

The image is a collage of four photographs. The top-left photo shows a large stadium at night with a fountain in the foreground and a large screen displaying 'Annual Report 2017'. The top-right photo shows a close-up of the stadium's exterior with '凯丹公馆 Europark Residence' signage. The bottom-left photo shows an aerial view of a circular architectural feature. The bottom-right photo shows an IMAX theater interior with a large audience.



KARDAN N.V.

## Profile

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

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

The water activities of Kardan predominantly take place in emerging markets worldwide through its subsidiary [Tahal Group International](#). Tahal offers high quality integrated customized and sustainable solutions for one of the most critical challenges the world faces today: providing water and food (through agriculture) to people in developing and emerging countries. In 2017 Kardan announced its intention to divest Tahal.

Kardan also holds a stake in Avis Ukraine.

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

## Key figures

€ in million	2017 **	2016 *	2015 *	2014 *	2013 *
Revenues	191.5	140.8	216.0	257.8	208.0
Net profit (loss) from:					
Real estate	(14.6)	(15.2)	8.9	24.6	18.3
Water Infrastructure (discontinued operations)	13.1	0.9	21.5	(1.5)	(0.4)
Banking and Retail lending (discontinued operations)	–	21.6	16.2	7.6	(18.8)
Remaining banking and retail lending (not sold operations)	1.7	1.4	(2.9)	–	–
Other (Corporate G&A and finance)	(17.3)	(40.0)	(66.6)	(25.6)	(121.1)
Total net profit (loss)	(17.1)	(31.3)	(22.9)	5.1	(122.0)
Total equity	(0.8)	41.2	75.9	97.8	71.8
Equity attributable to the equity holders	(4.4)	37.3	71.4	92.4	66.1
Total stand-alone assets	380.0	409.7	574.3	459.0	486.3
Number of employees (as at year-end)	1,118	1,055	2,317	2,554	2,875

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

\*\* Revenues include revenues of the water infrastructure segment which are presented as discontinued operations

€ per share *	2017	2016	2015	2014	2013
Basic and diluted earnings (loss)	(0.15)	(0.26)	(0.20)	0.05	(0.92)
Total equity	0.00	0.33	0.62	0.88	0.65
Equity attributable to the equity holders	0.00	0.30	0.58	0.83	0.60
Number of shares					
As at December 31	123,022,256	123,022,256	123,022,256	111,848,583	111,848,583
Weighted average for the year	123,022,256	123,022,256	116,428,981	110,753,633**	110,575,647**

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

\*\* Excluding treasury shares outstanding as of December 31

# Annual Report

## 2017



KARDAN N.V.

# Annual Report

## 2017

Profile .....	2
Key figures .....	3
Kardan Group's Business Strategy .....	7
Foreword of the Chairman .....	9
Letter of the Chief Executive Officer .....	11
Shareholder Information .....	12
<b>Board Report .....</b>	<b>14</b>
Financial Review 2017 .....	14
Real Estate Division .....	20
Water Infrastructure Division .....	28
Risk Management .....	33
Corporate and Social Responsibility .....	41
Governance and Compliance .....	46
Remuneration Report .....	52
Declaration by the Board .....	56
<b>Statutory Financial Statements .....</b>	<b>60</b>
Consolidated Financial Statements .....	60
Company-only Financial Statements .....	163
<b>Other Information, including Independent Auditor's Report .....</b>	<b>177</b>
Glossary .....	190
Organizational Chart .....	192

## DISCLAIMER

This Annual Report contains forward-looking statements and information, for example concerning the financial condition, results of operations, businesses and potential exposure to market risks of Kardan N.V. and its group companies (jointly 'Kardan Group'). All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements (including 'forward looking statements' as defined in the Israeli Securities Law). Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. These forward-looking statements are identified by the use of terms and phrases such as 'anticipate', 'believe', 'could', 'estimate', 'expect', 'intend', 'may', 'plan', 'objectives', 'outlook', 'probably', 'project', 'will', 'seek', 'target', 'risks', 'goals', 'should' and similar terms and phrases. A variety of factors, many of which are beyond Kardan Group's control, affect our operations, performance, business strategy and results and could cause the actual results, performance or achievements of Kardan Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. For Kardan Group, particular uncertainties arise, amongst others but not limited to and not in any order of importance, (i) from dependence on external financing with the risk that insufficient access to capital threatens its

capacity to repay its debts, grow, execute its business model, and generate future financial returns (ii) from concentration of its business in Central Eastern Europe, Africa, India and China as a result of which Kardan Group is strongly exposed to these particular markets (iii) from risks related to the financial markets as a result of Kardan N.V.'s listings on Euronext Amsterdam and the Tel Aviv Stock Exchange and (iv) from it being a decentralized organization with a large number of separate entities spread over different geographic areas in emerging markets, so that Kardan Group is exposed to the risk of fraudulent activities or illegal acts perpetrated by managers, employees, customers, suppliers or third parties which expose the organization to fines, sanctions and loss of customers, profits and reputation etc. and may adversely impact Kardan Group's ability to achieve its objectives and (v) from any of the risk factors specified in this Annual Report and in the related 'Periodic Report' (published by Kardan N.V. in Israel) published last March, which is also available via the Kardan website. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Kardan N.V. does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.



# Kardan Group's Business Strategy

The business strategy of Kardan focuses on business opportunities arising in emerging markets, developing and managing assets and projects, currently focusing on real estate and water infrastructure. By establishing local platforms in selected markets, based on identified demand, economic viability and legal infrastructure, Kardan combines international expertise with local knowledge. Kardan's real estate activities are focused on China, through its subsidiary Kardan Land China. Its activities in the water infrastructure sector are focused on Asia, Africa and Central and Eastern Europe, through its subsidiary Tahal Group International.

Kardan's real estate activities (Kardan Land China or KLC) are primarily focusing on its existing projects in the near term. 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 which opened in August 2016. Europark Dalian offers consumers and individuals a comprehensive lifestyle concept: a complete shopping and leisure area combined with luxury and business apartments situated in a green setting connected to the city's new subway line. Galleria Dalian's offering focuses on a lifestyle oriented shopping experience with key themes as: family activities, sports, restaurants, cinema and fast fashion. The mall offers digital applications which supports promotion management and online purchases. Europark Dalian is assumed to be an important driver to increase the population and liveliness in the area, which is crucial for the residential projects of KLC. KLC continues to sell and develop residential apartments – together with its joint venture partner – in existing projects.

Kardan's activities in the water infrastructure sector, through its subsidiary Tahal Group International (Tahal), stem from the belief that emerging markets have an incremental need for adequate water infrastructure. Tahal is mainly active in emerging and frontier countries, addressing global challenges arising from a growing water shortage mainly due to

population growth, industrialization and climate change.

Tahal provides high-quality integral EPC (Engineering, Procurement and Construction) project management expertise and delivers sustainable solutions based on its specialist engineering expertise. Tahal recognizes that besides delivering high quality engineering solutions and project management, it is of great importance to offer assistance in arranging appropriate funding for projects. This service is therefore included in Tahal's tender offers.

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

To finance these activities, at a time of significant growth, Kardan issued two debentures in Israel in 2007 and 2008, initially to be redeemed between 2013 and 2020. In 2015 Kardan agreed a Debt Settlement with its Debenture Holders, entailing a postponement of the majority of the principal payments. 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.

## Progress 2017

In 2016, Kardan generated sufficient cash through a number of transactions to enable the Company to complete its 2017 principle repayment obligations, ahead of schedule. In 2017, in order to generate cash to meet the payments in February 2018, the Company initiated the sale process of Tahal. Towards the end of 2017, it became clear that the sale process would possibly take more time than initially expected, and therefore in November 2017 Kardan approached the trustees of the Debenture Holders to enter into

discussions to reach certain agreements with respect to the repayment. At the beginning of 2018 it became apparent that Kardan would not be able to meet the upcoming repayment obligations so the Company started discussions with the Debenture Holders with the aim to reach a new debt settlement. As of the date of this report these negotiations are still ongoing.



## Foreword of the Chairman



On behalf of the Board, I present herewith the 2017 annual report. The year 2017 was a very difficult year for Kardan. It has been a year in which the Company has made good progress in many areas of its operating businesses but it has also

been a year where we have been frustrated by a number of developments, including the impact of outside influences, in relation to our first and foremost priority; meeting our financial obligations.

Early in 2017, in order to meet its upcoming payment obligations for the repayment of debt due to its debenture holders in February 2018, the Company initiated the sale process of its growing Water infrastructure business Tahal Group International (Tahal). The Company pursued a competitive professional sale process and based on the progress during the year the Company was confident to be able to close a transaction in time. Despite all efforts, early in 2018 it became apparent that the Company would not be able to close the transaction in time to meet its repayment obligations, resulting in a situation of high uncertainty for Kardan and all of its stakeholders. Accordingly, we asked our debenture holders to enter into negotiations for a new debt settlement and these discussions are, as of the date of this report, ongoing. Knowing that management has made huge efforts to meet its repayment obligations, and has improved many aspects of its underlying operational performance, we acknowledge that we will require patience from our shareholders as we deal with uncertainty for a longer period than we anticipated.

We will continue to be as transparent as possible during this time in updating our stakeholders on our progress. Unfortunately, we cannot give any clarity on the outcome of the discussions with our debenture holders at this moment. Coming to a revised debt settlement is a complex and time-consuming process,

in which we need to assemble the views of the holders of two series of debentures who operate from different perspectives, while we as a Board are committed to serve the interests of all stakeholders. Reaching an agreement as soon as possible, allowing the Company to move forward with its business activities, is the most important task of the Board at this very moment. This is a process in which the non-executive Board members are fully supportive and engaged with our Executive team. In parallel, the process to sell Tahal is being continued full speed ahead.

I would like to thank the members of the Executive Management team for their extremely professional hard work and dedication to lead the Company in the right direction. I would also like to express my gratitude to all of our employees around the world for their efforts and commitment, who have not allowed themselves to get distracted in these difficult times, leading to positive operational results, further advancing the good prospects of both of our major activities. It should be noted that the Company's results have again been severely impacted by several external factors beyond the control of management. Adverse currency movements, in particular, affected our financial position at balance sheet date.

There were a number of changes in the Board in 2017. Mrs. Elly Seinstra completed her term at the AGM on 24 May 2017.

During the same AGM Messrs. Van den Bos, Grunfeld and Rechter were all reappointed, following the expiration of their statutory term of appointment.

I would like to welcome Mrs. Cecille Tall, who was appointed to the Board as non-executive Member at the EGM on 12 September 2017. In the new year, Mr. Marsman submitted his resignation following his taking up a new position that does not allow for any ancillary board positions. He stepped down from the Board with effect from 1 January 2018.

Mr. Max Groen resigned with effect from 1 February 2018, due to personal reasons, and in March 2018

Mr. Schnur agreed to the Board's request to step down in order to balance the number of independent

non-executive Board members. I would like to convey my appreciation to all of the former Board members for their contribution to the Company during their period of office.

The revised Dutch Corporate Governance Code and its impact on the governance of Kardan has been analyzed and where applicable changes have been implemented. In the revised code long term value creation is the main starting point. Obviously given the position in which the Company is currently, repayment of our debentures is our main focus. This forces us into a delicate balance between long term value creation and short-term obligations. In all our decisions, we take the best interest of all our stakeholders into consideration and take good corporate citizenship as an important guideline. And we will continue to do so.

I would like to conclude with expressing my gratitude to all our stakeholders for their trust, and that they may count on our determination to continue to serve all our stakeholders to the best of our abilities.

Peter Sheldon,

Chairman of the Board

# Letter of the Chief Executive Officer



Our real estate activities and water infrastructure activities both performed operationally positive in 2017.

However, monetizing assets to meet our debt repayment obligations was and is our highest priority.

The successful divestments done in 2016 allowed us to repay our February 2017 obligation ahead of time. In 2017 we managed to sell our 40.5% stake in Star Pumped Storage, well above book value. Furthermore, we initiated the sale process of Tahal at the beginning of 2017, while working hard to further advance Tahal's business perspectives at the same time. Despite an orderly sales process in which multiple parties engaged, it became clear, towards the end of the year that the sale of Tahal would possibly take more time than anticipated. In November 2017 we had to approach our debenture holders regarding the implications of this possible delay in the sale of Tahal on the timing of the upcoming repayments, and requested them to enter into negotiations in relation to rescheduling the payments.

Meanwhile we did everything within our ability to close a transaction at the right conditions as soon as possible. However in the beginning of 2018 it became evident that we would not be able to complete the sale of Tahal in a manner that would enable us to meet the February 2018 payments. Therefore in January 2018 we approached the debenture holders in order to negotiate a new debt settlement. In February 2018 we did not repay the scheduled payments to debenture holders. The negotiations with the bondholders are still ongoing and we are hopeful to come to an agreement soon. In parallel we continue our efforts to advance the transaction for the sale of Tahal.

Looking at our operations, the real estate activities in China, through our subsidiary KLC, are successful in

increasing footfall and creating a vibrant atmosphere in our flagship shopping mall Galleria Dalian. The sale of the residential C towers commenced with encouraging interest. This all contributes to the catchment area becoming more populated, which is ultimately an important driver for all KLC's activities in the area of Dalian.

Also our water infrastructure activities, through our subsidiary Tahal, performed well. Tahal won again many new multi-year projects, expanding its presence in Africa, Asia and Eastern Europe. In Africa the projects are mainly focused on agricultural developments whereas the projects in India and Eastern Europe are related to the construction of water supply and treatment systems.

The future is likely to continue to be challenging for Kardan. We continue to face the task of repaying a substantial amount of outstanding debentures. We also have to deal with the forex exposure risk they pose. Also our equity position was severely impacted by foreign currencies and turned, in combination with the loss in the period, negative as per year-end 2017. We are fully committed to meet our repayment obligations. To meet our obligations, we will continue to do the utmost to divest assets in a manner that will allow us to maximize value and proceeds and will strengthen our equity.

I want to thank all our stakeholders for their continued trust in our company. In every step we take, we have the interest of all of Kardan's stakeholders in mind, our shareholders, our bondholders, our employees, our suppliers and our customers and business partners. I wish to thank my colleagues throughout the Group companies, their hard work and full commitment is crucial in these challenging times.

Ariel Hasson,

Chief Executive Officer

# Shareholder Information

## Kardan shares

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

As at December 31, 2017 a total of 123,022,256 ordinary shares have been issued and are outstanding. Under the Dutch Supervision Act, shareholdings of 3% or more in any Dutch listed company must be disclosed by the relevant shareholders to the Dutch Authority for the Financial Markets (AFM). The following table presents the shareholders who have reported to the AFM or TASE<sup>1</sup> that they had an interest of 3% or more in the share capital of Kardan as at December 31, 2017.

DECEMBER 31, 2017  
A TOTAL OF  
**123,022,256**  
ORDINARY SHARES HAVE  
BEEN ISSUED AND ARE  
OUTSTANDING

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

(1) 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.

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

(3) The shares are held through Shamait Ltd., a company owned by Mr. Rechter and Mrs. Rechter.

(4) Messrs. Grunfeld, Schnur and Rechter have a voting agreement which represents approximately 37% of the votes.

(5) Mr. Grunfeld is in a receivership process from August 2015.

(6) Messrs. Grunfeld, Schnur and Rechter are (alone or together with others) the controlling shareholders in Kardan Yazamut (2011) Ltd. Kardan Yazamut (2011) Ltd. holds 100% of the shares in the share capital of Kardan Israel Ltd., which holds 10% of the shares in the Company.

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

## The Kardan share in 2017

	Euronext (EUR)	Tel Aviv (NIS)*
Highest share price	0.26	93.40
Lowest share price	0.11	44.10
Year-end	0.18	69.60

\* 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](http://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. Dividend pay-out may vary from year to year though. The Company reported a net loss of € 17.1 million over 2017. 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 2017. For further information regarding the commitments towards the Debenture Holders see Note 22 of the Financial Statements.

## Investor Relations

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

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

# Financial Review 2017

## Consolidated income statement Kardan N.V.

The 2017 consolidated income statement is shown in the table below in a condensed form.

€ in million	12M - 2017	12M - 2016
Total revenues	15.0	11.1
Total expenses	28.0	21.9
Loss from operations before fair value adjustments, disposal of assets and financial expenses	(13.0)	(4.2)
Gain (loss) from fair value adjustments and disposal of assets and investments, net	(3.3)	–
<b>Result from operations before finance expenses</b>	<b>(16.3)</b>	<b>(15.0)</b>
Financing income (expenses), net	(27.5)	(47.4)
Equity earnings, net	18.9	4.0
Profit (loss) before income tax	(24.9)	(58.4)
Income tax (expenses)/benefit	(5.2)	4.5
<b>Profit (loss) from continuing operations</b>	<b>(30.1)</b>	<b>(53.9)</b>
Profit from discontinued operations	12.7	22.6
Profit (Loss) for the period	(17.4)	(31.3)
Attributable to:		
Non-controlling interests	(0.3)	–
<b>Net result for equity holders</b>	<b>(17.1)</b>	<b>(31.3)</b>
	(17.4)	(31.3)
Other Comprehensive loss	(24.6)	(2.5)
<b>Total Comprehensive loss attributable to Kardan equity holders</b>	<b>(41.7)</b>	<b>(33.8)</b>

## Summary of net profit (loss) by activity

Net profit (loss) (€ in million)	2017	2016
Real Estate (development and investment property)	(14.6)	(15.2)
Water Infrastructure (discontinued operations)	13.1	0.9
Banking and Retail lending (discontinued operations)	–	21.6
Other	1.7	1.4
<b>Total Operations</b>	<b>0.2</b>	<b>8.7</b>
Holding (Corporate Finance and G&A)	(17.3)	(40.0)
<b>Total</b>	<b>(17.1)</b>	<b>(31.3)</b>

## Results analysis

Kardan recognized a consolidated net loss attributable to equity holders of € 17.1 million in 2017 compared to a net loss of € 31.3 million in 2016. The 2017 result includes a gain of € 7.1 million on the sale of Tahal's holding in Star Pumped Storage, while in 2016 the result included a € 15.2 million gain on the sale of TBIF.

The financing expenses in 2017 include a positive impact of € 7.2 million net due to the strengthening of the EUR versus the NIS and the change in Israeli CPI on the Company's debentures (2016: € 13.9 million negative).

The Real Estate activities showed an improvement in revenue from the delivery of units in Europark Dalian project to € 8.6 million in 2017 (2016: € 0.8 million). Galleria Dalian gradually further improved its rental revenues. This resulted in total revenues of the Real Estate activities of € 15.0 million in 2017, an increase compared to revenues of € 8.5 million in 2016.

Equity earnings from joint venture residential projects increased substantially to € 16.4 million (€ 2.4 million in 2016) as a result of the delivery of residential units and a significant increase in gross profitability.

The interest expenses primarily related to the Europark Dalian loan which heavily impacted the net results. Together with the revaluation losses of the investment property and high tax expenses as a result of release of a deferred tax asset, this resulted in a net loss of € 14.6 million for the Real Estate activities. The net loss in 2016 (€ 15.2 million) included a deferred tax benefit of € 4.9 million.

In the Water Infrastructure activities, the acceleration of new projects and the progress in existing projects were the key drivers of the 27% increase in revenue compared to 2016. Water Infrastructure contributed a net profit of € 13.1 million in 2017 (2016: € 0.9 million). In 2017 the Company signed approximately US\$ 600 million worth of contracts out of which US\$ 467 million will be added to the existing order backlog of US\$ 672.1 million upon fulfillment of conditions precedent, mainly related to financial closing.

As of Q1 2017, as a result of the process to sell the Company's holdings in Tahal (Kardan NV's water infrastructure subsidiary), this subsidiary is presented as Held-For-Sale, and its results as discontinued operations. Therefore the Company does not present the water infrastructure activities as a segment in its consolidated financial statements.

Avis Ukraine continued to show strong results and accordingly contributed a net profit of approximately € 2.4 million in 2017 (2016: €1.5 million).

Taking into account the direct equity impact of foreign currency translation differences and changes in the hedge reserves combined with the net result, the total comprehensive loss to Kardan NV's shareholders amounted to € 41.7 million in 2017 compared to a comprehensive loss of € 33.8 million in 2016. The other comprehensive loss was primarily a result of the impact of changes in foreign exchange rates, mainly the strengthening of the EUR vs the RMB.

## Financial position

### Equity

Kardan N.V. (company only, € in million)	December 31, 2017	December 31, 2016
Total Assets	380.0	409.7
Total Equity	(4.4)	37.3
Equity/Total assets (%)	(1.2%)	9.1%

The shareholders' equity of Kardan N.V. decreased from € 37.3 million as of December 31, 2016 to € 4.4 million negative as of December 31, 2017 mainly due to the loss of € 17.1 million in 2017 and the strengthening of the EUR versus the RMB, which resulted in a decrease in equity of € 23.6 million in the period.

### Interest bearing liabilities

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

Kardan has two series of debentures, amounting to € 284 million (excluding accrued interest) as at 31 December 2017. These debentures are payable in February of the years 2018-2020. Early 2018 it became evident that Kardan was not able to meet its February 2018 payment obligation. In January 2018 the Company approached the debenture holders in order to negotiate a new debt settlement. As of the date of this report, these negotiating are still ongoing.

In parallel the process to sell Tahal is being continued. 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 or that the discussions with the Debenture Holders will result in rescheduling of payments. These conditions indicate the existence of a material uncertainty which casts significant doubt regarding the Company's ability to continue as a going



concern and therefore it may be unable to realize its assets and repay its liabilities in the normal course of business.

#### Covenants

The Company's financial covenants as defined in the Deeds of Trust relate to the debt coverage ratio of the Company. A breach of this covenant was defined as non-compliance with the debt coverage ratio for two consecutive quarters. As at December 31, 2017, the Company does not meet the debt coverage ratio for the first time. Accordingly, as of December 31, 2017, the Company is not in breach of the aforesaid financial covenant. For additional information regarding the covenants see Note 25 to the consolidated financial statements.

As at December 31, 2017, all of the Company's subsidiaries met their financial covenants.

#### Cash flow forecast

The Company provides a cash flow forecast for a period of two years as of December 31, 2017:

It should be stressed that the payments to the Debenture Holders scheduled in February 2018 and specified in the cash flow forecast below were not paid on time, as announced by the Company on January 31, 2018. The Company, as aforementioned, is negotiating with the Debenture Holders in order to restructure the payment schedule. Since the terms of a debt settlement have not yet been agreed upon, the Company presents in the cash flow forecast below the dates of repayments to the Debenture Holders in accordance with its existing contractual obligations, without taking into consideration a debt settlement, if and when agreed (not including interest on arrears). Therefore, the Company emphasizes that the assumptions used by the Company in deriving the cash flow forecast should be read carefully.

Cash flow Forecast € in millions	January 1, 2018 - December 31, 2018	January 1, 2019 – December 31, 2019
<b>Cash and cash equivalents at the beginning of the period</b>	<b>7.1</b>	<b>5.8</b>
<b>From operating activities</b>		
General and administrative expenses	(3.6)	(3.6)
<b>From investing activities</b>		
Sale of shares and holdings in a subsidiary - negotiations for its sale have already begun (2) – (5)	98.0	–
Sale of shares and holdings in subsidiaries - negotiations for their sale have not yet begun (2)	12.0	27
Loan repayment and dividends (8)	6.0	–
<b>Total Resources</b>	<b>119.5</b>	<b>29.2</b>
<b>From financing activities (6) – (10)</b>		
Principal and interest payment of debentures – Series A	49.4	–
Principal and interest payment of debentures – Series B	64.3	109.0
<b>Total Uses</b>	<b>113.7</b>	<b>109.0</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>5.8</b>	<b>(79.8)</b>

### Main Assumptions to the Cash Flow Forecast

1. The cash flow forecast has been jointly prepared for Kardan NV (company-only) and its wholly owned subsidiaries GTC Real Estate Holding BV, Kardan Financial Services BV, and Emerging Investments XII BV, as the treasury of these companies is centralized. With respect to limitations regarding the transfer of funds between the companies, see note 12 below.
2. The cash flows from investing activities in 2018 and 2019 refer to the consideration from the expected sale of Tahal, taking into account the assumptions, comments and reservations detailed below, and to transactions in the other assets of the Company – KLC and Avis Ukraine. As of the date of this report, negotiations regarding the sale of the Company's holdings in Tahal are in an advanced stage. Negotiations regarding the sale of the Company's holdings in KLC and Avis Ukraine, an investment or the sale of any of their assets, have not yet begun.
3. In regards to the sale of the Company's holdings in Tahal –as of the date of this report the Company does not have accurate information regarding the net consideration which would be received from the transaction and which would be used for repayment to the Debenture Holders. As aforesaid, as of the date of this report, the negotiations regarding the sale of Tahal were not yet completed, and accordingly, it is not certain that a sale agreement will be signed, that the expected consideration will equal the consideration included in the cash flow forecast or the date on which the consideration would be received by the Company.
4. It is noted, that according to the negotiations for the sale of Tahal, the Company expects to receive the majority of the consideration upon completion of the sale transaction, if completed, and that it could be used to make payment to the Debenture Holders (assuming that there will be no other restrictions from making such payments). The remaining part of the consideration is expected to be deposited in escrow for a certain period to secure certain representations given by the Company. In the preparation of the cash flow forecast, it was assumed that all of the expected consideration from the sale of Tahal, could be used by the Company for the repayment to the Debenture Holders, however, as stated above, this is a mere assumption and there is no certainty that it would materialize.
5. 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 some of the transactions, and the need of potential buyers to reach agreements with financing parties in order to obtain funding for such acquisitions.
6. As detailed in the press release issued by the Company on November 23, 2017, the Company approached the trustees of the Debenture Holders ('the Trustees') requesting them to conduct negotiations in relation to rescheduling the payments to the Debenture Holders (series A and B) ('the Debenture Holders') due to reasonable possibility of delays in the sale process of Tahal which may prevent the Company from meeting the coming payment due in February 2018. On January 11, 2018, the Company announced it was unable to complete the sale transaction of its holdings in Tahal in a manner that will allow it to meet the payments to the Debenture Holders set for February 2018. On January 31, 2018, the Company issued an announcement clarifying and emphasizing that the Company will not be able to execute the payments to the Debenture Holders scheduled for February 2018, on time.
7. The cash flow forecast in respect to the debentures principal repayment is based on the payment schedule as stated in the Deeds of Trust, including linkage to the Israeli CPI and interest at the rate specified in the deed (without interest on arrears), including the principal and interest payment dates scheduled for February 2018, in light of the Company's inability to postpone the payment date as mentioned.

8. The cash flow forecast does not include interest on 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 Company approaching the Trustees as mentioned above, and as of the date of approval of this report, the Company does not have information regarding the date of actual payment to the Debenture Holders. Readers of the cash flow forecast should take these facts into consideration, with all that it might entail or imply.
9. In addition, the cash flow forecast does not include the balance payment to debenture holders series B as defined in article 43 to the Deed of Trust, as a result of the Company's request to negotiate a restructuring of the debt.
10. Loan repayment and dividends include the estimated dividend amounts that the Company could receive from Avis Ukraine as well as the release of €5 million deposit which is pledged to secure various representations made by the Company in respect to the sale of the subsidiary TBIF in 2016. According to the sale agreement the deposit would be released in August 2018.
11. The interest calculations are based on the Israeli CPI, exchange rates and interest rates which are applicable as of December 31, 2017, and as aforesaid, were calculated on the assumption that the total payments (including interest) were paid on time (an assumption that did not materialize). 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 EUR/NIS rate will lead to a change of approximately € 6 million in the amount of principal and interest payment in each of the years 2018 and 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 31.12.17	Intercompany loan (€ million) as of 31.12.17
GTC RE	169.4	4.8
KFS	7.9	–
Emerging	65.2	–

This estimate regarding the sources of cash in this forecast is forward looking information as defined in the Israeli Securities Act, based on management assumptions and expectations. The aforesaid may not materialize completely or part thereof, or materialize in a different manner, including materially different from what is expected as a result of market changes (including changes in foreign currencies and CPI), difficulties in raising credit, decrease in value of investments, changes in the transactions terms of the sale of Tahal, difficulties in reaching an agreement with the buyers of Tahal, delays or lack of completion of the conditions precedent to the sale transaction to the extent an agreement will be signed and change in cash amounts expected to be received from affiliated companies. The Company, being a holding company, is generating cash flows from its investee companies mainly through dividend distributions and repayments of shareholder loans or through the realization (in part or in full) of its stakes in the investee companies. The generation of such cash flows may at times be subject to factors which are out of the control of the Company (such as the need to obtain third parties consent, foreign currency exchange, market prices of assets, risk factors of the company and more). It may also be the case – as it is with the distribution of dividends – that such cash flows sources are dependent on resolutions to be taken by the relevant organs in those companies. For details regarding the risk factors which are relevant to the cash flow forecast, refer to sections 7.24, 8.18, 9.25 and 21 of part 1 of the 2017 Israeli Annual Report. Due attention should be given to the risk factors, which should be read together with the cash flow forecast. It should be noted that in case one or

more of the underlying assumptions upon which the cash flow forecast was based fail to materialize, it might result in the inability of the Company to fulfill its obligations in accordance with the Debt Settlement.

