan's real estate activities are fully focused on 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 (Tahal).

Real Estate

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 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.

Water infrastructure

Kardan's activities in the water infrastructure sector, through Tahal are mainly focused on emerging and frontier countries, addressing global challenges arising from a growing water shortage mainly due to population growth, industrialization and climate change. Moreover, Tahal focuses 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.

After attempts to sell Tahal did not advance in 2019, the Company explored alternatives. During 2019 it became apparent that due to delays in projects, pressure on liquidity and new provisions on exposures to a number of projects, it is needed to strengthen its financial position of Tahal. Tahal is currently in the midst of negotiations with the financing banks regarding a restructuring plan where the banks will continue supporting Tahal to allow the Company to resume focus on operations.

Debt settlement

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 meet the repayment obligations due in February 2018. Since then the Company is in discussions 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.

In 2019, the Company's main focus was on the continued negotiations with the debenture holders to arrive at a new Debt Settlement.

In order to allow the Company to meet its payment obligations and to restore its negative equity position, the company's strategy includes divesting assets in a manner that will allow the Company to maximize value and proceeds and to mitigate the negative equity position.

In April 2019, each of the assemblies of Debenture Holders (series A and B) approved the understandings reached in relation to the balance payments. In June 2019 the Company paid part of the balance payments, amounting to approximately €36.5 million, to Debenture Holders B, using the proceeds from the sale of Avis Ukraine which was concluded in March 2019.

In September 2019, the Company presented to the debenture holders a new framework of a settlement, entailing a conversion of part of the debt into equity of the Company which, after the issuance, would constitute the majority of the Company's shares. The Company estimates that carrying out such a debt settlement:

- will reduce the risk of loss of the value of the Company's assets, involving the realization of the assets in short term timetables or under insolvency proceedings in the Netherlands and China/Hong Kong;
- will ensure the Company's compliance with its obligations under the debt settlement;
- will strengthen the Company's position in future negotiations for the realization of assets;
- will enable the orderly realization of the assets, and
- will enable significant savings in the Company's expenses, thereby increasing the amounts that the Debenture Holders will receive.

The negotiations, on which little progress was made in 2019, were fully resumed by the beginning of 2020.

Foreword of the Chairman



On behalf of the Board, I present herewith the 2019 annual report. The year 2019 was again a very difficult year for Kardan, compounded by the extremely disappointing developments at our water infrastructure company, Tahal, and the ongoing negotiations in relation to our debt obligations.

I would also like to express my gratitude to all of our employees around the world for their efforts and commitment, in these difficult times.

I would like to conclude with emphasizing our determination to do the utmost to continue to serve the best interests of all our stakeholders.

Although we have been gratified by continued improvement of our real estate operations in China, we currently have to deal with the severe problems arising from the worldwide outbreak of the coronavirus. This is now impacting the Company further, in particular, our business in China.

We further elaborate on our operating activities in the following chapters of this report.

Since late 2017, we have devoted an incredible amount of time and effort to reaching a new settlement with our debenture holders, which again had our ongoing focus in 2019. These negotiations are fundamental to the future of the Company and its stakeholders. The equity value of the Company for our shareholders is fully dependent on the outcome of these negotiations, though it is inevitable that a solution most likely will involve a significant dilution for our current shareholders.

In light of the situation of the Company and the ongoing negotiations, the Board has asked me to continue as Chairman of the Board for two more years to safeguard continuity in the Board. I have agreed to do so, subject to shareholder's approval.

I would like to thank my fellow Board members for their continued support and guidance, as well as the members of the Executive Management team and particularly our CEO, Ariel Hasson, for their extremely professional, diligent and hard work during this period.

Letter of the Chief Executive Officer



2019 was again a very difficult year for Kardan. From an operational point of view, our Real Estate activities performed very well, but our Water Infrastructure activities continued to struggle. Our result continue to be

burdened by high interest expenses, a substantial negative foreign currency impact and the adverse developments of our Water Infrastructure activities. This has further enlarged the negative equity position of the Company.

At our Chinese real estate activities, all areas of operation showed a positive development. Both Galleria Dalian and the residential projects have been showing a positive trend on all operational parameters. However, this positive trend has been cruelly disturbed by the outbreak of the coronavirus in China in December 2019, and further developing into 2020. Although the cities where we operate have seen little direct impact from the outbreak, the measures taken by the local government slowed the economic activity substantially. We have taken measures to mitigate the impact as much as possible. Although the region is gradually resuming business activities, it is yet too early to assess when we can expect substantial pick-up of our business activities.

For our Water Infrastructure activities the year remained extremely harsh. Tahal has continued to struggle with delays in projects, partly in relation to financing. Tahal is currently in the midst of negotiations with its financing banks regarding a restructuring plan where the banks will continue supporting Tahal to allow the Company to resume focus on operations.

The depreciation of the Euro compared to the Israeli Shekel again had a very significant negative impact. This combined with the high interest expenses on our Company debentures, which includes accrual of

penalty interest rates, and the impairment from the losses in our Water Infrastructure activities, resulted in a net loss of € 83.7 million.

Furthermore, we have continued with our efforts to reach a settlement with our bondholders, which remains a key priority. Although little progress was made in 2019, negotiations were fully resumed by the beginning of 2020. We have proposed a settlement structure to our debenture holders, which is based on a debt-to-equity swap and issuance of shares which will constitute control over the Company. Such settlement, if approved by all parties and completed, will allow Kardan to restore its equity position, allow the bond holders the proper representation in the Company's board and improve Kardan's ability to divest its assets in parallel with working on improving the value of those assets. We are convinced that such settlement is the best way to enable the Company is to optimize its ability to service its debts and is accordingly in the best interest of all stakeholders.

We clearly remain fully committed to serve our obligations to the best extent possible 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.

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 'KARNV'. The ISIN code of Kardan is NL000011365.2 and the Dutch security code (fondscore) is 'KARD'.

As at December 31, 2019 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 TASE¹ that they had an interest of 3% or more in the share capital of Kardan as at December 31, 2019.

DECEMBER 31, 2019
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) (2) (5)}	20,869,927	16.96%
A. Schnur ^{(3) (5)}	17,662,860	14.36%
E. Rechter ^{(4) (5)}	667,675	0.54%
Kardan Israel Ltd. ⁽⁶⁾	11,178,179	9.09%

(1) According to a filing reported on 9 March 2020 the holdings of Mr. Grunfeld amounted to 13.96%.

(2) The shares are held directly and indirectly through Talomit 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.

(3) The shares are held through Raitalon Ltd., a company wholly-owned by Mr. Schnur, and directly by Mr. Schnur.

(4) The shares are held through Alotera Ltd., a company owned by Mr. Rechter and Mrs. Rechter, and directly by Mr. Rechter.

(5) Messrs. Grunfeld, Schnur and Rechter have a voting agreement.

(6) Messrs. Grunfeld and Schnur 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 2019

	Euronext (EUR)	Tel Aviv (NIS)*
Highest share price	0.0925	39.1
Lowest share price	0.034	12.8
Year-end	0.0412	15.2

* in 0.01 NIS

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

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 € 83.7 million over 2019. 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 2019.

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.

Financial Review 2019

Consolidated Income Statement Kardan N.V.

The 2019 consolidated income statement is shown in the table below in a condensed form.

€ in million	2019	2018
Total revenues	64,551	79,018
Total expenses	(60,396)	(85,031)
Profit (loss) from operations before fair value adjustments, disposal of assets and financial expenses	4,155	(6,013)
Loss from fair value adjustments and disposal of assets and investments, net	(1,555)	(7,103)
Result from operations before finance expenses	2,600	(13,116)
Financing expenses, net	(69,491)	(23,405)
Equity earnings, net	14,667	1,491
Profit (loss) before income tax	(52,224)	(35,030)
Income tax (expenses) / benefit	(727)	605
Profit (loss) from continuing operations	(52,951)	(34,425)
Loss from discontinued operations	(35,477)	(311)
Profit (Loss) for the period	(88,428)	(34,736)
Attributable to:		
Net result for equity holders	(83,712)	(36,775)
Non-controlling interests	(4,716)	2,039
	(88,428)	(34,736)
Other Comprehensive income (expense)	(7,393)	(12,837)
Total Comprehensive expense attributable to Kardan equity holders	(91,105)	(49,612)

Summary of net profit(loss) by activity

Net profit (loss) € in thousands	2019	2018
Real Estate (development and investment property)	11,538	(17,393)
Net result for discontinued operations (water infrastructure)	(32,233)	65
Other (Avis Ukraine, discontinued operation)	1,472	(2,415)
Total Operations	(19,223)	(19,743)
Holding (Corporate Finance and G&A)	(64,489)	(17,032)
Total	(83,712)	(36,775)

Results analysis

Kardan recognized a consolidated net loss attributable to equity holders of €83.7 million in 2019 compared to a net loss of €36.8 million in 2018.

The loss in 2019 is mainly the result of high financing expenses, due to the depreciation of the EUR versus the NIS, and the impact of the Israeli CPI on the Company's debentures. This had a negative impact of €35.2 in 2019, as opposed to a positive impact of €6.7 million in 2018. Furthermore, discontinued operation (water infrastructure), impacted the results negatively.

Revenues of the Real Estate activities amounted to €64.6 million in 2019 (in 2018: €79.0 million which included the delivery of building B in the Europark Dalian project, which was sold en-bloc). The rental revenues of Galleria Dalian increased by 69% to €9.1 million 2019 compared to €5.4 million in 2018 reflecting the better performance of the shopping mall. Combined with lower operating costs, the result of operations of the shopping mall came in at a profit of €4 million in 2019 (12M 2018 €11.3 million loss). Also, the development activities performed well. The share of profit of the joint venture residential projects increased significantly in 2019, due to high deliveries of apartments during the year and came in at €14.7 million (2018: €1.5 million), bringing the total

operational profit from development to €18.7 million (2018: €5.6 million).

Overall, the Real Estate activities resulted in an operational profit of €22.7 million in the full year 2019 compared to an operational loss of €5.7 million in 2018. Although financing expenses decreased compared to last year due to the partial early repayment of the Dalian loan in Q3 2018 and Q3 2019, they are still at a high level. The net result of the Real Estate activities came in at a profit of €11.6 million in 2019 compared to a loss of €17.4 million in 2018.

Revenue of the water infrastructure activities decreased to €152.8 million in 2019, compared to €175.4 million in 2018. The gross profit decreased significantly compared to 2018 mainly due to a mix of projects with relatively lower profitability, and a provision for losses on several projects. The lower gross profit was partly mitigated by savings in SG&A expenses compared to 2018. High finance expenses and provisions, mainly for impairments, resulted in a total loss of €32.2 million attributable to equity holders compared to a profit of €0.1 million in 2018.

Other activities consisted of equity earnings from the Company's holding in Avis Ukraine joint venture. Following the completion of the sale transaction of the Company's holding in Avis Ukraine in Q1 2019, a gain of €1.5 million was recorded, comprising a €1.3 million release of capital translation reserve and a reversal of impairment loss recorded in Q4 2018 of €0.2 million.

Within holding G&A expenses in 2019 decreased to €3.2 million compared to €3.7 million in 2018. Financing expenses increased to €61.2 million in 2019, compared to €13.2 million in 2018. Following the depreciation of the EUR compared to the NIS there was a very significant negative impact of foreign exchange differences and the Israeli CPI on the Company's debentures, which are denominated in NIS. The negative impact amounted to €35.2 million in 2019 compared to a positive impact of €6.7 million in

2018. Finance expenses also include interest in arrears regarding the Company's Debentures.

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 NV's shareholders amounted to €90.1 million in 2019 compared to a comprehensive expense of €49.6 million in 2018. The other comprehensive expense was mainly a result of changes in foreign exchange rates.

Financial position

Equity

Kardan N.V. (company only, € in thousands)	December 31, 2019	December 31, 2018
Total Assets	294,690	351,188
Total Equity	(150,602)	(59,497)
Equity/Total assets (%)	(51.1%)	(16.9%)

The deficit in shareholders' equity of Kardan N.V. increased from a deficit of €59.5 million as of December 31, 2018 to a deficit of €150.6 million as of December 31, 2019, primarily due to the loss in the period, which is – as mentioned – mainly the result of the heavy finance costs on the debentures and the losses of TGI.

Negotiations with debenture holders

Since the Company did not repay the principal and interest payments which were due in February 2018, February 2019 and February 2020, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, as of March 31, 2018 and until the repayments to the Debenture Holders are rescheduled, the debentures are presented as current liabilities and bear interest in arrears.

In April 2019, each of the assemblies of Debenture Holders (series A and B) approved of the understandings reached in relation to the balance payments; following which, in June 2019 the

Company carried out a partial repayment of the balance payments to Debenture Holders B in the amount of approximately €36.5 million (NIS 145 million).

Although not much progress was made in 2019, management is advancing the negotiations with the representatives of the debenture holders in order to reach a debt settlement in the short term. The framework of the debt settlement which is advanced with the Debenture Holders is based on conversion of a portion of the debt into the Company's shares which will grant the control over the Company to the Debenture Holders. Such settlement is not final and is subject to various approvals, including the approval of Kardan's general meeting of shareholders and the approval of the Debenture Holders. Accordingly, as of the date this report, there is no certainty regarding reaching such agreement, its terms and/or the date of its approval.

Covenants

The Company did not meet the debt coverage ratio financial covenant as defined in the Deeds of Trust for the ninth consecutive quarter. In addition, at December 31, 2019 certain Group companies (included in the discontinued operation) did not meet financial covenants for which waivers have not yet been received from the lending banks. For additional information regarding covenants of the Company, see note 22 to the consolidated IFRS financial statements.

Cash Flow forecast ¹

The Company provides a cash-flow forecast for a period of two years as starting January 1, 2020.

In the last months of 2019, there has not been advancement in the discussions between the Company and the trustees of the Debenture Holders regarding a new debt settlement, and other alternatives to the settlement outlines are being considered. Until

reaching a final settlement, the Company and the trustees are acting in accordance with the resolutions made by the Debenture Holders in May 2019 regarding the balance payments to Debenture Holders (series B). Accordingly, the following cash flow forecast assumes that the Company will make repayments solely from funds it will receive. It should be noted that the Company's management is also considering alternatives that will include (partial) debt repayment against the allocation of the Company's shares or the shares of its subsidiaries, all in accordance and subject to agreements with the Debenture Holders.

It should be emphasized that in light of the fact that an agreement with the Debenture Holders has not yet been approved, it is possible that the final agreement to be approved by the assemblies of the Debenture Holders will be different than the resolution of the assemblies of the Debenture Holders from May 2019, according to which this cash-flow forecast was prepared. Such change would impact the sources detailed in the cash flow forecast, and the amounts to be paid to the Debenture Holders.

It should be noted that the Company's payments sources for repayment to the debenture holders are from its subsidiaries. Accordingly, it should be emphasized that in light of the outbreak of the coronavirus, there may be a significant impact on the ability of the subsidiaries to sell assets and transfer funds to the Company.

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

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

Forecast Cash flow € in millions	January 1, 2020 - December 31, 2020	January 1, 2021 - December 31, 2021
Cash and cash equivalents at the beginning of the period	4.6	4.0
From operating activities		
General and administrative expenses	(2.2)	(2.0)
From investing activities		
Sale of shares and holdings in subsidiaries and joint ventures (3) – (4)	–	–
Dividend distribution (4)	–	5.0
Loan repayment (6)	1.6	–
Total Resources	(0.6)	3.0
From financing activities (7) – (10)		
Principal and interest payment of debentures – Series A	–	–
Principal and interest payment of debentures – Series B	–	(5.0)
Total Uses	–	(5.0)
Cash and cash equivalents at the end of the period	4.0	2.0

Main Assumptions to the Cash Flow Forecast

1. The cash flow forecast was prepared according to the assumption that the debt settlement to be approved by the assemblies of the Debenture Holders will be in line with the Company's proposal from September 2019 and the resolutions of the Debenture Holders from May 2019 regarding the balance payments to Debenture Holders (series B). Accordingly, the uses in cash flow forecast are based on the assumption that all payments made to the Debenture Holders will be made as early repayments only from funds which will be received by the Company.
2. 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 below.
3. Cash flow from investing activities relates, in principle, to proceeds from the sale of the Company's subsidiaries Tahal Group International B.V. (Hereinafter 'TGI') and/or KLC. The following are assumptions, comments, and reservations in relation to future sale of subsidiaries:
 - a. As detailed in various reportings of the Company, the Company has been making efforts to sell its holdings in TGI for some years, with a view to using the funds received from the sale to repay part of the debentures. In light of TGI's performance in the last period, the heavy losses in the reporting periods, which include material provisions for the impairment of various projects and debts, the negative cash flow and delays in TGI's new projects in Africa, the Board of Directors of the Company concluded that, at present, strengthening the financial position of TGI is required. As of the date of this report, the Company is exploring options for a transaction that will include an investment in TGI by a third party.

- b. Accordingly, as stated in the Company's financial statements as of December 31, 2019, the Company impaired the value of its investment in TGI (by approximately €1.2 million). As a result, as of December 31, 2019 the value of the investment in TGI is not material to Kardan according to its financial statements. Accordingly, and in light of TGI's financial position, in order to prepare the cash flow forecast, the Company assumed that no future cash flows will be received from the realization of its holdings in TGI or from dividends distributed by TGI. It should be noted that the Company has no commitments or guarantees granted in relation to TGI, and accordingly no expenses are expected in this respect.
- c. The Company reflected these estimations in in the above cash flow forecast.
- d. As of the date of this report, the Company is not conducting negotiations regarding the sale of its holdings in KLC (however the Company is conducting discussions from time to time regarding the sale of KLC's assets apart from its ongoing business of selling apartments). The cash flow forecast therefore does not assume the receipt of proceeds from such transaction.
4. 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.
5. The 'dividend distribution' line assumes dividends, 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 has been made in Lucky Hope companies regarding distribution of a significant amount of dividends beyond profit distributions that are made from time to time and accordingly, such decision has not been made by KLC. Nevertheless, the assumption of the receipt of such dividends is in line with the assumptions regarding the results of the projects carried out by Lucky Hope companies' policy and as of the date of this report, 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.
- It should be emphasized that given the uncertainty relating to the impact of the coronavirus outbreak on KLC's results and cash flow, and the need to refinance the project loan in China, the Company assumed that KLC will be required to make a partial early repayment of the loan, in order for it to be able to refinance its debt optimally. Therefore, for conservative reasons, the Company assumed that no dividend will be received from KLC in 2020. The Company's estimates of receiving dividends in 2021 assume improvement in the Chinese economy as a result of overcoming the coronacrisis, and returning to a scale of activity similar to those before the outbreak of the coronacrisis. Delay in the restoring of the Chinese economy due to the outbreak of the coronavirus could adversely affect the KLC results and, as a result, adversely affect KLC's ability to distribute dividends to the Company.
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 €1.6 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 might 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 would 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, 2019 and 2020.

8. As noted above, the cash flow forecast was prepared assuming that the settlement approved by the assemblies of the Debenture Holders will include payments to the Debenture Holders solely from funds received by the Company. Accordingly, it is assumed that future payments to the Debenture Holders will be made as early repayments out of funds received by the Company, according to the resolution of the Debenture Holders.
9. It should be emphasized that, as at the date of this report, the Company does not have the sources to make repayments to the Debenture Holders which are, as aforesaid, expected to be received from dividend distribution from subsidiaries and from the future realization of assets. In addition, there is no certainty that the debt settlement approved by the assemblies of the Debenture Holders will be in-line with the principles laid in the basis of this cash flow forecast. In addition, we draw attention to the equity deficit of the Company, which may indicate the inability of the Company to fully repay its debt to the Debenture Holders.
10. The cash flow forecast does not include 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 assumption that the payments to the Debenture Holders will be made according to agreements between the Company and the Debenture Holders trustees and will not include interest in arrears and also in light of the fact that as of the date of this report the Company is unable to estimate the date of the repayments to the Debenture Holders and therefore, is unable to calculate the amount of interest in arrears that it will be required to pay. It is possible that the Debenture Holders' assemblies will not approve an arrangement based on these principles and in that case the Company will also be required to pay interest in arrears.

11. The interest calculations are based on the Israeli CPI, exchange rates and interest rates which are applicable as of December 31, 2019, and as aforesaid, do not include interest in 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 €16.8 million to the outstanding balance of the debentures (principal and interest) as of December 31, 2019.
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 31.12.19	Intercompany loan (€ million) as of 31.12.19
GTC RE	138.4	5.4
KFS	–	–
Emerging	79.3	–

Outlook 2020

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 strengthen the financial position of Tahal. In addition, the Company is acting to improve its assets in China and to refinance the project loan.

Due to the uncertainties in relation to the financial position of Tahal, the impact of currencies on the Company's debentures, and the impact of the coronavirus outbreak, as detailed below, which are beyond the Company's control, the Company cannot give guidance on the results of its operations for the year 2020.

Impact of COVID-19

In December 2019, the outbreak of the coronavirus pandemic (COVID-19) started in the city of Wuhan, China (one of the 15 leading cities in China) and spread rapidly throughout China and beyond. As a result, an international health emergency was announced. At this stage, the Company is unable to assess the duration and intensity of the crisis and the full impact on its operations and results. However, the deepening of the crisis and its continuation is likely to have a negative impact on its operations. Without derogating from the above, it should be noted that due to the restrictions imposed throughout China following the coronavirus outbreak in the first quarter of 2020, the Company experienced in its real estate activities a decrease in the number of sold units in most of its residential projects, and in the project in Dalian as well as a decrease in sale prices. The investment property operation (Galleria Dalian mall in China) experienced temporary closure of shops, a sharp decrease in the number of visitors and in the shops' turnover. As of the date of this report, most shops opened again and the Company already granted rent discounts for all of its tenants in an accumulated amount of RMB 2 million (€0.3 million) and is evaluating granting additional incentives for certain

periods. As a result, the Company expects that an impairment loss on the value of Galleria Dalian will be recorded in Q1 2020. The Company will continue paying close attention to the development of the COVID-19 outbreak and its impact on the markets in which it operates and will continue to perform relevant assessments and take proactive measures.

