Annual Report 2015

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KARDAN LAND

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TBIF Financial Services

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 based on the belief 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 S.A. – listed on the Warsaw Stock Exchange in 2004 – of which Kardan sold its final remaining stake 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 EPC (engineering, procurement and construction) solutions for one of the most critical challenges the world faces today, which is to provide access to (potable) water for domestic, agricultural and industrial purposes.

Kardan also has retail banking and lending operations in Bulgaria and Romania, through its fully owned subsidiary TBIF Financial Services. The bank operates under the name TBI and focuses on retail and SME clients.

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

€ in million	2015 **	2014 **	2013 **	2012 *	2011 *
Revenues	216.0	230.4	183.9	161.8	123.1
Net profit (loss) before income taxes	(34.6)	20.7	(40.6)	(6.0)	(75.4)
Net profit (loss)	(23.0)	5.1	(122.0)	(138.9)	(409.8)
Net profit (loss) net of non-controlling interest	(22.9)	5.1	(101.4)	(32.8)	(149.3)
Total equity	75.9	97.8	71.8	708.6	735.3
Equity net of non-controlling interest	71.4	92.4	66.1	166.2	202.2
Total consolidated assets	975.7	1,013.6	924.6	2,986.7	3,372.9
Solvency (total equity/total consolidated assets)	7.8%	9.6%	7.8%	23.7%	21.8%
Return on average equity net of non-controlling interest	(28.0%)	6.4%	(87.3%)	(17.8%)	(73.7%)
Number of employees (as at year-end)	2,317	2,554	2,875	3,056	7,001

* As published in 2011 and 2012 respectively
** Adjusted to exclude discontinued operations

€ per share	2015	2014	2013	2012	2011
Basic earnings (loss)	(0.20)	0.05	(0.92)	(0.30)	(1.18)
Diluted earnings (loss)	(0.20)	0.05	(0.92)	(0.30)	(1.20)
Total consolidated equity	0.65	0.88	0.65	6.41	6.60
Equity net of non-controlling interest	0.61	0.83	0.60	1.50	1.81
Number of shares (used for calculation of information per share, in 000')					
	116,428,981	110,753,633	110,575,647	110,419,779	111,390,454
December 31	123,022,256	111,848,583	111,848,583	111,824,638	111,824,638
Weighted average for the year *	116,428,981	110,753,633	110,575,647	110,419,779	111,390,454
Diluted	116,428,981	110,753,633	110,575,647	110,419,779	111,390,454

* Excluding treasury shares outstanding as of December 31

Annual Report

2015

KARDAN N.V.

Annual Report

2015

DISCLAIMER

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

Kardan Group's Business Strategy

Background

The origins of Kardan go back to the beginning of the 1990s – just after the fall of the Berlin wall – when we believed that Eastern European and emerging market economies would develop faster than the developed markets as the economic power of their middle classes would increase. Our vision was that this would lead to a growing demand for housing and retail centers. Accordingly, Kardan founded a real estate company – Globe Trade Centre (GTC SA) – in Poland, which grew to be a leading company in its field in Central and Eastern Europe and was separately listed on the Warsaw Stock Exchange. In 2005 we expanded our real estate activities into China by founding Kardan Land China (KLC), focusing on developing 'western style' retail centers combined with residential apartments in carefully selected tier 2 and tier 3 cities.

Based on our belief that emerging markets would also have an incremental need for financial services and for adequate water infrastructure, we ventured into these sectors as well with Kardan Financial Services – operating under the brand name TBI – and with Tahal, our water infrastructure company. After thorough 'on the ground' research, we established local organizations ('platforms') for our aforementioned core activities in the chosen countries, combining international and local know-how and expertise.

To finance these activities, at a time when we were witnessing significant growth we issued two debentures in Israel in 2007 and 2008 in the total amount of approximately EUR 594 million (the debentures are NIS denominated, the EUR amount is based on the NIS/EUR exchange rate of December 31, 2015), to be repaid between 2013 and 2020. The global financial crisis of 2008 and the ensuing sovereign debt crisis resulted in substantial economic downturns, which significantly negatively impacted the real estate and financial services sectors of Kardan, in particular in the following years. It consequently became increasingly clear that whilst continuing to seek to improve the results of our operating subsidiaries we would need to sell some of our assets in order to meet our repayment obligations towards our Debenture Holders. Due to the continued deterioration of our property interests in Eastern Europe, we sold our entire stake in GTC SA in 2013. Notwithstanding the fact that, in recent years our other operating subsidiaries were able to generally report improving results as a result of focused strategies, and we generated further cash through the sale of various non-core assets, it became necessary to negotiate a deferral of payment of principals with our Debenture Holders, whilst committing to repay our debts in full by 2020. Accordingly, a Debt Settlement* was signed with the Debenture Holders in 2015 to defer payment of some principals by 24 months against certain conditions, restrictions and collateral.

Strategy

Given the above background, Kardan's strategy remains focused on the repayment of debt as agreed in the Amended Deeds of Trust. This entails the generation of cash by means of selling further assets or attracting partners in projects whilst continuing to focus on further improving our subsidiaries' results and therefore value.

In order to generate cash, the Company sold its 50% interest in its highly successful shopping mall in Chengdu, China, in 2014, whilst remaining as the manager of the mall, and its investment in its Chinese water operations KWIG in 2015. In March 2016, moreover, Kardan announced that an agreement had been signed to sell TBIF, holding the banking and retail lending activities, subject to certain conditions precedent. As the Amended Deeds of Trust include certain funding restrictions on our subsidiaries – until certain conditions are met – KLC will primarily focus on its existing projects rather than on initiating new projects. Accordingly, considerable effort is being dedicated to successfully manage Galleria Dalian, the

* For further information regarding the Debt Settlement, as reflected in the Amended Deeds of Trust, see Note 1 to the 2015 Financial Statements.

recently opened shopping mall of its large Europark Dalian project. KLC's strategy is to create value by using its expertise of developing and managing retail and residential real estate projects which address the needs and requirements of future tenants and owners, respectively. 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.
KLC furthermore continues to sell and develop residential apartments – together with its joint venture partner – in existing projects.

Our water infrastructure company Tahal, active in mainly emerging and frontier countries, addresses global challenges arising from a growing water shortage mainly due to population growth, industrialization and climate change. The project company Tahal – which is not affected by specific restrictions under the Amended Deeds of Trust – provides high-quality integral EPC (Engineering, Procurement and Construction) project management expertise with a specific focus on water related projects and delivers sustainable solutions based on its specialist engineering expertise. Moreover, Tahal continues to focus on agriculture, environment and natural gas projects by means of signing new contract licenses with governments or municipalities for substantial new projects. We will continue to support the growth and development of Tahal within the constraints that we have in relation to our overall cash resources.

In Bulgaria and Romania, Kardan Financial Services' operating company TBIF provides both standardized and tailor-made services and solutions to its clients by using multiple sales channels (branches, points of sale, direct sales force, online marketing and sales).
It expects to continue to further strengthen its market position by servicing SMEs (small and medium-sized enterprises) and retail clients efficiently and recognizing their individual needs.

Foreword of the Chairman

In light of the many challenges that Kardan is facing, I am glad to report that our subsidiaries continued to focus on strengthening their ongoing business operations in demanding markets, which resulted in positive results before finance expenses and tax. However, the profitable contributions of our subsidiaries was more than off-set by a substantial increase of financing expenses, from EUR 19 million in 2014 to EUR 60 million in 2015.
This significant increase arose predominantly from adverse foreign exchange rate movements on the Company's NIS denominated debentures. As a result, despite the positive contributions of the operating subsidiaries, Kardan is reporting a consolidated net loss of EUR 22.9 million in 2015.

The central theme during 2015 was to constructively find a solution for Kardan's immediate debt situation. We were therefore pleased to announce, in early 2015, the successful completion of both the sale of a small retail lending subsidiary, TBI Credit, and of the first phase – comprising 75% – of the significant sale of our Chinese water infrastructure subsidiary KWIG. These transactions enabled us to fully repay an outstanding bank loan. In January 2015, our CEO and his team came to an agreement with the Debenture Holders to postpone the February 2015 payment of principals by six months in order to create some additional time to complete the negotiations for a more permanent solution. Subsequently, on July 3, 2015, the Amended Deeds of Trust were signed, reflecting a postponement of payment of the majority of principals for two years against certain conditions, collateral and covenants.

Just recently, in March 2016, we were also able to announce that we have signed an agreement to sell TBIF, holding our banking and retail lending activities. Pending on the conditions precedent to be met, we hope to announce the completion of this transaction later this year.

Besides dedicating substantial time to our debt situation and sale transactions during 2015, we naturally also focused on the development of our operating companies and on other issues. Risks which were identified both by the operating companies and by the Board were discussed at length, as were the relating risk measures that we have in place.
We concluded that – as far as possible – the Company has taken appropriate measures to mitigate risks throughout the Group. In this respect, we also devoted attention to Kardan's substantial currency exposure and deliberated which cost efficient and mitigating measures could be taken and are convinced that Executive Management is monitoring and handling this challenge in a practical and effective manner.

In order to fully understand the subsidiaries' operations and the markets in which they operate, a delegation of our Board joined the board of Kardan Land China last October to visit our real estate projects in Dalian and Xian as well as KLC's head office in Beijing, China. KLC's management made great efforts to not only to lead us around the impressive projects, but also to provide us with more insights into the intricacies of the Chinese real estate market. In this report we have likewise added more background information on the markets in which we operate, specifically with respect to the Chinese real estate market and the global water market.

With respect to the mandatory rotation of audit firms for Dutch public interest entities that came into effect as of January 1, 2016, we continued on the path which we had set out in 2014 to appoint a new auditor for Kardan. Consequently, the Audit Committee – together with the Executive Management – reviewed the proposals of several audit firms and submitted its findings to the Board.
This resulted in a recommendation to our Annual General Meeting of Shareholders in 2015 to appoint

PricewaterhouseCoopers Accountants N.V. as Kardan's external auditor responsible for auditing the annual accounts for the financial year 2015.

In March 2016, our CEO, Shouky Oren, notified us of his intention to resign as CEO and a Director of Kardan.
Over the last four years, Shouky Oren has shown outstanding skill and diplomacy in meeting demanding objectives and has done so whilst maintaining the full support of his executives throughout the business. He has led the Company through a period of substantial change and will be leaving it in a significantly better position than when he arrived. We wish him well.

I am delighted to report that we have appointed a new CEO from within our Group. Ariel Hasson, who takes up his duties on April 15, 2016, and who is the CEO of Kardan Financial Services has been with the Company since 2010. Since then, he has skillfully led the turnaround of a weak banking and retail lending operation into a profitable and well positioned business, as evidenced by its results and the recently announced sale of these activities. We look forward to working with him to accomplish the objectives of strengthening our operating activities and further debt reduction.

In 2015 we warmly welcomed a new Member of the Board. After conducting extensive interviews with a number of candidates, both male and female, the Remuneration, Appointment and Selection (RAS) Committee nominated Mr. Bouke Marsman who was appointed at the Extraordinary General Meeting of Shareholders in August 2015. Mr. Marsman is one of the candidates proposed by the Debenture Holders as agreed in the Amended Deeds of Trust.

At the same time, Mr. Max Groen voluntarily stepped down. Mr. Groen has been a valued member of our Board for over ten years and has served as the chairman of the Audit Committee during nearly his full tenure. His financial knowledge and experience and his analytical approach have made a significant contribution to our Board meetings. I want to thank him for his commitment to Kardan over all the past years.

At the end of March 2016 we were informed that in view of recent events and transactions which require more of his immediate attention and following consultations with myself and with other members of the Board, Mr. Albert May has decided not to put his name forward for re-election to the Board of Kardan. Mr. May has been a Non-Executive member of the Board, a member of the Audit committee and chaired the Remuneration, Appointment and Selection Committee for the past four years. His contribution has been extremely beneficial and deeply appreciated and we whish to thank him for his time and efforts over the past years.

In my opinion it essential that a Board operates as a team. In the course of last year I conducted fruitful bilateral meetings with each Member of the Board. I feel privileged to be surrounded by dedicated and committed colleagues on the Board and their extensive financial, business and sector expertise. All of my Board colleagues contributed valuable individual insights, knowledge and experience from their different backgrounds during the many meetings held during the year.

We consider good Corporate Governance essential to successfully manage and execute Kardan's objectives. In addition, we feel that it is important to have an ethical and social framework in place which not only provides structure and clarity to our daily operations but also helps us to be a socially responsible corporate citizen. Kardan has a knowledgeable, respectful and international workforce. We have elaborated more extensively on our objective to be a socially responsible corporate citizen and to contribute to a sustainable future in this Annual Report, in the chapter on Corporate Social Responsibility as well as in the specific chapters on the three divisions. In addition, I refer to the Corporate Governance Statement 2015

– posted separately on our website and forming an integral part of our Annual Report – and to the chapter 'Governance and Compliance' starting on page 80 of this Annual Report for more detailed information.

In the same way, we consider it important to stay in regular contact with our various investors in order to be as transparent as we can be as a listed company.
Our Executive Management dedicated considerable time to meet with the trustees and representatives of the Debenture Holders during the year, culminating in the signing of the Amended Deeds of Trust. Our Board is kept abreast of our (debt) investor contacts on a regular basis.

Our Board is firm in our resolve to overcome our challenges and to meet our commitments to our Debenture Holders and other stakeholders. I believe this commitment is being amply demonstrated by the recent transactions we have concluded for the sale of certain assets and by the operating results of our subsidiaries.

2015 has again been a difficult and challenging year for Kardan. It has also been one which we have come through with significant achievements, and I particularly want to convey the appreciation of the Board for the efforts made by our CEO,
Mr. Shouky Oren, and the other members of the Executive Management, Mrs. Einat Oz-Gabber and Mr. Elias for their invaluable contribution towards the progress that we have made.
I am also grateful to all our employees around the world – each contributing a specific part to the total picture that makes Kardan – for their continued great dedication and commitment. In addition, I want to thank all our stakeholders for their trust. My colleagues and I remain determined to do everything in our power to reward that trust with positive and improving performance.

Peter Sheldon, OBE, JP,

Chairman of the Board

Letter of the Chief Executive Officer

'2015: reaching a debt settlement was an important step'

The central theme for 2015 was dealing with the debt to our Debenture Holders. In 2014 we entered into negotiations with our Debenture Holders to examine the possibility of postponing payment of the installments on our Debentures to reduce the cash flow pressure we were facing. It was evident that besides continuing to improve and strengthen our operating subsidiaries we would also need to sell assets to be able to fulfill our dues. We were therefore pleased to be able to sell our remaining stake in the Chinese shopping mall Galleria Chengdu at the end of 2014 and to come to an agreement to sell our water infrastructure company KWIG, also operational in China, at the beginning of 2015. We also sold a small subsidiary of TBIF around that time. These transactions generated significant proceeds, which to a large extent were transferred to Kardan. In addition, the sale of KWIG contributed a substantial gain in 2015.

After extensive negotiations with our Debenture Holders we came to an agreement to postpone the majority of our principal installments by 24 months, whilst committing to repay the debt in full. This did of course come at a price of higher interest rates, collateral and certain covenants and conditions. The corresponding Amended Deeds of Trust were signed at the beginning of July 2015. This important result gives us additional time to further improve our businesses and accordingly their value. The impact of the higher interest rate is, however, visible in the net consolidated result of 2015.

I am pleased to report that our business operations have all contributed positively to the 2015 consolidated net result of Kardan. However, this profitable contribution was more than off-set by a substantial increase in financing expenses arising predominantly from adverse foreign exchange rate movements on the Company's Israeli Shekel (NIS) denominated Debentures but also including the effect of the higher interest rate. As a result, despite the positive contributions of the operating subsidiaries, Kardan reported a consolidated net loss of EUR 22.9 million in 2015.

A lot has happened in the businesses in 2015.

In China, KLC opened the doors of Galleria Dalian in August. This prominent shopping mall of the Europark project offers its visitors a mix of tenants reflecting the lifestyle concept, i.e. entertainment, food & beverage, fitness centers, cinema, kid's corners etc. spread over 65,000 square meter of rentable area. Also in August KLC sold a complete Europark apartment building which will be turned into an apartment hotel for the new owner. The interior finishing now needs to be done according to the specifications of the buyer. We expect to hand over the fully finished building by the end of 2017.

Tahal, our water infrastructure company, made good progress with existing projects. Two large projects in Angola and Ghana are now near completion. Although Tahal experienced that some clients postponed possible projects due to the drop in the global oil prices during 2015 which affected available budgets, it did sign up important new project assignments. The Karnataka project in India is the most prominent, to design, build and operate a water supply system to provide treated potable water to approximately 131 villages in the Gadag District. The recently installed local team in India is moving this project forward according to plan and construction activities have started. Tahal sees great potential in the water market in India and aims to build on this important first project.

TBIF, our banking and retail lending segment, reported continued excellent improvement in its net result for 2015; a product of good organic growth of its well performing portfolio combined with efficient liquidity management and cost control. Avis Ukraine also reported improved earnings in still very difficult market circumstances. We recently announced the sale of TBIF, holding our banking and retail lending activities, pending certain conditions precedent.

The terms of this sale agreement are evidence to the significant turn-around that has taken place in our banking and retail lending organization.

Going forward

2015, like 2014, was an interesting year for Kardan. We accomplished a lot, operationally, in terms of generating cash through the sale of assets and in coming to a debt settlement with our Debenture Holders.

After four fascinating years as CEO of Kardan I recently decided to step down. The Board appointed Ariel Hasson, the CEO of Kardan Financial Services, to become CEO of Kardan as of April 15, 2016. I have full confidence in Ariel Hasson and wish him well. Under Ariel's leadership our financial services division has moved from a loss making to a very profitable entity. The future is likely to continue to be challenging for Kardan, as we continue to face the task of repayment of the still substantial amount of outstanding debentures and the forex exposure risk they pose. We remain confident, however, that our operating activities will continue to strengthen and we remain committed to fully meeting our repayment obligations.

I want to thank our stakeholders for their continuing trust, and I wish to thank my colleagues throughout the Group companies. Without their perseverance, commitment and dedicated efforts, the challenges we continue to face would be that much more difficult.

Shouky Oren,

Chief Executive Officer

Shareholder Information and Investor Relations

Kardan shares

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

As at December 31, 2015 a total of 123,022,256[A] 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[B] that they had an interest of 3% or more in the share capital of Kardan as at December 31, 2015[C].

DECEMBER 31, 2015 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)	19,818,465	16.11%
E. Rechter (3)(4)	4,098,719	3.33%
Kardan Israel Ltd. (6)	12,300,330	10.00%
Migdal Insurance & Financial Holdings Ltd.	4,020,756	3.27%

(1) The shares are held directly and indirectly through Talromit Financial Holdings (1995) Ltd., a company wholly-owned by Mr. Grunfeld.
(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 was under receivership as at December 31, 2015.
(6) Messrs. Grunfeld, Schnur and Rechter have a voting agreement with respect to their respective shareholdings in the capital of Kardan Yazamut (2011) Ltd. (47.38% jointly). Kardan Yazamut (2011) Ltd. holds 73.67% of the shares in the share capital of Kardan Israel Ltd, which holds 10% of the shares in the Company.

A As part of the Debt Settlement, shares representing 10% of the Company's share capital (after issuance) have been issued to the Company's Debenture Holders, series A and B.
B Under Israeli Securities' Law, shareholders are required to disclose their shareholdings to TASE as of holdings of 5% or more.
C Figures may differ as the reporting obligations of shareholders depend on certain thresholds being met, as further described in the Dutch Financial Supervision Act.

Board participations and employee options

Besides the above listed shareholdings of Messrs. Grunfeld, Schnur and Rechter, who are also non-executive Board Members of Kardan, the CEO, Mr. Oren, has disclosed to the AFM that he holds 100,000 shares in the capital of Kardan.

Additionally, a total of 2,582,624 options to purchase shares in the capital of Kardan are granted to a) the CEO (2,282,624) as part of his remuneration (see also the Remuneration Report on page 87 of this Annual Report) and b) to four senior employees of Kardan (300,000 options in total), with an exercise price of EUR 0.2807 (or NIS 1.191).

Key financial figures per share

€ per share	2015	2014	2013
Basic earnings (loss)	(0.20)	0.05	(0.92)
Diluted earnings (loss)	(0.20)	0.05	(0.92)
Total consolidated equity	0.62	0.87	0.65
Equity net of non-controlling interest *	0.58	0.83	0.60

* Excluding treasury shares outstanding as of December 31

Share prices in 2015

	Euronext (EUR)	Tel Aviv (NIS)*
Highest share price	0.47	223.60
Lowest share price	0.18	90.70
Year-end	0.22	98.10

* in 0.01 NIS

Shareholder Information and Investor Relations

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 consolidated net los of EUR 22.9 million over 2015. Given the Company's financial liabilities and commitments towards its Debenture Holders, the Board does not propose a distribution of dividend over 2015. For further information regarding the commitments towards the Debenture Holders see Note 1 of the Financial Statements.

Financial calendar

Q4 2015 and annual results 2015 – March 24, 2016

Q1 2016 results – May 26, 2016

Annual General Meeting of Shareholders – May 26, 2016

Q2 2016 results – August 25, 2016

Q3 2016 results – November 24, 2016

Investor Relations

The Company acknowledges the importance of being transparent and explanatory towards its shareholders and other investors. As such, the CEO, together with the Director Investor Relations, frequently engages in (one-on-one) meetings with investors and shareholders. In order to reach a debt settlement with the Company's Debenture Holders, the CEO has had extensive discussions with trustees and representatives of the Debenture Holders (of both Series A and Series B) during 2015.

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

Additional information

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

Other publications and information: www.kardan.nl

Main events in the portfolio of Kardan

Main events in the portfolio of Kardan

During 2015, Kardan's management dedicated substantial time on accomplishing a Debt Settlement with its Debenture Holders to give the Company additional time to generate the necessary funds to repay its debt. Concurrently, the management teams of the operating divisions focused on strengthening their companies. The main events are described in more detail below, per division.

Kardan N.V.

Debt Settlement

After Kardan's Board of Directors decided in December 2014 to propose an agreement in principle regarding debt restructuring ('the Principles') to the holders of the Company's debentures Series A and Series B (the 'Debenture Holders'), on January 6, 2015, both the meetings of the Debenture Holders gave their approval to the proposed immediate short term solution and to conducting negotiations with the Company to reach final a agreements based on the Principles.

The Principles comprised two phases:

1) To immediately (and temporarily) amend the deeds of trust for debentures Series A and Series B ('the Immediate Amendment', 'the Debentures'), to predominantly postpone the February 2015 interest and principal payments by six months until August 2015 for both Series.

2) Kardan and the trustees and the Debenture Holders would, within 90 days after receiving the approval of the Debenture Holders, begin to draft the amendments to the deeds of trust according to the proposed Principles, mainly to postpone the majority of payment of principals by 24 months against certain conditions, restrictions and collateral.

Having received part of the proceeds of the sale of Tahal's subsidiary KWIG in China (as explained in more detail below) and in line with the Immediate Amendment, Kardan early repaid interest and principal of its Debentures in March 2015. The total repayment amounted to approximately EUR 25.4 million.

In May 2015 the Company came to an agreement with the Debenture Holders namely to allocate to the Debenture Holders approximately 10% of the issued capital of the Company on the completion date and a payment in cash of EUR 750,000 – instead of the earlier agreed 12% allocation of shares – all within 45 business days from the date on which the Amended Deeds of Trust based on the proposed principles would enter into force.
Subsequently, in June 2015 the meetings of the Debenture Holders approved the Amended Deeds of Trust, and on July 3, 2015, the Debt Settlement entered into effect.
For additional information regarding the Amended Deeds of Trust, see Note 1 of the 2015 Financial Statements.

In September 2015 the Company announced that agreed upon pledges had not yet been registered due to delays related to the negotiation between the parties with respect to phrasing of the pledges. According to the Amended Deeds of Trust the Company would create and register pledges on the rights and the pledged loans which are relevant to Emerging Investments XII B.V. in favor of the trustees to the Debenture Holders, and would correct (or re-register) the existing pledges as required by the trustees regarding the rights and pledged loans relevant to GTC Real Estate Holding B.V., within 60 days after the Completion Date.

Rating

In January 2015 Maalot, the Israeli subsidiary of Standard & Poor's (S&P), reported that it had changed the rating of Kardan and its Debentures to D (from ilCC) on the announcement that the February 2015 interest and principal payments for the Debentures had been postponed by six months. However, on the following day, S&P reported that it had reassigned the rating of the Company to ilCCC Negative outlook, and of its Debentures to ilCCC, taking into account the Immediate Amendment (interim debt settlement) as described above. Subsequently, in July 2015, S&P reported that it had adjusted the rating of Kardan upwards from ilCCC to ilB with Negative outlook, and to ilB for its Debentures, following the signing of the Amended Deeds of Trust.

General Meeting of Shareholders

The Annual General Meeting of shareholders (AGM) (May 2015) approved the appointment of PricewaterhouseCoopers N.V Amsterdam (the Netherlands) and PricewaterhouseCoopers (Israel) (jointly 'PwC') as the external auditor responsible for auditing the annual accounts for the financial year 2015. PwC has replaced EY (Ernst & Young) as group auditors as of June 1, 2015.

The Extraordinary General Meeting of Shareholders (EGM), which was held in August 2015, approved the appointment of Mr. Bouke Marsman as a non-executive member of the Board as described in the Governance and Compliance chapter, starting on page 80. As Mr. Max Groen offered to step down from the Board upon this appointment, the Board continues to comprise nine members, eight of whom are non-executive members.
Additionally, during this EGM, the shareholders approved to grant the CEO a short term incentive in the form of an annual bonus of the Euro equivalent to USD 300,000 (gross) as at the date of payment, conditional upon the achievement of certain targets, and to revise the CEO's long term incentive, granting the CEO new options (replacing the former grant of options) as further described in the Remuneration report, starting on page 87.

Other

In March 2015 Kardan announced that a bank filed a request for bankruptcy and receivership against Mr. Grunfeld, one of the controlling shareholders of the Company. In August 2015, the Company announced that it was informed that the District Court in Tel Aviv, Israel, accepted the request of Leumi Bank and had ordered the assets of Mr. Grunfeld to be put in receivership by the official General Receiver and had appointed Leumi Bank's Lawyer as special administrative receiver.
Mr. Grunfeld directly holds 849,000 shares of Kardan, representing approximately 0.69% of the Company's share capital and its voting rights. In addition, Mr. Grunfeld indirectly – through Talromit Financial Holdings (1999) Ltd., a company controlled by Mr. Grunfeld – holds 20,644,927 shares of Kardan, representing approximately 16.78% of the Company's share capital and voting rights. All the Kardan shares held by Mr. Grunfeld (directly and indirectly) are pledged as follows: 11,591,189 shares to Bank Hapoalim Ltd., 9,053,738 shares to Bank Leumi le-Israel BM and most of the remaining shares are pledged to two other banking entities.
In August 2015 the Company was also informed that Bank Hapoalim filed a request to execute the pledge on the shares which Mr. Grunfeld holds in Kardan (i.e. to receive the shares).
In December 2015, the Company learned that the Tel Aviv District Court accepted the request of the administrative receiver to expand his power by issuing an order granting him the ability to exact the rights of the shares in the private companies which are wholly owned by Mr. Grunfeld (through one of which Mr. Grunfeld holds most of his shares in the Company). This will enable the administrative receiver to, among other things, appoint himself as a director in the aforementioned private companies and to take any action to protect the value of the holdings of the private companies. It is clarified that the decision does not authorize the special administrator to exercise the shares.

In March 2016, Kardan announced that Mr. Shouky Oren had informed the Board of Directors of Kardan N.V. of his intention to leave the Company, after four years as CEO and member of the Board of Directors. The Board announced that it has appointed Mr. Ariel Hasson, CEO of Kardan Financial Services, as the new CEO of Kardan N.V. to replace Mr. Oren who will relinquish his duties on April 15, 2016. Mr. Hasson is expected to be nominated as an Executive Board Member at the Company's Annual General Meeting in May 2016.

Real Estate

In February 2015, GTC RE repaid the remaining EUR 5 million plus interest of an outstanding bank loan, using the funds of the proceeds from the sale of the TBI Credit, a subsidiary of TBIF (see below), thereby releasing all relating pledges.

In November 2013, GTC RE sold its stake in Globe Trade Centre S.A. (GTC SA) to Lone Star Real Estate Fund III ('the Buyer') in consideration of EUR 160 million ('the Sale Agreement').
In April 2015 and in January 2016, GTC RE and the Company received a demand from the Buyer to pay an amount of EUR 3.15 million each as the Buyer claimed that GTC SA did not meet two business targets as stipulated in the Sale Agreement, therefore activating a claw back mechanism.
Subsequently, in October 2015, a writ of summons was issued against Kardan by the Buyer according to which the Buyer demanded that the Company (as a guarantor to GTC RE's liability) would pay the first amount of EUR 3.15 million according to the aforementioned claw back mechanism.
In February 2016 the Company, GTC RE and the Buyer signed a settlement agreement, according to which GTC RE would pay the Buyer an amount of EUR 4 million in exchange for a final and absolute waiver by the Buyer of all its existing and future claims and demands towards the Company and GTC RE in relation to the Buyer's demands according to the claw back mechanism, and of mutual cancellation and deletion of all proceedings taken in this matter.

In August 2015 a binding agreement (the 'Agreement') was signed between Kardan Land Dalian Ltd. (the 'Project Company'), a wholly owned subsidiary of Kardan Land China Ltd. (KLC), and Fraser Suite Dalian Company Ltd. ('the Purchaser') to sell Building B of the Europark Dalian project (the 'Project') for a total consideration of approximately RMB 481 million (approximately EUR 68 million) (the 'Consideration'). The Purchaser paid 10% of the Consideration within twenty-five working days after the date on which the Agreement was signed. The balance of the Consideration is due to be paid in phases, subject to meeting certain conditions precedent and receiving certain approvals which are expected to be met or obtained during the development of the Project, as stipulated in the Agreement. At present, 50% of the Consideration has been received and KLC expects to receive the remaining 25% in 2016, 15% in 2017 and 10% in 2018. The delivery of the 262 serviced apartments and 14 parking spaces that Building B comprises is expected to take place in the fourth quarter of 2017 when the agreed upon interior construction has been finished in the already completed core and shell of the building. The Consideration will be used by the Project Company to repay part of a bank loan and for further development of the Project.

In October 2015 the Project Company entered into an agreement with the investment fund Shenzhen Ping An Da Hua Huitong Wealth Management Co., a subsidiary of Ping An Trust ('the Fund') in China, with respect to a credit facility (the 'Credit') amounting up to RMB 1 billion (approximately EUR 142 million) for the Project. The Credit has been used to refinance the outstanding debt of the current project loan amounting to RMB 900 million and will furthermore be used to finance the Project.
In November 2015 the Project Company withdrew an amount of RMB 700 million (approximately

EUR 105 million) from the Credit facility to refinance an existing loan.
In January 2016 Kardan announced that it had received EUR 13.2 million (a deposit which was held in connection with the refinanced loan). Following the release of the pledges which were registered to secure the current project loan, these pledges were registered in favor of the Fund to secure the Credit.
In February 2016, the Project Company withdrew an additional amount of RMB 100 million (EUR 15 million) from the Credit facility to be used for on-going financing needs of the Project.

Water Infrastructure

In January 2015 Tahal Group Assets BV (Tahal Assets) signed a Share Purchase Agreement with China Gezhouba Group Investment Holding Co. Ltd. (CGGC Investment) to sell its shares in the Chinese water infrastructure company Kardan Water International Group Ltd. (KWIG), to take place in two phases (75% and 25%) to be finalized before the end of June 2015. The total consideration of the two phases amounts to RMB 630 million (at the time approximately EUR 86 million / USD 101 million, 'the Consideration'). The first phase (75%) was concluded in March 2015. Additionally, on top of the Consideration, CGGC Investment repaid all outstanding loans provided to KWIG by Kardan Group companies, totaling approximately EUR 42 million.

In June 2015 it was announced that the second phase of the sale was postponed by three months until September 30, 2015 at the request of CGGC Investment and in September 2015, it was announced that the second phase had been delayed due to processes which were taking more time than expected. The remaining part of the Consideration, i.e. approximately USD 27 million including interest according to the agreement, will be paid to Tahal Assets upon completion of the second phase, which is expected to take place in H1 2016. The received funds (net) will be used by Tahal for payment of a dividend to Kardan.

In March 2015 Tahal Group International BV (TGI) fully repaid FIMI Tahal 2010 Investments Limited Partnership (FIMI) the loan principal of USD 25 million together with accrued interest as of that date. As a result, in the first quarter of 2015, TGI recorded a financial expense of approximately EUR 3 million due to the early repayment.

In June 2015, a subsidiary of TGI, Tahal Consulting Engineers Ltd., signed an agreement with the government of the State of Karnataka in India to design, build and operate a water supply system to provide treated potable water to approximately 331,000 inhabitants in 131 villages in the Gadag District for a total compensation of approximately EUR 67 million (4.7 billion Rupees).
This is the first project of this type and scope carried out by Tahal in India. It involves a turnkey project, comprising 2 phases: the design and construction phase which is expected to last 30 months – which includes the design and construction of a water intake system, a transmission pipeline, a distribution network over 600 km, a water treatment plant and 8 reservoirs – and the operations and maintenance phase which is expected to last 60 months. Over 80% of the compensation will be paid for the first phase, half of which is provided by the Central Government of India, and the other half by the government of the state of Karnataka. A down payment of 5% of the total compensation was paid in September 2015, after which the first phase commenced.

In September 2015, TGI signed an amended agreement with FIMI ('the Amended Agreement') to replace the existing agreements. The Amended Agreement was signed following discussions between the parties regarding the interpretation of various clauses of the Agreements, inter alia on distribution of dividends after the full repayment of the loan, whereas the option agreement was still valid. According to the new agreement, FIMI will be entitled to receive from TGI only a cash consideration that will be determined upon the value of TGI in the date of the exit event.

For details on the Amended Agreement reference is made to the 2015 Financial Statements, Note 23. In addition, following the cancellation of the agreements, TGI and Kardan NV signed an agreement whereby the Company undertakes towards TGI to bear payment to FIMI exceeding USD 0.5 million.

Financial Services

TBIF Financial Services B.V. (TBIF) signed an agreement in October 2014 to sell all of its shares in a subsidiary holding a non-performing credit portfolio and other non-banking financial operations. Closing of the sale of the shares took place in February 2015, when the full consideration of approximately EUR 10 million was received. The Company used the proceeds to fully repay GTC RE's bank loan of EUR 5 million plus interest. As a result of the transaction the Company recorded a small net gain.

In March 2016, it was announced that Kardan Financial Services B.V. (KFS) had signed an agreement ('the Agreement') to sell its 100% holding in the subsidiary TBIF ('the Transaction'), comprising the banking and retail lending activities of the Kardan Group for a total consideration ('the Consideration') to be paid in two parts. On the completion date ('the Completion date') the buyer will pay KFS an amount of approximately EUR 69 million. Subsequently, following the Completion date, the Consideration will be adjusted to take into account the audited result of the sold asset in the period January 1, 2016 until the Completion date. The Transaction is subject to certain conditions precedent, including the receipt of regulatory approvals and the approval of the meetings of Kardan's Debenture Holders to certain terms of the Agreement. The Company notes that there is no certainty that the Transaction will be completed.

Financial Review 2015

General

Kardan's operating subsidiaries all contributed positively to the Company's 2015 consolidated net result. However, this profitable contribution was more than off-set by an increase of EUR 41 million in financing expenses totaling to EUR 60 million in the year (2014: EUR 19 million expenses). This significant increase arose predominantly from adverse foreign exchange rate movements on the Company's NIS denominated debentures. As a result, despite the positive contributions of the operating subsidiaries, Kardan is reporting a consolidated net loss of EUR 22.9 million in 2015 (2014: EUR 5.1 million profit).

In the analysis below, the focus is on the consolidated financial statements. At the end of the chapter, information is provided with respect to the equity and funding position of Kardan N.V.

Consolidated Income Statement Kardan N.V.

The 2015 consolidated income statement split into the different segments of Kardan N.V. is shown in the table below in a condensed form.

Following the overall analysis, the 2015 results of every individual segment is analyzed in more detail.

€ in million	Real Estate	Water Infra-structure	Banking and Retail lending	Other	Total 12M - 2015	Total 12M - 2014
Total revenues	6.7	167.9	41.5	–	216.1	230.4
Total expenses	17.0	160.3	31.8	5.1	214.2	223.8
Profit (loss) from operation before fair value adjustments, disposal of assets and financial expenses	(10.3)	7.6	9.7	(5.1)	1.9	6.6
Profit (loss) from fair value adjustments, disposal of assets, investments and other income (expenses)	21.3	0.3	0.5	(0.8)	21.3	26.7
Result from operations before finance expenses	**11.0**	**7.9**	**10.2**	**(5.9)**	**23.2**	**33.3**
Financing income (expenses), net	(1.6)	(2.1)	3.4	(60.1)	(60.4)	(19.3)
Share of profit of associates and joint ventures according to equity method	2.6	(1.5)	1.7	(0.1)	2.7	6.7
Profit (Loss) before income tax	12.0	4.3	15.3	(66.1)	(34.5)	20.7
Income tax (expenses)/benefit	(3.1)	(2.9)	(2.0)	(0.5)	(8.5)	(13.0)
Profit (Loss) from continuing operations	**8.9**	**1.4**	**13.3**	**(66.6)**	**(43.0)**	**7.7**
Profit (Loss) from discontinued operations	–	20.1	–	–	20.1	(2.6)
Profit (Loss) for the period	8.9	21.5	13.3	(66.6)	(22.9)	5.1
Attributable to:						
Non-controlling interest	–	–	–	–	–	–
Net result for equity	**8.9**	**21.5**	**13.3**	**(66.6)**	**(22.9)**	**5.1**
Other comprehensive income/(loss)					(2.0)	26.9
Total Comprehensive Income / (Loss) to equity holders					**(24.9)**	**32.0**

Highlights per segment

Real Estate

Kardan is active in development and management of Real Estate through the segment Real Estate Asia, which comprises its 100% subsidiary Kardan Land China (KLC) operating in China.

Results Real Estate Asia

€ in million	For the year ended December 31	
	2015	2014
Delivery of units	0.8	46.9
Rental income	1.8	–
Management fee and other revenues	4.1	5.1
Total revenues	6.7	52.0
Cost of delivery of units	0.9	44.2
Cost of rental income	1.5	–
Other expenses and management & service recharge expenses, net	3.2	3.3
Gross profit	1.1	4.5
SG&A expenses	11.4	8.9
Adjustment to fair value (impairment) of investment property	20.9	8.9
Gain on disposal of assets and other income	0.4	16.8
Equity earnings (losses)	2.6	7.2
Result from operations before finance expenses	**13.6**	**28.5**
Financing income (expenses), net	(1.6)	5.4
Income tax (expenses) / benefit	(3.1)	(9.3)
Net profit (loss) to Equity holders	**8.9**	**24.6**

Additional information Real Estate Asia

Additional information Kardan Land China € in million	2015 (31.12)	2014 (31.12)
Balance sheet		
Share of investment in JVs	69.6	60.7
Investment Property Under Construction	–	181.1
Investment Property	250.3	–
Inventory	99.7	98.1
Cash & short term investments	43.0	66.6
Total Assets	523.2	470.3
Loans and Borrowings	100.7	120.7
Advance payments from buyers	34.3	0.2
Total Equity	324.5	305.6
Operational Information Residential	**2015**	**2014**
Revenue Residential - JV (in € millions)	69.6	50.0
Gross profit residential - JV (in € millions)	16.0	14.6
Apartments sold in period (a)	1,389	1,254
Apartments delivered in period (Dalian, 100%)	4	250
Apartments delivered in period (joint venture, 50%)	2,008	1,480
Total apartments sold, not yet delivered	2,208	2,832

(a) All residential apartments, incl. Dalian (100%), which includes in 2015: 7 Building A1 and 262 Building B, in 2014: 211 Dalian apartments.
(b) Includes approximately EUR 24 million gross profit (KLC share).

Result analysis
The Real Estate segment, fully comprising Kardan Land China, contributed EUR 8.9 million profit to Kardan's consolidated 2015 net result compared to EUR 24.6 million profit in 2014 which included EUR 16.8 million on the sale of Galleria Chengdu. The result in 2015 was due to significantly lower revenues, less equity earnings and higher financing expenses, but mitigated by a higher fair value adjustment on the Europark Dalian shopping mall and an on average much stronger RMB in 2015 (18% y-o-y versus the Euro).

'Delivery of units' relates to the revenue resulting from the handover of apartments of the Europark Dalian project (100%) whilst the results of KLC's joint venture residential activities are reported as 'Equity in net earnings of joint ventures'. Although Galleria Chengdu was sold in Q4 2014, KLC is still the asset manager of the mall. 'Management fee and other revenues' accordingly predominantly relates to the 100% asset management activities for both Galleria Chengdu and Galleria Dalian, the shopping mall of the Europark project.

The substantial (y-o-y) drop in total revenues in 2015 can be explained by the fact that the 2014 revenue was generated by the delivery of 250 Dalian apartments (including the 201 of the A2 building), whilst in 2015 only 4 apartments of the Europark A1 building were delivered. Following the opening in August 2015 of Galleria Dalian rental revenues could be recognized, which were absent in 2014. The decrease (y-o-y) of management and service recharge revenues is due to the different fee structure for the services rendered to Galleria Chengdu after its sale. In 2014, the total gross margin (9%) was lower due to the sale and delivery of building A2. In 2015, the gross margin improved to 16%. Galleria Dalian recorded a gross margin of 17% during 2015.

SG&A expenses showed a marked annual increase primarily due to additional marketing efforts for the Europark Dalian project and one-off expenses relating to the change in management in Q2 2015. Excluding the impact of the stronger RMB however, the G&A expenses in 2015 decreased by 3% (y-o-y).

The substantial adjustment to fair value of investment properties in 2015 is fully attributable to Galleria Dalian, which was completed in the second quarter.

Thanks to a strong fourth quarter in terms on handovers of apartments (39% of the full year handovers) and thus revenue, markedly more apartments from joint venture projects were delivered in 2015 (2,008) than last year in the same period (1,480). The relating revenue for the full year 2015, however, was lower by 26% with a gross margin of 23% (2014: 29%). Similarly, KLC also impaired inventory of the joint venture projects in the net amount of EUR 3.3 million in 2015. Ultimately this resulted in significantly lower equity earnings in 2015 (profit of EUR 2.6 million) than in 2014 (EUR 7.2 million profit) which did still include the result of KLC's 50% stake in Galleria Chengdu.

A noteworthy change in net financing expenses occurred: whereas in 2014 over EUR 5 million financing income was recognized, in 2015 financing expenses amounted to EUR 1.6 million. This can be explained by substantially higher (y-o-y) financing expenses since as of Q2 2015 the interest expenses relating to Europark Dalian project loan could no longer be capitalized mitigated by the difference in forex contribution: in 2015 the appreciation of the RMB versus the Euro contributed EUR 7.2 million whereas this was EUR 4.2 million in 2014.

Income tax expenses in 2015 decreased (y-o-y), albeit including a write-off of EUR 0.9 million in the fourth quarter of 2015 relating to deferred tax assets, compared to 2014 which included the tax (EUR 5.5 million) on the gain on the sale of Galleria Chengdu.

Additional Information

The value reported under Investment Property as at December 31, 2015, fully reflects Galleria Dalian – which was completed in Q2 2015 and consequently no longer reported under Investment property under construction – and includes the effect of the appreciation by 5% of the RMB versus the Euro at reporting date compared to year-end 2014.
The strengthening of the RMB additionally impacted the inventory (although the number of apartments in inventory decreased y-o-y by 32% as at December 31, 2015, the value increased marginally). 'Loans and borrowings' decreased following the refinancing of the Europark Dalian construction loan.