## Outlook 2018

The Company intends to continue the negotiations with the Debenture holders with the aim to come to an agreement soon, while continuing its efforts to advance the transaction for the sale of Tahal at the same time.

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

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



## Real Estate Division

TOTAL ASSETS

€ **502.6 million**

NUMBER OF PROJECTS

**5**

APARTMENTS SOLD IN 2017

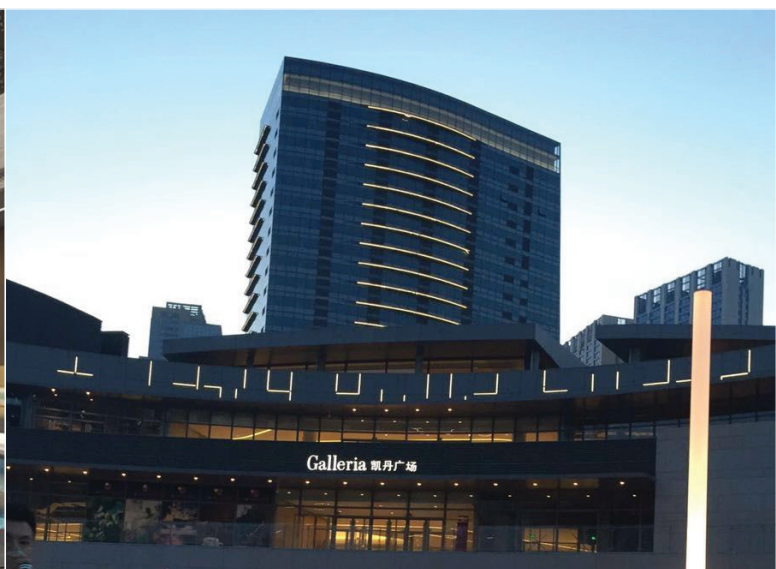
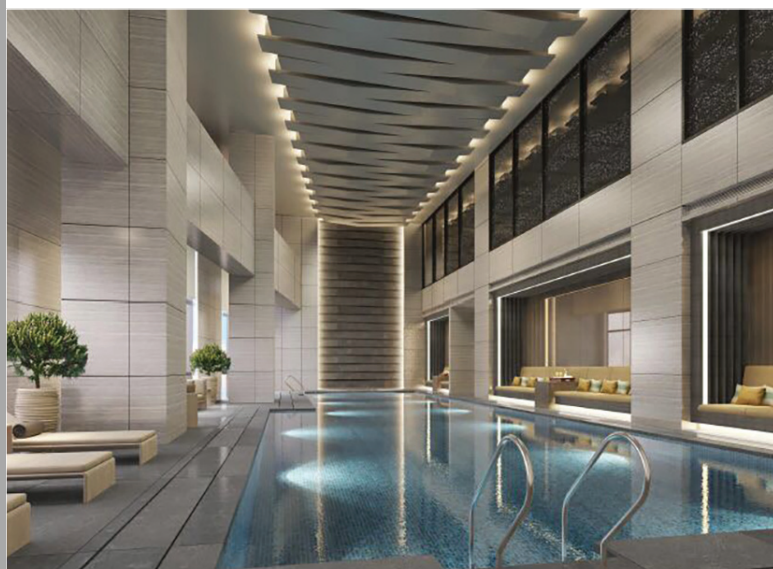
**1,232**

NUMBER OF PEOPLE

**155**

### Highlights

- Kardan N.V. operates in the Asian real estate sector through Kardan Land China (KLC).
- The focus of KLC is predominantly on the development of mixed-use projects, combining shopping centers under the Galleria branding with residential and small office apartments, like the current large project 'Europark' in Dalian.
- KLC is also active in asset management and is pursuing opportunities to develop this business by providing 3<sup>rd</sup> parties management services.
- In the residential market, KLC develops residential apartments, mostly with local partners, in the fast-growing Tier 2 and Tier 3 cities (Xi'an, Shenyang, Changzhou), tapping into the need for housing due to the urbanization.
- KLC has a strong track record in residential projects in China. It constructed in total 22,869 apartments, since it emerged, of which 21,391 were sold, and has rights and land to develop another 3,000 apartments.



## Real Estate

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KLC is also active in asset management and is pursuing opportunities to develop this business by providing 3rd parties management services.

In the residential market, KLC develops residential apartments, mostly with local partners, in the fast-growing Tier 2 and Tier 3 cities (Xi'an, Shenyang, Changzhou), tapping into the need for housing due to the urbanization.

KLC has a strong track record in residential projects in China. It constructed in total 22,869 apartments, since it emerged, of which 21,391 were sold, and has rights and land to develop another approximately 3,000 apartments. In addition KLC owns land in Palm Garden and 2 plots in Xi'an for further development.

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

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

Furthermore, KLC holds, operates and manages shopping center Galleria Dalian in Dalian, which was officially opened in August 2015.

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

### Market developments

Over the past 25 years, China has become the nation with the most accelerated economic growth rate in the world. Additionally, over the last 30 years, the Chinese economy has been undergoing a gradual process of change, from an economy controlled by the government to an economy that is more market oriented and more open to international markets. The Chinese governments aim to transform China into a country of innovators and in relation thereto accelerate efforts to improve the market economy. Also, the restriction of having a single child was lifted as of March 2016, and it now is permitted to have two children in China, a policy that may lead to an increase in local demand.

However, in recent years the growth rate has slowed down somewhat, which was seen in a decline in the growth rate from 10.3% in 2010 to 6.9% in 2017. As of 2017, China's economy comprised 15.9% of the gross world product, and maintained a total workforce of approximately 776 million people.

## **Residential construction market in China**

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

According to estimates, the ongoing process of Chinese urbanization is expected to bring about the creation of 170 million new city-dwellers during the period 2015 - 2025 – a trend that is expected to bring about an improvement in the residential real estate market.

During 2017 the prices of residential apartments in China rose by 5.5% in 70 of China's central cities (December 2017 compared with December 2016), whereas prices remained stable in the first tier cities (compared with the sharp increase in first tier cities in 2016). However, please note that such changes can vary significantly per city and hence local analyses should be made to understand the relevant pricing levels.

According to the National Bureau of Statistics of China, in 2017 real estate investment in China grew by 7.0%, as compared to the 6.9% increase in investment in 2016.

## **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 high priorities of the Chinese government policy, and this may have a positive impact on shopping centers. In 2017, a 10.2% increase in the retail sales of consumer goods was recorded, as well as an 9.0% increase in disposable income per capita, and an inflation of 1.6%.

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



## Operational developments Real Estate Asia

### Residential projects KLC

Units sold in the period	2017	2016
<i>Joint Venture projects*</i>		
Olympic Garden	688	593
Suzy	332	10
Palm Garden	47	88
City Dream	51	618
	1,118	1,309
<i>100% owned</i>		
Dalian	114	14
<b>Total</b>	<b>1,232</b>	<b>1,323</b>

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

	For the year ended December 31,	
	2017	2016
Operational Information		
Revenue Residential - JV (in € million) *	80.0	57.5
Gross profit Residential - JV (in € million) *	25	15.7
Apartments sold in period (a)	1,232	1,323
Apartments delivered in period (b)	1,397	1,417
Total apartments sold, not yet delivered (c)	1,703	2,114

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

(b) In 2017 42 apartments were delivered in the Dalian project compared to 4 apartments in 2016.

(c) KLC part in the gross profit from apartments sold is € 25.2 million as of 31 December 2017.

In 2017, KLC sold 1,118 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 114 SOHO units.

The percentage of unsold completed units in inventory (including the inventory of joint venture projects) decreased to 9% compared with 17% on December 31, 2016. The number of unsold units in inventory (including the inventory of joint venture projects) increased to 1,478 (vs 494 end of 2016), mainly as a result of new units of which construction started during the period.

The total order backlog value, which is yet to be recognized as revenue, was € 178 million as of December 31, 2017, compared to the total order backlog value € 196.8 million at December 31, 2016.

2017 was the second full year in operation for Galleria Dalian. All operational indicators continue to show a gradually increasing trend. The occupancy level rose to approximately 81% as of 31 December 2017 (31 December 2016 – 78%). Shopping mall Galleria Dalian integrates multiple aspects in its offering, including entertainment, food, children, sports and health, and fashion. In addition, Kardan Land China has entered into lease agreements with international fashion chains.

### Results analysis

In order to better reflect the underlying activities, the Company decided to present the results of the Real Estate activity as two operational segments: Real Estate - Development and Real Estate - Investment Property. As of December 31, 2017, the Real Estate - Investment Property segment only includes the results of operation of the Galleria Dalian shopping mall; the Real Estate - Development segment includes the results of the residential development of the Europark Dalian project as well as the results of residential real estate projects under joint control.

€ in millions	For the year ended December 31,	
	2017	2016
<b>Real Estate - Development</b>		
Sale of apartments	9.2	1.7
Cost of sales	(8.1)	(1.0)
<b>Gross Profit</b>	<b>1.1</b>	<b>0.7</b>
SG&A expenses	(3.1)	(1.6)
Gain from sale of fixed assets	0.8	–
Equity earnings	16.4	2.4
<b>Operational profit - Real Estate Development segment</b>	<b>15.2</b>	<b>1.5</b>
<b>Real Estate - investment Property</b>		
Rental revenues	5.8	6.8
Cost of rental revenues	(4.1)	(6.3)
<b>Gross Profit</b>	<b>1.7</b>	<b>0.5</b>
SG&A expenses	(4.9)	(4.1)
Adjustment to fair value (impairment) of investment property	(4.1)	(2.6)
<b>Operational loss - Real Estate Investment Property segment</b>	<b>(7.3)</b>	<b>(6.2)</b>
<b>Total operational profit (loss) - Real Estate</b>	<b>7.9</b>	<b>(4.7)</b>
Other unallocated expense	(2.7)	(3.2)
<b>Profit (loss) before finance expenses and income tax</b>	<b>5.2</b>	<b>(7.9)</b>
Finance expenses, net	(14.9)	(12.4)
Tax benefits (expenses)	(4.9)	5.1
<b>Loss for the period – attributed to Company's shareholders</b>	<b>(14.6)</b>	<b>(15.2)</b>

## Real Estate – Development

Real Estate Development relates to the residential projects of Europark Dalian and the joint venture residential projects. The Real Estate Development segment increased its result from operations significantly to € 15.2 million profit in 2017 compared with € 1.5 million profit in 2016 mainly due to the contribution of the joint venture activities.

Revenue from sale of apartments relates to the handover of apartments of the Europark Dalian project and management fees from joint ventures. During 2017 37 units were sold in Europark Dalian project building A, compared with 14 units in 2016. The sold units also include 8 units that were previously recorded as fixed assets and which were sold and delivered in Q2 2017, contributing a gain of € 0.8 million. As of December 31, 2017 only 17 unsold units remain in building A.

In the second half of the year, KLC started the sales of the new C tower of the Europark Dalian project. In 2017 77 apartments were sold.

SG&A showed an increase compared to the corresponding period in 2016, primarily due to marketing activities of the new C towers in Europark Dalian project.

'Equity earnings', comprises the result of the residential activities from joint venture projects, which contributed a profit of € 16.4 million in 2017 compared with a profit of € 2.4 million in 2016, as a result of an increase in revenues from delivery of apartments amounting to € 63.2 million in 2017 compared to € 57.5 million in 2016, and an improved gross margin.

## Real Estate – Investment Property

Total revenues of the Investment Property segment decreased from € 6.8 million in 2016 to € 5.8 million in 2017, mainly due to the decrease in revenues from management fees that reflects the expiry of the management contract of Galleria Chengdu on January 1, 2017. Rental revenues which were generated from Galleria Dalian shopping mall, remained stable in 2017 compared with 2016.

The gross profit of the Investment Property segment increased to 29% compared to 7% in 2016 mostly due to high start-up costs in 2016 related to the Galleria Dalian shopping mall which opened in August 2015.

SG&A showed an increase compared to the corresponding period in 2016, due to marketing activities of the food market in Galleria Dalian shopping mall.

The adjustment to fair value (impairment) of investment property relates to a negative revaluation of Galleria Dalian of € 4.1 million (2016: € 2.6 million negative) following a valuation report. This resulted in an operational loss of € 7.3 million for this segment.

## Real Estate - Total

The above resulted in an operational profit of the Real Estate operations of € 7.9 million in 2017 compared to € 4.7 million operational loss for the full year 2016.

Financing expenses, net, amounted to € 14.9 million, compared with € 12.4 million in 2016. The financing expenses mainly include interest expenses related to the Europark Dalian project loan. Financing expenses also included a negative impact of € 3.6 million due to the devaluation of the RMB and the USD versus the EUR, compared with a positive foreign exchange impact of € 0.4 million in 2016.

Income tax expenses of € 4.9 million in 2017 are mostly related to the release of deferred tax assets. In 2016 a deferred tax benefit of € 5.1 million was recognized on taxable losses.

Net loss of € 14.6 million in 2017 is mainly due to high financing expenses, the devaluation of the investment property and the tax expenses. The loss in 2016 (€ 15.2 million) included a deferred tax benefit of € 5.1 million.

Additional balance sheet information:

€ in millions	2017 (31.12)	2016 (31.12)
<b>Real Estate – Development</b>		
Share of investment in JVs	56.4	69.2
Inventory	116.4	101.5
<b>Real Estate – Investment Property</b>		
Investment Property	221.1	240.5
Cash & short term investments	37.0	33.5
Total Assets	502.6	518.2
Loans and Borrowings	115.1	111.2
Advance payments from buyers		
<b>(Real Estate – Development)</b>	61.2	50.0
Total Equity	270.1	302.5

Investment property solely represents Galleria Dalian shopping mall, the value of which decreased by approximately 8% compared to December 31, 2016, mainly due to the depreciation of the RMB versus the EUR and a negative fair value adjustment of € 4.1 million. 2016 was the first full year of operation of Galleria Dalian shopping mall.

'Loans and borrowings', predominantly relate to the use of a construction loan for Europark Dalian, for an amount of € 112.6 million as at 31 December, 2017. In October 2017 Kardan Land Dalian signed a credit facility of RMB 900 million (€ 115 million). The credit facility was primarily used to refinance the outstanding debt of the Ping An loan and to finance the additional funding requirement of Europark Dalian project. During Q4 KLC received the entire facility amount and the Ping An Loan was fully repaid.

The decrease in equity in the reporting year by 11% is attributable to foreign currency effect and the loss for the year.

## Risks

The real estate sector in China is a major factor in the economic development of the country. Whereas the government was forced to take measures to cool down specifically speculation on the real estate market in previous year, during 2015 it was deemed necessary to stimulate the market by cutting interest rates and initiating some other easing measures. Own home buyers had become increasingly cautious and hesitant in their buying behavior, while developers had not as yet adjusted their construction activities to a slower pace, resulting in substantial inventories.

Starting from October 2016, gradually over 40 cities announced different restrictive housing policies to moderate the continued rapid rise in housing prices.

KLC develops residential apartments for 'own use' buyers from the middle- to higher-middle-class. For

the majority of its residential real estate projects KLC cooperates in a 50/50 joint venture with a Chinese partner in order to spread its risks and to deal with the political gamesmanship optimally. KLC operates with its ear to the ground: construction of projects is phased according to demand in order to minimize the number of apartments in inventory.

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

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

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

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's total real estate activity and the results of said activity could be impacted.

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



## Water Infrastructure Division

TOTAL REVENUE

€ 176 million

GROSS MARGIN

13.4%

BACKLOG

US\$ 672 million

NUMBER OF PEOPLE

951

### Highlights

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



# Water Infrastructure

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

Tahal Group provides engineering design services, as well as supervision and erection of projects in the water resources and supply sector, water and sewage treatment, agriculture and rural development, environmental engineering, solid waste collection and treatment and the entire value chain of Natural Gas. In addition, Tahal Group is engaged in the maintenance and development of water assets, such as: water and waste water treatment plants and permits for the operation and maintenance of municipal water systems.

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

## Market developments

### Water market

The water market (water conveyance and supply, water and sewage treatment, and water and sewage networks) in developing countries is the long-standing sector of Tahal, in which it has material operations. The water market is a constantly growing market. The main factors influencing the increase in water demand are the rapid growth of the world's population, economic development – mainly in developing countries, climate change, an acceleration of urbanization processes, the industrialization and development of the agriculture production – mainly in developing markets, and the increase in the demand for water by the agricultural and industrial sectors. According to estimates, if investments in water infrastructure are not made, the global demand for water will surpass the supply of the water infrastructure by a rate of 40% in 2030. The method

of coping with the increasing demand for water varies between the different countries and regions in which Tahal operates. It is noted that in spite of global recognition of the challenges and risks stemming from the shortage of water, there is actually a delay in the creation of solutions for this problem, mainly in developing countries, which is the result of difficulties in achieving financing, the lack of infrastructure, and the need for coordination between countries.

### Agricultural development

An area in which Tahal increasingly operates is the planning and execution of projects concerning agricultural development and the operation of farms for growing agricultural crops and products. Some projects are agricultural only, some are combined projects that include water supply and agricultural infrastructures. The trends of population growth, the increase of food consumption per person, the decrease in poverty and the expected continuation of these trends, mainly in developing markets, are the main factors for the increase in food demand. As of December 2017, the world's population was estimated at 7.6 billion people. According to some estimates, by 2050 the world's population is expected to exceed 9 billion people. The main increase is expected to happen in developing countries. The increase in food demand requires an increase in agricultural production and the development of projects that serve the relevant demands. Moreover, climate change stemming from global warming is causing changes in the global agricultural map. Adjusting to these changes requires addition investment, mainly in irrigation segments.

According to estimates, in order to supply the increasing demand for food arising from the growth of the population, by the year 2050 an increase of almost 50% in agricultural produce will be required compared to 2012. This requires technological developments and improvements (for example, irrigation, fertilization, pest control and genetics) machinery, increased knowledge, building capabilities and improved



management methods are required - segments in which Tahal has vast accumulated know-how and experience. Moreover, irrigation will become very significant in the development of agriculture. In order to promote agricultural development, governments of developing countries are required to increase investment in infrastructures (water, irrigation, industry, and innovation) in order to increase the productivity of the agriculture industry.

### **Operational developments**

#### **Africa**

During 2016, Tahal completed the construction and delivery of the Quiminha Project, where it was assigned by the government of Angola to provide a full range of services to make the land suitable for agricultural use and to build the infrastructure for full communal and commercial services for the farmers and inhabitants. As of the reporting date, a company owned by Tahal and additional third parties (by means of a company it jointly owns with a third party) is responsible for the management and operation of the Quiminha Project. The agreement is for a period of 7 years, with an extension option for an additional 5 years. Tahal and ZRB will operate and manage this agricultural project of 5,000 ha which includes 300 private farms, thousands of acres of crops, grains, vegetables and fruits in open areas and in green houses and chicken coops. The Project furthermore comprises water infrastructure and water treatment, irrigation, and various facilities in relation to crops, live-stock and the distribution of products.

Furthermore in August 2017 Tahal has signed, together with its 50% partner in Angola and Zambia, a US\$ 176 million contract for a multipurpose agricultural and water project in Zambia and three agricultural projects in Angola, totaling US\$ 291 million. According to these contracts, the companies that engaged in the execution of the projects will commence the works once (and if) the conditions precedent are fulfilled. Tahal regards the activity in

Angola as having great potential for long-term projects.

These new large agricultural projects clearly strengthen the international positioning of Tahal in this sector.

#### **India**

In India Tahal was awarded five projects in 2017 totaling approximately € 116 million. These agreements include two Turn-key water infrastructure design-build projects in the city of Nirsa in India. These projects consist of survey and planning services, as well as the construction of water supply and treatment systems. Tahal was also awarded another Turn-key water infrastructure design-build project in the Indian city Nagercoil. This project consists of the construction of water supply and treatment systems, water pumping stations and various operational facilities.

#### **Central and Eastern Europe**

In 2017, Tahal continued to promote the projects in accordance with the agreements signed in 2016 with the Bucharest Municipality for the renovation of part of the central drainage and sewage system of the city and an agreement with the water company of the city of Piatra Neamt and the surrounding areas thereof to consult in the preparation of water infrastructure projects for tenders which will comply with the criteria of funding from the European Union. Furthermore, as at the date of this report, Tahal is carrying out several small planning and management projects in Romania, the implementation of which started several years ago, the majority of which are due to be completed during 2018. In November 2017 Tahal was awarded its first water infrastructure project in Georgia for a total amount of approximately US\$ 26.3 million (€ 22.2 million). The project consists of the construction of sewerage systems in Poti, Georgia.

At year-end 2017, Tahal had 951 employees compared to 889 employees as of 31 December 2016.

## Key figures Water Infrastructure

€ in millions	For the year ended December 31	
	2017	2016
Contract revenues	176.4	138.5*
Contract cost	152.8	117.4*
<i>Gross profit</i>	23.6	21.1
SG&A expenses	(12.9)	(14.2)
Equity losses	(1.1)	(1.1)
Gain (loss) on disposal of assets and other income	7.8	0.5
<b>Result from operations before financing expenses</b>	<b>17.4</b>	<b>6.3</b>
Financing income (expenses), net	0.4	(1.9)
Income tax expenses	(5.0)	(3.4)
<b>Profit from continuing operations</b>	<b>12.8</b>	<b>1.0</b>
Loss from discontinued operations - KWIG	–	(0.1)
<b>Net profit</b>	<b>12.8</b>	<b>0.9</b>
Attributable to:		
Non-controlling interest holders	(0.3)	–
<b>Equity holders (Kardan N.V.)</b>	<b>13.1</b>	<b>0.9</b>

\* TGI reclassified its 2016 contract revenue and cost in relation to accounting treatment of landfill levies. The reclassification did not impact the reported net results

## Results analysis

Tahal operations contributed a total profit of € 13.1 million attributable to equity holders in 2017, including a net gain of € 7.1 million on the sale of Star Pumped Storage, compared with € 0.9 million in 2016. During 2017 water infrastructure activities reported a net profit of € 12.8 million compared to a net profit of € 1.0 in 2016.

Revenues increased to € 176.4 million in 2017 compared to € 138.5 million in 2016 as a result of the start of new projects as well as progress in the execution of existing projects.

The gross margin decreased from 15.2% in 2016 to 13.4% in 2017 due to high costs of the new agricultural project Quiminha in Angola, a long-term

large scale agricultural project which commenced at the end of 2016. This was partially offset by a ramp-up in other projects.

Financing income (expenses) amounted to € 0.4 million positive in 2017 compared to € 1.9 million negative in 2016 mostly due to exchange rates.

The increase in income tax expenses from € 3.4 million in 2016 to € 5.0 million in 2017 is mainly related to a tax provision recognized due to a tax assessment in respect of prior years and tax expenses related to the sale of Star Pumped Storage offset by a deferred tax in Angola.

In December 2017 the sale of the holding of Tahal (40.5%) in Star Pumped Storage to Noy Fund was completed. Proceeds from the sale amounted to NIS

81 million (€ 19 million) and Tahal recognized a profit of approximately € 8.4 million (before tax).

#### Additional information

€ in millions	2017 (31.12)	2016 (31.12)
<i>Balance sheet (in € million)</i>		
Cash & short term investments	9.3	19.2
Total Assets	183.4	159.7
Net debt	(13.2)	(3.1)
Equity	50.9	43.7
Equity / Assets	27.7%	27.4%
<i>Other (in US\$ million)</i>		
Backlog	672	606

Upon fulfillment of the conditions precedent, mainly related to financial closing, US\$ 467 million will be added to the existing order backlog of US\$ 672.1 million as of December 31, 2017 (December 31 2016: US\$ 606 million).

## Risks

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

Tahal is occasionally required to include a proposal for project financing by third parties in its tender offer. This entails finding a commercial financial institution to provide a loan to the customer for financing a project. In such cases, the effective start of such a loan agreement is usually a precondition for the start of the project. Consequently, as it has become more difficult to attract funding in the past years, this may

negatively impact the ability to close a new project or delay the tender process significantly. Tahal has significant experience in facilitating finance for a project and considers this risk element to be part of the project scope.

The 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 Group, the cancellation of agreements for the execution of projects that Tahal has committed to carry out and the delay in receiving compensation for the aforementioned projects. In order to spread its risks, Tahal aims to tender for projects in its core focal areas in diverse geographical markets. At present, Tahal has many such tenders outstanding.

Infrastructure construction and development projects are by nature subject to various performance risks, including the inability to complete the project within the timeframe, budget, guidelines and standards established in the specific agreement. In addition, projects may be delayed as a result of statutory reasons (such as delays in obtaining various permits and licenses, the release of goods from customs, and making the site available for the project). A lot of attention is dedicated to continuous improvement of project management in order to minimize risks. However, risks do occur and at times cannot be avoided.

Many of Tahal'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

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

# Risk Management

## Kardan's business strategy inherently comprises risks

Kardan's operating subsidiaries are active predominantly in emerging markets. Hence we are inherently exposed to a relatively high degree of entrepreneurial, geopolitical, financial and legal risks in these markets which, by nature, have a different risk profile than developed markets. The global financial crisis of 2008 and the ensuing sovereign debt crisis negatively impacted the results of Kardan. As a result, the repayment of our two outstanding Debentures – which were issued in 2007 and 2008 by Kardan and are listed on the Tel Aviv Stock Exchange only – became all the more challenging. The current business strategy of Kardan is therefore fully focused on repaying our liabilities as agreed in the Debentures' Amended Deeds of Trust. This entails generating cash by means of selling assets or attracting partners in projects whilst simultaneously continuing to focus on further improving our subsidiaries' results and therefore value. The Company is in the process of selling its holdings in Tahal but in the beginning of 2018 it became clear that the sale would not be completed in time to meet the February 2018 repayments to the debenture holders. Therefore, the Company approached the debenture holders and started to negotiate a new debt settlement. As of the date of this report, these negotiations are still ongoing.

## Our risk management approach

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

Risk management is, clearly, an integral part of our daily management responsibility. In order to ensure adequate knowledge and understanding of our local

business environments, and thus to minimize risks, our management teams in all the markets in which we are active consist of local and international members.

We have a transparent and structured management information system in place, based on monthly management reports submitted and presented by the subsidiaries to enable sound analyses and decisions. Kardan is listed on both Euronext Amsterdam and the Tel Aviv Stock Exchange. Our governance structures are therefore solid and, given our dual listing, we are obliged to publicly report on the quarterly results of the Group. As a result, this means – among other things – that Executive Management discusses strategic, operational and budgetary issues with the management and boards of our subsidiaries at least on a quarterly basis. We refer to the Corporate Governance Statement 2017 which can be found on the corporate site, [www.kardan.nl](http://www.kardan.nl).

## Our risk management framework and processes

Our risk management framework was originally based on the principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and has since been updated to incorporate the updates to the COSO frameworks. In 2017 our risk management process was further updated to incorporate the principles of the revised Dutch Corporate Governance Code to secure alignment with best practices, while remaining fit for purpose for Kardan.

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

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

In 2017 the Board decided to rotate the appointment of the external advisory firm providing internal audit services at Kardan level, and engaged a new advisor for these services. As a starting point, the advisor has performed a risk assessment and prepared an internal audit plan for a period of three years.

Internal audits at the operational subsidiaries' level were performed ongoing, and no significant shortcomings were detected during 2017. Besides complying with Dutch Securities Law regulations, Kardan also complies with Israel's Securities Law

regulations relating to the effectiveness of internal control over financial reporting and disclosure (Israeli SOX). During the year under review all steps have been taken to be able to provide a declaration regarding the effectiveness of the internal control as referred to previously. Based upon the work performed, the CEO and the CFO of Kardan N.V. have made a statement in the Israeli Annual Report that as per December 31, 2017 the control over financial reporting and disclosure is effective (the Control Statement) and the Group's external auditors audit the effectiveness of the above mentioned internal controls over financial reporting and disclosure. On top of this, Kardan's (main) subsidiaries provide Kardan with a representation letter on a yearly basis.

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

## Main risk categories and measures

During the Executive Management's annual risk management assessment all Kardan's risk categories are assessed on the likelihood of a certain risk occurring, the impact this risk could have on the objectives and results of Kardan and possible additional measures to be taken. As a result of a combination of factors, including risk control measures taken by the Group's management, the changed circumstances in the markets in which we operate and the financial situation of Kardan, the main risk categories are determined. The composition of the main risks may therefore vary year by year. Overall, Management concluded that the composition of the main risks the Company faces had not changed significantly in 2017. However, the risk of capital availability, and more specifically the risk of not being able to timely repay the debt, significantly increased in likelihood, and ultimately materialized in February 2018 as described before. This has been a key priority for Executive Management and the Board of Kardan throughout the year.