Real Estate Division

- 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.
- 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 24,071 apartments, since it emerged, of which 22,913 were sold, and has rights and land to develop another 1,701 apartments.



Real Estate

Kardan N.V. operates in the Asian real estate sector through Kardan Land China (KLC).

KLC develops residential apartments, mostly with local partners, in fast-growing Tier 2 and Tier 3 cities, tapping into the need for housing due to the urbanization. It has a strong track record and constructed in total 24,701 apartments, since it emerged, of which 22,913 were sold, and has rights and land to develop another approximately 1,701 apartments. In addition KLC owns land in Palm Garden and 2 plots in Xi'an for further development.

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).

Furthermore, KLC develops mixed-use projects, consisting of commercial retail estate under its Galleria brand and residential and small office apartments, like the current large project 'Europark' in Dalian. 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 6.1% in 2019, and a further forecasted slowdown in 2020, due to the outbreak of the coronavirus. 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 2019, China's economy comprised 16% of the gross world product, and maintained a total workforce of approximately 776 million people. The trade war between China and the US adversely affected the development of the Chinese economy. However, on December 13, 2019, the two countries signed Phase A of a trade agreement, which includes some duty reliefs, with the final agreement expected to be executed in early 2020. It is estimated that the US and China are highly likely to reach an agreement and eventually sign trade agreements that will ease the tensions between the two countries in this matter, as well as improve the performance of the Chinese economy, which suffered as a result of the tariffs. A severe setback occurred in December 2019, when China was confronted with the cross-country outbreak of the novel coronavirus epidemic (COVID19), which has been spreading rapidly from early January 2020 throughout China and beyond. The virus originated in Wuhan, approximately 300 km's from our operations in Dalian. As a result, China's economy is slowing down and the retail sector is suffering severely as the country imposed access restrictions in order to reduce unnecessary movements and aggregation of people. Restrictions have been placed on people movement within cities, businesses and schools have been closed

for weeks and people have been urged to stay confined at home due to the Chinese government emergency response to control the spread of this highly infectious virus.

It is still too early to assess the full economic impact of the coronavirus outbreak. Since Chinese Lunar New Year is always the most important period for the retail sector, there is a high possibility that the yearly performance of China's economy in 2020 will be under 6% even considering the estimated strong rebound after the coronavirus outbreak.

Residential construction market

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 2019 the prices of new-completed residential apartments in China rose by an average of 6.8% in 70 of China's central cities (December 2019 compared with December 2018), whereas prices in first tier cities remained stable, compared with the sharp increase in the price of new apartments in first-tier cities in the past. From October 2016 to the reporting date, local governments of about 50 of China's largest cities gradually announced various local plans designed to moderate the ongoing, rapid increase in housing prices. According to the National Bureau of Statistics of China, in 2019 real estate investment in China grew by 9.9%, as compared to the 9.5% increase in investment in 2018.

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 2019, a 8.0% increase in the retail sales of consumer goods was recorded, as well as an 8.9% increase in disposable income per capita, and an inflation of 2.9%.

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). In 2019, online sales reached RMB 10.6 trillion, a growth rate of 16.5% over 2018. Since the beginning of widespread use of 4G in China, China's online retail sales are on the rise. In addition, according to estimates, following the official launch of 5G on October 31 2019, online sales are expected to grow further during the next few years.

KLC 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. The Company believes these will attract visitors and buyers to the Mall.

Operational developments Real Estate

Residential projects KLC

Units sold in the period	2019	2018
<i>100% owned</i>		
Europark Dalian	91	105
<i>Joint Venture projects*</i>		
Olympic Garden	135	688
Suzy	297	230
Palm Garden	2	47
City Dream	153	51
Total	678	842

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

	For the year ended December 31,	
	2019	2018
<i>Operational Information</i>		
Revenue Residential - JV (in € thousands) *	62,861	24,505
Gross profit residential - JV (in € thousands) *	29,276	8,464
Apartments sold in period (a)	678	842
Apartments delivered in period (b)	1,679	649
Total apartments sold, not yet delivered (c)	875	1,896

(a) All residential apartments, incl. Dalian (100%).

(b) In 2019 231 apartments were delivered in the Dalian project compared to 295 apartments in 2018.

(c) KLC part in the gross profit from apartments sold, not yet delivered is €21.7 million as of 31 December 2019.

In 2019, KLC sold 587 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 91 units.

The total number of units in inventory decreased from 3,265 at December 31, 2018 to 1,794 as at December 31, 2019. The number of unsold units in inventory (including the inventory of joint venture projects) decreased to 919 as at December 31, 2019 (1,391 as at December 31, 2018). The rate of unsold units for which construction was completed increased to 34% compared to 9% at December 31, 2018. The increase of the percentage of unsold units out of the total number of units in inventory is due to a decrease of total unsold inventory following sales in almost all residential projects in 2019. Please see details about the impact of the coronavirus outbreak on the real estate – development operations in the outlook 2020 section.

The operational trends at shopping mall Galleria Dalian continue to be positive. The occupancy level increased from 92.2% as at 31 December 2018 to 94.1% at

December 31, 2019, and the opening rate from 81% to 92% as at 31 December 2019. Shopping mall Galleria Dalian integrates multiple aspects in its offering, including entertainment, food, sports and health, and fashion.

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 thousands	For the year ended December 31,	
	2019	2018
Real Estate - Development		
Sale of apartments	55,496	73,634
Cost of sales	(47,053)	(69,084)
Gross Profit	8,443	4,550
SG&A expenses	(2,889)	(2,687)
Gain (loss) from disposal of fixed assets and investments, net	(1,555)	2,278
Equity earnings (losses)	14,667	1,491
Operational profit - Real Estate Development segment	18,666	5,632
Real Estate - investment Property		
Rental revenues	9,055	5,384
Cost of rental revenues	(3,529)	(3,738)
Gross Profit	5,526	1,646
SG&A expenses	(1,497)	(4,366)
Adjustment to fair value (impairment) of investment property	–	(8,610)
Operational profit (loss) - Real Estate Investment Property segment	4,029	(11,330)
Total operational profit (loss) - Real Estate	22,695	(5,698)
Other unallocated expense	(2,217)	(2,311)
Profit (loss) before finance expenses and income tax	20,478	(8,009)
Finance expenses, net	(8,287)	(10,219)
Tax benefits (expenses)	(653)	835
Profit (Loss) for the period – attributed to Company's shareholders	11,538	(17,393)

Real Estate – Development

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

In 2019 revenue from the sale of apartments (the handover of apartments in the Europark Dalian project) amounted to €55.5 million (2018: € 73.6 million). In 2019, 231 units in the C towers of the Europark Dalian project were delivered, compared to

295 deliveries in 2018 (included 33 units from building A and the delivery of building B as one block). In addition, some revenue was recognized related to progress of construction of certain apartments. As relatively many units were delivered in Q4 2019, revenue in Q4 2019 is significantly higher than in Q4 2018.

SG&A expenses remained virtually stable at €2.9 million in 2019 compared to €2.7 million in 2018. Selling and marketing activities mainly relate to the C

towers in Europark Dalian project, of which the sales process commenced in 2017, and are somewhat levelling off since sales are progressing.

'Equity earnings' comprises the result of the residential activities from joint venture projects, which contributed a profit of €14.7 million in full year 2019, compared with a profit of €1.5 million in 2018. This significant increase resulted from high deliveries of apartments during the year. Revenue from the residential joint venture projects in 2019 amounted to €62.8 million compared to €24.5 million in 2018.

The profit from operations of the Real Estate development segment amounted to €18.7 million in 2019 compared to a profit of €5.6 million in 2018.

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 in 2019 came in at a profit of €4 million (2018 €11.3 million loss).

Revenues of the Investment Property segment increased significantly to €9.1 million in 2019 compared to €5.4 million in 2018, following positive operational trends at Galleria Dalian. This is reflected in the increase in occupancy level (from 92.2% at December 31, 2018 to 94.1% as at December 31, 2019), and the opening rate (from 81% at December 31, 2018 to 92% as at December 31, 2019). After balance sheet date, as of January 2020, our operations were disrupted due to the outbreak of the coronavirus and the related measures to control the outbreak, as detailed in the outlook section above.

The improved trends in 2019 were also reflected in an increased gross margin of the Investment Property segment to 61% compared to 30% in 2018.

SG&A considerably decreased from €4.4 million in 2018 to €1.5 million in 2019, mostly due to lower marketing costs as the mall is almost fully occupied.

The value of the investment property (Galleria Dalian shopping mall) was €214.6 million as per 31 December 2019 compared to €213.6 million at year-end 2018. The increase in value was a result of the appreciation of the RMB versus the EUR (2018: devaluation of €6.3 million and a negative impact of €1.2 million as a result of the depreciation of the RMB versus the EUR). It is noted that it is highly probable that the coronavirus outbreak will, have a negative impact on the value of Galleria Dalian, as early as Q1 2020, however it is too early to estimate such impact. For conservative reasons, the Company decided not to recognize profit from the increase of the fair value of the mall in the fourth quarter of 2019.

Real Estate – Total

The above resulted in an operational profit of the Real Estate activities of €22.7 million in 2019 compared to €5.7 million operational loss for 2018.

'Financing expenses, net, amounted to €8.3 million, compared to €10.2 million in 2018. The financing expenses mainly include interest expenses related to the Europark Dalian project loan as well as a positive foreign exchange impact of €0.2 million, compared with a negative foreign exchange impact of €0.1 million in 2018. The decrease in financing expenses is attributable to the partial early repayments of the project loan in Q3 2018 and in Q3 2019.

Tax expenses / benefit in 2019 amounted to an expense of €0.7 as a result of the change in deferred taxes partially offset by tax on dividend received from joint ventures (2018 benefit of €0.8 million as a result of the change in deferred taxes).

Net profit in 2019 amounted to €11.6 million (2018: €17.4 million loss).

Loans – the project loan amounting to €95 million as of December 31, 2019 is presented as a short-term liability as it matures in November 2020, unless extended for additional year as stipulated in the loan agreement, or refinanced. KLC and the lending bank are currently negotiating the said extension.

Additional balance sheet information – Kardan Land China

€ in thousands	2019 (31.12)	2018 (31.12)
Real Estate – Development		
Share of investment in JVs	47,168	37,568
Inventory	41,728	63,980
Real Estate – Investment Property		
Investment Property	214,577	213,577
Cash & short-term investments	36,619	44,517
Total Assets	386,677	403,361
Loans and Borrowings	95,029	100,800
Advance payments from buyers		
(Real Estate – Development)	4,657	32,486
Total Equity	226,221	213,784

Risks

An economic downturn, globally or in China, could impact KLC, 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.

Since December 2019, there was a coronavirus (COVID-19) outbreak, first in the Chinese city of Wuhan and later across China and beyond. The potential damage to the Chinese economy depends on the speed and ability to contain the spread of the disease. At this stage, given the uncertainty in the duration and magnitude of the crisis, the Company is unable to estimate the full implications for the

Company's operations and financial performance. It should be noted that, as of the Report Date, the spread of the coronavirus and the resulting restrictions placed in China, might adversely affect the financial performance of Kardan Land China in Q1 2020. The continuation of the crisis might cause further deterioration of the financial performance of Kardan Land China. To mitigate potential impact, KLC started to reduce operational costs. Furthermore, KLC is evaluating which of the policies issued by the Chinese government to ease the financial burden on companies might be applicable to its activities. Such policies include Exemption on Employer's Social Insurance contribution for a certain period, discount on commercial property shopping mall property tax for leased out portion and reduction of interest rates and more.

KLC is exposed to the Chinese market in which the government has large-scale involvement in the economy in general and in the real estate segment in particular. Changes in policies and regulations maintained by the Chinese government could impact 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 is exposed to fluctuations and changes in supply and demand in the Chinese real estate market, which may have a material adverse effect on the sales of apartments, the occupancy rates of income-generating properties and rent prices.

With respect to the retail real estate market: demand for commercial space could decline as a result of an increase in the supply of space and as a result of the ever-growing competition for “quality” tenants (financially robust multinationals and global retail chains). Additionally, changes in demand due to a slower growth rate of households, change in interest rates, change in bank mortgage terms, in expectation of changes in home prices and expectations of return on investment in apartments may have a material adverse effect on the level of demand and on home prices. As a result, the abovementioned exposures may have an adverse effect on KLC’s financial performance. The effect may be reflected either directly in KLC’s operating revenues and expenses or indirectly - through the revaluations of the income-generating properties owned by the Company. In addition, a downturn in home sales could adversely affect KLC’s financing sources due to a decrease in loan-to-value amounts from customers.

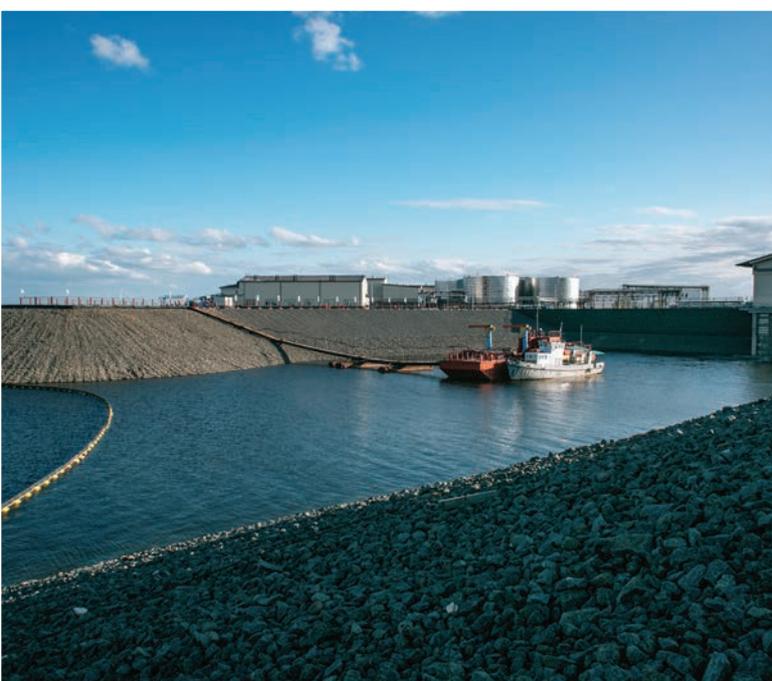
The retail sector has been undergoing rapid changes in recent years, also due to technological changes (e-commerce, digital payments, etc.). In recent years, e-commerce has grown, offering an alternative to brick-and-mortar stores. In addition, the development of new means of payment (including through smartphones), makes it difficult to keep track of tenants’ proceeds (a percentage of which is payable in addition to the rent). These changes may further erode KLC’s revenues.

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.

An overview of the main risk categories for the Kardan Group can be found in the chapter ‘Risk Management’ starting on page 36.

Water Infrastructure Division

- 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, 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, Africa (primarily in Angola) and Eastern Europe.

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 wastewater treatment plants and permits for the operation and maintenance of municipal water systems.

Market developments

Water market

The water market (water transportation and supply, water and wastewater treatment, and water and sewage networks) in developing countries - which has been the Tahal Group's area of activity for many years, and in which the Tahal Group has substantial activity - has been growing constantly, inter alia, as a result of the growing demand for water, that is twice the growth rate of the world's population, the limited redundancy in existing water infrastructures, and regulatory changes.

The main factors affecting the increase in the demand for water are the rapid growth of the world's population, climate change, urbanization, industrialization and agricultural development.

The water market is facing challenges and difficulties stemming from climate change, urbanization, and decline in green space. Due to the global water shortage, among other things, more than 1.1 billion people suffer from lack of access to safe potable water

and from poor agricultural yields, damaged ecosystems and lack of advanced sanitation and water systems, which could result in infections and widespread illnesses.

Agricultural market

Tahal operates in 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. The increase in demand for food is boosting investments in agriculture and the development of projects to serve the relevant demand. Moreover, climate changes stemming from global warming are causing changes in the global agriculture map. Adjusting to these changes requires additional investments, mainly in irrigation.

Operational developments

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 entered into agreements with third parties to carry out four agricultural development projects totaling approximately USD 363 million (Tahal's share in these projects is 50%). During 2018 and 2019, the parties worked to promote the necessary preconditions for the execution of the projects. As of December 31, 2019, a framework agreement was executed between the Government of Angola and a foreign bank to finance the four projects, under which a financing agreement for one of the

projects was signed. The parties are presently seeking to achieve financial closing of the project and to meet the remaining preconditions.

As of the Report Publication Date, there is no certainty that a final binding financing agreement will be signed for the remaining projects and/or that the required credit facility will be extended and that signing the financing agreement depends on obtaining the agreements of third parties. It is clarified in light of the aforesaid that the above projects have not yet commenced.

Central and Eastern Europe

In April 2019 won its first project in Kazakhstan. A second project was awarded in July 2019 related to an irrigation and drainage system upgrade and expansion project near the Kyzylkum Desert in the state of Kazakhstan together with a local partner (30%). The project consideration amounts to US\$47.6 million (€42.7 million), of which Tahal's share is approximately US\$33.3 million.

In Russia, Tahal completed the planning, construction and operation of a water treatment plant and pumping systems in the city of Yakutsk, as well as the construction of the water treatment facility and pumping systems in Orenburg. As of the Report Date, the projects are under the defects liability period. The renovation project of a biological treatment plant in Ivanovo is under execution.

In 2019, the Tahal Group discontinued its entire operations in Romania.

Key figures Water Infrastructure

€ in thousands	For the year ended December 31	
	2019	2018
Contract revenues	152,844	175,397
Contract cost	(145,524)	(148,338)
<i>Gross profit</i>	7,320	27,059
SG&A expenses	(11,627)	(16,269)
Share of profit (loss) of investments accounted for using the equity method	1,028	(2,900)
Other operational income (expenses)	(21,877)	378
Result from operations before financing expenses	(25,156)	8,268
Financing income (expenses), net	(5,476)	(4,209)
Income tax expenses	(5,139)	(1,955)
Net result of water infrastructure activities	(35,771)	2,104
Adjustments to investment in TGI	(1,178)	–
Net result	(36,949)	2,104
Attributable to:		
Equity holders (Kardan N.V.)	(32,233)	65
Non-controlling interest holders	(4,716)	2,039
	(36,949)	2,104

Results analysis

Additional Information Water Infrastructure

	2019 (31.12)	2018 (31.12)
<i>Balance sheet (in € thousands)</i>		
Cash & short-term investments	11,653	13,974
Total Assets	183,523	228,482
Net debt	(49,363)	(37,526)
Equity attributable to equity holders (Kardan N.V.)	0	38,414
Equity/Assets	0%	17.9%
<i>Other (in USD million)</i>		
Backlog	506.2	687.4

During 2019 Kardan's discontinued operation - Water Infrastructure - reported a loss attributable to equity holders of €32.2 million, compared to a profit of €0.1 million in 2018.

Revenues of the water infrastructure activities decreased in 2019 to €152.8 million compared to €175.4 million in 2018.

The gross margin decreased to 4.8% in 2019 compared to 15.4% in 2018 following a change in the mix of projects with a relatively low profitability and a provision for losses on several projects.

Other operational expenses amounted to €21.9 million in 2019, and primarily include provisions and impairments, including on an outstanding debt, for

doubtful debts, and costs of the efficiency plan. Combined with the said decrease in gross profit, the operational result decreased to a loss of €25.2 million in 2019 compared to €8.3 million profit in 2018.

Financing expenses increased from €4.2 million in 2018 to €5.5 million in 2019, mostly due to interest expenses on utilization of credit lines and foreign exchange differences.

In Q4 2019, due to the financial position of Tahal, it was decided not to recognize any deferred tax assets on losses and to reverse the existing deferred tax assets in the amount of €4.8 million.

The order backlog of Tahal decreased from US\$687.4 million at 31 December 2018 to US\$506.2 million at 31 December 2019, mainly due to a revised agriculture operation plan in Quiminha, Angola and the termination of several projects. At this stage, it is not clear whether the outbreak of the coronavirus will have an impact on Tahal's operations, including its backlog, revenues, expenses, and cash flow, and to what extent.

The net loss attributable to equity holders of the water infrastructure operations came in at €32.2 million for 2019 (2018: €0.1 million profit). The impairment of Kardan's investment in Tahal in the amount of €1.2 million in 2019, on balance after partial reversal of the impairment charged in Q3 2019, brought the total loss attributable to equity holders to €32.2 million for 2019.

As a result of the financial position of Tahal, the Company decided to fully impair its investment in Tahal. As a result, an impairment of €1.2 million was recorded and therefore the equity of Tahal attributable to the Company in its financial statements stands at nil as of December 31, 2019.

Financial position

In order to finance its operations, Tahal has utilized short term credit lines amounting to €52 million from banks. As a result of delays in receiving advance

payments from certain projects, Tahal had to extend those credit lines until December 2019. As of the date of this report one credit line of US\$ 25.6 million was extended until December 2020.

The financial difficulties that Tahal is facing are stemming from the negative cash flow performance, as a result of, amongst others, substantial delay of the start of new projects in Angola, in which Tahal heavily invested.

Tahal has been negotiating with its financing banks regarding a restructuring of its debt to the banks in parallel to the continued support of Tahal in its efforts to reorganize and improve its operations, allowing Tahal to return to solid financial performance. This plan includes support in the form of a facility consisting of guarantees required to advance projects and cash credit line to support Tahal's working capital. For additional information refer to note 5 to the Consolidated Financial Statements of the Company.

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.