Following the sale of Building B in Q3 of 2015 and the 50% payment of the transaction amount (in line with the sale agreement; for further information see the Main Events paragraph in the Director's Report), 'advance payments from buyers' was significantly higher at December 31, 2015 than as at year-end 2014. The increase of Equity as at December 31, 2015 (versus year-end 2014) can mainly be ascribed to a combination of the profit in the period and the foreign currency effect of the RMB

Water Infrastructure

Tahal Group International B.V. (TGI), Kardan's water infrastructure company, focuses on executing water related projects worldwide through its subsidiary Tahal, which is active in Africa, Central and Eastern Europe, India and in other regions and countries, such as Israel. TGI's subsidiary KWIG, which focused on developing water assets (e.g. wastewater, water treatment and water supply plants) in China was sold at the beginning of 2015 and the first phase of the sale

(75%) was completed. The completion of the second phase (25%) is expected to take place before the end of Q2 2016.

Results Water Infrastructure

€ in million	For the year ended December 31	
	2015	2014
Contract revenues	167.9	142.8
Contract cost	142.9	118.6
Gross profit	25.0	24.2
SG&A expenses	17.4	14.5
Equity earnings / (losses)	(1.5)	(0.6)
Gain on disposal of assets and other income	0.3	(0.2)
Result from operations before financing expenses	**6.4**	**8.9**
Financing income (expenses), net	(2.1)	(4.8)
Income tax (expenses) / benefits	(2.9)	(3.0)
Profit (loss) from continuing operations	**1.4**	**1.1**
Net profit (loss) from discontinued operations	20.1	(2.6)
Net profit (loss)	21.5	(1.5)
Attributable to:		
Equity holders (Kardan N.V.)	**21.5**	**(1.5)**

Additional Information Water Infrastructure*

	2015 (31.12)	2014 (31.12)
Balance sheet (in € millon)		
Cash & short term investments	24.0	16.6
Total Assets	171.2	289.4
Net debt / (cash)	(21.9)	40.0
Equity	64.8	102.1
Equity / Assets	37.9%	35.3%
Other (in USD million)		
Backlog	311	358

* On the basis of Tahal Group International consolidated

Result analysis 2015

It is noted that, following the completion of the first phase (75%) of the sale of TGI's 100% shares in KWIG in Q1 2015, the segment Water Infrastructure Assets is no longer presented. Consequently the results of the water infrastructure activities are presented as one segment, predominantly reflecting Tahal's global water infrastructure projects activities. The comparable results of 2014 have accordingly been reclassified and the result of KWIG is presented as discontinued operations. The completion of the second phase (25%) of the sale of KWIG is expected to take place by the end of Q2 2016.

Water Infrastructure contributed EUR 21.5 million net profit in 2015, which includes EUR 20.1 million net profit from the sale of KWIG and a one-off charge of EUR 3 million relating to the early repayment of the FIMI loan following this sale. Excluding the impact of KWIG and FIMI, the underlying result of the ongoing water infrastructure activities increased from EUR 2.4 million in 2014 to EUR 4.4 million profit in 2015.

In 2014, the EUR 1.5 million loss includes a loss of EUR 2.6 million from the discontinued operations of KWIG. Furthermore, the 2015 result was significantly impacted by the fact that on average the USD and the NIS appreciated significantly (y-o-y) versus the Euro in 2015.

Although revenue showed a (y-o-y) decrease in Q4 2015 of 5%, for the full year 2015 an increase of 18% y-o-y was recognized, which can predominantly be explained by the substantial foreign exchange impact as the USD and the NIS (the currencies in which the majority of the projects are denominated) appreciated against the Euro. It is noted that revenue of new projects generally starts to be recognized according to the relevant agreed upon milestones, which is usually after the first invoice has been sent or the first agreed upon phase of the project has been completed.

The gross margin decreased in 2015 (15%) compared to in 2014 (17%) particularly on a different mix of projects than last year.

Although savings in running wages and salaries were achieved in local currencies, SG&A expenses were 20% higher (y-o-y) in 2015. As over 50% of Tahal's staff is located in Israel and the G&A expenses are accordingly NIS denominated, the marked on average appreciation (of 10%) of the NIS versus the Euro during 2015 partly explains the growth in SG&A expenses. In addition, higher amounts relating to management fees and employee stock option and bonus plans were included.

The improved net financing result in 2015 is the result of a combination of low utilization of credit lines, a significantly higher positive foreign exchange revaluation than in 2014 which was more than off-set by a one-off charge of EUR 3 million which is attributable to the early repayment of the USD 25 million loan in Q1 of 2015, using the proceeds from the sale of KWIG.

The profit from discontinued operations relates to the sale of KWIG. The majority of the funds from the sale of KWIG was earmarked for Kardan NV and for Tahal's ongoing business operations. In Q4 2015, the amount relates to the revaluation of the net consideration to be received on the second phase of the sale.

Banking and Retail Lending

Kardan is active in the financial services sector through its 100% holding in Kardan Financial Services (KFS) which operates through its wholly owned subsidiary TBIF, primarily in banking and retail lending in Bulgaria and Romania. In addition, KFS is active in Ukraine with leasing activities through its 66% holding in Avis Ukraine.

In February 2015, the sale of TBI Credit – comprising a non-performing credit portfolio and other non-banking financial operations – was completed. In March 2016, the Company announced that it had signed a sale agreement to sell TBIF, holding its banking and retail lending activities.

Results Banking and Retail Lending

€ in million	For the year ended December 31	
	2015	2014
Banking and retail lending activities	38.4	33.3
Other revenues	3.1	2.3
Total revenues	41.5	35.6
Costs of banking & lending activities	28.6	25.6
Other expenses, net	3.0	2.6
Gross profit	9.9	7.4
SG&A expenses	0.2	–
Equity earnings (losses)	1.7	0.2
Gain on disposal of assets and other income	0.5	1.2
Result from operations before financing expenses	**11.9**	**8.8**
Financing income (expenses), net	3.4	(0.9)
Income tax (expenses) / benefits	(2.0)	(0.3)
Net Profit (loss) to Equity holders	**13.3**	**7.6**

Additional information Banking & Retail Lending

€ in million	For the year ended December 31	
	2015	2014
Interest income	40.6	38.4
Interest expenses	4.5	6.2
Net Interest income (expense)	36.1	32.2
Fees and commissions income, net	8.7	9.2
Other operating income, net	3.1	3.2
Total income, net	**47.9**	**44.6**
Impairment losses on loan portfolio, net	6.4	9.2
Staff and other operating expenses	31.5	27.1
Gain on disposal of assets	0.3	–
Operating profit	**10.3**	**8.3**
Other income, net	4.4	0.7
Other financing expenses	1.1	1.3
Equity earnings	1.7	0.2
Profit before tax	**15.3**	**7.9**
Income tax	(2.0)	(0.3)
Net profit	**13.3**	**7.6**

Additional balance sheet Information Banking & Retail Lending (KFS)

€ in million	2015 (31.12)	2014 (31.12)
Balance sheet		
Net loan portfolio	171.6	152.1
Cash & short term investments	61.1	71.0
Total Assets	295.3	304.4
Deposits	192.1	189.5
Total Equity	52.0	37.8
Portfolio quality		
Provisions / non-performing loans	70%	66%

Result analysis 2015

The Retail Banking and Lending segment contributed EUR 13.3 million profit (2014: EUR 7.6 million profit) to Kardan's 2015 consolidated net result.

In the *first table* presenting the results of the banking and retail lending activities, total revenues include impairments on the loan portfolios and interest expenses. In addition, the result of account services including F/X is presented in the line item 'Financing income / (expenses), net'.

In order to provide more clarity, a *second table* has been added disclosing the key operational line items of the banking and retail lending activities, in which net loan impairments and interest expenses are presented separately as well as account services including F/X (in 'other income / (expenses), net').

The following analysis mainly refers to the second table:

A better performing and increased net portfolio and significantly lower interest expenses on lower deposit taking (resulting from stringent liquidity management and lower interest rates) in the full year 2015 accounted for a 12% increase in net interest income. Mainly due to a decrease in net fees and commissions, specifically in Q4 2015, total income grew slower in 2015 – by 6% (y-o-y). Given the quality of the portfolio, and in line with the better performing economies in both countries of operation, lower impairment losses were recognized than in 2014. Staff and other operating expenses increased in 2015 by 16% (y-o-y), mainly due to provisioning of employee stock option plan expenses. The growth of 'Other income (net)' primarily reflects the increase in account services including F/X.

The contribution of Avis Ukraine (reported under equity earnings) was significantly higher in 2015 than in 2014, on impressive new business generated. In addition, the results were positively influenced by foreign exchange movements as income is generated in USD and the operating costs are in Ukrainian Hryvnia. Furthermore, Avis Ukraine managed to increase its market share in very difficult market circumstances.

Additional Information

As at December 31, 2014, the total net loan portfolio of KFS is 11% more than as at December 31, 2013, mainly due to an improvement in origination, lower provisioning and slightly off-set by repayments. TBI Bank in Bulgaria reported a 4% increase of deposits (y-o-y) as at year end 2014. In Romania, however, TBI Bank reported significant increases in its deposit taking (both retail as well as SME) in 2014, the first full year in which it could raise deposits after having obtained permission to perform banking activities in Romania.

'Other'

€ in million	For the year ended December 31	
	2015	**2014**
General and administration expenses	5.1	6.1
Other (income) expenses	0.8	–
Equity earnings (losses)	(0.1)	(0.1)
Financing income (expenses), net	(60.1)	(19.0)
Income tax expenses (benefit)	0.5	0.4
Net profit (loss) to equity holders	**(66.6)**	**(25.6)**

Board Report

General

The net profit (loss) to equity holders presented in 'Other expenses' relates to the holding and finance expenses of Kardan N.V. and its direct subsidiary GTC Real Estate Holding BV (GTC RE).

It is noted that the Company's equity is mostly exposed to the Chinese RMB on its assets side and to NIS on its liabilities side. Changes in the NIS exchange rate mostly impact the income statement while changes in RMB mostly impact the equity directly. Although the outstanding debt in NIS decreased as of December 31, 2015 compared to December 31, 2014 following repayment of a bank debt and repayments of Debentures, the net financing expenses in 2015 were significantly higher than in the same period last year. This is predominantly due to a significant negative foreign exchange revaluation of EUR 36.3 million (NIS appreciated against the Euro) mitigated by a change in the CPI of EUR 3.6 million, resulting in a total impact of EUR 33 million (2014: negative impact of EUR 3.8 million). Moreover, financing expenses were impacted by the additional interest payable in line with the Debt Settlement as reflected in the Amended Deeds of Trust.

The provision in relation to the claw back liability for which a settlement was reached between GTC RE and the buyer of GTC SA in February 2016, in the amount of EUR 1.0 million, was recognized in the fourth quarter of 2015. For further details, reference is made to the financial statements.

The income tax expense relates to deferred tax on hedge instruments.

Financial position of the holding companies of the Kardan Group

The following table summarizes the net debt of Kardan N.V. and if applicable of its directly held subsidiaries (company only) as of December 31, 2015:

€ in million Company	Net Debt *	
Kardan NV / GTC RE / Emerging Investments XII	**Liabilities:**	
	Debentures**	(386.9)
	FIMI liability	(2.0)
	Assets:	
	Loan to KFS	32.5
	Cash and short term investments	23.1
	Net debt	**(333.3)**
KFS/TBIF	**Liabilities:**	
	Loans from Kardan NV	(32.5)
	Assets:	
	Cash and short term investments	8.8
	Loans to others	7.7
	Loans to subsidiaries	5.6
	Net debt	**(10.4)**
TGI/TG/TGA	**Liabilities:**	
	Liability to FIMI	(0.5)
	Assets:	
	Cash and short term investments	3.8
	Net cash	**3.3**

* Net debt includes interest bearing loans and borrowings, debentures, less cash and cash equivalents and interest bearing receivables.

** The balance is presented net of debentures held by subsidiaries.

Consolidated Balance Sheet

Total balance sheet

Total consolidated balance sheet increased to EUR 976 million as at December 31, 2015 from EUR 1,014 million as at December 31, 2014, predominantly due to the increase in investment property (Galleria Dalian, China), the appreciation of the RMB and mitigated by the sale of KWIG.

Shareholders' equity

The equity, attributable to equity holders, decreased by 23% to EUR 71.5 million as at December 31, 2015 from EUR 92.4 million as at year-end 2014, predominantly resulting from the net loss in the period (EUR 22.9 million).

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. In the chapters describing the divisions a description can be found of the funding positions of the main subsidiaries.

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

Kardan N.V. – balance sheet (company only)

€ in million	2015	2014
Total Assets	574	459
Total Equity	72	92
Equity/Total assets (%)	12%	20%

Total assets

Kardan N.V.'s total assets increased by EUR 115 million, which is mainly due to the capitalization of a shareholder loan in Kardan's subsidiary Emerging Investments XII.

Shareholder's equity
Shareholder's equity of Kardan N.V. decreased from EUR 92 million as of December 31, 2014 to EUR 72 million as of December 31, 2015, predominantly as a result of the net loss in the period (EUR 22.9 million).

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

Company Only – Kardan N.V.
(principal only, Dec 31, 2015)

€ in million	2015	2016	2017	2018	2019	2020	Total
Debentures – Series A	–	–	42.1	45.5	–	–	87.6
Debentures – Series B	–	–	43.5	46.9	93.9	93.9	278.2
Total	–	–	**85.6**	**92.4**	**93.9**	**93.9**	**365.8**

* According to the Deb Settlement with the Debenture Holders.

Kardan N.V. extended a performance guarantee regarding the financing of Tahal's project in Angola (Quiminha) and Tahal's liabilities in case of no-performance. At balance sheet date this guarantee is estimated at EUR 93 million.

The Company accordingly provides a cash flow forecast for a period of two years as of December 31, 2015.

Forecast cash flow € in million	January 1, 2016 - December 31, 2016	January 1, 2017– December 31, 2017
Cash and cash equivalents at the beginning of the period – Kardan NV* and GTC RE	**23.0**	**113.3**
Company only resources		
From operating activities		
General and administration expenses	(4.5)	(4.5)
From investing activities		
Sale of assets	122.0	111.2
Resources from investee companies		
From operating activities in investments – Management fees	0.5	0.5
Total Resources	**141.0**	**220.5**
Expected Uses		
From invensting activities		
Claw back repayment	(4.0)	–
From financing activities		
Interest payment of debentures – Series A	(5.3)	(5.5)
Interest payment of debentures – Series B	(18.4)	(18.8)
Principal payment of debentures – Series A	–	(42.1)
Principal payment of debentures – Series B	–	(43.5)
Total Uses	**27.7**	**109.9**
Cash and cash equivalents at the end of the period	**113.3**	**110.6**

Assumptions and Notes 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 and Emerging Investments XII BV, as the treasury of these companies is centralized. With respect to limitations regarding the transfer of funds between Kardan NV and GTC RE please see below under point 9 below.
2. The cash flow forecast was prepared based on the Amended Deeds of Trust which became effective on July 3, 2015, however, it does not include mandatory early repayments according to the debt settlement upon sale of certain agreed assets.

3. The forecasted General and administration expenses are based on estimates of the Company according to its past experience.

4. With respect to sale of assets in 2016 and 2017, the Company is conducting processes through its subsidiaries to sell a part or the total of its significant assets. The proceeds to be received from sale of such assets, both as dividend as well as repayment of shareholder's loans, would be used mainly for (early) repayment of the Company's Debentures in accordance with the provisions of the Amended Deeds of Trust. The main processes are as follows:
   - During Q1 2015 Tahal Assets completed the first phase (75%) of the sale of its shares in KWIG including repayment of all shareholder loans which were provided by Group companies to KWIG. The second phase (25%) of the sale of the shares in KWIG is expected to be completed before the end of H1 2016 and is expected to generate approximately USD 27 million to Kardan NV (less amounts for the payment of the tax resulted from the sale).
   - In February 2016 KFS has signed an agreement to sell TBIF for an amount of EUR 69 million and an additional adjustment based on actual results from January 1 until the completion date.
   - Additional proceeds in 2016 and 2017 are expected to be received from future sale of real estate and / or sale of shares in subsidiaries.

5. The amount of Management fees from investee companies is based on existing agreements between the Company and its subsidiaries as of the balance sheet date.

6. The Interest calculations are based on Israeli CPI, exchange rates and interest rates which are applicable as of December 31, 2015. The principal and interest payments for the debentures are presented net of the interest which relates to the debentures held by GTC RE and Emerging Investment XII BV.

7. The cash flow forecast does not include any additional investments which the Company will make once those will be approved by the appropriate bodies in the Company. As of the authorization of these financial statements, the Company did not approve any new investments. In addition, according to the Amended Deeds of Trust there are certain limitations on new investments.

8. Restriction on transferring funds:
   - Transfer of funds between Kardan NV and GTC RE is done through a loan, of which the balance amounts to EUR 6.2 million as of December 31, 2015.
     In addition, GTC RE has free distributable reserves according to Dutch law amounting to EUR 205.5million as of December 31, 2015.
     As of December 31, 2015 GTC RE is not subject to any financial covenants.
   - Restrictions on transfer of funds: money transfer from Emerging Investments XII to the Company is done by dividend payment from Emerging Investments XII. Distributable reserves according to the Dutch law are in the amount of EUR 130.5 million as of December 31, 2015.
   - Restrictions on transfer of funds: money transfer from TGI to Kardan N.V.; a) distributable reserves of at maximum EUR 57.9 million may be transferred and b) covenants of lending banks of TGI Group need to be met.

9. This estimate is forward looking information based on management assumptions and expectations. The aforesaid may not materialize completely or part thereof, or materialize in a different manner, including materially different from what is expected as a result of changes in the state of the market, difficulties in raising credit, decrease in value of investments and change in cash amounts expected to be received from affiliated companies.

Covenants

As at December 31, 2015, the Company and its subsidiaries met all their covenants.

For additional information on covenants, see Note 27 to the 2015 Financial Statements.

Dividend 2015

The dividend policy of Kardan N.V. will take into consideration the level of net income, liquidity and the capital position, future financing requirements and financial covenants of the Company, all within the limitations of the law. If circumstances allow, the dividend policy recommends an annual distribution of between 20% and 30% of net income.

The Company reported a net loss of EUR 22.9 million over the year 2015. Given the Company's financial liabilities and commitments towards the Debenture Holders, the Board does not propose a distribution of dividend over 2015. For further information regarding the commitments towards the Debenture Holders see Note 1 of the Financial Statements.

Outlook 2016

Kardan N.V.

In the interest of all of Kardan's stakeholders, management of Kardan continues to work with its business segments to improve their results and consequently their value. In addition, management focuses on generating cash through its continuing operations to meet the Group's obligations to its debt holders.

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

Management is committed to succeed both in strengthening its financial position and in improving Kardan's existing businesses. The Company does not foresee new investments in 2016, as a result of the provisions of the Amended Deeds of Trust.

Real Estate Division

General

Kardan operates in the real estate segment in China through Kardan Land China (KLC), a wholly owned subsidiary of its 100% owned real estate holding company GTC RE.

Development of Kardan Land China

Market development China

China's economy grew by 6.9% (y-o-y) in 2015, the lowest in 25 years but only just short of the Chinese government's expectation of 7% (2014: 7.3% y-o-y growth). After years of ardent expansion, China's economy is now decelerating as the government aims to become less dependent on export – given the worldwide macroeconomic situation – by shifting growth away from manufacturing, export and debt-fueled investment to the services sector and domestic consumer spending. As export of goods decreased in 2015 due to subdued global demand and the strong RMB, manufacturing growth slowed to an annual 6% in 2015 (7.3% in 2014) but the services sector expanded by 8.3% (2014: 7.8%). Concurrently, during 2015 consumption continued to strengthen, as evidenced by a y-o-y growth in total retail sales of consumer goods by 10.7% supported by an annual increase by 8.9% of the national per capita disposable income of residents and the fact that the inflation rate only went up by 1.4% in 2015 (y-o-y).

In November 2015, the Chinese government published its 13th Five Year Plan (2016 – 2020), comprising its key economic and social development measures which are expected to become effective soon. The key objective is to maintain the economic growth at a medium pace, driven mainly by internal consumption. This is generally referred to as 'the New Normal'. Furthermore, the focus is to speed up urbanization whilst improving people's livelihood, to encourage innovation and entrepreneurship, to promote the use of the internet and to continue to open up the markets to foreign investors.

To counter slowing growth and to boost the real estate market, the Chinese government cut interest rates six times since November 2014 until the end of 2015 and eased the reserve requirement ratio for banks. Moreover, the minimum down payment for first and second home buyers was reduced and certain taxes on real estate transactions were made more accommodating. These measures lifted home buying demand and therefore prices of apartments, particularly in tier 1 and a number of tier 2 cities particularly during the second half of 2015. Investment in real estate, however, climbed significantly more slowly by 1% (y-o-y) in 2015 than in the previous year (up by 10.5% y-o-y), hampered by the overhang of unsold properties. Overall, therefore, the Chinese real estate sector as a whole remained weak during 2015.

It is expected, however, that the cautious upward trend in the real estate sector will continue. Due to the ongoing urbanization an additional 170 million people will move to the 60 largest and growing cities by 2025, which is expected to have a positive impact on residential real estate. Concurrently, buyers are becoming more critical and developers will need to meet more of their requirements. For instance, the recently introduced legislation (as of January 2016) allowing every Chinese couple to have two children as a proactive response to the ageing population is impacting the demands of own home buyers.

The retail real estate sector is expected to benefit from a significant growth of the middle class, in number and in economic wealth. The already visible trend of the rising sophistication of consumers is expected to continue. Not only do consumers want malls to offer food, fashion and beverage shops, they look for shopping centers that are meeting places for entertainment and leisure – currently referred to as 'experiential' – and hence offer cinemas, restaurants, fitness centers, kid's corners etc. Location of malls is increasingly important as well. In line with the growing awareness towards protecting the environment, connection to public transport is deemed beneficial to the success of a mall, as is the vicinity of parks or green areas.

Kardan Land China's business strategy

KLC has – since its initiation some 10 years ago – based its strategy on the trends and fundamentals as mentioned above and has accordingly developed both residential apartments in various joint venture projects and retail projects. Galleria Chengdu, the first shopping mall that KLC opened in November 2010, was sold in 2014. Galleria Dalian, the shopping mall of the large Europark project in Dalian, was officially opened in August 2015 and currently has 71% signed lease contracts, which are expected to result in such occupancy rate in the first half of 2016. With this project KLC specifically focuses on consumers and individuals with high quality requirements by offering them a comprehensive lifestyle concept: a complete shopping and leisure area combined with small office as well as luxury apartments situated around a green park and connected to the city's new subway line. Moreover, the mix of tenants reflects Galleria Dalian's objective to include family entertainment features as a key element and increasingly links to the concept of 'O2O', referring to online to offline shopping, by offering various digital applications to visitors of the mall.

Portfolio of Kardan Land China

At the time of its incorporation in 2005, KLC initially only focused on developing residential real estate, in tier 2 and tier 3 cities. Corresponding with Kardan's strategy to combine international and local expertise and knowledge, KLC joined forces with a local partner to spread the risk and to establish a sound and local reputation from the start. The joint venture projects are located in Shenyang, Xi'an and Changzhou and represent a total of approximately 26,000 apartments (100%; KLC share is 50%). Approximately 18,700 of all planned apartments has been sold and some 88% of these has been handed over. All of the apartments of the Qili Xiangdi project in Shenyang have been sold and delivered.

The management of KLC, however, aimed to use its vast experience in developing the Central & Eastern European shopping malls of Kardan's subsidiary GTC SA. Accordingly, KLC ventured into developing shopping malls (retail only) as these would generate on-going rental cash flows and in November 2010 the first stand-alone shopping center was opened in Chengdu, a key growth city of China.
In August 2011, KLC sold 50% of Galleria Chengdu to an international private equity real estate company. The shopping mall, comprising 53,619 sqm of gross rentable retail space, included among its tenants well known international retailers. In December 2014, the remaining 50% of the mall was sold to the co-shareholder of the mall. KLC still manages and operates Galleria Chengdu, however, given its proven success as of the opening of the mall.

In May 2012, the large project 'Europark' was initiated, totaling a gross buildable area of 327,006 sqm located at the East Port Area in Dalian. Europark is a mixed-use project, combining a retail center with residential apartment buildings on one location. Galleria Dalian, the large shopping mall of the Europark project and with a total of 65,000 square meter net rentable area, was opened in August 2015. The mix of tenants is indicative of its lifestyle concept: restaurants, kid's corners, fitness centers, IMAX cinema, fashion and entertainment are all offered.

Besides Galleria Dalian, the Europark project in Dalian comprises 5 apartment buildings. The first building (A1) mainly consists of SOHO (small office home office) apartments, which are being sold one-by-one. At present approximately 73% of the apartments has been sold.

Real estate developers in general have been hesitant to initiate new construction for some time until the market will have digested the inventory of unsold apartments and houses. KLC is therefore cautious in further developing its residential joint venture projects in order to control its inventory. Hence, KLC focused on selling apartment buildings of the Europark Dalian project en-bloc: in 2014, the A2 building (comprising 201 apartments) was sold and delivered and in August 2015 the service apartment building B (262 apartments) was sold. Delivery of the Building B is expected to take place in the end of 2017; whereas the façade, core and shell of the building is already completed the interior needs to be constructed according to the design as agreed with the buyer.

In 2015, KLC sold 1,120 apartments from joint venture projects (2014: 1,043). With the exception of the first quarter 2015, a better trend of sale contracts (compared to the comparative quarters in 2014) was noticeable throughout 2015. The total number of apartments in inventory (i.e. including the Dalian apartments) as at December 31, 2015, decreased by 27% compared to the situation as at year-end 2014. Of the total inventory 62% was sold at year-end 2015 (year-end 2014: 59%), albeit that the percentage of unsold completed apartments – including those of Dalian – in the inventory increased to 11% as at December 31, 2015 (December 31, 2014: 9%)

Residential projects Kardan Land China

Units sold in the period	2015	2014	Q4/15	Q4/14
*Joint Venture projects**				
Olympic Garden	563	550	146	133
Suzy	64	162	8	21
Palm Garden	70	75	17	38
City Dream	423	256	132	73
	1,120	1,043	**303**	265
100% owned				
Dalian	269***	211**	2	2
Total	**1,389**	**1,254**	**305**	**267**

* 100% number presented; KLC holds approx. 50%
** Includes 201 apartments of Building A2
*** Comprises 7 apartments of Building A1 and Building B in total (262).

Competition

The real estate market in China is very fragmented and is characterized by fierce competition. A significant number of large real estate companies operating on a national scale and specializing in the construction of residential housing are local companies, such as Vanke, SOHO, Gemdale, Evergrande Group and Forte. In addition, there are numerous smaller local companies which operate primarily in the provinces of China. Following the accelerated development of the commercial real estate market in tier-1 cities, many local developers are expanding their operations to tier-2 and tier-3 cities, which led to an increase in competition.

In the fields of commercial real estate and luxury residential housing in tier 1 and tier 2 cities, local companies (e.g. Dalian Wanda Group, COFCO and Land CR) face competition from international companies, particularly from Hong Kong and Singapore (e.g. CapitaLand and Swire).

KLC's competitors in the commercial real estate sector are mainly local developers focused on the tier 2 and tier 3 cities. KLC has been developing residential projects in tier 2 cities and has consequently built up a good reputation with numerous service suppliers and government agencies. Competition varies in each project and depends, among other things, on other projects built in the immediate vicinity. Given the scattered competition, it is not possible to estimate KLC's share in the Chinese real estate market.

Funding

The KLC real estate projects are funded through shareholder equity, supplier credit, advance payments from apartment buyers, and loans from banks, which are secured by pledging land.

The total book value of the investment in KLC in the financial statements of GTC RE amounted to EUR 290.1 million as of December 31, 2015 (December 31, 2014: EUR 272.0 million). The increase is due to the positive result in the reporting period and the strengthening of the RMB versus the Euro.

As of December 31, 2015 and close to the date of the report, there are no shareholder loans extended by Kardan NV to Kardan Land China.

In August 2012, Kardan Land Dalian (the 'Project Company'), a wholly owned subsidiary of KLC, had entered into a construction loan agreement of RMB 500 million (at that time approximately EUR 60 million) with a construction bank for the development of Europark in Dalian. On top of this agreement, in February, 2014, the Project Company entered into an agreement with the same bank which had formed a syndicate with another Chinese bank, for an additional credit of RMB 400 million (at that time approximately EUR 48 million), bringing the total loan to RMB 900 million.

In October 2015 the Project Company entered into an agreement with the investment fund Shenzhen Ping An Da Hua Huitong Wealth Management Co., a subsidiary of Ping An Trust ('the Fund') in China, with respect to a credit facility (the 'Credit') amounting up to RMB 1 billion (approximately EUR 142 million) for the Project. The Credit has been used to refinance the outstanding debt of the above mentioned project loan amounting to RMB 900 million and will furthermore be used to finance the Project.

In November 2015 the Project Company withdrew an amount of RMB 700 million (approximately EUR 105 million) from the Credit facility to refinance an existing loan.

In February 2016, the Project Company withdrew an additional amount of RMB 100 million (EUR 15 million) from the Credit facility to be used for on-going financing needs of the Project.

In January 2016 Kardan announced that it had received EUR 13.2 million (a deposit which was held in connection with the refinanced loan).

Risks during 2015

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

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 in some locations to oversupply of retail property.

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, to name just two. With the Europark Dalian project, KLC does not only address the retail sector but appeals to individuals with high quality living demands.

An overview of the main risk categories for the Kardan Group can be found in the chapter 'Risk Management' starting on page 67.

Corporate and Social Responsibility

Own home buyers and tenants of shopping malls are becoming increasingly demanding. 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.

As of its initiation, our real estate company Kardan Land China acknowledges that residential and retail real estate projects should comprise of more than only 'bricks and mortar'. KLC's policy is to conduct preliminary tests to examine compliance with the environmental provisions before acquiring land.
In addition, KLC works with the best (inter)national consultants to ensure that their assets address the needs and requirements of the future residents and tenants, but also to create sustainable real estate which is an asset to its surroundings and its environment.

KLC values the long-term relationship with its tenants, translating into a proactive asset management for its malls and tenants. Using annual on-line surveys the asset management team continuously adapts its business plan to optimally meet the requirements of the tenants. Its dedication and successful approach is evidenced by the various asset management awards granted to KLC and by the fact that it is still the asset manager of Galleria Chengdu, although its remaining 50% stake in the mall was sold at the end of 2014.

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 2015, some 6% of total staff was promoted to more senior positions compared to 5% in 2014. As 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's dedication to providing an inspiring working environment for its employees – comprising a 60%-40% ratio (female/male) of various nationalities and backgrounds – resulted in a low (approximately 1.5%, down from 2% in 2014) absence ratio during 2015. As at year end 2015 KLC employed 198 people (year-end 2014: 154).

For more information on the CSR of KLC, reference is made to the Corporate Social Responsibility chapter starting on page 74.

Financial results 2015

The full year 2015 contribution of the Real Estate segment amounted to EUR 8.9 million net profit

(2014: EUR 24.6 million net profit) on comparatively (y-o-y) lower revenues and equity earnings, which were impacted by several one-off impairment items on inventory, combined with higher net financing expenses but mitigated by a higher fair value adjustment on the completion of the Europark Dalian shopping mall and an on average much stronger RMB.

For a more detailed analysis of the 2015 financial result of Kardan's real estate segment (Real Estate Asia) we refer to the chapter 'Financial Review 2015' on page 22.

Outlook 2016

Real Estate

KLC plans to further increase the occupancy rate in its Galleria Dalian, the shopping mall of Europark Dalian which was opened in August 2015. In addition, KLC is considering its strategy with respect to the two still to be constructed C Buildings of the Europark project. KLC will also continue to focus on selling residential apartments from its joint venture operations as well as from the Europark project. Handover of apartments will continue and generally take place approximately 18-24 months after the sale contract has been signed.

Sources:
National Bureau of Statistics, China
CBRE; *2016 Greater China Real Estate market outlook (2016)*
JonesLangLasalle; *China60: From fast growth to smart growth (2015)*

Understanding the Chinese real estate market better

Based on the significant growth expectations of the number of consumers and their growing income, there is a solid demand for high quality shopping malls offering life-style experiences.

Residential real estate

Before 1978 all land was publicly owned in China and could not be transferred to another owner.
Things changed in 1978, when economic reforms made it possible for foreign investors to establish factories in several 'special territories'. This proved to be the first step to privatization of land and the real estate on it. Subsequently, in 1988 the Chinese constitution was amended to allow for land transactions which opened up the initiation of public and affordable housing as well as rent reform measures. In 1998, the housing subsidy for families and individuals was adjusted, effectively ending the welfare housing allocation system and changing the residential housing market into a commercial market.

As the demand for houses expanded due to the continued urbanization and growth in per capita household incomes, the average housing prices rose rapidly and substantially. Accordingly, taking into account the scarcity of investment opportunities for individuals, buying property – particularly in tier 1 cities – was considered to be a lucrative investment as of 2001. This, combined with the enormous stimulus package (equal to some USD 586 billion) that was implemented by the Chinese government in 2009 and 2010 as a response to the global financial crisis, resulted in speculation in the real estate market and consequently also overheating. In 2010 therefore, the Chinese government started to take measures to cool down this market, such as increasing the mortgage interest rates and introducing several thresholds for buying second (or more) properties.

Following the slowdown of the Chinese economic growth, people became increasingly hesitant to buy an apartment as prices of residential properties were trending down due to the government's measures and the growing oversupply. As of 2014, the residential real estate sector softened visibly which is why the government introduced new supporting measures, as this sector had become a major engine (and part) of China's economic development. In 2015, an increase (y-o-y) in new home sales could be registered as buying sentiment rebounded notably in major cities (tier 1 and a number of tier 2) but significantly less so in smaller cities. Additionally, real estate investment by developers grew significantly slower in 2015 than in 2014, evidencing that real estate developers were – and still are – aiming to sell their inventory before embarking on new development projects.

The fundamental drivers for the residential real estate market remain appealing:

- in 2015, China approximately 56% (i.e. some 765 million people) of its population lived in cities, compared to 82% (i.e. some 264 million people) in the United States of America;
- continued urbanization: it is estimated that at least an additional 170 million people will move to cities in the coming 10 years;
- per capita household income is expected to continue to expand;
- approximately 13 million marriages take place every year and new couples account for around one third of new home sales;
- newly introduced law allowing couples to have two children;
- new apartments are predominantly 'pre-sold' and 'pre-paid', generally one to two years before the apartment is completed and handed over to the new owner.

Notwithstanding these strong fundamentals, competition in the residential real estate market is strong and prices are still under pressure.

Retail / Shopping malls

As the middle class in China grew and its spending power expanded, one of the world's largest consumer markets was created, drawing the interest of many (inter)national retailers. This also led to a new phenomenon in China, the indoor shopping mall. As recently as 2008, there were roughly 416 stores per million Chinese, compared to 3,620 shops per million US citizens. Based on the significant growth expectations of the number of consumers and their growing income, a rush in mall development ensued, not always by experienced retail real estate developers. The surge of retail mall supply accordingly was not always demand driven, leading to oversupply in certain areas.

Currently, the retail real estate sector is facing various new challenges. The rapidly expanding consumer class is fast adopting e-commerce possibilities, anti-corruption measures are having a deep impact on the luxury retail sector and consumers increasingly value quality of life in general and the environment in particular.

Based on the significant growth expectations of the number of consumers and their growing income, a rush in mall development ensued ...

Notwithstanding these factors, the macroeconomic drivers are still present. Real estate consultants, for instance, estimate that the 'addressable' consumer base for modern shopping malls in sixty large and growing cities (i.e. households earning over RMB 30k per year) will grow by 70% to 220 million by 2020. Although oversupply of malls is expected to remain, it is also anticipated that there will be growth potential in developing (and managing) high quality malls. These malls are characterized by good locations, connected to public transport, and offer a comprehensive tenant mix to reflect the changing consumers' requirements: entertainment, food, lifestyle and shopping.

... and there is headroom for more retail center development when looking at the comparative number of square meters of shopping malls per capita in the United States.

In addition, a new trend is appearing. 'Smart' malls that offer retailers technology to support their O2O (online to offline shopping) business models have a big advantage over the 'bricks and mortar' centers. Apps exist that digitally connect users to their physical location, giving retailers new ways to connect to customers and providing them with a plethora of services whilst collecting valuable information on these consumers' habits.

There is continuing growth of the middle class and its spending power and there is headroom for more retail center development when looking at the comparative number of square meters of shopping malls per capita in the United States.

These bare numbers do not guarantee success however. Retail development experience, specific marketing-, project- and asset management expertise (both international as well as local) as well as IT savviness – among other things – are essential.

Sources:
Jones Lang Lasalle; *China6o: From fast growth to smart growth*
CBRE; 2016 Greater China, *Real estate market outlook*
IMF Working paper: *Understanding residential real estate in China*
Milken Institute: *Asia's Housing Market: is a bubble about to burst?*

Water Infrastructure Division

General

Kardan has been active in the water infrastructure business through Tahal Group International B.V. (TGI) since 2001. TGI, founded in 1952, operates as a leading international EPC (engineering, procurement and construction) company, specializing in sustainable water-related infrastructure projects and assets and has participated in the planning, development, design, construction, and management of thousands of projects around the world, predominantly in emerging and frontier markets.

Its advanced technical resources include a worldwide staff of approximately 700 employees, including engineers and scientists in a wide variety of disciplines.

Tahal Group B.V. (Tahal) engages in two basic types of projects: EPC and design projects. EPC projects include planning, procurement, management and construction and relating financing arrangements and are usually in the field of water supply, desalination, wastewater treatment and agriculture. Design projects include planning, design, project management and construction supervision in a wide variety of fields such as water supply, waste and wastewater treatment, desalination, water resource planning, solid waste management and agricultural planning. Tahal is operational in some 25 countries, located in Africa (primarily Angola and Ghana), Asia (primarily India), Central and Eastern Europe, Latin America and in other regions and countries such as in Israel. The total number of projects is approximately 700 out of which 40 are EPC projects, executed for Tahal's customers which are mainly governments and local authorities in different countries.

Tahal Assets B.V.'s (Tahal Assets) main subsidiary KWIG, investing in water treatment plants in China, was sold at the beginning of 2015. The first phase (75%) of the transaction was completed immediately in 2015, the second phase is expected to be completed before the end of Q2 2016. Following the sale of KWIG, Tahal Assets B.V. currently still holds some joint venture activities but is no longer reported on separately.

Strategy

The global population is growing substantially, and this growth is expected to take place particularly in emerging markets. As a result of an expanding population, there is an inherently larger demand for potable water and food.
The emerging gap between supply and demand for water – required for domestic purposes, agriculture and industrialization – is growing and if nothing is done will continue to become larger.

TGI's strategy is based on these developments and strives to transform ideas into reality by offering high quality integrated, customized, creative, sustainable and cost-effective solutions in the field of water related infrastructure projects, including agricultural and solid waste projects.

Tahal 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.

Markets

The availability of water is a prerequisite for nearly all of society's commercial activities: from agriculture to electricity generation to production of (consumer) goods, water is a key component. Accordingly, water is vital to economic growth in all countries, particularly in emerging markets. Moreover, access to safe drinking water and sanitation is also a human right.
As populations increase, middle classes expand and grow wealthier – leading to a trend of increasing water intensive food consumption, such as of meat – and industrialization continues, the demand for water expands significantly. Supply of and access to (potable) water, however, is limited and is becoming increasingly so due to the impact of climate change and pollution.

The United Nations predicts that if nothing is done, water demand could outstrip water supply by up to 40% by 2030 (compared to 2015).

When taking into account that of all water available in the world some 10% is used for domestic purposes, 20% for industrial production and 70% for agriculture, it is evident that the growing gap between supply of and demand for water has become a significant topic on the agenda of the world leaders. Climate change, energy, food, health and sanitation, environmental issues, economic prosperity and water are all interrelated and therefore the increasing scarcity of water exacerbates each topic – as mentioned – individually, which inherently can create significant risks.

Although there is worldwide recognition for the challenges and risks that water scarcity brings, solutions are hampered – particularly in emerging countries – by funding, infrastructure issues and water management and by potential for cross border coordination issues. The required investment funds for water projects are generally not (fully) provided for in national or community budgets. Equally, pay-back of the investment is challenging as proper metering and billing for water (both for domestic use as well as in agriculture) is generally lacking. Nevertheless, macroeconomists recently estimated the size of the global water market in 2014 to be about USD 591 billion, and expected it to increase to USD 1 trillion by 2025. It is noted, however, that the collapse of the benchmark crude oil prices in 2015 has negatively impacted the budgets for water related projects.

Tahal, a multinational, reputable organization in the water infrastructure market, sees the opportunity of the water sector, and is fully abreast of the market characteristics and situation. The project company Tahal provides comprehensive quality and sustainable EPC solutions to its clients, including proposals how to arrange the funding for the relevant project. Tahal is specifically focused on and experienced in water related projects, including agricultural development, solid waste and natural gas. Its projects are predominantly based on contract licenses signed with governments or municipalities. During 2015, Tahal was managing and conducting a number of large projects with an integrated agricultural and regional development focus, as well as other water related projects in various countries (i.e. Angola, Russia, India, Ghana, Israel etc.) which all drive to improve water availability, agricultural development and to combat pollution simultaneously.

The demand for food is growing, due to population growth, an increase of food consumption per person and decrease in poverty. As of December 2015, the world's population was estimated at 7.35 billion people and according to some estimates this number is expected to reach almost 9 billion people by 2050, with the majority of the growth to take place in developing countries. As a result, international organizations such as the U.N. and Food and Agriculture Organization note that an increase is required in agricultural production around the world, including more cereals, beef, milk products, seeds and oil products. This accordingly leads to a growing need for irrigation in agriculture and consequently to opportunities for specialized companies in this field.

Tahal made good progress in its EPC projects in the field of water and agriculture and is reaching the final stages of two substantial projects in Africa (Angola and Ghana). Tahal does, however, experience the effect of the drop in the global oil prices which is affecting available budgets and thus delaying potential new project assignments.

Development of Group companies

Tahal Projects

Besides focusing on making good progress with its existing projects, the management of Tahal dedicated a lot of effort to identifying appropriate new projects and proposals for a number of interesting tenders were submitted, which combined added to the backlog. Accordingly, during 2015, Tahal signed up new projects amounting to a total of approximately USD 140 million. At December 31, 2015, the backlog of Tahal amounted to USD 311 million (year-end 2014: USD 358 million) as the result of newly signed agreements was more than off-set by the effect of the progress of execution (and thus revenues) of projects. Tahal currently has many project tender proposals in the pipeline. As mentioned, some pending projects were put on hold following the lower oil price impact on potential clients' budgets.

The main new project of 2015 was an agreement signed in June 2015 between Tahal's subsidiary Tahal Consulting Engineers Ltd. and the government of the State of Karnataka in India to design, build and operate a water supply system to provide treated potable water to approximately 331,000 inhabitants in 131 villages in the Gadag District for a total compensation of approximately EUR 67 million (4.7 billion Rupees).
This is the first project of this type and scope carried out by Tahal in India. It involves a turnkey project, comprises 2 phases: the design and construction phase which is expected to last 30 months – which includes the design and construction of a water intake system, a transmission pipeline, a distribution network over 600 km, a water treatment plant and 8 reservoirs – and the operations and maintenance phase which is expected to last 60 months. Over 80% of the compensation will be paid for the first phase; half of the funding for the Project is provided by the Central Government of India, and the other half by the government of the state of Karnataka. A down payment of 5% of the total compensation was paid in September 2015, after which Tahal started with the first phase. Tahal has since been building up its organization in India to underpin the fact that India has been appointed as a prime target market.