The ten most important risk categories (per type of risk and in alphabetical order) that Kardan currently faces are presented below, as well as the risk appetite, and the related measures in place to control these risks. Also the impact and likelihood of each risk category is presented. Reference is also made to the financial risks, as described in the 2017 Statutory Financial Statements. We note that there are other risks that were assessed as having a less significant potential impact on the business. Any significant new or changed risk exposure identified during the year is brought to the 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 or repayment of shareholder loans, as well as through the sale of assets. As a result, capital availability – both in terms of equity and debt – is challenging for the Kardan Group as a whole. We are therefore exposed to the risk that insufficient access to capital may threaten our capacity to achieve our objectives, as well as to grow and generate future financial returns.

#### Risk Appetite:

Given our debenture debt, cash management is critical to our continuity. We cannot tolerate deficiencies in financing interest and capital repayments.

*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. As described before, Kardan was unable to timely repay our debt in February 2018. Executive Management and the Board are focused on managing the potential impact by negotiating a new debt settlement. There is however no certainty whether Executive Management and the Board will succeed in these efforts.

In line with our financial strategy, our operating companies are largely responsible for their own funding. Cash flow forecasts are made on a regular basis and discussed within the subsidiaries and with Kardan's Executive Management and Board, enabling us to control the cash situation optimally and to be able to make sound decisions.

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

### Concentration

Our real estate activities are concentrated in China. Our water project activities are spread more globally; mainly in emerging and frontier markets, with some large projects in CEE and Africa. At the end of 2016, our water infrastructure company Tahal signed a large 7-years contract in Angola, which doubled its backlog and hence increased the dependence on one project significantly. During 2017, Tahal further continued expanding its operations in Africa and signed additional large projects in Zambia and Angola. Consequently, the Kardan Group is specifically exposed to these regions and markets, their economic developments and, in some instances, the extent to which government policy affects the operations of local subsidiaries. The fact that the Kardan Group – in line with our strategy – has business activities across



different sectors in different (locations in) emerging markets mitigates the above-mentioned risks to a certain extent. We do note, however, that our real estate activities are characterized by long-term investments and commitments, and as such make us less flexible in adapting our profile at short notice to changing market conditions.

#### **Risk Appetite:**

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

*Impact: High*

*Likelihood: Almost Certain*

#### **Measures:**

Our real estate activities in China are spread over various Tier 2 cities, all carefully selected and reflecting their growth potential which is generally higher than the country average. Moreover, we are active in both the residential and the commercial retail real estate sector which diversifies our risk further. Our water infrastructure company Tahal aims to attract additional projects worldwide in its identified emerging growth markets, which include EPC projects in the fields of water, agriculture, solid waste, environment and natural gas. This could shift the geographical spread of our operational activities gradually, which, to some extent, occurred in 2017 following the award of new projects in India, albeit that – given the sector differences – this will not affect the value allocation of our portfolio on our balance sheet. Further, all new large projects in Africa are setup with a 50% partnership. We closely monitor risks related to the specific markets and segments we operate in and discuss these risks at length in the Board meetings in order to be able to make solidly based decisions.

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

#### **Customer needs and Competition**

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

#### **Risk Appetite:**

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

*Impact: High*

*Likelihood: Probable*

#### **Measures:**

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

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

#### **Partnering**

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



execution of agreements or failing to capitalize on partnering opportunities.

#### **Risk Appetite:**

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

*Impact: Medium*

*Likelihood: Probable*

#### **Measures:**

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

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

#### **Sovereign/political**

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

#### **Risk Appetite:**

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

*Impact: High*

*Likelihood: Highly Probable*

#### **Measures:**

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

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

### **Operational Risks**

#### **Budget and Planning**

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

#### **Risk Appetite:**

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

*Impact: High*

*Likelihood: Probable*

**Measures:**

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

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

**Project Management**

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

**Risk Appetite:**

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

*Impact: High*

*Likelihood: Probable*

**Measures:**

Kardan's operating companies are involved in many projects, of varying sizes and complexity, and in many different markets and each operates according to a

specific growth strategy. In order to achieve their objectives and goals, it is considered essential to provide the relevant staff with appropriate project management training, including modules on management, operations, commerce and budget control among others. In addition, project reporting, on financial and non-financial aspects, has been implemented in the management information systems of the relevant Group companies.

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

**Financial Risks****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, which are largely beyond our control. These fluctuations may materially affect the financial status of Kardan as the Company reports in EUR, whereas it has NIS denominated debts and most of its assets are denominated in Chinese RMB.

**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: Almost Certain*

#### Measures:

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

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

## Compliance Risks

### Fraud and illegal acts

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

#### Risk Appetite:

Having a decentral organization in emerging markets we are exposed to the risk of fraud and illegal acts but

have a low tolerance to any deviations from our Code of Conduct.

*Impact: Medium*

*Likelihood: Probable*

#### Measures:

Our Code of Conduct provides guidance to all employees on ethical behavior with the aim of preventing fraud and illegal acts and is circulated throughout the Kardan Group annually. We have also embedded relevant policies and procedures, such as authorization schemes and segregation of duties, as much as possible in the daily operations in order to provide checks and balances for our activities, as well as a whistleblower policy. Moreover, in some of our operations 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.

*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*

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**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.

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

- 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 2017, 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.

### **In-Control Statement of the Board (2017)**

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 2017 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 2017, Management and the Board continued their efforts to sell the holdings in Tahal Group International B.V. in order to repay its obligations when they would fall due in February 2018. Unfortunately, in the beginning of 2018 it became evident that the sale would not be timely closed. 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

# Corporate and Social Responsibility

## Focused on delivering sustainable solutions

Kardan incorporated Corporate and Social Responsibility (CSR) in its Group strategy and its subsidiaries. Kardan focuses on emerging markets; economies characterized by a high growth rate. Economic development in emerging markets frequently comes at the expense of the environment. As populations grow, there is an increasing need for food, water and energy and this frequently leads to significant pollution. Moreover, urbanization and industrialization have an exacerbating effect on the environment and climate. Kardan focuses on business opportunities arising in emerging markets economies, by also addressing global challenges resulting from the growth rate in these regions. As such, Kardan turns environmental and social challenges into business opportunities, and Corporate and Social Responsibility as an integral part Kardan's overall strategy and a core value of the Group as a whole. CSR is also integrated in our (risk) management framework. Kardan is committed to observing environmental standards in all countries in which the group operates. Kardan strives to minimize the negative impact of its business on the environment and attaches importance to durable innovative measures which lower total costs and raise flexibility, whilst simultaneously relieving the pressure on the environment.

All our activities have incorporated CSR principles and progressively aim to contribute to a more sustainable future. Our water infrastructure activities specifically focus on providing access to potable water and, increasingly, on agricultural projects, such as design and installation of water irrigation systems, to bring sustainable solutions to mainly emerging countries. In our real estate activities, we aim to combine our tangible high-quality real estate assets with 'intangible values' in environmental aspects. Next to using sustainable materials and incorporating sustainability measures in the design and construction of properties, this also includes contributing to a healthy living environment, safety, providing facilities for disabled

people, and encouraging a sustainable way of using properties.

## Implementing CSR

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

## Being a good corporate citizen

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

### Human rights

Respect for human rights is embedded 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 a defined set of 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, upon which an investigation should be executed.

### Anti-bribery

Kardan strives to deal with all of its customers, suppliers and government agencies in a straightforward and aboveboard manner and in strict compliance with any legal requirements. Employees are prohibited from paying any bribe, kick-back or



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

For instance, Tahal employees are informed and trained about anti-corruption policies and procedures, including on line training for all 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.

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

### **Being a good employer**

Kardan aims to attract and retain people, develop human capital and grow the talent potential of its employees. Kardan is a decentralized organization with majority owned subsidiaries that operate fairly

autonomously in many different countries. Given this international character and our practice to 'be global but to act local', Kardan pursues a diverse workforce, meaning an inclusive approach for people of various genders, ages, and cultural backgrounds. The decentralized and broadly diversified organization, both in terms of activities as geographies, requires specific/tailored personnel policies for its individual businesses. Kardan therefore does not have a centralized personnel policy in place. Nevertheless, there is one key common denominator; throughout the Group; we consider our employees as fundamental to our success. In order to be able to attract and retain highly competent personnel, Kardan puts a lot of effort in being an attractive employer by providing international career and talent development opportunities. Over 75% of all employees receive regular performance and career development reviews. More than 90% of the employees are employed under a permanent contract.

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

### **Employees in numbers**

At year-end 2017, the number of people employed by Kardan Group totaled 1,118 compared to 1,055 employees as of December 31, 2016. The increase in the number of employees took entirely place at Tahal. Given the envisaged sale of Tahal, the Company foresees a significant reduction in the number of staff for the Kardan Group in 2018.

**Number of employees as of December 31, 2017 \***

	Kardan holding	Real Estate	Water Infrastructure	Total
Europe (mainly Russia)	12		58	70
China		155		155
Israel			359	359
Other countries in Asia (mainly India)			180	180
Africa (mainly Angola)			354	354
<b>Total</b>				<b>1,118</b>

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

**Kardan Holding**

As at December 31, 2017, 12 people worked for Kardan Holding (year-end 2016: 16 people), in a ratio of 75% female and 25% male staff members. The absence rate during the calendar year 2017 was 5.8% (2016: 2%).

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

**Real estate**

As of December 31, 2017, KLC employed 155 people (150 as of December 31, 2016), excluding employees of the joint venture operations. KLC has 42% female staff members and 58% male staff members. The absence rate amounted to around 5% (2016: 2%).

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 2017, some 10% of total staff was promoted to more senior positions compared to 7% in 2016. Moreover, KLC recognizes that retaining people is important, many social events are organized during the year, ranging

from in-house parties to sport and cultural events in the outdoors. KLC is dedicated to providing an inspiring working environment for its employees.

**Water infrastructure**

As of December 31, 2017, Tahal employed 951 people (2016: 889). This increase is explained by the large new projects in Angola and India. 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 12 hours per employee in 2017, and another 12 hours per employee was spent on average on programs for developing employee skills. Furthermore, Tahal organized several social events for its staff to nurture corporate cohesion, in both HQ and local branches and projects.

Tahal has 31% female staff members and 69% male staff members. At its office in Israel, Tahal had an equal balance between male and female staff in 2017, whilst the project companies still have more males than females. The diversity in terms of nationality and background, particularly in the project companies, is high.

For Tahal staff, health and safety training programs are implemented, to assure a safe working environment in its worldwide offices and project sites. Tahal's quality assurance system is certified in compliance with ISO 9001:2008, and its environmental and occupational health & safety management systems are certified in compliance with ISO 14001:2004 and OHSAS 18001:2007. Tahal's employees are going through annual health & safety training, and emergency and evacuation drills are being conducted according to an authorized safety plan.

### Local employment

It is also the Group's strategy to attract and incorporate mainly local employees in its various local organizations. With the development of our organizations and through establishing new project locations, the Group creates positions for mainly local professionals, which we deem important as this ameliorates our insights into customers' requirements and market opportunities. There are many examples of how Tahal for example has created job opportunities for local professionals during a project, but also of how these projects – once finished – have led to more permanent positions. Many projects – such as the agricultural Quiminha project in Angola – generally inherently bring about employment. On occasion, therefore, Tahal also facilitates training as part of the project to ensure proper usage after transfer.

### Contributing to a more sustainable world

In our real estate activities we realize 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 will be operated according to the LEED (Leadership in Energy & Environmental Design) standard.

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

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

Being environmentally aware and responsible is a corporate value of Tahal. Most of the communication with subsidiaries and customers is therefore conducted by means of conference calls in order to reduce unnecessary travel and a number of other energy saving measures (e.g. car-pooling and combined

transportation, shared printer use, double-sided printing as default, using recyclable and recycled paper, specific waste separation policies etc.) has been implemented at Tahal. Tahal is moving to a greener car fleet of its headquarters' staff, with fuel-efficient hybrid cars representing 12% as per year-end 2017, which will increase to 30% in 2018. As a result, fuel consumption decreased by 15% in 2017.

To boost energy saving, light bulbs in public areas were replaced by energy efficient LED lighting, hot water saving devices were installed, air conditioning systems are set in energy saving modus and the company's relatively small car fleet is gradually being replaced by one with more economical fuel use and improved gas emissions. The entire air-conditioning system in the HQ building is automatically shut down each day after business hours and automatically turned back on in the morning.

All efforts resulted in a decrease in energy consumption by 14% in 2017.

# Governance and Compliance

## Introduction

Kardan is managed by a one-tier board, which per 31 December 2017 consisted of one executive Board Member, the CEO, and eight non-executive Board Members. The Board reports to the General Meeting of Shareholders of Kardan. The Board as a whole bears the ultimate responsibility for the management of Kardan, whilst the responsibility for the day-to-day management is assigned to the Chief Executive Officer (CEO) of Kardan jointly with Executive Management, based on a limited power of attorney provided by the Board. During 2017, the Executive Management consisted of the CEO and the CFO. The CFO joins the meetings of the Board on a regular basis. The day-to-day management is supervised by, and may be subject to prior approval of, the Board in accordance with the [Articles](#) and the [Board Regulations](#) of Kardan as set out in the [Corporate Governance Statement 2017](#).

## Corporate Governance Statement

Pursuant to the Dutch governmental Decree of December 23, 2004, in which further instructions concerning the content of the annual report were established (*Besluit inhoud bestuursverslag; the 'Decree'*), listed companies may provide certain information in a Corporate Governance Statement instead of in the annual report. Such information pertains to:

(i) the extent and manner of implementation of the Code (see [www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl)), (ii) the main characteristics of the risk management and internal control systems connected with Kardan's financial reporting process, (iii) the functioning of the General Meeting of Shareholders, (iv) the composition and functioning of the Board, (v) the diversity policy of the Board and (vi) the statement in light of Article 10 of the European Takeover Directive. Kardan's [Corporate Governance Statement 2017](#) is available on its website and forms an integral part of this Annual Report.

## Board

### Composition, Mutations and Reappointment schedule

During most of 2017, the Board was comprised of nine Members, eight non-executive Members and one executive Member, being the CEO. Mrs. Seinstra resigned from the Board per 24 May 2017 and Mrs. Tall was appointed to the Board as non-executive Member at the EGM on 12 September 2017. At the AGM the statutory term of appointment of Messrs. Bos, Grunfeld and Rechter ended. All were reappointed on the same occasion. Mr. Marsman submitted his resignation effectively per 1 January 2018, Mr. Groen resigned per 1 February 2018 and finally Mr. Schnur stepped down on 21 March 2018.



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

Name	Committee	Date of birth	Nationality	Status	Date of first appointment	End of current term
Mr. P. Sheldon (Chairman)	Audit RAS*	1941	British/ Israeli	Non-executive Independent	31 May 2012	AGM 2020
Mr. C. van den Bos (Vice-Chairman)	Audit (chairman)	1952	Dutch	Non-executive Independent	6 February 2013	AGM 2021
Mr. Y. Grunfeld		1942	Israeli	Non-executive Non-independent	6 February 2013	AGM 2021
Mr. A. Hasson (CEO)		1973	Israeli	Executive	26 May 2016	AGM 2021
Mr. E. Rechter		1949	Israeli	Non-executive Non-independent	6 February 2013	AGM 2021
Mrs. Y.C.M. Tall	RAS* (Chairwoman)	1967	French	Non-executive Independent	4 May 2017	AGM 2021
Appointments ended in 2017 and 2018**						
Mrs. M. Seinstra	RAS* (Chairwoman)	1951	Dutch	Non-executive Independent	6 February 2013	AGM 2017
Mr. B. Marsman	Audit RAS*	1974	Dutch	Non-executive Independent	25 August 2015	Resigned effective per 1 January 2018
Mr. M. Groen		1946	Dutch	Non-executive Independent	12 December 2016	Resigned per 1 February 2018
Mr. A.A. Schnur		1948	Israeli	Non-executive Non-independent	31 May 2012	Stepped down per 21 March 2018

\* Remuneration, Appointment and Selection Committee.

\*\* Until the date of the Annual Report 2017.

## Board Meetings

The Board meets at least once every quarter, principally at Kardan's headquarters in Amsterdam or, where necessary, by conference call. In 2017, the Board met 12 times. All Board Members attended all Board meetings, except Mr. Grunfeld and Mr. Rechter, who attended respectively 92% and 83% of the Board Meetings. Resolutions of the Board are generally adopted by an absolute majority of the votes cast as defined in the Articles, except for extraordinary transactions, in which case resolutions made by the Board are adopted by a special Board majority. Each Board Member has one vote, except in the event of a conflict of interest, in which case the respective Board Member can neither participate in the relevant discussions nor vote on the subject matter. When deemed necessary, the Board consulted outside experts for advice and invited them to attend Board meetings.

During 2017, the Board extensively discussed the Company's strategy, objectives, financial position, financial forecasts, results and cash flow projections. In addition, cash-generating options and the Company's ability to service its debts, particularly in light of the Company's repayment obligations towards its Debenture Holders, were discussed frequently. Kardan Group's main focus in 2017 was to generate cash through the sale of assets and the restructuring of debt in order to meet the Company's payment obligations and those of its subsidiaries. The CEO updated the Board frequently on the progress of various processes such as the sale of Tahal Group International BV and other options to generate cash as well as the impact of the timing of these processes on the repayment schedule.

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

Once every year, the Board is given a presentation on the main risks for the Kardan Group and the Executive Management's conclusions after a structured process is conducted on how these risks are being – or should be – managed. The Board was informed that continuous follow-up takes place by management and that, as far as possible, control measures of major risks are linked to the Company's strategy. As part of risk management, the Board discusses Health and Safety issues within the Kardan Group.

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

## Board evaluation

As part of a self-assessment process, the Board Members submitted an extensive questionnaire to the RAS Committee in 2017. The RAS Committee distilled the main conclusions from the submitted questionnaires and shared them with the entire Board. Where required, follow-up is given to the items discussed. In addition, during the year the Chairman conducted bilateral meetings with all individual members of the Board.

## Board Committees

The Board has established an Audit Committee and a RAS Committee, comprising only non-executive independent Board Members, without in any way derogating from the primary responsibilities of the Board as a whole. The respective chairmen of these committees report on their activities periodically to the entire Board. Both committees are subject to specific regulations, which form part of the [Board Regulations](#).

### Audit Committee

The members of the Audit Committee all possess extensive financial knowledge. The Audit Committee met five times during 2017 and extensively discussed the periodic and annual financial statements in the presence of Kardan's CEO, CFO and external auditor. Accounting issues and main assumptions, judgments and valuations were discussed, and the external auditor reported his findings. The Audit Committee specifically discussed the Company's going-concern assumption, the financial impact of currency fluctuations on the Company's equity and the possibilities of hedging foreign exchange risks, cash flow forecasts of Kardan, the valuation of real estate properties and inventory in China and bad debt provisions.

After reviewing the performances of PricewaterhouseCoopers Accountants N.V. as Kardan's external auditor for the financial year 2017 the Audit Committee recommended to the Board to propose the appointment of PricewaterhouseCoopers Accountants N.V. as Kardan's external auditor for the financial year 2017, which proposal was adopted at the AGM. In addition, the Audit Committee discussed 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 2017, 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 three times in 2017 either in physical meetings or via teleconference. The RAS Committee submitted a proposal to the Board for the nomination of Mrs. Tall as non-executive Board Member and prepared a proposal for the Board

concerning her remuneration. The proposal was accepted by the Board and adopted during the Extraordinary General Meeting of Shareholders in 2017.

Furthermore, the Committee discussed and analyzed the self-assessments 2017 submitted by the Board Members.

### 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, including a variable element, was adopted for the executive Board Member. The General Meeting of Shareholders determines the remuneration of each Board Member. In 2016, the Shareholders approved certain changes to the specific remuneration packages, as further described in

the Remuneration Report on page 52 of this Annual Report.

A proposal for the remuneration of the executive board member for 2018 will be submitted to the 2018 Annual General Meeting of Shareholders.

The remuneration of the non-executive Board Members does not depend on the performance of Kardan's shares, and rights to shares are not granted to the non-executive Board Members as remuneration. Kardan has not granted personal loans, guarantees or the like to Board Members, all of which are prohibited by the Board Regulations unless in the normal course of business and with prior approval granted by the Board. According to the available information there are three non-executive Board Members who hold shares in the capital of Kardan: Mr. Grunfeld, Mr. Rechter and Mr. Schnur; more detailed information can be found in the Shareholder Information chapter on page 12 of this Annual Report.

Detailed information on the remuneration of all Board Members can be found in the Remuneration Report on page 52 of this Annual Report.

## Related Party Transactions

Articles 7, 8 and 9 of the Articles of Kardan contain rules on the corporate resolution process in the case of dealings between Kardan and one or more Holders of Control, as defined in the Articles (Special Approval Procedure). Holders of Control are deemed to be any Person (as defined in the Articles) holding 25% or more of the voting rights in the General Meeting of Shareholders, if there is no other Person holding more than 50% of the voting rights. Certain transactions, as described in Kardan's Articles, between Kardan and a Holder of Control require special approval, as follows: (i) Board approval with an absolute majority of votes, including the affirmative vote of the majority of the independent Board Members (as defined in the Articles) and (ii) approval of the General Meeting of Shareholders with an absolute majority of votes,

provided that either (a) such a majority includes the affirmative votes of at least half of all the votes of the shareholders who are present at the meeting and who do not have a Personal Interest (as defined in the Articles), or (b) the opposition votes of those shareholders who are present at the meeting and who do not have a Personal Interest, do not constitute more than 2% of the total number of votes that can be cast in a General Meeting of Shareholders. In 2017 no such dealings arose.

## Investor Relations

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

## Compliance

As a company listed on Euronext in Amsterdam and the Tel Aviv Stock Exchange, Kardan is subject to laws and regulations in the countries of listing. Moreover, as an internationally operating company, Kardan must comply with laws and regulations in every country in which it conducts its business. Compliance with applicable laws and regulations is embedded in Kardan's organization, amongst others by means of internal rules and procedures that have been put into place to safeguard compliance. In light thereof, Kardan has a [Whistleblower Policy](#) in place since 2008, enabling employees to adequately and safely report any suspicions they may have of irregularities of a general, operational or financial nature. In the same year Kardan also adopted a [Code of Conduct](#) designed to provide its employees with guidelines for their behavior and activities to comply with laws, regulations and ethical standards that govern Kardan's

businesses. In order to safeguard a level playing field for investors, Kardan furthermore adopted an Insider Trading Policy and an Investor Relations Policy in 2008. All of the aforementioned policies are regularly updated and can be found on Kardan's website under 'Governance Policies and Documents'.

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

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

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

- (i) any Interested Party and any senior office holder (as defined in the Articles) of Kardan is required to report to Kardan about any change in their holdings in Kardan's shares, and Kardan has to report this via the MAGNA system (Israel);
- (ii) Kardan has to make public material events which are not in the ordinary course of business or which can materially affect Kardan or which can be considered as price-sensitive information;

- (iii) Kardan has to publish an Immediate Report about convening a General Meeting of Shareholders and the resolutions adopted in such meeting (Israel);
- (iv) Kardan is required to publish its periodic reports, which include quarterly and annual financial statements and additional information. The additional information may differ between the Dutch and Israeli reporting requirements, in timing or in content. Both Dutch and Israeli reports are published on the Company's website; and
- (v) Kardan is required to publish reports with respect to any change in its issued share capital including, inter alia, distribution of dividends (in cash or in kind), issuance of any new securities (including shares, options, debentures, etc.), conversion of any securities, the lapse of options on shares, purchase plans (buy back) and creation of treasury shares.

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



## Remuneration Report

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

### Remuneration policy for the non-executive Board Members

At the AGM of May 28, 2015 a new remuneration policy was adopted. This policy came into effect on June 1, 2015 and is as follows: each non-executive Board Member continues to receive a basic fee of € 26,000 per year. The Chairman of the Board receives a total fee of € 58,000 per year, including all committee fees. A committee chairman receives an additional fee of € 10,000 and committee members receive an additional € 8,000. In 2017 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 2017 is presented in the table below.

### Mutations in Board positions during 2017 and 2018

Mrs. Seinstra (non-executive Board Member and Chairwoman of the RAS Committee) was not available for re-election at the AGM 2017, and subsequently resigned from the Board after the AGM 2017. Messrs. Van den Bos, Grunfeld and Rechter were reappointed to the Board during the AGM 2017 for an additional term of 4 years. In the EGM held on September 12, 2017, Mrs. Tall was appointed as non-executive Board Member. Mr. Marsman resigned from his position of non-executive Board member effective 1 January 2018, and Mr. Groen resigned effective 1 February 2018. Finally, Mr. Schnur stepped

down from his position of non-executive Board member effective 21 March 2018.

### Mutations in Committee positions during 2017

Mr. Marsman was appointed as Chairman of the RAS Committee effective May 24, 2017, upon the resignation of Mrs. Seinstra from this position on the same date. When Mr. Marsman resigned from the Board, he also resigned as Chairman of the RAS Committee effectively 1 January 2018.

Mrs. Tall will replace Mr. Marsman as Chairwoman of the RAS Committee.

Non-executive Board Member <sup>1,2</sup>		Gross Remuneration in 2017 in €
Mr. P. Sheldon	Chairman of the Board; member of the Audit Committee and of the RAS Committee	58,000
Mr. C. van den Bos	Vice-Chairman of the Board and Chairman of the Audit Committee	36,000
Mr. M. Groen		26,000
Mr. Y. Grunfeld <sup>2</sup>		26,000
Mr. B. Marsman	Chairman of the RAS Committee (from 24 May 2017) Member of the Audit Committee	43,203
Mr. E. Rechter <sup>2</sup>		26,000
Mr. A. Schnur <sup>2</sup>		26,000
Mrs. M. Seinstra	Chairwoman of the RAS Committee (until 24 May 2017)	14,340
Mrs. C. Tall		7,772

1 Until the date of the 2017 annual report.

2 Pursuant to the Articles, Board Members receive indemnification for losses, damages and costs which they may incur as a result of a claim or proceedings related to the fulfillment of their duties as Board Members (willful misconduct and gross negligence excluded). The Company accordingly has entered into indemnity agreements with the Board Members and the members of the Executive Management. It is noted that any agreement with a Board Member who is also Holder of Control is only effective upon approval of the General Meeting of Shareholders. No indemnification was granted in 2017.

## Remuneration of the CEO in 2017

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.

### Fixed remuneration of the CEO

The CEO is entitled to receive a fixed monthly remuneration consisting of a salary for management services provided by him in the Netherlands, and a fee for consultancy services primarily in respect of the activities and investments of the Kardan Group, related to its non-Dutch operations. In addition the CEO was entitled to customary social benefits in the Netherlands, car, cellular telephone, etc. The total annual fixed remuneration for 2017 is estimated at € 355,000.

## Variable remuneration – short term

The Board may decide, upon its sole discretion, to propose to grant the CEO a variable remuneration in the form of a bonus for each calendar year, based on his achievements during the relevant year and taking into account his total remuneration package. Proposals for his bonuses for 2016 and 2017, were submitted to the General Meeting for approval during the 2016 AGM. For the year 2017 the Board proposed a bonus of € 200,000 conditional upon the achievement of specific targets, principally in relation to the repayment of the maturities of existing outstanding debt due in February 2018. On 20 March, 2018, the Board concluded that since the Company was not able to make the contractual repayments in February 2018, the CEO would not be entitled to a bonus for the year 2017.

## Severance Payment

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

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

## Total remuneration

A breakdown of the total costs of the remuneration for the current CEO in 2017 is presented in the following table:

Element	Remuneration in 2017
Base Remuneration (including social benefits and allowances)	€ 355,000
Allowances in kind	company car, cell phone
Annual Bonus	€ 0
Pension	included in Base Fee
<b>Total</b>	<b>€ 355,000</b>

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

## 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<sup>3</sup> of the executive Board member compared to the total average remuneration of all the employees of Kardan in the Netherlands. For the CEO a ratio of 4 applies.

## Employee Options

In 2017 no additional options to acquire shares in Kardan were granted and no existing options were exercised by employees. However, 150,000 options expired and the total number of options granted to senior employees is therefore 100,000 as at December 31, 2017.

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

## Remuneration 2018

During the 2016 Annual General Meeting of Shareholders, the shareholders approved the proposed remuneration for the CEO for the years 2016 and 2017. At the 2018 Annual General Meeting of Shareholders, it is the intention of the Board to propose an amendment to the remuneration package for Mr. A. Hasson for the years 2018.

The remuneration package for Mr. Hasson entails a yearly fixed remuneration and a variable remuneration, consisting of a discretionary bonus and a severance payment. The fixed remuneration of Mr. A. Hasson consists of a salary for management services provided by him in the Netherlands and a fee for consultancy services primarily in respect of the activities and investments of the Kardan Group, with respect to its non-Dutch operation and certain allowances

<sup>3</sup> The total remuneration is the Base Remuneration as specified in the table above.