The outbreak of the coronavirus in China and the virus's subsequent global spread constitute a global macroeconomic risk, causing uncertainty about future economic activity around the world and the expected impacts on inflation and financial markets. The potential damage embodied in the coronavirus spread to growth and the global economy depends on the speed and ability to stop the spread of the disease across the entire world. At this stage, Tahal is unable to estimate the duration and magnitude of the crisis or its full implications for its activity. However, due to the fact that a material part of Tahal's activities are based on government investments in infrastructure and financing by various international organizations, a global economic crisis, recession and a decline in infrastructure investments by governments, which may be caused by the spread of the coronavirus, may have an adverse effect on the activity and results of Tahal.

The possibility of executing infrastructure development projects or investing in assets usually depends on meeting capital and financing requirements and on providing guarantees. It should be noted that during the past year, Tahal's financial position deteriorated and the credit facilities available to it were decreased. The deterioration in the financial position and decrease in credit facilities compromise Tahal's ability to bid in tenders for the execution of new projects and to provide bank guarantees that will enable it to receive

payments for work executed, as well as to carry out projects to which it has committed. In addition, a delay in providing guarantees may expose Tahal to claims by clients regarding failure of Tahal to meet its contractual obligations and to termination of the contract.

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.

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 36.

Risk Management

Kardan's business strategy inherently comprises risks

Kardan is inherently exposed to a relatively high degree of entrepreneurial, geopolitical, financial and legal risks in the markets in which its subsidiaries operate. The Kardan Group operates primarily in emerging and developing countries, such as China and Angola, which, by nature, have a different risk profile than developed markets. Kardan has two outstanding series of Debentures – which were issued in 2007 and 2008 by Kardan and are listed on the Tel Aviv Stock Exchange. In the past years, the repayment of these Debentures puts a heavy burden on the financial position of the Company, and as of February 2018 the Company is unable to meet the repayment obligations. Kardan is therefore in discussions with the debenture holders on concluding a debt settlement and repaying its liabilities. 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 its holdings in AVIS Ukraine in the first quarter of 2019. Furthermore, the Company is working hard to strengthen the financial position of Tahal through a capital increase. For more details, including on the progress of the negotiations with the debenture holders regarding a debt settlement, 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 periodic 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, lastly the COSO ERM Framework (2017). Our risk management process incorporates the principles of the Dutch Corporate Governance Code to secure alignment with best practices while remaining fit for purpose for Kardan. The Code 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 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. 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.

Kardan has engaged an external advisory firm to provide internal audit services. In 2017 this advisor 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. In 2019 we have started implementing the internal enforcement plan. This plan entails a review of existing policies and adopting revised/new policies, in relation to reporting to security authorities, insider trading policy etc., and providing training to employees. In addition, in 2019, an internal audit on the functioning of the holding's legal department was performed resulting in a satisfactory outcome.

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 2019 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, 2019 the control over financial reporting and disclosure is effective (the Control Statement) and the Group's external auditors in Israel 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 2019. The risk of capital availability, and more specifically the risk of not being able to timely repay the debt, materialized in February 2018. This has been a key priority for Executive Management and the Board of Kardan throughout the year. Also, the risks in subsidiaries have been discussed during the risk assessment: on the one hand the improved financial performance of Galleria Dalian, which relieves some risk categories such as financial markets and capital availability of Kardan Land China, and on the other hand the deteriorated financial situation of Tahal which significantly increased the risk of insufficient capital availability for Tahal.

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 2019 Statutory Financial Statements. We note that there are other risks that were assessed as having a less significant potential impact on the business. In this respect, the Board has decided to put special attention to the Human Resources risk, in particular, in relation to succession plan for key managers in the Group. The Board is of the opinion that given the downsizing of the operations of the Group, there is increased level of dependency on only a few key managers. The Board will continue monitoring this risk closely and will follow-up on its likelihood to materialize while taking necessary steps to mitigate.

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. In 2018 this risk has materialized and Kardan was not able to repay its debenture holders as of February 2018. Furthermore, in August 2019, as a consequence of delays in the startup of new projects, provisions on a number of projects and the consequent pressure on liquidity, the need to strengthen the financial position of Tahal through a capital increase became apparent.

Risk Appetite:

Given our debenture debt, cash management is critical to our continuity, meaning that our tolerance in this respect is very low.

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. In parallel, Executive Management and the Board continue in their efforts to sell assets. In March 2019, the Company sold its investment in AVIS Ukraine. The proceeds from the sale were used for a partial repayment of the debentures in June 2019. In September 2019, the Company approached the debenture holders with a proposal to negotiate new terms of agreement which entail conversion of debt into equity. In parallel, Kardan has been working on advancing a sale transaction of its subsidiary Tahal. In 2019, the financial situation of Tahal has become challenging, which led the Board to conclude that it is important to strengthen the financial position of Tahal through a capital increase. Such capital increase, most likely by bringing a partner into Tahal, will not result in cash inflow to Kardan in order to serve its debt.

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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, India 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 and 2019 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. The activities are spread over multiple continents. All large projects in Africa are setup with a 50% partnership. In the past few years the company expanded to India, Russia and Ukraine and in 2019 Tahal started operations in Kazakhstan. 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.

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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, political instability in certain African countries). In addition, the geopolitical situation of Israel in the global political universe could lead to certain countries refraining from doing business with Kardan.

Risk Appetite:

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

Impact: High

Likelihood: Highly Probable

Measures:

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

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

Operational Risks**Budget and Planning**

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

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. As a result of the increased likelihood of this risk to materialize, the Board is now reviewing, in coordination with Tahal, additional measures to be implemented.

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. Unfortunately, in 2019 we experienced the impact by way of heavy project losses in the infrastructure activities. In its assessment, management noted that the impact of uncertainties in the water infrastructure activities proved to be bigger than expected, therefore increasing the likelihood of this risk to materialize.

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. As a result of the increased likelihood of this risk to materialize, the Board is now reviewing, in coordination with Tahal, additional measures to be implemented.

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 the past 3 years Kardan's equity was heavily negatively impacted by the foreign currency exchange rates which resulted in a deficit in our equity.

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. Also, Kardan's proposal to convert part of its debt into equity, will strengthen the equity position which was severely hurt due to foreign exchange fluctuations, and will reduce the exposure to future fluctuations.

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

Compliance Risks

Fraud and illegal acts

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

Risk Appetite:

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

Impact: Medium

Likelihood: Probable

Measures:

Our Code of Conduct provides guidance to all employees on ethical behavior with the aim of preventing fraud and illegal acts and is circulated throughout the Kardan Group annually. We have also embedded relevant policies and procedures, such as authorization schemes and segregation of duties, as

much as possible in the daily operations in order to provide checks and balances for our activities, as well as a whistleblower policy. Moreover, in some of our operations 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, an internal audit was performed on the functioning legal department, and although the result was satisfactory, Kardan continues to review and assess the exposure.

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

Specific actual risk: spread of the coronavirus

The outbreak of the coronavirus in China and the virus's subsequent global spread adds an additional and actual risk, which is not reflected in our main risk categories. Given its unique nature and the fact that it is actually materializing, it is presented as a separate risk.

The outbreak of the coronavirus constitutes a global macroeconomic risk, causing uncertainty about future economic activity around the world and turmoil on financial markets, and is expected to impact inflation. The potential damage to the global economy depends on the speed and ability to contain the spread of the disease across the entire world. At this stage, given the uncertainty in the duration and magnitude of the crisis, the Company is unable to estimate or the full implications for the Company's operations and financial performance. It should be noted that, as of the Report Date, the spread of the coronavirus and the resulting restrictions placed in China, might adversely affect the financial performance of Kardan Land China in Q1 2020. The continuation of the crisis might cause further deterioration in the financial performance of Kardan Land China and Tahal.

In-Control Statement of the Board (2019)

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 2019 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 still on going, 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 2019, 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. 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. The water infrastructure activities specifically focus on providing access to

potable water and on agricultural projects, such as design and installation of water irrigation systems.

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 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.

At KLC anti-corruption and anti-fraud trainings are included in the introduction training for new staff. All KLC staff sign the various policies. At Tahal employees are informed and trained about anti-corruption policies and procedures, including online 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.

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.

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 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. Around 60% of all employees receive regular performance and career development reviews. Around 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 2019, the number of people employed by Kardan Group totaled 1,492 compared to 1,517 employees as of December 31, 2018.

Number of employees as of December 31, 2019 *

	Kardan holding	Real Estate	Water Infrastructure	Total
Europe (mainly Russia)	8		108	116
China		123		123
Israel			357	357
Other countries in Asia (mainly India)			330	330
Africa (mainly Angola)			566	566
Total	8	123	1,361	1,492

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

Kardan Holding

As at December 31, 2019, 8 people were employed at Kardan Holding (year-end 2018: 9 people), in a ratio of 75% female and 25% male staff members. The absence rate during the calendar year 2019 was 1.4% (2018: 8.6%). The decrease was due to two long-term illness situations in 2018.

All employees at Kardan Holding followed cyber security training, and several employees followed specific courses to further develop certain individual expertise. All employees were offered a workplace scan and they received personal advice regarding the physical work posture.

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, 2019, KLC employed 123 people (141 as of December 31, 2018). The small decrease in number of employees is due to the operational improvements at the shopping mall. KLC has 42% female staff members and 58% male staff members. The absence rate amounted to around 0.8% (2018: 0.77%). Including the employees from the joint venture companies the number of employees amounts to 210 in 2019.

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 2019, over 3% of total staff was promoted to more senior positions compared to 14% in 2018. Moreover, KLC recognizes that retaining people is important, many social events are organized during the year, ranging from teambuilding events. 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 in Dalian there were various training, ranging from orientation training, staff manual training to time management system training. For the Dalian Project Company also various trainings including Staff manual training were organized.

Water infrastructure

As of December 31, 2019, Tahal employed 1,361 people (2018: 1,367). 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 4 hours per employee in 2019. Furthermore, Tahal organizes several social events for its staff to nurture corporate cohesion, in both HQ and local branches and projects.

Tahal has 27% female staff members and 73% male staff members. At its office in Israel, Tahal has a more equal balance between male and female staff, 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 and community activities

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.

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 tree planting activities to raise awareness on World Aids Day and World Water Day are taking place. In addition, activities take place to support local community centers and committees, both at Tahal and KLC.

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 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.

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. 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.

At the HQ in Amsterdam, environmental indicators were part of the selection criteria for its relocation end of 2017 when the Company moved to a greener office location. Kardan uses 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 2019 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 2019, the Executive Management consisted of the CEO and the CFO. The CFO joins the meetings of the Board.

Corporate Governance Statement

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

strategy is primarily focused on the repayment of its Debentures through generating cash by selling assets, 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.

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, 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 31 December 2019, 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 two of 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. The risk management and internal control systems

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 by 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. The risk management and internal control system is outlined in more detail on page 36 and further of this annual report.

3. 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.

Shares

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-eight 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.

Annual General Meeting 2019

The Annual General Meeting of Shareholders was held on 29 May 2019. The meeting topics included amongst others the Annual Report 2018, the principles of the debt settlement agreed upon with the Debenture Holders including the authorization of the Board to continue the negotiations with the Debenture Holders, the approval of the delegation of the authority to the Board to issue shares or rights to subscribe for shares up to three tranches, each time up to the maximum of 15% of the outstanding share capital at the time of the issuance and the variable remuneration of the CEO.

4. Board

Board and CEO

As mentioned, Kardan is managed by a one-tier Board consisting, at the date of this Annual Report, six non-executive Board Members and one executive Board Member. There were no changes in the composition of the Board during the year under

review. 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 Remuneration, Appointment and Selection (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, of which at least one Board member has to be appointed as executive Board Member. 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.

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.

Composition, Mutations and Reappointment schedule

During 2019 there were no changes to the composition of the Board. Mr. Sheldon shall be nominated for re-election during the Annual General Meeting 2020 for a period of two years, ending at the end of the Annual General Meeting 2022. This is in line with the Dutch Corporate Governance Code. This nomination for re-election is important for Kardan as Mr. Sheldon has extensive knowledge of the current situation the Company faces and plays an instrumental and very valuable role in the ongoing discussions with the Company's stakeholders, and in particular the Debenture Holders.

Peter Sheldon (1941, male) – 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.

Date of first appointment: 31 May 2012

End of current term: AGM 2020

Ariel Hasson (1973, male) - 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 former fully-owned subsidiary of Kardan N.V. which held the group's banking and retail lending businesses. In 2016 Mr. Hasson was appointed as CEO of Kardan N.V.

Other positions: Chairman of the board of Kardan Land China and Tahal Group International

Date of first appointment: 26 May 2016

End of current term: AGM 2021

Cor van den Bos (1952, male) – 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.

Other positions: Vice Chairman of the Supervisory Board of ASR Nederland N.V. and Chairman of the Audit and Risk Committee.

Date of first appointment: 6 February 2013

End of current term: AGM 2021

Yosef Grunfeld (1942, male)

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 13.96% of the issued share capital and voting rights of Kardan. Additionally, Mr. Grunfeld has a voting agreement with Mr. Rechter and Mr. Schnur (a former member of the Board). Given the above, Mr. Grunfeld is considered a non-independent, non-executive Board Member within the meaning of the Code.

Other positions: chairman of the board of Kardan Israel and Kardan Real Estate

Date of first appointment: 6 February 2013

End of current term: AGM 2021

Ferry Houterman (1949, male)

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 Eden Hotel Group. Mr. Houterman is the current owner of HMC B.V., a consultancy firm.

Other positions: Supervisory Board member of Tahal Group International B.V.

Date of first appointment: 30 May 2018

End of current term: AGM 2022

Eytan Rechter (1949, male)

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 0.54% 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).

Furthermore, Mr. Rechter holds 14,930.26 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.

Other positions: Member of the Supervisory Board of Tahal Group International B.V.

Date of first appointment: 6 February 2013

End of current term: AGM 2021

Cécile Tall (1967, female)

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 Mrs. Tall is a consultant at Poseidon Consulting SAS.

Date of first appointment: 4 May 2017

End of current term: AGM 2021

Board Meetings

The Board meets at least once every quarter, principally at Kardan's headquarters in Amsterdam or, when necessary, by conference call. In 2019, the Board met eight times. All Board Members attended all Board meetings, except Mrs. Tall and Mr. Grunfeld, who were each absent during one Board 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. When deemed necessary, the Board consulted outside experts for advice and invited them to attend Board meetings.

Important topics during 2019 were obviously the Company's ability to service its debts, particularly in light of the Company's repayment obligations towards its debenture holders and the financial position of the company. Also, the financial situation of Tahal, its relationship with its financing banks, the sale process and the discussions with investors on an investment transaction relating to Tahal were frequently discussed. Furthermore, financial forecasts, results, the negative equity position and cash flow projections were topics on the agenda. The CEO updated the Board frequently on the discussions and negotiations to reach a settlement with the debenture holders. Furthermore, 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. 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 project management and planning within the Kardan Group as well as its internal control systems. The Board was periodically updated by the chairman respectively chairwoman 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 relating to the performance during 2019. The outcome of the Board evaluation shows an overall improvement in the rating granted by the Board Members as regards the Board's performance and functioning. Board Members are satisfied with the Information provided by the Management. The Board members have a better understanding of the Board's functioning, have a good understanding of the risks inherent to the Company's business and the Company's risk management and feel free to discuss (mal) functioning.

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 in 2019 consisted of Messrs. Van den Bos (Chairman) and Sheldon.

The Audit Committee met five times during 2019 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 position of Tahal, 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. Furthermore, the Audit Committee reviewed and discussed the internal control systems, the result of the internal audit and compliance and legal updates.

After reviewing the performances of PricewaterhouseCoopers Accountants N.V. as Kardan's external auditor for the financial year 2018, 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 2019, 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 2019, 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 1 time in 2019 in a physical meeting, in which the RAS Committee discussed the performance of the executive Board member and the eligibility to the variable remuneration. Furthermore the performance criteria for the 2020 variable remuneration for the executive Board member were

discussed. In 2019, the RAS Committee consisted of Mrs. Tall (Chairwoman) and Mr. Sheldon.

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 2019, a proposal for the variable remuneration for the executive Board Member was adopted.

In accordance with the requirements under the newly implemented changes to the Shareholders Directive (2007/36/EG), the Company will place the remuneration policy on the agenda of the Annual General Meeting.

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 62 of this Annual Report.

Executive Management

Kardan has opted for the installation of an Executive Management team, consisting of the CEO, Mr. Hasson and the CFO, Mrs. E. Oz-Gabber. The Executive Management is entrusted with the day-to-day management of the Company. As member of the Executive Management team, the CFO attends all Board meetings as well as the meetings of the Audit Committee and provides the Board, if so requested by the Board all such information to allow the Board to properly perform its duties.

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. 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, 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.

5. Related Party Transactions

Articles 7, 8 and 9 of the Articles of Kardan contain rules on the corporate resolution process in the case of dealings between Kardan and one or more Holders of Control, as defined in the Articles (Special Approval Procedure). Holders of Control are deemed to be any Person (as defined in the Articles) holding 25% or more of the voting rights in the General Meeting of Shareholders, if there is no other Person holding more than 50% of the voting rights. Certain transactions, as described in Kardan's Articles, between Kardan and a Holder of Control require special approval, as follows: (i) Board approval with an absolute majority of votes, including the affirmative vote of the majority of the independent Board Members (as defined in the Articles) and (ii) approval of the General Meeting of Shareholders with an absolute majority of votes, provided that either (a) such a majority includes the affirmative votes of at least half of all the votes of the shareholders who are present at the meeting and who do not have a personal interest (as defined in the Articles), or (b) the opposition votes of those shareholders who are present at the meeting and who do not have a Personal Interest, do not constitute more than 2% of the total number of votes that can be cast in a General Meeting of Shareholders. In 2019 no new related party transactions were executed.

6. 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.

7. 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, enabling employees to adequately and safely report any suspicions they may have of irregularities of a general, operational or financial nature. In addition, 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](#). 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.

8. 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 125 of the Annual Report 2019.
- b. Shares in the capital of Kardan are freely transferable.
- c. Substantial shareholdings within Kardan are included on page 11 of the Annual Report 2019.
- 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 64 of the Annual Report 2019.
- 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 2019, the shareholders authorized the Board for a period of eighteen months as of that day, 29 May 2019, 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.

Furthermore, at the AGM 2019, it was resolved that the Board is authorized to resolve (i) to issue shares and/or grant rights to subscribe for shares to the Debenture Holders, up to three tranches and each time up to a maximum of 15% of the Company's issued share capital at the issuance date of each tranche and (ii) to limit or exclude pre-emptive rights in connection with the foregoing. This authorization was granted for a period of five years starting at the date of the AGM, i.e. until 29 May 2024.

- 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.

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. This Remuneration Report will be put up for advisory vote in the Annual General Meeting.

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 2019 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 2019 is presented in the table on the right.

Changes in Board positions during 2019

There were no changes in the Board composition during 2019.

Changes in Committee positions during 2019

During 2019 there were no changes in Committee positions.

Non-executive Board Member ¹		Gross Remuneration in 2019 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. Y. Grunfeld ¹		26,000
Mr. F. Houterman		26,000
Mr. E. Rechter ¹		26,000
Mrs. C. Tall	Chairwoman of the RAS Committee	36,000

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 2019.

Remuneration of the CEO in 2019

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 below. During the AGM held on 29 May 2019, the General Meeting approved the variable remuneration plan for the CEO for 2019.

Fixed remuneration of the CEO

The CEO is entitled to receive a fixed monthly remuneration consisting of a salary and customary social benefits in the Netherlands, car, mobile 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 2019 for the CEO, was submitted to the General Meeting for approval during the AGM held on 29 May 2019. For the year 2019 the Board proposed a variable remuneration of a maximum of €330,000 conditional upon:

- (i) Servicing the debt of the Company and its relations with the Debenture Holders;
- (ii) The orderly and optimized divestment of assets based on understanding to be agreed with the Debenture Holders; and
- (iii) The continuation of improvement in the performance of the Company's operating subsidiaries.

Furthermore, the payment is dependent on continued employment with Kardan at the time of the payment being due. On the basis of the performance of the Company during 2019, the Board concluded that the conditions for awarding the variable remuneration were not fulfilled and therefore no bonus was granted for the year 2019.

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 2019 is presented in the following table:

Element	Remuneration in 2019
Base remuneration (including social benefits and allowances)	€ 361,000
Allowances in kind	company car/allowance, cell phone (costs are included in base remuneration)
Annual Bonus	€ –
Pension	included in base remuneration
Total	€ 361,000

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 Total 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 3.5 applies (2018: 4).

Employee Options

In 2019 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, 2019. For further details regarding share-based payments see Note 19 of the consolidated financial statements.

Remuneration 2020

The remuneration package for Mr. A. Hasson entails a yearly fixed remuneration and a variable remuneration. The fixed remuneration of Mr. 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 operations and certain allowances ('Base Remuneration'). The amount of the Base Remuneration remains unchanged. The total annual cost for the Base Remuneration for 2020 is therefore estimated at € 366,000 (base remuneration as approved in AGM 2016 plus indexation).

The Board is proposing a variable remuneration for Mr. Hasson for 2020 of a maximum of € 330,000, conditional upon 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 2020 is appropriate, given the performance of Mr. Hasson during his years of service and his valuable contribution to the realization of Kardan's objective of 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. Moreover, the Board is of the opinion that the proposed remuneration package is aligned with the position of all stakeholders of Kardan.

Remuneration Policy

Pursuant to new legislation based on the revised Shareholders Rights Directive (SRD II) of the European Parliament and of the European Council (2017/828/EU), the annual general meeting of Kardan has to adopt the remuneration policy of Kardan at least every four years. Following this new legislation, the Board has reviewed the remuneration policy of Kardan and has adopted a revised remuneration policy. This revised remuneration policy will be placed on the agenda of the annual general meeting for its approval. There are no substantial changes proposed in the remuneration policy for the members of the Board.