At the end of 2014, Tahal signed an agreement regarding the planning and construction of a water treatment plant and pumping system in the city of Yakutsk, Russia for a total compensation of USD 67 million (including VAT) (approximately EUR 55 million at the time), to be paid during the expected 40 months duration of the project. A down payment of 15% of the total compensation was received in February 2015.
As Yakutsk is one of the coldest cities in the world, it is necessary to use advanced technology to construct the facility including, inter alia, a pumping system that will be built on a river which is frozen for most of the year. The progress on this project is according to plan.

Given the deteriorated economic situation of Russia, following economic sanctions taken against Russia in answer to their political and military actions in Ukraine, it has, however, become difficult to attract new projects in this country.

In December 2015, however, Tahal did complete a project comprising the planning and operation of a sludge treatment line at a waste purification facility in the city of Ivanovo, Russia.

Besides other projects, Tahal is involved in the 'Pumped Storage' project in Israel through its 40.45% stake in Star Pumped Storage Ltd. (formerly called Tahal Water Energy Ltd.), which was granted a conditional license in 2014 to build, operate and own a power plant ('the Plant'), with an installed capacity of 340 MW, producing energy for the Israel Electric Company based on pumped storage technology.
The Plant will use the so called pumped storage technique, which enables a better utilization and more effective management of the electrical system.
The electricity is generated from energy created by falling water: water available in an upper reservoir falls down into a lower reservoir, creating energy during peak hours of electricity demand when electricity tariff is high. The water in the upper reservoir is brought there by pumping it from the lower reservoir during off-peak hours when demand and electricity tariff are much lower. As of the reporting date, a number of important milestones regarding the Pumped Storage project had been completed, including the required

construction permits. The financial closing is estimated to take place during the second half of 2016, after which the construction of the Plant is expected to take approximately 52 months. Total investment is estimated to be USD 481 million, of which as of December 31, 2015, approximately 5% had been invested by Tahal.

Tahal Assets

In January 2015, Tahal Assets signed a Share Purchase Agreement with China Gezhouba Group Investment Holding Co. Ltd. (CGGC Investment) to sell its shares in the Chinese water infrastructure company KWIG, to take place in two phases (75% and 25%). The total consideration of the two phases amounts to RMB 630 million (at the time approximately EUR 86 million / USD 101million, 'the Consideration'). The first phase (75%) was concluded in March 2015. Additionally, on top of the Consideration, CGGC Investment repaid all outstanding loans provided to KWIG by Kardan Group companies, totaling approximately EUR 42 million. The completion of the second phase is expected to take place in the coming months.

Competition

TGI competes with many international engineering companies and international companies who deliver comprehensive projects in the areas of water infrastructure and water treatment, as well as companies with stakes in infrastructure companies.

Considering the diversity and variety of the business segments in which the TGI companies operate, it is impossible to specify the competition accurately. This diversity can be expressed in all of the following: (a) diversity in the business segments (projects and asset investment); (b) difference in the nature of the project (planning, supervision, performance, or a combination of the above) or the asset (from the acquisition of existing and operating assets to planning, constructing, and operating new assets); (c) difference in the project's or asset's type of activity (water-sewage, treating water and sewage, burying waste, gas and agriculture, operating and maintaining municipal water systems, and more); (d) difference in the degree of complexity and the financial scale of the projects and assets; and (e) difference in geographical location and scope.

TGI subsidiaries cannot estimate the number of their competitors and/or their position in the market or their own position among their competitors.

The water market is characterized by the entry of new players. In light of substantial investments in the field of the global water market, as well as its noticeable growth, many players from construction, engineering, investment and commercial sectors are also developing capabilities and competing for tenders in the water infrastructure market. Moreover, emerging markets, particularly Africa and Latin America, have attracted the interest of European engineering and infrastructure companies and have thus increased the competition in these markets. TGI subsidiaries deal with their competitors by maximizing their efficiency; using advanced and innovative technologies; active marketing through the location and initiation of projects and investments; joining partners in different countries; and access to financing sources and programs, which enable them to offer their customers financial solutions.

Funding

TGI finances its operations through incoming cash flow from existing projects from Tahal, project loans from banks and other financial institutions, approved bank credit facilities and – initially – from shareholder's loans which it received from its parent company, Kardan N.V. Most of the shareholder loans were drawn to finance the water infrastructure assets' operations.

TGI diversified its financing sources, including through raising capital from private institutions as detailed below.

In July 2010, Kardan N.V. capitalized EUR 41 million of the shareholder's loan it had provided to TGI into share capital of TGI, and as of December 31, 2014, Kardan capitalized EUR 51 million of the shareholder's loan into share capital of TGI. Accordingly, as of December 31, 2015, there were no shareholder loans outstanding.

In July 2010, TGI signed an agreement with FIMI, an Israeli private equity fund, pursuant to which FIMI would provide TGI with a loan of up to USD 50 million (at that time approximately EUR 37 million) and FIMI would receive warrants in the same amount to purchase an equity stake in TGI. In July 2010, FIMI provided USD 25 million to TGI under the loan agreement.

Following the completion of the first phase (75%) of the sale of KWIG in the first quarter of 2015, TGI repaid the outstanding loan to FIMI whilst the warrants remained valid. Furthermore, also using the proceeds of the sale of KWIG, a dividend was paid by TGI to its shareholders (i.e. Kardan and a non-controlling interest holder) in the amount of EUR 49.7 million. After discussions between TGI and FIMI on the interpretation of various clauses in 2010 agreement, among other things on the distribution of dividend after the full repayment of the loan as mentioned above, an amended agreement was signed between TGI and FIMI entitling FIMI to receive a cash consideration (and no longer the right to receive shares) under certain conditions. The 2010 agreement herewith became null and void.

As part of the first phase of the sale of KWIG, in March 2015 all the loans extended to KWIG by related parties were repaid by the purchaser of the KWIG shares, which included the repayment of loan extended to KWIG by Kardan Land China.

The total amount of consolidated debt from third parties as at December 31, according to the 2015 consolidated financial statements of TGI amounts to approximately EUR 2.1 million (December 31, 2014: EUR 56.6 million). Total cash and cash equivalents and short term investments as at December 31, 2015, was EUR 24 million (December 31, 2014: EUR 16.6 million).

Risks during 2015

Tahal is frequently 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 arranging financing for a project and considers this risk element to be part of the project scope.

During 2015, budgets for water related projects were negatively impacted in some countries following the collapse of the benchmark crude oil prices. Tahal accordingly encountered that some outstanding tenders for projects were put on hold and some other tender processes were delayed. Tahal has no influence on such developments. 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.

As Tahal is operational in emerging and developing markets, it is exposed to risks stemming from activities in such markets, including political, regulatory, military and local economic risks). During 2015, Tahal's project activities were not materially affected by political or military instabilities.

Infrastructure construction and development projects are by nature subject to various performance risks, including the inability to complete the project within the timeframe, budget, guidelines and standards established in the specific agreement. In addition, projects may be delayed as a result of political 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 67.

Corporate and Social Responsibility

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 takes a holistic view of a potential project and the development potential of the relating region in which the project is to take place and subsequently provides end-to-end solutions, encompassing all project stages, thereby ensuring an optimal result.

Before embarking on a project, Tahal carries out in-depth research and ground work, including environmental impact assessments and appraising the relevant local regulatory and ethical behavior. Whether it regards a tailor-made solution to provide access to quality water for a variety of applications, treat wastewater to profitable reuse, develop agricultural projects that enhance food security or create energy from solid waste, Tahal strives to contribute to sustainable solutions, not only for the environment but for the relevant local population too.

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. Accordinlgy, Tahal organized several social events for its staff to nurture corporate cohesion.

Tahal employees were involved in several community activities to assist and empower children in Or Yehuda, the town in which the Israeli office is located, evidence of Tahal's aim to be a responsible and social corporate citizen.

At the Tahal head office in Israel there is an approximate balance between male and female staff, whilst in the project companies there are still more males (5:1) involved than females, albeit that this has improved when compared to 2014 (9:1). The diversity in terms of nationality and background, particularly in the project companies, is high. For further details on this topic reference is made to the chapter Personnel and Organization, starting on page 64.

For further information on the CSR of Tahal, reference is made to the chapter Corporate Social Responsibility, starting on page 74.

Financial Results 2015

The full year 2015 contribution of the Water Infrastructure segment amounted to a net profit of EUR 21.5 million (2014: EUR 1.5 million net loss). Strong y-o-y revenue growth was recognized in 2015 predominantly on a marked positive impact of the appreciation of particularly the USD versus the Euro and on progress in existing projects, albeit with a lower annual gross margin. Total financing expenses in 2015 included a one-off charge of EUR 3 million relating to an early repayment of a loan subsequent to the sale of KWIG. Excluding the early repayment charge, the water infrastructure segment improved its year on year result from continuing operations from

EUR 2.4 million (2014) to EUR 4.4 million in 2015. Finally, the gain on the sale of KWIG amounting to EUR 20.1 million, reported under net profit from discontinued operations, contributed to the net contribution in 2015.

For detailed information on the 2015 results of the Water Infrastructure segment, see the chapter 'Financial Review 2015', starting on page 22.

Outlook 2016

During 2016, TGI intends to examine additional possibilities to grow its scope of activities outside of Israel, including acquiring a company or business segment either in areas in which Tahal is currently operational or in areas in which it intends to become active.

The spectrum of activities of the water infrastructure project company Tahal is focused on EPC-projects and on agricultural projects mainly in frontier and emerging countries, as well as on design and engineering activities in Israel. Revenues and profits are expected to increase from existing and recently signed projects (y-o-y), resulting in a net profit for the full year.

Sources:
United Nations: *World Water Development Report 2015*
IMF; *Issues in managing water challenges and policy instruments (June 2015)*
World Economics Forum; *Global Risks Report 2016*
Global Water Intelligence; *Global trends in water spending, the shape of things to come in 2016 (June 2015)*
RobecoSAM; *Water: the market of the future (June 2015)*

Dealing with the emerging water gap

Water is crucial for food, sanitation and energy, among other things. Water is also vital to economic growth. Whereas approximately 70% of the earth's surface is covered by water, this is predominantly saline and therefore not suitable for the ever increasing need for clean and usable water.

Instead, we are predominantly dependent on precipitation (rain, snow, and hail etc.) to replenish the water supply. The majority of the precipitation, however, either evaporates into the atmosphere or is used by plants as 'productive transpiration', leaving only a minor percentage available for personal, agricultural and industrial use. Moreover, due to the significant growth of the global population – projected by the United Nations in 2015 to increase by over 1 billion to 8.5 billion people in 2030 - the demand for potable water, food, housing and energy is increasing exponentially. Accordingly, the United Nations predicts that if nothing is done, demand could outstrip water supply by up to 40% by 2030. To make matters worse, not only is the available quantity of water a severe problem, the quality of water is deteriorating as a result of pollution and climate change which is mainly caused by industrialization.

Furthermore, access to water is not distributed equally over the globe. At present, over 1 billion people are living in areas with significant water scarcity. More than half of the global population growth is expected to occur in Africa, where water is already very scarce, exacerbating the situation even more. In light of all this, and considering the fact that as of 2010 access to safe and clean drinking water and sanitation was declared a human right by the United Nations, it is not surprising that the global interest in the water sector is skyrocketing, resulting in legal and financial measures being taken to meet the water and climate challenge.

If nothing is done, there just isn't enough water to support global growth and development….

The use of water can roughly be allocated to three areas: domestic, agricultural and industrial (including energy) using up some 10%, 70% and 20% respectively. The expected population growth drives the need for food – which is predicted to increase by 50% by 2030 – and energy from hydropower and other renewable energy resources, which are estimated to rise by 60%. These issues are interconnected: more agricultural output, for example, will consume substantially more water and energy. And so the competition for water between sectors will intensify. In most countries, water for cities receives priority over water for agriculture by law or de facto due to large scale urbanization. Take for instance the projection that from now until 2025, in China alone at least an additional 170 million people will move to cities. Considering that roughly 75% of all industrial water withdrawals is used for energy production, such a growth of urban population will not go unnoticed in industrial water use and in its wake will also lead to severe pollution. Hence, wastewater treatment has become a key priority to make water reusable.

At present, already three times more water is used for agriculture than 50 years ago and, given the above, it is evident that this growth trend will continue and worsen in the years to come. Again, the drastic pressure on water use for agriculture is influenced by quantity and quality. As people have more to spend, dietary preferences change to include ingredients that are heavily reliant on irrigation, such as milk, meat and vegetables etc. On top of this, climate change does not contribute to sustainable and better harvests.

Clearly, there is a large need for more and better irrigation techniques, particularly in emerging countries. Accordingly, there are vast opportunities for companies such as Tahal to – among other things – engineer, procure, construct and manage such projects as well as for 'water bio innovative' companies that focus on finding biological solutions for treating water.

Similarly, the growth of solid waste has become a topic of global concern. Together with wastewater this forms a great danger to sanitation and so to health and ultimately to economic development. This has triggered scientists and organizations to work on solutions to reuse or transform solid waste into something useful, such as energy. More and more companies are (becoming) active in this market which offers many opportunities as (public) budgets are being allocated to this cause.

…. so global measures need to be taken.

As the emerging water gap is growing bigger, governments and NGOs, among others, are becoming more focused and tenacious to battle water scarcity. The Paris Climate Agreement, signed in December 2015, is an example. (Inter)National budgets are being allocated to fund water infrastructure projects, attempts are made to take measures to make users pay for water, climate treaties are signed and environmental laws and regulations are being implemented. It is estimated that, despite the tumultuous oil price in 2015 and its effect on a number of governments tightening their budgets, global water spending is set to see significant growth in 2016 and beyond, taking an estimated capital expenditure value of USD 246 billion in 2015 as a starting point.
The World Economic Forum identified the likelihood of water crises risks in its top ten and the impact of water crises in its top 5 list in its 2016 global risk report, evidence of the magnitude of the water challenge.
For specialized engineering companies, however, this situation opens up substantial opportunities to tender for water treatment projects in general, including

exploration and extraction, developing wastewater treatment plants, water reuse facilities, irrigation solutions, desalination treatment solutions for solid waste, etc.

China, India and South East Asia are particularly projected to show significant increases in 'water spending'. In China, the government's focus on sustainability and environmental protection, referred to as the 'war on pollution', is translated into various new regulations. Besides addressing the industrial use of water, the Indian government has initiated several programs, and assigned the necessary budgets, to improve access to sanitation and wastewater treatment. In addition, public – private partnerships ('PPPs') and relating financing structures are now permitted to take away possible funding hurdles. In South East Asia, some countries are also working towards permitting PPPs so that companies can invest in the many water treatment plants that need upgrading and in new plants. The Middle East and Africa region offers a mixed picture currently, mainly dependent on whether there is some form of political stability in a country.

The water market will continue to demand solutions in the form of legislation, funding, measurements, innovation, specialist companies stepping in and – not in the last place – dedication, perseverance and commitment for years to come.

Sources:
World Economic Forum; *The Global Risks Report 2016*
Global Water Intelligence; *Global trends in water spending, the shape of things to come in 2016*
www.unwater.org
Robeco SAM; *Water, the market of the future*
FAO Water report

Financial Services Division

General

Kardan is active in the financial services sector through its 100% holding in Kardan Financial Services (KFS) which operates through its wholly owned subsidiary TBIF, primarily in banking and retail lending in Bulgaria and Romania. In addition, KFS is active in Ukraine with leasing activities through its 66% holding in Avis Ukraine.

TBIF offers its clients a wide range of traditional banking services under the brand name TBI Bank. This includes current account products, credit facilities, loans and lease products to private and business clients (generally small amount consumer type credit), salary accounts, various term deposits, documentary credit and foreign trade financing solutions.

TBIF uses a network of branches that are nationally deployed, the services of a call center, online banking services and has a stall presence in retail stores.

Development of Group companies

In October 2014, TBIF signed an agreement to sell all of its shares in its subsidiary TBI Credit, that held a non-performing credit portfolio and other non-banking financial operations, for a consideration in the amount of EUR 10 million. The sale was concluded in February 2015. Kardan used the proceeds to fully repay GTC RE's bank loan of EUR 5 million plus interest. As a result of the transaction TBIF recorded a small gain in Q1 2015.

In March 2016, KFS signed an agreement (the Agreement) to sell its 100% holding in the subsidiary TBIF (the Transaction), comprising the banking and retail lending activities of the Kardan Group for a total consideration (the Consideration) to be paid in two parts. On the completion date (the Completion date) the buyer will pay KFS an amount of approximately EUR 69 million. Subsequently, following the Completion date, the Consideration will be adjusted to take into account the audited result of the sold asset in the period January 1, 2016 until the Completion date (the Adjustment). To secure payment of the Adjustment, on the Completion date the buyer will pledge in favor of KFS shares of TBIF. According to the Agreement, TBIF will transfer certain non-lending assets with a value of approximately EUR 23 million to KFS before the Completion date. The parties have agreed that the Completion date will initially not be later than June 15, 2016, but that this date can be extended upon mutual agreement between parties.

The Transaction is subject to certain conditions precedent, including the receipt of regulatory approvals and the approval of the meetings of Kardan's Debenture Holders to certain terms of the Agreement. It is noted that there is no certainty that the Transaction will be completed.

KFS undertakes 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 will deposit an amount of EUR 6 million for a period of two years and pledge this in favor of the buyer as collateral for the indemnification, which amount will be reduced to EUR 5 million after one year. In addition, Kardan will guarantee KFS's obligation in this respect.

Kardan estimates that on the Completion date a gain of approximately EUR 14 million will be recognized. Following the Completion date, Kardan may be able to recognize an additional gain on the basis of the Adjustment. The net Consideration will be used by Kardan for its ongoing business activities and for repayment of its liabilities.

TBIF has been planning to sell its stake in Avis Ukraine, which focuses on operational leasing services mainly to international corporations, as of 2013. At present, TBIF estimates that, in light of the geopolitical crisis in Ukraine, it will be difficult to find a buyer until the political and financial conditions in the country improve.

Banking and Retail Lending

Market development Bulgaria and Romania

The economic recovery in the Euro area and the European Union has been resilient and widespread among member states but – despite declining oil prices, accommodative monetary policy and a relatively weak external value of the Euro – also slow in 2015. In its Winter 2016 economic forecast the European Commission concludes that the risks to further economic growth in 2016 have become larger, i.e. slower growth in China and other emerging market economies, weak global trade and geopolitical and policy related uncertainties. Private consumption is expected to remain a considerable driver of growth during 2016, supported by an improving labor market and growing real disposable incomes. Investment should also gradually improve as demand increases, profit margins expand, financing conditions remain favorable and deleveraging – both corporate as private – has generally taken place. GDP growth rates will, however, continue to differ substantially throughout the European Union due structural features among others.

Bulgaria

The Bulgarian economy continued to strengthen and grew by 3.0% (y-o-y) in 2015 (2014: 1.5%), mainly on the back of exports and falling oil prices.
GDP growth stabilized in Q4 2015 and is forecasted to moderate in 2016, before picking up again in 2017 primarily on the back of growing domestic demand.

The unemployment ratio continues to decrease, on the back of robust export oriented industries and taking into consideration that the working population keeps shrinking (aging and immigration). Although inflation was less negative than in 2014 and wages improved slightly, private consumption during 2015 was relatively subdued as consumers remained cautious and continued to deposit possible savings.
Consequently, the liquidity in the banking system remains high and interest rates on bank deposits decreased further during 2015. Bulgaria's financial sector remains exposed to the situation in Greece as it comprises many subsidiaries of Greek banks. In order to mitigate this situation, the European Central Bank put in place credit lines in the midst of 2015 for Bulgaria and Romania as part of a broader effort to convince foreign regulators not to give up on subsidiaries of Greek banks.

TBI Bank Bulgaria continued to experience strong competition in 2015 but managed to generate nearly 10% (y-o-y) more new business, particularly in its SME portfolio with a main focus on agricultural loans, through intensified marketing efforts and the introduction of new products. Notwithstanding some early repayments, the net portfolio as at December 31, 2015, grew by 7% compared to year-end 2014 particularly spurred on by retail clients.

As at December 31, 2015, TBI Bank recognized some 11% (y-o-y) lower deposits, a combination of a substantial drop in corporate deposits and a growth of retail deposits in line with market sentiment.
Accordingly, given the low interest rates, this resulted in significantly lower interest expenses for the full year 2015.

Romania

Despite the unexpected resignation of the prime minister and the subsequent election of a technocrat government, the political situation in Romania was fairly stable during 2015. Private consumption was the main driver of the y-o-y 3.7% GDP growth in Romania in 2015 (2014: 3%), buoyed by higher disposable income, deflation, supporting tax and monetary measures and the recovery of lending in local currency. Accordingly retail sales grew and the services industry also benefitted. The contribution of net exports remained negative as rising domestic consumption drove the demand for imports. Following the cut in VAT for food in June 2015, the standard VAT rate was cut in January 2016 by 4 pps. Moreover, a 19% increase in the minimum wage is projected as of May 2016. These factors, combined with a downward trend in unemployment, could underpin continued private consumption.

Recently, however, a law was passed by parliament allowing people to transfer the ownership of mortgaged assets to banks, which could lead to a negative effect on credit growth, consumer and investor sentiment and ultimately on domestic demand. Whilst consumer sentiment peaked in 2015, consumers remained cautious to obtain credit facilities or loans and continued to deleverage their household balance sheets. Nevertheless, a relaxation of the monetary policy helped to spur a slight increase in corporate lending growth in 2015. Given continued savings, the banks in Romania remained highly liquid in 2015.

Despite the low growth of the banking system loan portfolio, as at year-end 2015 TBI Bank Romanian branch's net loan portfolio showed an increase by over 17% (y-o-y) particularly driven by SME clients. TBI made an effort to attract more business from consumers, such as signing partnerships with some business retailers to initiate on-site credit facilities for consumers. Even so, in line with market sentiment, the net retail portfolio as at year-end 2015 was only slightly higher than as at year-end 2014.
The intensified sales efforts, however, did result in the generation of 44% new business in 2015 primarily from SME clients. Moreover, both the retail and the SME portfolio are of a good quality with a low to very low ratio of non-performing loans.

Total deposits as at year-end 2015 stood higher by 40.5% than the comparative date in 2014, evenly spread over retail and corporate deposit growth.

Avis Ukraine focuses on operational leasing services mainly to international corporations. As the socio-political situation of Ukraine continues to be instable, this aggravates the already long-lasting economic crisis. The start of an IMF program, along with some measures that the National Bank of Ukraine has taken, has contributed to a gradual improvement of confidence in the domestic currency and in the banking system. However, big risks still remain and TBIF continues to closely monitor the situation.

Notwithstanding the difficult market circumstances, Avis Ukraine managed to grow its car fleet and generate new business. The rent-a-car business remained flat as tourism remained very slow.

Competition

Competitors in the banking segment in Central and Eastern Europe are mainly European (international) banks, which compete either through local branches or through acquired banking operations. International competitors in many cases had the advantage of providing their local subsidiaries with financial resources, often cheaper than local financial resources. This has changed, however, since the European sovereign debt crisis. Increasingly, international banks have either downsized their local subsidiaries in CEE or have even withdrawn all together, leaving the opportunity to increase market share for the local banks. Nonetheless, in Bulgaria and Romania 76% and 90% respectively of total bank assets are internationally owned. Following the bankruptcy of the fourth largest bank in Bulgaria (KTB bank) at the end of 2014 and the consequential transfer of deposits to internationally owned banks, the foreign ownership ratio in Bulgaria increased.

The ability to enter the CEE markets for newcomers under a new banking platform remains limited, since most of the countries minimize the allotment of new bank licenses. An additional barrier is obtaining financing in order to acquire a bank and thereafter to find financing sources to facilitate the growth and liquidity of the bank. Although since the sovereign debt crisis the cost of acquiring an existing bank has decreased, finding appropriate and sufficient funding to support and grow a banking activity continues to pose an entry barrier.

The competition in the banking and lending business focuses on attracting more, and a diverse group of, clients (individual and business). Consequently, customer focus – in order to retain existing clients and attract new ones – is high on the agenda. Differentiation in product offering as well as the expediency with which clients are served is crucial and requires a thorough understanding of the client's needs. Co-operation with retail chains is therefore also of great importance, as physical presence (stalls) within malls and stores provides a competitive advantage that allows the granting of quick and convenient service.

TBIF accordingly builds on its established client base by delivering fitting services and solutions in an expedient manner, making use of its capability to supply fast and simple credit, based on receipt of credit authorization possibilities both at the branches as well as at the points of sale in retail centers.

Funding

The operations of KFS, TBIF and its subsidiaries are financed by means of shareholder loans extended by Kardan, loans from banks as well as through deposits raised by TBI Bank.

The net debt of KFS/TBIF as of December 31, 2015 is EUR 10.4 million (December 31, 2014: net debt EUR 8.9 million).

KFS/TBIF **€ in million**	
Liabilities	
Loans from Kardan N.V.	(32.5)
Assets	
Cash and short-term investments	8.8
Loans to others	7.7
Loans to subsidiaries & other receivables	5.6
Net debt	**(10.4)**

Risks during 2015

The willingness of clients to take on loans from, or to deposit amounts at, a bank is dependent on confidence in the economic situation of a country and in its financial systems.

At the end of 2014, this confidence was tested in Bulgaria when the National Bank of Bulgaria revoked the banking license of the fourth largest bank (KTB) of the country and started insolvency procedures. The stability of the banking system in Bulgaria was however not materially impacted and both consumer and business sentiment were only temporarily, although seriously, dented.

The Greek crisis during 2015 led to a certain anxiety in the financial sector in Bulgaria as Greek banks own some 12% of the Bulgarian banking sector. The ECB therefore announced, in the second half of 2015, that it would be ready to extend a backstop facility to prevent contagion to the local banking system.

In Romania, confidence indicators improved in line with labor market conditions and a low inflation rate.

Board Report

TBIF consequently focuses on optimal client satisfaction in order to retain and grow their clientele, by offering expedient and fitting loan and deposit services and solutions. In addition, the bank continuously optimizes its risk management controls, taking into consideration that each product type has its own specific risks in its specific context.

TBIF's provision ratio (i.e. provisions/non-performing loans) arrived at 70% as at year-end 2015 (December 31, 2014: 66%) mainly due a conservative provisioning policy and a slightly higher risk appetite than during 2014.

An overview of the main risk categories for the Kardan Group can be found in the chapter 'Risk Management', starting on page 67.

Corporate and Social Responsibility

TBIF's clients are mainly middle class individuals and SMEs, serviced with loans, consumer credit and leasing services to accommodate their basic financial needs and to invest in their businesses. TBIF believes that these services enable economic and social development for its clients.

TBI operates locally, by offering its services through local offices and points of sale, close to its clients. The bank realizes that the notions of 'value for money', reliability, convenience, speed and service are now more important than ever and has therefore, among others, expanded its digital services.

Customer satisfaction and consequently retention is one of TBI's key strategic priorities, next to growing its market share. In Bulgaria customer retention has remained stable at around 70%, whilst in the newer Romanian branch the retention rate doubled to 30% in 2015. On the base of the frequent face-to-face customer contact, TBI adapts and innovates its product portfolio and – where necessary – sharpens its internal procedures. As a result, a substantial number of products were improved and some new ones were launched (in total 15) in Bulgaria during 2015 (2014: 3), whereas this proved not to be necessary in Romania. The existing and new / improved products are generally marketed in specific campaigns, focused on specified target groups.

TBI finances all sectors of the economy in an ethically responsible manner, paying considerable attention to the indirect impact that its actions may have on society. The bank has strict policies and procedures in place with respect to risk management and taking on board new clients.

Employing and retaining staff of the highest ethical standards is also deemed essential. TBI's human resource policy therefore incorporates equal opportunities, training, non-discrimination and internal promotion possibilities, among others, which enhance TBIF Group as a respected and good employer. Once employed, the staff is offered a working environment with a customer friendly atmosphere that is also conscientious about energy saving and recycling.

During 2015 TBIF Group had more female staff than male staff (Bulgaria: 80% females, Romania: 71% females), similar to the situation in previous years, representing various age groups and backgrounds. Nearly all employees are local nationals and residents. In Bulgaria, some 12% of staff was promoted internally (2014: 8%). Given that the former retail lending operation in Bulgaria became the Romanian TBI branch only in 2013, and that subsequently a significant reorganization took place, the number of internal promotions in Romania during 2015 was near non-existent. Absence rate of staff remained below 1% both in Romania and in Bulgaria.

Financial results 2015

For the full year 2015, the banking and retail lending segment contributed EUR 13.3 million net profit to Kardan's consolidated result, a significant improvement on the 2014 net profit contribution of EUR 7.6 million. The 2015 result was mainly underpinned by better performing portfolios, effective liquidity policies and improved equity earnings, albeit mitigated by higher staff and operating expenses.

For a detailed analysis with respect to the results and financial developments of KFS, see the chapter 'Financial Review 2015' (page 22).

Outlook 2016

TBIF focuses on increasing TBI Bank's loan origination and market share. It also plans to grow its network and to continue to effect synergies of business consolidation in order to improve the operational and net result.

Sources:
Bulgarian National Bank, *Economic Review Summaries*
Ministry of Finance Bulgaria, *Bulgarian Economy, monthly report*
National Institute of Statistics Romania

Personnel and Organization

Kardan is a decentralized organization with majority owned subsidiaries that operate fairly autonomously in many different countries. Although there is one key common denominator, namely that throughout the Group we consider our employees as fundamental to our success and accordingly we put emphasis on attracting and retaining highly competent personnel, we do not have a centralized personnel policy.
Given the international character of the Group and our practice to 'be global but to act local', we employ a very diverse group of employees representing many nationalities, age groups and backgrounds.

The shares of Kardan are dual listed on the Euronext Amsterdam and Tel Aviv Stock Exchange.
Kardan's headquarters is located in Amsterdam, the Netherlands. Apart from general activities related to our ongoing operations as a listed company, the headquarters deals with supervising Kardan's operations and with the corporate finance, legal and positioning activities of the Group. In line with the responsibilities and activities of the headquarters of a listed company, the employees of the corporate office predominantly provide services to the Group companies. In addition, we draw on specialists of the listed company Kardan Israel, a former subsidiary of Kardan, to meet the Israeli legal and regulatory requirements related to our listings on the Tel Aviv Stock Exchange.

As at December 31, 2015, 17 people worked for Kardan, of whom 15 at the headquarters office in Amsterdam and 2 in Tel Aviv, in a ratio of 69% female and 31% male staff members. As at year-end 2014 Kardan Holding employed 18 people, with a slightly higher ratio of females (72%). The absence rate during the calendar year 2015 was low at 1.4%.

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. Kardan takes a pragmatic and entrepreneurial approach: in our view, for instance, combining international and local know-how and expertise in the management of the local organizations is essential, as this ensures that we have timely access to appropriate opportunities, while also understanding and managing local risks.

At year-end 2015, the number of people employed by Kardan Group totaled 2,317, compared to 2,554 employees as of December 31, 2014. The reduction of the number of employees is primarily the result of the sale of Kardan Water in China.
The Company does not foresee significant changes in the number of staff in its current Group companies in 2016.

	Number of employees as of December 31, 2015 *				
	Kardan head quarters	Real Estate	Water Infrastructure	Financial Services	Total
Europe (mainly CEE)	15	–	131	1,414	1,560
China	–	198	–	–	198
Israel	2	–	376	–	378
Other	–	–	181	–	181
Total	**17**	**198**	**688**	**1,414**	**2,317**

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

Real Estate

Kardan was operational in real estate only in China during 2015, through its wholly-owned subsidiary Kardan Land China. KLC's head office deals with the management and operation of the real estate assets and projects in China, as well as with business development in general. As of December 31, 2015, KLC employed 198 people (154 as of December 31, 2014), of whom 31 people worked at KLC's head office in 2015, four fewer than in 2014. It is noted that the people working in the joint venture operations are not included.

The increase in the number of staff is mainly the result of more people working in asset management, as the shopping mall of the Europark Dalian project was opened in 2015, mitigated by continued efficiency measures. KLC in total has 58% female staff members and 42% male staff members. The head office on its own shows a slightly stronger female percentage (61/39%). The absence rate remains stable at around 2%, evidence of KLC's proactive human resources approach which KLC attributes to its human resources policy.

Water Infrastructure

Due to the sale of Kardan Water in China (KWIG) – the largest subsidiary in the (former) Water Infrastructure Assets business segment – at the beginning of 2015, the number of employees working for the water infrastructure division decreased significantly by 318 people.

As a result, as of December 31, 2015, Tahal employed 688 people (2014: 987). In line with the focus on efficiency and with the dedicated strategy to grow specific expertise centers in selected geographical areas, Tahal's employees were predominantly located less in Israel (2015: 61%, 2014: 70%) and more in 'Other' regions (India, Africa, Russia, etc.) with 30% of staff (2014: 22%).

With so many projects in so many places around the world taking place concurrently, it is clearly a challenge to create and maintain a corporate culture and corporate values. Tahal puts a lot of effort in being transparent in its objectives and in what it expects of its employees as well as in being a good and reliable employer in all aspects. The initiation of Tahal Academy, an in-house training platform, underpins this dedication to professional development. Currently, some 100 employees have taken part in the Academy

Board Report

courses. In addition, an employee satisfaction survey was done in 2015. Over 75% of all Tahal employees took part in the survey of which the result indicated a strong commitment of staff to management and company objectives. This is evidenced by a very low absence rate working for the project organization. The effect of ongoing reorganizations mainly at the headquarters in Israel was reflected in an absence rate of 3.7%.

The outcome of the survey is evidenced by an on average long, and growing, tenure of staff. The Tahal head office in Israel has an approximate balance between male and female staff in 2015, whilst the project companies still have more males (5:1) than females, albeit that this has improved when compared to 2014 (9:1).

Financial Services

As of December 31, 2015, Kardan Financial Services, through its subsidiary TBIF, employed 1,414 people. This was just over 1% more than last year (1,395) as efficiency measures and growth of business operations balanced each other out.

Employing and retaining staff of the highest ethical standards is also deemed essential. TBIF's human resource policy therefore incorporates equal opportunities, training, non-discrimination and internal promotion possibilities, among others, which enhance TBIF Group as a respected and good employer. Once employed, the staff is offered a working environment with a people-friendly atmosphere that is also conscientious about energy saving and recycling.

During 2015, TBIF Group had more female staff than male staff (Bulgaria: 80% females, Romania: 71% females), similar to the situation in previous years. Nearly all employees are local nationals and residents. Absence rate of staff remained below 1% in both Romania and Bulgaria.

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 and legal risks in these markets which, by nature, have a different risk profile than developed markets. Moreover, following the global financial crisis of 2008 and the ensuing sovereign debt crisis which negatively impacted their results in a significant manner, our real estate and financial services activities were temporarily considered to have a higher risk profile. 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.

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. Given that Kardan reports in Euro whereas it has New Israeli Shekel (NIS) denominated debts and most of its assets are denominated in Chinese RMB, Kardan is significantly exposed to currency fluctuations which are largely beyond our control. Nevertheless, the Board is of the opinion that we have sufficient controls in place to identify and manage risks within the boundaries of our strategy and operations.

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.

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 the 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 2015 which can be found on the corporate site, www.kardan.nl.

Our risk management framework and processes

Our risk management framework was originally based on the principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and has since been updated to COSO IC 2013. The COSO frameworks were designed to help organizations develop and maintain their internal control systems, to enhance the likelihood of achieving its targets and to be able to adapt effectively to changes in the business and operating environments.

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

Board Report

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

The internal audit, that is carried out by a third-party organization and is done independently of management's own risk assessment, plays an important role in monitoring the risk management framework. In this regard it is noted that internal audits are undertaken on the subsidiaries' level as well, and that no significant shortcomings were detected during 2015. Besides complying with Dutch Securities Law regulations, Kardan also complies with Israel's Securities Law regulations relating to the effectiveness of internal control over financial reporting and disclosure (Israeli SOX). During the year under review all steps have been taken to be able to provide a declaration regarding the effectiveness of the internal control as referred to previously. Based upon the work performed, the CEO and the CFO of Kardan N.V. have made a statement in the Israeli Annual Report that as of December 31, 2015 the control over financial reporting and disclosure is effective (the Control Statement). In addition, the Group's external auditors audit the effectiveness of the 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 session 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. Accordingly, the likelihood of risks occurring relating to the risk categories human resources, performance incentives and health and safety was deemed to be less than last year.

The main risk categories (per type of risk and in alphabetical order) that Kardan currently faces are presented below, as well as the related measures in place to control these risks. Reference is also made to the financial risks, as described in the 2015 Statutory Financial Statements. We note that there may be other risks that we have not yet fully identified or that were assessed as not having a significant potential impact on the business, but which could materialize at a later stage.

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.

Macro Risks

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.

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

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.

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.

Sector 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, water infrastructure and financial services 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.

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.

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 execute our objectives, as well as to grow and generate future financial returns.

Measures:
In order to bring down debt at the level of Kardan, we aim to generate cash by, among other things, selling selected assets from our portfolio, taking into account the maturity of assets and the market conditions. Accordingly, we sold our remaining 50% stake in Galleria Chengdu in China at the end of 2014 and at the beginning of 2015 we sold a subsidiary of TBIF and we completed the first phase (75%) of the sale of 100% of our shares in KWIG, the water infrastructure asset company which we owned in China. In addition, we reached a debt settlement with our Debenture Holders, as reflected in the Amended Deeds of Trust which were signed on July 2, 2015. In headline we agreed to defer payment of the majority of the principal by 24 months against certain conditions, restrictions and collateral.
In March 2016, we announced that an agreement has been signed to sell TBIF, holding the banking and retail lending activities, subject to certain conditions precedent.

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

Concentration

Our real estate activities are concentrated in China, as was our water infrastructure asset company KWIG. Our water project activities are spread more globally – mainly in emerging and frontier markets – and our banking and retail lending operations are located in Bulgaria and Romania. Consequently, the Kardan Group is specifically exposed to these regions and markets, their economic developments and, in some instances, the measure 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.

Measures:
By selling off our remaining 50% stake in the shopping mall Galleria Chengdu in 2014 and 75% of KWIG in 2015, we have significantly reduced our exposure in China. Furthermore, we have sold two apartment buildings of the Europark Dalian project in 2014 and 2015 respectively. The remaining real estate activities in China are spread over various Tier 2 cities,

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

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, Kardan's target 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.

Measures:
As a listed company we have 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.

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.

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. Moreover, in some of our operations, such as in our water infrastructure organization Tahal, we have introduced additional measures which will enable us, at an early stage, to identify possible operational irregularities. As Kardan needs to comply with many regulations, several entity level controls were implemented (also as part of the Israeli SOX referred to above) in order to prevent and detect fraud and illegal acts. Fraud and illegal acts form part of the internal audit plans.

Financial markets

Kardan is a listed company and is strongly dependent on external financing. It has a high exposure to emerging markets in general and China in particular and it currently has a significant debt position. As such, we are exposed to fluctuations in currencies, prices, interest rates and indices which may affect the value of our financial assets, the size of our financial liabilities and the prices of our listed securities (equity and debt). Although we are not able to estimate the impact of

Board Report

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 fluctuations in the exchange rates of the various currencies in which the business affairs of Kardan are managed may affect the financial status of Kardan as the Company reports in Euro, whereas it has NIS denominated debts and most of its assets are denominated in Chinese RMB. These effects may be material.

Measures:
Kardan monitors the financial positions within its businesses intensely and hedges these risks if and when deemed necessary. We focus on improving our capital position and further decreasing Kardan's debt, taking into consideration the Amended Deeds of Trust as signed with our 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.

Project Management

Project management is inherent to our business, particularly in 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.

Measures:
Kardan's operating companies are involved in many projects, of varying sizes and complexity, and in many different markets and each operate 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. Consequently, project management is a recurring topic during the meetings between the Executive Management and the Board.

Unique Risks

Partnering

In many of its activities 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 choosing the wrong partner, poor execution of agreements, a difference in interpretation of the agreement and failing to capitalize on partnering opportunities for instance.

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.

The following table presents Kardan's estimates with respect to its risk categories and their potential impact on its business activities:

Risk Categories	Type	Impact		
		Major	Medium	Minor
Macro Risks			X	
Legal and Regulatory	*Compliance*		X	
Sovereign/political	*Strategic*		X	
Sector Risks			X	
Budget and Planning	*Financial*		X	
Capital availability	*Financial*	X		
Concentration	*Strategic*		X	
Customer needs and Competition	*Operational*		X	
Fraud and illegal acts	*Compliance*		X	
Financial markets	*Financial*	X		
Project Management	*Operational*		X	
Unique Risks			X	
Partnering	*Operational*			X

In-Control Statement of the Board

Based on its review of the risk management and internal control systems, and recognizing the inherent limitations as described earlier, the Board has concluded that there is reasonable assurance that:

- it understands to which extent Kardan's strategic and operational targets are being realized;
- Kardan's internal and external financial reports are reliable and do not include material misstatements;
- internal control over financial reporting is effective;
- the risk management and control systems worked properly in the year under review;
- applicable laws and regulations are being complied with.

Kardan's risk management and internal control systems, as described above, have been regularly discussed with the Audit Committee, the Board and the external and internal auditors.

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

Corporate and Social Responsibility

'Being a responsible corporate citizen'

The sustainability of the world is under pressure due to – among other things – a growing need for food, water and energy, an increasing focus on access to natural resources, climate change, human rights and aging and increasing populations. Corporations are experiencing these changes and evolutions in their business operations as both risks and as opportunities. Accordingly, various regulatory bodies are enforcing measures on companies to better disclose how they have incorporated these issues in their corporate governance practices and in their day to day operations.

We consider Corporate and Social Responsibility (CSR) essential for our future operational and financial success and therefore strive for long-term, sustainable, solutions throughout the Kardan Group.

Accordingly, CSR, including environmental and social governance (ESG), has more and more become an integral part of our overall strategy and a core value of the Group as a whole, combining our risk management with corporate social responsibility and with sustainability issues. Our subsidiaries – in real estate, water infrastructure and banking and retail lending – have all incorporated CSR principles and progressively aim to contribute to a more sustainable future. In the (risk) management presentations to their Boards all our subsidiaries address CSR and ESG aspects.

In line with the strategic origins of Kardan, our core operations are located in those emerging markets where we address, and benefit from, the needs of the growing middle classes. As such, we are confronted with the environmental and social challenges, but also opportunities, specific to these markets and activities. Economic development of 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. It is therefore not surprising that governments are progressively taking measures to protect the environment and combat pollution.
Our water infrastructure activities specifically focus on providing access to potable water and on agricultural projects, such as design and installation of water irrigation systems, to bring sustainable solutions to mainly emerging countries. In our real estate project Europark Dalian, we combine our tangible high-quality real estate assets with ‘intangible values’ such as the possibility of living and working on the same site with all facilities (shops, public transport, entertainment, leisure center etc.) and situated around an inner garden.

Besides the attention for environmental issues, the world has been rudely awakened by events uncovering dramatic and unethical labor practices in a number of countries. More pressure is put on multinational companies and governments alike to address such social ills. Governments have come into action, by introducing applicable and suitable labor laws for instance, because they understand that economic growth should not happen at the cost of human and environmental well-being. Furthermore, consumers and investors worldwide are demanding that CSR is taken seriously and that social well-being is respected. For corporations this manifests itself in, among others, firmer disclosure requirements and regulations on non-financial information, such as their CSR and ESG policies, which should result in a more comprehensive annual report.

We follow these developments carefully and are dedicated to implementing CSR and ESG standards wherever and whenever possible. To underpin the social governance of the Group, a Code of Conduct and a Whistleblower Policy have been implemented to provide the Group’s employees with guidelines for behavior and activities, taking into account laws, regulations and ethical standards that govern Kardan’s businesses. By means of the Whistleblower Policy, employees have the opportunity to report on incidents in violation of the Code of Conduct to the Group’s senior management, upon which an investigation is executed.