(‘Base Remuneration’). The amount of the Base Remuneration remains unchanged. The total annual cost for the Base Remuneration for 2018 is therefore estimated at € 355,000.

With respect to the variable remuneration, the Board is proposing a bonus for Mr. Hasson for 2018 of maximum € 200,000, conditional upon the realization of specific targets, in relation to the outcome of negotiations relating to the debt obligations of the company as well as the progress of Kardan’s property activities in China. 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 2018 is appropriate, given the performance of Mr. Hasson during his years of service and his valuable contribution to the realization of the long term value creation objectives of Kardan. Moreover, the Board is of the opinion that the proposed remuneration package is aligned with the position of all stakeholders of Kardan.

## Declaration by the Board

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

- (i) The Financial Statements for the 2017 financial year give a fair view of the assets, liabilities, financial position and results of Kardan and of the companies included in the consolidation.
- (ii) The Annual Report 2017 gives a fair view of Kardan's condition on the balance sheet date, the development of Kardan and its affiliated companies (subsidiaries, joint ventures, and associated companies) during the 2017 financial year, and all material risks to which Kardan and its affiliated companies are exposed.

Amsterdam, April 17, 2018

Board of Directors

P. Sheldon (Chairman)

A. Hasson (CEO)

C. van den Bos (Vice-Chairman)

Y. Grunfeld

E. Rechter

C. Tall



# Statutory Financial Statements

for the year ended December 31, 2017 by Kardan N.V., Amsterdam, The Netherlands

## Consolidated Financial Statements

Consolidated statement of financial position .....	60
Consolidated income statement .....	62
Consolidated statement of other comprehensive income .....	64
Consolidated statement of changes in equity .....	65
Consolidated cash flow statement .....	68
Notes to the consolidated financial statements .....	72

## Company-only Financial Statements

Company-only statement of financial position .....	163
Company-only income statement .....	164
Notes to the company-only financial statements .....	169

Independent Auditors' Report .....	178
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## Notes to the Consolidated Financial Statements

1	General .....	72
2	Basis of preparation .....	73
3	Significant accounting judgments, estimates and assumptions .....	75
4	Summary of significant accounting policies .....	76
5	Business combinations and investment in subsidiaries .....	96
6	Intangible assets .....	101
7	Tangible fixed assets .....	102
8	Investment property .....	104
9	Investments in associates .....	106
10	Investments in joint ventures .....	107
11	Long-term loans and receivables .....	113
12	Apartments inventories, contract work and merchandise inventory .....	113
13	Trade receivables .....	114
14	Other receivables and prepayments .....	115
15	Short-term investments .....	116
16	Cash and cash equivalents .....	116
17	Issued and paid-in capital .....	116
18	Share-based payments .....	118
19	Non-current interest bearing loans and borrowings .....	121

20	Other long-term liabilities .....	122
21	Financial instrument: Options and warrants .....	122
22	Debentures .....	123
23	Interest-bearing loans and borrowings .....	127
24	Other payables and accrued expenses .....	127
25	Liens, contingent liabilities and commitments .....	128
26	Operating segments .....	130
27	Cost of sale .....	137
28	Management fees and other expenses, net .....	138
29	Selling and marketing expenses .....	138
30	General and administrative expenses .....	138
31	Gain (loss) on disposal of assets and other income .....	139
32	Financial income and expenses .....	140
33	Taxes on income .....	140
34	Earnings per share .....	145
35	Financial instruments and risk management .....	146
36	Related parties .....	160
37	Subsequent events .....	162

# Consolidated Statement of Financial Position

Audited € in '000	Note	December 31, 2017	December 31, 2016
<b>Assets</b>			
<b>Non-current assets</b>			
Deferred tax assets	33	464	2,452
Intangible assets	6	–	6,156
Tangible fixed assets, net	7	627	13,689
Investment property	8	221,089	240,461
Investments in associates	9	–	12,888
Investments in joint ventures	10	49,889	56,286
Loans to joint ventures	10	25,432	39,753
Long-term loans and receivables	11	8,123	11,695
		<b>305,624</b>	<b>383,380</b>
<b>Current assets</b>			
Apartments inventory	12	117,900	103,035
Contract work and merchandise inventory	12	–	16,386
Trade receivables	13	5,401	66,447
Current tax assets		1,502	1,345
Other receivables and prepayments	14	5,686	26,773
Short-term investments	15	11,969	10,218
Cash and cash equivalents	16	37,140	57,783
		<b>179,598</b>	<b>281,987</b>
Assets classified as held for sale	5	183,354	–
Total current assets		<b>362,952</b>	<b>281,987</b>
<b>Total assets</b>		<b>668,576</b>	<b>665,367</b>

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

Audited € in '000	Note	December 31, 2017	December 31, 2016
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the parent</b>	17		
Issued and paid-in capital		25,276	25,276
Share premium		206,482	206,482
Foreign currency translation reserve		37	23,590
Property revaluation reserve		31,637	34,772
Revaluation reserve, other		5,586	6,633
Accumulated deficit		(273,386)	(259,420)
		<b>(4,368)</b>	<b>37,333</b>
<b>Non-controlling interests</b>		<b>3,542</b>	<b>3,850</b>
<b>Total equity</b>		<b>(826)</b>	<b>41,183</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	19	104,933	419
Other long-term liabilities	20	1,054	4,004
Financial instruments	21	1,306	3,966
Debentures	22	188,708	288,978
Deferred tax liabilities	33	6,355	4,763
Accrued severance pay, net		–	1,090
		<b>302,356</b>	<b>303,220</b>
<b>Current liabilities</b>			
Liability due to work in progress		–	38,889
Trade payables		2,294	20,440
Current maturities of debentures	22	95,452	–
Interest-bearing loans and borrowings	23	–	126,816
Current tax liabilities		1,342	6,734
Advances from apartment buyers	12	61,208	50,011
Advances from customers	24	–	15,814
Other payables and accrued expenses	24	73,952	62,260
		<b>234,248</b>	<b>320,964</b>
<b>Liabilities directly associated with assets classified as held for sale</b>	5	<b>132,798</b>	<b>–</b>
<b>Total current liabilities</b>		<b>367,046</b>	<b>320,964</b>
<b>Total liabilities</b>		<b>669,402</b>	<b>624,184</b>
<b>Total equity and liabilities</b>		<b>668,576</b>	<b>665,367</b>

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

# Consolidated Income Statement

Audited € in '000	Note	For the year ended December 31,		
		2017	2016	2015
Rental revenues		3,883	3,732	1,822
Revenues from sale of apartments		8,556	761	791
Management fees and other revenues		2,584	6,615	3,398
<b>Total revenues</b>		<b>15,023</b>	<b>11,108</b>	<b>6,011</b>
Rental cost	27	1,346	1,493	1,473
Cost of apartment sold	27	7,993	676	889
Management fees and other expenses, net	28	2,847	5,521	6,178
<b>Total expenses</b>		<b>12,186</b>	<b>7,690</b>	<b>8,540</b>
<b>Gross profit (loss)</b>		<b>2,837</b>	<b>3,418</b>	<b>(2,529)</b>
Selling and marketing expenses	29	5,668	3,760	4,918
General and administration expenses	30	10,180	10,501	11,937
<b>Loss from operations before fair value adjustments, disposal of assets and investment and other income</b>		<b>(13,011)</b>	<b>(10,843)</b>	<b>(19,384)</b>
Adjustment to fair value of investment property	8	(4,181)	(2,588)	20,907
Gain (loss) on disposal of assets and other income, net	31	836	(1,580)	(298)
<b>Profit (loss) from fair value adjustments, disposal of assets and investments and other income, net</b>		<b>(3,345)</b>	<b>(4,168)</b>	<b>20,609</b>
<b>Profit (loss) from operations</b>		<b>(16,356)</b>	<b>(15,011)</b>	<b>1,225</b>

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



# Consolidated Income Statement (continued)

Audited € in '000	Note	For the year ended December 31,		
		2017	2016	2015
Financial income	32	6,845	475	1,096
Financial expenses	32	(34,321)	(47,843)	(63,954)
<b>Total financial expenses, net</b>		<b>(27,476)</b>	<b>(47,368)</b>	<b>(62,858)</b>
<b>Loss before share of profit from investments accounted for using the equity method</b>		<b>(43,832)</b>	<b>(62,379)</b>	<b>(61,633)</b>
Share of profit of investments accounted for using the equity method, net	9,10	18,853	3,996	4,226
<b>Loss before income taxes</b>		<b>(24,979)</b>	<b>(58,383)</b>	<b>(57,407)</b>
Income tax expenses (benefit)	33	5,180	(4,504)	3,580
<b>Loss for the period from continuing operations</b>		<b>(30,159)</b>	<b>(53,879)</b>	<b>(60,987)</b>
Net profit from discontinued operations	5	12,783	22,553	38,029
<b>Loss for the year</b>		<b>(17,376)</b>	<b>(31,326)</b>	<b>(22,958)</b>
Attributable to:				
Equity holders		(17,101)	(31,330)	(22,915)
Non-controlling interest holders		(275)	4	(43)
		<b>(17,376)</b>	<b>(31,326)</b>	<b>(22,958)</b>
<b>Earnings (loss) per share attributable to shareholders</b>	34			
Basic and diluted from continuing operations		(0.25)	(0.44)	(0.53)
Basic and diluted from discontinued operations		0.10	0.18	0.33
		<b>(0.15)</b>	<b>(0.26)</b>	<b>(0.20)</b>

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

# Consolidated Statement of Other Comprehensive Income

Audited € in '000	For the year ended December 31,		
	2017	2016	2015
<b>Net loss for the year</b>	<b>(17,376)</b>	<b>(31,326)</b>	<b>(22,958)</b>
Foreign currency translation differences	(15,202)	(362)	(3,621)
Change in hedge reserve, net of tax <sup>1</sup>	(1,051)	(1,362)	(2,784)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(8,498)	(579)	4,721
Other comprehensive expense for the year to be reclassified to profit or loss in subsequent periods	(24,751)	(2,303)	(1,684)
<b>Total comprehensive expenses</b>	<b>(42,127)</b>	<b>(33,629)</b>	<b>(24,642)</b>
Attributable to:			
Equity holders	(41,705)	(33,816)	(24,931)
Non-controlling interests holders	(422)	187	289
	<b>(42,127)</b>	<b>(33,629)</b>	<b>(24,642)</b>

1 Mainly relates to unwinding of hedge transactions in prior periods. The amounts are presented net of tax amounting to €346 thousand, €522 thousand and €477 thousand for the years ended December 31, 2017, 2016 and 2015, respectively.

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

# Consolidated Statement of Changes in Equity

Audited € in '000	Attributable to equity holders of the parent						Total	Non- controlling interest	Total equity
	Issued and paid-in capital	Share premium	Foreign currency translation reserve *	Property revaluation reserve *	Revaluation reserve, other *	Accumulate deficit *			
<b>Balance as of January 1, 2017</b>	<b>25,276</b>	<b>206,482</b>	<b>23,590</b>	<b>34,772</b>	<b>6,633</b>	<b>(259,420)</b>	<b>37,333</b>	<b>3,850</b>	<b>41,183</b>
Other comprehensive expense	–	–	(23,553)	–	(1,051)	–	(24,604)	(147)	(24,751)
Loss for the year	–	–	–	–	–	(17,101)	(17,101)	(275)	(17,376)
<b>Total comprehensive expense</b>	<b>–</b>	<b>–</b>	<b>(23,553)</b>	<b>–</b>	<b>(1,051)</b>	<b>(17,101)</b>	<b>(41,705)</b>	<b>(422)</b>	<b>(42,127)</b>
Share-based payment (Note 18)	–	–	–	–	4	–	4	77	81
Transaction with non- controlling interest (Note 21)	–	–	–	–	–	–	–	37	37
Reclassification according to the Netherlands civil code requirements *	–	–	–	(3,135)	–	3,135	–	–	–
<b>Balance as of December 31, 2017</b>	<b>25,276</b>	<b>206,482</b>	<b>37</b>	<b>31,637</b>	<b>5,586</b>	<b>(273,386)</b>	<b>(4,368)</b>	<b>3,542</b>	<b>(826)</b>

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

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

# Consolidated Statement of Changes in Equity (continued)

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

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

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

# Consolidated Statement of Changes in Equity (continued)

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

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

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

# Consolidated Cash Flow Statement

Audited € in '000	Note	For the year ended December 31,		
		2017	2016	2015
<b>Cash flow from operating activities</b>				
Loss from continuing operations before taxes on income		(24,979)	(58,383)	(57,407)
Profit from discontinued operations before taxes on income	5	17,880	27,618	44,804
Adjustments to reconcile profit (loss) to net cash (see A below)		(43,097)	(21,179)	16,469
<b>Net cash provided by (used in) operating activities</b>		<b>(50,196)</b>	<b>(51,944)</b>	<b>3,866</b>
<b>Cash flow from investing activities</b>				
Acquisition of tangible fixed assets and investment properties		(13,641)	(7,764)	(33,276)
Investments and granting of loans to companies accounted for using the equity method, net	9, 10	2,737	(2,381)	(2,489)
Proceeds from sale of assets and investments in associates	5	22,738	2,813	488
Change in loans to bank customers, net		–	(6,404)	(11,220)
Change in long-term loans and receivables		(934)	(6,517)	(15,612)
Change in short-term investments		183	(7,335)	(4,322)
Disposal of an investment accounted for using the equity method	10	–	–	331
Disposal of a previously consolidated subsidiary (see B below)		(1,008)	103,670	119,086
Change in pledged deposits, net		1,519	(1,590)	–
<b>Net cash provided by investing activities</b>		<b>11,594</b>	<b>74,492</b>	<b>52,986</b>

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



# Consolidated Cash Flow Statement (continued)

Audited € in '000	Note	For the year ended December 31,		
		2017	2016	2015
<b>Cash flows from financing activities</b>				
Repayment of debentures	22	–	(86,458)	(6,725)
Change in loans from bank customers, net		–	(6,117)	2,593
Proceeds from long-term loans		117,304	14,481	105,004
Repayment of long-term loans		(106,076)	(1,391)	(162,546)
Change in short-term loans and borrowings, net		8,156	13,582	239
Increase of pledged deposit		–	–	(2,317)
Change in short-term deposits		176	–	–
Debentures settlement payment		–	–	(750)
Change in other long-term liabilities, net		5,538	(64)	65
Dividend to non-controlling interest holders of a subsidiary		–	(379)	(780)
Transaction with non-controlling interest holders	18	–	–	(4,006)
<b>Net cash provided by (used in) financing activities</b>		<b>25,098</b>	<b>(66,346)</b>	<b>(69,223)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(13,504)</b>	<b>(43,798)</b>	<b>(12,371)</b>
<b>Foreign exchange differences relating to cash and cash equivalents</b>		<b>1,910</b>	<b>(1,797)</b>	<b>7,746</b>
<b>Change in cash of assets held for sale</b>		<b>(9,049)</b>	<b>(40,542)</b>	<b>–</b>
<b>Cash and cash equivalents at the beginning of the year</b>	16	<b>57,783</b>	<b>143,920</b>	<b>148,545</b>
<b>Cash and cash equivalents at the end of the year</b>	16	<b>37,140</b>	<b>57,783</b>	<b>143,920</b>

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

## Consolidated Cash Flow Statement (continued)

Audited € in '000	Note	For the year ended December 31,		
		2017	2016	2015
<b>A. Adjustments to reconcile net profit (loss) to net cash charges / (credits) to profit (loss) not affecting operating cash flows:</b>				
Gain from disposal of investments in subsidiaries, net (see B below)	5	–	(15,861)	(21,969)
Share in profit of companies accounted for using the equity method, net	9, 10	(17,770)	(2,869)	(2,683)
Gain on disposal of assets and investments in associates, net	5	(8,390)	–	–
Share-based payment		81	594	1,039
Depreciation and amortization		449	3,538	4,755
Fair value adjustments of investment properties	8	4,181	2,588	(20,907)
Financial expense and exchange differences, net		27,178	52,224	65,004
Capital loss (gain) from sale tangible fixed assets		(831)	(451)	26
Fair value adjustments of derivative financial instrument		240	–	–
Increase in provision for bad debts in the financial services operations		–	1,914	6,553
<b>Changes in operating assets and liabilities:</b>				
Change in trade and other receivables		(29,195)	(17,892)	(52,887)
Change in inventories		(13,918)	(5,565)	698
Change in contract work in progress, net of advances from customers		26,408	(2,740)	26,887
Change in trade and other payables		(18,453)	(2,422)	11,954
Dividend received	10	13,386	2,413	–
Interest paid		(16,781)	(56,565)	(35,076)
Interest received		304	22,464	42,509
Income taxes paid		(9,986)	(2,549)	(9,434)
		<b>(43,097)</b>	<b>(21,179)</b>	<b>16,469</b>

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

## Consolidated Cash Flow Statement (continued)

Audited € in '000	Note	For the year ended December 31,		
		2017	2016	2015
<b>B. Disposal of a previously consolidated subsidiary</b>				
Working capital (excluding cash and cash equivalents)		–	(68,489)	13,488
Non-current assets (excluding fixed assets and concession assets)		–	121,864	14,006
Fixed assets		–	11,231	39,165
Concession assets		–	–	86,637
Non-controlling interest holders		–	–	(1,431)
Long-term liabilities		–	(2,108)	(14,773)
Recycling of reserves to the income statement		–	4,137	(13,287)
Gain on disposal of investment, net of tax		–	15,179	18,965
Asset classified as held for sale		(1,008)	21,856	(23,684)
		(1,008)	103,670	119,086
<b>C. Material non-cash transactions</b>				
Issuance of shares and allocation of treasury shares to the debenture holders	17	–	–	3,340
		–	–	3,340

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

# Notes to the Consolidated Financial Statements

December 31, 2017

## 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, 2017 was 1,248 (December 31, 2016 – 1,055) of which 155 are part of the real estate segments, 130 are in the joint venture AVIS Ukraine, 951 are part of the water infrastructure activity (discontinued operations – see Note 5) and 12 form the headquarters of the Company.

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

These statutory financial statements were approved by the Board of Directors of the Company on April 17, 2018.

For additional information included in the Israeli 2017 annual report as required by the Israeli Securities Regulations, reference is made to the website of the Company ([www.kardan.com](http://www.kardan.com)).

### B. FINANCIAL POSITION AND GOING CONCERN

As at December 31, 2017 the Company had, on a stand-alone basis and on a consolidated basis, a working capital deficit of €107 million and €4 million,

respectively (excluding debentures held by subsidiaries). The consolidated loss of the Company for the year 2017 amounted to €17 million. In addition, the Company generated positive cash flows from operating activities of €10 million on a stand-alone basis, and negative cash flows from operating activities of €50 million on a consolidated basis in 2017.

In order to assess the liquidity position of the Company, management prepared a two-year liquidity analysis which indicates the required liquidity to be able to repay interest and principal of the Company's debentures and to finance its operating activities. Included in this analysis are, among others, the current cash balances and the projected cash from future operations and transactions.

The main source of cash for the Company, in order to repay its debt, will be generated from the sale of assets. The Company is conducting processes, directly or through its subsidiaries, and negotiating transactions to sell assets with a number of prominent parties which, it is expecting, will generate adequate resources to meet its liabilities, as well as strengthening its financial and equity position. The main process being the sale of Tahal Group International B.V. ('TGI'). The Company is conducting advanced negotiations with respect to the intended sale of TGI. Based on these negotiations, the Company estimates that the majority of the consideration will be received at closing and will be used to repay the debentures. The remaining consideration will be held in trust to secure certain representations for a limited period of time.

As a result of the lengthy process to sell TGI, in November 2017 the Company approached the Debenture Holders requesting them to conduct negotiations in relation to rescheduling the payments to the Debenture Holders. On January 11, 2018 the Company announced that following updated information received that day, 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 upcoming payments to the debenture holders in February 2018. As of the date of the approval of these financial statements, the Company continues to negotiate with several parties regarding the sale of its holdings in TGI. In parallel it approached the Debenture Holders in order to negotiate a new debt settlement under the given circumstances.

Further to the announcement from January 11, 2018, 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, as of February 2018 (and until the repayments are rescheduled) the debentures will be presented as current liabilities (however not in these financial statements). Management is currently conducting advanced discussions with the representatives of the Debenture Holders in order to reach an agreement on postponing the payments as part of a new debt settlement. In February 2018, following the announcement that the Company will not make the February 2018 repayments, Maalot, the Israeli subsidiary of Standard & Poor's ('S&P'), has adjusted the rating of the Company and its Debentures Series A and Series B to 'D'.

The directors expect that, taking into account the current status of the discussions with the Debenture Holders and taking into account their plans to realize the transactions and the progress which has been made in that respect, as mentioned-above, 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 satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

However, the directors are aware that the realization of the Company's plans depends on factors that are not within the Company's control, including the approval of debenture holders to a debt settlement, and therefore there is uncertainty that such transactions will be completed at all or that the discussions with the Debenture Holders will result in rescheduling of payments. These conditions indicate the existence of a material uncertainty which casts significant doubt regarding the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and repay its liabilities in the normal course of business.

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

## 2. BASIS OF PREPARATION

### A. BASIS OF PREPARATION

The consolidated 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, 2017.

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

### *Determination of control*

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains

and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

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

If the Group loses control over a subsidiary, it:

- Derecognizes all assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the entire carrying amount of any NCI;
- Derecognizes amounts of other comprehensive income deferred in equity, as appropriate;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in the income statement;
- Reclassifies the parent's share of components



previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

#### **D. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2017.

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

#### **3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

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

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

##### *Going Concern*

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

##### *Revaluation of investment properties*

Completed investment properties are measured at fair value as at the balance sheet date. Any changes in the fair value are included in the income statement. Change in fair value is usually determined by independent real estate valuation experts in accordance with recognized valuation techniques. These techniques include among others: the Income Approach to Value (which includes the Discounted Cash Flow Method and the Yield Method), and the Direct Comparison Method. These methods include estimate future cash flows from assets and estimates of discount rates applicable to those assets. In some cases the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the company's assets (Direct Comparison Method). Refer to Note 8 for a sensitivity analysis of profit (loss) before tax due to changes in certain key parameters.

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

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

*Impairment losses on inventory*

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

*Discontinued operation*

When certain conditions are met, the Company presents certain operations as discontinued and classify their assets and liabilities as held for sale – for additional information see Note 5.

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.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### A. BUSINESS COMBINATIONS AND GOODWILL

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

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

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

irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

## **B. INVESTMENT IN ASSOCIATES AND JOINT VENTURES**

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

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

Under the equity method, the investment in the associate or a joint venture is carried in the statement of financial position at cost plus post acquisition

changes in the Group's share of net assets of the associate or joint venture. Goodwill relating to associates or joint ventures is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

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

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

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

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

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

### C. FOREIGN CURRENCY TRANSLATION

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

and liabilities on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

### D. FAIR VALUE MEASUREMENT

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

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

In the principal market for the asset or liability

Or

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would

use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

measurement, such as assets held for sale in discontinued operations.

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

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

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

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

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

Non-current assets and disposal groups classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held-for-

sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. Costs to sale are the incremental costs directly attributable to the sale or distribution, excluding the finance costs and income tax expense. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

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

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

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

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

## F. TANGIBLE FIXED ASSETS

Tangible fixed assets, which do not qualify as investment property, are stated at cost, less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of such property and equipment

when that cost is incurred, providing the recognition criteria are met. Land is not depreciated.

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

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

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

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

## G. INVESTMENT PROPERTIES

Investment properties comprises a land plot or a building or a part of a building held to earn rental income and/or for capital appreciation and property



that is being constructed or developed for future use as investment property (investment property under construction).

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

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 8 and Note 3.

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

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

#### *Lease origination costs /deferred brokerage fees*

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

## **H. APARTMENTS INVENTORY IN PROGRESS**

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

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

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

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

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

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

## I. OTHER INTANGIBLE ASSETS

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

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

## J. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

### *Goodwill*

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

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

### *Investment in associates or Joint ventures*

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

goodwill attributable to the associates or joint ventures.

## K. FINANCIAL ASSETS

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

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

### *Financial assets at fair value through profit or loss*

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

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

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial

measurement, such assets are carried at amortized cost using the effective interest method.

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

### *Available-for-sale financial assets*

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

## L. CASH AND CASH EQUIVALENTS

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

## M. IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each balance sheet date whether an impairment objective evidence 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.

## **N. 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.

## O. FINANCIAL LIABILITIES

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

### *Financial liabilities at fair value through profit or loss*

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

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

### *Loans and borrowings*

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

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

### *Financial guarantee liabilities*

Financial guarantee liabilities issued by the Group, primarily by the financial services segment, are those contracts that require a payment to be made to reimburse the holder for a loss incurred because the

specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized in the financial statements (within 'Other payables') at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the income statement, and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the income statement in 'costs of banking and retail lending activities'. The premium received is recognized in the income statement in 'revenues from banking and retail lending activities' on a straight-line basis over the life of the guarantee.

### *Debentures*

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

## P. 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.

## Q. DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

### *Financial assets*

A financial asset is derecognized when:

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

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

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

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

limited to the lower of the fair value of the transferred asset and the option exercise price.

### *Financial liabilities*

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

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

## R. 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.

## S. SHARE-BASED PAYMENT TRANSACTIONS

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

*Equity-settled transactions*

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

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

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

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

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

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award

where non-vesting conditions within the control of either the entity or the employee are not met.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

*Cash-settled transactions*

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

**T. LEASES**

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

*Group as a lessee*

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the



minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

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

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

#### *Group as a lessor*

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

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

## **U. REVENUE RECOGNITION**

#### *General*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty.

Regarding the impacts of applying the new standard IFRS 15 on the Company's financial statements as at January 1, 2018 and the cumulative effect of the initial application on its balance of retained earnings, refer to section CC below.

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.

## V. 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.

## W. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

## X. 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.

#### *Cash flow hedges*

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

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

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

## Y. PUT OPTION GRANTED TO NON-CONTROLLING SHAREHOLDERS

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

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

## Z. 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.

## AA. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

### Defined contribution plans

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

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

## BB. 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.

## CC. NEW STANDARDS AND AMENDMENTS NOT YET ADOPTED BY THE GROUP

### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. In July 2017 the IASB confirmed the accounting for modifications of financial liabilities under IFRS 9. That is, when a financial liability measured at amortized cost is modified without this resulting in an extinguishment, a gain or loss should be recognized in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

IFRS 9 is required to be applied for the annual reporting periods beginning on January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2018.

According to the current accounting policy, in case of an unsubstantial modification in the terms of a financial liability, which does not lead to the extinguishment of the financial liability, the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate is amortized over the remaining term of the modified liability.

The Company estimates, as of the date of the approval of these financial statements, that the potential impact of IFRS 9 on its financial statements would result in an increase of approximately € 7.2 million in the balance of its debentures liabilities as of January 1, 2018, in relation to the debt settlement signed between the Company and debentures holders in July 2015, and a corresponding decrease of its equity.

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 will replace, with its first implementation, the guidance on revenues recognition that currently exists in International Financial Reporting Standards.

The core principle of IFRS 15 is that revenues from contracts with customers must be recognized in a manner that reflects the transfer of control over the goods or services provided to customers under the contracts, in amounts reflecting the consideration that the entity expects to be entitled to receive for those goods or services.

IFRS 15 establishes a single revenue recognition model according to which the entity will recognize revenue in accordance with the said core principle by implementing five stages:

- 1) Identify the contract(s) with a customer;
- 2) Identify the performance obligations in the contract;
- 3) Determine the transaction price;
- 4) Allocate the transaction price to the different performance obligations in the contract; and

- 5) Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 relates to the accounting treatment of a wide range of issues related to the implementation of the said model, including: recognition of variable revenue in the contract, adjustment of the transaction price determined in the contract to reflect the time value of money and the costs of obtaining and maintaining a contract.

The Standard expands the disclosure requirements with regard to income, and inter alia requires the provision of quantitative and qualitative information regarding significant management considerations that were taken into account in order to determine the recognized income.

On July 22, 2015, the IASB issued notice of its decision to postpone the initial implementation date of the Standard for the year, so that the Standard will be applied retrospectively for annual periods beginning on or after January 1, 2018, taking into account the leniencies specified in the transition provisions to IFRS 15.

The Company intends to apply IFRS 15 on the date it enters into force commencing from the first quarter of 2018, in accordance with the transitional directive, which allows recognition of the cumulative effect of the initial application as an adjustment of the opening balance of retained earnings as at January 1, 2018.