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 2019 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 2019 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 2019 financial year, and all material risks to which Kardan and its affiliated companies are exposed.

Amsterdam, April 30, 2020

Board of Directors

P. Sheldon (Chairman)

A. Hasson (CEO)

C. van den Bos (Vice-Chairman)

Y. Grunfeld

F. Houterman

E. Rechter

C. Tall

Statutory Financial Statements

for the year ended December 31, 2019 by Kardan N.V., Amsterdam, The Netherlands

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Consolidated Statement of Financial Position

Audited € in '000	Note	December 31, 2019	December 31, 2018
Assets			
Non-current assets			
Deferred tax assets	30	314	313
Tangible fixed assets, net	6	620	748
Investment property	7	214,577	213,577
Investments in joint ventures	8	32,408	23,114
Loans to joint ventures	8	15,059	14,859
Long-term loans and receivables	9	1,028	3,878
		264,006	256,489
Current assets			
Apartments inventory	10	42,144	64,734
Trade receivables	11	5,501	7,416
Current tax assets		2,937	2,452
Other receivables and prepayments	12	3,692	3,515
Short-term investments	13	5,677	17,427
Cash and cash equivalents	14	35,895	51,949
		95,846	147,493
Assets classified as held for sale	5	183,523	240,909
Total current assets		279,369	388,402
Total assets		543,375	644,891

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

Audited € in '000	Note	December 31, 2019	December 31, 2018
Equity and liabilities			
Equity attributable to equity holders of the parent	15		
Issued and paid-in capital		25,276	25,276
Share premium		206,482	206,482
Foreign currency translation reserve		(19,038)	(12,049)
Property revaluation reserve		25,179	25,179
Revaluation reserve, other		4,433	4,837
Accumulated deficit		(392,934)	(309,222)
		(150,602)	(59,497)
Non-controlling interests		(2,121)	5,740
Total equity		(152,723)	(53,757)
Non-current liabilities			
Interest-bearing loans and borrowings	17	–	87,287
Other long-term liabilities	18	1,610	1,033
Deferred tax liabilities	30	5,227	4,955
		6,837	93,275
Current liabilities			
Trade payables		2,413	3,159
Current maturities of debentures	20	298,913	282,703
Interest-bearing loans and borrowings	17	95,029	13,510
Current tax liabilities		1,131	1,185
Financial instruments	19	–	678
Advances from apartment buyers	10	4,658	32,509
Other payables and accrued expenses	21	101,473	87,301
		503,617	421,045
Liabilities directly associated with assets classified as held for sale	5	185,644	184,328
Total current liabilities		689,261	605,373
Total liabilities		696,098	698,648
Total equity and liabilities		543,375	644,891

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,		
		2019	2018	2017
Revenues from sale of apartments		54,705	72,711	8,556
Rental revenues		9,055	5,384	5,168
Management fees and other revenues		791	923	719
Total revenues		64,551	79,018	14,443
Cost of apartments sold	24	46,965	69,002	7,993
Rental costs	24	3,482	3,738	3,663
Management fees and other expenses (income), net	25	135	82	(50)
Total expenses		50,582	72,822	11,606
Gross profit		13,969	6,196	2,837
Selling and marketing expenses	26	3,109	4,083	5,668
General and administration expenses	27	6,705	8,126	10,180
Profit (loss) from operations before fair value adjustments, disposal of assets and investment and other (loss) income		4,155	(6,013)	(13,011)
Adjustment to fair value of investment properties	7	–	(8,610)	(4,181)
Gain (loss) on disposal of assets and other income, net	28	(1,555)	1,507	836
Loss from fair value adjustments, disposal of assets and investments and other income, net		(1,555)	(7,103)	(3,345)
Profit (loss) from operations		2,600	(13,116)	(16,356)

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,		
		2019	2018	2017
Financial income	29	852	12,111	6,845
Financial expenses	29	(70,343)	(35,516)	(34,321)
Total financial expenses, net		(69,491)	(23,405)	(27,476)
Loss before share of profit from investments accounted for using the equity method		(66,891)	(36,521)	(43,832)
Share of profit of investments accounted for using the equity method, net	8	14,667	1,491	16,424
Loss before income taxes		(52,224)	(35,030)	(27,408)
Income tax expenses (benefit)	30	727	(605)	5,180
Loss for the period from continuing operations		(52,951)	(34,425)	(32,588)
Net (loss) profit from discontinued operations	5	(35,477)	(311)	15,212
Loss for the year		(88,428)	(34,736)	(17,376)
Attributable to:				
Equity holders		(83,712)	(36,775)	(17,101)
Non-controlling interest holders		(4,716)	2,039	(275)
		(88,428)	(34,736)	(17,376)
Earnings (loss) per share attributable to shareholders	31			
Basic and diluted from continuing operations		(0.43)	(0.27)	(0.25)
Basic and diluted from discontinued operations		(0.29)	–	0.10
		(0.72)	(0.27)	(0.15)

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,		
	2019	2018	2017
Net loss for the year	(88,428)	(34,736)	(17,376)
Foreign currency translation differences	(7,207)	(15,014)	(15,202)
Change in hedge reserve, net of tax (1)	(404)	(751)	(1,051)
Share of other comprehensive expense of associates and joint ventures accounted for using the equity method	(2,927)	(1,279)	(8,498)
Other comprehensive expense for the year to be reclassified to profit or loss in subsequent periods	(10,538)	(17,044)	(24,751)
Total comprehensive expenses	(98,966)	(51,780)	(42,127)
Attributable to:			
Equity holders	(91,105)	(49,612)	(41,705)
Non-controlling interests holders	(7,861)	(2,168)	(422)
	(98,966)	(51,780)	(42,127)

1 Mainly relates to unwinding of hedge transactions in prior periods. The amounts are presented net of tax amounting to €65 thousand, €250 thousand and €346 thousand for the years ended December 31, 2019, 2018 and 2017, respectively.

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

Consolidated Statement of Changes in Equity

Audited € in '000	Attributable to equity holders of the parent						Total	Non- controlling interest holders	Total equity
	Issued and paid-in capital	Share premium	Foreign currency translation reserve *	Property revaluation reserve *	Revaluation reserve, other *	Accumulate deficit *			
Balance as of January 1, 2019	25,276	206,482	(12,049)	25,179	4,837	(309,222)	(59,497)	5,740	(53,757)
Other comprehensive expense	–	–	(6,989)	–	(404)	–	(7,393)	(3,145)	(10,538)
Loss for the period	–	–	–	–	–	(83,712)	(83,712)	(4,716)	(88,428)
Total comprehensive expense	–	–	(6,989)	–	(404)	(83,712)	(91,105)	(7,861)	(98,966)
Balance as of December 31, 2019	25,276	206,482	(19,038)	25,179	4,433	(392,934)	(150,602)	(2,121)	(152,723)

* In accordance with the Dutch civil code, part of the equity is restricted for distribution (see Note 7B and 15E).

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						Total	Non- controlling interest holders	Total equity
	Issued and paid-in capital	Share premium	Foreign currency translation reserve *	Property revaluation reserve *	Revaluation reserve, other *	Accumulate deficit *			
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 16)	–	–	–	–	2	–	2	289	291
Transaction with non- controlling interest (Note 19, 33)	–	–	–	–	–	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 Dutch civil code, part of the equity is restricted for distribution (see Note 7B and 15E).

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						Total	Non- controlling interest holders	Total equity
	Issued and paid-in capital	Share premium	Foreign currency translation reserve *	Property revaluation reserve *	Revaluation reserve, other *	Accumulate deficit *			
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 16)	–	–	–	–	4	–	4	77	81
Transaction with non- controlling interest	–	–	–	–	–	–	–	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 Dutch civil code, part of the equity is restricted for distribution (see Note 7B and 15E).

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,		
		2019	2018	2017
Cash flow from operating activities				
Loss from continuing operations before taxes on income		(52,224)	(35,030)	(27,408)
Adjustments to reconcile net loss to net cash (see A below)		23,515	55,637	2,771
Net cash provided by (used in) operating activities of continuing operations		(28,709)	20,607	(24,637)
Net cash used in operating activities of discontinued operations	5	(12,805)	(17,317)	(25,559)
Net cash provided by (used in) operating activities		(41,514)	3,290	(50,196)
Cash flow from investing activities				
Acquisition of tangible fixed assets and investment properties		(583)	(2,572)	(935)
Investments and collecting of loans to companies accounted for using the equity method, net	8,9	–	14,050	6,411
Proceeds from sale of assets and investments in associates	5	12,600	–	2,669
Change in short-term investments		9,314	(2,911)	48
Change in long-term loans		1,131	–	–
Net cash provided by (used in) investing activities of discontinued operation		3,401	(7,220)	3,401
Net cash provided by investing activities		25,863	1,347	11,594

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,		
		2019	2018	2017
Cash flows from financing activities				
Repayment of debentures	20	(12,221)	–	–
Proceeds from long-term loans		–	–	117,304
Repayment of long-term loans		(6,388)	(16,540)	(105,978)
Decrease in pledged deposit, net		2,549	16	–
Net cash provided by financing activities of discontinued operations		5,215	28,348	13,772
Net cash provided by (used in) financing activities		(10,845)	11,824	25,098
Increase (decrease) in cash and cash equivalents		(26,496)	16,461	(13,504)
Foreign exchange differences relating to cash and cash equivalents from discontinued operation		2,056	820	(1,128)
Change in cash of assets held for sale	5	2,133	(4,631)	9,514
Foreign exchange differences relating to cash and cash equivalents from continuing operation		6,253	2,159	3,038
Cash and cash equivalents at the beginning of the year	14	51,949	37,140	39,220
Cash and cash equivalents at the end of the year	14	35,895	51,949	37,140

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,		
		2019	2018	2017
A. Adjustments to reconcile net profit (loss) to net cash charges / (credits) to profit (loss) not affecting operating cash flows:				
Share in profit of companies accounted for using the equity method, net	5,8	(14,667)	(1,491)	(16,425)
Loss on disposal of assets and investments in associates, net	5	1,555	–	–
Share-based payment		–	446	3
Depreciation and amortization		631	262	413
Fair value adjustments and impairment of investment properties	7	–	8,610	4,181
Financial expense and exchange differences, net		69,934	23,692	27,596
Capital gain from sale tangible fixed assets		2	–	(837)
Fair value adjustments of financial instrument		681	(184)	240
Changes in operating assets and liabilities:				
Change in trade and other receivables		(10,206)	(1,333)	(3,329)
Change in inventories, net of advances from customers		(5,240)	24,489	(3,742)
Change in trade and other payables		16,601	4,699	(127)
Dividend received	8	3,728	12,160	13,386
Interest paid		(35,859)	(11,083)	(16,603)
Interest received		631	889	304
Income taxes paid		(4,276)	(5,519)	(2,289)
		23,515	55,637	2,771

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

Notes to the Consolidated Financial Statements

December 31, 2019

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, 2019 was 1,492 (December 31, 2018 – 1,519) of which 123 are part of the real estate segments, 1,361 are part of the water infrastructure activity (discontinued operations – see Note 5) and 8 form the headquarters of the Company.

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

These financial statements were approved by the Board of Directors of the Company on April 30, 2020.

For additional information included in the Israeli 2019 annual report as required by the Israeli Securities Regulations, reference is made to the website of the Company (www.kardan.nl).

B. FINANCIAL POSITION AND GOING CONCERN

1) As at December 31, 2019 the Company had, on a stand-alone basis and on a consolidated basis, a working capital deficit of €356 million and €410 million, respectively (excluding debentures held by subsidiaries), mainly as a result of classification of the debentures and other long-term debt as short-term liabilities, as detailed below. For the

year ended December 31, 2019, the Company recorded a (consolidated and on a stand-alone basis) net loss of €83.7 million and generated negative cash flow from operating activities of €1.3 million on a stand-alone basis, and negative cash flows from operating activities of €41.5 million on a consolidated basis. In addition, as at December 31, 2019 the Company had a deficit of €150.6 million in its equity attributable to equity holders. The Company has not repaid the February 2018, 2019 and 2020 principal and interest payments to the debenture holders and is in default according to the Deeds of Trust – see b below.

2) 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 Deeds 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 continues the 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 d 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".

3) 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. On March 14, 2019 the

transaction was completed, and the consideration received.

- 4) 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 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.

In April 2019, each of the meetings of debentures A and of debentures B approved the understandings reached by the representatives of both debenture series in relation to the balance payments. Accordingly, it was agreed that up to the date on which debenture holders B will be paid the full amount of the balance payments (approximately NIS 373 million), no payment will be made to debenture holders A. After the balance payments to debentures B are completed a balance payment of NIS 10 million will be paid to debenture holders A; and thereafter, each repayment will be made pro-rata between series A and B. In May 2019, pursuant to the

aforementioned approval, the Company transferred NIS 145 million (approximately €36.5 million) to debenture holders B trustee for the purpose of partial repayment of the balance payment. This partial repayment, which took place on June 3, 2019, includes NIS 95.9 million which were used to pay interest and NIS 49.1 million were used to repay the principal. The sources of payment were the net proceeds received by the Company from the completion of the sale of Avis Ukraine, see c above, together with the cash in the Company's accounts and additional amounts received from subsidiaries.

In September 2019, the Company has approached the Debenture Holders to propose that the parties will negotiate new terms of the debt settlement, which will be based on the following principles: (1) a portion of the Company's debt will be converted into the Company's shares in such a way that it is expected that the Debenture Holders will obtain a vast majority of the outstanding shares in the capital of the Company, after the share issue; (2) the amount of the Company's debt that will be converted into the Company's shares will be determined on the basis of a joint analysis of the Company and the Trustees, to ensure that the Company has positive equity and the Company can continue to operate as a going concern and meet its repayment obligations towards the Debenture Holders, taking into account future interest payments and expected proceeds when realizing assets in the future; (3) the Company's shares will be allocated to the Debenture Holders pro rata to the Company's total debt to the Debenture Holders (Series A) and (Series B); (4) the percentage of shares to be held by the Debenture Holders shall be determined by the parties within the framework of the negotiations; (5) the Company will continue to realize its assets under the management of the Company's Board of Directors. The new shareholders (i.e. the Debenture Holders) may make use of the right to

nominate new board members; and (6) the balance payment as agreed between Series A and B will continue to apply with respect to funds received by the Company. Such settlement structure requires approval of the meeting of shareholders of Kardan and of the meeting of the debenture holders of the Company.

As of the date of approval of the financial statements, management is advancing the negotiations with the representatives of the debenture holders in order to reach a debt settlement according to the structure described above.

- 5) The Company has been conducting processes 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). Given the current financial standing of TGI, the Board has noted the utmost importance of strengthening the equity of TGI in order to support its operations. With that respect and given the fact that the Company is not able to support such capital increase into TGI, management has been searching for such investment into TGI through partnerships. The Company anticipates that after improvement in the financial performance of TGI subsequent such capital increase and further advancement in various business initiatives, including commencement of large new projects that were reported, it would be feasible to divest the holding in TGI either through direct transaction or through the capital markets. In this respect, please refer to Note 5 below for additional information regarding the financial position of TGI and the Company's investment in TGI.
- In addition, the Company is acting to improve its assets in China and to refinance the project loan (see Note 17); 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.
- In order to assess the liquidity position of the Company, management prepared a two-year liquidity analysis (cash flow forecast), 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. Due to the financial position of TGI, the cash flow forecast of Kardan does not include any cash generated from selling the investment in TGI.
- 6) Although too early to estimate, the COVID-19 outbreak may have a negative impact on the operations, results, and cash flows of the Kardan Group. With respect to KLC, the impact could result, among others, in early termination, breach of certain existing lease contracts and the signing of new contracts, and thus may negatively impact the rental income in the coming periods. Accordingly, management estimates that an impairment to the value of Galleria Dalian is expected in the first quarter of 2020. For additional information regarding the impact of the coronacrisis, please refer to Note 34 (subsequent events).
- 7) The directors expect that, taking into account the status of the discussions with the Debenture Holders and the expected terms of the debt settlement, subject to advancement of a settlement of debt-conversion to equity as presented to the Debenture Holders in September, and taking into account the 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, refinancing and restructuring of loans, the impact of the coronavirus, and macroeconomic developments, and therefore there is uncertainty that the discussions with the Debenture Holders will result in rescheduling of payments and that transactions for sale of assets will be entered into or completed. Accordingly, it may be unable to realize its assets in order to repay its liabilities in the normal course of business. These conditions indicate the existence of a material uncertainty which casts significant doubt regarding the Company's ability to continue as a going concern.

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

2. BASIS OF PREPARATION

A. BASIS OF PREPARATION

The consolidated 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, 2019.

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 investee 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, 2019.

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).

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.

Refer to Note 7 for a sensitivity analysis of profit (loss) before tax due to changes in certain key parameters.

Estimates about key assumptions include among others: future revenue streams, vacancy rate 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 presents TGI's operations as discontinued operations and classify TGI's assets and liabilities as held for sale in accordance with IFRS 5. The Company estimates that although the sale process of TGI is beyond two years, the classification as (assets and liabilities) held for sale is appropriate as the conditions of IFRS 5 are still met.

In October and December 2019, the Company announced it had received concrete offers with respect to an investment transaction in TGI. Due to events and circumstances which were beyond the Company's management control, these offers did not materialise in an actual transaction. In order to conduct a transaction with respect to TGI, all parties involved (Company's management, the Board of Kardan, the debenture holders, and the banks which provide financing to Tahal) need to be aligned on all aspects of a potential transaction. Management of Kardan is still working and is committed to continue its efforts, on an investment transaction in TGI to which all parties can agree.

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.

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 assets measured at fair value through profit or loss, 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 operation 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 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).

Right of use that meet the fulfil the definition of investment property are presented in the statement of financial position as investment property. The Company applies the fair value model as in IAS 40 for its investment property and accordingly applies the fair value model for the right of use assets that apply with the definition of investment property according to IAS 40.

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:

- 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 designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified at fair value through profit or loss 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 at fair value through profit or loss unless they are designated as effective hedging instruments.

Gains or losses on liabilities at fair value through profit or loss 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

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.

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.

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 16.

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 31).

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

As described in Note 4 on the first implementation of International Financial Reporting Standard No. 16 - Leases (hereinafter "the Standard"), the Company has chosen to apply the Standard's provisions retroactively (without restating comparative figures).

The accounting policies applied as of January 1, 2019 in respect of leases are as follows:

The Company account the contract as a lease when, under the terms of the contract, the right to control the asset (or assets) is transferred for an identified period of time for an agreed consideration.

Group as a lessee

For transactions in which the Company is a lessee, it recognizes on the date of commencement of the lease the right of use against a lease obligation, with the exception of lease transactions for a period of up to 12 months and lease transactions in which the low value underlying asset, which the Company has chosen to recognize the lease payments as an expense in profit or loss in a straight line over the lease term. As part of the measurement of the lease obligation, the Company chose to implement the standard relief and did not separate leasing components from non-leasing components such as: management services, maintenance services and more, which are included in the same transaction.

At the commencement date, a lease obligation includes all unpaid lease payments discounted at the implied interest rate on the lease when it is easily determinable or at the Company's additional interest rate. After the date commenced, the Company measures the liability for the lease using the effective interest method.

The right-of-use right asset is recognized at the amount of the lease for a lease plus lease payments paid on or before the commencement date plus the incurred transaction costs.

In case the fair value model in IAS 40 to investment property is applied, then the right-of-use assets meet the definition of investment property.

The right of use is measured in the cost model and amortized over its useful life, or the lease term according to the shortest of them.

When there are signs of impairment, the Company examines impairment of the right of use in accordance with IAS 36.

Group as a lessor

The tests for classifying a lease as financing or as operating are based on the nature of the agreement and are tested at the date of the contract according to the rules set out in the standard:

Finance lease

A lease transaction in which all risks and rewards associated with ownership of the property are transferred to the lessee is classified as a finance lease.

When the lease began, the leased asset was derecognized and against the seller of a "finance lease receivable" property equal to the present value of the lease receipts capitalized at the interest embodied in the lease. Any difference between the balance of the leased property before the lien and the balance of the debtors for a finance lease is recognized in profit or loss.

After the commencement date, the leasing receipts are allocated between financing income that reflects a fixed periodic rate of return on debtors for a finance lease, and the repayment of debtors for a finance lease. The balance of receivables for financing leases is treated for impairment and subtraction according to IFRS 9.

Operating lease

A lease transaction in which all the risks and rewards associated with owning the property are not

substantially transferred is classified as an operating lease. Lease receipts are recognized as straight-line income or loss over the lease term. Initial direct costs incurred in respect of the lease agreement are added to the cost of the leased property and recognized as an expense over the lease term on the same basis.

The accounting policies applied till December 31, 2018 in respect of leases are as follows:

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.

5. 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 valuers 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. 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.

X. 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.

Y. CHANGE IN ACCOUNTING POLICIES

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 is 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 impact of IFRS 16 adoption on the Company's Consolidated Financial Statements is included under assets held for sale and liabilities associated to assets held for sale, and resulted in lease assets and liabilities as at January 1, 2019 in the approximate amount of €8.4 million, an increase in cash flows from operating activity for the year ended December 31, 2019 of discontinued operation of €320 thousand, and a decrease in cash flows from financing activities for the year ended December 31, 2019 of discontinued operation of €2,710 thousand.

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

The group has adopted IFRS 16 retrospectively from January 1 2019, but has not restated comparative reporting periods, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on January 1 2019.

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.

The adoption of IFRIC 23 had no material impact on the company financial statements.

IAS 28 – Investment in associates and joint ventures

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments

before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures.

The amendment had no material impact on the company financial statements.