Further to predominantly using sustainable, environmentally friendly, solutions in the Group's operations it is also the Group's strategy to attract and incorporate mainly local employees in its various local organizations (platforms). 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.

Throughout the Group, we aim to provide an inspiring working environment for our employees and to enhance long-term relationships with our clients by offering sustainable solutions, thereby creating a socially responsible company for our stakeholders.

The headquarters in Amsterdam also makes efforts to reduce waste and energy use and as such to lead the way by example. Of the 17 people working for the corporate office, some 69% are female and 31% are male, representing a variety of nationalities (50% Dutch, 50% international). On average, corporate staff members have been working at Kardan headquarters for 4.5 years. Combined with an absence rate of 1.6% (in 2015) this can be seen as evidence of a committed workforce.

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

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

FOCUSED ON DELIVERING SUSTAINABLE SOLUTIONS
AND
BEING A SOCIALLY RESPONSIBLE CORPORATE CITIZEN

Real Estate

The economic landscape in China is changing from fast, investment-fueled growth to a more sustainable model of higher-value consumption-based and service-oriented growth, the 'new normal'.
With respect to the real estate market this translates, among others, into own home buyers and tenants of shopping malls becoming increasingly demanding. 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.

As of its initiation, our real estate company Kardan Land China acknowledges that residential and retail real estate projects should comprise of more than only 'bricks and mortar'. KLC develops its real estate projects with great attention to green surroundings and carries out its activities with future tenants and residents in mind as of the start, underpinned by on-line surveys. As a result, a lot of consideration is given to creating light spaces – preferably with a view – by using glass portioning and skylight roofs. Being energy-conscious, both during construction and in the buildings themselves, is a core value of KLC. KLC also deems it important to be well respected by the local community because of the contribution our malls and apartments make: both in terms of our social positioning – such as employing local staff, business ethics, values and operating principles – and in terms of the architectural design.

With its large mixed-use Europark Dalian project, KLC specifically focuses on consumers and individuals with high-quality requirements by offering a comprehensive lifestyle concept near Dalian's seashore, comprising a leisure and shopping area combined with small office and luxury apartments situated around a green area and connected to Dalian's new subway line. 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 handicapped 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.

Europark Dalian won several awards, such as being recognized as China's best mixed-use development (residential and retail), during the prestigious Asia-Pacific Property Awards in 2014, the Mall China City Advancement Award for its contribution to the development of Dalian in general and to the positioning of Dalian as a city of economic and architectural quality in particular, and as the best mixed-use project in Northern China based on its design and unique features.

KLC values the long-term relationship with its tenants, translating into a proactive asset management for its malls and tenants. Using annual on-line surveys the asset management team continuously adapts its business plan to optimally meet the requirements of the tenants. Its dedication and successful approach is evidenced by the various asset management awards granted to KLC and by the fact that it is still the asset manager of Galleria Chengdu, although its remaining 50% stake in the mall was sold at the end of 2014.

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 2015, some 6% of total staff was promoted to more senior positions compared to 5% in 2014. As 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's dedication to providing an inspiring working environment for its employees – comprising a 60%-40% ratio (female/male) of various nationalities and backgrounds – resulted in a low (approximately 1.5%, down from 2% in 2014) absence ratio during

2015. Due to the sale of Galleria Chengdu at the end of 2014 and the opening of Galleria Dalian and the continued development of the Europark Dalian project in 2015, a significant turnover of employees took place during 2015 (some 55 staff leaving and some 98 new staff entering the organization). However, on a like-for-like basis, the average tenure of employees is generally gradually increasing.

Water Infrastructure

The United Nations predicts that if nothing is done, water demand could outstrip water supply by up to 40% by 2030 (compared to 2015). Rapid population growth, industrialization, economic development and urbanization are major factors leading to a greater need for (access to) usable water. In addition, climate change – also largely an effect of industrialization – exacerbates the challenges with respect to water issues. 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. Although there is worldwide recognition for the challenges and risks that water scarcity brings, solutions are hampered – particularly in emerging countries – by funding, infrastructure issues, water management and by possible cross-border coordination issues. The required investment funds for water projects are frequently not provided for in national or community budgets. Equally, pay-back of the investment is challenging as proper metering and billing for water (both for domestic use and in agriculture) is generally lacking.

Our subsidiary Tahal is specialized in developing comprehensive and innovative solutions for water resources management, wastewater treatment, integrated agricultural development and dealing with solid waste. Contributing to an improved environment and providing sustainable solutions are core attributes of Tahal's mission to address the critical challenge of providing access to water and food to people in need. Tahal takes a holistic view of a potential project and the development potential of the relating region in which the project is to take place and subsequently provides end-to-end solutions, encompassing all project stages, thereby ensuring an optimal result.

In most cases, significant water and agricultural related projects are put for tender by governments or municipalities which – as mentioned – often do not have sufficient funding in place for such projects. Finding appropriate funding solutions is therefore part of Tahal's tender offers. In addition, before embarking on a project, Tahal carries out in-depth research and ground work, including environmental impact assessments and appraising the relevant local regulatory and ethical behavior. Besides this being an in-house prerequisite of Tahal, a sound evaluation on how the company will prevent and mitigate environmental risks occurring during a project is a pre-condition for leading commercial banks to consider funding (water) infrastructure projects.
Once an agreement for a project has been signed, Tahal combines its engineering, environmental, technological, training, financial and marketing expertise to deliver a complete, sustainable and customer-oriented high-quality result. Whether it regards a tailor-made solution to provide access to quality water for a variety of applications, treat wastewater to profitable reuse, develop agricultural projects that enhance food security or create energy from solid waste, Tahal strives to contribute to sustainable solutions, not only for the environment but for the relevant local population too. There are many examples of how Tahal has created job opportunities for local professionals during a project, but also of how these projects – once finished – have led to more permanent positions. Many projects – such as the agricultural Quiminha project in Angola – generally inherently bring about employment. On occasion, therefore, Tahal also facilitates training as part of the project to ensure proper usage after transfer. In doing so, Tahal demonstrates clearly how it intertwines its economic with its environmental and social and ethical objectives.

As a result of the custom to tender for licenses, Tahal obtains significant and material feedback and information as to specific customers' requirements and expectations. This information is used by Tahal to enhance its value propositions, both for existing and for new project tenders. Not only does Tahal engage on a regular basis with its clients, it also inherently interacts with its subcontractors and with the ultimate users of the project continuously to ensure optimal delivery of the project. Client satisfaction is high, evidenced by many clients returning to Tahal for new projects. Tahal deems it of great importance to retain – and continuously improve on – its high quality standards, which is reflected in its price setting and therefore also sets the selection standard with respect to deciding on which project opportunities it will submit a tender proposal.

With so many projects in so many places around the world taking place concurrently, it is clearly a challenge to create and maintain a corporate culture and corporate values. Tahal puts a lot of effort in being transparent in its objectives and in what it expects of its employees as well as in being a good and reliable employer in all aspects. The initiation of Tahal Academy, an in-house training platform, underpins this dedication to professional development. Currently, some 100 employees have taken part in the Academy courses. In addition, an employee satisfaction survey was done in 2015. Over 75% of all Tahal employees took part in the survey of which the result indicated a strong commitment of staff to management and company objectives.

The outcome of the survey is evidenced by an on average long, and growing, tenure of staff. Although Tahal has been going through several reorganizations in the past years, the head office staff was with the company for 9.4 years on average in 2015 (2014: 8.7 years). For the project companies the average tenure remained stable during 2015 at around 3 to 5 years (depending on country and project).
Less internal promotions took place than during 2014, also mainly attributable to the reorganization efforts.

Tahal organized several social events for its staff to nurture corporate cohesion. Moreover, as a responsible and social corporate citizen, Tahal employees were involved in several community activities to assist and empower children in Or Yehuda, the town in which the Israeli office is located. Besides actively helping children with after-school programs, various donations were made ranging from computers to toys, games and clothing. Similar activities, albeit on a smaller scale, also took place in several project locations. For Tahal staff, health and safety training programs were implemented, to assure a safe working environment in its worldwide offices and project sites.

The Tahal head office in Israel has an approximate balance between male and female staff, whilst the project companies still have more males (5:1) than females, albeit that this has improved when compared to 2014 (9:1). The diversity in terms of nationality and background, particularly in the project companies, is high.
For further details on this topic reference is made to the chapter Personnel and Organization.

Being environmentally aware and responsible is a corporate value of Tahal. Most of the communication with subsidiaries and customers is therefore conducted by means of conference calls in order to reduce unnecessary travel and a number of other energy saving measures (e.g. car-pooling, shared printer use, double-sided printing as default, recyclable paper, specific waste separation policies etc.) has been implemented at Tahal. To boost energy saving, light bulbs in public areas were replaced by energy efficient LED lighting, hot water saving devices were installed, air conditioning systems are automatically switched off at 19.00 hrs each day and require active start up in specific spaces and the company's relatively small car fleet is gradually being replaced by one with more economical fuel use and improved gas emissions.

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.

Financial Services

We are active in banking and retail lending predominantly in Bulgaria and Romania where we operate under the brand name TBI. Our clients are mainly individuals and small and medium-sized enterprises ('SME's). By offering small loans, consumer credit and leasing services to accommodate our clients' basic financial needs and to support their businesses, we are instrumental in enabling their economic and social development.

TBI offers its services through local offices and points of sale, close to its clients. Additionally, TBI has expanded its digital services as customers increasingly require convenience, speed and reliability when dealing with their banks.

Customer satisfaction and consequently customer retention is one of TBI's key strategic priorities, next to growing its market share. In Bulgaria customer retention has remained stable at around 70%, up from around 60% in 2013, whilst in the newer Romanian branch the retention rate doubled to 30% in 2015. On the base of the frequent face-to-face customer contact, TBI adapts and innovates its product portfolio and – where necessary – sharpens its internal procedures. As a result, a substantial number of products were improved and some new ones were launched (in total 15) in Bulgaria during 2015 (2014: 3), whereas this proved not to be necessary in Romania. The existing and new/improved products are generally marketed in specific campaigns, focused on specified target groups.

TBI finances its clients in an ethically responsible manner, complying with banking rules and regulations and paying considerable attention to the indirect impact that its actions may have on society. To manage risks optimally, TBI has implemented transparent internal policies and procedures.

Employing and retaining staff of the highest ethical standards is also deemed essential. TBI's human resource policy therefore incorporates equal opportunities, training, non-discrimination and internal promotion possibilities, among others, which enhance TBIF Group as a respected and good employer. Once employed, the staff is offered a working environment with a people-friendly atmosphere that is also conscientious about energy saving and recycling.

During 2015 TBIF Group had more female staff than male staff (Bulgaria: 80% females, Romania: 71% females), similar to the situation in previous years, representing various age groups and backgrounds. Nearly all employees are local nationals and residents. In Bulgaria, some 12% of staff was promoted internally (2014: 8%). Given that the Romanian TBI branch went through a significant reorganization as of 2013, the number of internal promotions in Romania during 2015 was near non-existent. Absence rate of staff remained below 1% in both Romania and in Bulgaria.

Governance and Compliance

Introduction

Kardan is managed by a one-tier board, which currently consists of one executive Board Member, the CEO, and eight non-executive Board Members. The Board reports to the General Meeting of Shareholders of Kardan. The Board as a whole bears the ultimate responsibility for the management of Kardan, whilst the responsibility for the day-to-day management is assigned to the Chief Executive Officer (CEO) of Kardan, jointly with Executive Management further consisting of the Chief Financial Officer (CFO) and the Vice-President Business Development, based on a limited power of attorney provided by the Board. 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 2015. In 2015, no changes were made to the Company's governance framework.

Corporate Governance Statement

Pursuant to the Dutch governmental Decree of December 23, 2004, in which further instructions concerning the content of the annual report were established (Besluit van 23 december 2004 tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag; the 'Decree'), listed companies may provide certain information in a Corporate Governance Statement instead of in the annual report. Such information pertains to (i) the extent and manner of implementation of the Code (see www.commissiecorporategovernance.nl), (ii) the main characteristics of the risk management and internal control systems connected with Kardan's financial reporting process, (iii) the functioning of the General Meeting of Shareholders, (iv) the composition and functioning of the Board, and (v) the statement in light of Article 10 of the European Takeover Directive. Kardan's Corporate Governance Statement 2015 is available on its website and forms an integral part of this Annual Report.

Board

Composition and Reappointment schedule

During 2015, the Board comprised of nine Board Members, eight non-executive Board Members and one executive Board Member, being the CEO.

As detailed in the Amended Deeds of Trust, it was agreed that the Debenture Holders would propose three candidates out of whom one candidate would be selected by the Board to be proposed to the General Meeting of Shareholders to be appointed as a non-executive Member of the Board. During the EGM of August 25, 2015, in accordance with the nomination of the Board, Mr. Marsman was appointed as non-executive Member of the Board for a term of four years, ending at the end of the Annual General Meeting of Shareholders to be held in 2019 or any time sooner when the relief conditions as specified in the Amended Deeds of Trust have been met. At the same meeting Mr. Groen voluntarily resigned from the Board so that the total number of Board Members would not increase. Mr. Marsman was subsequently appointed as a member of the Remuneration, Appointment and Selection (RAS) Committee by the Board and serves as a member of the board of Kardan Land China Ltd.

It is explicitly noted that, even though Mr. Marsman's nomination stems from a proposal of the Debenture Holders, he is bound to act in accordance with the interests of the Company and its stakeholders in the same way as the other Board Members do. As such, he has his own responsibilities being a Member of the Board, which stem from, amongst others, the Dutch Civil Code, the Company's Articles and all other applicable Dutch and Israeli legislation.

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

Name	Committee	Date of birth	Nationality	Status	Date of first appointment	End of current term
Mr. P. Sheldon (Chairman)	Audit RAS	1941	British	Non-executive Independent	May 31, 2012	AGM 2016
Mr. C. van den Bos (Vice-Chairman)	Audit (chairman)	1952	Dutch	Non-executive Independent	February 6, 2013	AGM 2017
Mr. M. Groen	Audit	1946	Dutch	Non-executive Independent	May 31, 2012	Resigned on August 25, 2015
Mr. Y. Grunfeld		1942	Israeli	Non-executive Non-independent	February 6, 2013	AGM 2017
Mr. B. Marsman	RAS	1974	Dutch	Non-executive Independent	August 25, 2015	AGM 2019 *
Mr. A. May	RAS (chairman) Audit	1955	Belgian	Non-executive Independent	May 31, 2012	AGM 2016
Mr. S. Oren (CEO)		1959	Israeli	Executive	May 31, 2012	Resigns on April 15, 2016
Mr. E. Rechter		1949	Israeli	Non-executive Non-independent	February 6, 2013	AGM 2017
Mr. A.A. Schnur		1948	Israeli	Non-executive Non-independent	May 31, 2012	AGM 2016
Mrs. M. Seinstra	RAS	1951	Dutch	Non-executive Independent	February 6, 2013	AGM 2017

* Mr. Marsman provided the Company with a letter, according to which he will undertake to submit his resignation immediately once certain relief conditions have been met as specified in the Amended Deeds of Trust.

Board Meetings

The Board meets at least once every quarter, principally at Kardan's headquarters in Amsterdam or, where necessary, by conference call. In 2015, the Board met eleven times (one time without the executive Board Member being present). None of the Board Members were frequently absent from Board meetings. Resolutions of the Board are generally adopted by an absolute majority of the votes cast as defined in the Articles, except for extraordinary transactions, in which case resolutions made by the Board are adopted by a special Board majority. Each Board Member has one vote, except in the event of a conflict of interest, in which case the respective Board Member can neither participate in the relevant discussions nor vote on the subject matter. When deemed necessary, the Board consulted outside experts for advice and invited them to attend Board meetings.

During 2015, 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. The negotiations, as initiated in 2014, with the trustees and representatives of the Debenture Holders regarding the amendments to the deeds of trust were finalized and the Amended Deeds of Trust were signed in the beginning of July. Whilst those negotiations were led and conducted by the CEO, the Board ensured it was frequently updated on the developments in this respect. For this purpose, the Board had appointed a Special Committee that convened regularly to discuss the progress and discussion items of the negotiations with the representatives of the Debenture Holders. Before approving the Amended Deeds of Trust, the Board thoroughly assessed and weighed all aspects of the proposed amendments and concluded that it was in the best interest of the Company to approve these amendments. This resulted in relieving the 'significant doubts' as to the Company's ability to repay its debts and continue as a going concern in which the financial year 2015 started.

Kardan Group's main focus in 2015 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 KWIG and the sale of Building B in the Europark Dalian project.

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.

A delegation of the Board visited the operations of the Company's real estate subsidiary, KLC, in China in October 2015. These Members of the Board were accompanied by the members of the board of KLC and visited projects in, Dalian and X'ian as well as the head office in Beijing. They were given presentations by KLC's management and external experts on various aspects of the projects in these cities and on the developments in the Chinese real estate sector in general.

Once every year, the Board is given an extensive 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 proposals as submitted by the RAS Committee for option plans and remuneration of the CEO and the senior managers in the Kardan Group as well as the remuneration of the non-executive Board Members and the appointment of the new 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.

In March, 2016, the Board was notified of Mr. Oren's resignation as CEO and executive Board Member of Kardan N.V. The Board resolved to accept this resignation with effect from April 15, 2016.

Board evaluation

The Chairman conducted bilateral meetings with each individual member of the Board in 2015. The RAS Committee agreed to continue this process on an annual basis. Further, as part of an annual self-assessment process, the Board Members submitted an extensive questionnaire to the RAS Committee in 2015. The RAS Committee distilled the main conclusions from the submitted questionnaire and shared them with the entire Board. Where required, follow-up is given to the items discussed.

Board Committees

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

Audit Committee

Mr. Van den Bos is the chairman of the Audit Committee since the beginning of 2014.
After Mr. Groen resigned from the Board, the Audit Committee now comprises three members, all with extensive financial knowledge. The Audit Committee met six times during 2015 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, cash flow forecast, the valuation of real estate properties in China, the provisioning for non-performing loans of TBI Bank, the financial impact of currency fluctuations on the Company's equity and the possibilities of hedging foreign exchange risks.

Following the mandatory auditor rotation that came into effect as of January 1, 2016 for Dutch listed companies, the Audit Committee continued the process that began in 2014 and recommended the Board to appoint PricewaterhouseCoopers Accountants N.V. as Kardan's external auditor for the financial year 2015 as successor to Ernst & Young. The Board supported this recommendation and the AGM 2015 appointed PricewaterhouseCoopers Accountants N.V. as Kardan's external auditor for the financial year 2015. In addition, the Audit Committee discussed annual compliance and integrity updates, from both the Dutch and the Israeli perspective, pursuant to which internal procedures have been implemented/updated.

During the course of 2015, 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, chaired by Mr. May, met eight times in 2015 either in physical meetings or via teleconference. The RAS Committee was requested to formulate a recommendation to the Board on the amendment or replacement of the option plan in place for the CEO since the options were considerably 'out-of-the-money' and formed no incentive.
Furthermore, the RAS Committee was asked to submit a proposal for the remuneration of the non-executive Board Members and to select and propose a new Board Member in accordance with the terms of the Amended Deeds of Trust. All proposals were accepted by the Board and adopted in consecutive General Meeting of Shareholders during 2015.

The Committee also assessed the performance of the Executive Management, which was deemed good, and presented a proposal for a target related bonus for the CEO to the Board.
Furthermore, the Committee discussed and analyzed the self-assessments submitted by the Board Members.

The RAS Committee also met in relation to the resignation of Mr. Shouky Oren as CEO and was heavily involved in the discussion and decision relating to the appointment of his successor.

Internal regulations and conflicts of interest of Board Members

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

In 2015, the members of the RAS Committee reported a conflict of interest with respect to discussing their proposal regarding the remuneration of non-executive Board Members and excused themselves from participating in the Board's decision-making processes related to the subject matter.

Remuneration and shareholdings of Board Members

The Shareholders approved a remuneration policy for the Board at the AGM 2012 according to which non-executive Board Members receive a fixed remuneration only, and a specific remuneration package, including variable elements, was adopted for the executive Board Member. The General Meeting of Shareholders determines the remuneration of each Board Member. In 2015, the Shareholders approved certain changes to the specific remuneration packages, as further described in the Remuneration Report on page 87 of this Annual Report.

The remuneration of the non-executive Board Members does not depend on the performance of Kardan's shares, and rights to shares are not granted to the non-executive Board Members as remuneration. Kardan has not granted personal loans, guarantees or the like to Board Members, all of which are prohibited by the Board Regulations unless in the normal course of business and with prior approval granted by the Board. There are three non-executive Board Members who hold shares in the capital of Kardan: Mr. Grunfeld currently holds 21,493,927 shares, Mr. Schnur currently holds 19,818,465 shares and Mr. Rechter currently holds 4,098,719 shares through Shamait Ltd., a company in which he holds 97.5% of the shares. Mr. Grunfeld and Mr. Rechter are directors and shareholders of Kardan Israel Ltd., which holds approximately 10% of the shares in Kardan.
Mr. Oren holds 100,000 shares in the capital of Kardan, and as part of his remuneration package, he has been granted an option to purchase ordinary shares in the share capital of Kardan constituting 2% of the issued share capital prior to any issuance of shares to the Debenture Holders pursuant to the Amended Deeds of Trust.

Detailed information on the remuneration of all Board Members can be found in the Remuneration Report on page 87 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 2015 no such dealings arose.

Relations with Shareholders

Kardan acknowledges the importance of being transparent towards its shareholders and other investors. As such, the CEO frequently engages in (one-on-one) meetings with investors and shareholders and has had multiple discussions with Kardan's Debenture Holders and their representatives during 2015. Shareholders are given the opportunity to ask questions at the General Meetings of Shareholders and, in addition, can contact the Investor Relations officer 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, a Whistleblower Policy has been implemented, enabling employees to adequately and safely report any suspicions they may have of irregularities of a general, operational or financial nature. In 2015, no report was received under this policy. In addition, Kardan has 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 has put in place an Insider Trading Policy and an Investor Relations Policy. All of the aforementioned policies can be found on Kardan's website under 'Governance Policies and Documents'.

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

Due to its listing on the Tel Aviv Stock Exchange, Kardan is required to comply with Israeli Securities Regulations and listing standards of the Tel Aviv Stock Exchange (TASE), as available on www.tase.co.il/eng/pages/homepage.aspx. Supervision of the Israeli Securities Regulations is carried out by the Israeli Securities Authority (ISA).

Any report required in Israel is conducted through the Electronic Disclosure System (MAGNA). Through the MAGNA system, the reports are sent to ISA and TASE, and can be reviewed by any investor online. Reporting requirements in Israel 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;

(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;

(iv) Kardan is required to publish its periodic reports, which include quarterly and annual financial statements and additional information; 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 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

The AGM 2012 adopted a remuneration policy for the Board, which stipulated that each non-executive Board Member received a fixed remuneration of EUR 26,000 per year. In 2014 these levels were reviewed in light of the increased workload of the non-executive Board members of Kardan, a situation that was expected to continue. The RAS Committee therefore proposed an increase of the remuneration, as of June 1, 2015, exclusively for non-executive Board Members serving on Board committees. This proposal was adopted in the AGM of May 28, 2015 and is as follows: each non-executive Board Member continues to receive a basic fee of EUR 26,000 per year. The Chairman of the Board receives a total fee of EUR 58,000 per year, including all committee fees (2014: EUR 43,000).
A committee chairman receives an additional fee of EUR 10,000 (2014: EUR 6,000) and committee members receive an additional EUR 8,000 (2014: EUR 4,000).
The remuneration for non-executive Board Members consists of fixed remuneration only. A breakdown of the total remuneration as paid in 2015 is presented in the table below. In the EGM held on August 25, 2015, Mr. B. Marsman was appointed as a Board Member and subsequently appointed by the Board as member of the RAS Committee pursuant to the agreed terms of the Amended Deeds of Trust. During the same meeting Mr. M. Groen voluntarily resigned from the Board and therefore also from the Audit Committee.

Non-executive Board Member [1]		Gross Annual remuneration as of 01.06.2015 in €	Gross Remuneration in 2015 in €
Mr. P. Sheldon	Chairman of the Board; member of the Audit Committee and of the RAS Committee	58,000	51,750
Mr. C. van den Bos	Vice-Chairman of the Board and Chairman of the Audit Committee	36,000	34,333
Mr. M. Groen *	Member of the Audit Committee	34,000	21,000
Mr. Y. Grunfeld		26,000	26,000
Mr. B. Marsman**	Member of the RAS Committee	34,000	11,333
Mr. A. May	Chairman of the RAS Committee and member of the Audit Committee	44,000	40,667
Mr. E. Rechter		26,000	26,000
Mr. A. Schnur		26,000	26,000
Mrs. M. Seinstra	Member of the RAS Committee	34,000	32,333

* The actual remuneration of Mr. Groen is lower than the annual remuneration due to the fact that he resigned from the Board on August 25, 2015.
** The actual remuneration of Mr. Marsman is lower than the annual remuneration due to the fact that he was appointed to the Board and the RAS Committee on August 25, 2015.

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

Pursuant to the Articles, Board Members receive indemnification for losses, damages and costs which they may incur as a result of a claim or proceedings related to the fulfillment of their duties as Board Members (willful misconduct and gross negligence excluded). The Company accordingly has entered into indemnity agreements with the Board Members and the members of the Executive Management. It is noted that any agreement with a Board Member who is also Holder of Control is only effective upon approval of the General Meeting of Shareholders. No indemnification was granted in 2015.

Remuneration of the CEO

During the AGM of 2012, the shareholders approved the remuneration package of the CEO, which entails an annual fixed remuneration of approximately EUR 437,000, an option package constituting 2% of the outstanding share capital at the time, ('the Option Plan 2012') and the possibility for the Board to propose, upon its sole discretion, the granting of an annual bonus to the CEO for each calendar year, based on his achievements during the relevant year and taking into account his total remuneration package (a proposal, if applicable, will be submitted to the General Meeting of Shareholders for approval). In 2015, the Option Plan 2012 was replaced by a new option grant to the CEO as described below under Variable remuneration – long term. Insofar as the remuneration package deviates from the Code, this is explained in the Company's Corporate Governance Statement 2015.

It is noted that the General Meeting of Shareholders is ultimately the corporate body to approve the remuneration package of the CEO and that in the event that the CEO leaves the Company he is entitled to a severance fee equal to six months' fixed remuneration.

Fixed remuneration

The CEO is entitled to receive a fixed remuneration, based on an amount of EUR 437,000 per year including customary social benefits and allowances such as a car, cellular telephone, etc. and inflation correction. The remuneration is split between services provided by the CEO to the Company in the Netherlands and services provided by him to companies abroad within the Kardan Group. The fixed remuneration did not change for the year 2015.

Variable remuneration – short term[2]

The Board – after having assessed the possible effect of the variable remuneration components of the CEO's remuneration package – proposed a short-term bonus for the year 2015 for the CEO amounting to the Euro equivalent of USD 300,000 (gross) as at the date of payment, conditional upon the successful opening of the Galleria Dalian, the shopping mall of the Europark Dalian project in China. This proposal was adopted by the EGM on August 25, 2015.

On January 19, 2016, the Board concluded that the CEO had met the specified target and consequently proposed the payment of the bonus in the full amount[3].

Variable remuneration – long term

In 2015 the notional value of the options granted under the Option Plan 2012 were effectively of no value and therefore formed no incentive for the CEO for the long term. Considering the rationale of the Option Plan 2012 as adopted by the AGM 2012, the Board proposed to replace the Option Plan 2012 by a new grant of options to the CEO, 'the Option Plan 2015'. During the EGM of August 25, 2015 the Option Plan 2015 was adopted by the shareholders.

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

Prior to proposing the Option Plan 2015 to the EGM, the RAS Committee and the Board assessed the full remuneration package for the CEO including the variable remuneration, taking into account various Company-specific aspects including the challenges ahead and market developments.

Under the Option Plan 2015, the CEO is granted 2,282,624 options representing 2% of the outstanding issued share capital in the Company prior to any issuance of shares to the Debenture Holders pursuant the Amended Deeds of Trust according to the following main terms and conditions:

- The CEO waives all rights received under the Option Plan 2012 (no options were exercised).
- The exercise price is the average closing price of the Company's share at the Tel Aviv Stock Exchange during three months prior to June 30, 2015 (the 'Effective Date') or the average closing price of the Company's share at the Euronext Amsterdam during the three months ended on the Effective Date (the 'Exercise Price') depending on the place of grant of the options, which is at the discretion of the CEO. Accordingly, the Exercise Price amounts to NIS 1.191 per option or EUR 0.2807.
- The vesting schedule will run from the Effective Date. The CEO will be entitled to exercise: 50% per December 31, 2016 (the 'First Portion') and 50% per June 30, 2018 (the 'Second Portion').

Each vested option may be exercised as of its vesting date for a period of four years from the Effective Date (the 'Exercise Period').

The following conditions shall apply:

- Mr. Oren is the CEO of the Company at the time of vesting.
- Upon termination of employment or consultancy agreements of the CEO, during the first year as of the Effective Date, the options shall expire, without any further right to compensation.
- Upon termination of employment or consultancy, following a year after the Effective Date and until December 31, 2016, the CEO will be entitled to exercise a relative part of the First Portion in relation to the period from the Effective Date and until the termination date.
- On March 15, 2016, the Board was notified of Mr. Oren's resignation as CEO and executive Board Member of Kardan N.V. The Board resolved to accept this resignation with effect from April 15, 2016.

Total remuneration

A breakdown of the total costs of the remuneration for the CEO in 2015 is presented in the following table:

Element	Remuneration in 2015
Base Remuneration [4] (including social benefits)	€ 492,000
Allowances	company car, cell phone
Annual Bonus [5]	€ 275,000
Share-based payment [6]	€ 165,000
Option plan 2015:	0
Pension	included in Base Fee
Total	**€ 932,000**

4 Actual costs are higher than the approximate EUR 437,000 as indicated in the notes to the Annual General Meeting 2012, due to exchange rate differences and CPI adjustments.
5 See section 'Variable remuneration – short term' above.
6 According to IFRS 2.

Employee Options

In order to continue incentivizing relevant senior employees, the Board approved to amend their existing employee option plan and adjust the terms of the options by linking them to the terms of the new long-term remuneration package for the CEO.

During 2015, an additional 100,000 options were granted to a senior employee and 50,000 options were cancelled. The total number of options granted to senior employees is therefore currently 300,000. As at December 31, 2015, no options were exercised.

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

Board Report

Declaration by the Board

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

(i) The Consolidated Financial Statements for the 2015 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 2015 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 2015 financial year, and all material risks to which Kardan and its affiliated companies are exposed.

Amsterdam, April 14, 2016

Board of Directors

P. Sheldon (Chairman)

S. Oren (CEO)

C. van den Bos (Vice-Chairman)

Y. Grunfeld

B. Marsman

A. May

E. Rechter

A. Schnur

M. Seinstra

Statutory Financial Statements

for the year ended December 31, 2015 by Kardan N.V., Amsterdam, The Netherlands

Notes to the Consolidated IFRS Financial Statements

Consolidated Statement of Financial Position

€ in '000	Note	December 31, 2015	December 31, 2014
Assets			
Non-current assets			
Tangible fixed assets, net	6	24,161	60,425
Investment property	7	250,310	181,072
Investments in associates	8	9,540	7,378
Investments in joint ventures	9	95,964	84,445
Other financial assets		5,485	521
Loans to bank customers	10	83,143	63,763
Long-term loans and receivables	11	23,570	104,958
Intangible assets and goodwill, net	12	6,361	17,640
Deferred tax assets	36	3,065	2,898
		501,599	**523,100**
Current assets			
Inventories, contract work, buildings and apartments inventory and land bank	13	109,818	112,745
Current maturities of long-term loans and receivables	11	16,749	18,708
Loans to bank customers	10	55,112	54,596
Trade receivables	14	67,318	62,001
Income tax receivables		1,155	1,071
Other receivables and prepayments	15	40,383	53,449
Short-term investments	16	7,787	7,250
Cash and cash equivalents	17	143,920	148,545
		442,242	**458,365**
Assets held for sale	5	31,901	32,144
Total current assets		474,143	490,509
Total assets		**975,742**	**1,013,609**

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

€ in '000	Note	December 31, 2015	December 31, 2014
Equity and liabilities			
Equity attributable to equity holders of the parent	18		
Issued and paid-in capital		25,276	23,041
Share premium		206,482	208,002
Foreign currency translation reserve		24,711	23,943
Property revaluation reserve		36,713	21,033
Revaluation reserve, other		8,144	10,765
Non-controlling interest holders transactions reserve		15,669	15,178
Treasury shares		–	(2,625)
Accumulated deficit		(245,534)	(206,939)
		71,461	**92,398**
Non-controlling interests		**4,477**	**5,362**
Total equity		**75,938**	**97,760**
Non-current liabilities			
Interest-bearing loans and borrowings	20	40,550	84,131
Banking customers accounts	21	129	230
Other long-term liabilities	22	2,544	3,111
Options	23	2,495	1,442
Debentures	24	356,272	250,047
Deferred income tax liabilities	36	13,909	20,062
Accrued severance pay, net		1,415	1,502
		417,314	**360,525**
Current liabilities			
Liability due to work in progress	13	47,709	56,454
Banking customers accounts	21	191,933	189,239
Trade payables		20,268	21,666
Current maturities of debentures	24	-	83,802
Interest-bearing loans and borrowings	25	68,448	89,719
Income tax payables		3,933	8,952
Advances from apartment buyers	13	34,263	164
Advance from customers	26	17,102	20,305
Other payables and accrued expenses	26	98,834	67,084
		482,490	**537,385**
Liabilities associated with assets held for sale	5	–	17,939
Total current liabilities		**482,490**	**555,324**
Total liabilities		**899,804**	**915,849**
Total equity and liabilities		**975,742**	**1,013,609**

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

Consolidated Income Statement

€ in '000	Note	For the year ended December 31, 2015	2014	2013
Contract revenues		167,861	142,794	128,963
Retail lending activities	29	38,353	33,295	24,406
Sale of apartments		791	46,866	23,984
Rental revenues		1,822	–	–
Management fees and other revenues		7,222	7,425	6,595
Total revenues		**216,049**	**230,380**	**183,948**
Contract costs		141,930	118,425	110,187
Costs of retail lending activities	30	28,587	25,578	25,182
Cost of sale of apartments		889	44,217	19,697
Costs of rental revenues		1,473	–	–
Other expenses, net	31	7,096	6,108	3,358
Total expenses		**179,975**	**194,328**	**158,424**
Gross profit		**36,074**	**36,052**	**25,524**
Selling and marketing expenses	32	9,963	8,192	7,912
General and administration expenses	33	24,202	21,262	22,063
Profit (loss) from operations before fair value adjustments, disposal of assets and investment and other income		**1,909**	**6,598**	**(4,451)**
Adjustment to fair value of investment properties	7	20,907	8,859	8,802
Impairment losses on goodwill	12	–	–	(3,926)
Gain (loss) on disposal of assets and other income, net	34	333	17,799	(9,074)
Profit (loss) from fair value adjustments, disposal of assets and investments and other income		**21,240**	**26,658**	**(4,198)**
Profit (loss) from operations		**23,149**	**33,256**	**(8,649)**

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

Consolidated Income Statement (continued)

€ in '000	Note	For the year ended December 31, 2015	2014	2013
Financial income	35	1,933	1,344	6,185
Financial expenses	35	(62,356)	(20,659)	(50,452)
Total financial income (expenses), net		**(60,423)**	**(19,315)**	**(44,267)**
Profit (loss) before share of profit (loss) from investments accounted for using the equity method		**(37,274)**	**13,941**	**(52,916)**
Share of profit of investments accounted for using the equity method, net	8, 9	**2,683**	**6,712**	**12,345**
Profit (loss) before income taxes		**(34,591)**	**20,653**	**(40,571)**
Income tax expenses	36	8,466	13,002	11,867
Profit (loss) for the year from continuing operations		(43,057)	7,651	(52,438)
Profit (loss) from discontinued operations	5	20,099	(2,589)	(69,535)
Net profit (loss) for the year		**(22,958)**	**5,062**	**(121,973)**
Attributable to:				
Equity holders		(22,915)	5,091	(101,333)
Non-controlling interest holders		(43)	(29)	(20,640)
		(22,958)	**5,062**	**(121,973)**
Earnings (loss) per share attributable to shareholders	37			
Basic from continuing operations		(0.37)	0.07	(0.47)
Basic from discontinued operations		0.17	(0.02)	(0.45)
		(0.20)	**0.05**	**(0.92)**
Diluted from continuing operations		(0.37)	0.07	(0.47)
Diluted from discontinued operations		0.17	(0.02)	(0.45)
		(0.20)	**0.05**	**(0.92)**

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

Consolidated Statement of Other Comprehensive Income

€ in '000	For the year ended December 31,		
	2015	2014	2013
Net profit (loss) for the year	**(22,958)**	**5,062**	**(121,973)**
Foreign currency translation differences, net of tax	1,100	28,638	(4,596)
Change in hedge reserve, net of tax [1]	(2,784)	(1,676)	6,677
Other comprehensive income (expense) for the year to be reclassified to profit or loss in subsequent periods [2]	(1,684)	26,962	2,081
Total comprehensive income (expenses)	**(24,642)**	**32,024**	**(119,892)**
Attributable to:			
Equity holders	(24,931)	32,038	(101,409)
Non-controlling interests holders	289	(14)	(18,483)
	(24,642)	**32,024**	**(119,892)**

1 Including reclassification of reserve due to the sale of derivative instruments in the amount of €(1,413) thousand, €(1,300) thousand, €2,201 thousand for the years ended December 31, 2015, 2014 and 2013, respectively (see also Note 38). The amounts presented are net of tax amounting to €477 thousand, €(1,659) thousand and €622 thousand for the years ended December 31, 2015, 2014 and 2013, respectively.

2 Including the impact resulting from associates and joint ventures for the years 2015, 2014 and 2013 amounting to €4,721 thousand, €2,166 thousand and €(1,059) thousand, respectively.

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

Consolidated Statement of Changes in Equity

€ in '000	Attributable to equity holders of the parent										
	Issued and paid-in capital	Share premium	Foreign currency translation reserve *	Property revaluation reserve *	Revaluation reserve, other *	Non-controlling interest holders transactions reserve	Treasury shares	Accumulate deficit *	Total	Non-controlling interest	Total equity
Balance as of January 1, 2015	**23,041**	**208,002**	**23,943**	**21,033**	**10,765**	**15,178**	**(2,625)**	**(206,939)**	**92,398**	**5,362**	**97,760**
Other comprehensive income (expense)	–	–	768	–	(2,784)	–	–	–	(2,016)	332	(1,684)
Profit (loss) for the period	–	–	–	–	–	–	–	(22,915)	(22,915)	(43)	(22,958)
Total comprehensive income (expense)	**–**	**–**	**768**	**–**	**(2,784)**	**–**	**–**	**(22,915)**	**(24,931)**	**289**	**(24,642)**
Issuance of shares (Note 18)	2,235	789	–	–	–	–	–	–	3,024	–	3,024
Release of treasury shares (Note 18)	–	(2,309)	–	–	–	–	2,625	–	316	–	316
Share-based payment	–	–	–	–	163	–	–	–	163	918	1,081
Dividend distributed to minority shareholders	–	–	–	–	–	–	–	–	–	(780)	(780)
Transaction with non-controlling interest (Note 23)	–	–	–	–	–	491	–	–	491	119	610
Deconsolidation of subsidiary (Note 5B)	–	–	–	–	–	–	–	–	–	(1,431)	(1,431)
Reclassification in accordance to the civil code requirements *	–	–	–	15,680	–	–	–	(15,680)	–	–	–
Balance as of December 31, 2015	**25,276**	**206,482**	**24,711**	**36,713**	**8,144**	**15,669**	**–**	**(245,534)**	**71,461**	**4,477**	**75,938**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 18F).

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

Consolidated Statement of Changes in Equity (continued)

€ in '000	Attributable to equity holders of the parent										
	Issued and paid-in capital	Share premium	Foreign currency translation reserve *	Property revaluation reserve *	Revaluation reserve, other *	Non-controlling interest holders transactions reserve	Treasury shares	Accumulate deficit *	Total	Non-controlling interest	Total equity
Balance as of January 1, 2014	**23,041**	**208,117**	**(4,680)**	**34,300**	**12,296**	**21,104**	**(2,786)**	**(225,297)**	**66,095**	**5,655**	**71,750**
Other comprehensive income (expense)	–	–	28,623	–	(1,676)	–	–	–	26,947	15	26,962
Profit (loss) for the period	–	–	–	–	–	–	–	5,091	5,091	(29)	5,062
Total comprehensive income (expense)	**–**	**–**	**28,623**	**–**	**(1,676)**	**–**	**–**	**5,091**	**32,038**	**(14)**	**32,024**
Share-based payment	–	–	–	–	191	–	–	–	191	593	784
Issuance of treasury shares (Note 18D)	–	(115)	–	–	(46)	–	161	–	–	–	–
Transaction with non-controlling interest (Note 19)	–	–	–	–	–	(5,926)	–	–	(5,926)	(872)	(6,798)
Reclassification in accordance to the civil code requirements *	–	–	–	(13,267)	–	–	–	13,267	–	–	–
Balance as of December 31, 2014	**23,041**	**208,002**	**23,943**	**21,033**	**10,765**	**15,178**	**(2,625)**	**(206,939)**	**92,398**	**5,362**	**97,760**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 18F).

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

Consolidated Statement of Changes in Equity (continued)

€ in '000	Attributable to equity holders of the parent										
	Issued and paid-in capital	Share premium	Foreign currency translation reserve *	Property revaluation reserve *	Revaluation reserve, other *	Non-controlling interest holders transactions reserve	Treasury shares	Accumulate deficit *	Total	Non-controlling interest	Total equity
Balance as of January 1, 2013	**23,041**	**208,165**	**(462)**	**57,802**	**8,156**	**20,128**	**(2,847)**	**(147,809)**	**166,174**	**542,454**	**708,628**
Other comprehensive income (expense)	–	–	(4,218)	–	4,142	–	–	–	(76)	2,157	2,081
Loss for the period	–	–	–	–	–	–	–	(101,333)	(101,333)	(20,640)	(121,973)
Total comprehensive income (expense)	**–**	**–**	**(4,218)**	**–**	**4,142**	**–**	**–**	**(101,333)**	**(101,409)**	**(18,483)**	**(119,892)**
Share-based payment	–	–	–	–	295	1,766	–	–	2,061	(4,207)	(2,146)
Issuance of treasury shares (Note 18D)	–	(48)	–	–	(13)	–	61	–	–	–	–
Transaction with non-controlling interest	–	–	–	–	–	(790)	–	–	(790)	622	(168)
Disposal of a subsidiary (note 5C)	–	–	–	–	(343)	–	–	343	–	(514,810)	(514,810)
Other reserves	–	–	–	–	59	–	–	–	59	79	138
Reclassification in accordance to the civil code requirements *	–	–	–	(23,502)	–	–	–	23,502	–	–	–
Balance as of December 31, 2013	**23,041**	**208,117**	**(4,680)**	**34,300**	**12,296**	**21,104**	**(2,786)**	**(225,297)**	**66,095**	**5,655**	**71,750**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 18F).