In connection with the Company's operations, the significant possible impact of the standard that was required to be examined by the Company's management is in the area of residential construction carried out by a subsidiary and companies accounted for using the equity method in China. In order to determine the possible effect, the Company's management examined, in accordance with the provisions of IFRS 15, recognition of income from the

sale of apartments over the period of their establishment, in lieu of the current policy according to which income from sale of apartments is recognized when the main risks and rewards of ownership have been transferred to the purchaser. The examination included analyzing the sales contracts of the apartments, examining the legislation and legal precedents in China.

The results of the examination showed that in the vast majority of transactions involving the Group companies, the sales contracts do not meet the criteria for revenue recognition over time.

Therefore, after the Company examined the effect of the implementation of the Standard on its other operations, the Company concluded that the implementation of the standard is not expected to have a material impact on its financial statements and in the context of these transactions the Company is expected to recognize revenue for the major part of the transactions upon delivery of the apartments to the client.

In addition, the Company also examined the effect of the implementation of the Standard on its other operations (TGI and AVIS) and reached the same conclusion that the implementation of the Standard in these companies is not expected to have a significant impact on its financial statements.

#### *IFRS 16 Leases*

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



IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Company has yet to finalize the evaluation of the potential impacts of applying IFRS 16 on its financial statements, however, as the Company has only a limited number of operational leases, it is of the opinion that applying IFRS 16 will not have a material effect on its consolidated financial statements.

## DEFINITIONS

The following definitions are used throughout these financial statements:

Kardan or the Company – Kardan N.V.

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

GTC RE – GTC Real Estate Holding B.V.

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

KFS – Kardan Financial Services B.V.

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

TBIF – TBIF Financial Services B.V.

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

Kardan Israel – Kardan Israel Ltd.

TGA - Tahal Group Assets B.V.

TGI – Tahal Group International B.V.

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

KWIG- Kardan Water International Group Limited

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 holding as of December 31	
			2017	2016
Kardan N.V.	Kardan Financial Services B.V.	The Netherlands	100	100
	GTC Real Estate Holding B.V.	The Netherlands	100	100
	Tahal Group International B.V.	The Netherlands	98.43	98.43
	Emerging Investments XII B.V.	The Netherlands	100	100
GTC Real Estate Holding B.V.	Kardan Land China Limited	Hong Kong	100	100
Kardan Land China Limited	Kardan Land (BJ) Management & Consulting Co. Ltd.	China	100	100
	GTC (China) Investment Co. Ltd	China	100	100
	Kardan Land Dalian (HK) Ltd.	Hong Kong	100	100
Tahal Group International B.V.	Tahal Group B.V.	The Netherlands	100	100
Tahal Group 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	55.55	55.5
	Fideco DOO	Serbia	100	100
	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

Holding company	Name of subsidiary	Country of incorporation	% equity interest by the direct holding as of December 31	
			2017	2016
	Sterna B.V.	The Netherlands	91.3	91.3
	TMNG Ltd.	Israel	65	65
Tahal Group Assets B.V.	Task Water B.V.	The Netherlands	100	100
	Agri Products N.V.	The Netherlands	51	51
	Food-Yard Holding JSC	Bulgaria	87.6	87.6
	Mast Foods S.A.	Greece	60.7	60.7

## B Significant transactions and business combinations

### 1. Sale of TBIF

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

The total consideration for the transaction was comprised of two parts ('the Consideration'): on the completion date ('the Completion Date') the Buyer paid KFS an amount of approximately €69 million and in October 2016 the Consideration was adjusted to take into account the reviewed result of the sold asset in the period January 1, 2016 until the Completion Date ('the Adjustment'), and the Company received in October 2016 the Adjustment amount which totaled to €13 million.

According to the agreement, TBIF transferred certain non-lending assets including the investment in Avis Ukraine, with a net value of approximately €32 million to KFS prior to the Completion Date.

KFS undertook to indemnify the Buyer for costs and damages which might occur under circumstances which have been specifically detailed in the agreement,

including a breach of the customary representations and warranties given by KFS. Accordingly, on the Completion Date KFS deposited an amount of €6 million for a period of two years and pledge this in favor of the Buyer as collateral for the indemnification, which amount was reduced to €5 million after one year. In addition, Kardan guaranteed KFS's obligation in this respect.

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

### 2. Sale of Star Pump Storage

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

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

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

### C. Discontinued operations and assets held for sale

Further to Note 1B above, due to the various processes conducted by the Company, 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. In 2016, following the sale of TBIF (as described in 5B above), the results of TBIF were classified as discontinued operations.

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

€ in '000	December 31, 2017
<b>TGI</b>	
<b>Assets</b>	
Trade receivable	39,068
Accrued income	57,333
Other current assets	35,730
Tangible fixed assets, net	19,822
Other non-current assets	22,352
Cash and cash equivalents	9,049
<b>Total assets</b>	<b>183,354</b>
<b>Liabilities</b>	
Interest bearing loans and borrowings	21,903
Advances from customers	48,147
Other liabilities	62,748
<b>Total liabilities</b>	<b>132,798</b>
<b>Net asset value</b>	<b>50,556</b>

As of December 31, 2016, the Company did not present assets held for sale or liabilities associated with assets held for sale.

## 2) Net profit from discontinued operations:

€ in '000	For the year ended December 31, 2017	For the year ended December 31, 2016			For the year ended December 31, 2015		
		TGI *	TBIF **	Total	TGI *	TBIF	Total
	TGI						
Income	176,442	138,455	20,545	159,000	175,318	42,177	217,495
Operating and finance expenses and Share of profit of investments accounted for using the equity method, net	(166,357)	(134,425)	(13,297)	(147,722)	(170,459)	(23,785)	(194,244)
Other income (expenses), net	7,795	480	–	480	(434)	–	(434)
Profit before tax	17,880	4,510	7,248	11,758	4,425	18,392	22,817
Income tax expenses, net	5,097	3,444	796	4,240	(2,914)	(1,973)	(4,887)
Profit from discontinued operations	12,783	1,066	6,452	7,518	1,511	16,419	17,930
<i>Discontinued operation items related to the sales transactions:</i>							
Net loss from devaluation of investment - KWIG	–	(144)	–	(144)	6,812	–	6,812
Capital gain	–	–	19,316	19,316	–	–	–
Release of capital reserves due to sale	–	–	(4,137)	(4,137)	13,287	–	13,287
Net profit from discontinued operations	12,783	922	21,631	22,553	21,610	16,419	38,029
Attributable to:							
Equity holders	12,582	918	21,631	22,549	21,270	16,419	37,689
Non-controlling interest holders	201	4	–	4	340	–	340
	12,783	922	21,631	22,553	21,610	16,419	38,029

\* TGI reclassified its 2015 and 2016 contract revenues and costs in relation to accounting treatment of landfill levies according to IAS 18. The reclassification did not impact the net results.

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

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

€ in '000	For the year ended December 31, 2017	For the year ended December 31, 2016			For the year ended December 31, 2015		
	TGI	TGI	TBIF *	Total	TGI	TBIF	Total
Net cash used in operating activities	(27,821)	(8,378)	(3,672)	(12,050)	(7,949)	(11,666)	(19,615)
Net cash provided by (used in) investing activities	3,401	16,919	38,714	55,633	106,183	(1,679)	104,504
Net cash provided by (used in) financing activities	13,940	12,876	(138)	12,738	(23,274)	(764)	(24,038)

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

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

€ in '000	For the year ended December 31, 2017	For the year ended December 31, 2016			For the year ended December 31, 2015		
	TGI	TGI	TBIF *	Total	TGI	TBIF	Total
Adjustments arising from translating financial statements of foreign operations	(3,746)	1,903	4,135	6,038	(9,063)	(86)	(9,149)
Change in hedge reserve, net	(13)	203	–	203	(1,374)	–	(1,374)
Total other comprehensive income (expense)	(3,759)	2,106	4,135	6,241	(10,437)	(86)	(10,523)
Attributable to:							
Equity holders	(3,345)	1,897	4,135	6,032	(10,668)	(86)	(10,754)
Non-controlling interest holders	(414)	209	–	209	231	–	231
	(3,759)	2,106	4,135	6,241	(10,437)	(86)	(10,523)

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

**D. Collaterals**

As of December 31, 2017, 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	2017	2016
Subsidiaries	19,430	167,740

In 2016 relates to distributions from TGI and KFS following the sales of KWIG and of TBIF, and from EI XII.

**B. Amortization and impairment expenses:**

Amortization expenses of intangible assets are included in Net profit (loss) from discontinued operations.

**6. INTANGIBLE ASSETS****A. Movement:**

€ in '000	
Balance as of January 1, 2016	6,361
Additions	727
Change due to disposal of subsidiaries <sup>1</sup>	(744)
Amortization	(248)
Foreign currency exchange differences	60
Balance as of December 31, 2016	6,156
Reclassified to Assets held for sale <sup>2</sup>	(6,156)
<b>Balance as of December 31, 2017</b>	<b>–</b>

<sup>1</sup> The decrease is due to the sale of TBIF – for additional information see Note 5B.

<sup>2</sup> The decrease is due to classification of TGI as 'Assets held for sale'.



## 7 Tangible fixed assets

€ in '000	Buildings	Production equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
<b>2017</b>						
<b>Cost:</b>						
Balance as of January 1, 2017	7,813	20,360	1,589	7,448	2,826	40,036
Additions	–	5	7	321	94	427
Disposals	(1,965)	–	–	(5)	–	(1,970)
Exchange rate differences	(94)	–	(12)	(57)	(62)	(225)
Reclassification of Assets as held for sale	(5,754)	(20,178)	(1,395)	(6,354)	(1,844)	(35,525)
<b>Balance as of December 31, 2017</b>	<b>–</b>	<b>187</b>	<b>189</b>	<b>1,353</b>	<b>1,014</b>	<b>2,743</b>
<b>Accumulated depreciation:</b>						
Balance as of January 1, 2017	1,264	18,161	949	4,596	1,377	26,347
Depreciation for the year	28	11	18	147	200	404
Disposals	(163)	–	–	(3)	–	(166)
Exchange rate differences	(9)	–	(8)	(24)	(51)	(92)
Reclassification of Assets as held for sale	(1,120)	(18,001)	(823)	(3,797)	(636)	(24,377)
<b>Balance as of December 31, 2017</b>	<b>–</b>	<b>171</b>	<b>136</b>	<b>919</b>	<b>890</b>	<b>2,116</b>
<b>Net book value December 31, 2017</b>	<b>–</b>	<b>16</b>	<b>53</b>	<b>434</b>	<b>124</b>	<b>627</b>

€ in '000	Buildings	Production equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
<b>2016</b>						
<b>Cost:</b>						
Balance as of January 1, 2016	10,155	24,735	12,632	7,315	2,744	57,581
Additions	1,499	852	439	1,331	28	4,149
Disposals	(3,882)	(5,796)	(11,519)	(1,387)	–	(22,584)
Exchange rate differences	41	569	37	189	54	890
<b>Balance as of December 31, 2016</b>	<b>7,813</b>	<b>20,360</b>	<b>1,589</b>	<b>7,448</b>	<b>2,826</b>	<b>40,036</b>
<b>Accumulated depreciation:</b>						
Balance as of January 1, 2016	2,102	20,233	5,339	4,745	1,001	33,420
Depreciation for the year	77	793	179	693	376	2,118
Disposals	(924)	(3,326)	(4,582)	(944)	–	(9,776)
Exchange rate differences	9	461	13	102	–	585
<b>Balance as of December 31, 2016</b>	<b>1,264</b>	<b>18,161</b>	<b>949</b>	<b>4,596</b>	<b>1,377</b>	<b>26,347</b>
<b>Net book value December 31, 2016</b>	<b>6,549</b>	<b>2,199</b>	<b>640</b>	<b>2,852</b>	<b>1,449</b>	<b>13,689</b>

## 8 Investment property

### A General

As of December 31, 2017 and 2016 investment property solely comprises the shopping mall in the city of Dalian, China ('Galleria Dalian') which construction was completed in April 2015.

### B The movements in investment property are as follows:

€ in '000	2017	2016
Opening balance	240,461	250,310
Fair value adjustments	(4,181)	(2,588)
Foreign currency translation differences	(15,191)	(7,261)
<b>Closing balance</b>	<b>221,089</b>	<b>240,461</b>

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

### C Fair value adjustments comprise:

€ in '000	For the year ended December 31,		
	2017	2016	2015
Valuation gains from newly completed investments properties	–	–	20,262
Valuation loss from investments properties completed in prior years	(4,181)	(2,588)	–
Adjustment to fair value of investment property under construction	–	–	645
<b>Total fair value adjustments, impairments, reversal for the year</b>	<b>(4,181)</b>	<b>(2,588)</b>	<b>20,907</b>

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

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

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

Starting Q2 2015, the construction was completed, and the investment property under construction was transferred to completed investment property. As of December 31, 2017 and 2016, 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, 2017	December 31, 2016
<b>DCF method</b>		
Estimated rental value per sqm per month (in €)	35	23
Discount rate	10.5%	10.5%
Rental growth	5%-20%	5%-15%
Terminal cap rate	5.5%	5.5%
Occupancy rate	80%-97%	77%-96%
<b>Direct Comparison method</b>		
Adopted unit rate (RMB/sqm)	16,587	17,200

#### E Sensitivity analysis:

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

€ in '000	December 31, 2017
Change of 25 BP in discount rate and terminal yield	9,996
Change of 5% in estimated rental income	11,150
Change in general vacancy by 1%	2,307

## 9 Investments in associates

### A Main associates include:

Holding company	Name of associate	% of ownership and control by the direct holding company as of		
		December 31, 2017	December 31, 2016	Country
Tahal Group B.V.	Agroquiminha	20.0	–	Angola
Tahal Group Assets B.V.	MVV Water Utility Pvt Ltd.	26.0	26.0	India
Water Planning for Israel Ltd.	Star Pumped Storage Ltd.	–	40.5	Israel

### B Composition:

€ in '000	December 31, 2017 <sup>2</sup>	December 31, 2016 <sup>1</sup>
Total of equity investments	–	201
Loans <sup>3</sup>	–	12,687
<b>Total investment</b>	<b>–</b>	<b>12,888</b>

1 Mostly related to the investment in Star Pumped Storage Ltd. which was sold in 2017, see Note 5 for additional information.

2 The investment in associates is presented under assets held for sale.

3 In NIS, bearing an interest rate of 8.85% linked to the Israeli CPI.

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

€ in '000	2017	2016
Balance as of January <sup>1</sup>	12,888	9,540
Reclassification to Assets as held for sale	(12,888)	
Change in loans, net	–	2,793
Share of loss of investments accounted for using the equity method, net	–	(971)
Foreign currency translation differences	–	416
Interest income from loan to associate company	–	1,110
<b>Balance as of December 31</b>	<b>–</b>	<b>12,888</b>

## 10 Investments in joint ventures

### A Main Joint Ventures:

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

Holding company	Name of joint venture	% of ownership by the direct holding company as of December 31,		Country	Nature of activities
		December 31, 2017	December 31, 2016		
Kardan Land China Limited	Shenyang Taiying Real Estate Development Ltd.	50.0	50.0	China	Real estate development and property management
	GTC Lucky Hope Dadong Ltd.	50.0	50.0	Hong Kong	Holding
	Sino Castle Development Ltd.	50.0	50.0	Hong Kong	Real estate development
	Green Power Development Ltd.	50.0	50.0	Hong Kong	Holding
	Rainfield Development Ltd.	50.0	50.0	Hong Kong	Holding
	Shaanxi GTC Lucky Hope Real Estate Development Ltd.	50.0	50.0	China	Real estate development, property lease and property management
Task Water B.V. *	Akfen SU Kanalizasyon	50.0	50.0	Turkey	Management and construction of establishments for producing drinking water
Sitahal 'Hagal' (Talía) Partnership *	Energy Hagal- Talía Partnership	50.0	50.0	Israel	Biogas projects

Holding company	Name of joint venture	% of ownership by the direct holding company as of December 31,		Country	Nature of activities
		December 31, 2017	December 31, 2016		
Tahal Consulting Engineers Ltd. *	Lahat Joint Venture	50.0	50.0	Israel	Water desalination
GTC Real estate Holding B.V.	GTC Investments B.V.	48.75	48.75	Netherlands	Holding
Kardan Financial Services B.V. **	TBIF-Dan Leasing Ltd.	66.0	66.0	Cyprus	Holding

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

\*\* KFS has a joint control agreement with its 34% partner in this company, therefore the Company does not consolidate TBIF-Dan Leasing Ltd. in its financial statements.

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

€ in '000	December 31, 2017 *	December 31, 2016
Total of equity investments	52,122	57,442
Goodwill	6,498	7,697
Deemed cost on real estate projects **	202	384
Less impairments	(8,933)	(9,237)
	49,889	56,286
Loans and other long-term balances	25,432	39,753
Total investment in joint ventures	75,321	96,039

\* During the year 2017 dividend in the amount of €13 million was distributed from joint venture companies.

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



**C Loans:**

The investment in joint ventures companies includes loans as follows:

€ in '000	Interest rate (p.a.)	December 31, 2017	December 31, 2016
In EUR	–	7,017	7,017
In EUR	3 months Euribor + 3.5%	2,952	3,438
In EUR	6 months Euribor + 3.5%	2,520	2,521
In EUR	12.5%	–	1,960
In USD	–	12,338	24,134
In USD	6 months libor + 3.5%	581	658
In HKD	–	24	25
		<b>25,432</b>	<b>39,753</b>

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

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

€ in '000	For the year ended December 31,		
	2017	2016	2015
Profit/(loss) from continuing operations	7,513	1,689	(611)
Other comprehensive income	(14,598)	(381)	3,335
Total comprehensive income	(7,085)	1,308	2,724

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

**GREEN POWER DEVELOPMENT LTD.**

Summary of financial data from the statement of financial position:

€ in '000	December 31, 2017	December 31, 2016
Current assets (not including cash and cash equivalent)	44,697	110,717
Cash and cash equivalent	28,045	30,647
Non-current assets	3,022	3,585
Current liabilities	(25,629)	(90,463)
Current financial liabilities	(18,161)	(36,055)
Current financial liabilities	(4,538)	(4,538)
Total equity attributed to the owners	30,297	14,805
% held in the joint venture	50%	50%
<b>Total investment in joint ventures</b>	<b>15,149</b>	<b>7,403</b>

Summary of financial data from the income statement:

€ in '000	For the year ended December 31,		
	2017	2016	2015
Revenues from operations	77,246	71,002	28,865
Cost of operations	(50,256)	(52,138)	(24,656)
Selling and marketing, other expenses and administrative expenses	(4,577)	(4,160)	(4,618)
Interest income	–	160	–
Other Financial income (expenses)	10,723	(1,107)	(3,353)
Profit (loss) before tax	33,136	13,757	(3,762)
Income tax expenses	(9,116)	(4,780)	(972)
<b>Net profit (loss)</b>	<b>24,020</b>	<b>8,977</b>	<b>(4,734)</b>
Profit (loss) attributed to non-controlling interest	(1,338)	(823)	102
Profit (loss) for the year	22,682	8,154	(4,632)
% held of the joint venture	50%	50%	50%
<b>Group's share of profit for the year</b>	<b>11,341</b>	<b>4,077</b>	<b>(2,316)</b>
Total other comprehensive income (expenses) attributed to equity holders	13,080	6,982	(2,474)
% held of the joint venture	50%	50%	50%
<b>Group share of the total other comprehensive income (expenses)</b>	<b>6,540</b>	<b>3,491</b>	<b>(1,237)</b>

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

€ in '000	December 31, 2017		December 31, 2016	
	Goodwill include in the investment	Impairments to the investment	Goodwill include in the investment	Impairments to the investment
TASK SU kanalizasyon SU *	–	–	1,059	–
Shenyang Taiyling Real Estate Development Ltd.	140	(140)	140	(140)
GTC Lucky Hope Dadong Ltd.	–	–	–	(2,599)
TBIF-Dan leasing Ltd.	6,498	(6,498)	6,498	(6,498)
	6,638	(6,638)	7,697	(9,237)

\* The decrease is due to the classification of the investment in TGI as Held-For-Sale – for additional information see Note 5C.

## G Additional information

### Kardan Land China

#### 1. Capital commitments:

As of December 31 2017, KLC's share in the contractual commitments of its joint ventures amount to €21,034 thousand (December 31, 2016: €6,565 thousand).

#### 2. Guarantees:

As of December 31, 2017, the joint ventures of KLC provided guarantees amounting to €24.45 million (December 31, 2016: €74.4 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of properties of the joint ventures of Kardan Land China, which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiration date of the guarantees, the joint ventures of Kardan Land China 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.

## 11 Long-term loans and receivables

### A Composition

€ in '000	December 31, 2017	December 31, 2016
Pledged deposit (See Note 5B(1))	–	5,000
Fit-out prepaid expenses	5,407	4,166
Other	2,716	2,529
	<b>8,123</b>	<b>11,695</b>

## 12 Apartments inventory, contract work and merchandise inventory

Composition:

€ in '000	December 31, 2017	December 31, 2016
Apartments inventory (1)	117,900	103,035
Contract work (2)	–	11,946
Merchandise inventory (2)	–	4,440
	<b>117,900</b>	<b>119,421</b>

(1) Apartments inventory:

- a. As of December 31, 2017 and 2016 inventory in the amount of €55,325 thousand and €54,513 thousand, respectively, is pledged as security for a loan (see also Note 25).
- b. Inventory is presented at cost including finance expenses capitalized during the construction of the project.

c. Composition of cost of buildings and apartments inventory:

€ in '000	December 31, 2017	December 31, 2016
<b>Current:</b>		
Completed	12,675	21,723
Under construction	105,225	81,312
	<b>117,900</b>	<b>103,035</b>

d. Buildings and apartments inventory is stated in gross figures. Advances from apartment buyers are presented under current liabilities and amount to €61,208 thousand as of December 31, 2017 (December 31, 2016: €50,011 thousand).

e. During the past year the Group entered into 112 sale contracts of apartments (in 2016 - 6 contracts), for which the total consideration is estimated at €26.9 million (RMB 209.9 million) (in 2016 - €1.1 million). As of December 31, 2017, the aggregated number of signed contracts of existing projects for which revenues were not recognized amounts to 72 contracts (in 2016 – 265) for which the aggregated revenues is estimated at approximately €17.6 million (RMB 137.2 million) (in 2016 - €66.3 million).

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

€ in '000	Residential construction		Infrastructure works	
	For the year ended 2017	Cumulative up to the end of the reporting period	For the year ended 2016	Cumulative up to the end of the reporting period
Revenues recognized	8,556	80,958	761	72,402
Cost recognized	7,993	72,508	676	64,515

(2) The decrease is due to the reclassification of the investment in TGI as Held-For-Sale – for additional information see Note 5C.

### 13 Trade receivables

#### A Composition:

€ in '000	December 31, 2017	December 31, 2016 *
Trade receivables	6,751	71,837
Less provision for doubtful debt	(1,350)	(5,390)
	<b>5,401</b>	<b>66,447</b>

\* As of December 31, 2016 an amount of €61,550 thousand derives from the water infrastructure activity which is presented as held for sale as of December 31, 2017.

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

**B As of December 31 the aging analysis of trade receivables, 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	
2017	3,310	336	434	89	244	946	42	5,401
2016	46,655	5,709	1,362	2,527	1,342	2,611	6,241	66,447

**C Movement in the provision for doubtful debts:**

€ in '000	2017	2016
Opening balance	5,390	3,914
Reclassification to assets as held for sale	(4,666)	–
Addition during the year	685	1,831
Collection during the year	(83)	(185)
Foreign currency translation	24	6
Disposal of a subsidiary	–	(176)
Closing balance	<b>1,350</b>	<b>5,390</b>

**14 Other receivables and prepayments**

€ in '000	December 31, 2017	December 31, 2016
Accrued income	–	4,624
VAT receivable	43	2,786
Receivables from joint ventures of KLC	817	928
Prepaid expenses	3,271	4,868
Advances to suppliers	–	4,734
Deposit receivable	1,280	7,357
Other	275	1,476
	<b>5,686</b>	<b>26,773</b>



## 15 Short-term investments

	Average interest rate	December 31, 2017	December 31, 2016
	%	€ in '000	€ in '000
Bank deposits in Euro	0%-1%	–	1,131
Bank deposits in NIS	0%-0.5%	7	8
Restricted bank deposits (*)	0%-3%	5,169	2,524
Bank deposits in RMB	1.8%-3.4%	6,793	6,555
		<b>11,969</b>	<b>10,218</b>

\* In 2017 mostly in Euro.

## 16 Cash and Cash Equivalents

€ in '000	December 31, 2017	December 31, 2016
Cash at bank and in hand	26,480	50,759
Short-term deposits *	10,660	7,024
	<b>37,140</b>	<b>57,783</b>

\* As of December 31, 2017 and 2016 the range of the annual interest rate earned on short-term deposits was 0.5%-1.5%.

## 17 Issued and Paid-In Capital

### A Composition

Number of shares	December 31, 2017		December 31, 2016	
	Authorized	Issued and paid-in	Authorized	Issued and paid-in
Ordinary shares with nominal value of €0.20 each	225,000,000	123,022,256	225,000,000	123,022,256

## B Movement in issued and paid-in shares

During 2016 and 2017 there were no movements in the issued and paid-in shares.

	Number of shares	Par value in €
Balance as of December 31, 2016 and 2017	123,022,256	24,604,451

## C Movement in treasury shares:

	Number of shares	Par value in €
Balance as of January 1, 2015	1,167,585	234,248
Treasury shares granted to the Debenture Holders	(1,167,585)	(234,248)
<b>Balance as of December 31, 2015, 2016 and 2017</b>	<b>–</b>	<b>–</b>

## D Changes in share capital and treasury shares

During 2017, 2016 and 2015, the following transactions took place:

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

## E Dividend:

In 2017 and 2016, the Company did not distribute dividends.

## F 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, cash flow hedges, foreign currency translation differences on investment in foreign operations, and equity gains from associates and joint ventures.

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.

## 18 Share-Based Payments

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

€ in '000	For the year ended December 31		
	2017	2016	2015
Expense arising from equity-settled share-based payment transactions of the Company and the subsidiaries	4	254	1,080
Expense arising from cash-settled share-based payment transactions of a subsidiary	–	339	(41)
	<b>4</b>	<b>593</b>	<b>1,039</b>

The expenses in the amount of are presented as part of 'Payroll and related expenses' within the General and administrative expenses (see Note 30 and Note 4S).

### B Option plans:

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

#### (1) Kardan N.V.

In September 2013 (the 'Grant Date'), the Board of the Company approved a stock-option plan according to which the Company granted to several employees of the Company a total of 250,000 options exercisable into up to 250,000 ordinary shares of the Company, each having a par value of €0.20 (subject to adjustments). In August 2015 the plan was modified. According to the modification, the exercise price would

be €0.2807 or NIS 1.191 and the options will vest in two equal tranches, 50% of the options would be exercisable from December 31, 2016 and 50% of the options will be exercisable from June 30, 2018. The grant was accounted for assuming equity settlement and the total expense booked in the year was less than €4 thousand and were included in 'General and administration expenses' in the income statement.

**Movement in the year**

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

	2017		2016	
	No.	WAEP NIS	No.	WAEP NIS
Outstanding on January 1	250,000	1.191	2,582,624	1.191
Expired during the year	(150,000)	1.191	(2,332,624)	1.191
Outstanding on December 31	100,000	1.191	250,000	1.191
Exercisable on December 31	91,743	1.191	125,000	1.191

In 2017 150,000 options expired due to termination of two employees.

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

**(2) TGI (discontinued operations)**

- a. In March 2016, the supervisory board of TGI decided to grant the CEO 560 options to purchase 2% of TGI's share capital at that time. The total fair value of the grant is approximately USD 1 million approximately (€0.7 million) and was calculated using the Black & Scholes model. The exercise price was determined at USD 1,594 per option, reflecting TGI's value post distributions in 2015 and 2016.
- b. In August 2014, the supervisory board of TGI decided to grant five executive managers options to purchase 1.9 % of TGI's share capital. The total value of the grant is approximately USD 1 million (€0.7 million) and was calculated using the Black & Scholes model. The exercise price of the options amounts to €1,567 per option (after adjustments).

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

- d. During 2012, the supervisory board and the general meeting of shareholders of TGI approved a grant 797 options, constituting approximately 3% of the shares of TGI at that time, post-issuance to the CEO of TGI. The newly issued stock option plan was divided into two agreements which have comparable option terms except for the vesting periods. Each option plan has been valued separately.

The exercise price of the options amounts to €1,370 per option (after adjustments). The options can be exercised until December 31, 2018. The total value of the options at date of grant was estimated at €1.9 million. This fair value was determined by an independent external valuator. The expected life of the options is based on historical data.

TGI accounts for all the options granted, as described above, assuming equity payments will be affected. The total expense booked in 2017 was €130 thousand.