Amendments to IFRS 3 “Business Combinations” and to IFRS 11 “Joint Arrangements”

The amendments were published as part of the 2015-2017 improvement cycle project Pursuant to the amendment to IFRS 3, when a party to a joint arrangement, as defined in IFRS 11, obtains control of a business that is a joint activity as defined in IFRS 11, and to that party rights to assets and liabilities relating to the joint arrangement just prior to the date of control, The transaction is a step-by-step business combination. Accordingly, the purchaser will apply the relevant business combination step-by-step instructions, including re-measuring all previous rights held in the settlement.

Pursuant to the amendment to IFRS 11, where a party participating in a joint activity that is a business but having no joint control over the joint activity achieves such joint control, prior possession of the joint activity rights will not be re-measured.

The Company has implemented the amendments to IFRS 3 and IFRS 11 prospectively. The initial implementation of the amendments to IFRS 3 and IFRS 11 had no material impact on the Company's financial statements.

Amendment to IAS 12 “Income Taxes”

The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. The Company has applied the amendment to IAS 12 for annual periods beginning January 1, 2019, for the effects of dividend income taxes as of the earliest period

presented in the statements. The initial implementation of the amendment to IAS 12 had no material impact on the Company's financial statements.

IAS 23 Borrowing Costs

As part of the Annual Improvements to IFRS Standards 2015-2017 Cycle, clarified that, if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

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

Amendments to IFRS 3 - Definition of a Business

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendment to IFRS 3 will be applied prospectively for annual periods beginning on or after January 1, 2020. In accordance with the amendment provisions, its early application is possible. The first application of the amendment to IFRS 3 is not expected to have a material impact on the Company's 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

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	
			2019	2018
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
	Kardan Land Dalian (HK) Ltd.	Hong Kong	100	100
Main subsidiaries presented in Assets held for sale				
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	90.75
TMNG Ltd.	Israel	62.9	62.9	

Holding company	Name of subsidiary	Country of incorporation	% equity interest by the direct and indirect holding as of December 31	
			2019	2018
Tahal Group Assets B.V.	Task Water B.V.	The Netherlands	100	100
	Mast Foods S.A.	Greece	60.7	60.7

B Significant transactions and business combinations

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

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 was 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.

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. Regarding the financial position of TGI, see also 4 below.

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

€ in '000	December 31, 2019	December 31, 2018		
	TGI	TGI	Avis Ukraine	Total
Assets				
Trade receivable	30,419	72,111	–	72,111
Accrued income	52,408	50,603	–	50,603
Other current assets	41,459	48,668	–	48,668
Tangible fixed assets, net	20,567	17,689	–	17,689
Right-of-use assets	9,035	–	–	–
Other non-current assets	18,088	25,731	–	25,731
Cash and cash equivalents	11,547	13,680	–	13,680
Investment in Joint venture Avis Ukraine	–	–	12,427	12,427
Total assets	183,523	228,482	12,427	240,909
Liabilities				
Interest bearing loans and borrowings	61,018	50,195	–	50,195
Advances from customers	28,008	35,987	–	35,987
Lease liabilities	9,216	–	–	–
Other liabilities	87,402	98,146	–	98,146
Total liabilities	185,644	184,328	–	184,328
Net asset value	(2,121)	44,154	12,427	56,581
Attributable to equity holders of the parent	–	38,414	12,427	50,841
Non-controlling interests holders	(2,121)	5,740	–	5,740
	(2,121)	44,154	12,427	56,581

2) Net (loss) profit from discontinued operations:

€ in '000	For the year ended December 31, 2019			For the year ended December 31, 2018			For the year ended December 31, 2017		
	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	Total
Income	–	152,844	152,844	–	175,397	175,397	–	176,442	176,442
Operating and finance expenses and Share of profit of investments accounted for using the equity method, net	–	(191,508)	(191,508)	908	(173,344)	(172,436)	2,429	(161,062)	(158,633)
Profit (loss) before tax	–	(38,664)	(38,664)	908	2,053	2,961	2,429	15,380	17,809
Income tax expenses, net	–	5,139	5,139	–	1,995	1,995	–	5,097	5,097
Profit from discontinued operations	–	(43,803)	(43,803)	908	58	966	2,429	10,283	12,712
Company level adjustments required for the presentation as discontinued operation	–	8,031	8,031	–	2,046	2,046	–	2,500	2,500
Profit (loss) from discontinued operations	–	(35,772)	(35,772)	908	2,104	3,012	2,429	12,783	15,212
<i>Discontinued operation items related to sale transactions:</i>									
Net gain (impairment) from revaluation of investment	174	(1,178)	(1,004)	(3,323)	–	(3,323)	–	–	–
Release of capital reserves due to sale	1,299	–	1,299	–	–	–	–	–	–
Net (loss) profit from discontinued operations	1,473	(36,950)	(35,477)	(2,415)	2,104	(311)	2,429	12,783	15,212
Attributable to:									
Equity holders	1,473	(32,234)	(30,761)	(2,415)	65	(2,350)	2,429	12,582	15,011
Non-controlling interest holders	–	(4,716)	(4,716)	–	2,039	2,039	–	201	201
	1,473	(36,950)	(35,477)	(2,415)	2,104	(311)	2,429	12,783	15,212

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

€ in '000	For the year ended December 31, 2019			For the year ended December 31, 2018			For the year ended December 31, 2017		
	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	Total
Adjustments arising from translating financial statements of foreign operations	(1,299)	(9,458)	(10,757)	409	(13,338)	(12,929)	(1,919)	(3,746)	(5,665)
Change in hedge reserve, net	–	–	–	–	–	–	–	(13)	(13)
Total other comprehensive income (expense)	(1,299)	(9,458)	(10,757)	409	(13,338)	(12,929)	(1,919)	(3,759)	(5,678)
Attributable to:									
Equity holders	(1,299)	(6,313)	(7,612)	409	(9,280)	(8,871)	(1,919)	(3,345)	(5,264)
Non-controlling interest holders	–	(3,145)	(3,145)	–	(4,058)	(4,058)	–	(414)	(414)
	(1,299)	(9,458)	(10,757)	409	(13,338)	(12,929)	(1,919)	(3,759)	(5,678)

4) Financial position of a subsidiary presented as held-for-sale (TGI):

In 2019 TGI presents a loss of €36.9 million, a negative cash flow from operating activities of €12.8 million and negative working capital of €30.2 million (in 2018 a profit of €2.1 million, a negative cash flow from operating activities of €17.3 million and working capital of €15 million). The shareholders' equity of TGI attributed to Kardan was immaterial as at December 31, 2019.

The financial difficulties that TGI is facing are stemming from negative cash flow performance, as a result of, amongst others, substantial delay of the start of the new projects in Angola, in which TGI heavily invested.

In order to finance its operations, TGI uses short term credit lines amounting to €52 million, from banks. As a result of delays in receiving advance payments from the above projects, TGI had to extend those credit lines until December 2019. As of the date of approval

of these financial statements, one bank has approved an extension of the actual usage of the credit line of approximately US\$ 25.6 million until December 31, 2020. Further extension for those credit lines is pending approval of the other banks.

As of December 31, 2019, covenants in relation to the above credit lines have not been met (see also section 5)b) below). As of the date of the approval of these financial statements, the financing banks restricted the access of TGI to further financing.

It is noted that although TGI is in breach towards the banks, as of the date of signing these financial statements the banks did not pursue any legal action towards TGI.

Given the financial position of TGI and the fact that the Company is unable to support TGI, management has been searching for an investment into TGI through partnerships. Such investment, if completed, is expected to strengthen TGI's financial position and contribute to its future development. During 2019

(mainly in the second half of 2019) TGI has been negotiating with various potential investors on an investment transaction which will support TGI going forward. The investment structures suggested by the potential investors proposed required securitization of assets which the financing banks did not favor.

As of the date of the approval of these financial statements, TGI has been negotiating with its financing banks a restructuring plan where the banks will continue supporting TGI through its efforts to reorganize and improve its operation and return to solid financial performance. This plan includes support in the form of a guarantees facility required to advance projects and cash credit line to support TGI's working capital.

In parallel, as part of the agreements with the banks, in order to limit the exposure, TGI is negotiating with a third party financing for its operations. The terms of the financing transaction with the third party has not been finalized yet and is subject to various approvals.

Management of TGI expects that with the support of the banks, TGI will have the resources allowing it to improve its financial position. However, there is no certainty that any of the negotiations will result in a binding agreement, or its terms and/or the date of any approval.

Due to the financial position of TGI, as described above, and the uncertainties related to the terms of future investment in TGI, the board of directors of Kardan has decided that future cash inflows from TGI will not be taken into account in the cash flow forecast of Kardan. It is also emphasized, that the Company did not provide any guarantee, nor does it have any other commitment in relation to the financial position of TGI. Yet, according to IFRS requirements, the Company continues consolidating TGI's operations until a final sale of TGI is concluded.

5) Additional information regarding TGI:

a) Provisions:

- (1) In 2019, TGI had several projects terminated. Total losses (including provisions) recorded in 2019 in respect of these terminations amounts to €15 million.
- (2) As of December 31, 2018 TGI's assets included an amount of €17.2 million, primarily created following liquidity injections by TGI to an associate in 2018. In September 2019 a debt settlement was signed between TGI and the associate, according the which, the debt will be repaid in 14 equal semi-annual repayments, commencing December 2020. However, during 2019, based on the associate's up-to-date business plan and its financial position, TGI has impaired the debt in its entirety.
- (3) As a result of the financial position TGI, the Group impaired deferred tax asset in a total amount of €4.8 million.

b) Financial covenants:

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, 2019, TGI Group companies were in breach of part of the abovementioned financial covenants. As of the date of signing these financial statements, waivers have not been received yet, however, to date no legal action has been taken by the lending banks.

c) Guarantees:

- (1) As of December 31, 2019 and 2018, TGI provided bank guarantees in an aggregate

amount of approximately €96 million and €101.4 million, respectively, in favor of customers in respect of advances received from them for projects and for performing work.

- (2) 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 the companies will agree from time to time.

d) Commitments:

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

On May 1, 2017 the abovementioned Cooperation Framework with ZRB was amended in order to include cooperation in Zambia as well. As of the date of approval of these financial statements, the projects have not yet commenced.

e) Legal claims and contingencies:

- (1) Subsequent to the balance sheet date, on February 24, 2020 TGI has received a claim letter from a bank, which is not one of TGI's financing banks, for the repayment of a loan in the amount of approximately €740 thousand, which was, according to the bank, due on February 28, 2020 and

have not been paid. In addition, the letter from the bank stipulates its right to full repayment of the outstanding loan, due to breach, in the amount of approximately €3.2 million. TGI had replied on March 3, 2020, rejecting the bank's claims except for the late payment. The Group and the banks representatives are currently negotiating an agreed repayment schedule of the loan.

- (2) In April 2018 TGI had received a notice from Sociedad Espaniola de Montajes Industrials S.A ('SEMI'), in regard of the electrification of the Israeli railways project, according to which the agreement between SEMI and TGI, which was signed in 2016, is terminated due to, according to SEMI, a contractual breach. In July 2019 TGI filed a law suit against SEMI of approximately €10.9 million for damages and contractual rights in relation to, amongst other, the remaining of SEMI's debt due to the work that has been done in the project by TGI and not yet paid in and compensation for damages. Following that, SEMI had filed a plea and a counter lawsuit in the amount of approximately €14.8 million, for overpayments made to TGI as well as damages due to alleged delays in the projects, which according to SEMI, TGI is responsible for.

TGI's legal advisors are currently studying SEMI's plea and their counter lawsuit. Given the preliminary stage of these legal proceeding, and based on TGI's factual claims and arguments, as well as the engineering opinions and estimations stipulated therein, TGI's legal advisors believe it is more likely than not that SEMI's counter lawsuit shall be rejected. TGI's financial statements include a provision according to management's estimates.

f) Operating lease payments commitments:

- 1) TGI Group companies entered into operating lease agreements on commercial vehicles. These leases have an average life of three years with no renewal option included in the contract. In 2019 the annual rentals total approximately €1 million (2018 - €1.4 Million).
- 2) 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, 2019 and 2018:

€ in '000	2019	2018
First year	2,025	2,311
Second to fifth year	5,041	4,957
After the fifth Year	2,521	3,259
	9,587	10,527

- 3) 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, 2019 and 2018:

€ in '000	2019	2018
First year	981	1,487
Second to fifth year	–	619
	981	2,106

D. Collaterals

As of December 31, 2019, 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	2019	2018
Subsidiaries	18,224	17,500

6 Tangible fixed assets

€ in '000	Motor vehicles	Office furniture and equipment	Leasehold improvements	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 improvements	Total
2019				
Cost:				
Balance as of January 1, 2019	188	1,807	1,088	3,083
Additions	–	110	–	110
Disposals	(57)	–	–	(57)
Exchange rate differences	1	(6)	4	(1)
Balance as of December 31, 2019	132	1,911	1,092	3,135
Accumulated depreciation:				
Balance as of January 1, 2019	153	1,269	913	2,335
Depreciation for the year	17	186	37	240
Disposals	(55)	–	–	(55)
Exchange rate differences	1	(9)	3	(5)
Balance as of December 31, 2019	116	1,446	953	2,515
Net book value December 31, 2019	16	465	139	620

7 Investment property

A General

As of December 31, 2019 and 2018 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	2019	2018
Opening balance	213,577	221,089
Capital expenditure	146	2,281
Fair value adjustments (1)	–	(8,610)
Foreign currency translation differences	854	(1,183)
Closing balance	214,577	213,577
Total accumulated unrealized gains as of the end of the period which recognized in the statement of profit and loss	33,572	33,572

(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 17).

C Fair value adjustments comprise:

€ in '000	For the year ended December 31,		
	2019 (*)	2018	2017
Valuation profit (loss) from investments properties completed in prior years	–	(8,610)	(4,181)

(*) For conservative reasons, the Company's Board of Directors decided not to recognize an increase in value of approximately €1 million of the investment property, as reflected from the valuation report as at December 31, 2019. The valuation report is attached to these financial statements. For additional information regarding possible impact of the coronacrisis on the value of Galleria Dalian, please see Note 34.

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, 2019 and 2018, 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, 2019	December 31, 2018
DCF method		
Estimated rental value per sqm per month (in €)	34	34
Discount rate	10.5%	10.5%
Rental growth	3%-(Y) 1 10%-15% (Y) 2-5 8% (Y) 6-7 5% (Y) 8-9 3% (Y) 10	10%-15% (Y) 1-6 8% (Y) 7-8 5% (Y) 9-10
Terminal cap rate	5.25%	5.25%
Occupancy rate	95%-97%	93%-97%
Capitalization rate	6.5%	6.5%
Direct Comparison method		
Adopted unit rate (RMB/sqm)	16,600	16,579

E Sensitivity analysis:

The table below presents the sensitivity of the profit (loss) before tax due to change in the following assumptions:

€ in '000	December 31, 2019
Increase of 25 BP in discount rate and terminal cap	(8,829)
Decrease of 25 BP in discount rate and terminal cap	9,724
Increase of 5% in estimated rental income	10,492
Decrease of 5% in estimated rental income	(10,492)
Increase in general vacancy by 1%	(2,559)

8 Investments in joint ventures and associates

A Main joint ventures:

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

Holding company	Name of joint venture	% of ownership and control by the direct holding company as of		Country	Nature of activities
		December 31, 2019	December 31, 2018		
Kardan Land China Limited	GTC Lucky Hope Dadong Ltd.	50.0	50.0	Hong Kong	Holding
	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
GTC Real estate Holding B.V.	GTC Investments B.V.	48.75	48.75	Netherlands	Holding
Joint ventures and associates included in Assets held for sale (see Note 5):					
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
Tahal Group B.V.	Agroquiminha	20.0	20.0	Angola	Agriculture
Tahal Group Assets B.V.	MVV Water Utility Pvt Ltd.	23.0	23.0	India	
Kardan Financial Services B.V.	TBIF-Dan Leasing Ltd.	-	66.0	Cyprus	Holding

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

€ in '000	December 31, 2019	December 31, 2018
Total of equity investments (*)	36,293	25,356
Deemed cost on real estate projects (**)	105	193
Less impairments	(3,990)	(2,435)
	32,408	23,114
Loans and other long-term balances	15,059	14,859
Total investment in joint ventures	47,467	37,973

* During the years 2018 and 2019, dividends in the amounts of €12 million and €3.7 million, respectively were distributed by joint venture companies.

** Deemed cost is the Group's financial cost which was capitalized to projects in joint ventures in previous periods.

C Loans:

The investment in joint ventures companies includes loans as follows:

€ in '000	December 31, 2019	December 31, 2018
In EUR	7,062	7,022
In USD	7,975	7,816
In HKD	22	21
	15,059	14,859

The loans are note bearing interest and 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,		
	2019	2018	2017
(Loss) profit from continuing operations	(1,068)	(1,103)	168
Other comprehensive expense	88	(919)	(1,589)
Total comprehensive (expense) income	(980)	(2,022)	(1,421)

The total investment in immaterial joint ventures for the year 2019 amounts to €5.2 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, 2019	December 31, 2018
Current assets (not including cash and cash equivalent)	83,954	93,374
Cash and cash equivalent	29,546	33,858
Non-current assets	4,123	15,020
Current liabilities	(69,909)	(104,505)
Current financial liabilities	(8,929)	(5,903)
Total equity attributed to the owners	38,785	31,844
% held in the joint venture	50	50
Total investment in the joint venture	19,393	15,922

Summary of financial data from the income statement:

€ in '000	For the year ended December 31,		
	2019	2018	2017
Revenues from operations	52,681	31,376	60,712
Cost of operations	(25,573)	(18,193)	(40,066)
Selling and marketing, other expenses and administrative expenses (of which depreciation and amortization expenses amounted to €0.1 million, €0.1 million and €0.4 million for the year 2019, 2018 and 2017 respectively)	(7,537)	(4,237)	(7,178)
Other Financial income	1,032	963	120
Profit before tax	20,603	9,909	13,588
Income tax expenses	(6,125)	(2,378)	(3,396)
Profit for the year	14,478	7,531	10,192
% held of the joint venture	50	50	50
Group's share of profit for the year	7,239	3,765	5,096
Total comprehensive income attributed to equity holders	14,398	7,326	7,038
% held of the joint venture	50	50	50
Group share of the total comprehensive income	7,199	3,663	3,519

GREEN POWER DEVELOPMENT LTD.

Summary of financial data from the statement of financial position:

€ in '000	December 31, 2019	December 31, 2018
Current assets (not including cash and cash equivalent)	47,303	58,350
Cash and cash equivalent	15,275	358
Non-current assets	2,428	2,496
Current liabilities	(24,532)	(43,718)
Current financial liabilities	(15,442)	(10,656)
Non controlling interest holders	(1,388)	95
Total equity attributed to the owners	23,644	6,925
% held in the joint venture	50	50
Total investment in the joint venture	11,822	3,463

Summary of financial data from the income statement:

€ in '000	For the year ended December 31,		
	2019	2018	2017
Revenues from operations	54,100	13,409	77,246
Cost of operations	(20,005)	(9,665)	(50,256)
Selling and marketing, other expenses and administrative expenses (of which depreciation and amortization expenses amounted to €1 thousands, €2 thousands and €8 thousands for the year 2019, 2018 and 2017 respectively)	(3,308)	(2,453)	(4,577)
Interest income	125	81	–
Other Financial (expense) income	(52)	(598)	10,723
Profit before tax	30,860	774	33,136
Income tax expenses	(12,438)	(3,136)	(9,116)
Profit (loss) for the year	18,422	(2,362)	24,020
Gain (loss) attributed to non-controlling interest	(1,429)	21	(1,338)
Profit (loss) for the year	16,993	(2,341)	22,682
% held of the joint venture	50	50	50
Group's share of profit (loss) for the year	8,497	(1,170)	11,341
Total comprehensive income (expense) attributed to equity holders	16,720	(2,516)	13,080
% held of the joint venture	50	50	50
Group share of the total comprehensive income (expense)	8,360	(1,258)	6,540

F Additional information

1. Capital commitments:

As of December 31, 2019, KLC's share in the contractual commitments of its joint ventures amounted to €9,883 thousand (December 31, 2018: €18,765 thousand).

2. Guarantees:

As of December 31, 2019, the joint ventures of KLC provided guarantees amounting to €87.8 million (December 31, 2018: €42.5 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of properties of the joint

ventures of 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.

9 Long-term loans and receivables

A Composition

€ in '000	December 31, 2019	December 31, 2018
Long term loans	–	2,597
Long term prepaid expenses	1,006	1,259
Other	22	22
	1,028	3,878

10 Apartments inventory

Composition of cost of buildings and apartments inventory:

€ in '000	December 31, 2019	December 31, 2018
Composition:		
Completed	40,214	8,307
Under construction	1,930	56,427
	42,144	64,734

- As of December 31, 2019 and 2018 inventory in the amount of €34,720 thousand and €56,427 thousand, respectively, is pledged as security for a loan (see also Note 22).
- Inventory is presented at cost including finance expenses capitalized during the construction of the project.
- Buildings and apartments inventory is stated in gross figures. Advances from apartment buyers are presented under current liabilities and amount to €4,658 thousand as of December 31, 2019 (December 31, 2018: €32,509 thousand).
- During the past year the Group entered into 93 sale contracts of apartments, for which the total consideration is estimated at €26.9 million (RMB 207.5 million) (in 2018 – 105 contracts with revenues of €29.9 million (RMB 233.7 million)). As of December 31, 2019, the aggregated number of signed contracts of existing projects for which revenues were not recognized yet was 6 contracts, for which the aggregated revenues is estimated at approximately €2.9 million (RMB 22.3 million) (in 2018 – 148 contracts with revenues of €42.4 million (RMB 331 million)).