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

Consolidated Cash Flow Statement

For the year ended December 31

€ in '000	2015	2014	2013
Cash flow from operating activities			
Profit (Loss) from continuing operations before taxes on income	(34,591)	20,653	(40,571)
Profit (Loss) from discontinued operations before taxes on income	21,988	894	(61,313)
Adjustments to reconcile net profit (loss) to net cash (see A below)	16,469	7,202	53,924
Net cash provided by (used in) operating activities	**3,866**	**28,749**	**(47,960)**
Cash flow from investing activities			
Acquisition of tangible fixed assets and investment properties	(33,276)	(45,257)	(43,881)
Investments and collection (granting) loans from (to) companies accounted for using the equity method, net	(2,489)	(1,958)	471
Proceeds from sale of assets and investments	488	496	15,259
Change in loans to bank customers, net	(11,220)	8,200	(41,965)
Change in long-term loans and receivables	(15,612)	(35,105)	28,158
Change in short-term investments	(4,322)	(632)	(286)
Disposal of an investment accounted for using the equity method (Note 9)	331	74,369	157,349
Change from full consolidation to equity method (see B below)	–	–	(195,928)
Disposal of a previously consolidated subsidiary (see C below)	119,086	–	(22)
Change from equity method to full consolidation (see D below)	–	–	208
Change in deferred brokerage fees and other assets	–	70	(1,993)
Net cash provided by (used in) investing activities	**52,986**	**183**	**(82,630)**

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

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in '000	2015	2014	2013
Cash flows from financing activities			
Issuance of debentures	–	2,155	–
Repayment and repurchase of debentures	(6,725)	(68,538)	(58,390)
Change in loans from bank customers	2,593	51,748	69,401
Proceeds from long-term loans	105,004	89,152	31,039
Repayment of long-term loans	(162,546)	(48,003)	(152,262)
Change in short-term loans and borrowings	239	(1,415)	(8,432)
Release (increase) of pledged deposit	(2,317)	8,025	(11,358)
Repayment of long term liability	–	(8,031)	–
Change in short-term deposits	–	(351)	–
Proceeds from sale of hedge instruments	–	–	11,634
Debentures settlement payment	(750)	–	–
Costs related to issuance of loans	–	(267)	(19)
Change in other long term liabilities	65	75	–
Dividend to Non-Controlling interest holders of a subsidiary	(780)	–	–
Transaction with non-controlling interest holders (Note 19)	(4,006)	(6,791)	(356)
Net cash provided by (used in) financing activities	**(69,223)**	**17,759**	**(118,743)**
Foreign exchange differences relating to cash and cash equivalents	7,746	5,127	(1,640)
Increase (decrease) in cash and cash equivalents	(4,625)	51,818	(250,973)
Change in cash of assets held for sale	–	(21,541)	131
Cash and cash equivalents at the beginning of the year	148,545	118,268	369,110
Cash and cash equivalents at the end of the year	**143,920**	**148,545**	**118,268**

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

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in '000	2015	2014	2013
A. Adjustments to reconcile net profit (loss) to net cash charges / (credits) to profit (loss) not affecting operating cash flows:			
Gain from disposal of investments in subsidiary, net	(21,969)	–	(3,522)
Impairment of held for sale associate	–	–	43,897
Share of profit of companies accounted for using the equity method	(2,683)	(6,712)	(34,463)
Impairment of investment in investee	–	–	8,254
Impairment of goodwill and other intangible assets	–	5,429	13,588
Loss from revaluation of investment in formally consolidated company	–	–	25,707
Release of capital reserves due to loss of control in a subsidiary	–	–	4,501
Loss on disposal of investments in subsidiary, net	–	–	206
Gain on disposal of assets and investments, net	–	(16,739)	–
Share-based payment	1,039	1,302	(534)
Depreciation and amortization	4,755	5,473	7,326
Fair value adjustments of investment properties	(20,907)	(8,859)	16,554
Financial expense and exchange differences, net	65,004	30,268	49,947
Capital loss (gain) from sale property plant and equipment	26	(19)	(7,886)
Decrease (increase) in fair value of securities held for trading and hedge instruments, net	–	–	(1,736)
Increase in provision for bad debts in the financial services segment	6,553	7,797	7,026
Changes in operating assets and liabilities:			
Change in trade and other receivables	(52,195)	(32,298)	(73,323)
Change in inventories and in contract work in progress, net of advances from customers	27,585	13,683	5,224
Change in trade and other payables	11,954	1,566	13,374
Increase of concession finance receivables	–	(7,358)	(4,854)
Movement in pledged time deposit	–	(1,752)	–
Interest paid	(35,076)	(17,151)	(46,167)
Interest received	42,509	35,476	37,183
Income taxes paid	(9,434)	(3,124)	(6,261)
Other	(692)	220	(117)
	16,469	**7,202**	**53,924**

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

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in '000	2015	2014	2013
B. Change from full consolidation to equity method			
Working capital (excluding cash and cash equivalents)	–	–	(161,533)
Receivable from sale of an investment in a subsidiary	–	–	(3,759)
Non-current assets	–	–	1,700,041
Non-current liabilities	–	–	(1,012,011)
Non-controlling interests	–	–	(514,810)
Recycling of reserves to the income statement	–	–	4,501
Loss from revaluation of formally consolidated company	–	–	(30,208)
Bargain gain	–	–	31,868
Investment in an associate accounted for using the equity method	–	–	(210,387)
Gain on disposal of investment	–	–	370
	–	–	(195,928)
C. Disposal of a previously consolidated subsidiary			
Working capital (excluding cash and cash equivalents)	13,488	–	(2,921)
Non-current assets (excluding fixed assets and concession assets)	14,006	–	2,571
Deferred tax	–	–	328
Fixed assets	39,165	–	–
Concession assets	86,637	–	–
Non-controlling interests	(1,431)	–	–
Long-term liabilities	(14,773)	–	–
Recycling of reserves to the income statement	(13,287)	–	–
Gain on disposal of investment, net of tax	18,965	–	–
Asset classified as held for sale	(23,684)	–	–
	119,086	–	(22)
D. Change from equity method to full consolidation			
Working capital (excluding cash and cash equivalents)	–	–	254
Non-current assets	–	–	(2)
Investment in an associate accounted for using the equity method	–	–	(94)
Goodwill	–	–	(1,241)
Option granted to non-controlling interest	–	–	667
Deferred tax liability	–	–	50
Non-controlling interest	–	–	(94)
Gain on disposal of investment	–	–	668
	–	–	208

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

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in '000	2015	2014	2013
E. Material non cash transaction			
Liability to purchase shares from non-controlling interest holders (Note 19)	–	3,380	–
Issuance of shares and treasury shares (Note 18)	3,340	–	–
	3,340	3,380	–

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

Notes to the Consolidated IFRS Financial Statements

December 31, 2015

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, water infrastructure, and banking and retail lending, through its subsidiaries, joint ventures and associated companies (for additional segment information, see Note 28).

The Company, its subsidiaries, joint ventures and associates are referred to as 'the Group'.

The total number of employees in the Company and its subsidiaries as of December 31, 2015 was 2,317 (December 31, 2014 – 2,554) of which 198 are part of the real estate sector, 688 are part of the water infrastructure segment, 1,414 are part of the banking and retail lending segment and 17 which are from the headquarters of the Company.

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

These statutory financial statements were approved by the Board of Directors of the Company on April 14, 2016.

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

B. FINANCIAL POSITION

As at December 31, 2015 the Company had, on a stand-alone basis and in the consolidated financial statements a working capital deficit of €2 million and €9 million, respectively (excluding inter-company balances).

The Company prepared a two year liquidity analysis as part of its normal course of business which addresses the required liquidity to be able to pay interest and repay the next principal of the debentures in February 2017 and all its other liabilities and to finance its operating activities. Included in this analysis are, among others, the current cash balances and cash from future operations and transactions.

In 2015 the Company reached a debt settlement with its Debentures Holders with respect to payment of the Company's debentures series A and B. The Amended Deeds of Trust ('the Amended Deeds of Trust') were signed in the beginning of July 2015. The principles of the debt settlement are outlined in Note C below.

In accordance with the provisions of the Amended Deeds of Trust, the Company paid interest in February 2016 using its available cash balances (€23.3 million). The February 2017 payment (approximately €110 million) is to be funded through existing cash balances, cash generated from the repayment of certain shareholder's loans by some of the Company's subsidiaries, and sale of assets, including proceeds from the sale of the remaining 25% in KWIG and proceeds from the sale of TBIF (for details see Note 5B(3) and 40, respectively).

The sale of TBIF is subject to certain conditions precedent, including the receipt of regulatory approvals and the approval of the meetings of Kardan's debenture holders (Series A and Series B, 'Debenture Holders') to certain terms of the agreement. The Company notes, however, that there is no certainty that the sale of TBIF will be completed. The Company continues to explore other avenues for the realization of cash to meet its future liabilities.

The realization of some the Company's plans depends on factors that are not wholly within the Company's control, however the Company believes that given the status of the deals and other options it will be able to generate enough funds to repay its liabilities as they mature in the foreseeable future.

The Board and management believe that there is no material uncertainty which may cast significant doubt regarding the Company's ability to repay its liabilities when they become due and its ability to continue as a going concern. The Company's consolidated financial statements as at December 31, 2015 have therefore been prepared on the assumption the Company will continue as a going concern.

C. DEBT SETTLEMENT BETWEEN THE COMPANY AND ITS DEBENTURE HOLDERS

In July 2015, the Company and the trustees to the Debenture Holders signed the Amended Deeds of Trust, which lay down the principals and provisions of the final debt settlement. Once the Amended Deeds of Trust became effective, the interim arrangement which was approved on January 6, 2015 was cancelled.

Interim debt settlement - main principles

Postponement of principal and interest payments - Series A:

A. According to the interim arrangement, the principal payment which the Company originally had to pay on February 25, 2015 to the debenture holders (series A) was postponed to August 25, 2015. The deferred principal payment shall bear annual interest at the rate of 6.325% (an addition of 1.875% to the nominal interest rate of the original deed of trust) for the period from February 25, 2015 to the earlier of August 25, 2015 or the date of an early repayment, all including linkage differences.
B. According to the interim arrangement, the interest amount which the Company originally had to pay on February 25, 2015 to the debenture holders (series A) shall bear annual interest at the rate of 6.825% for the period from February 25, 2015 to the earlier of August 25, 2015 or the date of an early repayment, all including linkage differences.

Postponement of principal and interest payments - Series B:

A. According to the interim arrangement, the principal payment which the Company originally had to pay on February 1, 2015 to the debenture holders (series B) was postponed to August 1, 2015. The deferred principal payment shall bear annual interest at the rate of 6.775% (an addition of 1.875% to the nominal interest rate of the original deed of trust) for the period from February 1, 2015 to the earlier of August 1, 2015 or an early repayment date and all including linkage differences.
B. According to the interim arrangement, the interest which the Company originally had to pay on February 1, 2015 to the debenture holders (series B) shall bear annual interest at the rate of 7.275% for the period from February 1, 2015 to the earlier of August 1, 2015 or an early repayment date and all including linkage differences.

The postponed interest and the additional interest as described above were paid in full on March 31, 2015 (see Note 24).

Establishment of pledges in favor of the debenture holders

In accordance with the interim arrangement, the Company established and registered a primary, exclusive pledge with no limitations of amounts, over GTC RE's shares and on the accompanying rights of these shares, including dividends, options, bonus shares etc. in favor of the trustees of the debenture holders.

Final debt settlement - main principles
The Amended Deeds of Trust, dated July 3, 2015 constitute new deeds of trust to series A and B and which replaced the original deeds of trust, including all related amendments. This final settlement postpones 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 Amended Deeds of Trust.

Principal and interest payments

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 are postponed to February 25, 2017 and February 25, 2018, respectively.
B. No change will occur in the interest payment dates set in the deeds of trust, except the February 2015 interest payment, which will be paid according to the interim arrangement, as detailed above. The interest set in the deed of trust will be increased by 1.875%, so that the principal of Debentures Series A shall bear an annual 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 shall be postponed by 24 months, excluding the principal payments of 2019 and 2020, which shall remain unchanged (and shall grow, due to the postponement of the principal payments of this series from 2017 and 2018 to 2019 and 2020).
B. No change will occur in the interest payment dates set in the deed of trust, except the February 2015 interest payment, which will be paid according to the interim arrangement, as detailed above. The interest set in the deed of trust will be increased by 1.875%, so that the principal of Debentures Series B shall bear an annual interest rate of 6.775%, payable once a year, on February 1 of each year from 2016 up to and including 2020.

Issuance of shares and a onetime payment to the debenture holders
In accordance with the Amended Deeds of Trust, on July 15, 2015 the Company allocated to the Debenture Holders, without consideration, shares of the Company, which constituted approximately 10% of the Company's issued and paid in capital immediately after the issuance. In addition, the Company made a cash payment of €750,000 to the Debenture Holders. Refer also to Note 18 for further details regarding the issuance of shares.

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, TBIF, 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.

The aforesaid pledges were not yet registered, even though the agreed period to register them has passed, due to delays concerning the negotiation between the parties regarding the wording of the pledge documents which are not fundamental disagreements between the parties. The Company is working on completing the registration of the pledges in the near future, and as of the date of approving these financial statements it does not expect the delays to result in immediate repayment.

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 Debt Settlement. If the Company's coverage ratio in the years 2015-2017 shall be lower than 110%, and as of 2018 – lower than 130%, KLC's coverage ratio shall not be lower than 180%.

Additional provisions

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

It was also agreed that the Company may retain certain amounts, prior to an early repayment, for general and administrative expenses, interest payment to the debenture holders, the Company's obligations in respect of the GTC SA transaction (see Note 5) as well as for supporting its subsidiaries.

Purchase of Debentures

According to the Amended Deeds of Trust, the Company or any entity under its control shall be permitted to purchase the Company's Debentures (series A and B) at any price only through the Tel Aviv Stock Exchange subject to some preconditions detailed in the Amended Deeds of Trust.

Debentures purchased by the Company will expire and deleted from trade on the stock exchange. A corporation controlled by the Company that will purchase Debentures of the Company, will have to choose, in its discretion whether to transfer the Debentures to the Company for expiry or to pledge the Debentures in favor of the trustee of that series.

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 Amended Deeds of Trust. KFS and TBIF 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 and TBIF themselves shall not be allowed to raise any credit, except for credit taken by KFS from TBIF, or short term credit that will be taken by any of them from a corporation under their control in an aggregate amount not exceeding €5 million. Any corporation under their control shall be allowed to obtain unlimited credit, for the purpose of its business activity subject to the conditions detailed in the Amended 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 Amended 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 Amended 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 and TBIF (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 Amended Deeds of Trust).

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

2. BASIS OF PREPARATION

A. BASIS OF PREPARATION

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

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

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

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

B. STATEMENT OF COMPLIANCE

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

C. BASIS OF CONSOLIDATION

The consolidated statutory financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2015.

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, 2015.

The nature and the impact of each new standards and amendments is described below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment had no impact on the group since none of the entities within the Group has material defined benefit plans with contributions from employees or third parties.

Annual Improvements to IFRSs – 2010-2012 Cycle and 2011 – 2013 Cycle

The adoption of the improvements made in 2010-2012 Cycle and 2011-2013 Cycle did not have any impact on the current period or any prior period and is not likely to affect any future periods.

E. RECLASSIFICATIONS

The comparative information in the statement of financial position, and the income statements as of December 31, 2014 and 2013 were reclassified to conform to current period's presentation. The reclassification was not material. In addition the figures in the cash flow statement for the year ended December 31, 2013 were classified to conform to the current period's presentation.

3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Revaluation of investment properties
Completed investment properties are measured at fair value as at the balance sheet date. Any changes in the fair value are included in the income statement. Change in fair value is usually determined by independent real estate valuation experts in accordance with recognized valuation techniques. These techniques include among others: the Income Approach to Value (which includes the Discounted Cash Flow Method and the Yield Method), the Residual Method and the Direct Comparison Method. These methods include estimate future cash flows from assets and estimates of discount rates applicable to those assets. In some cases the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the company's assets (Direct Comparison Method). Refer to Note 7 for a sensitivity analysis of profit (loss) before tax due to changes in certain key parameters.

In cases where the fair value of investment property under construction can be reliably measured, management considers factors such as zoning and construction permits, the completion percentage and the pre-let percentage.

Management can decide to fair value investment property under construction if management is of the opinion that fair value can be determined reliably.

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

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

Fair value of Investment property under construction (in previous reporting periods) was measured based on the Discounted Cash flow approach (DCF) and the Income approach or Residual approach and Cost approach.

Valuation techniques of investment property under construction also embody significant risks that are relevant to projects under construction, including for example the construction risks and rent risks.

Deferred tax assets
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of the deferred tax assets as of December 31, 2015 was €3 million (2014 – €3 million).

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input for these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives (see Note 38).

Fair value of equity based instruments
Fair value of equity instruments, primarily share options have been valued, in most cases, by independent external appraisers, using applicable valuation models, or based on the value of the respective companies as assigned in transactions with third parties. The valuations are necessarily and inevitably based on certain assumptions, and hence they are subject to estimation uncertainty. The assumptions and models used are disclosed in Note 19.

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

Impairment losses on loans and advances
The Group reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors including assessments of delinquencies and default risks, and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures, in connection with those loan classes which, although not specifically identified as requiring a specific allowance, are considered to have a greater risk of default than when originally granted. These take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows. See also Note 10.

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.

The carrying amount of inventory as of December 31, 2015 was €110 million (December 31, 2014 - €113 million). See Note 13 for additional information with regards to impairments in the reporting period.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

B. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

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

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

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

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

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

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

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

Investment property held for sale

Investment property is transferred to 'Assets held for sale' when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such property and its sale must be highly probable.

For the sale to be highly probable:
- The Board must be committed to a plan to sell the property, and an active program to locate a buyer and complete the plan must have been initiated.
- The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as completed sale within one year from the date of classification.

On reclassification, investment property that is measured at fair value continues to be so measured.

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 improvements	over the term of the lease or management's estimation of the useful lives (mainly 5 years)

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

G. INVESTMENT PROPERTIES

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

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

Both completed investment properties and investment properties under construction, where management deemed that fair value can be reliably measured, are externally valued (in most cases) based on open market values. Investment property under construction that cannot be reliably measured is valued at cost or lower recoverable amount. For a description of these valuation techniques and assumptions, see Note 7 and Note 3.

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

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

Lease origination costs /deferred brokerage fees

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

H. CONTRACT WORK AND BUILDING INVENTORY IN PROGRESS

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

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

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

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

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

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

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

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

I. OTHER INTANGIBLE ASSETS

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

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

J. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

Goodwill

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

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

Investment in associates or Joint ventures

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

K. FINANCIAL ASSETS

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

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

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

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

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

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

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

L. CASH AND CASH EQUIVALENTS

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

M. IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

Available-for-sale financial assets

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

N. TREASURY SHARES

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

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

O. BORROWING COSTS

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

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

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

P. FINANCIAL LIABILITIES

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

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

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

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

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

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

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

Q. OFFSETTING OF FINANCIAL INSTRUMENTS

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

R. DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

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

S. PROVISIONS

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

T. SHARE-BASED PAYMENT TRANSACTIONS

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

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 19.

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 37).

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 19. 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 19 and 23).

U. LEASES

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

Group as a lessee

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

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

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

Group as a lessor

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

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

V. REVENUE RECOGNITION

General

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

Contract revenues

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

Rental income

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

Sale of apartments

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

Rendering of services (including management fees)

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

Interest income

Interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees, future credit losses or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate.

W. TAXES

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

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

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

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

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

X. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Y. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

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

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

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

Fair value hedges

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

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

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

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

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

Cash flow hedges

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

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

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

Z. PUT OPTION GRANTED TO NON-CONTROLLING SHAREHOLDERS

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

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

AA. EARNINGS PER SHARE

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

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

BB. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

Defined contribution plans

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

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

CC. CASH FLOW STATEMENT

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

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

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

– The materiality requirements in IAS 1;
– That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
– That entities have flexibility as to the order in which they present the notes to financial statements; and
– That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Improvements to IFRSs - 2012-2014 Cycle (Issued September 2014)

The IASB issued the 2012-2014 cycle improvements to its standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording. These improvements cover the following standards and subjects and are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting
The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

The Group is currently assessing the impact of these improvements.

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, joint ventures and associates
GTC RE – GTC Real Estate Holding B.V.
GTC Group – GTC RE and its subsidiaries, joint ventures and associates
GTC SA – Globe Trade Centre S.A.
GTC SA Group – GTC SA 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 or KIL – Kardan Israel Ltd.
KIL Group – KIL and its subsidiaries, joint ventures and associates
TGA – Tahal Group Assets B.V.
TGI – Tahal Group International B.V.
TGI Group – TGI and its subsidiaries, joint ventures and associates
KWIG – Kardan Water International Group Limited
Kardan Land China or KLC – Kardan Land China Ltd.
TASE – The Tel-Aviv Stock Exchange
EI XII – Emerging Investment XII

5 Business combinations and investment in subsidiaries

A Principle subsidiaries (fully 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		
			2015	2014	
Kardan N.V.	Kardan Financial Services B.V.	The Netherlands	100	100	
	GTC Real Estate Holding B.V.	The Netherlands	100	100	
	Tahal Group International B.V.	The Netherlands	98.43	98.43	
	Emerging Investments XII B.V.	The Netherlands	100	100	
Kardan Financial Services B.V.	TBIF Financial Services B.V.	The Netherlands	100	100	
TBIF Financial Services B.V.	TBI Credit IFN SA	Romania	99.99	99.99	
	TBI Leasing IFN SA	Romania	99.99	99.99	
	TBI Bank EAD	Bulgaria	100	100	
	TBIF Bulgaria EAD	Bulgaria	100	100	
TBIF Bulgaria EAD	TBI Leasing EAD	Bulgaria	100	100	
	TBI Credit EAD	Bulgaria	–	100	See B(2) below
GTC Real Estate Holding B.V.	Kardan Land China Limited	Hong Kong	100	100	
Kardan Land China Limited	Kardan Land (BJ) Management & Consulting Co. Ltd.	China	100	100	
	GTC (China) Investment Co. Ltd	China	100	100	
	Kardan Land Dalian (HK) Ltd.	Hong Kong	100	100	
Tahal Group International B.V.	Tahal Group B.V.	The Netherlands	100	100	
	Tahal Group Assets B.V.	The Netherlands	100	100	

Holding company	Name of subsidiary	Country of incorporation	% equity interest by the direct holding as of December 31		
			2015	2014	
Tahal Group B.V.	Tahal Consulting Engineers Ltd.	Israel	100	100	
	Water Planning for Israel Ltd.	Israel	99.99	99.99	
	Sitahal 'Hagal' (Talia) Partnership	Israel	100	100	
	Palgey Maim Ltd.	Israel	55.5	55.5	
	Fideco DOO	Serbia	100	100	
	Tahal Angola Ltd.	Angola	70	70	
	TMNG Ltd.	Israel	65	65	
Tahal Group Assets B.V.	Task Water B.V.	The Netherlands	100	100	
	Agri Products N.V.	The Netherlands	51	51	
	Kardan water International Group Limited (KWIG)	Hong-Kong	25	100	See B(3) below

B Significant transactions and business combinations

1. GTC Group (Real Estate)

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

The share purchase agreement contained a 'claw-back' clause which is conditional upon GTC SA achieving two specific business targets, one by March 31, 2015 and one by December 31, 2015. If a target is not met in time, the buyer has the right to receive an amount of €3.15 million per target. In April 2015 and in January 2016, GTC RE and the Company received demands from the buyer to pay an amount of € 3.15 million each time, as it claims that GTC SA did not meet the said targets. In October 2015 the Company learned that a writ of summons was submitted by the buyer on October 23, 2015, according to which the buyer demands that the Company (as a guarantor to GTC RE's liability) will pay the first claw back amount of €3.15 million.

Subsequent to the balance sheet date, in February 2016, the Company, GTC RE and the Buyer signed a settlement agreement, according to which GTC RE paid the Buyer an amount of €4 million in exchange for a final and absolute waiver by the Buyer of all its existing and future claims and demands towards the Company and GTC RE in relation to the Buyer's demands according to the 'claw-back' clause, and of mutual cancellation and deletion of any proceedings taken in this matter.

2. KFS Group (Banking and Retail Lending)

A. Subsequent to the balance sheet date, in February 2016, KFS has signed an agreement to sell its 100% holding in TBIF to a third party – for additional information reference is made to Note 40.

B. In October 2014, TBIF signed an agreement to sell its investment in TBI Credit EAD for a total consideration of approximately €8.9 million, subject to adjustments. In accordance with the requirements of IFRS 5, as of December 31, 2014, the Company presented the assets of TBI Credit as 'Assets held for sale' and the liabilities as 'Liabilities associated with assets held for sale'.

On February 11, 2015 TBIF finalized the sale of TBI Credit EAD, a fully-owned Bulgarian subsidiary. The final consideration amounted to €9.9 million was received by TBIF which recognized a small gain upon the completion of the sale.

3. TGI Group (water infrastructure)

2015

On January 15 2015, TGA, an indirectly held subsidiary (98.43%) signed a share purchase agreement ('the Agreement') with China Gezhouba Group Investments Holding Co Ltd. ('the Purchaser'), to sell all of its holdings in KWIG. KWIG operates 11 wastewater treatment facilities and water supply projects in China and was the main subsidiary in the Group's 'Water Infrastructure - Assets' segment.

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

The sale of KWIG would take place in two phases: in March 2015 the first phase of the transaction in which 75% of KWIG shares were sold was completed; the Purchaser paid 75% of the consideration and all outstanding loans from Group companies were repaid. Prior to the sale, all the outstanding employees' stock options were settled. The second phase of the transaction was expected to take place before June 30, 2015, when the remaining 25% of the Consideration will be paid to TGA. In June 2015 it was announced that the second phase of the sale was postponed by three months until September 30, 2015, at the request of the Purchaser. However, due to processes that are taking more time than expected, it was agreed between the parties that the completion of the second phase would be further postponed. The remaining consideration bears an interest of Libor + 5% p.a. The Company estimates that the second phase will be completed by the end of second quarter of 2016.

As a result of the transaction, the Group recorded a net gain of approximately €20.1 million mainly due to the release of equity reserves transferred to the statement of income following the sale.

Following the first phase of the transaction, the remaining 25% of KWIG are classified in the consolidated statements of financial position as of December 31, 2015 as an 'Asset held for sale'. Also, since KWIG was considered by management as major line of business, the results of the investment in KWIG (including the gain from the sale of the investment) in all represented periods were classified, in accordance with IFRS 5 to discontinued operations.

2014

Conversion of shareholders loans-Foodyard
In February 2014, TGI Group, being the majority shareholder, converted approximately €17 million of shareholders loans to Foodyard in exchange for 2 additional shares. The ownership and voting rights of TGI Group in the (negative) equity of Foodyard did not significantly increase. Since Foodyard losses in previous periods have been split between the Company and the non-controlling interest holders, the conversion of the loans resulted in a decrease in the 'Non-controlling interest holders transaction reserve' in the shareholders equity attributable to equity holders of the Company by approximately €3.2 million, and increased of the 'Non-controlling Interests' by the same amount.

2013

Sale of shares in Star Pumped Storage Ltd.
On December 29, 2013, a transaction between a subsidiary of TGI and Hutchison Water International Holdings Pte Limited ('HWIH) was completed, consequently, each party holds 40.5% of Star Pumped Storage Ltd. and a third party – Triple R Energy (1995) Ltd. – holds the remaining 19% of Star. As a result, the Group ceased the consolidation of Star starting December 29, 2013.

C. Assets held for sale

In addition to the assets held for sale for the year ended December 31, 2015 and 2014 in the amount of €24.8 million and €24.6 million, respectively, are a result from the sale of KWIG and TBI Credit, respectively (for additional information see also consolidated cash flow). Additional assets held for sale for the year ended December 31, 2015 and 2014 in the amount of €7.1 million and €4.5 million, respectively, are repossessed assets held for sale in TBIF group.

D. Discontinued operations related the sale of KWIG and GTC SA

The activities of KWIG and GTC SA were classified as discontinued operations. These activities were clearly distinguishable, operationally and for financial reporting purposes as KWIG and GTC SA represented a separate business and major geographical area of operations.

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

€ in '000	For the year ended December 31,			
	2015	2014	2013	2013
	KWIG	KWIG	KWIG	GTC SA
Income	–	27,463	24,047	31,409
Expenses	–	(19,597)	(15,829)	(52,066)
Profit (loss) before tax	–	7,866	8,218	(20,657)
Equity losses	–	–	–	(22,190)
Income tax expenses, net	–	(3,483)	(2,576)	(5,644)
Profit (loss) from discontinued operations before revaluation and release of capital reserves	–	4,383	5,642	(48,491)
Gain (loss) from revaluation of investment	6,812	(6,972)	–	(25,707)
Release of capital reserves due to deconsolidation (*)	13,287	–	–	(4,501)
	20,099	(2,589)		(30,208)
Discontinued operation items related to the sale of KWIG and GTC SA:				
Capital gain	–	–	–	3,586
Release of capital reserves due to sale	–	–	–	(64)
Net gain (loss) from discontinued operations	20,099	(2,589)	5,642	(75,177)
Attributable to:				
Equity holders	19,783	(2,548)	5,553	(55,303)
Non-controlling interest holders	316	(41)	89	(19,874)
	20,099	**(2,589)**	**5,642**	**(75,177)**

* Net of tax amounting to €1,890 thousand.

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

€ in '000	For the year ended December 31,			
	2015	2014	2013	2013
	KWIG	KWIG	KWIG	GTC SA
Change in fair value of hedge instrument, net of tax	–	–	–	3,467
Adjustments arising from translating financial statements of foreign operations	13,287	9,474	(1,101)	(1,875)
Recycling to the income statement of the hedge reserve due to loss of control over a subsidiary	–	–	–	5,782
	13,287	9,474	(1,101)	7,374
Attributable to:				
Equity holders	13,078	9,325	(1,084)	5,276
Non-controlling interest holders	209	149	(17)	2,098
	13,287	**9,474**	**(1,101)**	**7,374**

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

€ in '000	For the year ended December 31,			
	2015	2014	2013	2013
	KWIG	KWIG	KWIG	GTC SA
Net cash provided by (used in) operating activities	–	3,594	(475)	81,720
Net cash provided by (used in) investing activities	91,960	(493)	882	(47,983)
Net cash provided by (used in) financing activities	–	(6,839)	979	(31,707)

E. Collaterals:

As of December 31, 2015, the shares the Company owns in GTC RE, KLC, KFS, TBIF, TGI, and Emerging were pledged or are to be pledged in favor of the debenture holders. For additional information see Note 1C.

F. Dividend

The Group has received the following dividend amounts in the reporting period from subsidiaries:

€ in '000	2015	2014
Subsidiaries	56,302	134,395

The amounts above relate to transfers from Emerging Investments XII B.V., and TGI, following the sale of KWIG (see 5B above).

6 Tangible fixed assets

€ in '000	Freehold Land, buildings and assets under construction	Property, plant and equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
Balance as of January 1, 2014	35,057	27,306	8,298	9,851	2,351	82,863
Additions	135	404	3,719	1,157	11	5,426
Disposals	(478)	(1,597)	(1,230)	(629)	–	(3,934)
Exchange rate differences	3,657	2,062	62	951	111	6,843
Balance as of December 31, 2014	**38,371**	**28,175**	**10,849**	**11,330**	**2,473**	**91,198**
Additions	158	1,017	3,237	596	250	5,258
Reclassified from Inventory	2,121	–	–	–	–	2,121
Disposals	(91)	(98)	(1,251)	(77)	(83)	(1,600)
Exchange rate differences	19	1,448	99	441	209	2,216
Discontinued operation	(30,423)	(5,807)	(302)	(4,975)	(105)	(41,612)
Balance as of December 31, 2015	**10,155**	**24,735**	**12,632**	**7,315**	**2,744**	**57,581**
Accumulated depreciation:						
Balance as of January 1, 2014	2,365	16,606	4,062	3,192	410	26,635
Depreciation for the year	666	1,395	1,316	990	301	4,668
Disposals	(110)	(1,282)	(822)	(211)	–	(2,425)
Exchange rate differences	181	1,373	43	254	44	1,895
Balance as of December 31, 2014	**3,102**	**18,092**	**4,599**	**4,225**	**755**	**30,773**
Depreciation for the year	308	1,033	1,795	858	372	4,366
Disposals	(16)	(69)	(794)	(40)	(70)	(989)
Exchange rate differences	12	1,368	41	247	49	1,717
Discontinued operation	(1,304)	(191)	(302)	(545)	(105)	(2,447)
Balance as of December 31, 2015	**2,102**	**20,233**	**5,339**	**4,745**	**1,001**	**33,420**
Net book value						
December 31, 2014	35,269	10,083	6,250	7,105	1,718	60,425
Net book value						
December 31, 2015	**8,053**	**4,502**	**7,293**	**2,570**	**1,743**	**24,161**

Freehold land and buildings are related to owner-occupied property.

7 Investment properties

A General

As of December 31, 2015 and 2014 the closing balances of investment property relate to the shopping mall in the city of Dalian, China which was completed in April 2015 and the investment property under construction was transferred to investment property.

B The movements in investment property for the years ended December 31, 2015 and 2014 are as follows:

€ in '000	2015	2014
Opening balance	181,072	118,068
Additional capitalized subsequent expenditure	37,102	31,352
Additional capitalized borrowing costs	4,785	3,602
Valuation gains	20,907	8,859
Foreign currency translation differences	6,444	19,191
Closing balance	**250,310**	**181,072**

The investment property is pledged in favor of a lending bank according to its cost value, which amounts €196.2 million as at December 31, 2015 (December 31, 2014 - €152.6 million).

In 2014, investment property under construction carried at cost included borrowing costs incurred in connection with construction

C Fair value adjustments, impairments, reversal of impairments comprise:

€ in '000	For the year ended December 31,		
	2015	2014	2013
Valuation gains from newly completed investments properties	20,262	–	–
Valuation gains from investments properties completed in prior years	–	–	47
Valuation loss from investments properties completed in prior years	–	–	(8,933)
Adjustment to fair value of investment property under construction	645	8,859	8,802
Impairment of investment properties measured at recoverable amount	–	–	(16,473)
Adjustment to fair value, impairments and reversal of impairments of investment property presented as discontinued operation (Note 5D)	–	–	25,359
Total fair value adjustments, impairments, reversal for the year	**20,907**	**8,859**	**8,802**

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

The fair value of investment properties under construction has been determined on a market value basis in accordance with International Valuation Standards (IVS), as set out by the International Valuation Standards Committee. In arriving at their estimates of market values, the external appraiser has relied on historical transactions and used its market knowledge and professional judgment.

The fair value of the shopping mall in Dalian ('Dalian Shopping Mall') as under construction was determined as of December 31, 2014 based on the Residual Approach and the Cost Approach in considering the Market Value of the Property. In arriving at the Gross Development Value (the 'GDV') of the Property to be adopted in the Residual Approach, the Discounted Cash Flow Analysis (the 'DCF Analysis') and the Direct Comparison Approach were adopted to arrive at the GDV of the retail portion of the Property. For the GDV of the car parking portion of the Property, the Direct Capitalization Approach was adopted. The Direct Comparison Approach to assess the market rents of the Property and to carry out the yield analysis of the Property for the purpose of DCF Analysis. The Direct Comparison Approach was also adopted to assess the land value of the Property during valuation under the Cost Approach. The combination of techniques determined the fair value of the Dalian Shopping Mall at the end of construction.

As at December 31, 2015, the DCF approach and Direct Comparison method have been adopted to assess the fair value of the investment property.

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

€ in '000	December 31, 2015
DCF method	
Estimated rental value per sqm per month (in €)	23
Discount rate	10.5%
Rental growth	5%-15%
Terminal cap rate	5.5%
Occupancy Rate	89%-96%

E Sensitivity analysis:

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

€ in '000	December 31, 2015
Investment property	
Change of 25 BP in discount rate and terminal yield	5,497
Change of 5% in estimated rental income	5,356
Change of 1% in general vacancy	1,268

8 Investments in associates

A Composition:

The Company has (indirect) shareholdings in the following associates:

Holding company	Name of associate	% of ownership and control by the direct holding company as of		
		December 31, 2015	December 31, 2014	Country
Tahal India B.V.	MVV Water Utility Pvt Ltd.	26.0	26.0	India
Water Planning for Israel Ltd.	Star Pumped Storage Ltd.	40.5	40.5	Israel

B The Composition of the Investment in associates is as follow:

€ in '000	December 31, 2015	December 31, 2014
Total of equity investments	134	84
Loans	9,406	7,294
Total investment	**9,540**	**7,378**

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

€ in '000	2015	2014
Balance as of January 1	7,378	5,695
Change in loans, net	1,312	1,539
Equity earnings (losses)	(658)	(625)
Foreign currency translation differences and other	786	73
Capitalized interest	722	696
Balance as of December 31	**9,540**	**7,378**

D Loans:

The investment in associated companies includes loans as follows:

€ in '000	Interest rate (p.a.)	December 31, 2015	December 31, 2014
In NIS	10.5% linked to the Israeli CPI	9,406	7,294

9 Investments in joint ventures

A Composition:

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

Holding company	Name of joint venture	% of ownership and control by the direct holding company as of		Loans granted to the joint venture and their subsidiaries as of (in €'000)		Country	Nature of activities
		December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014		
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	8,188	7,334	Hong Kong	Holding
	Sino Castle Development Ltd.	50.0	50.0	61	54	Hong Kong	Real estate development
	Green Power Development Ltd	50.0	50.0	15,077	13,515	Hong Kong	Holding
	Rainfield Development Ltd.	50.0	50.0	7,075	7,069	Hong Kong	Holding

Holding company	Name of joint venture	% of ownership and control by the direct holding company as of		Loans granted to the joint venture and their subsidiaries as of (in €'000)		Country	Nature of activities
		December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014		
	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	1,796	475	Turkey	Management and construction establishments for producing drinking water
Sitahal 'Hagal' (Talia) Partnership	Energy Hagal-Talia Partnership	50.0	50.0	–	–	Israel	Electricity (biogas)
Tahal Consulting Engineers Ltd.	Tahal South Africa (PTY) Ltd.	37.5	50.0	835	423	South Africa	Water Projects
Tahal Consulting Engineers Ltd.	Lahat Joint Venture	50.0	50.0	–	–	Israel	Water Desalination
GTC Real estate Holding B.V	GTC Investments B.V.	48.75	48.75	–	–	Netherlands	Holding
TBIF Financial Services B.V.	TBIF-Dan Leasing Ltd	66.0	66.0	6,494	6,357	Cyprus	Holding
TBI Financial Services Bulgaria EAD	Creditex OOD	50.0	50.0	–	–	Bulgaria	Mortgage lending
TBI Financial Services Bulgaria EAD	Hypocredit AD	50.0	50.0	1,156	1,156	Bulgaria	Mortgage lending
				40,682	**36,383**		

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

€ in '000	December 31, 2015	December 31, 2014
Total of equity investments	53,469	45,346
Goodwill	8,208	8,206
Deemed cost on real estate projects *	1,180	2,085
Loans and other long-term balances	40,682	36,383
	103,539	92,020
Less impairments (see E below)	(7,575)	(7,575)
Total investment in joint ventures	**95,964**	**84,445**

* 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, 2015	December 31, 2014
In EUR	–	8,813	7,493
In EUR	3 months Euribor + 3.5%	3,330	3,217
In EUR	6 months Euribor + 3.5%	2,528	2,572
In EUR	6 months Euribor + 3.125%	1,156	1,156
In HKD	–	17	14
In USD	–	24,202	21,363
In USD	6 months libor + 3.5%	636	568
		40,682	**36,383**

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

€ in '000	For the year ended December 31,		
	2015	2014	2013
Profit/(loss) from continuing operations	(1,496)	4,363	6,453
Other comprehensive income	3,347	13,101	(1,262)
Total comprehensive income	1,851	17,464	5,191

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

Shaanxi GTC Lucky Hope Real Estate Development Ltd.
Summary of financial data from the statement of financial position:

€ in '000	December 31, 2015	December 31, 2014
Current assets (not including cash and cash equivalent)	120,234	155,182
Cash and cash equivalent	5,352	11,640
Non-current assets	20,248	15,154
Current liabilities	95,700	140,044
Current financial liabilities	6,810	9,470
Non-current liabilities	–	414
Total equity attributed to the owners	43,324	32,048
% held in the joint venture	50	50
	21,662	16,024
Deemed cost on projects	–	121
Total investment in joint ventures	**21,662**	**16,145**

Summary of financial data from the income statement:

€ in '000	For the year ended December 31,		
	2015	2014	2013
Revenues from operations	71,316	28,488	75,550
Cost of operations	49,574	15,316	52,658
Selling and marketing, other income (expenses), and administrative expenses	8,542	4,802	6,548
Interest income	26	82	28
Profit before tax	13,226	8,452	16,372
Income tax expenses	3,310	2,114	4,142
Profit for the year attributed to equity holders	9,916	6,338	12,230
% held of the joint venture	50	50	50
	4,958	3,169	6,115
Realizing of deemed cost on projects	(121)	(195)	(104)
Group's share of profit for the year	4,837	2,974	6,011
Total other comprehensive income (expenses) attributed to equity holders	1,360	3,446	(374)
% held of the joint venture	50	50	50
Group share of the total other comprehensive income (expenses)	680	1,723	(187)

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

€ in '000	December 31, 2015		December 31, 2014	
	Goodwill include in the investment	Impairments to the investment	Goodwill include in the investment	Impairments to the investment
TASK SU kanalizasyon SU	1,059	–	1,059	–
Shenyang Taiyling Real Estate Development Ltd.	140	(140)	140	(140)
TBIF-Dan leasing Ltd.	7,007	(7,435)	7,007	(7,435)
	8,206	(7,575)	8,206	(7,575)

G Additional information

Kardan Land China

1. *Capital commitments:*
   As of December 31 2015, KLC shares in the contractual commitments of joint ventures amount to €2,977 thousand (2014: €5,484 thousand).

2. *Dividend distribution restrictions:*
   As of December 31, 2015 Shanxi GTC Lucky Hope Real Estate Development Ltd. has entered into agreements with banks according to which, prior to the full repayment of principal and interest, these entities are not allowed to distribute dividend to their shareholders.

3. *Pledges:*
   Assets which are financed by external debt in joint ventures and their subsidiaries are pledged in most cases as a security to the lending banks.

4. *Guarantees:*
   As at December 31, 2015, the joint ventures of KLC and its subsidiaries provided guarantees of €86.2 million (2014: €91.2 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of properties of the joint ventures of Kardan Land China and its subsidiaries properties, which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiration date of the guarantees, the joint ventures of Kardan Land China and its subsidiaries are responsible for repaying the outstanding mortgage principals and interest to the banks.

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

5. *Sale of 50% of Galleria Chengdu*

On 23 December 2014, Kardan Land China sold its remaining 50% equity interest in Kardan Land Chengdu (HK) Limited, a joint venture, for a consideration of €74.7 million. Immediately prior to the sale, KLC's investment in Kardan Land Chengdu (HK) Limited was €37.3 million which includes goodwill of €5.2 million. Taken into account the repayment of shareholder's loan to Kardan Land Chengdu (HK) Limited of €20.7 million, a gain from disposal of a joint venture company in amount of €16.7 million, including reclassification of exchange rate difference amounting to €12.7 million, was recognized by the Group for the year ended December 31, 2014.

10 Loans to bank customers

A Composition

€ in '000	December 31, 2015	December 31, 2014
Loans and advances to individuals	93,208	83,102
Mortgage loans	152	758
Credit cards, other loans and advances to banks	7,962	8,180
	101,322	92,040
Corporate loans	46,065	36,952
Total loans and advances gross	147,387	128,992
Less – allowance for impairment losses (1)	(9,132)	(10,633)
	138,255	**118,359**

1 Movements in allowance for impairment losses is as follows:

€ in '000	2015	2014
Balance as per January 1	10,633	8,185
Allowance for the period, net	3,274	2,448
Recognized written off uncollectible debts	(4,775)	–
Balance as per December 31	**9,132**	**10,633**

B Maturities

€ in '000	December 31, 2015	December 31, 2014
Presented as current assets	55,112	54,596
Presented as non-current assets	83,143	63,763
	138,255	**118,359**

During 2015, TBIF repossessed assets with a carrying value of €4.6 million (€4.5 million in 2014). TBIF is in the process of selling the repossessed assets which are presented as assets held for sale.