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

	2016	2014	2013	2012
Number of options granted	560	499	185	797
Expected volatility (%)	36%	35%	46.4%	44.96%
Risk-free interest rate (%)	0%	0.429%	0.7%	2.04%
Expected term of options (years)	4	4	5	6.4
Weighted average share exercise price	\$1,594	€1,567	€1,794	€1,370
Weighted average share value	\$6,131	\$6,360	€3,495	€4,999
Model used	Black–Scholes	Black–Scholes	Black–Scholes	Hull–White

#### Movements in the year

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

	2017	2016	2017	2016
	No.	No.	WAEP €	WAEP €
Outstanding on January 1	2,041	2,041	1,787	1,787
Granted for the year	–	–	–	–
Outstanding on December 31	2,041	2,041	1,787	1,787
Exercisable on December 31	1,901	1,650	1,806	1,764

## 19 Non-Current Interest-Bearing Loans and Borrowings

### A Composition

	December 31, 2017		December 31, 2016	
	Weighted interest rate as of %	€ in '000	Weighted interest rate as of %	€ in '000
<b>Banks:</b>				
In EUR		–	3.2-5.8	95
In NIS		–	3.7-6.7	222
Others – in EUR		–	3.2-5.8	147
Others – In RMB *	11.6-13.3	104,933	12.5	111,232
Linked to other currencies		–	3.7-6.7	178
		<b>104,933</b>		<b>111,874</b>
<b>Less:</b>				
– Current maturities		–		(111,455)
– Long-term interest-bearing loans related to current inventory		–		–
		<b>104,933</b>		<b>419</b>

\* On October 27, 2015, Kardan Land Dalian Ltd. ('the Project Company') entered into a framework agreement with the investment fund Shenzhen Ping An Da Hua Huitong Wealth Management Co., ('the Fund') in China, with respect to a credit facility (the 'Credit') amounting up to RMB 1 billion (approximately €142 million) for the Europark Dalian project and to replace the bank loan at the time. In November 2015 the Project Company withdrew an amount of RMB 700 million (approximately €105 million) from the Credit. The withdrawn funds were used, together with additional existing cash reserves, to repay the current project loan in full. In February 2016, additional RMB 100 million was withdrawn from the Credit. The Credit is for a period of 2 years from the date of the initial drawdown, which can be extended by one year with the mutual consent of both parties.

On October 24, 2017 the Project Company, Kardan Land Dalian HK Ltd. (as a pledgee) and KLC (as a guarantor) have entered into the agreement with two subsidiaries of the investment fund China Hua Rong International Holding Ltd.: Hua Rong (China) Investment Management Ltd ('HR Beijing') and Hua Rong Holdings (Shenzhen) Equity Investment Fund Management Ltd. ('HR Shenzhen') in China and with China Merchant Bank Dalian Shahekou Branch ("CMB Dalian") regarding a credit facility of RMB 900 million (€ 115 million) for a period of 3 years. The credit facility will primarily be used to refinance the outstanding debt from the Fund amounting to RMB 800 million as at December 31, 2017, and remaining RMB 100 million, will be used to finance the additional funding requirement of Europark Dalian project. For additional information regarding collaterals and covenants, see Note 25A.

**Maturities**

€ in '000	December 31, 2017	December 31, 2016
First year	–	111,455
Second year	–	272
Third year	104,933	–
Thereafter	–	147
	<b>104,933</b>	<b>111,874</b>

**20 Other Long-Term Liabilities**

€ in '000	December 31, 2017	December 31, 2016
Site coverage and rehabilitation provision *	–	2,669
Deferred revenues	1,054	833
Other	–	502
	<b>1,054</b>	<b>4,004</b>

\* The decrease is due to the reclassification of TGI as held for sale (see Note 5).

**21 Financial instruments: Options and warrants**

€ in '000	December 31, 2017	December 31, 2016
Liability to FIMI <sup>1</sup>	–	2,745
PUT option liability <sup>2</sup>	1,306	976
Share-base payment liability <sup>3</sup>	–	245
	<b>1,306</b>	<b>3,966</b>

<sup>1</sup> On September 10, 2015 TGI and the Company signed an amended agreement with FIMI (the 'Amended Agreement') to replace existing agreements which were signed in 2010 (the 'Agreements'). According to the Amended Agreement, FIMI will be entitled to receive from TGI a cash consideration (and not the right to receive shares as stipulated in the previous warrant agreements) under the certain conditions.

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

As of December 31, 2017 the liability, amounting to €2.4 million is classified as a liability associated with assets held for sale.

<sup>2</sup> 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. Subsequent to the balance sheet date, the parties entered into an agreement cancelling 50% of the PUT option.

<sup>3</sup> The share base payment liability relating to phantom options that was fully paid during the first quarter of 2017.



## 22 Debentures

### A Composition

	Par value (net) as of December 31, 2017	Balance as of December 31, 2017	Balance as of December 31, 2016	Nominal Interest rate	Effective interest rate	Currency and linkage	Maturities principal
	€ in '000	€ in '000	€ in '000	%	%		
<b>Issuer</b>							
The Company – 2007	160,993,886	46,420	47,232	6.325	7.05%	1	2017-2018
The Company – 2008	832,452,875	237,740	241,746	6.775	7.64%	1	2017-2020
		284,160	288,978				
Less – current maturities		(95,452)	–				
		188,708	288,978				

- 1 The Company's Debentures (series A and series B) are traded on the TASE. The Debentures are denominated in NIS and are linked to the Israeli CPI. The amount presented above is net of Debentures held by the Company's subsidiaries.
- 2 Subsequent to the balance sheet date the Company did not repay Debenture Holders series A and B the February 2018 interest and principal.– For additional information see Note 1B.
- 3 *Debt settlement between the Company and its Debenture Holders*  
In 2015 the Company reached a debt settlement with its Debenture Holders. The amended Deeds of Trust dated July 3, 2015 constitute new deeds of trust to series A and B and replace the original deeds of trust, including all related amendments ('the Deeds of Trust'). This debt settlement postponed the debt repayment dates that were determined in the original deeds of trust while repaying the debt in full to the Debenture Holders. Below are the main principles of the Deeds of Trust.

#### Series A:

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

#### Series B:

- a. The principal payments (and linkage differences in respect thereof) which the Company originally would have had to pay on February 1, 2015-2018 were postponed by 24 months, excluding the principal payments of 2019 and 2020, which remained unchanged (and grew, due to the postponement of the principal payments of this series from 2017 and 2018 to 2019 and 2020).

- b. No changes occurred in the interest payment dates (except the February 2015 interest payment). The interest set in the deed of trust was increased by 1.875%, so that the principal of Debentures Series B bears an annual nominal interest rate of 6.775%, payable once a year, on February 1 of each year from 2016 up to and including 2020.

*Pledges and guarantees in favor of the Debentures holders*

The Company committed to establish and register primary, exclusive pledges with no limitations of amounts over all of the Group's interests in GTC RE, KLC, KFS, TGI, EMERGING (the 'Pledged Subsidiaries'), including all benefits which will emanate from these interests and all the rights of the Group in loans granted to the Pledged Subsidiaries. As long as the aforesaid pledges have not been exercised the Company shall be allowed to use the benefits derived from these interests and from loan repayments. Issuance or sale of shares in the Pledged Subsidiaries will be used to early repay the Debentures. All of the aforesaid pledges were established and registered as of December 31, 2017.

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

In addition, to secure the Company's commitments, KLC provided a guarantee in favor of the trustees limited to an amount of €100 million which will expire upon meeting the Relief Conditions as detailed below. The trustees will not be able to use the guarantee or to

take any action against KLC as long as the construction loan to the Dalian project has not been fully repaid, as well as loans that will be obtained, if obtained, in relation to the Dalian project.

*Financial Covenants*

The Company's debt coverage ratio shall not be below 100% during the years 2015 till 2017 (including) and shall not be below 120% from 2018 onwards. The coverage ratio is the total value of the assets according to the Company's stand-alone financial statements divided by the total stand-alone liabilities of the Company, net of certain amounts as detailed in the Deeds of Trust. If the Company's coverage ratio in the years 2015-2017 shall be lower than 110%, and as of 2018 – lower than 130%, KLC's coverage ratio shall not be lower than 180%. As of December 31, 2017 the Company did not meet the abovementioned coverage ratio. For additional details see Note 25.

*Additional provisions*

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

It was also agreed that the Company may retain certain amounts, prior to an early repayment, for general and administrative expenses, interest payment to the debenture holders, as well as for supporting its subsidiaries.

*Restrictions on business activities*

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

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

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

TGI and TGA or any entity under their control (except TG and entities under its control) shall not be allowed to enter into new business activities except for those detailed in the Deeds of Trust. They can make investments and obtain credit insofar the source of the

investments is from the operating activities of any of the entities controlled by TGI; and the securities for such credit will be provided by TGI and entities under its control and not by other Group companies.

*Relief Conditions*

Upon meeting both of the following conditions:

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

*Accounting*

The Company examined the changes in the terms of Debentures series A and B in accordance with IAS 39 provisions for substantial modification of the terms of an existing financial liability. The Company concluded, based on its examination that the modified terms are not substantially different than the existing terms of the debentures prior to signing the Amended Deeds of Trust, and therefore it is not regarded as

extinguishment. Accordingly, the debt settlement would be accounted for as of July 3, 2015 by an adjustment of the effective interest rate resulted from the modification of the interest rate and the issuance of shares and one-time payment. Such adjustment shall not result in recognition of profit or loss from the modification of the terms. The effective interest of the series A debentures and the series B debentures post settlement amounts to 7.05% and 7.64% respectively. The adoption of IFRS 9 as of January 1, 2018 will result in a change of the accounting of similar modifications of financial liabilities. For additional information, see Note 4CC.

#### (4) Early repayments

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

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

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

As at December 31, 2017, the Company's subsidiaries hold NIS 136,506,115 par value Debentures Series A (which represent 45.9% of the outstanding par value of Debentures Series A) and NIS 120,381,443 par value Debentures Series

B (which represent 12.6% of the outstanding par value of Debentures Series B).

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

#### Maturities:

€ in '000	December 31, 2017	December 31, 2016
First year	95,452	–
Second year	100,593	109,281
Third year	88,115	95,790
Fourth year	–	83,907
<b>Total</b>	<b>284,160</b>	<b>288,978</b>

The maturities are presented according to the repayment schedule in the Deeds of Trust, and do not take into consideration the fact that the Company did not make the repayments scheduled for February 2018.

## 23 Interest-bearing loans and borrowings

	Weighted annual interest rate	December 31, 2017	Weighted annual interest rate	December 31, 2016
	%	€ in '000	%	€ in '000
<b>Short-term credit from banks: *</b>				
In EUR	–	–	3.2-5.8	2,623
In USD	–	–	3.7	11,590
Other	–	–	4.5	1,148
		–		<b>15,361</b>
<b>Current maturities:</b>				
Loans (see Note 19)		–		111,455
Debentures		95,452		–
		<b>95,452</b>		<b>126,816</b>

\* The decrease is due to the reclassification of TGI as held for sale (see Note 5).

## 24 Other payables and accrued expenses

€ in '000	December 31, 2017	December 31, 2016
<b>Financial:</b>		
Accrued expenses	60,219	38,859
Payroll and related expenses	987	5,325
Payable to joint ventures of KLC accounted using the equity method	8,952	11,574
Deposit from tenants	2,349	–
Other	1,445	5,264
<b>Non-Financial:</b>		
Advances from customers	–	15,814
VAT payable	–	7
Other	–	1,231
	<b>73,952</b>	<b>78,074</b>

## 25 Liens, contingent liabilities and commitments

### A Financial covenants, Liens and collaterals:

#### 1. Financial Covenants

- a The Company's financial covenants, as defined within the framework of the Deeds of Trust, as described in Note 22 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, 2017, the Company did not meet the coverage ratio for the first time. Accordingly, as of December 31, 2017, the failure to meet this financial covenant does not confer any cause whatsoever on the Company.
- b TGI Group committed towards banks, with respect to long-term and short-term loans, credit facilities and guarantees, to maintain certain financial covenants such as minimum equity and EBITDA, the ratio of equity to total assets, the ratio of equity to net debt and the ratio of financial debt to total assets. Furthermore some restrictions relating to dividend distribution were imposed on TCE. As of December 31, 2017 TGI Group companies met all their financial covenants.
- c KLC Group committed towards a financial institutions which granted a construction loan amounting to up to RMB 900 million, to meet an initial loan-to-value ratio of not more than 50%. As of December 31, 2017 the covenant was met.

#### 2. Pledges

- a Within the framework of the Deeds of Trust, as described in Note 22 above, the Company pledged in favor of the trustees of the debenture holders of the Company all its rights in shares and loans of the subsidiaries GTC RE, 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, 2017 long-term loans amounting to €112.6 million granted to a

subsidiary of KLC was secured by mortgages over investment property, inventory and trade receivables.

- c Within the framework of the sale of TBIF in 2016, KFS undertook to indemnify the buyer for costs and damages which might occur under circumstances which have been specifically detailed in the share purchase agreement, including a breach of the customary representations and warranties given by KFS. Accordingly, KFS has deposited an amount of € 6 million for a period of two years and pledged this in favor of the buyer as collateral for the indemnification, this amount was reduced to € 5 million after one year and expected to be released in August 2018.

#### 3. Guarantees

- a As of December 31, 2017 and 2016, TGI provided bank guarantees in an aggregated amount of approximately €65.9 million and €43.3 million, respectively, in favor of customers in respect of advances received from them for projects and for performing works.
- b A subsidiary of TGI, TCE, is a guarantor by an irrevocable guarantee for the fulfillment of its subsidiary's obligations by means of placing the subsidiary's real estate properties as securities, or in any means as it will be agreed from time to time.
- c As at December 31, 2017, Kardan Land China provided guarantees of €1,328 thousand (December 31, 2016 - €9,150 thousand) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Kardan Land China Group's properties, which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiry of the guarantees, the Kardan Land China Group is responsible for repaying the outstanding mortgage principals and interest to the banks. Kardan Land China guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate

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

- d The Company provided a performance guarantee in favor of the Dutch Government (via Atradius Dutch State Business N.V.), the body securing the loan agreement between the Government of Angola and a commercial bank ('the Insurer'), regarding financing of a Tahal Group project in Quiminha ('the Lender'). In accordance with the said guarantee, Kardan N.V. secured Tahal Group's liabilities towards the Insurer to pay sums which the Insurer will pay the Lender in case of a breach by Tahal Group of the provisions of the commercial agreement between Tahal Group and the customer in the aforementioned project. Kardan N.V.'s said guarantee is for the payments that have been paid and/or will be paid to Tahal Group in accordance with the milestones set by the project. Kardan N.V.'s Performance Guarantee with respect to the project entered into force, the balance of which is € 71.3 million as of December 31, 2017 (December 31, 2016 € 98.8 million).
- e In relation to KFS's undertaking towards the buyer of TBIF as described above, the Company has guaranteed the due and punctual performance of each obligation of KFS contained in the share purchase agreement.
- f With respect to such guarantees provided in joint ventures companies, refer to Note 9.

#### 4. Legal claims and contingencies

- a The Company and its main subsidiaries do not have any material legal claims.

- 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 22.
- b As of December 31, 2017 Kardan Land China Group had commitments of €10.2 million (December 31, 2016: €3.1 million) principally relating to the property development cost of the construction projects of the KLC Group.
- c On May 2, 2016 a Cooperation Framework was signed between TGI and ZRB Consulting Finance & Development Limited ('ZRB'), in which the parties agreed to fully cooperate in Angola in any future project/activity for any project and activity from January 1, 2016 to December 31, 2020. According to the cooperation agreement: (1) All projects in Angola will be managed jointly by TGI and ZRB; (2) TGI has the right to acquire majority in voting by means of purchasing a casting vote, in a case of deadlock in relation to management decisions and relating to all aspects of the cooperation, without change in its rights to profits and for a payment of USD 1 million. On May 1, 2017 the above mentioned Cooperation Framework with ZRB was amended in order to include cooperation in Zambia as well.



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

#### B. Operating lease commitments:

##### 1. Operating lease commitments – Group as lessor

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

Future minimum rentals receivable under non-cancellable operating leases as of December 31, 2017 and 2016:

€ in '000	2017	2016
First year	4,714	3,309
Second to fifth year	19,621	12,075
After the fifth Year	19,131	11,130
	<b>43,466</b>	<b>26,514</b>

##### 2. Operating lease commitments – Group as lessee

- a TGI Group companies have entered into commercial operating lease agreements on commercial vehicles. These leases have an average life of three years with no renewal option included in the contracts. The annual rentals total approximately €0.7 million (2016 - €0.9 million).
- b TGI Group companies have entered into operating lease agreements with respect of office buildings rental. Future minimum rentals payables under non-cancellable operating leases as of December 31, 2017 and 2016:

€ in '000	2017	2016
First year	2,520	2,410
Second to fifth year	6,566	8,080
After the fifth Year	3,346	5,240
	<b>12,432</b>	<b>15,730</b>

- c With respect to b above, one of the buildings was sub-leased to a third party under an operating lease agreement for a period of eight years. Future minimum rentals payables under non-cancellable operating leases as of December 31, 2017 and 2016:

€ in '000	2017	2016
First year	1,537	1,550
Second to fifth year	2,178	4,424
	<b>3,715</b>	<b>5,974</b>

- d KLC leases various offices under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years, and the majority are renewable at market rate. The total commitment as of December 31, 2017 amounts to €0.5 million (December 31, 2016 - €0.4 million).

## 26 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. Starting with these financial statements, the real estate activity is divided into 2 separate segments: the development and sale of residential property, and the development and lease of investment properties ('Real Estate development' segment and 'Real Estate investment property' segment). For comparative purposes, the segment information was retroactively adjusted in accordance with the updated segment presentation.

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

#### *Water Infrastructure*

Further to Note 1B above, due to the sale process of the Company's holdings in TGI, as of March 31, 2017 the terms of classifying the investment in TGI (as Held-For-Sale and its results as discontinued operations, in accordance with IFRS 5, were met. Accordingly, starting the first quarter of 2017, the results of TGI are no longer presented as an operating segment and are included in 'Profit (loss) from discontinued operations'.

## B Segments results

For the year ended December 31, 2017:

€ in '000	Real Estate		Other	Total
	Development	Investment property		
Revenue	9,275	5,748	–	15,023
Fair value adjustments of investment property	–	(4,181)	–	(4,181)
Total income	9,275	1,567	–	10,842
Share in profit of investment accounted using the equity method	16,425	–	2,428	18,853
Segment result	15,331	(7,440)	1,699	9,590
Unallocated expenses				(7,093)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net				2,497
Finance expenses, net				(27,476)
Loss before income tax				(24,979)
Income tax expense				(5,180)
Loss from continuing operations				(30,159)
Profit from discontinued operations				12,783
<b>Loss for the period</b>				<b>(17,376)</b>

For the year ended December 31, 2016:

€ in '000	Real Estate		Other	Total
	Development	Investment property		
Revenue	1,670	6,866	2,572	11,108
Fair value adjustments of investment property	–	(2,588)	–	(2,588)
Total income	1,670	4,278	2,572	8,520
Share in profit of investment accounted using the equity method	2,467	–	1,529	3,996
Segment result	1,563	(6,175)	655	(3,957)
Unallocated expenses				(7,058)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net				(11,015)
Finance expenses, net				(47,368)
Loss before income tax				(58,383)
Income tax benefit				(4,504)
Loss from continuing operations				(53,879)
Profit from discontinued operations				22,553
<b>Loss for the period</b>				<b>(31,326)</b>

For the year ended December 31, 2015:

€ in '000	Real Estate		Other	Total
	Development	Investment property		
Revenue	2,160	4,566	(715)	6,011
Fair value adjustments of investment property	–	20,907	–	20,907
Total income	2,160	25,526	(715)	26,918
Share in profit of investment accounted using the equity method	2,621	–	1,605	4,226
Segment result	562	17,082	(2,088)	15,556
Unallocated expenses				(10,105)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net				5,451
Finance expenses, net				(62,858)
Loss before income tax				(57,407)
Income tax expense				3,580
Loss from continuing operations				(60,987)
Profit from discontinued operations				38,029
<b>Loss for the period</b>				<b>(22,958)</b>

## C Segments assets

€ in '000	December 31, 2017	December 31, 2016
Real Estate – Development	176,320	180,748
Real Estate – Investment property	232,326	251,749
Water infrastructure	–	155,536
	408,646	588,033
Assets held for sale (former water infrastructure segment)	183,354	–
Unallocated assets *	76,576	77,334
	<b>668,576</b>	<b>665,367</b>

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

## D Segments liabilities

€ in '000	December 31, 2017	December 31, 2016
Real Estate – Development	101,538	82,788
Real Estate – Investment property	7,958	15,948
Water infrastructure	–	111,671
	<b>109,496</b>	<b>210,407</b>
Liabilities associated with assets held for sale (former water infrastructure segment)	132,798	–
Unallocated liabilities *	427,108	413,777
	<b>669,402</b>	<b>624,184</b>

\* 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,		
	2017	2016	2015
China	15,023	8,536	6,726
Bulgaria and Romania	–	2,572	(715)
	<b>15,023</b>	<b>11,108</b>	<b>6,011</b>

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, 2017	December 31, 2016
China	221,587	243,035
Israel	–	11,441
Other	128	5,830

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		
	2017	2016	2015
Costumer A	2,640	–	–
Costumer B	2,701	–	–
Costumer C	1,108	1,096	786
	<b>6,449</b>	<b>1,096</b>	<b>786</b>

## 27 Cost of sale

### A. Rental cost:

€ in '000	For the year ended, December 31		
	2017	2016	2015
Staff cost	12	127	28
Property management fee	103	221	435
Utility fees	209	74	–
Property Tax	922	1,020	418
Others	100	51	92
	<b>1,346</b>	<b>1,493</b>	<b>1,473</b>

### B. Cost of apartment sold:

€ in '000	For the year ended, December 31		
	2017	2016	2015
Land Cost	2,847	240	224
Construction Cost	3,863	325	303
Project Management and supervision	298	25	23
Finance Cost	508	46	247
Other	477	40	92
	<b>7,993</b>	<b>676</b>	<b>889</b>

## 28 Management fees and other expenses, net

€ in '000	For the year ended December 31,		
	2017	2016	2015
Staff cost	918	1,551	1,026
Property management fee	110	639	392
Cleaning related cost	150	159	68
Safety and engineering system management fee	240	200	163
Car park management fee	183	459	308
Utility fees	681	830	440
Other	565	2,175	3,781
	<b>2,847</b>	<b>5,521</b>	<b>6,178</b>

## 29 Selling and marketing expenses

€ in '000	For the year ended December 31,		
	2017	2016	2015
Payroll and related expenses	728	792	1,156
Commissions	205	31	317
Marketing and advertising	3,225	1,772	2,012
Other	1,510	1,165	1,433
	<b>5,668</b>	<b>3,760</b>	<b>4,918</b>

## 30 General and administrative expenses

€ in '000	For the year ended December 31,		
	2017	2016	2015
Payroll and related expenses *	3,891	6,042	6,985
Share-based payment (see Note 18)	4	193	121
Management fees	876	741	1,281
Office maintenance	921	932	802
Professional fees	2,471	1,503	1,484
Depreciation and amortization	84	89	207
Other	1,933	1,001	1,057
	<b>10,180</b>	<b>10,501</b>	<b>11,937</b>

\* Payroll and related expenses are as follows:

€ in '000	For the year ended December 31,		
	2017	2016	2015
Wages and salaries	3,230	5,128	6,318
Unemployment contributions	419	626	328
Other social expenses	242	288	339
	<b>3,891</b>	<b>6,042</b>	<b>6,985</b>

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

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

€ in '000	For the year ended December 31,		
	2017	2016	2015
Loss on disposal of investment in companies <sup>1</sup>	–	(1,734)	–
Gain (loss) from sale of fixed assets	836	39	(423)
Other	–	115	125
	<b>836</b>	<b>(1,580)</b>	<b>(298)</b>

<sup>1</sup> In 2016, relates to revaluation of the remaining mortgage activity in light of its disposal.

## 32 Financial income and expenses

€ in '000	For the year ended December 31,		
	2017	2016	2015
<b>Income:</b>			
Income from bank deposits	373	314	1,096
Exchange differences, net	6,335	–	–
Other	137	161	–
<b>Total financing income</b>	<b>6,845</b>	<b>475</b>	<b>1,096</b>
<b>Expenses:</b>			
Interest on long-term loans and borrowings	11,758	13,124	9,963
Interest on debentures	21,038	19,990	24,126
Exchange differences, net	–	14,110	27,002
Devaluation of warrant	–	236	–
Other	1,525	383	2,863
<b>Total financing expenses</b>	<b>34,321</b>	<b>47,843</b>	<b>63,954</b>

## 33 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 2017 and 2016, the standard Dutch corporate income tax rate amounts to 25%. A tax rate of 20% applies to the first € 200,000 of taxable income.

### Dutch Participation Exemption

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

### Interest deduction limitation rule regarding Participation Debt

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

It is noted that certain exceptions exist. The impact of Section 13L CITA can be limited if and to the extent that the interest held in an operational participation can be considered an expansion of the operational activities of the group ('expansion investment escape'). Also a grandfathering rule

applies for participations held by the Dutch tax payer on or before 1 January 2006.

In December 2013 the Company has filed a ruling request with the Dutch Tax Authorities regarding the (non-)applicability of Section 13L CITA for 2013 and further years. The Dutch Tax Authorities followed the position taken in the 2013 and 2014 tax return of the Company that the deduction of interest expenses should not be limited pursuant to Section 13L CITA.

#### **Substance requirement regulations**

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

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

#### **Amendments of Dutch fiscal unity regime announced**

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. Following this decision, the Dutch government announced that a proposal to amend the fiscal unity regime with retroactive effect to 25 October 2017 will be sent to Dutch Parliament during the second quarter of 2018 to restrict certain benefits of the fiscal unity regime (including benefits in relation to the Participation Exemption and interest deductibility).

The amendment of the Dutch fiscal unity regime as announced by Dutch government might also impact the 2017 Dutch tax position of the Company, which is the parent company of a fiscal unity with its subsidiaries GTC Real Estate Holding B.V. and Emerging Investments XII BV. As no (draft) legislation is available yet, it is not possible to quantify the impact at this stage, if at all.

#### **Transfer pricing documentation requirements**

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

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

Although the Company is not required to submit the CbCR template regarding financial year 2017 to the Dutch Tax Authorities, it has the obligation to prepare a Master file and Local file for financial year 2017 before filing of the 2017 corporate income tax return. The Company is currently in the process of preparing a Master file and Local file for financial year 2017.

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

Country	Tax rate	
	2017	2016
Bulgaria	10%	10%
China	25%	25%
Hong-Kong	16.5%	16.5%
Israel	24%	25%
Romania	16%	16%
The Netherlands	20-25%	20-25%

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

€ in '000	For the year ended December 31,		
	2017	2016	2015
Current taxes	1,544	34	54
Tax expenses related to previous years	20	(228)	110
Deferred taxes (see also E below)	3,616	(4,310)	3,416
	<b>5,180</b>	<b>(4,504)</b>	<b>3,580</b>

**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,		
	2017	2016	2015
Accounting loss	(24,979)	(58,383)	(57,407)
Tax expense (tax benefit) computed at the statutory tax rate 25%	(6,245)	(14,596)	(14,352)
<b>Increase (decrease) in tax expense (tax benefit) due to:</b>			
Carry forwards tax losses for which no deferred tax assets were recognized	10,533	10,051	14,652
Adjustment in respect to tax of previous years	20	(227)	110
Share of results of investments accounted using the equity method	(4,713)	(999)	(1,052)
Non-deductible expenses and others, net	(234)	(522)	817
Withholding tax for dividends distributed from joint ventures	1,277	–	–
Impact of different tax rates	4,385	727	3,571
Other	157	18	(166)
	<b>5,180</b>	<b>(4,504)</b>	<b>3,580</b>

## E Composition of deferred taxes

€ in '000	Consolidated statement of financial position		Recorded in the income statement		
	December 31, 2017	December 31, 2016	Movement for the year ended December 31,		
			2017	2016 *	2015 *
<b>Deferred income tax assets (deferred tax liabilities) with respect to:</b>					
Investment properties	(10,778)	(12,124)	(588)	(646)	5,227
Financial instruments	–	–	–	–	(74)
Temporary differences in reserves and allowances	–	–	–	–	40
Carry forwards losses available for offset against future taxable income	4,223	8,723	4,224	(3,807)	926
Differences in measurement basis	664	1,417	–	785	(185)
Timing differences of projects	–	(965)	–	(1,039)	(310)
Non-current assets eliminated for rendering of service among group companies	–	–	–	–	–
Other	–	638	–	(10)	(2,143)
	<b>(5,891)</b>	<b>(2,311)</b>	<b>(3,636)</b>	<b>(4,717)</b>	<b>3,481</b>

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

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

€ in '000	December 31, 2017	December 31, 2016
Net deferred income tax asset (Non-current)	464	2,452
Net deferred income tax liability (Non-current)	(6,355)	(4,763)
	<b>(5,891)</b>	<b>(2,311)</b>



## F Losses carry-forwards and final tax assessments

Under the 2017 Dutch Tax legislation the carry back of losses is restricted to one year and furthermore the carry forward of losses (on which the Company has not recorded any deferred tax assets) is restricted to nine years. The accumulated unused tax losses up to 2017 of Kardan N.V. company-only amount to €313.4 million (according to the filed 2016 tax return, net of tax losses evaporated in 2016 and in 2017). The tax losses expire as follows: €14.9 million on 1 January 2018, €17.5 million on 1 January 2019, €85.5 million on 1 January 2020, €29.1 million on 1 January 2021, €41.1 million on 1 January 2023, €24.1 million on 1 January 2024, €61.7 million on 1 January 2025, and €39.5 million on 1 January 2026.