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

€ in '000	Residential construction, 2019		Residential construction, 2018	
	2019	Cumulative up to the end of the reporting period	2018	Cumulative up to the end of the reporting period
Revenues recognized	54,705	208,374	72,711	153,669
Cost recognized	46,965	188,475	69,002	141,510

11 Trade receivables

A Composition:

€ in '000	December 31, 2019	December 31, 2018
Trade receivables	7,122	9,207
Less provision for doubtful debts	(1,621)	(1,791)
	5,501	7,416

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

B 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	
December 31,								
2019	4,334	323	178	124	82	305	155	5,501
2018	3,443	2,344	306	239	202	412	470	7,416

C Movement in the provision for doubtful debts:

€ in '000	2019	2018
Opening balance	1,791	1,350
Addition during the year	836	1,056
Collection during the year	(1,016)	(605)
Foreign currency translation	10	(10)
Closing balance	1,621	1,791

12 Other receivables and prepayments

€ in '000	December 31, 2019	December 31, 2018
VAT receivable	26	43
Receivables from joint ventures of KLC	872	854
Prepaid expenses	312	1,577
Deposit receivable	246	393
Short term loan	1,563	–
Other	673	648
	3,692	3,515

13 Short-term investments

	Average interest rate	December 31, 2019	December 31, 2018
	%	€ in '000	€ in '000
Bank deposits in NIS	0%-0.5%	134	5
Bank deposits in RMB	1.1%-4.4%	5,374	10,704
Restricted bank deposits in RMB	0.4%	–	2,549
Restricted bank deposits in EUR	0%	169	4,169
		5,677	17,427

14 Cash and Cash Equivalents

€ in '000	December 31, 2019	December 31, 2018
Cash at bank and in hand	20,462	51,508
Short-term deposits *)	15,433	441
	35,895	51,949

* As of December 31, 2019 and 2018 the range of the annual interest rate earned on short-term deposits was 0.5%-1.5%.

15 Issued and Paid-In Capital

A Composition

Number of shares	December 31, 2019		December 31, 2018	
	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 2018 and 2019 there were no movements in the issued and paid-in shares.

	Number of shares	Par value in €
Balance as of December 31, 2018 and 2019	123,022,256	24,604,451

C Changes in share capital and treasury shares

During 2019, 2018 and 2017, no transactions took place.

D Dividend

In 2019 and 2018, 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.

16 Share-Based Payments

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

€ in '000	For the year ended December 31		
	2019	2018	2017
Expense arising from equity-settled share-based payment transactions of the Company and the subsidiaries	–	2	4
	–	2	4

The expenses are presented as part of 'Payroll and related expenses' within the General and administrative expenses (see Note 27 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 per option 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. During 2019 the entire outstanding options expired.

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:

	2019		2018	
	No.	WAEP NIS	No.	WAEP NIS
Outstanding on January 1	100,000	1.191	100,000	1.191
Expired during the year	(100,000)	1.191	–	1.191
Outstanding on December 31	–	1.191	100,000	1.191
Exercisable on December 31	–	1.191	100,000	1.191

(2) TGI (discontinued operations)

During 2012-2016 the Supervisory Board of TGI has decided, in several occasions, to grant options to senior managers of TGI and its subsidiaries. The following table lists the number of options issued in each year, the exercise price (after adjustments) and other 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:

	2019	2018	2019	2018
	No.	No.	WAEP €	WAEP €
Outstanding on January 1	2,041	2,041	1,787	1,787
Expired during the year	(79)	–	(295)	–
Outstanding on December 31	1,962	2,041	1,492	1,787
Exercisable on December 31	1,962	2,041	1,492	1,787

In April 2019 the Supervisory Board of TGI has approved an extension of the options of certain executives, which were about to expire on September 30, 2019. The extension was granted through December 31, 2020. The total benefit of the extension is approximately USD 0.3 million and was calculated by the Company using the Black&Scholes model.

17 Non-Current Interest-Bearing Loans and Borrowings

A Composition

	December 31, 2019		December 31, 2018	
	Weighted interest rate as of %	€ in '000	Weighted interest rate as of %	€ in '000
Banks:				
Others – In RMB *	11.6-13.3	95,029	11.6-13.3	100,797
Less:				
– Current maturities		(95,029)		(13,510)
		–		87,287

* On October 24, 2017 Kardan Land Dalian Ltd. ('the Project Company'), Kardan Land Dalian HK Ltd. ('KLD') (as a pledgee) and KLC (as a guarantor) have entered into the agreement with Hua Rong (China) Investment Management Ltd and Hua Rong Holdings (Shenzhen) Equity Investment Fund Management Ltd. and with China Merchant Bank Dalian Shahekou Branch regarding a credit facility of RMB 900 million (€ 115 million) for the financing of the Europark Dalina project for a period of 3 years with an extension option of additional one year until November 5, 2021, if mutually agreed by all parties. The facility is secured by the assets of the project (completed apartments inventory, apartments under construction inventory and Galleria Dalian shopping mall, having a fair value of approximately €215 million as of December 31, 2019), the equity shares of KLD as well as guarantees provided by KLC. According to the loan agreement, the Project Company made an early repayment of RMB 30 million in 2019 (€3.9 million).

The parties are negotiating the aforesaid extension of the loan, and management of the Project Company is confident an agreement for the exercise of the extension option will be signed or that the loan will be refinanced by another bank. As of December 31, 2019, the loan balance is presented as current liability as such extension has not yet been signed.

For additional information regarding collaterals and covenants, see Note 22.

B. Maturities

€ in '000	December 31, 2019	December 31, 2018
First year	95,029	13,510
Second year	–	87,287
	95,029	100,797

reserve. During 2019, due to a decrease in the value of the underlining asset, the option has been valued at nil, and accordingly the Company recorded a gain of €0.6 million in the General and administrative expenses.

18 Other Long-Term Liabilities

€ in '000	December 31, 2019	December 31, 2018
Deferred revenues	1,610	1,033

19 Financial instruments: Options and warrants

€ in '000	December 31, 2019	December 31, 2018
PUT option liability	–	678

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

20 Debentures

Composition

	Par value (net)	Balance	Balance	Nominal	Effective	Currency	Maturities
	as of December 31, 2019	as of December 31, 2019	as of December 31, 2018	Interest rate	interest rate	and linkage	principal
	NIS	€ in '000	€ in '000	%	%		
Issuer							
The Company – 2007	160,993,886	50,519	45,560	6.325	4.45%	(a)	2017-2018
The Company – 2008	792,167,600	248,394	237,143	6.775	4.9%	(a)	2017-2020
		298,913	282,703				
Less – current maturities		(298,913)	(282,703)				
		–	–				

- a. 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.
- b. 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.
- c. On June 3, 2019 the Company partially repaid to Debenture Holders Series B principal amounting to approximately €12.2 million and accumulated interest of approximately €23.8 (net of the relative portion of debentures held by the Company's subsidiaries). The total repayment amounted to approximately €36 million (approximately NIS 145 million).
- d. 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, 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. 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, 2019 the Company did not meet the abovementioned coverage ratio. For additional details see Note 22.

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.

e. Kardan N.V. Debentures held by subsidiaries

As at December 31, 2019, 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 114,555,769 par value Debentures Series B (which represent 12.6% of the outstanding par value of Debentures Series B).

- f. Interest payable amounting to approx. €66 million, is presented as part of the accrued expenses and was calculated according to the Deeds of Trust, considering the Company's breach. As of the date of this report, the Company is negotiating with the representatives of the Debenture Holders a new debt settlement for the rescheduling of future payments and their amounts.
- g. For details regarding financial covenants and pledges, please refer to the above and to Note 22.

21 Other payables and accrued expenses

€ in '000	December 31, 2019	December 31, 2018
Financial:		
Accrued expenses	82,355	68,969
Payroll and related expenses	1,055	997
Payable to joint ventures of KLC accounted using the equity method	12,462	12,426
Deposit from tenants	2,928	2,928
Other	2,673	1,981
	101,473	87,301

22 Liens, contingent liabilities and commitments

For information regarding contingencies, liabilities and commitments of the discontinued operation – see Note 5.

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 20 above, relate to the debt coverage ratio of the Company. Non-compliance with the debt coverage ratio for two consecutive quarters would be considered as a breach of the covenants. As at December 31, 2019, the Company did not meet the coverage ratio as agreed with the Company's debenture holders. In addition, in February 2018 and February 2019, 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 KLC Group committed towards financial institutions which granted a project loan amounting to up to RMB 900 million, as described in Note 17 above, to meet an initial loan-to-value ratio of not more than 50%. As of December 31, 2019 the covenant was met.

2. Pledges

- a Within the framework of the Deeds of Trust, as described in Note 20 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, 2019, loans amounting to €95 million granted to a subsidiary of KLC was secured

by mortgages over investment property, inventory and trade receivables (see note 17).

- c Within the framework of the sale of a subsidiary 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 was further reduced to €4 million in August 2018. The pledge was fully released in March 2019.

3. Guarantees:

- a As at December 31, 2019, Kardan Land China provided guarantees of €13,950 thousand (December 31, 2018 - €8,410 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.

- b With respect to such guarantees provided in joint ventures companies, refer to Note 8.

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 20.
- b As of December 31, 2019, Kardan Land China Group had commitments of €1.1 million (December 31, 2018: €4.5 million) principally relating to the property development cost of the construction projects of the KLC Group.
- c With respect to such guarantees provided in joint ventures companies, refer to Note 8.

B. Lease commitments:

1. Lease commitments – Group as lessor

KLC Group has entered into various 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 leases as of December 31, 2019 and 2018:

€ in '000	2019	2018
First year	7,322	7,397
Second to fifth year	16,324	18,272
After the fifth Year	8,878	11,201
	32,524	36,870

2. Lease commitments – Group as lessee

- a KLC leases various offices under non-cancellable 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, 2019 amounts to €0.2 million (December 31, 2018 - same).
- b The Company leases offices under non-cancellable lease agreements. The lease period is 5 years ending on December 31, 2022.

Future minimum rental payables:

€ in '000	2019	2018
First year	93	93
Second year	111	93
Third year	111	111
Fourth year	–	111
	315	408

23 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).

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, 2019:

€ in '000	Real Estate		Total
	Development	Investment property	
Total Income	55,496	9,055	64,551
Share in profit of investment accounted using the equity method	14,667	–	14,667
Segment result	18,666	4,029	22,695
Unallocated expenses			(5,428)
Gain from operations and share in profit of investment accounted using the equity method before finance expenses, net			17,267
Finance expenses, net			(69,491)
Loss before income tax			(52,224)
Income tax expense			(727)
Loss from continuing operations			(52,951)
Loss from discontinued operations			(35,477)
Loss for the period			(88,428)

For the year ended December 31, 2018:

€ in '000	Real Estate		Total
	Development	Investment property	
Revenues	73,634	5,384	79,018
Fair value adjustments of investment property	–	(8,610)	(8,610)
Total Income	73,634	(3,226)	70,408
Share in profit of investment accounted using the equity method	1,491	–	1,491
Segment result	5,632	(11,330)	(5,698)
Unallocated expenses			(5,927)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net			(11,625)
Finance expenses, net			(23,405)
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	5,168	14,443
Fair value adjustments of investment property	–	(4,181)	(4,181)
Total Income	9,275	987	10,262
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)

C Segments assets

€ in '000	December 31, 2019	December 31, 2018
Real Estate – Residential	93,176	107,506
Real Estate – Commercial	218,447	219,186
	311,623	326,692
Assets held for sale (former water infrastructure segment and investment in Avis Ukraine)	183,523	240,909
Unallocated assets (*)	48,229	77,290
	543,375	644,891

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

D Segments liabilities

€ in '000	December 31, 2019	December 31, 2018
Real Estate – Residential	36,451	68,193
Real Estate – Commercial	14,044	10,127
	50,495	78,320
Liabilities associated with assets held for sale (former water infrastructure segment)	185,644	184,328
Unallocated liabilities (*)	459,959	436,000
	696,098	698,648

* 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,		
	2019	2018	2017
China	64,551	79,458	15,023

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, 2019	December 31, 2018
China	215,108	214,211
Other	89	114

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		
	2019	2018	2017
Customer A	–	57,251	–

24 Cost of sales

A. Rental cost:

€ in '000	For the year ended, December 31		
	2019	2018	2017
Payroll and related expenses	859	742	818
Property management fee	527	397	212
Cleaning related cost	144	154	169
Safety and engineering system management fee	236	378	293
Car park management fee	186	137	184
Utility fees	367	840	890
Property Tax	998	911	922
Others	165	179	175
	3,482	3,738	3,663

B. Cost of apartment sold:

€ in '000	For the year ended, December 31		
	2019	2018	2017
Land Cost	14,728	21,869	2,847
Construction Cost	21,262	36,958	3,863
Project Management and supervision	2,566	3,588	298
Finance Cost	2,977	3,179	508
Other	5,432	3,408	477
	46,965	69,002	7,993

25 Management fees and other expenses, net

€ in '000	For the year ended December 31,		
	2019	2018	2017
Payroll and related expenses	103	56	58
Flights and accommodation	34	8	13
Consulting services	2	11	9
Rent	14	12	15
Other expenses/(income), net	(18)	(5)	(145)
	135	82	(50)

26 Selling and marketing expenses

€ in '000	For the year ended December 31,		
	2019	2018	2017
Payroll and related expenses	646	746	728
Commissions	761	338	205
Marketing and advertising	1,324	1,907	3,225
Other	378	1,092	1,510
	3,109	4,083	5,668

27 General and administrative expenses

€ in '000	For the year ended December 31,		
	2019	2018	2017
Payroll and related expenses (*)	3,356	3,740	3,891
Share-based payment (see Note 16)	–	2	4
Management fees	343	439	876
Office maintenance	437	520	921
Professional fees	2,581	2,447	2,471
Depreciation and amortization	92	86	84
Other	(104)	892	1,933
	6,705	8,126	10,180

* Payroll and related expenses are as follows:

€ in '000	For the year ended December 31,		
	2019	2018	2017
Wages and salaries	2,766	3,142	3,230
Social security contributions	441	429	419
Other social expenses	149	169	242
	3,356	3,740	3,891

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

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

€ in '000	For the year ended December 31,		
	2019	2018	2017
Impairment of investment in joint venture	(1,555)	–	–
Gain (loss) on disposal of investment in companies (1)	–	2,322	–
Gain (loss) from sale of fixed assets	–	–	836
Other (1)	–	(815)	–
	(1,555)	1,507	836

1 In 2018 the amount is due to liquidation of a JV in China.

29 Financial income and expenses

€ in '000	For the year ended December 31,		
	2019	2018	2017
Income:			
Income from bank deposits	779	919	373
Exchange differences, net	–	11,082	6,335
Other	73	110	137
Total financing income	852	12,111	6,845
Expenses:			
Interest on long-term loans and borrowings	9,239	11,083	11,758
Interest on debentures	26,499	20,378	21,038
Exchange differences, net	33,192	–	–
Other	1,413	4,055	1,525
Total financing expenses	70,343	35,516	34,321

30 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 2019, the standard Dutch corporate income tax rate amounts to 25% (2018: 25%). A tax rate of 19% applies to the first €200 thousand of taxable income (2018: 20%).

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 (earning stripping rule)

Effective from 1 January 2019, the Netherlands introduced the 30% Earnings Before Interest Tax, Depreciation and Amortization (EBITDA) rule in line with the interest deduction limitation rules as outlined in the EU Anti-Tax Avoidance Directive (earnings stripping rule). The earning stripping rule is a general limitation based on which net borrowing costs on debt attracted from both related and unrelated parties by a Dutch taxpayer will only be tax-deductible up to 30% of a taxpayer's corrected taxable profit with a minimum of € 1 million. The non-deductible amount of net borrowing costs can be carried forward indefinitely in time.

The Company has reviewed the impact of the earning stripping rule and concluded that the net borrowing costs (including foreign currency results) will not be fully tax-deductible in 2019.

Amendments of Dutch fiscal unity regime

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 enacted legislation to amend the Dutch fiscal unity regime with retroactive effect to 1 January 2018. As a result, a fiscal unity is deemed not to exist for the application of certain provisions in Dutch tax law. 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.

The Company has analyzed the impact of the amendment of the fiscal unity regime and concluded that the impact is remote.

Controlled Foreign Company (CFC) rules

Effective from 1 January 2019, the Netherlands introduced Controlled Foreign Company-rules (or CFC-rules) as outlined in the EU Anti-Tax Avoidance Directive. Based on these rules, all undistributed passive income of a CFC will be included in the Dutch taxpayer's taxable income. A company or permanent establishment qualifies as a CFC if both of the following conditions are met:

- A Dutch taxpayer has an interest of more than 50% in that foreign company or a permanent establishment.
- The entity or permanent establishment is tax resident in a jurisdiction listed on the EU list of non-cooperative jurisdictions (EU Blacklist) or in a jurisdiction with a statutory corporate income tax rate below 9% (exhaustive list of such countries will be published by the Ministry of Finance on an annual basis).

If the above conditions are satisfied, the undistributed profit of the CFC is to be included in the Dutch tax base on a pro rata basis. The income to be included in the Dutch tax base consists of

specific categories of passive income (dividends, interest, financial lease income, royalties and others). As an exception, the Dutch CFC rule does not apply if the CFC has substantial economic activities, which is considered to be the case if the CFC satisfies a list of minimum substance requirements.

The Company analyzed the impact of the new CFC-rules and concluded it should not have any impact on the Company, nor on other Dutch group companies.

Transfer pricing documentation requirements

As per 2016, additional transfer pricing documentation requirements have been introduced for Dutch taxpayers 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 2019 to the Dutch Tax Authorities, it has the obligation to prepare a Master file and Local file for financial year 2019 before filing of the 2019 corporate income tax return.

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

Country	Tax rate	
	2019	2018
China	25%	25%
Hong-Kong	16.5%	16.5%
Israel	23%	23%
The Netherlands	19-25%	20-25%

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

€ in '000	For the year ended December 31,		
	2019	2018	2017
Current taxes	452	649	1,544
Tax expenses related to previous years	5	(22)	20
Deferred taxes (see also E below)	270	(1,232)	3,616
	727	(605)	5,180

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,		
	2019	2018	2017
Accounting loss	(52,224)	(35,030)	(27,408)
Tax (tax benefit) expense computed at the statutory tax rate 25%	(13,056)	(8,757)	(6,852)
Increase (decrease) in tax expense (tax benefit) due to:			
Carry forwards tax losses for which no deferred tax assets were recognized	14,341	4,928	10,299
Adjustment in respect to tax of previous years	5	(22)	20
Share of results of investments accounted using the equity method	(3,667)	(373)	(4,106)
Withholding tax for dividends distributed from joint ventures	–	407	1,277
Impact of different tax rates	2,736	3,078	4,385
Other	368	134	157
	727	(605)	5,180

E Composition of deferred taxes

€ in '000	Consolidated statement of financial position		Recorded in the income statement		
	December 31, 2019	December 31, 2018	Movement for the year ended December 31,		
			2019	2018	2017
Deferred income (tax liabilities) tax assets with respect to:					
Investment properties	(8,430)	(8,142)	253	(2,149)	(588)
Carry forwards losses available for offset against future taxable income	3,499	3,074	–	681	4,224
Differences in measurement basis	–	426	–	219	–
Other	18	–	17	–	–
	(4,913)	(4,642)	270	(1,249)	3,636

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

€ in '000	December 31, 2019	December 31, 2018
Net deferred income tax asset (Non-current)	314	313
Net deferred income tax liability (Non-current)	(5,227)	(4,955)
	(4,913)	(4,642)

A Losses carry-forwards and final tax assessments

Tax losses of a company may be carried back one year and carried forward six years. Losses incurred before 2019 are grandfathered and are available for nine years.

The accumulated unused tax losses up to 2018 of Kardan N.V. company-only amount to €314.5 million (according to the filed 2018 tax return, net of tax losses evaporated as per 1 January 2019). The tax losses expire as follows: €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, €16.7 million on 1 January 2027, and €17.8 million on 1 January 2028. The Company did not recognize any deferred taxes due to the above losses.

The Company received final tax assessments up to and including the year 2017. The Company does not expect the year 2019 to result with a tax liability.

31 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.

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	2019	2018	2017
Net loss attributable to ordinary equity holders of the parent (€ in thousands)	(83,712)	(36,775)	(17,101)
Effect of dilution of losses of group companies	–	–	(83)
	(83,712)	(36,775)	(17,184)
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, 2019, 2018 and 2017.

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 €(35,477) thousand, €(311) thousand and €15,212 thousand for the years 2019, 2018 and 2017, respectively.

32 Financial instruments and risk management

A Introduction

This Note deals with various disclosures required by IFRS 7 pertaining to risk management.

Section B addresses the following risks on a consolidated basis:

- 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;
- 9) Fair value disclosures.

The analysis of the linkage terms of monetary balances, liquidity, fair value and exchange rate sensitivity relating to TGI Group (discontinued operation) were excluded from section B and are presented separately in section C. Section C addresses the following:

- 1) Liquidity risk, including maturity profile of financial assets, liabilities and guarantees;
- 2) Interest rate risk including sensitivity analysis;
- 3) Foreign currency risk including sensitivity analysis;
- 4) Fair value analysis

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 receivables and trade payables, 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 price risk), credit risk and liquidity risk.

Significant changes 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 active in Real Estate in China, and has water infrastructure operations in Africa, India, Israel and CIS countries. 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, e.g. exchange rate risk, interest rate risk, credit risk.

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 adjusts it, according to changes in economic conditions. To

maintain or adjust the capital structure, the Group decides on leverage policy, repayment and restructuring of debt and loans, investment or divestment of assets, dividend policy and the need, if any, to issue new shares or Debentures.

It should be noted that in light of the Company's losses in recent years, as well as the significant negative impact of changes in foreign currency rates, the Company has a capital deficit and it does not meet the covenants in accordance with the existing debt settlement.