11 Long-term loans and receivables

A Composition:

€ in '000	December 31, 2015	December 31, 2014
In EUR [1]	43,464	45,453
In other currencies [1,2]	30,180	26,917
	73,644	**72,370**
Less – current maturities	(16,749)	(18,708)
	56,895	**53,662**
Service concessions [3]	–	86,637
Provision for doubtful debts [4]	(39,720)	(37,817)
Other	6,395	2,476
	23,570	**104,958**

1 As of December 31, 2015 the balance includes €31,891 thousand and €33,445 thousand from consumer finance and net investment in financial leases, respectively (2014: € 28,941 thousand and € 35,651 thousand, respectively).
2 The balance includes mainly consumer finance denominated primarily in Romanian Lei.
3 The decrease in 2015 relates to the sale of KWIG; for additional information see note 5B(3).
4 Provision for doubtful debts primarily includes provision for impairment losses relating to consumer credit, mortgages and net investment in finance leases.
On November 21, 2014 TBIF learned, from a press release of the National Bank of Ukraine ('NBU'),that the NBU declared VAB Bank insolvent and has instructed to appoint an administrator to VAB Bank as the VAB Bank is not able to achieve plans to strengthen its equity. TBIF has an outstanding subordinating loan to VAB Bank which was due on December 15, 2014. As a result, the Company decided to fully provide for the remaining outstanding debt of VAB Bank to TBIF amounting to € 2.8 million (net of a provision of € 2.1 million) in the third quarter of 2014.

B. Long-term loans and receivables are further specified as follows:

€ in '000	December 31, 2015	December 31, 2014
Financial leases *	19,956	22,880
Consumer credits and mortgages	13,373	10,888
	33,329	**33,768**
Current	15,994	17,923
Non-current	17,335	15,845
	33,329	**33,768**

* Net investments in financial leases are further specified as follows:

€ in '000	December 31, 2015	December 31, 2014
Not more than one year	22,065	24,813
Later than one year and not later than five years	11,915	12,200
Later than five years	6,106	4,473
Gross receivables from financial leases	40,086	41,486
Less – gross earnings allocated to future periods	(6,642)	(5,835)
Less – allowance for impairment losses	(13,488)	(12,771)
Net investment in financial leases [1]	**19,956**	**22,880**
(1) Maturity table:		
Not more than one year	6,857	10,408
Later than one year and not later than five years	8,191	8,832
Later than five years	4,908	3,640
	19,956	**22,880**

Financial leases include mainly agreements with corporate and private customers for rental of vehicles and production equipment.

C Movement in the provision for doubtful debts:

€ in '000	2015	2014
Balance as per January 1	37,817	57,678
Allowance for the period, net	3,579	3,615
Recognized written off uncollectible debts	(1,741)	(1,854)
Translation differences	76	13
Disposal of an investment (held for sale)	–	(21,644)
Others	(11)	9
Balance as of December 31	**39,720**	**37,817**

12 Intangible assets and goodwill

A Movement:

€ in '000	Goodwill	Service concessions	Other intangibles	Total
Balance as of January 1, 2014	13,098	8,451	964	22,513
Additions	–	–	218	218
Change due to disposal of subsidiaries	–	(239)	–	(239)
Impairment	(5,190)	–	–	(5,190)
Amortization	–	(528)	(273)	(801)
Foreign currency exchange differences	135	1,004	–	1,139
Balance as of December 31, 2014	8,043	8,688	909	17,640
Additions	–	–	382	382
Change due to disposal of subsidiaries	–	–	(128)	(128)
Amortization	–	–	(308)	(308)
Foreign currency exchange differences	194	–	149	343
Discontinued operation (1)	(2,880)	8,688	–	(11,568)
Balance as of December 31, 2015	**5,357**	**–**	**1,004**	**6,361**

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

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

€ in '000	December 31, 2015	December 31, 2014
Infrastructure segment:		
Assets segment:		
Dahzou Tianhe Water Supply	–	593
Tianjin Huanke Water Development Co., Ltd.	–	2,287
Project segment:		
Tahal Consulting Engineers Ltd. (TCE)	3,508	3,508
TMNG	1,390	1,244
Palgey Maim	459	411
	5,357	**8,043**

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

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

C Impairment of goodwill

The entire goodwill balance relates to the water infrastructure segment.

The recoverable amount has been determined based on a value in use calculation. The method used for calculating the value in use is the Discounted Cash Flow ('DCF') method. This approach is based on the estimation of future returns on an investment in terms of cash flows, and the calculation of the present value of the expected cash flows by discounting them according to the required rate of Weighted Average Cost of capital (WACC).The period used in the DCF method is 5 years, which is based on the nature of the operations of the cash-generating units.

The assumptions regarding the fair value evaluation can be presented as follows:

	WACC	Annual growth rate	Gross profit margin	Operating income margin
2015	13%	3%	14%	5.9%
2014	12%	3%	13%	5.3%

D Amortization and impairment expenses:

Amortization expenses of intangible assets are included in the following line items in the income statement:
- Contract costs;
- Costs of banking and retail lending activities;
- Net profit (loss) from discontinued operation.

13 Inventories, contract work, buildings and apartments inventory in progress and land bank

A Composition:

€ in '000	December 31, 2015	December 31, 2014
Building and apartments inventory and land bank [1]	101,286	99,857
Contract work in progress [2]	5,125	9,874
Merchandise inventories [3]	3,407	3,014
	109,818	**112,745**

(1) Building and apartments inventory and land bank:

a. As of December 31, 2015 and 2014 inventory in the amount of €56,117 thousand and €98,075 thousand, respectively, is pledged for security in favor of a lending bank.

b. Inventory presented at cost includes finance expenses capitalized during the construction of the project. During 2015, no additional finance expenses were capitalized on account of inventory property under construction (in 2014: €5,712 thousand).

c. Composition of cost of buildings and apartments:

€ in '000	December 31, 2015	December 31, 2014
Current:		
Completed	23,060	14,889
Under construction	78,226	84,968
	101,286	**99,857**

d. Buildings and apartments inventory is stated in gross figures. Advances from apartment buyers are presented under current liabilities and amount to €34,263 thousand as of December 31, 2015 (December 31, 2014: €164 thousand).

e. During the past year the Group entered into 266 sales contracts of apartments, for which the total consideration is estimated at €68.6 million

(RMB 486.6 million). As of December 31, 2015, the aggregated number of signed contracts of existing projects for which revenues were not recognized amounts to 263 contracts for which the aggregated consideration is estimated at approximately €68 million (RMB 482.3 million).

(2) Contract work in progress:

Contract work in progress relates to infrastructure projects, which are not considered service concession arrangements.

Details are as follows:

€ in '000	December 31, 2015	December 31, 2014
Contract costs incurred	761,078	521,805
Less – invoices on account of progress	(803,662)	(568,385)
	(42,584)	(46,580)
Presented in statement of financial position:		
Current assets – contract work in progress costs	5,125	9,874
Current liabilities – Liabilities due to work in progress	(47,709)	(56,454)
	(42,584)	**(46,580)**

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

(3) Merchandise inventory mainly relates to the fruit inventory of the subsidiary in Mast Foods (Greece).

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

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

December 31, 2014 € in '000	Residential construction		Infrastructure works	
	For the year ended 2014	Cumulative up to the end of the reporting period	For the year ended 2014	Cumulative up to the end of the reporting period
Revenues recognized	46,866	70,850	16,357	113,012
Cost recognized	43,543	62,950	13,329	122,538

14 Trade receivables

A Composition:

€ in '000	December 31, 2015	December 31, 2014
Trade receivables	71,232	64,682
Less provision for doubtful debt	(3,914)	(2,681)
	67,318	**62,001**

As of December 31, 2015 an amount of €62,455 thousand (December 31, 2014: €53,518 thousand) derives from the water infrastructure segment.

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

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

€ in '000	Neither past due nor impaired	Past due (net of impairment) < 30 days	30 – 60 days	60 – 90 days	90 – 120 days	120 – 365 days	> 365 days	Total
2015	23,880	3,289	12,436	9,452	2,934	7,222	8,105 *	67,318
2014	31,051	11,344	4,493	1,513	1,852	5,989	5,759	62,001

* Subsequent to the balance sheet date, the Group collected over €5.6 million of this amount.

15 Other receivables and prepayments

€ in '000	December 31, 2015	December 31, 2014
Central bank in Bulgaria [1]	16,118	16,812
Accrued income	4,621	3,891
Concession current financial assets	–	17,458
VAT receivable	1,196	695
Receivables from joint ventures in China	2,799	2,061
Prepaid expenses	5,586	2,290
Advances to suppliers	1,383	4,575
Deposit receivable	5,755	185
Other	2,925	5,482
	40,383	**53,449**

1 TBI Bank is required to maintain, in the form of non-interest earning cash deposits, certain cash reserves with the local central bank (obligatory reserve), which are computed as a percentage of certain liabilities of the bank less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the central bank provided that the minimum reserve requirements are met. If the minimum average reserve requirements are not met, the banks could be subject to certain penalties. The bank is obligated to maintain the minimal cumulative average reserve calculated on a daily basis over a monthly period. The bank met the obligatory reserve requirements for the whole year 2015 and 2014.

16 Short-term investments

	Average interest rate	December 31, 2015	December 31, 2014
	%	€ in '000	€ in '000
Bank deposits in NIS	0%-0.5%	107	–
Bank deposits in other currencies	0%-1%	130	155
Restricted bank deposits	0%-3%	5,975	6,503
Government bonds	4.75%-6.75%	542	–
Other	–	1,033	592
		7,787	**7,250**

17 Cash and Cash Equivalents

€ in '000	December 31, 2015	December 31, 2014
Cash at bank and in hand	72,900	43,225
Short-term deposits *	71,020	105,320
	143,920	**148,545**

* As of December 31, 2015 the range of the annual interest rate earned on short-term deposits was 0.5%-1.5% (December 31, 2014 - up to 1.5%).

18 Issued and Paid-In Capital

A Composition

Number of shares	December 31, 2015		December 31, 2014	
	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	111,848,583

B Movement in issued and paid-in shares

	Number of shares	Par value in €
Balance as of January 1, 2015 and 2014	111,848,583	22,369,716
Issuance of shares to the debenture holders in 2015	11,173,673	2,234,735
Balance as of December 31, 2015	**123,022,256**	**24,604,451**

C Movement in treasury shares

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

	December 31, 2015	December 31, 2014
Rate of treasury shares from the issued and paid-in share capital	–	1%

D. Changes in share capital and treasury shares

During 2015 and 2014, the following transactions took place:

In January 2014, the Company transferred 73,005 shares to senior managers of the Company according to the then existing Share Plan.

In July 2015, according to the Amended Deeds of Trust, as described in Note 1C above, 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 constitute approximately 10% of the Company's issued and paid in capital immediately after the allocation.

E Dividend:

For limitations regarding the distribution of dividends refer to Note 1C. In 2015 and 2014, there were no distributions of dividends.

F Restrictions for distribution:

In accordance with Dutch civil code, part of the retained earnings is restricted for distribution following the regulation to maintain reserves in respect of real estate unrealized fair value revaluation, cash flow hedges, foreign currency differences from investment in foreign operations, and equity gains from associates and joint ventures.

19 Share-Based Payments

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

€ in '000	For the year ended December 31		
	2015	2014	2013
Expense arising from equity-settled share-based payment transactions of the Company and the subsidiaries	1,080	776	1,247
Expense (income) arising from cash-settled share-based payment transactions of a subsidiary	(41)	526	557
	1,039	**1,302**	**1,804**

The expenses are presented as part of 'Payroll and related expenses' within the General and administrative expenses refer to Note 33.

B Option plans

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

(1) Kardan N.V.

A. In August 2015, the General Meeting of Shareholders of the Company approved a modification to the option plan of the Company's CEO, which replaced his existing option plan.

   According to the modified plan, the CEO was entitled to 2,282,624 options exercisable to 2,282,624 shares of the Company, approximately 2% of the outstanding share capital of the

Company (prior to the shares issued to the debenture holders as part of the Final Settlement agreement (see also Note 1). According to the modified plan, the exercise price would be €0.2807 or NIS 1.191. The share price at the date of grant was NIS 1.09 and €0.234. 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.

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

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

Additionally, senior management outstanding stock options (250,000 options) were modified in line with the above modification. In addition, during 2015, 100,000 new options were granted and 50,000 options expired. The total additional expense relating to the management stock option plan is less than €0.1 million. For additional information regarding the CEO option plan, reference is made to Note 39.

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

	2015		2014	
	No.	WAEP NIS	No.	WAEP NIS
Outstanding on January 1	2,532,135	6.136	2,532,135	6.136
Granted during the year	100,489	1.191	–	–
Expired during the year	(50,000)	1.191	–	–
Outstanding on December 31	2,582,624	1.191	2,532,135	6.136
Exercisable on December 31	–	–	633,034	6.136

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.

C. In February 2012 (the 'Effective Date'), the Supervisory Board recommended to the Annual General Meeting of the Shareholders (the 'AGM') that assembled on May 2012, to approve the grant of stock options to the Company's CEO (the 'Option Plan'). According to the Option Plan, the CEO was entitled to options representing a maximum of 2% of the outstanding share capital of the Company. The exercise price which was initially determined was the average closing price of the Company's shares on the Tel-Aviv Stock Exchange, during five days prior to the Effective Date which was NIS 8.272 (the 'Exercise Price'). The options were exercisable in four annual equal portions of which the first 25% is excisable two years following the Effective Date. In May 2012, the AGM approved the Option Plan but shortly prior to the AGM, it was agreed to re-examine the Exercise Price. On February 6, 2013 the Extraordinary General Meeting approved an adjusted exercise price of NIS 6.136. The Company share price on the grant date was NIS 3.98 .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.

The fair value of the options grant was calculated by an independent external valuator using the adjusted binomial model under the following assumptions:

Number of options	2,282,135
Exercise price (in NIS)	6.136
Risk-free interest rate	1.53%-3%
Expected term of the options (in years)	6
Standard deviation	66.8%
Valuation	External

(2) Kardan Land China

A. Employee Share Option Plan

During 2010, Kardan Land China adopted an Employee Share Option Plan ('ESOP'). According to the ESOP, share options of Kardan Land China are granted to eligible employees of Kardan Land China. The exercise price of the share options is calculated based on total capital injected plus interest under Libor/Euribor + 3%. The share options vest according to the following schedule: 50%, 25% and 25% of the share options shall be vested on the third, fourth and fifth anniversary of the date of commencement of services of the relevant option holder to Kardan Land China, respectively.

The fair value of the share options is estimated at the grant date using the Black–Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted. The contractual term of each option granted is seven years.

In January 2013, certain share options under ESOP were modified, with options to settle in cash. The cash settlement can be calculated on a gross basis or the difference between KLC fair value and the exercise price which is the difference between the fair value of KLC and the total investment in KLC and the accumulated interest.

The share options vest according to the following schedule: 33%, 33% and 34% of the share options shall vest for additional 5, 17 and 26 months of employee service from the date of the modification. The fair value of modified share options at the end of the reporting period is estimated using a binomial pricing model, taking into account the terms and conditions upon which the options were modified. The contractual life of each option is 7.7 years.

The fair value of options was estimated using the following assumptions:

Dividend yield (%)	0
Expected volatility (%)	61.2
Risk-free interest rate (%)	2.02
Expected life (years)	5.59
Share price (EUR)	4,885.03

During 2015, 522 options were cancelled for a consideration of RMB 11,915 thousand (€1,731 thousand). Following the cancellation 70 fully vested share option remain outstanding the associated liability value of the share options amount to €127 thousand.

B. Senior Executive Plan

Under the Senior Executive Plan ('SEP'), which was adopted in 2011, 2,637 share options of Kardan Land China (which represented 5% of the share capital of KLC at that time) were granted to a senior executive of Kardan Land China. According to the plan the senior executive was entitled to receive shares of KLC for consideration of the proportionate part of the investment cost of GTC RE in KLC. Alternatively, the senior executive had the right to receive shares in the value of the difference between his proportionate share in KLC fair value to the proportionate part of the investment cost of GTC RE in KLC. According to the terms of the options agreements, the options vested at the date of the grant.

The fair value of the options granted was estimated at the date of grant using the Black& Scholes pricing model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted was seven years.

Simultaneously, a put option agreement was signed between the senior executive and Kardan N.V. allowing Kardan N.V. to pay the senior executive cash or shares of Kardan N.V. upon exercise of the options. The exercise of options (to cash or Company shares) was subject to the Kardan N.V.'s discretion.

In February 2014, KLC signed an agreement with the senior executive under which the senior executive exercised his share options in three equal parts during 2014, and simultaneously KLC acquired the shares resulting from the exercise. The agreement determined the settlement price for the first two tranches. As for the last third, it was agreed that the settlement price would be agreed between the parties or determined by an external appraiser. As a result of the agreement, the Company recorded in the first quarter of 2014 a decrease in shareholders' equity, reflecting the difference between the estimate of the consideration for the sale of shares by the senior executive to Kardan Land China and the exercise price in the amount of €4.9 million.

In February and December 2014, the senior executive exercised the first 66% of the share options for a net consideration of €6.7 million. In August 2015 the senior executive exercised the last tranche of the option plan for a net consideration of €4 million.

Movements in the year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2015	2015	2014	2014
	No.	No.	No.	WAEP €
Outstanding on January 1	1,471	3,692.43	3,559	4,004.46
Cancelled during the year	(522)	3,565.13	(330)	4,394.48
Exercised during the year	(879)	3,219.61	(1,758)	3,219.61
Outstanding on December 31	70	3,565.13	1,471	3,692.43
Exercisable on December 31	70		1,454	

The weighted average remaining contractual life for the share options outstanding as of December 31, 2015 is 2 years (2014: 3.25 years).

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

	SEP	ESOP
Dividend yield (%)	0	0
Expected volatility (%)	60.5	61.2
Risk-free interest rate (%)	1.85	2.02
Expected life of share options (years)	3.79	5.59
Weighted average share price (€)	3,956.76	4,885.03
Model used	Black–Scholes	Black–Scholes

The expected life of the share options was based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

For year ended December 31, 2015, KLC has recognized €41 thousand of share-based payment income in the statement of profit or loss (2014: €211 thousand expense).

(3) KFS and its subsidiaries

A. In 2015 consolidated companies in the financial services segment did not incur share based payment related expenses (2014: €0.2 million).

B. In March 2012, all the prior existing SBP plans which were awarded to the CEO of TBIF were modified and a new incentive plan was approved. The new plan includes: (a) options for a range of 2%-4% in four operations of TBIF. The exercise price for these options was determined to be the base value at the time of grant plus interest. The options vest in four equal portions on 30 June 2012, 2013, 2014 and 2015. This option plan is treated under IFRS 2; (b) a phantom option scheme relating to TBI Bank, treated under IAS 19; and (c) a bonus scheme relating to the loans granted to VAB Bank and VAB Leasing.

(4) Tahal Group International and its subsidiaries

A. In March 2015, the supervisory board of TGI decided to grant the CEO 560 options to purchase 2% of TGI's share capital at that time. The total fair value of the grant is approximately USD 1 million and was calculated using the Black& Scholes model, based on the following assumptions:

Expected volatility (%)	36
Risk-free interest rate (%)	0
Expected term of options (years)	4
Weighted average share exercise price ($)	5,978
Weighted average share value ($)	6,131

The Company accounts for the options granted assuming equity payments will be affected.

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

Expected volatility (%)	35
Risk-free interest rate (%)	0.429
Expected term of options (years)	4
Weighted average share exercise price ($)	6,044
Weighted average share value ($)	6,360

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

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

Share value	4,868
Expected volatility (%)	46.4%
Risk-free interest rate (%)	0.7%
Expected term of options (years)	5
Stock price (EUR)	3,495
Model used	Black–Scholes

D. During 2011, the supervisory board and the general meeting of shareholders of TGI formally approved TGI to grant to the CEO of TGI 797 options, constituting approximately 3% of the shares of TGI at that time, post-issuance. The newly issued stock option plan was divided into two agreements which have comparable option terms except for the vesting periods. Each option plan has been valued separately.

The exercise price of the options amounted to €4,317 per option. The options can be exercised until December 31, 2017.

The total value of the options at date of grant was estimated at €1.9 million. This fair value was determined by an independent external valuator. The expected life of the options is based on historical data.

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

Expected volatility (%)	44.96%
Risk-free interest rate (%)	2.04%
Expected term of options (years)	6.4
Stock price (€)	4,999
Model used	Hull–White

TGI accounts for all the options granted, as described above, in accordance with IFRS 2, assuming equity payments will be affected.

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:

	2015	2014	2015	2014
	No.	No.	WAEP €	WAEP €
Outstanding on January 1	1,481	982	4,393	4,334
Granted for the year	560	499	5,622	4,510
Expired during the year	–	–	–	–
Outstanding at December 31	2,041	1,481	4,730	4,393
Exercisable at December 31	1,479	916	4,639	4,366

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

20 Non-Current Interest-Bearing Loans and Borrowings

A Composition

	December 31, 2015		December 31, 2014	
	Weighted interest rate as of %	€ in '000	Weighted interest rate as of %	€ in '000
Banks:				
In EUR	6.4	5,589	3.5-7.1	10,807
In NIS	4-7	197	4-7	149
In RMB *	–	–	3-9.4	138,870
Linked to other currencies	–	–	–	332
Others – in EUR	4.59	1,016	2	3,425
Others – In RMB *	12.5	100,667	–	–
Others – In USD	–	–	4-5.4	19,063
Linked to other currencies	4-7	236	4-7	196
		107,705		**172,842**
Less:				
– Current maturities		(4,577)		(59,536)
– Long-term interest-bearing loans related to current inventory		(62,578)		(29,175)
		40,550		**84,131**

* 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. In November 2015 the Project Company withdrew an amount of RMB 700 million (approximately €105 million) from the Credit facility. The withdrawn funds was used, together with additional existing cash reserves, to repay the current project loan in full. Subsequent to the balance sheet date, in February 2016, additional RMB 100 million was withdrawn from the facility. 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. For additional information regarding collaterals and covenants, see Note 27A

B Maturities

€ in '000	December 31, 2015	December 31, 2014
First year – current maturities	4,577	59,536
Second year	102,580	53,616
Third year	225	58,560
Fourth year	219	941
Fifth year	54	189
Thereafter	50	–
	107,705	**172,842**

For details regarding covenants, refer to Notes 27 and 38.

21 Banking Customers Accounts

A Composition

€ in '000	December 31, 2015	December 31, 2014
Deposits from corporate clients	56,584	85,856
Deposits from individual clients	135,478	103,613
	192,062	**189,469**

B Maturities

€ in '000	December 31, 2015	December 31, 2014
First year – current maturities	191,933	189,239
Second year	17	106
Third year and forward	112	124
	192,062	**189,469**

Under normal circumstances, banking customer accounts which can be redeemed on demand are considered covered by the banks' financial assets – refer also to Note 38.

22 Other Long-Term Liabilities

€ in '000	December 31, 2015	December 31, 2014
Site coverage and rehabilitation provision	2,544	2,298
Other	–	813
	2,544	**3,111**

23 Options and warrants

€ in '000	December 31, 2015	December 31, 2014
Call options to third parties [1]	–	428
Put option of third parties [2]	–	1,014
Liability to FIMI [3]	2,495	–
	2,495	**1,442**

1 The balance as of December 31, 2014 includes the fair value of warrants granted to FIMI (which can be exercisable to 10% of TGI shares) in the amount of €0.4 million. During 2015 the warrants were cancelled, as described in section (3) below.

2 In 2013, TCE increased its holding in TMNG Ltd. from 51% to 65% in exchange for its business of natural gas plants. As part of the agreement, the seller was granted a put option, according to which, the seller will be entitled in the period of six years that will start after two years from the agreement date to sell to the TGI Group its entire stake at fair value. In May 2015 an agreement was signed between the shareholders of TMNG and the put option was cancelled. As a result, the Group wrote off the liability to the non-controlling interest holders in the amount of USD 1.2 million (approximately €1 million), with a respective increase in non-controlling interests and other capital reserves of approximately € 0.7 million and €0.3 million, respectively.

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

- If an exit event occurs during the period from the date of signing of the Amended Agreement until July 31, 2021 (the 'Exercise Period') at a TGI company value of up to USD 173, FIMI will receive an amount USD 3 million (the 'Basic Amount') the Basic Amount is subject to adjustments in the event of investments in TGI or distribution of dividends by TGI, excluding distribution of dividends of up to a maximum of USD 27 million following the sale transaction of KWIG.
- If an exit event occurs at a TGI company value which is higher than USD 173 million, FIMI will receive an amount of USD 3 million plus 8% of the difference between the value of the underlying transaction and the Basic Amount and up to a maximum amount of USD 7.5 million.
- If no exit event occurred during the Exercise period FIMI will receive an amount of USD 0.5 million.

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

24 Debentures

A Composition

	Par value (net) as of December 31, 2015	Balance as of December 31, 2015	Balance as of December 31, 2014	Interest rate	Currency and linkage	Maturities principal
	€ in '000	€ in '000	€ in '000	%		
Issuer						
The Company – 2007	73,023	85,760	82,383	6.325	[1]	2017-2018
The Company – 2008	232,331	270,512	251,466	6.775	[1]	2017-2020
		356,272	333,849			
Less - current maturities		–	(83,802)			
		356,272	**250,047**			

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

2 *Debt settlement between the Company and its Debenture Holders*
For a description of the principles of the debt settlement, effective as of July 3, 2015, please refer to Note 1C above.

3 *Early repayment*
On March 31, 2015 the Company paid the interest deferred to August 2015 (see Note 1 above) in the amount of approximately €4.4 million to Debenture Holders series A and approximately €14.3 million to Debenture Holders series B. Additionally, the Company early repaid principal amounting to approximately €3.3 million to Debenture Holders series A (3.9% of the outstanding series A principal) and approximately €3.4 million of principal to Debenture Holders series B (1.23% of the outstanding series B principal). The total repayment amounted to approximately €25.4 million.
On January 12 and February 14, 2014, the Company made an early repayment of NIS 136,918,906 par value Debentures Series A (net of Debentures held by the Company's subsidiaries) and the accumulated interest from the last repayment for a total amount of €36 million (approximately NIS 171 million).

4 *Kardan N.V. Debentures held by Kardan N.V's subsidiaries*
As of December 31, 2015, the Company holds through its subsidiaries NIS 262,942,774 par value Debentures Series A (which represent 45.9% of the par value of Debentures Series A) and NIS 142,681,737 par value Debentures Series B (which represent 12.6% of the par value of Debentures Series B).

5 For details regarding covenants and pledges, please refer to Note 1C and Note 38.

Maturities:

€ in '000	December 31, 2015	December 31, 2014
First year – current maturities	–	83,658
Second year	101,296	82,991
Third year	95,520	41,800
Fourth year	84,998	41,800
Fifth year	74,458	41,800
Sixth year onwards	–	41,800
Total	**356,272**	**333,849**

25 Interest-bearing loans and borrowings

	Weighted annual interest rate	December 31, 2015	Weighted annual interest rate	December 31, 2014
	%	€ in '000	%	€ in '000
Short-term credit from banks:				
In EUR	6.5	1,295	4.5	1,008
		1,295		**1,008**
Long-term interest-bearing loans related to current inventory (refer to Note 20)		62,578		59,536
Current maturities:				
Loans (see Note 20)		4,575		29,175
		68,448		**89,719**

Collateral – see Note 27.

26 Other payables and accrued expenses

€ in '000	December 31, 2015	December 31, 2014
Financial:		
Accrued expenses	63,725	29,628
Payroll and related expenses	7,521	5,960
VAT payable	332	2,540
Payable to joint ventures in China accounted using the equity method	11,920	11,574
Claw back liability	4,000	3,150
Liability regarding share-based payment	117	5,280
Derivatives	36	49
Other	8,803	8,903
Non-Financial:		
Advances from customers	17,102	20,305
Unearned revenues	949	–
Other	1,431	–
	115,936	**87,389**

27 Liens, contingent liabilities and commitments

A Financial covenants, Liens and collaterals:

1. Financial Covenants

For the year 2015 and as of December 31, 2015 all Group companies met their financial covenants:

a. The Company committed to maintain certain financial covenants within the framework of the Amended Deeds of Trust, as described in Note 1 above.

b. TGI Group committed towards banks, with respect to long- 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.

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

2. Pledges

a. Within the framework of the Amended Deeds of Trust, as described in Note 1 above, the Company pledged in favor of the trustees of the debenture holders of the Company all its rights in shares and loans of GTC RE, certain bank accounts, and the Company's debentures held by the subsidiaries GTC RE and EI 12. Additional pledges, as described in Note 1, are in process of being established.

b. As of December 31, 2015 long-term loans amounting to €98.7 million granted to a subsidiary of KLC was secured by mortgages over investment property, inventory and trade receivables.

c. TBIF Group pledged assets with a carrying value of €4.7 million as of December 31, 2015 and 2014 in relation to liabilities for property and vehicles and financial lease receivables. The assets pledged are strictly for the purpose of providing collateral for the counterparty. The pledged assets will be returned to TBIF when the underlying transaction is terminated, but in the event of default, the counterparty is entitled to use the collateral in order to settle the liability.

3. Guarantees

a. As of December 31, 2015 and 2014, TGI provided bank guarantees in an aggregated amount of approximately €27.1 million and €30.8 million, respectively, in favor of customers in respect of advances received from them for projects and for performing works.

b. A subsidiary of TGI 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, 2015, Kardan Land China provided guarantees of €6,761 thousand (2014 - €6,434 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.

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

d. As of December 31, 2015 there were no outstanding guarantees provided by the Company to its subsidiaries in favor of lending banks (December 31, 2014 - €0.9 million).

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

f. For additional information regarding maturities of financial guarantees, refer to Note 38.

4. Legal claims and contingencies:

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

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

c. TBI Bank EAD is involved in legal proceedings related to potential claims over the bank's assets at the amount of € 3.5 million. The claims arise from a single legal case against the bank, whereby the court has already issued a decision in favour of the plaintiff. Legal experts, independent from the bank, challenge the validity of the court decision due to violations of procedure and substantive legal acts which render it null and void. Group management expects the final court decision to be in favour of the bank. Consequently, no provision has been accrued with regard to this case.

5. Commitments:

a. With respect to commitments towards the debenture holders of the Company as outlined in the Amended Deeds of Trust, refer to Note 1.

b. To meet the financial needs of customers, TBIF and its subsidiaries enter into various irrevocable commitments and contingent liabilities. Even though these commitments may not be recognized on the statement of financial position, they contain credit risk and are therefore part of the overall risk of the TBIF Group. The total outstanding commitments and contingent liabilities are as follow:

€ in '000	December 31, 2015	December 31, 2014
Contingent liabilities		
Financial guarantees	914	1,279
Commitments		
Undrawn commitments to lend	7,777	7,771
Total	**8,691**	**9,050**

Letters of credit, guarantees (including standby letters of credit) commit the TBIF Group to make payments on behalf of customers in the event of a specific act, generally default. Guarantees and standby letters of credit carry the same credit risk as loans.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the management expects the actual credit losses to be less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. TBIF Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

c. As of December 31, 2015 Kardan Land China Group had commitments of €7 million (December 31, 2014: €36.5 million) principally relating to the property development cost of the construction projects of the KLC Group.

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

d. TGI is engaged in five large development projects in Ghana, Angola, Serbia, Russia and India. The project in Ghana relates to the construction, expansion and upgrade of water supply facilities and the total expected revenues are estimated at €61 million. The project in Angola is an integrated agriculture and regional development project, including the development and construction of the water supply, sewage and drainage system for a new rural settlement and irrigation of farm land; the revenues from this project are estimated at €143 million. The projects in Ghana and Angola are in their final stages. In Serbia, TGI was contracted to carry out work for planning, procurement, construction, and providing consultation and project management services for an agricultural development project; the revenues from this project are estimated at €62 million. The project in Russia is for the planning and construction of a water treatment plant and pumping system; the revenues for this project are estimated at USD 57 million (approximately €51 million). The project in India is to design, build and operate a water supply system to provide treated potable water to villages; the total compensation for the project is approximately €67 million.

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, 2015 and 2014:

€ in '000	2015	2014
First year	3,090	1,425
Second to fifth year	13,281	11,374
After the fifth year	11,139	16,950
	27,510	**29,749**

2 Operating lease commitments – Group as lessee

a. Certain Group companies have entered into commercial operating lease agreements on vehicles and machinery. These leases have an average life of three to five years with no renewal option included in the contracts. The annual rentals total approximately €0.6 million.

b. TGI Group companies have entered into operating lease agreements with respect of office buildings rental. The total commitment as of December 31, 2015 amounts to €10.1 million (December 31, 2014 - €10.4 million).

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. The total expected minimum lease payment amounts to €7.2 million as of December 31, 2015.

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, 2015 amounts to €0.8 million (December 31, 2014 - €0.3 million).

28 Segments disclosure

A. General:

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

Due to the sale of KWIG in 2015 and GTC SA in 2013 (for additional information see Note 5C), the Company's CODM re-examined the operating segments. In the past, the results of KWIG and the results of GTC SA were the Company's main activities included in 'Infrastructure - Assets' and 'Real Estate – Europe' segments, respectively. Following the sales, the Company is substantially no longer active in the 'Infrastructure-Assets' and 'Real Estate – Europe' segments and the results of KWIG and GTC SA have been presented as discontinued operation and thus no longer form a reportable operating segment. The comparative information has been amended accordingly.

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

Financial Services
The financial services activities currently include one segment – Banking and Retail Lending mainly in Bulgaria and Romania. In addition KFS is active in leasing vehicles in Ukraine through its holding in Avis Ukraine.

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

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

The Group's operating segments are fully independent. Apart from invoicing of management fees or recharge of expenses, there is no material segment to segment invoicing. Allocated segment assets and liabilities are those directly linked to the segment activities in the operating companies. In most cases assets and liabilities of the holding companies are considered unallocated.

B Segments results

For the year ended December 31, 2015:

€ in '000	Real Estate Asia	Banking and Retail lending	Water Infra-structure	Other	Total
Revenue	6,726	41,462	167,861	–	216,049
Other income (expense) *	23,954	2,137	(1,241)	(927)	23,923
Total income	30,680	43,599	166,620	(927)	239,972
Segment result **	13,648	11,816	6,378	(927)	30,915
Unallocated expenses					(5,083)
Gain from operations and share in profit of investment accounted using the equity method before finance expenses, net					25,832
Finance expenses, net					(60,423)
Loss before income tax					(34,591)
Income tax expenses					(8,466)
Loss from continuing operations					(43,057)
Profit from discontinued operations					20,099
Loss for the year					**(22,958)**

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

** Segment result includes the segment profit (loss) from operation and the Group's share of profit (loss) of investments accounted for using the equity method, net.

For the year ended December 31, 2014:

€ in '000	Real Estate Asia	Banking and Retail lending	Water Infra-structure	Other	Total
Revenue	51,957	35,630	142,794	–	230,381
Other income (expense) *	32,861	1,280	(690)	(82)	33,369
Total income	84,818	36,910	142,104	(82)	263,750
Segment result **	28,390	8,749	8,986	(82)	46,043
Unallocated expenses					(6,073)
Gain from operations and share in profit of investment accounted using the equity method before finance expenses, net					39,970
Finance expenses, net					(19,315)
Profit before income tax					20,655
Income tax expenses					(13,002)
Profit from continuing operations					7,653
Loss from discontinued operations					(2,591)
Profit for the year					**5,062**

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

** Segment result includes the segment profit (loss) from operation and the Group's share of profit (loss) of investments accounted for using the equity method, net.

For the year ended December 31, 2013:

€ in '000	Real Estate Asia	Banking and Retail lending	Water Infra-structure	Other	Total
Revenue	28,917	26,065	128,967	–	183,949
Other income (expense) *	23,422	(14,998)	(1,141)	864	8,147
Total income	52,339	11,067	127,826	864	192,096
Segment result **	22,130	(16,359)	2,857	864	9,492
Unallocated expenses					(5,796)
Gain from operations and share in profit of investment accounted using the equity method before finance expenses, net					3,696
Finance expenses, net					(44,267)
Loss before income tax					(40,571)
Income tax expenses					(11,867)
Loss from continuing operations					(52,438)
Profit from discontinued operations					(69,535)
Loss for the year					**(121,973)**

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

** Segment result includes the segment profit (loss) from operation and the Group's share of profit (loss) of investments accounted for using the equity method, net.

C Segments assets

€ in '000	December 31, 2015	December 31, 2014
Real Estate – Asia	488,944	420,392
Banking and Retail Lending	294,382	304,437
Water infrastructure	143,504	107,778
Others	40	15
	926,870	**832,622**
Discontinued operation	24,760	178,352
Unallocated liabilities *	24,112	2,635
	975,742	**1,013,609**

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

D Segments liabilities

€ in '000	December 31, 2015	December 31, 2014
Real estate – Asia	198,651	163,315
Banking and Retail Lending	210,815	225,194
Water infrastructure	102,156	100,168
	511,622	**488,677**
Discontinued operation	–	49,045
Unallocated assets *	388,182	378,126
	899,804	**915,848**

* Most unallocated liabilities relate to the finance on 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		
	2015	2014	2013
China and Hong Kong	6,726	51,953	35,840
Bulgaria and Romania	41,648	55,330	27,542
Israel	39,235	21,410	32,021
Other	128,440	101,687	88,545
	216,049	**230,380**	**183,948**

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

€ in '000	December 31, 2015	December 31, 2014
China and Hong Kong	253,149	235,025
Bulgaria and Romania	11,889	10,585
Israel	10,321	6,136
Other	5,472	7,828

Non-current assets include the investment properties, goodwill and intangible assets and property plant and equipment.

There are no material assets and revenues generated in the Netherlands.

29 Revenues from retail lending activities

€ in '000	For the year ended December 31,		
	2015	2014	2013
Interest income	40,630	38,431	34,545
Finance costs	(4,557)	(6,209)	(10,122)
	36,073	32,222	24,423
Commission and service fees	8,833	9,168	7,008
Impairment of loans granted	(6,553)	(8,095)	(7,025)
	38,353	**33,295**	**24,406**

30 Cost of retail lending activities

€ in '000	For the year ended December 31,		
	2015	2014	2013
Staff costs	16,514	13,491	14,261
Other operating expenses	12,073	12,087	10,921
	28,587	**25,578**	**25,182**

31 Other expenses, net

€ in '000	For the year ended December 31,		
	2015	2014	2013
Cost of services	5,555	4,700	3,861
Other expenses, net	1,541	1,408	(503)
	7,096	**6,108**	**3,358**

32 Selling and marketing expenses

€ in '000	For the year ended December 31,		
	2015	2014	2013
Payroll and related expenses	3,898	3,307	2,928
Commissions	317	195	684
Marketing and advertising	2,152	1,160	1,526
Other	3,596	3,530	2,774
	9,963	**8,192**	**7,912**

33 General and administrative expenses

€ in '000	For the year ended December 31,		
	2015	2014	2013
Payroll and related expenses *	13,941	10,643	8,300
Share-based payment (see Note 19)	1,039	805	1,327
Management fees	681	2,171	2,132
Office maintenance	2,367	1,906	2,287
Professional fees	2,970	2,988	3,114
Depreciation and amortization	462	238	527
Other	2,742	2,511	4,376
	24,202	**21,262**	**22,063**

(*) Payroll and related expenses are as follows:

€ in '000	For the year ended December 31,		
	2015	2014	2013
Wages and salaries	12,451	9,574	7,315
Unemployment contributions	348	598	577
Other social expenses	1,142	471	408
	13,941	**10,643**	**8,300**

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

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

€ in '000	For the year ended December 31,		
	2015	2014	2013
Impairment of an investment in a subsidiary [1]	–	(2)	(8,254)
Gain on disposal of investment in companies [2]	–	17,156	–
Impairments of investments held for sale [3]	–	(1,362)	(553)
Gain (loss) from sale of fixed assets [4]	(423)	–	8,038
Other [5]	756	2,007	(8,305)
	333	**17,799**	**(9,074)**

1 The amount in 2013 relates to impairment of TGI's investment in the subsidiary Watek.
2 In 2014, mainly relates to gain from the disposal of Chengdu (see Note 9).
3 Relates to impairment of repossessed assets in the banking and retail lending segment.
4 During 2013, a subsidiary of TGI completed the sale of its rights in a leased real estate asset in Tel Aviv, Israel to an unrelated third party for €15 million (NIS 74 million). The full consideration has been received in cash. The net profit on the transaction before tax amounts to approximately €8 million.
5 In 2013, the amount related to impairment of banking license and loan benefit.

35 Financial income and expenses

€ in '000	For the year ended December 31,		
	2015	2014	2013
Income:			
Income from bank deposits	1,147	432	1,512
Revaluation of warrants	–	461	2,199
Other	786	451	2,474
Total financing income	**1,933**	**1,344**	**6,185**
Expenses:			
Interest on long-term loans and borrowings	13,497	2,949	6,828
Interest on debentures	24,126	17,290	27,327
Exchange differences, net	20,345	(1,819)	12,096
Other	4,388	2,239	4,201
Total financing expenses	**62,356**	**20,659**	**50,452**

36 Taxes on income

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

For 2015 and 2014, 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

As per 1 January 2013, 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, which has replaced the Dutch thin capitalization rules, 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.

Substance requirement regulations

As per 2014, the Company might be subject to a new Decree which codifies the existing administrative guidance on substance requirements 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.

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

Country	Tax rate	
	2015	2014
Bulgaria	10%	10%
China	25%	25%
Hong-Kong	16.5%	16.5%
Israel	26.5%	26.5%
Romania	16%	16%
The Netherlands	20-25%	20-25%

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

€ in '000	For the year ended December 31,		
	2015	2014	2013
Current taxes	4,985	7,701	6,511
Deferred taxes (see also E below)	3,481	5,301	5,356
	8,466	**13,002**	**11,867**

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,		
	2015	2014	2013
Accounting profit (loss)	(34,591)	20,653	(40,571)
Tax expense (tax benefit) computed at the statutory tax rate 25%	(8,648)	5,164	(10,143)
Increase (decrease) in tax expense (tax benefit) due to:			
Carry forwards tax losses for which no deferred tax assets were recognized	14,627	4,113	16,625
Adjustment in respect to tax of previous years	610	1,537	797
Share of results of investments accounted using the equity method	(666)	(1,678)	(2,588)
Non deductible expenses (income) and others, net	883	1,096	3,486
Impact of different tax rates	1,060	(1,100)	(369)
Temporary difference for which no deferred taxes were recognized	776	2,478	3,031
Other	(176)	1,392 *	1,028
	8,466	**13,002**	**11,867**

* Relates mainly to land tax in China.

E Composition of deferred taxes

€ in '000	Consolidated statement of financial position		Recorded in the income statement		
	December 31, 2015	December 31, 2014	Movement for the year ended December 31,		
			2015	2014 *	2013 *
Deferred income tax assets (deferred tax liabilities) with respect to:					
Investment properties	(13,156)	(7,680)	5,227	2,215	(2,200)
Tangible fixed assets	–	–	–	–	(273)
Financial instruments	(3,178)	(14,115)	(74)	5,613	(1,984)
Temporary differences in reserves and allowances	195	198	40	440	221
Carry forwards losses available for offset against future taxable income	4,555	5,650	926	127	(791)
Differences in measurement basis	(2,279)	1,088	(185)	(132)	(200)
Accelerated depreciation for tax purposes	–	(1,654)	–	–	(2,577)
Timing differences of projects	2,390	(1,738)	(310)	–	(753)
Non-current assets eliminated for rendering of service among group companies	–	566	–	99	(52)
Other	629	521	(2,143)	(273)	1,320
	(10,844)	**(17,164)**	**3,481**	**8,089**	**(7,289)**

* In 2014 and 2013 the difference between the movement in the deferred taxes in table E to the tax expenses in table C are mostly due to discontinued operation (see Note 5C).