The Company received final tax assessments up to and including the year 2014. The Company does not expect the year 2017 to result with a tax liability.

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

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.

## 34 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, less the weighted average number of treasury shares.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent, after adjusting for interests on convertible shares of the Company and Group companies, by the weighted average number of ordinary shares outstanding during (less the weighted

The following reflects the income and share data used in the basic and diluted earnings per share computations:

€ in '000	2017	2016	2015
Net loss attributable to ordinary equity holders of the parent	(17,101)	(31,330)	(22,915)
Effect of dilution of earnings of group companies	(83)	(10)	(231)
	<b>(17,184)</b>	<b>(31,340)</b>	<b>(23,146)</b>
Weighted average number of ordinary shares for basic earnings per share	123,022	123,022	116,429
Effect of dilution:			
Shares options	–	–	–
<b>Adjusted weighted average number of ordinary shares for diluted earnings per share</b>	<b>123,022</b>	<b>123,022</b>	<b>116,429</b>

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, 2017, 2016 and 2015.

To calculate earnings per share amounts for discontinued operations, the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The profit used is €12,582 thousand, €22,549 thousand and €37,689 thousand for the years 2017, 2016 and 2015, respectively.

## 35 Financial instruments and risk management

### A Introduction

This Note deals with various disclosures required by IFRS 7 pertaining to risk management. Section B covers the Group as a whole and addresses the following:

- 1) Risk Management (financial and capital risk management and structuring thereof);
- 2) Liquidity risk including maturity profile of financial assets, liabilities and guarantees;
- 3) Foreign currency risk including sensitivity analysis;
- 4) Market risk;
- 5) Price risk;
- 6) Political risk;
- 7) Credit risks;
- 8) Interest rate risk including sensitivity analysis;
- 9) Fair value disclosures.

### B The Kardan Group

#### 1) Risk management

##### *Financial risk management*

The Group's principle financial instruments comprise of bank loans, debentures, receivables and cash deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The operations of the Group expose it to various financial risks, e.g. market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The current instability in the global financial markets, affecting the worldwide economic development, could have consequences for the future results of the Group, its equity base, the value of its assets, its ability to comply with the covenants agreed upon with lenders, its ability to raise financing, as well as the terms of such financing and collection risks.

Kardan Group is predominantly active in emerging markets. In its operations the Group is therefore inherently exposed to a relatively high degree of entrepreneurial, geopolitical and legal risks in these markets which, by nature, have a different risk profile than developed markets. Moreover, particularly in the real estate market in which it operates, the Group is exposed to fluctuations in supply and demand.

In their regular business updates, the boards of directors (as applicable) of the various Group companies provide overall risk-management principles and specific measures with respect to certain risks to which they are exposed to the Board of Kardan, e.g. exchange rate risk, interest rate risk, credit risk and use of derivative financial instruments.

#### *Capital risk management*

The primary objective of the Group's capital management is to ensure capital preservation and maintain healthy capital ratios in order to support its business activities, optimize stakeholder value and monitor the status of existing covenants.

The Group manages its capital structure and makes adjustments to it, according to changes in economic conditions. To maintain or adjust the capital structure, the Group decides on leverage policy, repayment of loans, investment or divestment of assets, dividend policy and the need, if any, to issue new shares or Debentures.

#### *Risk management structuring*

The Board of Kardan N.V. and of each Group company is responsible for identifying and controlling risks. However, there are separate independent bodies within the Group that are responsible for managing and motoring risks.

##### *(i) Corporate level*

The Executive Management of Kardan N.V. (CEO, CFO) work closely with chief risk managers within the Group, by means of functional lines of responsibility and jointly they have overall responsibility for the execution of the risk strategy and implementation of principles, frameworks, policies and limits. The Board of Kardan N.V. is responsible for monitoring the overall risk process, including the overall risk-management approach and for approving the risk strategies and principles.

##### *(ii) Group companies*

Some of the Kardan Group companies have appointed risk managers at their corporate levels as well as at country levels or subsidiary levels.

##### *(iii) Risk mitigation*

Kardan uses the analysis of the structure of its portfolios in order to mitigate excessive risk. The risk is spread among the different activities of the Kardan Group and in the countries of operation. The diversification of the businesses (investment property and development real estate, infrastructure projects) as well as collateral management are useful risk mitigation tools as well. In addition, management may change its targets in order to mitigate specific (excessive) risk.

##### *(iv) Excessive risk concentration*

A concentration of risk may arise from financial instruments with similar characteristics that are affected likewise by changes in economic or other conditions. Concentrations indicate the relative sensitivity of Kardan's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, Kardan's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (CEE, CIS, PRC, etc.); industry diversification (real estate and water infrastructure); product diversification (investment property and development real estate, different operations of water infrastructure projects).

## 2) Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

To limit this risk, the Group finances its operations through diversified, short-term and long-term credit obtained from the public and institutional investors and from financial institutions. The Group raises financing according to needs and market conditions when required.

As of December 31, 2017, the main liquidity risk of the Company is meeting its obligations to repay the upcoming payments of principal and interest to the Company's Debenture Holders. 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.

After balance sheet date, the Company has not repaid the principal and interest payments which were due in February 2018. Consequently, as of February 2018 the Company is in default according to the Deeds of Trust 8. Management is currently conducting advanced

discussions with the representatives of the Debenture Holders in order to reach an agreement on postponing the payments.

The following tables present the payment dates for financial liabilities as of December 31, 2017 and 2016. The table includes repayment as per forecasted cash flow not capitalized. The table includes repayments of principal and interest. The calculation of the expected interest is done as per an estimation based on the repayment table for the financial liabilities.

Liquidity table 2017:

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

Liquidity table 2016:

€ in '000	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
<b>Liabilities</b>					
Trade payables	16,752	3,688	–	–	20,440
Other payables and accrued expenses	12,980	42,476	2,888	–	58,344
Interest-bearing loans and borrowings	5,168	134,195	272	147	139,782
Other debentures	4,453	–	113,398	216,574	334,425
Other long term liabilities	–	–	–	8,327	8,327
<b>Total liabilities</b>	<b>39,353</b>	<b>180,359</b>	<b>116,558</b>	<b>225,048</b>	<b>561,318</b>

### 3 Foreign currency risk

The foreign currency exchange rate risk arises from transactions conducted in a currency that is not the functional currency of the relevant company in the Group.

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

Most of the Company's assets are denominated in RMB whereas it has NIS denominated debt. Consequently, changes in the currency rates have a significant effect both on Kardan NV's results and equity. Foreign currency changes during 2017 had a material effect on the Group's financial statements, in light of the strengthening of EUR against the RMB

## Linkage terms of monetary balances:

As of December 31, 2017:

€ in '000	in Euros	In US Dollars	In NIS (Israeli)	In RMB (China)	In Rub (Russia)	In other currencies	Non-monetary	Reconciliation (*)	Total
<b>Assets</b>									
Property and equipment	–	–	–	–	–	–	20,449	(19,822)	627
Investment properties	–	–	–	–	–	–	221,089	–	221,089
Goodwill	–	–	–	–	–	–	6,908	(6,908)	–
Investments in companies accounted for using the equity method	15,876	18,971	–	–	–	23	49,453	(9,002)	75,321
Long-term receivables	667	–	1,133	2,563	–	–	5,537	(1,777)	8,123
Deferred tax assets	–	–	–	–	–	–	3,111	(2,647)	464
Inventory	–	–	–	–	–	–	129,999	(12,099)	117,900
Accounts receivable	11,105	11,044	62,653	5,401	1,676	9,923	–	(96,401)	5,401
Other receivables	3,530	8,006	1,705	1,461	67	5,767	12,024	(25,372)	7,188
Short-term investments	5,346	–	105	6,793	–	–	–	(275)	11,969
Cash and cash equivalents	7,583	4,348	5,668	25,498	853	2,241	–	(9,051)	37,140
	<b>44,107</b>	<b>42,369</b>	<b>71,264</b>	<b>41,716</b>	<b>2,596</b>	<b>17,954</b>	<b>448,570</b>	<b>(183,354)</b>	<b>485,222</b>
<b>Liabilities</b>									
Deferred tax liability	–	–	–	–	–	–	7,538	(1,183)	6,355
Interest-bearing loans and borrowing	1,806	16,248	4,518	115,122	–	–	–	(32,761)	104,933
Options	–	3,740	–	–	–	–	–	(2,434)	1,306
Debentures	–	–	284,160	–	–	–	–	–	284,160
Other long-term liabilities	3,628	1,572	4,251	–	–	–	1,054	(9,451)	1,054
Other payables and accrued expenses	3,898	–	25,694	44,846	–	5,051	10,724	(16,261)	73,952
Trade payables	6,916	7,370	1,336	2,195	30	4,632	–	(20,185)	2,294
Advances from customers in respect of contracts	–	–	–	–	–	–	48,147	(48,147)	–
Advances from apartment buyers	–	–	–	–	–	–	61,208	–	61,208
Income tax payable	–	–	–	–	–	–	3,718	(2,376)	1,342
	<b>16,248</b>	<b>28,930</b>	<b>319,959</b>	<b>162,163</b>	<b>30</b>	<b>9,683</b>	<b>132,389</b>	<b>(132,798)</b>	<b>536,604</b>
<b>Differences between assets and liabilities</b>	<b>27,859</b>	<b>13,439</b>	<b>(248,695)</b>	<b>(120,447)</b>	<b>2,566</b>	<b>9,920</b>	<b>314,532</b>	<b>(50,556)</b>	<b>(51,382)</b>

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

## As of December 31, 2016:

€ in '000	In Euros	In US Dollars	In NIS (Israeli)	In RMB (China)	In Rub (Russia)	In other currencies	Non-monetary	Total
<b>Assets</b>								
Property and equipment	–	–	–	–	–	–	13,689	13,689
Investment properties	–	–	–	–	–	–	240,461	240,461
Goodwill	–	–	–	–	–	–	6,156	6,156
Investments in companies accounted for using the equity method	14,936	24,792	–	–	–	12,712	56,487	108,927
Long-term receivables	5,000	–	2,530	–	–	–	4,165	11,695
Deferred tax assets	–	–	–	–	–	–	2,452	2,452
Inventory	–	–	–	–	–	–	119,421	119,421
Accounts receivable	7,329	10,497	40,452	4,897	–	3,272	–	66,447
Other receivables	20	1,467	4,993	5,686	1,731	895	13,326	28,118
Short-term investments	1,507	–	243	8,468	–	–	–	10,218
Cash and cash equivalents	20,062	4,535	6,961	19,424	2,666	4,135	–	57,783
	<b>48,854</b>	<b>41,291</b>	<b>55,179</b>	<b>38,475</b>	<b>4,397</b>	<b>21,014</b>	<b>456,157</b>	<b>665,367</b>
<b>Liabilities</b>								
Deferred tax liability	–	–	–	–	–	–	4,763	4,763
Interest-bearing loans and borrowing	2,865	11,590	1,486	111,232	62	–	–	127,235
Warrants and options	–	3,966	–	–	–	–	–	3,966
Debentures	–	–	288,978	–	–	–	–	288,978
Other long-term liabilities	169	–	4,092	–	–	–	833	5,094
Other payables and accrued expenses	1,712	171	11,630	43,804	–	3,559	17,198	78,074
Trade payables	5,198	2,108	6,330	3,985	–	2,819	–	20,440
Advances from apartment buyers	–	–	–	–	–	–	88,900	88,900
Income tax payable	–	–	–	–	–	–	6,734	6,734
	<b>9,944</b>	<b>17,835</b>	<b>312,516</b>	<b>159,021</b>	<b>62</b>	<b>6,378</b>	<b>118,428</b>	<b>624,184</b>
<b>Differences between assets and liabilities</b>	<b>38,910</b>	<b>23,456</b>	<b>(257,337)</b>	<b>(120,546)</b>	<b>4,335</b>	<b>14,636</b>	<b>337,729</b>	<b>41,183</b>

The following table demonstrates the sensitivity of the Group's profit and loss before tax to a reasonably realistic change in exchange rates compared to other main currencies in which the Group operates, when all other variables are held constant.

€ in '000	Sensitivity to change in EUR\USD			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2017	(119)	(59)	59	119
2016	3,021	1,511	(1,511)	(3,021)

€ in '000	Sensitivity to change in EUR\NIS			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2017	(30,359)	(15,179)	15,179	30,359
2016	(29,579)	(14,789)	14,789	29,579

€ in '000	Sensitivity to change in RMB/EUR			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2017	(2,813)	(1,406)	1,406	2,813
2016	513	257	(257)	(513)

€ in '000	Sensitivity to change in Israeli CPI			
	Effect on profit and loss			
	+3%	+2%	-2%	-3%
2017	(8,595)	(5,730)	5,730	8,595
2016	(8,876)	(5,917)	5,917	8,876

#### 4) Market risk

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

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

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

The Group operates in investment property and development real estate in China, water infrastructure activities in CEE, India and Africa. In addition, the Group operates in the car leasing business in the Ukraine. The Company closely monitors the economic developments in the countries of operations and directs management and financial resources to and from these regions based on its current strategy. China is considered to be the largest emerging economy in the world, which has been gradually shifting over the last decades from a central government-controlled economy to an open market economy and consequently more interlinked with international markets.

In the water infrastructure activities the company operates, among others in Africa, a region that is exposed to frequent political changes. These changes might influence the economic status and cause economical, fiscal and monetary instability and



frequent changes in the economic legislation. As a result, the company's activity in Africa might be negatively affected including its ability to continue to operate and to collect debts.

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

The management of the Company believes that the following factors are instrumental in handling the above-mentioned risks:

- (1) Skilled and experienced management team, combining local expertise with international experience in the countries of operation.
- (2) Focus on selection of major projects which are developed in stages, according to demand (real estate).
- (3) Strict due diligence before embarking on a project combined with high quality project management.

## 5) Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

Kardan's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investments in each country.

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

## 6) Political risk

The Group has significant business activities predominantly in China, Africa and Central and Eastern Europe. Political and economic changes in

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

## 7) Credit risk

Credit risk is the risk that the counterparty will not meet its obligations as a customer or its liabilities arising from a financial instrument and as a result the Group will incur a loss. Credit risk is also applicable to derivatives, financial guarantees and loan commitments. The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, deposits, and other financial assets, financial guarantees and loan commitments. It is the policy of the Group, in general, to enter into trade agreements with reputable third parties with good credit ratings.

The Group companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from provision of credit, with respect to specific debts whose collection is doubtful. As a result, the Group's exposure to bad debts is not considered significant.

Credit risk, is controlled by the application of credit approvals, limits and monitoring procedures. To manage this risk, the Group companies periodically and regularly assess the financial viability of their customers.

A concentration of credit risk exists when changes in economic, industry, or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instruments is diversified along product and geographic lines and transactions are entered into with

various creditworthy counterparties, thereby mitigating any significant concentration of credit risk. The Group performs ongoing credit evaluations of their customers' financial condition and requires collateral as deemed necessary.

Counterparties to financial instruments consist of a large number of financial institutions. The Group has no significant concentration of credit risk with any single counterpart or group of counterparties.

With respect to trade receivables, the maximum exposure is equal to the amount on the face of the statement of financial position. Refer to Note 13 for more information regarding trade receivables and their aging analysis.

As of December 31, 2017 and 2016, cash and cash equivalent amounted to €37,140 thousand (not including an amount of €9,049 thousand of TGI which are included in the 'Assets held for Sale') and €57,783 thousand, respectively, and deposits in banks amounted to €11,969 thousand (not including an amount of €275 thousand of TGI which are included in the 'Assets held for Sale') and €10,218 thousand, respectively (see Note 15 and 16). All deposits are deposited with highly rated financial institutions primarily in the countries of operation. As of December 31, 2017, 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 below and the sum of all financial guarantees is presented in the table below, showing the maximum exposure to credit risk for the components of the Group. The maximum exposure is presented gross, before the effect of mitigation through the use of collateral agreements.

#### **8) Interest-rate risk**

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

The Group's exposure to market risk for changes in interest rates usually relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest cost using a combination of debt with fixed and variable interest rates. Interest rate risk management aims to limit the impact of fluctuations in interest rates on the results and reduce total interest expenses as much as possible.

The majority of the Group's financial liabilities (debentures, loans and borrowings) bear a fixed interest rate and are therefore not exposed to interest rate risk.

## 9 Fair value disclosure:

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

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

### 9.1 Fair value schedule

€ in '000	Methods of determining fair value	Carrying amount			Fair value			Comment		
		2017			2016	2017			2016	
		Carrying value	Reconciliation *	Total		Fair value	Reconciliation *		Total	
<b>Assets</b>										
Short-term investment		12,244	(275)	12,169	10,218	12,244	(275)	12,169	10,218	1
Long-term loans and receivables		9,899	(1,776)	8,123	11,695	9,899	(1,776)	8,123	11,695	5
Loans to associates and joint ventures		34,337	(8,905)	25,432	52,440	34,337	(8,905)	25,432	52,440	3
<b>Liabilities</b>										
Debentures	(1)	301,484	–	301,484	291,509	177,856	–	–	213,056	2
Interest-bearing loans and borrowings		137,692	(22,572)	115,120	127,235	137,692	(22,572)	115,120	127,235	3
Other long-term liabilities	(3)	–	–	–	3,171	–	–	–	3,171	4
Financial instruments - options	(3)	3,740	(2,434)	1,306	3,966	3,740	(2,434)	1,306	3,966	4

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

Methods of determining the fair value of the financial assets and liabilities:

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 – Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 – Techniques which use inputs which have a significant effect on the recorded fair value that is not based on observable market data.

Financial instruments for which fair value could not be determined are immaterial.

Comments regarding determining the fair value:

- 1) The carrying amount of cash and cash equivalents and short-term investments, which only include bank deposits, approximates their fair values, due to the short-term nature of such financial assets. Refer to Note 15 and 16 for additional information.
- 2) Market prices of Debentures Series A and Series B of the company have been used to determine the fair value of the listed Debentures which were issued by the Group. Please refer to Note 22 for additional information. The carrying value includes accrued interest in the amount €17,325 thousand for 2017 and €2,531 thousand in 2016.
- 3) As of December 31, 2017 and 2016 most of the loans bear a fixed interest rate, and management estimates that this rate is approximately the same as the one at yearend. Refer to Note 8, 9, 19 and 23 for additional information.
- 4) Warrants, options and certain long-term liabilities were valued internally by the Group. The valuations were based on the DCF approach using the following assumptions: the exercise price, the price of the underlying asset, the contractual term of the option, the expected volatility of the asset price and the dividend yield. Refer to Note 18 and 21 for additional information.
- 5) In determining that the carrying value approximated the fair value, management considered the continuous process for determining whether the value of these financial assets was impaired. Refer to Note 11 for additional information.
- 6) The carrying value of cash and cash equivalents and other financial instruments such as trade and other receivables, trade and other payables, which were not included in the table above, is assumed to approximate their fair value due to their short-term nature.

**B Financial assets and liabilities measured at fair value through profit and loss**

9.2 Fair value levels schedule:

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

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

9.2 Fair value levels schedule:

December 31, 2016 € in '000	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Held for trading securities and other	238	–	–	238
<b>Financial liabilities at fair value through profit or loss:</b>				
Warrant and call option	–	–	2,745	2,745
Put option	–	–	975	975
Phantom options	–	–	245	245

During 2017 and 2016 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

€ in '000	As of January 1, 2017	Fair value gain (loss) recorded in P&L	Disposals	Reconciliation *	As of December 31, 2017
Warrants and call options	(2,745)	(311)	–	2,434	–
Put option	(976)	(330)	–	–	(1,306)
Phantom options	(245)	6	239	–	–
<b>Total liabilities</b>	<b>(3,966)</b>	<b>(635)</b>	<b>239</b>	<b>2,434</b>	<b>(1,306)</b>

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

€ in '000	As of January 1, 2016	Fair value gain (loss) recorded in P&L	Additions	Disposals	As of December 31, 2016	Total gains (losses) for the period included in P&L
Securities	46	–	–	(46)	–	–
<b>Total assets</b>	<b>46</b>	<b>–</b>	<b>–</b>	<b>(46)</b>	<b>–</b>	<b>–</b>
Warrants and call options	(2,495)	(250)	–	–	(2,745)	(250)
Claw-back	(4,000)	–	–	4,000	–	–
Put option	–	–	(976)	–	(976)	–
Phantom options	–	–	(245)	–	(245)	–
<b>Total liabilities</b>	<b>(6,495)</b>	<b>(250)</b>	<b>(1,221)</b>	<b>4,000</b>	<b>(3,966)</b>	<b>(250)</b>

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

€ in '000	Short term loans and credit	Long term loans	Other long term liabilities	Total
Opening balance	13,333	112,620	(373)	125,580
Cash received	9,245	117,304	5,538	132,087
Cash paid	(1,091)	(106,076)	–	(107,167)
Amounts recorded in P&L	(18)	(7,221)	–	(7,239)
Amounts recorded in other comprehensive income				
– foreign currency translation	148	8	(41)	115
Closing balance	21,617	116,635	5,124	143,376

9.4 IAS 39 classification of financial assets and  
liabilities:

€ in '000	December 31, 2017	December 31, 2016
<b>Financial assets:</b>		
Cash and cash equivalent, loans and receivables	220,029	209,210
Derivatives that are designated as hedging instruments	–	–
	<b>220,029</b>	<b>209,210</b>
<b>Financial liabilities:</b>		
Financial liabilities presented at amortized cost	536,037	497,529
Financial liability through P&L	2,601	3,171
Put option	1,306	976
Phantom options	–	245
FIMI liability	2,434	2,745
	<b>542,378</b>	<b>504,666</b>

### 36 Related Parties

The Group has entered into a variety of transactions with its related parties. The Group has adopted the policy to enter into such transactions, which are being concluded in the normal course of business, on an arm's-length basis. The sales and purchases from related parties are made at comparable normal market prices. Outstanding balances relating to such sales and purchases at year-end are unsecured, interest free, and settlement occurs in cash. Outstanding loans from related parties are unsecured and presented with accrued interest. The significant of these balances and transactions are as follows:

#### A Balances

€ in '000	Note	December 31, 2017	December 31, 2016	
		Joint ventures	Joint ventures	Associates
Trade receivables	13	743	794	–
Other receivables and prepayments	14	817	928	–
Loans and long-term assets (including current maturities)	8,9	25,432	43,334	12,687
Other payables and accrued expenses	24	8,917	11,574	–



## B. Transactions

€ in '000	Note	Joint ventures	Fellow subsidiaries
<b>For the year ended December 31, 2017:</b>			
Management fee, net		765	–
Finance income	32	137	109
<b>For the year ended December 31, 2016:</b>			
Management fee, net		960	–
Finance income	32	137	162
<b>For the year ended December 31, 2015:</b>			
Management fee, net		1,477	–
Finance income	32	264	168
Other		–	1,276

- 1) Management fees for the years 2017, 2016 and 2015 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.
- 3) 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, linked to Israeli CPI, subject to the approval of the general meeting of shareholders.
- 4) Kardan Israel provides various services to the Group which are not part of the abovementioned services agreement, including, among others, the provision of office space and services. In addition, Kardan Israel is entitled to reimbursement of expenses incurred in connection with such services. In 2017 Kardan Israel did not provide such services (in 2016 € 30 thousand were paid to Kardan Israel for such services).

## C Remuneration to related parties:

Remuneration of members of the Board of Directors and executive management, of the Company:

### 1. Board \*:

€ in '000	For the year ended December 31,		
	2017	2016	2015
	263	263	269

\* The amounts for the year 2017, 2016 and 2015 relate to 9 Board members.

### 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,				
2017	665	20	4	689
2016 **	1,324	152	359	1,835
2015	1,335	120	170	1,625

\* The amounts for the year 2017, 2016 and 2015 relate to 2, 4 and 4 executives, respectively.

\*\* The amounts in 2016 include the new CEO fees from his appointment as CEO on April 15, 2016 and the former CEO until termination of employment on September 30, 2016.

\*\*\* Short term employee benefits include bonuses over the years 2015 and 2016.

### 3. Options granted by the Company as of December 31, 2017 \*:

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

\* For additional information see also Note 18B.

## 37 Subsequent events

After balance sheet date, in February 2018, the Company did not repay the principal and interest due to the Debenture Holders series A and B. For additional information, see Note 1B.

# Company-only Financial Statements

## Statement of Financial Position

### After Appropriation of Net Result

€ in '000	Note	December 31, 2017	December 31, 2016	January 1, 2016
<b>Assets</b>				
<b>Non-current assets</b>				
Tangible fixed assets		128	95	114
Investments in subsidiaries	5	372,256	406,692	550,493
Loans to subsidiaries		24	23	22
		372,408	406,810	550,629
<b>Current assets</b>				
Cash and cash equivalents	6	5,979	1,754	22,867
Short-term investments	7	169	131	137
Other receivables	4	1,406	1,005	687
		7,554	2,890	23,691
<b>Total assets</b>		<b>379,962</b>	<b>409,700</b>	<b>574,320</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
	8			
Share capital		25,276	25,276	25,276
Share premium		206,482	206,482	206,482
Property revaluation reserve		31,637	34,772	36,713
Foreign currency translation reserve		5,586	23,590	24,711
Other reserve		37	6,633	8,144
Retained earnings (accumulated deficit)		(273,386)	(259,420)	(229,865)
		(4,368)	37,333	71,461
<b>Non-current liabilities</b>				
Debentures	9	216,087	364,159	468,407
Options and other long-term liabilities	10	3,323	3,246	2,035
		219,410	367,405	470,442
<b>Current liabilities</b>				
Current portion of debentures		141,901	–	–
Other payables	12	23,019	4,962	32,417
		164,920	4,962	32,417
<b>Total equity and liabilities</b>		<b>379,962</b>	<b>409,700</b>	<b>574,320</b>

See accompanying Notes.

## Company-only Income Statement

€ in '000	Note	For the year ended December 31,	
		2017	2016
General and administration expenses	13	(3,459)	(3,379)
<b>Loss from operations</b>		<b>(3,459)</b>	<b>(3,379)</b>
Financial expenses, net	14	(16,081)	(47,426)
<b>Loss before share of profit from investments accounted for using the equity method</b>		<b>(19,540)</b>	<b>(50,805)</b>
Share of profit of investments accounted for using the equity method, net	5	2,785	20,049
<b>Loss before income taxes</b>		<b>(16,755)</b>	<b>(30,756)</b>
Income tax expenses	11	346	574
<b>Loss for the year</b>		<b>(17,101)</b>	<b>(31,330)</b>

See accompanying Notes.

# Company-only Comprehensive Income Statement

€ in '000	For the year ended December 31,	
	2017	2016
Net loss for the year	(17,101)	(31,330)
Foreign currency translation differences	(23,553)	(1,121)
Change in hedge reserve, net	(1,051)	(1,365)
Other comprehensive expense for the year to be reclassified to profit or loss in subsequent periods	(24,604)	(2,486)
<b>Total comprehensive expense</b>	<b>(41,705)</b>	<b>(33,816)</b>

# Company-Only Statement of Changes in Shareholders' Equity

€ in '000	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Retained earnings**	Total
<b>Balance as of January 1, 2017</b>	<b>25,276</b>	<b>206,482</b>	<b>34,772</b>	<b>6,633</b>	<b>23,590</b>	<b>(259,420)</b>	<b>37,333</b>
Other comprehensive income (expense)	–	–	–	(1,051)	(23,553)	–	(24,604)
Profit (loss) for the period	–	–	–	–	–	(17,101)	(17,101)
Total comprehensive income (expense)	–	–	–	(1,051)	(23,553)	(17,101)	(41,705)
Share-based payment	–	–	–	4	–	–	4
Reclassification according to the Netherlands civil code requirements law *	–	–	(3,135)	–	–	3,135	–
<b>Balance as of December 31, 2017</b>	<b>25,276</b>	<b>206,482</b>	<b>31,637</b>	<b>5,586</b>	<b>37</b>	<b>(273,386)</b>	<b>(4,368)</b>

\* In accordance with the Dutch civil code, part of the retained earnings is restricted for distribution following the regulation to maintain reserves in respect of real estate unrealized fair value revaluations, cash flow hedges, foreign currency differences from investments in foreign operations and equity gains from associates and joint ventures (as also disclosed in Note 17F to the consolidated financial statements).