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, water 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 (China, Africa, India, CIS, etc.); industry diversification (real estate and water infrastructure); product diversification (investment property and residential real estate, different types 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 and 2019. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, the debentures are presented as current liabilities. Management is in 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. Since this risk has materialized

with respect to the Company, the main challenge for the Company will be meeting its future obligations to repay the principal and interest to the Debenture Holders as will be agreed upon in the new debt settlement. 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, please see Note 1B.

The following tables present the payment dates for financial liabilities as of December 31, 2019 and 2018 of the consolidated Group companies (except TGI). The financial liabilities are presented according to the non-capitalized contractual cash flow. The table includes repayments of principal and interest. The forecasted interest is calculated according to the maturity tables of the financial liabilities.

Liquidity table 2019:

€ in '000	0-3 months	4-12 months	1 to 2 years	Total
Liabilities				
Trade payables	2,413	–	–	2,413
Other payables and accrued expenses	2,252	41,651	7,800	51,703
Interest-bearing loans and borrowings	2,913	102,202	–	105,115
Debentures	351,051	–	–	351,051
Total liabilities	358,629	143,853	7,800	510,282

Liquidity table 2018:

€ in '000	0-3 months	4-12 months	1 to 2 years	Total
Liabilities				
Trade payables	3,159	–	–	3,159
Other payables and accrued expenses	944	38,287	7,899	47,130
Interest-bearing loans and borrowings	2,995	11,355	108,928	123,278
Debentures	317,007	–	–	317,007
Total liabilities	324,105	49,642	116,827	490,574

3 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 credits, deposits and investments available for sale.

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

Achieving the Group's objectives 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 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 its 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.

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.

4) 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 primarily Euro, NIS and RMB. In its water infrastructure activities, there is also exposure to US Dollar and Kwanza. 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 2019 had a material effect on the Group's financial statements, in light of the weakening of EUR against the NIS.

Linkage terms of monetary balances:

As of December 31, 2019:

€ in '000	In euros	In US dollars	In NIS (Israel)	In RMB (China)	In other currencies	Non-monetary	Total
Assets							
Property and equipment	–	–	–	–	–	620	620
Investment properties	–	–	–	–	–	214,577	214,577
Investments in companies accounted for using the equity method	7,062	7,975	–	–	22	32,408	47,467
Long-term receivables	23	–	–	–	–	1,005	1,028
Deferred tax assets	–	–	–	–	–	314	314
Inventory	–	–	–	–	–	42,144	42,144
Trade receivables	–	–	–	5,501	–	–	5,501
Other receivables	1,285	303	–	1,778	–	3,263	6,629
Short-term investments	169	–	134	5,374	–	–	5,677
Cash and cash equivalents	4,533	4,628	122	26,579	33	–	35,895
Assets classified as held for sale	–	–	–	–	–	183,523	183,523
	13,072	12,906	256	39,232	55	477,854	543,375
Liabilities							
Deferred tax liability	–	–	–	–	–	5,227	5,227
Interest-bearing loans and borrowing	–	–	–	95,029	–	–	95,029
Debentures	–	–	298,913	–	–	–	298,913
Other long-term liabilities	–	–	–	–	–	1,610	1,610
Other payables and accrued expenses	1,134	–	49,769	50,570	–	–	101,473
Trade payables	169	–	–	2,244	–	–	2,413
Advances from apartment buyers	–	–	–	–	–	4,658	4,658
Income tax payable	–	–	–	–	–	1,131	1,131
Liabilities associated with assets held for sale	–	–	–	–	–	185,644	185,644
	1,303	–	348,682	147,843	–	198,270	696,098
Differences between assets and liabilities	11,769	12,906	(348,426)	(108,611)	55	279,584	(152,723)

As of December 31, 2018:

€ in '000	in Euros	In US Dollars	In NIS (Israeli)	In RMB (China)	In other currencies	Non-monetary	Total
Assets							
Property and equipment	-	-	-	-	-	748	748
Investment properties	-	-	-	-	-	213,577	213,577
Investments in companies accounted for using the equity method	7,022	7,817	-	-	20	23,114	37,973
Long-term receivables	2,619	-	-	-	-	1,259	3,878
Deferred tax assets	-	-	-	-	-	313	313
Inventory	-	-	-	-	-	64,734	64,734
Trade receivables	-	-	-	7,416	-	-	7,416
Other receivables	762	162	-	982	-	4,061	5,967
Short-term investments	4,169	-	5	13,253	-	-	17,427
Cash and cash equivalents	21,740	14,010	112	16,046	41	-	51,949
Assets classified as held for sale	-	-	-	-	-	240,909	240,909
	36,312	21,989	117	37,697	61	548,715	644,891
Liabilities							
Deferred tax liability	-	-	-	-	-	4,955	4,955
Interest-bearing loans and borrowing	-	-	-	100,797	-	-	100,797
Options	-	678	-	-	-	-	678
Debentures	-	-	282,703	-	-	-	282,703
Other long-term liabilities	-	-	-	-	-	1,033	1,033
Other payables and accrued expenses	1,541	-	40,320	45,416	-	24	87,301
Trade payables	72	-	-	3,087	-	-	3,159
Advances from apartment buyers	-	-	-	-	-	32,509	32,509
Income tax payable	-	-	-	-	-	1,185	1,185
Liabilities associated with assets held for sale	-	-	-	-	-	184,328	184,328
	1,613	678	323,023	149,300	-	224,034	698,648
Differences between assets and liabilities	34,699	21,311	(322,906)	(111,603)	61	324,681	130,571

The following tables present 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. The Company is also exposed to changes to Israeli CPI, due to its debentures. The sensitivity analysis to this exposure is also presented in this section.

€ in '000	Sensitivity to change in EUR/USD			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2019	(158)	(79)	79	158
2018	(263)	(132)	132	263

€ in '000	Sensitivity to change in EUR/NIS			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2019	(34,856)	(17,428)	17,428	34,856
2018	(32,387)	(16,193)	16,193	32,387

€ in '000	Sensitivity to change in RMB/EUR			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2019	215	107	(107)	(215)
2018	(1,931)	(966)	966	1,931

€ in '000	Sensitivity to change in Israeli CPI			
	Effect on profit and loss			
	+3%	+2%	-2%	-3%
2019	(8,967)	(5,978)	5,978	8,967
2018	(8,481)	(5,654)	5,654	8,481

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 CIS. 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 mitigating 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 regarding 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.

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 and monitor their credit status. Based on these assessments the Group records appropriate provisions for the possibility of losses that may be incurred from provision of credit, with respect to specific debts whose collection is doubtful, according to relevant adopted policies. 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 and in financial closing 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.

Counterparties to financial instruments consist of a large number of financial institutions. The Group has no significant concentration of credit risk with any single counterparty 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 11 for more information regarding trade receivables and their aging analysis.

As of December 31, 2019 and 2018, cash and cash equivalent amounted to €35,895 thousand and

€51,949 thousand, respectively (not including an amounts of €11,547 thousand and €13,681 thousand respectively of TGI which are included in the 'Assets held for Sale'), and deposits in banks amounted to €5,677 thousand and €17,427 thousand, respectively (not including an amount of €106 thousand and €293 thousand respectively of TGI which are included in the 'Assets held for Sale') (see Note 13 and 14). All deposits are deposited with highly rated financial institutions primarily in the countries of operation. As of December 31, 2019, 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. Fair value approximates carrying value, due to the short term nature and hence not exposed to interest rate risk.

9 Fair value disclosure:

A Set out below is a comparison by class of the differences between the carrying amounts and fair values of the Group's financial instruments.

€ in '000	2019			
	Methods of determining fair value	Carrying value	Fair Value	Comment
Assets				
Short-term investment		5,677	5,677	1
Long-term loans and receivables		23	23	5
Loans to associates and joint ventures		15,059	15,059	3
Liabilities				
Debentures	(1)	348,677	52,381	2
Interest-bearing loans and borrowings		95,029	95,029	3

€ in '000	2018			
	Methods of determining fair value	Carrying value	Fair Value	Comment
Assets				
Short-term investment		17,427	17,427	1
Long-term loans and receivables		1,764	1,764	4
Loans to associates and joint ventures		14,859	14,859	3
Liabilities				
Debentures	(1)	322,844	84,674	2
Interest-bearing loans and borrowings		100,800	100,800	3
Financial instruments - options	(3)	678	678	4

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 13 and 14 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 20 for additional information. The carrying value includes accrued interest in the amount €49,764 thousand in 2019 and €40,142 thousand in 2018.
- 3) As of December 31, 2019 and 2018 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 17 for additional information.
- 4) 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 9 for additional information.

- 5) 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

December 31, 2019 € in '000	Level 1	Level 2	Level 3	Total
Financial assets:				
Held for trading securities and other	5,374	–	–	5,374
Financial liabilities at fair value through profit or loss:				
Put option	–	–	678	678

December 31, 2018 € in '000	Level 1	Level 2	Level 3	Total
Financial assets:				
Held for trading securities and other	12,818	–	–	12,818
Financial liabilities at fair value through profit or loss:				
Put option	–	–	678	678

During 2019 and 2018 there have been no transfers between financial instruments valued in Level 1 to Level 2 or between Level 2 to Level 1.

C Level 3 financial assets and liabilities reconciliation

2019

€ in '000	As of January 1, 2019	Fair value gain (loss) recorded in P&L	Disposals	As of December 31, 2019
Put option	(678)	678	–	–

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)

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

€ in '000	2019	2018
Long term loans		
Opening balance	100,979	115,121
Cash paid	(6,388)	(26,633)
Amounts recorded in P&L	438	12,491
Closing balance	95,029	100,979

€ in '000	2019	2018
Debentures		
Opening balance	282,703	284,160
Cash paid	(12,221)	–
Amounts recorded in P&L	28,431	(1,457)
Closing balance	298,913	282,703

E IFRS 9 classification of financial assets and liabilities:

€ in '000	December 31, 2019	December 31, 2018
Financial assets:		
Cash and cash equivalent, loans and receivables	65,521	306,592
Financial liabilities:		
Financial liabilities presented at amortized cost	498,959	473,936
Put option (See note 20)	–	678
	498,959	474,614

C Additional information regarding financial instruments of discontinued operations:

1) Liquidity risk

The table below summarizes the maturity profile of TGI's financial liabilities based on contractual undiscounted payments.

As of December 31, 2019:

€ in '000	Less than 1 year	1 to 2 years	Over 2 years	Total
Liabilities:				
Interest-bearing loans and borrowings	59,478	–	–	59,478
Warrant	2,520	–	–	2,520
Trade payables	18,332	–	–	18,332
Other accounts payable	22,590	–	–	22,590
Total current liabilities	102,920	–	–	102,920
Interest-bearing loans and borrowings	–	1,540	–	1,540
Employee benefit liabilities	–	–	2,672	2,672
Other long-term liabilities	–	–	14,363	14,363
Total non-current liabilities	–	1,540	17,035	18,575

As of December 31, 2018:

€ in '000	Less than 1 year	1 to 2 years	Over 2 years	Total
Liabilities:				
Interest-bearing loans and borrowings	50,195	–	–	50,195
Trade payables	20,503	–	–	20,503
Other accounts payable	24,937	–	–	24,937
Total current liabilities	95,635	–	–	95,635
<hr/>				
Interest-bearing loans and borrowings	–	1,297	–	1,297
Warrant	–	–	2,550	2,550
Employee benefit liabilities	–	–	1,073	1,073
Other long-term liabilities	–	–	4,637	4,637
Total non-current liabilities	–	1,297	8,260	9,557

2) Fair value

TGI uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

TGI held the following financial instruments carried at fair value in the statement of financial position:

As of December 31, 2019:

€ in '000	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Assets:				
Short term investments	106	–	–	106
Long term receivables	–	–	2,075	2,075
Total assets	106	–	2,075	2,181

Liabilities measured at fair value

Liabilities -				
warrants and options	–	–	2,520	2,520
Total liabilities	–	–	2,520	2,520

As of December 31, 2018:

€ in '000	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Assets:				
Short term investments	293	–	–	293
Long term receivables	–	–	2,114	2,114
Total assets	293	–	2,114	2,407

Liabilities measured at fair value

Liabilities -				
warrants and options	–	–	2,550	2,550
Total liabilities	–	–	2,550	2,550

3) Foreign currency risk

a. Sensitivity tests relating to changes in exchange rates as of December 31, 2019

€ in '000	Sensitivity test to change in the exchange rate of the EUR/USD			
	Gain (loss) from change		Gain (loss) from change	
	Increase of 20% in exchange rate	Increase of 10% in exchange rate	Decrease of 10% in exchange rate	Decrease of 20% in exchange rate
Instrument				
2019	2,565	1,282	(1,282)	(2,565)
2018	(4,168)	(2,084)	2,084	4,168

€ in '000	Sensitivity test to change in the exchange rate of the USD/NIS			
	Gain (loss) from change		Gain (loss) from change	
	Increase of 20% in exchange rate	Increase of 10% in exchange rate	Decrease of 10% in exchange rate	Decrease of 20% in exchange rate
Instrument				
2019	(9)	(5)	5	9
2018	(4,755)	(2,378)	2,378	4,755

€ in '000	Sensitivity test to change in the exchange rate of the USD/EUR			
	Gain (loss) from change		Gain (loss) from change	
	Increase of 20% in exchange rate	Increase of 10% in exchange rate	Decrease of 10% in exchange rate	Decrease of 20% in exchange rate
Instrument				
2019	(19)	(9)	9	19
2018	(84)	(42)	42	84

€ in '000	Sensitivity test to change in the exchange rate of the USD/RUB			
	Gain (loss) from change		Gain (loss) from change	
	Increase of 20% in exchange rate	Increase of 10% in exchange rate	Decrease of 10% in exchange rate	Decrease of 20% in exchange rate
Instrument				
2019	145	72	(72)	(145)
2018	475	238	(238)	(475)

€ in '000	Sensitivity test to change in the exchange rate of the USD/INR			
	Gain (loss) from change		Gain (loss) from change	
	Increase of 20% in exchange rate	Increase of 10% in exchange rate	Decrease of 10% in exchange rate	Decrease of 20% in exchange rate
Instrument				
2019	4,949	2,474	(2,474)	(4,949)
2018	4,544	2,272	(2,272)	(4,544)

€ in '000	Sensitivity test to change in the exchange rate of the EUR/AOA			
	Gain (loss) from change		Gain (loss) from change	
	Increase of 50% in exchange rate	Increase of 10% in exchange rate	Decrease of 10% in exchange rate	Decrease of 50% in exchange rate
Instrument				
2019	1,133	227	(227)	(1,133)
2018	7,019	1,404	(1,404)	(7,019)

b. Linkage terms of monetary balances:

€ in '000	December 31, 2019										Total
	In euros	In US dollars	In NIS	In AOA	In INR	In Rub	In RON	In RSD	In other currencies	Non-monetary	
Assets											
Cash and cash equivalents	192	3,317	6,293	369	801	132	23	16	404	–	11,547
Short term investments	–	–	106	–	–	–	–	–	–	–	106
Trade receivables	5,619	10,857	27,319	2,129	35,558	626	–	677	42	–	82,827
Other receivables and prepayments	–	2,430	478	786	1,076	–	1,249	33	1,117	16,694	23,863
Contract assets	–	1,953	–	–	–	–	–	–	–	–	1,953
Contract work in progress	–	–	–	–	–	–	–	–	–	15,670	15,670
Merchandise inventories	–	–	–	–	–	–	–	–	–	3,481	3,481
Long term loans and receivables (including current maturities)	3,881	–	–	–	–	–	–	–	–	–	3,881
Deferred income tax assets	–	–	–	–	–	–	–	–	–	1,592	1,592
Investments in associated companies	–	–	733	–	–	–	–	–	–	368	1,101
Investments in joint venture companies	–	–	(823)	–	–	–	–	–	–	4,199	3,376
Right of use	–	–	–	–	–	–	–	–	–	9,035	9,035
Property, plant and equipment	–	–	–	–	–	–	–	–	–	11,974	11,974
Goodwill	–	–	–	–	–	–	–	–	–	5,057	5,057
Other intangible assets	–	–	–	–	–	–	–	–	–	747	747
	9,692	18,557	34,106	3,284	37,435	758	1,272	726	1,563	68,817	176,210

(table continues on next page)

€ in '000	December 31, 2019										Total	
	In euros	In US dollars	In NIS	In AOA	In INR	In Rub	In RON	In RSD	In other currencies	Non-monetary		
Liabilities												
Short term Interest bearing loans and borrowings	1,145	47,341	5,338	–	3,906	–	–	–	3,288	–	–	61,018
Trade Payables	2,164	2,507	6,294	1,017	5,532	23	561	–	234	–	–	18,332
Advances from customers in respect of contracts	–	–	–	–	–	–	–	–	–	–	29,769	29,769
Contract liabilities	–	3,006	–	–	–	–	–	–	–	–	–	3,006
Income tax payables	–	–	–	–	–	–	–	–	–	–	3,681	3,681
Warrants and options	–	2,520	–	–	–	–	–	–	–	–	–	2,520
Other payables and accrued expenses	2,594	6,025	10,613	–	–	–	–	–	1,201	28,008	–	48,441
Long-term liabilities	1,917	346	1,609	–	–	–	–	–	–	–	648	4,520
Leases liabilities	–	9,216	–	–	–	–	–	–	–	–	–	9,216
Investment in associates	–	–	–	–	–	–	–	–	–	–	2,784	2,784
Deferred income tax liabilities	–	–	–	–	–	–	–	–	–	–	1,028	1,028
Post-employment benefit liability	–	–	2,672	–	–	–	–	–	–	–	–	2,672
	7,820	70,961	26,526	1,017	9,438	23	561	–	4,723	65,918	–	186,987
Difference between assets and liabilities	1,872	(52,404)	7,580	2,267	27,997	735	711	726	(3,160)	2,899	–	(10,777)

€ in '000	December 31, 2018									Total
	In euros	In US dollars	In NIS	In AOA	In INR	In Rub	In RON	In other currencies	Non-monetary	
Assets										
Cash and cash equivalents	307	232	6,401	1,172	1,564	2,426	113	1,466	–	13,681
Short term investments	175	–	119	–	–	–	–	–	–	294
Trade receivables	9,871	20,258	22,179	14,678	45,266	10,420	42	–	–	122,714
Other receivables and prepayments	2,212	–	1,110	–	739	1,732	–	1,302	15,312	22,407
Contract work in progress	–	–	–	–	–	–	–	16,894	–	16,894
Merchandise inventories	–	–	–	–	–	–	–	–	4,698	4,698
VAT receivables	–	–	–	–	–	–	–	–	5,411	5,411
Income tax receivables	–	–	–	–	–	–	–	–	2,543	2,543
Long term loans and receivables (including current maturities)	–	2,114	1,554	–	–	–	–	–	–	3,668
Deferred income tax assets	–	–	–	–	–	–	–	–	3,618	3,618
Investments in joint venture companies	4,629	–	–	–	–	–	–	45	4,623	9,297
Property, plant and equipment	–	–	–	–	–	–	–	–	13,521	13,521
Goodwill	–	–	–	–	–	–	–	–	8,273	8,273
Other intangible assets	–	–	–	–	–	–	–	–	877	877
	17,194	22,604	31,363	15,850	47,569	14,578	155	19,706	58,876	227,896

(table continues on next page)

€ in '000	December 31, 2018									Total
	In euros	In US dollars	In NIS	In AOA	In INR	In Rub	In RON	In other currencies	Non-monetary	
Liabilities										
Short term Interest bearing loans and borrowings	2,687	43,869	2,787	–	432	–	–	–	–	49,775
Current maturities of interest bearing loans and borrowings	–	–	419	–	–	–	–	–	–	419
Trade Payables	4,701	196	5,596	1,351	5,940	2,164	–	555	–	20,503
Advances from customers in respect of contracts	–	–	–	–	–	–	–	–	35,987	35,987
VAT payables	–	–	–	–	–	–	–	–	727	727
Income tax payables	–	–	–	–	–	–	–	–	2,988	2,988
Other payables and accrued expenses	2,198	1,820	–	–	12,530	13,589	–	–	33,150	63,287
Long term Interest bearing loans and borrowings	–	–	1,307	–	–	–	–	–	–	1,307
Warrants and options	–	2,550	–	–	–	–	–	–	–	2,550
Other long-term liabilities	147	–	5,070	461	–	–	–	–	–	5,678
Deferred income tax liabilities	–	–	–	–	–	–	–	–	1,149	1,149
Post-employment benefit liability	162	–	783	–	–	–	–	–	128	1,073
	9,895	48,435	15,962	1,812	18,902	15,753	–	683	74,001	185,443
Difference between assets and liabilities	7,299	(25,831)	15,401	14,038	28,667	(1,175)	155	19,023	(15,125)	42,453

33 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, 2019	December 31, 2018
		Joint ventures	
Trade receivables	11	415	798
Other receivables and prepayments	12	872	854
Loans and long-term assets (including current maturities)	9	15,059	19,302
Other payables and accrued expenses	21	12,462	12,426

B. Transactions

€ in '000	Note	Joint ventures	Other related party
For the year ended December 31, 2019:			
Management fee, net		822	(40)
Finance income	29	–	–
For the year ended December 31, 2018:			
Management fee, net		962	(48)
Finance income	29	109	–
For the year ended December 31, 2017:			
Management fee, net		765	(109)
Finance income	29	137	–

1) Management fees for the years 2019, 2018 and 2017 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.

2) 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.

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.

In April 2019, an additional amendment has been agreed between the parties, according to which, effective June 6, 2019, the scope of services will be reduced and accordingly, the corresponding service fees would be reduced to a total of approximately €33 thousand per year (128 NIS thousand per year), linked to Israeli CPI.