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

€ in '000	December 31, 2015	December 31, 2014
Net deferred income tax asset	3,065	2,898
Net deferred income tax liability	(13,909)	(20,062)
	(10,844)	**(17,164)**

F Loss carry-forwards and final tax assessments

Under the 2010 Dutch Tax legislation the carry back of losses is restricted to one year and furthermore the carry forward of losses is restricted to nine years. The accumulated unused tax losses as at December 31, 2015 of Kardan NV company-only amount to €225.9 million (according to the filed 2014 tax return). The Company received final tax assessments up to and including the year 2013. The Company does not expect the year 2015 to result with a tax liability. The Company has not recorded any deferred tax assets for these losses.

37 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, less the weighted average number of treasury shares.
Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent, after adjusting for interests on convertible shares of the Company and Group companies, by the weighted average number of ordinary shares outstanding during (less the weighted average number of treasury shares) the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, adjusted for the effects of dilutive options and dilutive convertible Debentures of the Company and of Group companies.

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

€ in '000	2015	2014	2013
Net profit (loss) attributable to ordinary equity holders of the parent (€ in thousands)	(22,915)	5,091	(101,333)
Effect of dilution of earnings of group companies	(231)	(98)	(893)
Effect of dilution of convertibles and options of the Company	–	–	–
	(23,146)	**4,993**	**(102,226)**
Weighted average number of ordinary shares for basic earnings per share (in thousands)	116,429	110,754	110,576
Effect of dilution:			
Shares options	–	–	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**116,429**	**110,754**	**110,576**

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, 2015, 2014 and 2013.

To calculate earnings per share amounts for discontinued operations, the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The profit (loss) used is €20,099 thousand, €(2,589) thousand and €69,535 thousand for the years 2015, 2014 and 2013, respectively.

38 Financial instruments and risk management

A Introduction

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

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

Section C covers additional information on financial instruments in the Banking and Retail Lending segment and addresses the following:

1) Capital adequacy;
2) Credit risk;
3) Liquidity risk and liquidity management.

B The Kardan Group

1 Risk management

Financial risk management

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

The operations of the Group expose it to various financial risks, e.g. market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. On occasions, the Group employs derivative financial instruments, principally interest rate swap transactions, to hedge certain exposures to risks.

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

Management is closely monitoring the financial position of the Group. Reference is made to Note 1B for additional information.

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

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

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

In addition, capital management focuses on ensuring that relevant Group companies, mainly in the financial sector, comply with externally imposed capital requirements (e.g. banks). The Group manages its capital structure and makes adjustments to it, according to changes in economic conditions. To maintain or adjust the capital structure, the Group decides on leverage policy, repayment of loans, investment or divestment of assets, dividend policy and the need, if any, to issue new shares or Debentures.

For additional information regarding the capital risk management with respect to the Company's liquidity position and uncertainties, see Note 1.

Risk management structuring
The Board of Kardan N.V. and of each Group company is ultimately responsible for identifying and controlling risks. However, there are separate independent bodies within the Group that are responsible for managing and motoring risks.

(i) Corporate level
The Executive Management of Kardan N.V. (CEO, CFO and VP Business Development) works closely with chief risk managers within the Group, by means of functional lines of responsibility and jointly they have overall responsibility for the execution of the risk strategy and implementation of principles, frameworks, policies and limits. The Board of Kardan N.V. is responsible for monitoring the overall risk process, including the overall risk-management approach and for approving the risk strategies and principles.

(ii) Group companies
Some of the Kardan Group companies have appointed risk managers at their corporate levels as well as at country levels or subsidiary levels.

(iii) Risk mitigation
Kardan uses the analysis of the structure of its portfolios in order to mitigate excessive risk in each of the countries and each of the business segments. The risk is spread among the different activities of the Kardan Group. The diversification of the businesses (commercial and residential real estate, banking and retail lending, infrastructure projects) as well as collateral management are useful risk mitigation tools as well. In addition, management may change its targets and focus in order to mitigate specific (excessive) risk.

(iv) Excessive risk concentration
A concentration of risk may arise from financial instruments with similar characteristics that are affected likewise by changes in economic or other conditions. Concentrations indicate the relative sensitivity of Kardan's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, Kardan's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (CEE, CIS, China, etc.); industry diversification (financial services, real estate, water infrastructure); product diversification (i.e. residential and commercial real estate, retail lending, banking, etc.).

2) Market risk
Kardan's operating subsidiaries are predominantly active in emerging markets. In our operations we are

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.

Achieving the Group's objectives in these emerging markets depends on, among other things, the pace of economic development of these markets and in particular the pace of development of the real estate sector and the financial services and water infrastructure sectors. Diminishing development rates of these markets and sectors may have an adverse impact on the business objectives of the Group.

The Group conducts some operations in Central and Eastern Europe, mainly in the financial services sector, and in China where it is active in commercial and residential real estate. The Company closely monitors the economic developments in Central and Eastern Europe and directs management and financial resources to and from this region based on its revised strategy, as it believes that the economic growth experienced by this region in recent years has led to a continuing trend of decreasing general and economical differences between Eastern and Western Europe. China is considered to be the largest emerging economy in the world, which has been gradually shifting over the last decades from a central government controlled economy to an open market economy and consequently more interlinked with international markets. A change in trends in countries where the Group operates may have an adverse impact on its operations.

The management of the Company believes that the following factors are instrumental in handling the above-mentioned risks:

(1) Skilled and experienced management team, combining local expertise with international experience in the countries of operation.
(2) Long term working relations with international financing institutions.
(3) Focus on selection of major projects which are developed in stages, according to demand (real estate).
(4) Strict due diligence before embarking on a project combined with high quality project management.

3) Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

Kardan's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investments in each country.

Kardan N.V. does not have a material exposure to financial instruments which are impacted by market prices, therefore it has no significant price risk, and accordingly there is no significant exposure to equity price risk.

4) Political risk

The Group has significant business activities predominantly in China, Africa and Central and Eastern Europe. Political and economic changes in these regions can have consequences for the Group's activities, as well as an impact on the results and financial positions of the Group. By closely monitoring these businesses, management intends to limit the risks of those changes.

5) Credit risk

Credit risk is a risk that the Group may incur a loss because its customers or counterparties fail to meet their contractual obligations. Credit risk is also applicable to derivatives, financial guarantees and loan commitments. The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, deposits, and other financial assets (including loans granted), 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 outside the financial services sector is not considered significant.

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. To manage this risk, the Group companies periodically and regularly assess the financial viability of their customers.

A concentration of credit risk exists when changes in economic, industry, or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instruments is broadly 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 (see Note 14).

As of December 31, 2015 and 2014, cash and cash equivalent amounted to €143,920 thousand and €148,545 thousand respectively, and deposits in banks amounted to €7,245 thousand and €7,250 thousand respectively (see Note 16 and 17). All deposits are deposited with highly rated financial institutions primarily in the countries of operation.

Securities and other credit risk mitigators
The Group employs credit risk mitigators to decrease its credit risk, which exists primarily in its banking and retail lending segment. As of December 31, 2015, credit risk with respect to loans given by Group companies in the banking and retail lending segment, in the amount of €138,255 thousand, is mitigated using a collateral of certain assets such as vehicles, real estate and equipment.

Maximum exposure to credit risk
The sum of all financial assets presented in the table below and the sum of all financial guarantees is presented in the table below, showing the maximum exposure to credit risk for the components of the Group. The maximum exposure is presented gross, before the effect of mitigation through the use of collateral agreements.

6) Interest-rate risk
The Group's exposure to market risk for changes in interest rates usually relate primarily to the Group's long-term debt obligations and loans granted. 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 possible exposure to financial assets, such as loans to bank customers, is considered immaterial due to a compensating impact of financial liabilities (such as bank customer accounts).

The majority of the Group's financial liabilities (debentures, Ping An loan) bear a fixed interest rate and are therefore not exposed to interest rate risk.

7 Liquidity risk
Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

To limit this risk, the Group finances its operations through diversified, short-term and long-term credit obtained from the public and institutional investors and from financial institutions. The Group raises financing according to needs and market conditions when required.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2015 and 2014. The liabilities are based on contractual undiscounted cash flow. The tables include repayments of principal amounts as well as interest due. The amount of interest due was estimated based on contractual terms of the financial liabilities.

For additional information regarding the liquidity risk management with respect to the Company's liquidity position and uncertainties, see Notes 1 and 27, respectively.

7.1 Liquidity table 2015:

€ in '000	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
Liabilities					
Trade payables	20,121	152	–	–	20,273
Other payables and accrued expenses	28,403	45,024	–	–	73,427
Banking customers accounts	53,142	140,118	17	113	193,390
Interest-bearing loans and borrowings	2,917	13,877	113,344	383	130,521
Other debentures	23,669	–	109,963	318,017	451,649
Other long term liabilities	–	–	–	5,230	5,230
Total liabilities	**128,252**	**199,171**	**223,324**	**323,743**	**874,490**

7.2 Liquidity table 2014:

€ in '000	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
Liabilities					
Trade payables	14,610	7,055	–	–	21,665
Other payables and accrued expenses	14,645	28,792	–	–	43,437
Banking customers accounts	124,560	66,729	114	127	191,530
Interest-bearing loans and borrowings	7,182	82,732	60,966	63,474	214,354
Other debentures	99,988	–	96,068	191,167	387,223
Other long term liabilities	–	–	–	2,298	2,298
Total liabilities	**206,985**	**185,308**	**157,148**	**257,066**	**860,507**

7.3 Contingent liabilities and commitments:

2015

€ in '000	2015					
	0-3 months	4-12 months	1 to 3 years	4 to 5 years	Over 5 years	Total
Financial guarantees	359	24	364	167	–	914
Undrawn commitments to lend	2,703	320	1,279	2,718	758	7,778
Total	**3,062**	**344**	**1,643**	**2,885**	**758**	**8,692**

2014

€ in '000	2014					
	0-3 months	4-12 months	1 to 3 years	4 to 5 years	Over 5 years	Total
Financial guarantees	166	1,022	49	41	–	1,278
Undrawn commitments to lend	4,900	1,177	309	819	565	7,770
Total	**5,066**	**2,199**	**358**	**860**	**565**	**9,048**

8 Foreign currency risk

Since the Group conducts business activities in multiple countries, it is exposed to a foreign currency exchange rate risk, resulting from exposure to different currencies. The foreign currency exchange rate risk arises from transactions conducted in a currency that is not the functional currency of the relevant company in the Group.

Group companies conduct currency translation transactions at times to hedge the exposure to the foreign currency risk.

a As of December 31, 2015:

8.1

€ in '000	in Euros	in US Dollars	in NIS (Israeli)	in RMB (Chinese)	in Rub (Russia)	in other currencies	non-monetary	Total
Assets								
Property and equipment	–	–	–	–	–	–	24,161	24,161
Investment properties	–	–	–	–	–	–	250,310	250,310
Goodwill	–	–	–	–	–	–	6,361	6,361
Investments in associates	15,826	24,837	–	–	–	9,424	55,417	105,504
Long-term receivables	26,305	174	1,125	–	–	12,715	–	40,319
Loans to bank customers	90,813	–	–	–	–	47,442	–	138,255
Deferred tax assets	–	–	–	–	–	–	3,065	3,065
Inventory	–	–	–	–	–	–	109,818	109,818
Accounts receivable	9,906	17,703	27,741	4,434	–	7,534	–	67,318
Other receivables	579	1,023	5,795	5,274	38	21,713	7,116	41,538
Restricted bank deposits	3,260	–	1,071	2,914	–	542	–	7,787
Cash and cash equivalents	62,748	12,997	26,558	34,362	1,230	6,025	–	143,920
Other financial assets	–	–	–	–	–	5,485	–	5,485
Assets classified as held for sale	–	24,760	–	–	–	–	7,141	31,901
	209,437	**81,494**	**62,290**	**46,984**	**1,268**	**110,880**	**463,389**	**975,742**
Liabilities								
Deferred tax liability	–	–	–	–	–	–	13,909	13,909
Interest-bearing loans and borrowing	7,901	–	430	100,667	–	–	–	108,998
Warrants and options	–	2,495	–	–	–	–	–	2,495
Debentures	–	–	356,272	–	–	–	–	356,272
Other long-term liabilities	120	–	3,839	–	–	–	–	3,959
Other payables and accrued expenses	9,435	7,446	28,151	46,743	1,063	4,436	18,662	115,936
Trade payables	2,885	2,877	5,152	4,655	109	4,590	–	20,268
Advances from apartment buyers	–	–	–	–	–	–	81,972	81,972
Income tax payable	94	–	–	2,770	–	–	1,069	3,933
Banking customers accounts	150,127	5,754	–	–	–	36,181	–	192,062
	170,562	**18,572**	**393,844**	**154,835**	**1,172**	**45,207**	**115,612**	**899,804**
Differences between assets and liabilities	**38,875**	**62,922**	**(331,554)**	**(107,851)**	**96**	**65,673**	**347,777**	**75,938**

As of December 31, 2014:

8.2

€ in '000	in Euros	in US Dollars	in NIS (Israeli)	in RMB (Chinese)	in Rub (Russia)	in other currencies	non-monetary	Total
Assets								
Property and equipment	–	–	–	–	–	–	60,862	60,862
Investment properties	–	–	–	–	–	–	181,072	181,072
Goodwill	–	–	–	–	–	–	17,640	17,640
Investments in associates	18,551	20,941	–	–	–	7,308	45,023	91,823
Long-term receivables	23,424	6	1,973	86,637	–	11,189	–	123,229
Loans to bank customers	87,889	–	–	–	–	30,470	–	118,359
Deferred tax assets	–	–	–	–	–	–	2,898	2,898
Inventory	–	–	–	–	–	–	112,745	112,745
Accounts receivable	17,026	10,434	23,245	5,310	3,475	2,511	–	62,001
Other receivables	14,773	1,050	6,414	22,762	63	6,980	2,478	54,520
Restricted bank deposits	4,294	–	673	2,283	–	–	–	7,250
Cash and cash equivalents	36,317	36,350	5,688	61,480	187	8,523	–	148,545
Other financial assets	–	–	–	–	–	521	–	521
Assets classified as held for sale	14,276	12,140	–	–	–	–	5,728	32,144
	216,550	**80,921**	**37,993**	**178,472**	**3,725**	**67,502**	**428,446**	**1,013,609**
Liabilities								
Deferred tax liability	–	–	–	–	–	–	20,062	20,062
Interest-bearing loans and borrowings	15,586	19,063	84,147	138,856	–	–	–	257,652
Derivatives	–		36	–	–	–	13	49
Warrants and options	–	428	1,014	–	–	–	–	1,442
Debentures	–	–	250,047	–	–	–	–	250,047
Other long-term liabilities	–	–	3,631	813	–	169	–	4,613
Other payables and accrued expenses	28,917	6,089	22,376	23,200	2,236	4,387	135	87,340
Trade payables	1,652	1,733	5,131	11,186	1,170	794	–	21,666
Advances from apartment buyers	–	–	–	–	–	–	56,618	56,618
Income tax payable	78	–	1,139	7,589	–	148	(2)	8,952
Banking customers accounts	139,316	20,760	–	–	–	29,393	–	189,469
Liabilities directly associated with the assets classified as held for sale	5,799	12,140	–	–	–	–	–	17,939
Differences between assets and liabilities	**25,202**	**20,708**	**(329,528)**	**(3,172)**	**319**	**32,611**	**351,620**	**97,760**

b The following table demonstrates the sensitivity of the Group's profit and loss before tax to a reasonably realistic change in exchange rates compared to other main currencies in which the Group operates, when all other variables are held constant:

8.3

€ in '000	Sensitivity to change in EUR\USD			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2015	10,951	5,475	(5,475)	(10,951)
2014	(2,284)	(1,142)	1,142	2,284

8.4

€ in '000	Sensitivity to change in USD\EUR			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2015	1,095	548	(548)	(1,095)
2014	(1,612)	(806)	806	1,612

8.5

€ in '000	Sensitivity to change in EUR\RON			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2015	3,576	1,788	(1,788)	(3,576)
2014	7,691	3,846	(3,846)	(7,691)

8.6

€ in '000	Sensitivity to change in EUR\NIS			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2015	(74,156)	(37,078)	37,078	74,156
2014	(70,569)	(35,284)	35,284	70,569

8.7

€ in '000	Sensitivity to change in RMB\EUR			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2015	3,350	1,675	(1,675)	(3,350)
2014	902	451	(451)	(902)

8.8

€ in '000	Sensitivity to change in Israeli CPI			
	Effect on profit and loss			
	+3%	+2%	-2%	-3%
2015	(10,674)	(7,611)	7,611	10,674
2014	(10,135)	(6,757)	6,757	10,135

9 Fair value disclosure:

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

9.1 Fair value schedule

€ in '000	Methods of determining fair value	Carrying amount 2015	Carrying amount 2014	Fair value 2015	Fair value 2014	Comment
Assets						
Short-term investment		7,245	7,250	7,245	7,250	A
Loans to bank customers	(2)	138,255	118,358	140,685	118,327	F
Long-term loans and receivables		40,319	123,229	46,150	123,162	G
Loans to associates and Joint ventures		49,251	43,766	49,251	43,766	
Liabilities						
Banking customers accounts	(2)	192,062	189,469	192,062	189,720	H
Debentures	(1)	379,767	348,485	250,542	220,252	B
Interest-bearing loans and borrowings		108,996	156,727	108,996	156,721	C
Derivatives, net	(3)	–	49	–	49	E
Other long-term liabilities	(3)	2,544	3,111	2,544	3,111	D
Warrants and options	(3)	2,495	1,442	2,495	1,442	D

Methods of determining the fair value of the financial assets and liabilities:

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

Financial instruments for which fair value could not be determined are immaterial.

Comments regarding determining the fair value:

A 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 Notes 16 and 17 for additional information.

B. 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 24 for additional information. The carrying value includes accrued interest in the amount €23,263 thousand for 2015 and €14,637 thousand in 2014.

C. As of December 31, 2015 and 2014 there a considerable part of the loans bear a floating rate, and management estimates that for the loans which bear fixed interest rates, this rate is approximately the same as the one at yearend. Refer to Note 20 for carrying amount reconciliation of long-term interest-bearing loans and borrowings and refer to Note 25 for reconciliation of short-term credit from banks and others.

D. 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 23 for additional information.

E. Refer to the face of the statement of financial position for reconciliation.

F. The fair value was determined using the amount at which the loans could be exchanged in a current transaction between willing parties other than a forced or liquidation sale. Loans to bank customers are evaluated by the group based on observable parameters such as interest rate, specific country risk factors, individual creditworthiness of the costumer/project. Allowances are also taken based on this evaluation. Refer to Note 10 for additional information.

G. Accounted for as receivables. In 2015 €16,749.
In 2014, the related current maturities were in the amount of €18,708 thousand. 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.

H. This amount includes both short-term and long-term bank customers' accounts. The vast majority of the balance is current, as such there are no material differences between the fair value and the carrying amount as of December 31, 2015.
The fair value was determined by discounted future cash flows using currently available rates for debt on similar terms, taking into account Kardan's own credit risk. Refer to Note 21 for reconciliation.

I. 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

9.1 Fair value levels schedule:

December 31, 2015 € in '000	Level 1	Level 2	Level 3	Total
Financial assets:				
Held for trading securities and other	7,086	9	46	7,141
Financial liabilities at fair value through profit or loss:				
Warrant and call option	–	–	(2,495)	(2,495)
Claw-back liability	–	–	(4,000)	(4,000)

9.2 Fair value levels schedule:

December 31, 2014 € in '000	Level 1	Level 2	Level 3	Total
Financial assets:				
Held for trading securities and other	1,039	–	45	1,084
Financial liabilities at fair value through profit or loss:				
Warrant and call option	–	–	(428)	(428)
Put option	–	–	(1,014)	(1,014)
Claw-back liability	–	–	(3,150)	(3,150)

During 2015 and 2014 there have been no transfers between financial instruments valuated in Level 1 to Level 2 or between Level 2 to Level 1.

C Level 3 financial assets and liabilities reconciliation

9.3 Level 3 reconciliation:

€ in '000	As of January 1, 2015	Fair value gain (loss) recorded in P&L	Gains recorded in other comprehensive income	Addition	Disposal	As of December 31, 2015	Total gains (losses) for the period included in P&L
Securities	45	1	–	–	–	46	1
Total assets	**45**	**1**	**–**	**–**	**–**	**46**	**1**
Warrants and call options	(428)	64	–	(2,559)	428	(2,495)	64
Put option	(1,014)	(133)	–	–	1,147	–	(133)
Claw-back	(3,150)	(850)	–	–	–	(4,000)	(850)
Total liabilities	**(4,592)**	**(919)**	**–**	**(2,559)**	**1,575**	**(6,495)**	**(919)**

€ in '000	As of January 1, 2014	Fair value gain (loss) recorded in P&L	Gains recorded in other comprehensive income	Addition	Disposal	As of December 31, 2014	Total gains (losses) for the period included in P&L
Securities	–	–	–	45	–	45	–
Total assets	**–**	**–**	**–**	**45**	**–**	**45**	**–**
Warrants and call options	(1,417)	989	–	–	–	(428)	989
Put option	(3,567)	(347)	–	–	2,900	(1,014)	(347)
Claw-back	(3,150)	–	–	–	–	(3,150)	–
Total liabilities	**(8,134)**	**642**	**–**	**–**	**2,900**	**(4,592)**	**642**

9.4 IAS 39 classification of financial assets and liabilities:

€ in '000	December 31, 2015	December 31, 2014
Financial assets:		
Cash, loans and receivables	506,867	558,229
Available for sale financial assets	6,027	–
	512,894	**558,229**
Financial Liabilities:		
Financial liabilities presented at amortized cost	770,520	427,613
Financial liability through P&L	6,544	6,350
Derivatives that are designated as hedging instruments	–	36
Put option	–	1,014
Call option	–	428
FIMI liability	2,495	–
	779,559	**435,441**

Section C: Banking and retail lending

(1) Capital adequacy

The Group's financial services sector (TBIF) maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital of TBI Bank is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ('BIS rules/ratios') and adopted by the Bulgarian National Bank in supervising the banks.

During the past year, TBI Bank complied in full with all their externally imposed capital requirements.

Capital management

TBIF considers its equity to be its capital. The primary objectives of the Group's capital management are to ensure that TBIF complies with externally imposed capital requirements and that TBIF maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

TBIF manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, TBIF may adjust the amount of dividend payment to shareholders, return capital to shareholders, issue shares or Debentures, adjust the leverage policy, invest in or dispose of assets. No changes were made in the objectives, policies and processes from the previous years.

Regulatory capital requirements

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision, implemented by the Bulgarian National Bank for supervisory purposes. The minimum the capital adequacy ratio is determined to 13.5%, reflected by the requirements for covering general capital adequacy of 8 %, a safety capital buffer of 2.5 % and system risk buffer of 3 % (last announced by the Bulgarian National Bank in 2014). The Tier 1 capital adequacy ratio determined by the Capital Requirements Regulation No 575/13 dated June 27, 2013 and the Bulgarian National Bank is 6% of all risk-weighted assets of the institution, including: off-balance sheet items, market risk associated with trading portfolios, currency and operational risk.

Regulatory capital Bulgaria (TBI Bank)

€ in '000	31-12-2015	31-12-2014
Tier 1 capital	38,958	26,268
Tier 2 capital	274	–
Total capital	**39,232**	**26,268**
Risk-weighted assets	**149,207**	**152,367**
Tier 1 capital ratio	19.35%	16.89%
Total capital ratio	19.48%	17.24%

Risk mitigation

TBIF uses the analysis of the structure of its portfolios in order to mitigate excessive risk in each of the countries. Furthermore, this structure is also controlled on a product level and according to portfolio limits. The diversification of the business lines (corporate loans, consumer finance, leasing) as well as collateral management are useful risk mitigation tools as well.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activity in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to development affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, TBIF's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (Ukraine, Romania and Bulgaria); industry concentration (banking, leasing, consumer finance and mortgage); product concentration (i.e. overdrafts, credit cards, mortgage) and product feature (secured, unsecured).

(2) Credit risk

Credit risk is the risk that the Group will incur a loss because of the inability of its customers to discharge their contractual obligations. TBIF manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits.

TBIF has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows TBIF to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(i) Credit-related commitments risks

TBIF makes available to its customers guarantees which may require that TBIF makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose TBIF to similar risks to loans and these are mitigated by the same control processes and policies.

(ii) Maximum exposure to credit risk in TBIF

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

€ in '000	31-12-2015	31-12-2014
Cash and cash equivalents (excluding cash on hand)	53,440	62,060
Deposits in banks	2,710	3,224
Balances with the central bank	16,118	16,812
Loans and advances to clients	151,629	129,247
Finance leases	19,956	22,880
Other loans and long-term receivables	8,272	811
Available-for-sale financial assets	6,027	521
Non-current assets held-for-sale	–	27,352
Other receivables	2,476	3,958
	260,628	266,865
Financial guarantees	914	1,279
Undrawn commitments to lend	7,777	7,771
	8,691	9,050
Total credit risk exposure	**269,319**	**275,915**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

(iii) Risk concentrations of the maximum exposure to credit risk

The tables below show the maximum exposure to credit risk for the components of the statement of financial position and the off-balance sheet commitments and contingencies, broken down according to TBIF's main lines of business and geographical regions, before the effect of mitigation through the use of collateral agreements.

Risk concentration of the maximum exposure to credit risk as of December 31, 2015 (€'000):

€ in '000	Loans and advances to clients	Leasing	Others	Total
Romania	120,190	1,402	–	121,592
Bulgaria	136,161	828	–	136,989
Others	–	–	10,738	10,738
	256,351	**2,230**	**10,738**	**269,319**

Risk concentration of the maximum exposure to credit risk as of December 31, 2014 (€'000):

€ in '000	Loans and advances to clients	Leasing	Others	Total
Romania	64,159	1,406	–	65,565
Bulgaria	205,333	3,213	–	208,546
Others	–	–	1,804	1,804
	269,492	**4,619**	**1,804**	**275,915**

(iv) Collateral and other credit enhancements

The amount and type of collateral (cash deposits, property, movable assets, etc.) required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The amount of coverage of credit risk via collateral, expressed as a % of the carrying amount of the loans per type of portfolio as of December 31, 2015 and excluding the effects of overcollateralization, is the following:

	2015	2014
Net investment in finance leases	91%	93%
Bank loans granted	24%	21%

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Bank loans granted are part of the Loans and advances to customers and as of December 31, 2015 amount to € 138,259 thousand (December 31, 2014 – € 188,358 thousand). The rest of the balance of Loans and advances to customers consists of unsecured loans granted by the consumer credit companies in TBIF.

No collateral can be sold or re-pledged in the absence of default by the owner of the collateral.

Repossessed collateral

During 2015, TBIF repossessed assets (vehicles, machinery and property) with carrying value as of December 31, 2015 of € 4.6 million (2014 – € 4.5 million), which TBIF is in the process of selling. It is TBIF's policy to sell repossessed collateral as soon as possible. The carrying value is deemed to approximate the fair value of the repossessed assets.

(v) Credit quality per class of financial assets

The credit quality of financial assets is managed by TBIF's subsidiaries using internal credit ratings.
The system of internal credit ratings is applicable to each company in the Group. High grade is given to assets where the counterparty is a central bank or has a formal high grade rating given by Fitch, Moody's or S&P, e.g. a long-term Fitch rating of A- to AAA. Low grade is given to assets which would be past due or impaired but were renegotiated to avoid that.
Standard grade is given to all remaining assets.
A description of the nature of the remaining assets in the standard grade is included in Note 9, Note 10 and Note 11. The tables below show the credit quality by class of assets, based on these internal credit rating systems.

Credit quality per class of financial assets as of December 31, 2015 (€'000) – before impairment:

€ in '000	Neither past due nor impaired				
	High grade	Standard grade	Low grade	Past due/ impaired	Total
Cash in banks	35,170	18,270	–	–	53,440
Deposits in banks	–	2,710	–	–	2,710
Balances with the central bank	16,118	–	–	–	16,118
Loans and advances to clients	–	123,756	–	55,523	179,279
Finance leases	–	16,276	–	17,168	33,444
Other loans and receivables	–	8,272	–	7,713	15,985
Available-for-sale fin. assets	6,027	–	–	–	6,027
Other receivables	–	2,434	–	218	2,652
	57,315	**171,718**	**–**	**80,622**	**309,655**

Credit quality per class of financial assets as of December 31, 2014 (€'000) – before impairment:

€ in '000	Neither past due nor impaired				
	High grade	Standard grade	Low grade	Past due/ impaired	Total
Cash in banks	–	62,060	–	–	62,060
Deposits in banks	–	3,224	–	–	3,224
Balances with the central bank	16,812	–	–	–	16,812
Loans and advances to clients	–	59,943	–	97,989	157,932
Finance leases	–	14,464	–	21,187	35,651
Other loans and receivables	–	210	–	7,595	7,805
Available-for-sale fin. assets	521	–	–	–	521
Non-current assets held-for-sale	–	26,532	–	24,384	50,916
Other receivables	–	3,926	–	212	4,138
	17,333	**170,359**	**–**	**151,367**	**339,059**

(vi) Aging analysis of past due but not individually impaired loans and receivables

Aging analysis of past due but not individually impaired loans and receivables as of December 31, 2015 (€'000):

€ in '000	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to clients	7,092	610	240	22,810	30,752
Finance leases	2	3	–	–	5
Other receivables	6	6	4	202	218
	7,100	**619**	**244**	**23,012**	**30,975**

Aging analysis of past due but not individually impaired loans and receivables as of December 31, 2014 (€'000):

€ in '000	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to clients	52,002	2,616	824	24,586	80,028
Finance leases	71	322	114	916	1,423
Other loans and receivables	–	–	–	397	397
Non-current assets held-for-sale	–	–	–	22,129	22,129
Other receivables	1	7	2	200	210
	52,074	**2,945**	**940**	**48,228**	**104,187**

The above receivables have been tested collectively for impairment, and provisions for such impairments have been included as necessary.

(vii) Carrying amount per class of financial assets whose terms have been renegotiated, which would otherwise be past due or impaired

€ in '000	December 31, 2015	December 31, 2014
Loans and advances to clients	2,563	2,914
Finance leases	2,249	1,144
Total credit risk exposure	**4,812**	**4,058**

(viii) Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract.
TBIF addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

(ix) Individually assessed allowances

TBIF determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows.
The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

The following table presents the amounts of individually impaired assets:

€ in '000	December 31, 2015	December 31, 2014
Loans and advances to clients	24,771	17,960
Finance leases	17,163	19,765
Long-term loans and receivables	7,713	7,199
Non-current assets held-for-sale	–	2,256
	49,647	**47,180**

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment.
Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with TBIF's overall policy. Financial guarantees and letters of credit are assessed and provision calculated in a similar manner as for loans.

(3) Liquidity risk and funding management

Liquidity risk is the risk that TBIF will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To limit this risk, management has arranged diversified sources in addition to deposit bases (only in the banking subsidiaries), manages assets with liquidity in mind and monitors future cash flow and liquidity on a daily basis. This incorporates assessments of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

TBIF's subsidiaries maintain a portfolio of marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. Some of TBIF subsidiaries have certain committed lines of credit that are available to meet liquidity needs. In addition, all banks in TBIF maintain statutory deposits with the central banks in their countries of incorporation in compliance with the requirements of the local legislation.

TBIF uses maturity tables in managing its liquidity risk by performing maturity gap analysis, including estimations of deposit roll forwards for the banks in TBIF. TBIF focuses on maintaining a diversified mix of assets that allows for secured funding. The tables below show an analysis of assets and liabilities according to their expected maturities, including future interest payments, as well as the expected expiry by maturity of TBIF's contingent liabilities and commitments. The expected maturity of liabilities agrees with their contractual maturity.

Maturity analysis of TBIF's financial liabilities as of December 31, 2015 (€'000):

€ in '000	0-3 months	4-12 months	1-3 years	4-5 years	Thereafter	Total
Bank customer accounts	53,142	140,117	21	–	109	193,389
Loans from banks and others	206	4,402	1,775	178	–	6,561
Other liabilities	8,594	–	–	–	–	8,594
	61,942	**144,519**	**1,796**	**178**	**109**	**208,544**

Maturity analysis of TBIF's financial liabilities as of December 31, 2014 (€'000):

€ in '000	0-3 months	4-12 months	1-3 years	4-5 years	Thereafter	Total
Bank customer accounts	124,560	66,729	116	10	114	191,529
Loans from banks and others	588	5,683	2,142	276	–	8,689
Liability classified as held-for-sale	17,939	–	–	–	–	17,939
Other liabilities	5,954	–	–	–	–	5,954
	149,041	**72,412**	**2,258**	**286**	**114**	**224,111**

Bank customers accounts, as of December 31, 2015 include on-demand deposit in the amount of €54,490 thousand (December 31, 2014 - €61,990 thousand).

TBIF estimates that the contractual maturity of non-trading financial assets and liabilities matches their expected maturity, due to the following:

- TBIF expects that its financial liabilities will be settled on the earliest date on which Group entities can be required to pay;
- There is no active market for the majority of financial assets (except for those held for trading assets) held by TBIF and they are not readily saleable;
- TBIF does not have very diverse funding sources.

Maturity analysis of TBIF's contingent liabilities and commitments as of December 31, 2015 (€'000):

€ in '000	0-3 months	4-12 months	1-3 years	4-5 years	Over 5 years	Total
Financial guarantees	359	24	364	167	–	914
Undrawn commitments to lend	2,703	320	1,279	2,718	758	7,778
Total	**3,062**	**344**	**1,643**	**2,885**	**758**	**8,692**

Maturity analysis of TBIF's contingent liabilities and commitments as of December 31, 2014 (€'000):

€ in '000	0-3 months	4-12 months	1-3 years	4-5 years	Over 5 years	Total
Financial guarantees	166	1,022	49	41	–	1,278
Undrawn commitments to lend	4,900	1,177	309	819	565	7,770
Total	**5,066**	**2,199**	**358**	**860**	**565**	**9,048**

TBIF expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

39 Related Parties

The Group has entered into a variety of transactions with its related parties. The Group has adopted the policy to enter into such transactions, which are being concluded in the normal course of business, on an arm's-length basis. The sales and purchases from related parties are made at comparable normal market prices. Outstanding balances relating to such sales and purchases at year-end are unsecured, interest free, and settlement occurs in cash. Outstanding loans from related parties are unsecured and presented with accrued interest. The significant of these balances and transactions are as follows:

A Balances

As of December 31, 2015:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Trade receivables	14	–	1,997	–
Other receivables and prepayments	15	–	2,660	–
Loans and long-term assets (including current maturities)	8,9	9,406	13,828	–
Other payables and accrued expenses	26	–	11,920	–

As of December 31, 2014:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Trade receivables	14	–	1,878	–
Other receivables and prepayments	15	–	806	177
Loans and long-term assets (including current maturities)	8,9	7,294	57,831	–
Other payables and accrued expenses	26	–	11,574	1,223

B Transactions

For the year ended December 31, 2015:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Management fee, net	–	–	1,477	–
Finance income	35	202	264	–
Other	–	–	–	1,276

For the year ended December 31, 2014:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Management fee, net	–	–	2,122	–
General and administrative expenses	33	–	–	1,676
Finance income	35	–	287	–
Finance expenses	35	–	–	–

For the year ended December 31, 2013:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Management fee, net	–	–	1,830	–
General and administrative expenses	33	(385)	–	1,173
Finance income	35	431	601	–
Finance expenses	35	–	72	–

1. Management fees for the years 2015, 2014 and 2013 related mostly to management fees from joint ventures received by Kardan Land China. Finance income from associates and joint ventures are from loans granted the associates and joint ventures.

2. In June 2013 the services agreement between the Company and Kardan Israel Ltd. (a company controlled by the Company's controlling shareholders) has been amended. According to agreement amended, effective June 1, 2013, the consulting fees paid by the Company will be reduced to a total of € 474 thousands per year, linked to the Israeli CPI.
This agreement is effective for three years. In 2014, the Company paid to Kardan Israel for the services rendered an amount of approximately € 479 thousands (2013- € 556 thousands).
In May 2015 the services agreement has been amended again. According to the amended agreement, effective March 1, 2015, the scope of

services will be reduced and accordingly, the corresponding service fees would be reduced to a total of approximately €212 thousand per year, linked to Israeli CPI. This agreement is effective for three years.

3. Kardan Israel provides various services to the Group which are not part of the abovementioned services agreement, including, among others, the provision of office space and services. In addition, Kardan Israel is entitled to reimbursement of expenses incurred in connection with such services. With respect of the aforesaid services provided in 2015, the Company paid to Kardan Israel a total of €19 thousand (2014 - € 25 thousand).

4. In February 2010, Kardan Real Estate and TGI entered into an agreement to acquire TGI's lease rights of a building in Tel Aviv. In addition Kardan Real Estate and TGI entered into agreement according to which TGI would lease 5,300 square meters, subject to certain adjustments and parking spaces from Kardan Real estate. It was agreed that Kardan Real Estate take over the building and rebuild or renew all built up areas related to this property. In November 2012, TGI notified to Kardan Real Estate on its intention to terminate the agreement as it expected that Kardan Real estate would not comply with a condition precedent in the agreement. In December 2012 Kardan Real Estate confirmed the termination without waiving any of its rights, and announced it intends, in accordance with the agreement to transfer its claims against TGI to an arbitrator.

   On May 7, 2014 the arbitrator's ruling regarding Kardan Real Estate's claims was given. According to arbitrator's ruling, TGI would pay a total of € 221 thousands to Kardan Real Estate.

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, 2015	December 31, 2014	December 31, 2013
P. Sheldon	52	43	43
A. May	41	36	36
M. Groen	21	31	32
A. Schnur	26	26	26
J. Grunfeld	26	26	23
E. Rechter	26	26	23
E. Seinstra	32	30	27
C. van den Bos	34	31	27
B. Marsman	11	–	–
	269	**249**	**237**

2. Fees to Executive Management for the year ended December 31, 2015:

€ in '000	Short-term employee benefits	Post-employment pension and medical benefits	Share-based payment transaction	Total
S. Oren	712	55	164	931
G. Elias	345	45	3	393
E. Oz-Gabber	278	20	3	301
	1,335	**120**	**170**	**1,625**

3. Fees to Executive Management for the year ended December 31, 2014:

€ in '000	Short-term employee benefits	Post-employment pension and medical benefits	Share-based payment transaction	Total
S. Oren	1,146	45	179	1,370
G. Elias	207	47	–	254
E. Oz-Gabber	198	20	2	220
	1,551	**112**	**181**	**1,844**

4. Fees to Executive Management for the year ended December 31, 2013:

€ in '000	Short-term employee benefits	Post-employment pension and medical benefits	Share-based payment transaction	Total
S. Oren	415	39	266	720
E. Oz-Gabber	193	20	3	216
	608	**59**	**269**	**936**

Short term employee benefits include bonuses over the years 2014 and 2015.

5. Options granted by the Company as of December 31, 2015 (*):

	No. of options
S. Oren (**)	2,282,624
E. Oz-Gabber	100,000
G. Elias	100,000
	2,482,624

* For additional information see also Note 19B.
** Subsequent to the balance sheet date, the Company's CEO resigned from his position effective April 15, 2016. Accordingly, part of his options are expected to be cancelled in 2016.

40 Subsequent events

Subsequent to the balance sheet date, on February 24, 2016, KFS has signed an agreement to sell its 100% holding in TBIF to a third party ('the Buyer').

The total consideration for the transaction comprises two parts ('the Consideration'). On the completion date ('the Completion date') the Buyer will pay KFS an amount of approximately €69 million. Subsequently, following the Completion date, the Consideration will be adjusted to take into account the audited result of the sold asset in the period January 1, 2016 until the Completion date ('the Adjustment'). To secure payment of the Adjustment, on the Completion date the Buyer will pledge shares of TBIF in favor of KFS. According to the agreement, TBIF will transfer certain non-lending assets with a net value of approximately €23 million to KFS before the Completion date.

The parties have agreed that the Completion date will initially not be later than June 15, 2016, but that this date can be extended upon mutual agreement between parties.

The Transaction is subject to certain conditions precedent, including the receipt of regulatory approvals and the approval of the meetings of Kardan's debenture holders (to certain terms of the agreement.

KFS undertakes 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 will deposit an amount of €6 million for a period of two years and pledge this in favor of the buyer as collateral for the indemnification, which amount will be reduced to EUR 5 million after one year. In addition, Kardan will guarantee KFS's obligation in this respect.

The Company estimates that on the Completion date a gain of approximately €14 million will be recognized.

Company-only Financial Statements

Statement of Financial Position

December 31, 2015 – After Appropriation of Net Result

€ in '000	Note	December 31, 2015	December 31, 2014
Assets			
Non-current assets			
Tangible fixed assets		114	127
Investments in subsidiaries	5A	550,493	456,880
Loans to subsidiaries		22	20
		550,629	**457,027**
Current assets			
Cash and cash equivalents	6	22,867	605
Short-term investments	7	137	796
Other receivables	4	687	536
		23,691	**1,937**
Total assets		**574,320**	**458,964**
Equity and liabilities			
Equity	8		
Share capital		25,276	23,041
Share premium		206,482	208,002
Property revaluation reserve		36,713	21,033
Foreign currency translation reserve		24,711	23,943
Other reserves		8,144	10,765
Non-controlling interest holders transaction reserve		15,669	15,178
Treasure shares		–	(2,625)
Retained earnings (accumulated deficit)		(245,534)	(206,939)
		71,461	**92,398**
Non-current liabilities			
Debentures	9	468,407	258,226
Options and other long-term liabilities	10	2,035	–
		470,442	**258,226**
Current liabilities			
Current portion of debentures	10	–	90,630
Other payables	12	32,417	17,710
		32,417	**108,340**
Total equity and liabilities		**574,320**	**458,964**

See accompanying Notes.

Company-only Income Statement

Year ended December 31, 2015

€ in '000	Note	2015	2014
Net result from investments for the year	6B	45,827	31,079
Other income (expense), net	13	(68,742)	(25,988)
Net profit (loss)		**(22,915)**	**5,091**

See accompanying Notes.

Notes to the company-only Dutch GAAP Financial Statements

December 31, 2015

1 Basis of preparation

The company's financial statements of Kardan N.V. (hereafter: the company) have been prepared in accordance with Part 9, Book 2 of the Dutch Civil Code. In accordance with sub 8 of article 362, Book 2 of the Dutch Civil Code, the company's financial statements are prepared based on the accounting principles of recognition, measurement and determination of profit, as applied in the consolidated financial statements. These principles also include the classification and presentation of financial instruments, being equity instruments or financial liabilities.
As the financial data of the company are included in the consolidated financial statements, the income statement in the company financial statements is presented in its condensed form (in accordance with article 402, Book 2 of the Dutch Civil Code).
In case no other policies are mentioned, refer to the accounting policies as described in the accounting policies in the consolidated financial statements of this Annual Report. For an appropriate interpretation, the company financial statements of Kardan NV should be read in conjunction with the consolidated financial statements.
All amounts are presented in €'000, unless stated otherwise. The statement of financial position and the income statement references have been included. These refer to the notes.
The company prepared its consolidated financial statements in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union.