\*\* As of December 31, 2017 and 2016, amounts of €33,301 and €32,778 thousand respectively resulted from equity gains in associates and joint ventures held by the Company subsidiaries, and therefore the distribution of these amounts is pending on approval of the shareholders and partners. This part of the retained earnings is therefore restricted for distribution.

€ in '000	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Retained earnings**	Total
<b>Balance as of January 1, 2016</b>	<b>25,276</b>	<b>206,482</b>	<b>36,713</b>	<b>8,144</b>	<b>24,711</b>	<b>(229,865)</b>	<b>71,461</b>
Other comprehensive income (expense)	–	–	–	(1,365)	(1,121)	–	(2,486)
Profit (loss) for the period	–	–	–	–	–	(31,330)	(31,330)
Share-based payment	–	–	–	(146)	–	–	(146)
Transaction with non-controlling interest	–	–	–	–	–	(166)	(166)
Reclassification according to the Netherlands civil code requirements law *	–	–	(1,941)	–	–	1,941	–
<b>Balance as of December 31, 2016</b>	<b>25,276</b>	<b>206,482</b>	<b>34,772</b>	<b>6,633</b>	<b>23,590</b>	<b>(259,420)</b>	<b>37,333</b>

\* In accordance with the Dutch civil code, part of the retained earnings is restricted for distribution following the regulation to maintain reserves in respect of real estate unrealized fair value revaluations, cash flow hedges, foreign currency differences from investments in foreign operations and equity gains from associates and joint ventures (as also disclosed in Note 17F to the consolidated financial statements).

\*\* As of December 31, 2017 and 2016, amounts of €33,301 and €32,778 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,	
	2017	2016
<b>Cash flow from operating activities of the Company</b>		
Loss for the year	(17,101)	(31,330)
<b>Adjustments to reconcile profit (loss) to net cash of the Company</b>		
Financial expense	16,305	47,817
Dividend received	18,170	113,284
Share-based payment	4	(146)
Equity earnings	(2,785)	(20,049)
Fair value adjustments of derivative financial instrument	240	–
<b>Changes in working capital of the Company</b>		
Change in receivables	(89)	(873)
Change in payables	(352)	548
<b>Cash amounts paid and received during the year</b>		
Interest paid	(4,457)	(41,120)
Interest received	–	8
<b>Net cash provided by operating activities of the Company</b>	<b>9,935</b>	<b>68,139</b>
<b>Cash flow from investing activities of the Company</b>		
Short term investments, net	(38)	6
Investments in subsidiary	(5,684)	–
<b>Net cash provided by investing activities of the Company</b>	<b>(5,722)</b>	<b>6</b>
<b>Cash flow from financing activities</b>		
Investment in shares of a subsidiary	–	(4,003)
Repayment of long term debt	–	(86,458)
<b>Net cash used in financing activities of the Company</b>	<b>–</b>	<b>(90,461)</b>
<b>Increase / (decrease) in cash and cash equivalents of the Company</b>	<b>4,213</b>	<b>(22,316)</b>
<b>Foreign exchange differences relating to cash and cash equivalents</b>	<b>12</b>	<b>1,203</b>
Cash and cash equivalents at beginning of the year	1,754	22,867
<b>Cash and cash equivalents of the Company at end of the year</b>	<b>5,979</b>	<b>1,754</b>



# Notes to the company-only Financial Statements

December 31, 2016

## 1 General

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

## 2 Significant Accounting Policies

The Company 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-only financial statements of Kardan NV should be read in conjunction with the statutory consolidated financial statements.

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

The company-only financial statements, for the year ended 31 December 2017, are the first the Company has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2016, the Company prepared its company-only financial statements in accordance with Dutch generally accepted accounting practice (Dutch GAAP). The Company applied the so-called option 3, whereby the company-only statutory financial statements were prepared in accordance with Part 9, Dutch Civil Code.

Accordingly, the Company has prepared company-only financial statements which comply with IFRS applicable for periods ending on or after 31 December 2017, together with the comparative period data as at and for the year ended 31 December 2016, as described in the accounting policies. In preparing these

company-only financial statements, the Company's opening statement of financial position was prepared as at 1 January 2017, the Company's date of transition to IFRS.

By adjusting IAS 27, effective from 2016, it is possible to value participating interests using the equity method. As at Kardan N.V. the equity method equals the net asset value, it is possible to keep the total equity and the net result in the company-only and consolidated statutory accounts equal to each other. Since the net asset value as at 1 January 2016 and 31 December 2016 was already applied in the company-only statutory accounts, the first application of IFRS has no impact on the single statement of financial position, single statement of changes in total equity and the single net result of Kardan NV. On the basis of IAS/1, the position of the financial position was also presented on 1 January 2016.

## 3 Investments in subsidiaries

Investments in consolidated subsidiaries are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities and determination of profit based on the principles applied in the consolidated financial statements.

## 4 Other receivables

€ in '000	December 31, 2017	December 31, 2016
Intercompany debtors	1,227	896
VAT	13	–
Prepaid expenses	166	109
	<b>1,406</b>	<b>1,005</b>

## 5 Financial Fixed Assets

### Investments in consolidated subsidiaries

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

€ in '000	2017	2016
Balance as of January 1	406,531	550,493
Investment in a subsidiary	5,684	4,003
Change in capital reserves (a)	(23,314)	(454)
Dividend distributed	(19,430)	(167,740)
Share in profit of investments for the year	2,785	20,049
Balance as of December 31	<b>372,256</b>	<b>406,351</b>

(a) Primarily relates to foreign currency exchange differences arising on translation of foreign operations.

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

Names of subsidiaries	2017		2016	
	Ownership %	Total value € in '000	Ownership %	Total value € in '000
GTC Real Estate Holding B.V.	100	233,645	100	276,412
Kardan Financial Services B.V.	100	23,905	100	36,610
Tahal Group International B.V.	98.43	49,495	98.43	39,856
Emerging Investments XII B.V.	100	65,211	100	53,473
<b>Total investments in significant consolidated subsidiaries</b>		<b>372,256</b>		<b>406,351</b>

## 6 Cash And Cash Equivalents

€ in '000	December 31, 2017	December 31, 2016
EURO	5,558	1,496
NIS	419	257
USD	2	1
	<b>5,979</b>	<b>1,754</b>

The cash is primarily comprised out of short term deposits.

The average interest rate on short term deposits was 0.2%-1.5% p.a. in 2017 and 2016.

## 7 Short-term Investments

€ in '000	December 31, 2017	December 31, 2016
Deposits	169	131
	<b>169</b>	<b>131</b>

In 2017 and 2016, the average interest rate earned was 0.5%.

## 8 Debentures

Composition:

€ in '000	Par value as of December 31, 2017	Balance as of December 31, 2017	Balance as of December 31, 2016	Interest rate %	Maturities principal
<b>Issuer:</b>					
The Company – 2007	297,500,001	86,459	87,285	6.325	2017-2018
The Company – 2008	952,834,318	271,529	276,874	6.775	2017-2020
		<b>357,988</b>	<b>364,159</b>		

Maturities:

€ in '000	December 31, 2017	December 31, 2016
First year – current maturities	141,901	–
Second year	115,209	158,350
Third year	100,878	109,709
Fourth year	–	96,100
<b>Total</b>	<b>357,988</b>	<b>364,159</b>

### Repayment of debentures:

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

Subsequent to the balance sheet date the Company did not repay Debenture Holders series A and B the February 2018 interest and principal.–For additional information see note 1B to the consolidated financial statements.

## 9 Option plan

In 2012 the Company granted to its former CEO 2,282,624 options exercisable to 2,282,624 shares of the Company, comprising approximately 2% of the outstanding share capital of the Company (prior to the shares issued to the debenture holders as part of the debt settlement (see also Note 22 to the consolidated financial statements). In 2015 a modification to the option plan was approved by the general meeting of shareholders. According to the modified plan, the exercise price would be €0.2807 or NIS 1.191. The options will vest in two equal tranches, 50% of the options would be exercisable from December 31, 2016 and 50% of the options will be exercisable from June 30, 2018. The modification was accounted for under the requirements of IFRS 2.

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

In September 2013 (the 'Grant Date'), the Board of the Company approved a stock-option plan according to which the Company granted to several employees of the Company a total of 250,000 options exercisable into up to 250,000 ordinary shares of the Company, each having a par value of €0.20 (subject to adjustments). The exercise price of each option is equal to NIS 6.136. The options were exercisable in four annual equal portions, starting June 2012 (the 'Effective Date'), of which the first 25% are exercisable two years following the Effective Date. The total value of the options at date of grant was immaterial. The Company share price on Grant Date was approximately NIS 1.9052. The grant was accounted for assuming equity settlement and the total expenses booked in the period were immaterial and were included as 'General and administration expenses' in the income statement. In 2015, the senior management stock options were modified in line with the above modification of the CEO option plan, as described above.

During 2015, 100,000 new options were granted and 50,000 options expired. During 2016 50,000 expired. Subsequent to the balance sheet date, in January 2017 additional 150,000 options expired. The total additional expense relating to the management stock option plan is less than €0.1 million.

For additional information refer to Note 18B to the consolidated financial statements.

## 10 Taxes on income

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

Loss for the year amounts to €17.1 million (2016: €31.3 million), including net result from investments of €2.8 million profits (2016: €20.0 million losses), which is not deductible/taxable under the Participation Exemption. The Company assumes that the remaining other expenses and income will not result in tax benefits or tax expenses due to the available tax losses from previous years of the Company.

Up to 2017, Kardan N.V. has estimated tax losses of €313.4 million that are available for carry forward (according to the filed 2016 tax return, net of tax losses evaporated in 2016 and 2017). The carry back of losses is restricted to one year, whereas the carry forward of losses is limited to nine years. Special provisions apply for compensation of tax losses incurred in years during which a company's activities consists (almost) exclusively of holding activities and the direct or indirect financing of related parties. Such tax losses can only be offset against future taxable profits of years during which the company's activities also consists (almost) exclusively of holding and finance activities. Furthermore compensation of losses is disallowed if the balance of the related-party receivables and the related-party payables of a company with holding and financing losses, during the year in which a profit was realized, exceeds that balance in the financial year the losses were incurred, unless it can be demonstrated that the increase of the

balance of related-party receivables and related-party payables has increased for business reasons and was not predominantly aimed at the compensation of the holding and financing losses. According to the final tax assessment for the fiscal year 2014, Kardan N.V. has tax losses available for carry forward as per December 31, 2014 which are not considered holding and financing losses and can therefore be compensated with future taxable profits, taking into account the statutory carry forward period.

Deferred tax assets have been recognized only with respect to potential tax liability in relation with the Company's former hedge transactions. Deferred taxes amounted to €316 thousand as of December 31, 2017 (as of December 31, 2016 amounted to €1,311 thousand). As of December 31, 2017 no deferred tax assets are presented in the balance sheet. For more information regarding to taxes on income refer to Note 33 to the Consolidated Financial Statements.

## 11 Other Payables

€ in '000	December 31, 2017	December 31, 2016
Accrued expenses (mainly accrued interest on debentures)	21,581	3,170
Others	1,438	1,792
	<b>23,019</b>	<b>4,962</b>

## 12 General and administration expenses

€ in '000	December 31, 2017	December 31, 2016
Payroll and related expenses	1,161	1,834
Share-based payment	1	(146)
Management fees	371	473
Office maintenance	436	340
Professional fees	1,174	1,014
Depreciation and amortization	27	28
Other	(119)	(164)
	<b>3,051</b>	<b>3,379</b>

## 13 Financial income (expenses), net

€ in '000	For the year ended	
	December 31, 2017	December 31, 2016
<b>Income:</b>		
Income from bank deposits	–	6
Exchange differences	12,084	4,054
Total financing income	12,084	4,060
<b>Expenses:</b>		
Interest on debentures	26,396	30,818
Exchange differences	–	18,586
Revaluation of warrant	–	236
Loss from early repayment of debentures	–	1,019
Other	1,769	827
Total financing expenses	28,165	51,486
Total financing expenses	<b>16,081</b>	<b>47,426</b>

## 14 Audit Fees

Audit services consists of services provided by the external auditors regarding the review of the quarterly financial statements and the audit of the non-statutory and statutory consolidated and company-only financial statements.

The tables below summarizes the fees invoiced to the Company's by its auditors, PricewaterhouseCoopers Accountants N.V. in 2017 and in 2016, respectively:

€ in '000	PwC
<b>2017</b>	
Audit services – Kardan N.V.	451
Audit services – subsidiaries	617
<b>Total statutory audit fees</b>	<b>1,068</b>
Other services relevant to taxation *	49
<b>Total</b>	<b>1,117</b>

\* PWC firm members in countries outside the European Union provided certain non-restricted services primarily to entities in the Group outside the European Union.

€ in '000	PwC	Others	Total
<b>2016</b>			
Audit services – Kardan N.V.	455	–	455
Audit services – subsidiaries	647	17	664
<b>Total statutory audit fees</b>	<b>1,102</b>	<b>17</b>	<b>1,119</b>
Other services relevant to taxation	29	–	29
<b>Total</b>	<b>1,131</b>	<b>17</b>	<b>1,148</b>

## **15 Remuneration of Management and Board of Directors**

The Company's management and Board received remuneration in 2017 and 2016 as described in Note 36 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 25 and 36, 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 35 to the consolidated financial statements.



## Other Information

### Statutory arrangements in respect of the appropriation of net result

The Articles of Association of the Company provide that the appropriation of the net result for the year is decided upon at the Annual General Meeting of Shareholders.

### Proposed appropriation of 2017 result

The proposal is to charge the result of 2017 to the accumulated deficit.

The dividend policy of Kardan N.V. takes into consideration the level of net income, liquidity and the capital position, future financing requirements and financial covenants of the Company, all within the limitations of the law. If circumstances allow, the dividend policy recommends an annual distribution of between 20% and 30% of net income.

Dividend pay-out may vary from year to year. Taking into account the financial position of Kardan N.V. as well as the concession granted to the Debenture holders that no dividend will be distributed until 75% of the debentures are repaid, the Board has decided not to distribute any dividend from the reserves for the financial year 2017.

### Subsequent events

For subsequent events please refer to Note 37 to the consolidated financial statements.

# Independent Auditor's Report

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

## Report on the statutory financial statements 2017

### Our opinion

In our opinion Kardan N.V.'s statutory financial statements gives a true and fair view of the financial position of the Company and the Group as at 31 December 2017, 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 2017 of Kardan N.V., Amsterdam ('the Company'). The statutory financial statements include the statutory consolidated financial statements of Kardan N.V. and its subsidiaries (together: '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 2017;
- the following statements for 2017: 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 statement; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the statutory financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

## 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 is negotiating a new debt settlement with its debenture holders. It also indicates that in February 2018 the Company has not repaid 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 main source of cash for the Company, in order to repay its debt, will be generated from the sale of assets. 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, and therefore there is uncertainty that such transactions will be completed at all or that the discussions with the Debenture Holders will result in rescheduling of payments. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the statutory financial statements' of our report.

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

## Independence

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

## Our audit approach

### Overview and context

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

We designed our audit by determining materiality and assessing the risks of material misstatement in the statutory financial statements. In particular, we looked at where the board of directors made important judgements, for example in respect of significant accounting estimates that involved making

assumptions and considering future events that are inherently uncertain. In Note 3 to the statutory financial statements, the Company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. The valuation of the investment property at fair value is subject to significant estimation uncertainty due to the underlying assumptions. We therefore considered this to be a key audit matter. We furthermore addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the board of directors that may represent a risk of material misstatement due to fraud. As 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, we therefore considered this to be a key audit matter. For further information refer to the 'Key audit matters' section of this report.

Besides the above mentioned key audit matters, other areas of focus in our audit were the impairment losses on inventory, the classification of TGI as asset held for sale, valuation of trade receivables, the valuation of investments in joint ventures, the valuation of the debentures and the accounting for foreign exchange rate differences.

We ensured that the audit teams both at Group and at component levels included the appropriate skills and competences, which are needed for the audit of an international Group active in real estate and water infrastructure activities. We have included real estate valuation experts and tax specialists in our team.

The outlines of our audit approach were as follows:

### **Materiality**

- Overall materiality: € 6.1 million.



### **Audit scope**

- We conducted audit work in four locations.
- Site visits were conducted in two countries to China and the Ukraine.
- 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 judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the 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 financial statements as a whole and on our opinion.

### **Overall group materiality**

€6.1 million (2016: €7.7 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 average of total assets as at 1 January 2017 and as at 31 December 2017. We used the average as the Company is focusing on selling its assets in order to repay the debentures and hence the total assets of the Company has decreased in 2017.

### **Rationale for benchmark applied**

We have applied this benchmark, based on our analysis of the common information needs of users of the statutory financial statements. The Company and its stakeholders are focussed on the asset value of the Company as the Company is focussed on repaying its debentures. Cash should be generated by selling the assets, whilst continuing to focus also on further improving the results of the subsidiaries and therefore, their value. On this basis, we believe that the average of total assets as at 1 January 2017 and as at 31 December 2017 is an important metric for the financial performance of the Company.

### **Component materiality**

To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €2.6 million and €3.2 million. Certain components were audited with a local statutory audit materiality that was also less than our overall group materiality.

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

We agreed with the audit committee that we would report to them misstatements identified during our audit above €305,000 (2016: €386,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### The scope of our group audit

Kardan N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated statutory financial statements of Kardan N.V.

At Group level, we have 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 have 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 TGI, currently recorded as 'Asset Held for Sale', of which Tahal Consulting Engineers Ltd. is the main subsidiary.

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

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

<b>Revenue</b>	100%
<b>Total assets</b>	99%
<b>Loss before tax</b>	99%

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

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

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

1. we have issued detailed audit instructions to the component auditors prescribing the scope of work to be performed, our risk assessment, the key audit areas, materiality to be applied and the reporting requirements to the Group engagement team;
2. the reports of the component auditors were assessed by the Group engagement team and observations were discussed with the component auditors and with Group management; and
3. the Group engagement team has met the component teams and management of local operations and performed reviews of selected working papers. In the current year the Group audit team visited China (Kardan Land China Ltd.) given the importance of the judgements involved in the valuation of the investment property (refer to key audit matters section). With respect to TGI, we have met local management in Amsterdam and we have reviewed the audit files of the component auditor in Amsterdam. We have also visited the

Ukraine, where a short-term car rental operation is run (part of Kardan Financial Services B.V.) and where we have met with the component auditor and reviewed selected working papers of the component auditor. We have also met local management in the Ukraine.

By performing the procedures above at components, combined with additional procedures at Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the 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 that were 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.

The key audit matters were addressed in the context of our audit of the statutory financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the statutory financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

In addition to the matter described in the section 'Material uncertainty related to going concern' we have determined the matters described below to be the key audit matters to be communicated in our report.

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

financial statements 2016, 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, except for removal of the key audit matter regarding the revenue recognition of the water infrastructure activities, as TGI has been accounted for as Asset Held for Sale since the first quarter of 2017.

**Key audit matter****How our audit addressed the matter****Valuation of investment property****External valuation****Note 3 and Note 8 in the statutory financial statements**

The investment property of the Company's subsidiary Kardan Land China Ltd., represents a significant part of the total assets (33%) of the Group and is valued at fair value for an amount of € 221 million at year-end 2017 (2016: € 240 million). The valuation of 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.

The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in valuation assumptions, when aggregated, could result in material misstatement, is why we have given specific audit focus and attention to this area.

Management is determining 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 2017 and as at 31 December 2017. The Group changed from appraisal firm in 2017. The appraisal firm has been engaged by the Group and performed their work in accordance with RICS (Royal Institution of Chartered Surveyors) Valuation – Professional Standards, as set out by the RICS. The appraisal firm used by the Group is a well know firm, with experience in the Chinese market, in which the Group operates.

The appraisal firm calculates the investment property by using the average of the Discounted Cashflow Approach (DCF) and the Direct Comparison Approach. For the Direct Comparison Approach the appraisal firm has used historical transaction comparables. In determining the property's valuation from a DCF

We have read 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 determining the carrying value of the Investment Property as at 31 December 2017.

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 desirability as a whole. There was no evidence of management bias or influence on the appraisal firm.

We have assessed the appraisal firm's qualifications and expertise and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We also considered other engagements which might exist between the Group and the appraisal firm. We found no evidence to suggest that the objectivity of the appraisal firm was compromised.

We carried out procedures, on a sample basis, to test whether specific information supplied to the appraisal firm by the Group reflected the underlying property record held by the Group. As group auditor we have visited the property ourselves. No issues were identified.

**Assumptions**

We challenged the most important assumptions and estimates made by management and the external appraiser in the valuation methodology. In challenging this approach, we considered the comparability of the

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**Key audit matter**

perspective, the appraisal firm takes into account property specific current information such as the current tenancy agreements and rental income earned. 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, inter alia, comprise contracted rent (passing rent) and estimated rental income after the contract period. In estimating the estimated rental income, the potential impact of vacancy and future lease incentives to be granted to secure new contracts is taken into consideration. These analysis result in a range of valuation outcomes, which the appraisal firm derive a point estimate for the DCF method.

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

**How our audit addressed the matter**

data used. We also engaged our own in-house valuation specialists 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 property. We compared discount rates with market comparable data for discount rates. We challenged the historical transaction comparables by verifying that the properties used are comparable with the property of the Group.

The assumptions used fell within an acceptable range and the comparables used were acceptable.

**Overall valuation estimates**

Because of the subjectivity 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, including the sensitivity disclosures, made in the statutory financial statements.



**Key audit matter****How our audit addressed the matter****Risk of management override of controls**

The Company operates in multiple jurisdictions and is, due to its geographical footprint and decentralised structure, subject to the risk of (local) management override of controls and fraud.

Ethical and compliance requirements are impacting the control environment, tone at the top, culture and behaviour of the Group's management and employees. In order to address this risk, the Company has established a comprehensive governance structure and has defined a compliance risk appetite to manage compliance risks divided into counterparty conduct, employee conduct, services conduct and organisational conduct.

In view of the considerations outlined above, we addressed the risk of management override of controls as a key audit matter.

In our audit, we performed procedures both at Group and at component level, which allow us to rely, to the extent possible, on management's governance structure.

We performed audit procedures at group and component level designed to identify the risk of management override of controls. These procedures included, amongst others, an assessment of the 'tone-at-the-top' and the compliance with the Group's policies, laws and regulations, both at Group level and component level. We have discussed the risk of fraud with the Audit Committee and the board of directors and we have read minutes of the board of directors. We have applied professional scepticism and assessed key internal controls, such as approval of any project including the pricing and the follow up on whistle blower allegations and integrity incidents (including the risk of bribery) and business ethics. We have used questionnaires at component level with respect to fraud and bribery to assess the risk of management override of controls and we have performed audit procedures on revenue recognition principles, cost cut-off procedures and year-end estimates of accruals.

We tested a risk based selection of manual journal entries and we included unpredictability, such as visiting different components and performing certain audit procedures on non-significant accounts) as part of our audit. We made specific enquiries at different levels in the organisation on fraud risk.

With respect to the procedures performed above, we did not note any significant findings.

## Report on the other information included in the statutory financial report

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

- the Board Report; consisting of the Financial Review 2017, Real Estate Division, Water Infrastructure Division, Risk Management, Corporate and Social Responsibility, Governance and Compliance, the Remuneration Report and the Declaration by the board;
- other information, consisting of: Profile, Key figures, Kardan Group's Business Strategy, Foreword of the Chairman, Letter of the Chief Executive Officer, Shareholder Information, Glossary and the Organizational Chart;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the statutory financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the statutory financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the statutory financial statements.

The board of directors are responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Our appointment

We were appointed as auditors of Kardan N.V. by the shareholders at the annual meeting held on 28 May 2015. The appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 3 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 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 board of directors is responsible for overseeing the Company's financial reporting process.

### **Our responsibilities for the audit of the statutory financial statements**

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the statutory financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the statutory financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 17 April 2018

PricewaterhouseCoopers Accountants N.V.

Original has been signed by A.H. Zoon RA

## Appendix to our auditor's report on the statutory financial statements 2017 of Kardan N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the statutory financial statements and explained what an audit involves.

### The auditor's responsibilities for the audit of the statutory financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the statutory financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the statutory financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Concluding on the appropriateness of the board of directors' use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the statutory financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the statutory financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the statutory financial statements, including the disclosures, and evaluating whether the statutory financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the Company's statutory financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the statutory financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the 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 board of directors and the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

# Glossary

## AFM

The Dutch Authority for the Financial Markets

## Articles

The articles of association of Kardan N.V.

## Barnea

A report describing Kardan's business operations published in Israel together with the annual financial statements

## Board

The board of directors of Kardan N.V. has a one tier structure comprising both executive and non-executive members

## Code

Dutch Corporate Governance Code of December 2016

## Company

Kardan N.V.

## CPI

The Israeli consumer price index

## Debentures

Debentures Series A and Series B issued by Kardan N.V., listed on the Tel Aviv Stock Exchange

## Debt Settlement

The agreement with the Debenture Holders regarding debt restructuring.  
Reference is made to Note 22 of the Financial Statements

## Deeds of Trust

The amended deeds of trust dated July 2, 2015 replace the original deeds of trust as signed at the time of the issuance of Kardan's Debentures Series A and Series B and reflect the agreed upon principles of the Debt Settlement. For details regarding the Debt Settlement, reference is made to note 22 of the financial statements

## EUR

The official common currency of 19 European Union nations

## Executive Management

The CEO (who is also the executive Board Member) together with the CFO

## GDP

Gross Domestic Product

## GTC RE

GTC Real Estate Holding B.V., a wholly owned subsidiary of Kardan N.V.

## IAS

International Accounting Standard

## IFRS

International Financial Reporting Standards. Kardan N.V. reports its financial results according to these standards

## ISA

Israeli Securities Authority

## Kardan Group

Kardan and all its group companies as defined in article 2:24b of the Dutch Civil Code

## Kardan

Kardan N.V.

## KFS

Kardan Financial Services B.V., a wholly owned subsidiary holding company of Kardan (and formerly 100% owner of TBIF), active in the financial services sector

## KLC

Kardan Land China Ltd., the wholly owned subsidiary of GTC RE, active in real estate in China

## KWIG

Kardan Water International Group Ltd., a water assets company active in China, used to be a wholly owned subsidiary of Tahal Assets Group B.V.

## NIS

The Israeli currency, New Israeli Shekel

## Pay-ratio

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

## RAS Committee

The Remuneration, Appointment and Selection committee of the Board of Kardan

## RMB

The Chinese currency, the Renminbi

## TBIF

TBIF Financial Services B.V., the holding company of the former banking and retail lending segment

**TGI**

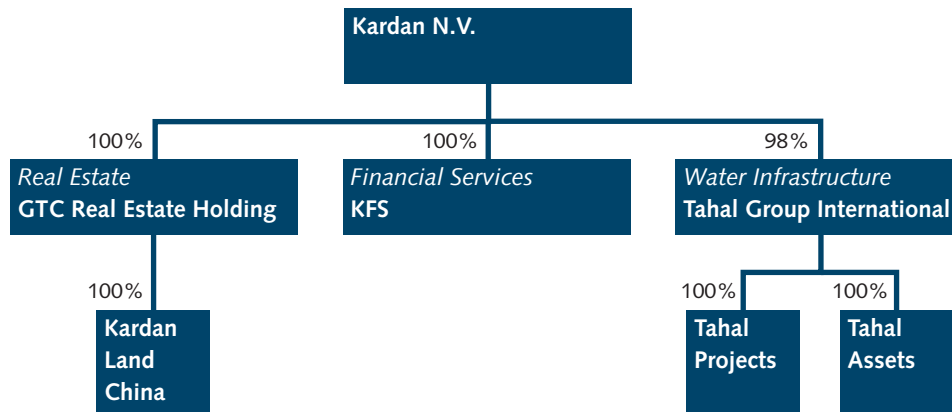
Tahal Group International B.V., a 98% subsidiary of Kardan N.V., is a leading global provider of sustainable infrastructure development projects in developing countries worldwide, focusing on integrated project execution in the water, wastewater, agriculture, solid waste and natural gas segments. TGI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

**Tier 1, 2 and 3**

In respect of China: The four most developed cities in China (Beijing, Shanghai, Gungzhou and Shenzhen) are referred to as Tier 1 cities.

The Tier 2 and Tier 3 cities are less developed than Tier 1 cities but are considered to be the fast growing cities in China which are most impacted by urbanization

## Organization Chart Kardan N.V. (April 2018)



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