Subsequent to the balance sheet date, in January 2020, the parties have agreed to terminate the service agreement, effective March 16, 2020.

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,		
	2019	2018	2017
	208	204	263

* The amounts for the years 2019, 2018 and 2017 related to 6, 8 and 9 Board members, respectively.

2. Executive Management *:

€ in '000	Short-term employee benefits **	Post-employment pension and medical benefits	Share-based payment transaction	Total
For the year ended Dec 31,				
2019	592	21	–	613
2018	592	21	3	616
2017	665	20	4	689

* The amounts relate to 2 executives, respectively.

** Short term employee benefits include bonuses over the years 2017 and 2018.

3. Options granted by the Company :

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

* As of December 31, 2019, all options expired. For additional information see also Note 16.

34 Subsequent events

The outbreak of the coronavirus Pandemic (COVID-19), which firstly occurred in Wuhan (one of the top 15 cities in China) in December 2019, has been spreading rapidly throughout China and beyond, leading to a high-profile international health emergency.

Its long-term impact is unpredictable, but its short-term impact, especially to the service industries, is obvious, as countries announced access restrictions for the purpose of reducing possible infections caused by unnecessary movements and aggregation of people. Governments activated public health Emergency response mechanisms to control the spread of this highly infectious virus. Restrictions have been placed on people moving within and across cities such as suspension of transportation routes; businesses and schools were closed; and people were urged to stay confined at home.

At this stage, the Company is unable to assess the duration and intensity of the crisis and its full impact on its operations and results. However, the Company estimates that deepening of the crisis and its continuation may have a negative impact on the Company's activities. The impact it may have on the real estate market in China going forward is uncertain.

In the first quarter of 2020, as a result of the restrictions announced in China following the outbreak, the Company experienced a decrease in the number of sold units in most of its residential projects, and in the project in Dalian also a decrease in sale prices. In the retail sector – Galleria Dalian – the Company experienced temporary closure of many of the shops, sharp decrease in the number of visitors and in the shops' turnover.

At the beginning of the economic crisis resulted from the COVID-19 outbreak, KLC provided rent discount for all its tenants in an accumulated amount of RMB 2 million (€0.3 million) and is evaluating granting

additional incentives for certain periods. Although too early to estimate, the COVID-19 outbreak may result in early termination, breach of certain existing lease contracts and the signing of new contracts, and thus may negatively impact the rental income in the coming periods. Accordingly, management estimates that an impairment to the value of Galleria Dalian will be recorded in the first quarter of 2020, however, it is too early to assess the full impact on the value, as the valuation process as of March 31, 2020 is at an early stage. It should be noted that as the date of signing this report most of the shops in the mall are open. KLC also started reducing its operational costs. The Chinese government issued few policies to ease some the financial burden on companies. Such policies include Exemption on Employer's Social Insurance contribution for a certain period, discount on commercial property shopping mall property tax for leased out portion, reduction of interest rates and more. KLC is evaluating which policies are applicable to its activities.

In addition, KLC acted to reduce infection in its assets, such as the shopping mall and sales offices by expanding the cleaning and disinfecting.

Kardan's discontinued operation, TGI, is operating in all its countries of operations according to local guidelines with respect to the outbreak. In addition, TGI acts to reduce its operational costs. With respect to the projects, in most countries the project works are continuing either in full or partially, only in few countries the projects stopped completely. It is therefore difficult to assess at this stage the full impact on TGI's business, cash flows and other measures of financial performance. In parallel, TGI is preparing for different scenarios in order to limit as much as possible the impact on its operations.

The Group will continue paying close attention to the development of the COVID-19 outbreak and its impact on the markets in which it operates and will continue to perform relevant assessments and take proactive measures.

Company-only Financial Statements

Statement of Financial Position

After Appropriation of Net Result

€ in '000	Note	December 31, 2019	December 31, 2018
Assets			
Non-current assets			
Tangible fixed assets		88	114
Investments in subsidiaries	4	288,098	290,634
		288,186	290,748
Current assets			
Short-term investments	6	297	169
Other receivables	3	1,868	1,798
Cash and cash equivalents	5	3,858	17,595
		6,023	19,562
Assets classified as held for sale	14	–	40,878
Total current assets		6,023	60,440
Total assets		294,209	351,188
Equity and liabilities			
Equity			
Share capital		25,276	25,276
Share premium		206,482	206,482
Foreign currency translation reserve		(19,038)	(12,049)
Property revaluation reserve		25,944	25,179
Revaluation reserve, other		4,433	4,837
Accumulated deficit		(393,699)	(309,222)
		(150,602)	(59,497)
Current liabilities			
Current portion of debentures	7	377,670	355,656
Other payables	10	67,141	52,238
Option liability		–	2,791
		444,811	410,685
Total equity and liabilities		294,209	351,188

See accompanying Notes.

Company-only Income Statement

€ in '000	Note	For the year ended December 31,	
		2019	2018
General and administration expenses	11	(2,077)	(2,602)
Loss from operations		(2,077)	(2,602)
Financial expenses, net	12	(78,265)	(17,722)
Loss before share of profit from investments accounted for using the equity method		(80,342)	(20,324)
Share of (loss) profit of subsidiaries	4	29,026	(16,125)
Loss before income taxes		(51,316)	(36,449)
Income tax expenses	9	65	250
Loss for the period from continuing operations		(51,381)	(36,699)
Loss from discontinued operations	14	(32,331)	(76)
Loss for the year		(83,712)	(36,775)

See accompanying Notes.

Company-only Comprehensive Income Statement

€ in '000	For the year ended December 31,	
	2019	2018
Net loss for the year	(83,712)	(36,775)
Foreign currency translation differences	(6,989)	(12,086)
Change in hedge reserve, net	(404)	(751)
Other comprehensive expense for the year to be reclassified to profit or loss in subsequent periods	(7,393)	(12,837)
Total comprehensive expense	(91,105)	(49,612)

Company-only Statement of Changes in Shareholders' Equity

Year ended December 31, 2019

€ 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, 2019	25,276	206,482	25,179	4,837	(12,049)	(309,222)	(59,497)
Other comprehensive expense	–	–	–	(404)	(6,989)	–	(7,393)
Loss for the year	–	–	–	–	–	(83,712)	(83,712)
Total comprehensive expense	–	–	–	(404)	(6,989)	(83,712)	(91,105)
Share-based payment (Note 8)	–	–	–	–	–	–	–
Transaction with non-controlling interest	–	–	–	–	–	–	–
Reclassification according to the Netherlands civil code requirements, net of tax (*)	–	–	765	–	–	(765)	–
Balance as of December 31, 2019	25,276	206,482	25,944	4,433	(19,038)	(393,699)	(150,602)

Year ended December 31, 2018

€ 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 8)	–	–	–	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 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, 2019 and 2018 amounts of €67,789 thousand and €53,122 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,	
	2019	2018
Cash flow from operating activities of the Company		
Loss for the year	(83,712)	(36,775)
Adjustments to reconcile profit (loss) to net cash of the Company		
Financial expense	78,469	17,580
Share-based payment	–	2
Equity earnings	3,305	16,201
Fair value adjustments of derivative financial instrument	681	(184)
Changes in working capital of the Company		
Change in receivables	(524)	(128)
Change in payables	11,374	(50)
Cash amounts paid and received during the year		
Dividend received	13,000	17,500
Interest paid	(23,901)	–
Net cash used in operating activities of the Company	(1,308)	14,146
Cash flow from investing activities of the Company		
Short term investments, net	(128)	–
Investments in subsidiary	(170)	(2,560)
Net cash used in investing activities of the Company	(298)	(2,560)
Cash flow from financing activities		
Repayment of long term debt	(12,221)	–
Net cash used in financing activities of the Company	(12,221)	–
Increase (decrease) in cash and cash equivalents of the Company	(13,827)	11,586
Foreign exchange differences relating to cash and cash equivalents	90	30
Cash and cash equivalents at beginning of the year	17,595	5,979
Cash and cash equivalents of the Company at end of the year	3,858	17,595

Notes to the company-only Financial Statements

December 31, 2019

1 General

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

2 Significant Accounting Policies

The Company prepared its 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 consolidated financial statements. For an appropriate interpretation, the company- financial statements of Kardan N.V. should be read in conjunction with the consolidated financial statements. The company financial statements are presented in Euros and all values are rounded to the nearest thousand (€ in thousands) except when otherwise indicated.

3 Other receivables

€ in '000	December 31, 2019	December 31, 2018
Intercompany debtors	1,865	1,748
VAT	–	16
Prepaid expenses	3	34
	1,868	1,798

4 Financial Assets

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

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

€ in '000	2019	2018
Balance as of January 1	290,634	322,785
Implementation of new accounting standards	–	1,866
Investment in a subsidiary	170	2,560
Change in capital reserves (*)	(707)	(2,951)
Dividend distributed (**)	(18,222)	(17,500)
Share of (loss) profit of subsidiaries	29,026	(16,126)
Loan received from a subsidiary	(12,803)	–
Balance as of December 31	288,098	290,634

* Primarily relates to foreign currency exchange differences arising on translation of foreign operations.

** Including cash and no cash distributions.

Loans granted and received from subsidiaries are presented net of the investment in subsidiaries.

2 Further specification of the investments in subsidiaries is as follows:

Names of subsidiaries	2019		2018	
	Ownership %	Total value € in '000	Ownership %	Total value € in '000
GTC Real Estate Holding B.V.	100	206,392	100	203,358
Kardan Financial Services B.V.	100	2,331	100	22,006
Emerging Investments XII B.V.	100	79,375	100	65,270
Total investments in significant consolidated subsidiaries		288,098		290,634

5 Cash And Cash Equivalents

€ in '000	December 31, 2019	December 31, 2018
EURO	3,732	17,493
NIS	122	100
USD	4	2
	3,858	17,595

The cash is primarily composed of short term deposits.

The average interest rate on short term deposits is 0.2%-1.5% p.a. in 2019 and 2018.

6 Short-term Investments

€ in '000	December 31, 2019	December 31, 2018
Deposits	297	169

In 2019 and 2018, the average interest rate earned was 0.5%.

7 Debentures

Composition:

€ in '000	Par value as of December 31, 2019 NIS	Balance as of December 31, 2019	Balance as of December 31, 2018	Interest rate %	Maturities principal
Issuer:					
The Company – 2007	297,500,001	93,354	84,190	6.325	2017-2018
The Company – 2008	952,834,318	284,316	271,466	6.775	2017-2020
		377,670	355,656		

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 to the consolidate financial statements.

On June 3, 2019 the Company partially repaid to Debenture Holders Series B principal amounting to approximately €12.2 million and accumulated interest of approximately €23.8 (net of the relative portion of debentures held by the Company's subsidiaries). The total repayment amounted to approximately €36 million (approximately NIS 145 million).

8 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. During 2019 the options expired.

9 Income Tax Expenses

The Company has received final tax assessments for all the years up to and including 2017.

Loss for the year amounts to €82.7 million (2018: €36.7 million), including net result from investments of €2.3 million profit (2018: €16.2 million loss), which is not deductible/taxable under the Participation Exemption.

Effective from 1 January 2019, the Netherlands introduced the 30% Earnings Before Interest Tax, Depreciation and Amortization (EBITDA) rule in line with the interest deduction limitation rules as outlined in the EU Anti-Tax Avoidance Directive (earnings stripping rule). The earning stripping rule is a general limitation based on which net borrowing costs on debt attracted from both related and unrelated parties by a Dutch taxpayer will only be tax-deductible up to 30% of a taxpayer's corrected taxable profit with a minimum of € 1 million. The non-deductible amount of net borrowing costs can be carried forward indefinitely in time. The Company has reviewed the impact of the earning stripping rule and concluded that the net borrowing costs (including foreign currency results) will not be fully tax-deductible in 2019. 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 €314.5 million that are available for carry forward (according to the filed 2018 tax return, net of tax losses evaporated as per 1 January 2019). Tax losses of

a company may be carried back one year and carried forward six years. Losses incurred before 2019 are grandfathered and are available for nine years. Because certain losses would be available for nine years and certain for six years, the Dutch government has announced that losses incurred in 2019 will be used before losses incurred in 2017 and 2018, while losses incurred in 2020 will be used before losses incurred in 2018.

Effective from 1 January 2019, there are no longer restrictions on compensation of losses incurred by holding and financing companies. However, restrictions on loss relief could still apply to losses of holding and financing companies incurred before 2019. The restrictions apply to a company if holding activities and/or direct or indirect financing of related parties account for at least 90% of the company's activities during at least 90% of the financial year. As confirmed on the final tax assessment for fiscal years up to and including 2017, the tax losses of Kardan N.V. are not considered holding and financing losses to which the restrictions apply 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 nil as of December 31, 2019 (as of December 31, 2018 amounted to €65 thousand). As of December 31, 2019, no deferred tax assets are presented in the balance sheet. For more information regarding to taxes on income refer to Note 30 to the Consolidated IFRS Financial Statements.

10 Other Payables

€ in '000	December	
	31, 2019	31, 2018
Accrued expenses (mainly accrued interest on debentures)	66,358	50,850
Others	783	1,388
	67,141	52,238

11 General and administration expenses

€ in '000	For the year ended	
	December 31, 2019	December 31, 2018
Payroll and related expenses	729	799
Share-based payment	–	2
Management fees	248	254
Office maintenance	140	143
Professional fees	1,797	1,818
Depreciation and amortization	31	34
Revaluation income of PUT option, (net)	(681)	(307)
Other income (net)	(187)	(141)
	2,077	2,602

12 Financial expenses, net

€ in '000	For the year ended	
	December 31, 2019	December 31, 2018
Income:		
Exchange differences	574	13,857
Total financing income	574	13,857
Expenses:		
Interest on debentures	34,130	26,531
Exchange differences	43,204	–
Other	1,505	5,048
Total financing expenses	78,839	31,579
Total financing expenses	78,265	17,722

13 Audit Fees

The tables below summarize the fees invoiced to the Company's by its independent auditor, PricewaterhouseCoopers Accountants N.V. (PwC) in 2019 and in 2018, respectively:

€ in '000	In 2019	In 2018
Audit services – Kardan N.V.	475	422
Audit services – subsidiaries	579	652
Total statutory audit fees	1,054	1,074
Other services relevant to taxation	–	7
Total	1,054	1,081

14 Assets held for sale

The composition of the investment in a subsidiary presented as assets held for sale is as follows:

€ in '000	2019		2018	
	Owner ship %	Total value	Owner ship %	Total value
Names of subsidiaries				
Tahal Group International B.V.	98.43	–	98.43	40,877

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

15 Remuneration of Management and Board of Directors

The Company's management and Board received remuneration in 2019 and 2018 as described in Note 33 to the Consolidated Financial Statements.

16 Commitments, contingent liabilities, guarantees, and subsequent events

For commitments, contingent liabilities, guarantees, and subsequent events please refer to Notes 22 and 34, respectively of the Consolidated Financial Statements.

17 Financial instruments and risk management

For disclosures required by IFRS 7 regarding financial instruments and risk management, refer to Note 32 to the Consolidated 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 2019

Our opinion

In our opinion, the statutory financial statements of Kardan N.V. ('the Company') give a true and fair view of the financial position of the Company and the Group (the company together with its subsidiaries – 'the Group') as at 31 December 2019, 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 2019 of Kardan N.V., Amsterdam. The statutory financial statements include the statutory consolidated financial statements of 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 2019;
- the following statements for 2019: 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 the 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.

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 Union 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, Dutch Code of Ethics).

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 2019 of €356 million and €410 million, respectively. For the year ended December 31, 2019, the Company recorded a net loss of €83.7 million and generated negative cash flows from operating activities of €1.3 million on a stand-alone basis and negative cash flows from operating activities on a consolidated basis of €41.5 million. In addition, as at 31 December 2019,

the Company had a deficit of €150.6 million in its equity attributable to equity holders.

The disclosure note 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 value of the Company's assets, refinancing and restructuring of loans, the impact of the coronavirus and macroeconomic developments, and therefore there is uncertainty that the discussions with the debenture holders will result in rescheduling of payments and that transactions for the sale of assets will be entered to or completed. Accordingly, it may be unable to realize its assets in order to repay its liabilities in the normal course of business. These conditions indicate the existence of a material uncertainty which casts significant doubt regarding the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview and context

Kardan N.V. is engaged in the development of real estate in Asia and water infrastructure projects through its subsidiaries, joint ventures and associated companies. In March 2019 the Company sold its short-term car rental operations (Avis Ukraine). 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 of the statutory consolidated 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 financial position of TGI, the classification of TGI as asset held for sale, the valuation of work in progress of TGI projects, for which we used our own experts, 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 specialists and experts in the field of valuation of real estate and evaluating complex work in progress of TGI projects.

The outline of our audit approach was as follows:



Materiality

- Overall materiality: €5.1 million

Audit scope

- We conducted audit work in three locations.
- Site visits were conducted to two countries: China (KLC) and Israel (TGI).
- 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

€5.1 million (2018: €6.4 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 2019.

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 and 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 €1.7 million and €3.4 million. Certain components were audited with a local statutory audit materiality that was also less than our overall group materiality.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the audit committee that we would report to them misstatements identified during our audit above €256,000 (2018: €300,000) 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 statutory financial statements of Kardan N.V.

We tailored the scope of our audit to ensure that we, in aggregate, provide sufficient coverage of the statutory financial statements for us to be able to give an opinion on the statutory 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.

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 had obtained sufficient and appropriate audit evidence as a basis for our opinion on the statutory 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 financial statements;

- we discussed the material uncertainty with respect to the financial position of TGI, which the component auditor of TGI reported to us, as disclosed in note 5 to the statutory consolidated 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. In the current year the Group audit team visited China (Kardan Land China Ltd.) 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) and the refinancing of the shopping mall in Dalian. Also, Israel (TGI) has been visited by the Group audit team given the financial position of TGI. The auditor of TGI visited us also in the Netherlands. During the visit we performed reviews of selected working papers. Further, we performed reviews per video conference for TGI.

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 financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the statutory financial statements. We have communicated the key audit matters to the audit committee. The key audit matters are not a comprehensive reflection of all matters identified by

our audit and that we discussed. 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 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 financial statements. Any comment or observation 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 have determined the matters described below to be the key audit matters to be communicated in our report.

Due to the nature of the Company's business, we recognise that key audit matters, which we reported in our independent auditor's report on the statutory financial statements 2018, 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

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 (40%) of the Group and is valued at fair value for an amount of € 214.6 million at year-end 2019 (2018: € 213.6 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 2019 and as at 30 November 2019, including a comfort letter as at 31 December 2019. In 2018 and 2019 management used the same appraisal firm (Savills). 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-known 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,

Continues on next page, first column

Our audit work and observations

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 2019.

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, including the term of their engagement of in total three years now, 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.

As group auditor we visited the property ourselves to validate occupancy rates and to review the working papers of the component auditors. 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 also engaged our own in-house

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Key audit matter

rental growth, terminal capitalization rate, occupancy rate, capitalization rate, and gross retail rental income.

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 non-observable Group-specific inputs.

The Group has adopted the assessed value determined by the appraisal firm.

Our audit work and observations

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 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 allowed 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, cut-off procedures and year-end estimates of accruals.

We tested a risk-based selection of journal entries and we included unpredictability, such as reviewing the validity of hired agents and assessing the agent cost in light of the contract and the Company's internal procedures. Additionally, performed 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 2019, 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 and the sections 2:135b and 2:145 subsection 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 and the remuneration report in accordance with the sections 2:135b and 2:145 subsection 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 5 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 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 and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material 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, 30 April 2020

PricewaterhouseCoopers Accountants N.V.

Original is signed by M.P.A. Corver RA

Appendix to our auditor's report on the statutory financial statements 2019 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 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 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 the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the 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. For details regarding the Debt Settlement, reference is made to note 22 of the financial statements. Since the beginning of 2018 negotiations are ongoing to reach a new debt settlement

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

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

TGI

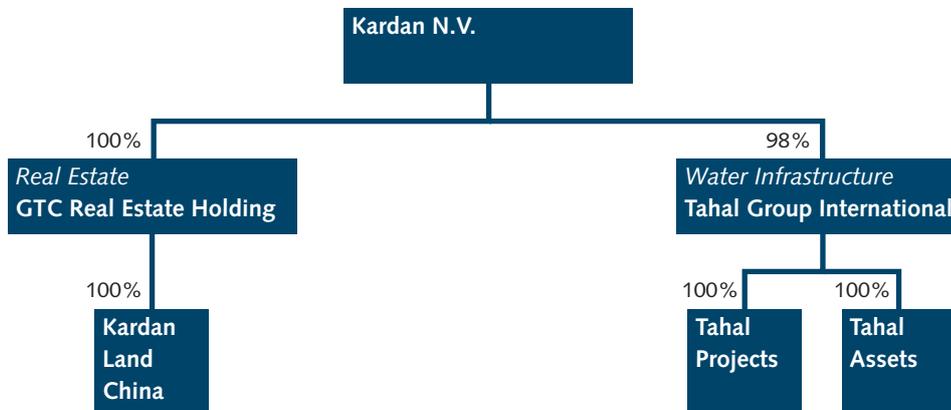
Tahal Group International B.V., a 98% subsidiary of Kardan N.V., is a leading global provider of sustainable infrastructure development projects in developing countries worldwide, focusing on integrated project execution in the water, wastewater, agriculture, solid waste and natural gas segments. TGI 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 2020)



The Annual Report 2019 is produced by the
Annual Report Project Team Kardan N.V.,
assisted by:

Production Coordinator

Bert Mastenbroek – [CrosslineMedia](#)

Design

Nicole Stolk – [Buro Eigen](#)

Kardan N.V.

De Cuserstraat 85B

1081 CN Amsterdam

The Netherlands

www.kardan.nl