2 Significant Accounting Policies

Financial fixed assets

Investments in consolidated subsidiaries
Consolidated subsidiaries are all entities (including intermediate subsidiaries) over which the company has control. The company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are recognised from the date on which control is transferred to the company or its intermediate holding entities. They are derecognised from the date that control ceases.
The company applies the acquisition method to account for acquiring subsidiaries, consistent with the approach identified in the consolidated financial statements. The consideration transferred for the acquisition of a subsidiary is the fair value of assets transferred by the company, liabilities incurred to the former owners of the acquiree and the equity interests issued by the company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in an acquisition are measured initially at their fair values at the acquisition date, and are subsumed in the net asset value of the investment in consolidated subsidiaries. Acquisition-related costs are expensed as incurred.
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.
When an acquisition of an investment in a consolidated subsidiary is achieved in stages, any previously held equity interest is remeasured to fair value on the date of acquisition. The remeasurement against the book value is accounted for in the income statement.
When the company ceases to have control over a subsidiary, any retained interest is remeasured to its fair value, with the change in carrying amount to be accounted for in the income statement.
When parts of investments in consolidated subsidiaries are bought or sold, and such transaction does not result in the loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold, is directly recognised in equity.

3 Other receivables

€ in '000	December 31, 2015	December 31, 2014
Intercompany debtors	468	416
Prepaid expenses	208	120
Other	11	–
	687	**536**

4 Financial Fixed Assets

A Investments in consolidated subsidiaries

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

€ in '000	2015	2014
Balance as of January 1	456,880	467,937
Investment in a subsidiary (A)	103,892	72,797
Change in treasury shares (held by a subsidiary)	290	26
Change in capital reserves (B)	(94)	19,436
Dividend distributed	(56,302)	(134,395)
Share in profit/(loss) of investments for the year	45,827	31,079
Balance as of December 31	**550,493**	**456,880**

(A) In 2015 the Company capitalized a shareholder's loan to Emerging Investments XII B.V. in the amount of €103.6 million.
In 2014 the Company capitalized a shareholder's loan to TGI in the amount of €50.8 million.

(B) Primarily relates to foreign currency exchange differences arising on translation of foreign operations.

2 The impact of the treasury shares is as follows:

€ in '000	2015	2014
Gross investment in subsidiaries, as of December 31	550,493	459,343
Treasury shares	–	(2,463)
Net investment in subsidiaries, as of December 31	**550,493**	**456,880**

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

Names of significant subsidiaries	2015 Ownership %	2015 Total value € in '000	2014 Ownership %	2014 Total value € in '000
GTC Real Estate Holding B.V.	100	307,599	100	297,369
Kardan Financial Services B.V.	100	51,986	100	37,763
Tahal Group International B.V.	98.43	60,442	98.43	99,431
Emerging Investments XII B.V.	100	130,490	100	22,341
Other	100	(24)	100	(24)
Total investments in significant consolidated subsidiaries *		**550,493**		**456,880**

* For the complete list of all subsidiaries in the Group refer to the Chamber of Commerce (www.kvk.nl) for a listing of all subsidiaries.

With the signing of the Final Settlement, the Company can no longer offset the loan to Emerging Investment XII ('EI XII') with the debenture liability and present it on a net basis. The balance of the loan as of July 3, 2015 (including accumulated interest) amounted to €103.6 million. In addition, on the same date the Company decided to capitalize the entire loan to the equity of EI XII as share premium.

As described in the note above, the Company's loans to its subsidiaries Tahal Group International, Kardan Financial Services and GTC Real Estate Holding B.V were assigned to EI XII As of December 31, 2014 the Company had an outstanding loan balance with its subsidiary EI XII in the amount of €97 million (Including interest) which was granted for sole purpose of purchasing the Company debentures series A and B. In 2014 the Company had a legal right and intention to settle the loan and the payment of the debentures on a net basis, therefore as of December 31, 2014 the Company off-set the loan balance against its liability.

B Net result from investments for the year

€ in '000	2015	2014
Net profit of investments for the year	45,827	31,079
Net result as presented in the income statement	**45,827**	**31,079**

5 Cash And Cash Equivalents

€ in '000	December 31, 2015	December 31, 2014
EURO	3,942	594
NIS	18,603	10
USD	322	1
	22,867	**605**

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 2015 and 2014.

6 Short-term Investments

€ in '000	December 31, 2015	December 31, 2014
Deposits	130	732
Trust account	7	64
	137	**796**

The trust account deposit is held by trustees and is being used for future payment on account of the debentures liability and expenses of the trustees.

In 2015 and 2014 , the average interest rate earned was 0.5%.

7 Shareholders' Equity

€ in '000	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Non-controlling interest holders transactions reserve	Retained earnings**	Total
Balance as of January 1, 2015	**23,041**	**208,002**	**21,033**	**10,765**	**23,943**	**15,178**	**(209,564)**	**92,398**
Other comprehensive income (expense)	–	–	–	(2,784)	768	–	–	(2,016)
Profit (loss) for the period	–	–	–	–	–	–	(22,915)	(22,915)
Share-based payment	–	–	–	163	–	–	–	163
Issuance of treasury shares	2,235	(1,520)	–	–	–	–	2,625	3,340
Transaction with non-controlling interest	–	–	–	–	–	491	–	491
Reclassification according to the civil code requirements	–	–	15,680	–	–	–	(15,680)	–
Balance as of December 31, 2015	**25,276**	**206,482**	**36,713**	**8,144**	**24,711**	**15,669**	**(245,534)**	**71,461**

€ in '000	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Non-controlling interest holders transactions reserve	Retained earnings **	Total
Balance as of January 1, 2014	**23,041**	**208,117**	**34,300**	**12,296**	**(4,680)**	**21,104**	**(228,083)**	**66,095**
Other comprehensive income (expense)	–	–	–	(1,676)	28,623	–	–	26,947
Loss for the period	–	–	–	–	–	–	5,091	5,091
Share-based payment	–	–	–	191	–	–	–	191
Issuance of treasury shares	–	(115)	–	(46)	–	–	161	–
Transaction with non-controlling interest	–	–	–	–	–	(5,926)	–	(5,926)
Reclassification according to the civil code requirements *	–	–	(13,267)	–	–	–	13,267	–
Balance as of December 31, 2014	**23,041**	**208,002**	**21,033**	**10,765**	**23,943**	**15,178**	**(209,564)**	**92,398**
Comprises:								
Balance before treasury shares	23,041	208,002	21,033	10,765	23,943	15,178	(206,939)	95,023
Treasury shares	–	–	–	–	–	–	(2,625)	(2,625)
Balance as of December 31, 2014	**23,041**	**208,002**	**21,033**	**10,765**	**23,943**	**15,178**	**(209,564)**	**92,398**

* In accordance to 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 disclosed in note 18F of the consolidated financial statements).

** As of December 31, 2015 and 2014, amounts of €29,909 and €27,226 thousand respectively resulted from equity gains in associates and joint ventures, 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.

8 Debentures

Composition:

€ in '000	Par value (net) as of December 31, 2015	Balance as of December 31, 2015	Balance as of December 31, 2014	Interest rate %	Currency and linkage	Maturities principal
Issuer:						
The Company – 2007	134,938	158,490	95,384	6.325	(1)	2017-2018
The Company – 2008	265,928	309,917	253,472	6.775	(1)	2017-2020
		468,407	**348,856**			
Less - current maturities		–	(90,630)			
	468,407	**468,407**	**258,226**			

Maturities:

€ in '000	December 31, 2015	December 31, 2014
First year – current maturities	–	89,937
Second year	146,977	89,937
Third year	138,745	42,245
Fourth year	97,379	42,245
Fifth year	85,305	42,245
Sixth year onwards	–	42,247
Total	**468,406**	**348,856**

A Repayment of debentures:

On March 31, 2015 the Company paid the interest deferred to August 2015 (see Note 1 to the consolidated financial statements) in the amount of approximately €4.4 million to Debenture Holders series A and approximately €14.3 million to Debenture Holders series B. Additionally, the Company early repaid principal amounting to approximately €3.3 million to Debenture Holders series A (3.9% of the outstanding series A principal) and approximately €3.4 million of principal to Debenture Holders series B (1.23% of the outstanding series B principal). The total repayment amounted to approximately €25.4 million.

On January 12 and February 14, 2014, the Company early repaid NIS 136,918,906 par value Debentures Series A (net of debentures held by the Company subsidiaries) and the accumulated interest from the last repayment for a total amount of €36 million (approximately NIS 171 million). The repurchased debentures which are held by Emerging Investments XII B.V are netted from the debenture balance of Kardan NV.

For information regarding the debt settlement of the Company and the debenture holders refer to note 1 in the consolidated IFRS financial statements.

9 Share plan

A. In August 2015, the General Meeting of Shareholders of the Company approved a modification to the option plan of the Company's CEO, which replaced his existing option plan.

   According to the modified plan, the CEO was entitled to 2,282,624 options exercisable to

2,282,624 shares of the Company, approximately 2% of the outstanding share capital of the Company (prior to the shares issued to the debenture holders as part of the Final Settlement agreement (see also Note 8). According to the modified plan, the exercise price would be €0.2807 or NIS 1.191. The share price at the date of grant was NIS 1.09 and €0.234. 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. For additional information refer to note 19B in the consolidated IFRS financial statements.

B. In February 2012 (the 'Effective Date'), the Supervisory Board recommended to the Annual General Meeting of the Shareholders (the 'AGM') that assembled on May 2012, to approve the grant of stock options to the Company's CEO (the 'Option Plan'). According to the Option Plan, the CEO was entitled to options representing a maximum of 2% of the outstanding share capital of the Company. The exercise price which was initially determined was the average closing price of the Company's shares on the Tel-Aviv Stock Exchange, during five days prior to the Effective Date which was NIS 8.272 (the 'Exercise Price'). The options were exercisable in four annual equal portions of which the first 25% is excisable two years following the Effective Date. In May 2012, the AGM approved the Option Plan but shortly prior to the AGM, it was agreed to re-examine the Exercise Price. On February 6, 2013 the Extraordinary General Meeting approved an adjusted exercise price of NIS 6.136. The Company share price on the grant date was NIS 3.98 .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. For additional information refer to note 19B in the consolidated IFRS financial statements.

C. 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. For additional information refer to note 19B in the consolidated IFRS financial statements.

10 Taxes on income

The Company has received final tax assessments for the years 2003 to 2013.

Loss for the year amounts to €(22.9) million (2014: €5.1 million), including net result from investments of €45.8 million profits (2014: €31.1 million losses), which are not deductible/taxable, due to the Participation Exemption described above. The Company assumes that the remaining other expenses and income will not result in tax benefits or tax expenses due to the available tax losses from previous years of the Company.

Up to and including 2014, Kardan N.V. has estimated tax losses of €225.9 million that are available for carry forward. 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 2012, Kardan N.V. has tax losses available for carry forward as per December 31, 2012 which are not considered holding and financing losses and can therefore be compensated with future taxable profits.

Deferred tax assets have been recognized only with respect to potential tax liability in relation with the Company's former hedge transactions. Deferred taxes amounted to €1,311 thousand as of December 31, 2015 (as of December 31, 2014 amounted to 1,772 thousand). As of December 31, 2015 no deferred tax assets are presented in the balance sheet. For more information regarding to taxes on income refer to Note 36 to the Consolidated Financial Statements.

11 Other Payables

€ in '000	December 31, 2015	December 31, 2014
Accrued expenses (mainly accrued interest on debentures)	30,574	15,170
Others	1,843	2,540
	32,417	**17,710**

12 Other Income (Expense)

In 2015 and 2014, other income (expense), net comprise mainly of finance expenses of €63,590 thousand and €20,144 thousand respectively, general and administrative and other income and expenses amounting to €4,528 thousand and €5,508 thousand respectively.

13 Audit Fees

The table below summarizes the fees invoiced to the Company's by its auditors, Ernst & Young in 2014 and PwC in 2015 Accountants and others in:

€ in '000	PwC Netherlands	PwC Other	Ernst & Young Netherlands	Ernst & Young Other	Others	Total
2015						
Audit services - Kardan N.V.	180	175	51	83	–	489
Audit services - subsidiaries	105	527	88	421	51	1,192
Total statutory audit fees	**285**	**702**	**139**	**504**	**51**	**1,681**
Other services relevant to taxation	–	59	167	–	–	226
Other non-audit services	–	–	–	–	–	–
Total non-audit services	**–**	**59**	**167**	**–**	**–**	**226**
Total	**285**	**761**	**306**	**504**	**51**	**1,907**

€ in '000	Ernst & Young Netherlands	Ernst & Young Other	Others	Total
2014				
Audit services - Kardan N.V.	372	81	–	453
Audit services - subsidiaries	224	552	–	776
Total statutory audit fees	**596**	**633**	**–**	**1,229**
Other services relevant to taxation	48	11	39	98
Other non-audit services	–	75	54	129
Total non-audit services	**48**	**86**	**93**	**227**
Total	**644**	**719**	**93**	**1,456**

14 Remuneration of Management Board and Supervisory Board, and Board of Directors

The Company's Board received remuneration in 2015 and 2014 as described in note 39 to the consolidated IFRS financial statements.

15 Commitments, contingent liabilities, guarantees, and subsequent events

For commitments, contingent liabilities, guarantees, and subsequent events please refer to notes 27 and 40 respectively of the consolidated IFRS financial statements.

16 Financial instruments and risk management

For disclosures required by IFRS 7 regarding financial instruments and risk management, refer to note 38 in the consolidated IFRS financial statements.

Board

P. Sheldon

S. Oren

A. May

A. Schnur

Y. Grunfeld

E. Rechter

E. Seinstra

C. van den Bos

B. Marsman

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 2015 result

The proposal is to deduct the result of 2015 from the reained earnings.
The dividend policy of Kardan N.V. will take into consideration the level of net income, liquidity and the capital position, future financing requirements and financial covenants of the Company, all within the limitations of the law. If circumstances allow, the dividend policy recommends an annual distribution of between 20% and 30% of net income.
Dividend pay-out may vary from year to year. Taking into account the financial position of Kardan N.V. as well as the concession granted to the Debenture holders that no dividend will be distributed until 75% of the debentures are repaid, the Board has decided not to distribute any dividend from the reserves for the financial year 2015.

Subsequent events

For subsequent events please refer to Note 40 of the consolidated financial statements.

Independent Auditor's Report

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

Report on the statutory financial statements 2015

Our opinion

In our opinion:
- the accompanying consolidated financial statements give a true and fair view of the financial position of Kardan N.V. as at 31 December 2015 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company-only financial statements give a true and fair view of the financial position of Kardan N.V. as at 31 December 2015 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying statutory financial statements 2015 of Kardan N.V., Amsterdam, the Netherlands ('the Company'). The statutory financial statements include the consolidated financial statements of Kardan N.V. and its subsidiaries (together: 'the Group') and the company-only financial statements.

The consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2015;
- the following statements for 2015: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company-only financial statements comprise:
- the company-only statement of financial position as at 31 December 2015;
- the company-only income statement for the year then ended;
- the company-only statement of changes in equity for 2015; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the statutory financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company-only financial statements.

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 'Our responsibilities for the audit of the statutory financial statements' section of our report.

We are independent of Kardan N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

Our audit approach

Overview and context

We designed our audit by determining materiality and assessing the risks of material misstatement in the statutory financial statements. In particular, we looked at where the Board of directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also 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.

We ensured that the audit teams both at Group and at component level included the appropriate skills and competences which are needed for the audit of a group like Kardan N.V., which manages assets and projects in emerging markets in Real Estate in China (GTC Real Estate Holding B.V.), in Banking (Kardan Financial Services B.V.) and in Water Infrastructure (Tahal Group International B.V.). We therefore included amongst others real estate specialists and valuation specialists with respect to derivative financial instruments in our team.

Since the audit of the 2015 statutory financial statements was our first year as auditors of Kardan N.V., we performed specific transition procedures in addition to the recurring audit procedures. These transition procedures mainly relate to:

- procedures to obtain sufficient appropriate audit evidence concerning the 1 January 2015 opening balance sheet, including communications with the predecessor auditor and an in-depth file review of the 2014 audit file of the predecessor auditor;
- procedures to gain an initial understanding of the entity and its environment, including internal controls and IT systems. Based on these procedures, we have prepared our risk assessment, determined our audit scoping and prepared the audit plan which has been discussed with the Board of directors and the Audit Committee.

Materiality

- Overall materiality: € 9.8 million, which represents 1% of total assets.

Audit scope

- We conducted audit work in 5 locations.
- Site visits were conducted to 4 countries – China, where the real estate activities of Kardan Land China Ltd. are performed (the main subsidiary of GTC Real Estate Holding B.V.); Sofia, Bulgaria where the head office of TBI Bank is located; the Ukraine where a short term car rental operation is carried out (both part of Kardan Financial Services B.V.), and Tel Aviv, Israel where the office of the main subsidiary of Tahal Group International B.V. is located.
- We have audited: 99.7% of consolidated revenue and 94.7% of consolidated total assets.

Key audit matters

- Going concern
- Valuation of investment property
- Valuation of loans to bank customers
- Revenue recognition with respect to the water infrastructure projects 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 responsibility for the audit of the statutory financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the statutory financial statements as a whole as follows:

Overall group materiality

€ 9.8 million

How we determined it

1% of total assets

Rationale for benchmark applied

We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the statutory financial statements. The Company's current strategy is primarily focused on the repayment of the Debentures and thus on generating cash either by selling some of its assets before February 2017 whilst continuing to also focus on further improving the results of the subsidiaries and therefore their value. On this basis we believe that total assets is an important metric for the stakeholders 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 € 5.6 million and € 6.2 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

The consolidated income statement line items, financial result, general and administrative expenses (including personnel expenses), other operating income and expenses and income taxation are audited with a threshold based on 5% of profit before tax. Due to the large amounts in the balance sheet relative to these in the consolidated income statement line items, which is inherent to the nature of the Company's business, we consider it appropriate to use a separate threshold for these income statement line items.

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 misstatements identified during our audit above € 515,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Kardan N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Kardan N.V.

At Group level, we have audited centrally those aspects which are managed by Kardan N.V., the going concern issue, the Debentures, share based payments and derivative financial instruments (forwards).
In addition to these items, we have focused on the three significant components of Kardan N.V., being GTC Real Estate Holding B.V. (Kardan Land China), Kardan Financial Services B.V. (TBI Bank) and Tahal Group International B.V. (Tahal).

These three components were subjected to audits of their complete financial information as those components are individually significant to the Group, with the exception of the short term car rental operation in the Ukraine, which has been subject to some procedures performed by the Group audit team, in addition to the local statutory audit, performed by another component auditor from another firm. In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	99.7%
Total assets	94.7%

None of the remaining components represented individually more than 2% of total Group revenue or total Group assets. For those remaining components we performed, amongst others, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.
For the operating entities of the components Kardan Land China, TBI Bank and Tahal we used component auditors from other PwC network firms who are familiar with the local laws and regulations to perform the audit work. For the operating entity TBI Bank Romania (a branch of TBI Bank we used component auditors from other firms.

We have determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. In this respect we performed amongst others, the following procedures:

1. We have issued detailed audit instructions to the component auditors prescribing the scope of work to be performed, our risk assessment, the key audit areas, materiality to be applied and the reporting requirements to the Group engagement team;
2. The reports of the component auditors were assessed by the Group engagement team and observations were discussed with the component auditors and with Group management; and
3. The group engagement team has visited the component teams and management of local operations and performed file reviews. In the current year the Group audit team visited China (GTC Real Estate Holding B.V.'s subsidiary Kardan Land China Ltd.) given the importance of the judgements involved in the valuation of the investment property (refer to key audit matters), as well as Bulgaria (Kardan Financial Services B.V.'s subsidiary TBI Bank) given the importance of the judgements involved in the valuation of loans to bank customers (refer to key audit matters), and Israel (Tahal Group International B.V.'s subsidiary Tahal) given the importance of revenue recognition of water infrastructure projects (refer to key audit matters). We have also visited the Ukraine, where a short term car rental operation is run (part of Kardan Financial Services B.V.). Although the operations in the Ukraine are not material for Kardan N.V., we have visited this location as it is a first year audit and it increases our understanding of the activities.

The Group consolidation, statutory financial statements disclosures and a number of complex items are audited by the Group engagement team at the head office, these include going concern, debentures, share based payments and derivative financial instruments (forwards).

We have performed review engagements on the condensed consolidated interim financial information for the quarterly reporting for the periods ended 30 June 2015 and 30 September 2015 and issued unqualified review reports dated 26 August 2015 and 25 November 2015.

By performing the procedures above at components, combined with additional procedures at Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the statutory financial statements. We have communicated the key audit matters to the Board of directors, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the statutory financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the statutory financial statements. Any comments we make on the results of our procedures should be read in this context.

Key audit matter	*How our audit addressed the matter*
Going concern **Note 1B in the statutory financial statements** We draw attention to Note 1B 'Financial position' to the consolidated financial statements which describes management's analysis with respect to the financial position of the Company and its ability to repay its liabilities. The going concern assumption is affected by subjective elements, including the timing of projected cash flows and negotiations with third parties relating to the sale and settlement of assets. The going concern assumption therefore involves significant judgement. The Board of directors of the Company is monitoring the liquidity of the Company continuously and prepares two-year cash flow forecasts on a quarterly basis. Given the importance of the assessment of the Board of directors whether the application of the going concern assumption is appropriate for this Company, we addressed this as a key audit matter.	We have evaluated the assumptions and methodologies used by the Board of directors to prepare the cash flow forecasts. We have assessed and challenged the liquidity analysis of Kardan N.V. and challenged the Company in its believe that it will be able to generate enough funds to repay its liabilities for the coming year, being mainly the repayment of the debentures in March 2017. We have analysed the sale contract of TBIF and reconciled cash outflows with the final debt settlement of July 2015. We have discussed the going concern assumption with the Board of directors and the Audit Committee on a quarterly basis and evaluated the status of the process to sell some of the assets, including the sale of TBIF, available cash resources and other assumptions in the cash flow forecasts. We also assessed the appropriateness of the disclosure relating to the going concern in Note 1B.

Key audit matter	*How our audit addressed the matter*
Valuation of investment property **Note 7 in the statutory financial statements** The investment property of the Company's subsidiary Kardan Land China Ltd., represents a significant part of the total assets (26%) of the Group and is valuated at fair value for an amount of € 250 million. Management of Kardan Land China Ltd. is determining the fair value of its investment property on a quarterly basis and has used an external appraisal to support the valuation as at 30 June 2015 and as at 31 December 2015. The valuation of the investment property at fair value is highly dependent on estimates and assumptions, such as rental value, occupancy rates, discount rates, maintenance status, financial stability of tenants, market knowledge and historical transactions. The disclosures relating to the assumptions are relevant, given the estimation uncertainty and sensitivity of the valuations. Given the size and complexity of the valuation of investment property and the importance of the disclosures relating to the assumptions used in the valuation, we addressed this as a key audit matter.	We have challenged the assumptions and estimates made by management of Kardan Land China Ltd. and the external appraiser in the valuation methodology about the appropriateness of the property related data supporting the (movements in) fair value of the investment properties. PwC real estate specialists were part of our audit team for challenging the external valuation, including the assumptions and estimates used. Amongst other, we have considered the objectivity, independence and expertise of the external appraisers. We also assessed the appropriateness of the disclosures relating to the (sensitivity of the) assumptions.

Key audit matter	How our audit addressed the matter
Valuation of loans to bank customers **Note 10 in the statutory financial statements** The valuation of the loans to bank customers of the Company's subsidiary TBI Bank represents a significant part of the total assets (14%) of the Group amounting to € 138 million. The determination of the loan loss provision is dependent on estimates with respect to the probability of default and estimated losses at default made by management. The bank has a process for determining the loan loss provision and assesses the credit quality frequently. Each quarter management of the Bank prepares, based on historical information, the collective loan loss provisioning calculation including incurred losses and loss ratios. For individual significant loans, management of the Bank determines the provision on a case by case basis based on valuation models. The disclosures relating to the loans to bank customers are considered important to users of the statutory financial statements given the estimation uncertainty and sensitivity of the valuations. Given the size and complexity we therefore identified the valuation of the loans to bank customers and the completeness of the loan loss provision as a key audit matter.	We have performed procedures to gain a detailed understanding of the valuation of the loan loss provision. We have tested internal controls, with respect to issuing and monitoring of loans and we have performed detailed substantive procedures on individual significant loans and collective loan portfolios, including back testing and a subsequent run off analysis as at March 2016. We have verified whether the accounting of the loan loss provision is adequate, we have assessed the loan related data and challenged the assumptions used in the valuation models, mainly by back testing. We have further focused on the adequacy of the Company's disclosure regarding the loan loss provision and the related risks such as credit risk and liquidity risk. We also assessed the appropriateness of the disclosures relating to the loans to bank customers.
Revenue recognition of water infrastructure projects ('contract revenues') The revenue recognition of water infrastructure projects at the Company's subsidiary Tahal represents a significant part of total revenue of the Group (78%) amounting to € 168 million and is affected by subjective elements including estimated percentage of completion, progress of the project and cut-off of revenues. We have therefore identified revenue recognition, in specific the percentage of completion and project recoverability, as a key audit matter.	We have tested internal controls with respect to revenue recognition of water infrastructure projects, which include among others, budget controls, progress monitoring controls of the projects and controls with respect to determining the completion stage of projects. We have performed detailed substantive procedures on the significant projects, including discussions with project leaders and evaluated management assumptions in the determination of the percentage of completion of a project and hence the amount of recognised revenue.

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 as detailed in the corporate governance section of the annual report and has defined a compliance risk appetite to manage compliance risks divided into counterparty conduct, employee conduct, services conduct and organizational conduct. In view of the considerations outlined above, we addressed the risk of management override of controls as a key audit matter.	In our audit, we performed procedures which allow us to rely, to the extent possible, on management's governance structure. We performed audit procedures designed to identify the risk of management override of controls. These procedures included, amongst others, an assessment of the 'tone-at-the-top' and the compliance with Kardan's policies, laws and regulations. We have applied professional skepticism and assessed key internal controls and the follow up on whistle blower allegations and integrity incidents, business ethics, revenue recognition principles, cost cut off procedures and year-end estimates of accruals. We tested a selection of manual journal entries and we included unpredictability as part of our audit. We made specific enquiries at different levels in the organisation on fraud risk.

Responsibilities of the Board of directors

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 the preparation of the Board of directors' report in accordance 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.

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 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.

A more detailed description of our responsibilities is set out in the appendix to our report.

Report on other legal and regulatory requirements

Our report on the Board of directors' report and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the Board of directors' report and other information):

- We have no deficiencies to report as a result of our examination whether the Board of directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the Board of directors' report, to the extent we can assess, is consistent with the statutory financial statements.

Our appointment

We were appointed as auditors of Kardan N.V. by the shareholders at the annual meeting held on 28 May 2015.

Amsterdam, 14 April 2016
PricewaterhouseCoopers Accountants N.V.

Original signed by E. Hartkamp RA

Appendix to our auditor's report on the statutory financial statements 2015 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 skepticism 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 others of:

- Identifying and assessing the risks of material misstatement of the statutory financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of directors.
- Concluding on the appropriateness of the Board of directors' use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the statutory financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the statutory financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the statutory financial statements, including the disclosures, and evaluating whether the statutory financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the Company's statutory financial statements we are responsible for the direction, supervision and performance of the Group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the statutory financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of Group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected Group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of directors, we determine those matters that were of most significance in the audit of the statutory financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Additional Financial Information

According to Rule 9C of the Israeli SEC

Herewith financial data and separate financial information related to the company-only derived from the consolidated financial statements of the Company as of December 31, 2015 which is published as part of the annual report (herewith – Consolidated Financial Statements), presented according to Rule 9c to the Israeli Securities and Exchange Regulations (Periodic and Immediate Reports), 1970. The main accounting policies that were used for this financial information are described in the notes to the Consolidated Financial Statements. The notes to this financial information are those not included in the notes to the Consolidated Financial Statements.

Additional Financial Information from the Company's Statement of Financial Position

December 31, 2015

€ in '000	Additional information	December 31, 2015	December 31, 2014
Assets			
Non-current assets			
Tangible fixed assets		114	127
Financial fixed assets			
Investments in consolidated subsidiaries		550,493	456,880
Loans to consolidated subsidiaries		22	20
		550,629	**457,027**
Current assets			
Cash and cash equivalents	2	22,867	605
Short-term investments	3	137	796
Other receivables	4	687	536
		23,691	**1,937**
Total assets		**574,320**	**458,964**
Equity and liabilities			
Equity attributable to equity shareholders			
Share capital		25,276	23,041
Share premium		206,482	208,002
Property revaluation reserve		36,713	21,033
Other reserves		8,144	10,765
Foreign currency translation reserve		24,711	23,943
Non controlling interest holders transaction reserve		15,669	15,178
Treasury shares		–	(2,625)
Accumulated deficit		(245,534)	(206,939)
		71,461	**92,398**
Long-term liabilities			
Debentures		468,407	258,226
Option liability		2,035	–
		470,442	**258,226**
Current liabilities			
Current maturities of debentures		–	90,630
Other payables		32,417	17,710
		32,417	**108,340**
Total equity and liabilities		**574,320**	**458,964**

Additional Information from the Company's Income Statement

€ in '000	For the year ended December 31,		
	2015	2014	2013
Net result from investments for the year	45,827	31,079	(56,931)
General and administrative expenses, net	(4,585)	(5,508)	(3,982)
Profit (loss) from operations before financing expenses	**41,242**	**25,571**	**(60,913)**
Finance income	23	286	151
Finance expenses	63,703	20,432	37,328
Financing expenses, net	**63,680**	**20,146**	**37,177**
Income tax expense	477	334	3,243
Net profit (loss) for the year	**(22,915)**	**5,091**	**(101,333)**

Additional Information from the Company-only Statement of Comprehensive Income

€ in '000	For the year ended December 31,		
	2015	2014	2013
Net profit (loss) for the year	**(22,915)**	**5,091**	**(101,333)**
Foreign currency translation differences	768	30,701	(4,218)
Change in hedge reserve, net	(2,784)	(3,754)	4,142
Other comprehensive income (expense) for the year to be reclassified to profit or loss in subsequent periods	(2,016)	26,947	(76)
Total comprehensive income (expense)	**(24,931)**	**32,038**	**(101,409)**

Additional Information from the Company-only Cash Flow Statement

€ in '000	For the year ended December 31, 2015	2014	2013
Cash flow from operating activities of the Company			
Profit (loss) for the year	(22,915)	5,091	(101,333)
Adjustments to reconcile profit (loss) to net cash of the Company			
Change in fair value of hedge instruments	–	–	(1,510)
Financial expense	64,013	23,561	19,495
Dividend received	53,742	78,557	75,474
Share-based payment	163	191	276
Equity losses (earnings)	(45,827)	(31,079)	56,931
Changes in working capital of the Company			
Change in receivables	(138)	(730)	22
Change in payables	(1,154)	1,474	(821)
Cash amounts paid and received during the year			
Interest paid	(18,676)	(2,997)	(20,256)
Interest received	20	10	151
Net cash provided by (used in) operating activities of the Company	**29,228**	**74,078**	**28,429**
Cash flow from investing activities of the company			
Short term investments, net	659	57	(286)
Net cash provided by (used in) investing activities of the Company	**659**	**57**	**(286)**
Cash flow from financing activities			
Investment in shares of a subsidiary	(150)	(21,966)	(24,253)
Debentures settlement payment	(750)	–	–
Proceeds from sales of hedge instruments	–	–	11,634
Repayment of long term debt	(6,725)	(67,788)	(50,537)
Net cash used in financing activities of the Company	**(7,625)**	**(89,754)**	**(63,156)**
Increase / (decrease) in cash and cash equivalents of the Company	**22,262**	**(15,619)**	**(35,013)**
Cash and cash equivalents at beginning of the period	605	16,224	51,237
Cash and cash equivalents of the Company at end of the period	**22,867**	**605**	**16,224**

Notes to the Additional Information

1 Financial Position

As at December 31, 2015 the Company had, on a stand-alone basis and in the consolidated financial statements a working capital deficit of €2 million and €9 million, respectively (excluding inter-company balances).

The Company prepared a two year liquidity analysis as part of its normal course of business which addresses the required liquidity to be able to pay interest and repay the next principal of the debentures in February 2017 and all its other liabilities and to finance its operating activities. Included in this analysis are, among others, the current cash balances and cash from future operations and transactions.

In 2015 the Company reached a debt settlement with its Debentures Holders with respect to payment of the Company's debentures series A and B. The Amended Deeds of Trust ('the Amended Deeds of Trust') were signed in the beginning of July 2015. The principles of the debt settlement are outlined in Note C below.

In accordance with the provisions of the Amended Deeds of Trust, the Company paid interest in February 2016 using its available cash balances (€23.3 million). The February 2017 payment (approximately €110 million) is to be funded through existing cash balances, cash generated from the repayment of certain shareholder's loans by some of the Company's subsidiaries, and sale of assets, including proceeds from the sale of the remaining 25% in KWIG and proceeds from the sale of TBIF (for details see Note 5B(3) and 40 to the consolidated financial statements, respectively).

The sale of TBIF is subject to certain conditions precedent, including the receipt of regulatory approvals and the approval of the meetings of Kardan's debenture holders (Series A and Series B, 'Debenture Holders') to certain terms of the agreement. The Company notes, however, that there is no certainty that the sale of TBIF will be completed.

The Company continues to explore other avenues for the realization of cash to meet its future liabilities.

The realization of some the Company's plans depends on factors that are not wholly within the Company's control, however the Company believes that given the status of the deals and other options it will be able to generate enough funds to repay its liabilities as they mature in the foreseeable future.

The Board and management believe that there is no material uncertainty which may cast significant doubt regarding the Company's ability to repay its liabilities when they become due and its ability to continue as a going concern. The Company's financial statements as at December 31, 2015 have therefore been prepared on the assumption the Company will continue as a going concern.

A. Debt settlement between the Company and its Debenture Holders

In July 2015 of the Company and the trustees to the Debenture Holders signed the Amended Deeds of Trust, which lay down the principals and provisions of the final debt settlement. Once the Amended Deeds of Trust became effective, the interim arrangement which was approved on January 6, 2015 was cancelled.

Interim debt settlement - main principles

Postponement of principal and interest payments - Series A:

A. According to the interim arrangement, the principal payment which the Company originally had to pay on February 25, 2015 to the debenture holders (series A) was postponed to August 25, 2015. The deferred principal payment shall bear annual interest at the rate of 6.325% (an addition of 1.875% to the nominal interest rate of the original deed of trust) for the period from February 25, 2015 to the earlier of August 25, 2015 or the date of an early repayment, all including linkage differences.

B. According to the interim arrangement, the interest amount which the Company originally had to pay on February 25, 2015 to the debenture holders (series A) shall bear annual interest at the rate of 6.825% for the period from February 25, 2015 to the earlier of August 25, 2015 or the date of an early repayment, all including linkage differences.

Postponement of principal and interest payments - Series B:

A. According to the interim arrangement, the principal payment which the Company originally had to pay on February 1, 2015 to the debenture holders (series B) was postponed to August 1, 2015. The deferred principal payment shall bear annual interest at the rate of 6.775% (an addition of 1.875% to the nominal interest rate of the original deed of trust) for the period from February 1, 2015 to the earlier of August 1, 2015 or an early repayment date and all including linkage differences.

B. According to the interim arrangement, the interest which the Company originally had to pay on February 1, 2015 to the debenture holders (series B) shall bear annual interest at the rate of 7.275% for the period from February 1, 2015 to the earlier of August 1, 2015 or an early repayment date and all including linkage differences.

The postponed interest and the additional interest as described above were paid in full on March 31, 2015 (see Note 24 to the consolidated financial statements).

Establishment of pledges in favor of the debenture holders

In accordance with the interim arrangement, the Company established and registered a primary, exclusive pledge with no limitations of amounts, over GTC RE's shares and on the accompanying rights of these shares, including dividends, options, bonus shares etc. in favor of the trustees of the debenture holders.

Final debt settlement - main principles

The Amended Deeds of Trust, dated July 3, 2015 constitute new deeds of trust to series A and B and which replaced the original deeds of trust, including all related amendments. This final settlement postpones 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 Amended Deeds of Trust.

Principal and interest payments

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 are postponed to February 25, 2017 and February 25, 2018, respectively.

B. No change will occur in the interest payment dates set in the deeds of trust, except the February 2015 interest payment, which will be paid according to the interim arrangement, as detailed above. The interest set in the deed of trust will be increased by 1.875%, so that the principal of Debentures Series A shall bear an annual 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 shall be postponed by 24 months, excluding the principal payments of 2019 and 2020, which shall remain unchanged (and shall grow, due to the postponement of the principal payments of this series from 2017 and 2018 to 2019 and 2020).

B. No change will occur in the interest payment dates set in the deed of trust, except the February 2015 interest payment, which will be paid according to the interim arrangement, as detailed above.

The interest set in the deed of trust will be increased by 1.875%, so that the principal of Debentures Series B shall bear an annual interest rate of 6.775%, payable once a year, on February 1 of each year from 2016 up to and including 2020.

Issuance of shares and a onetime payment to the debenture holders

In accordance with the Amended Deeds of Trust, on July 15, 2015 the Company allocated to the Debenture Holders, without consideration, shares of the Company, which constituted approximately 10% of the Company's issued and paid in capital immediately after the issuance. In addition, the Company made a cash payment of €750,000 to the Debenture Holders. Refer also to Note 18 to the consolidated financial statements for further details regarding the issuance of shares.

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, TBIF, 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.

The aforesaid pledges were not yet registered, even though the agreed period to register them has passed, due to delays concerning the negotiation between the parties regarding the wording of the pledge documents which are not fundamental disagreements between the parties. The Company is working on completing the registration of the pledges in the near future, and as of the date of approving these financial statements it does not expect the delays to result in immediate repayment.

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 Amended Deeds of Trust. If the Company's coverage ratio in the years 2015-2017 shall be lower than 110%, and as of 2018 – lower than 130%, KLC's coverage ratio shall not be lower than 180%.

Additional provisions

Some additional provisions have been established to guarantee the rights of the Debenture Holders including: provisions which regulate the early

repayment of debt to the Debenture Holders from sources which will become available to the Company, restrictions on dividend distribution, limitations on general and administrative expenses of the Company and payments to controlling shareholders, restrictions on specific new investments, various restrictions on raising credit and the right to appoint a director on behalf of the debenture holders to the Company's board of the directors and KLC's board. In addition the approval by both general meetings of the Debenture Holders (by a regular majority or a special one as the case may be) will be required before certain actions, including transferring of the control in the Company and transactions with controlling shareholders.
It was also agreed that the Company may retain certain amounts, prior to an early repayment, for general and administrative expenses, interest payment to the debenture holders, the Company's obligations in respect of the GTC SA transaction (see Note 5 to the consolidated financial statements) as well as for supporting its subsidiaries.

Purchase of Debentures
According to the Amended Deeds of Trust, the Company or any entity under its control shall be permitted to purchase the Company's Debentures (series A and B) at any price only through the Tel Aviv Stock Exchange subject to some preconditions detailed in the Amended Deeds of Trust.

Debentures purchased by the Company will expire and deleted from trade on the stock exchange.
A corporation controlled by the Company that will purchase Debentures of the Company, will have to choose, in its discretion whether to transfer the Debentures to the Company for expiry or to pledge the Debentures in favor of the trustee of that series.

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 Amended Deeds of Trust.
KFS and TBIF 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 and TBIF themselves shall not be allowed to raise any credit, except for credit taken by KFS from TBIF, or short term credit that will be taken by any of them from a corporation under their control in an aggregate amount not exceeding €5 million.
Any corporation under their control shall be allowed to obtain unlimited credit, for the purpose of its business activity subject to the conditions detailed in the Amended 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 Amended 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 Amended 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 and TBIF (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 Amended Deeds of Trust).

Accounting

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

2 Cash and Cash Equivalents

€ in '000	December 31, 2015	December 31, 2014
EURO	3,942	594
NIS	18,603	10
USD	322	1
	22,867	**605**

Cash and cash equivalents include primarily short-term deposits.
The average interest rate on short term deposits was 0.2%-1.5% p.a. in 2015 and 2014.

3 Short-Term Investments

€ in '000	December 31, 2015	December 31, 2014
Pledged deposit	130	732
Deposit in a trust account	7	64
	137	**796**

The average interest earned in 2015 and 2014 was 0.5%.

4 Other Receivables

€ in '000	December 31, 2015	December 31, 2014
Intercompany debtors	468	416
Prepaid expenses	208	120
Other	11	–
	687	**536**

5 Details of material financial assets in accordance with IAS 39

€ in '000	December 31, 2015	December 31, 2014
Financial assets:		
Loans to subsidiaries	22	20
Receivables	687	536
Short term investments	137	796
Cash and cash equivalents	22,867	605
	23,713	**1,957**

6 Expected realization periods of material financial assets and liabilities grouped in accordance with IAS 39 classifications:

Financial assets as of December 31, 2015

€ in '000	Up to 1 year	1-2 years	2-3 years	Total
Cash and short term Investments	23,005	–	–	23,005
Loans and receivables	687	–	–	687
	23,692	**–**	**–**	**23,692**

Financial assets as of December 31, 2014

€ in '000	Up to 1 year	1-2 years	2-3 years	Total
Cash and short term Investments	1,401	–	–	1,401
Loans and receivables	536	–	–	536
	1,937	**–**	**–**	**1,937**

Financial liabilities as of December 31, 2015

€ in '000	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Debentures *	30,811	159,368	161,234	122,020	114,739	–	588,172
Option liability	–	–	–	–	–	2,035	2,035
Total	30,811	159,368	161,234	122,020	114,739	2,035	**590,207**

* Including interest

Financial liabilities as of December 31, 2014

€ in '000	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Debentures *	107,425	103,200	50,921	48,835	46,749	44,662	401,792
Total	**107,425**	**103,200**	**50,921**	**48,835**	**46,749**	**44,662**	**401,792**

* Including interest, net of repurchased debentured held by Emerging Investments XII B.V.
(For additional information see Note 9b)

The majority of the Company's financial assets, other than cash, are denominated in EURO.

7 Taxes on income

For information regarding to taxes on income refer to Note 36 to the Consolidated Financial Statements.

8 Loans, mutual balances, commitments and transactions with investee companies

A Balances with investee companies

€ in '000	December 31, 2015	December 31, 2014
Debentures held by subsidiaries	119,214	13,657
The largest amount of loans and current debts during the year	22	20
Guarantees in favor of investee companies *	–	861

* The guarantees are in respect of loans granted to subsidiaries.

B Transactions with investee companies

€ in '000	December 31,		
	2015	2014	2013
Management fees	687	522	922
Guarantee fees	–	22	71
General and administrative expenses	254	467	552

9 Additional information

a Modification of option plan

In August 2015, the General Meeting of Shareholders of the Company approved a modification to the option plan of the Company's CEO, which replaced his existing option plan. For additional information reference is made to Note 19 of the Consolidated Financial Statements.

b Offset of financial instruments and capitalization of loan to Emerging Investments XII

Following the signing of the Amended Deeds of Trust on July 3, 2015, the Company can no longer offset the loan it has granted to Emerging Investments XII ('EI XII') with its liability towards EI XII arising from the Company's debentures held by EI XII and present it on a net basis. The balance of the loan as of July 3, 2015 (including accumulated interest) amounted to €103.6 million. In addition, on the same date, the Company decided to capitalize the entire loan to the equity of EI XII as share premium.

Board of Directors

P. Sheldon

S. Oren

A. May

A. Schnur

J. Grunfeld

E. Rechter

E. Seinstra

C. van den Bos

B. Marsman

Glossary

AGM
Annual General Meeting of Shareholders

Amended Deeds of Trust
The amended deeds of trust 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 for a debt settlement. For details regarding the Debt Settlement, reference is made to note 1 of the financial statements

Annual Report
The Board Report and the Statutory Financial Statements of Kardan N.V. combined

Articles
The articles of association of Kardan N.V.

Audit Committee
The audit committee of the Board of Kardan N.V.

Barnea
The Israeli equivalent of the Annual Report and the Statutory Financial Statements

Board
The board of directors of Kardan N.V.

Board Member
Member of the Board

Board Regulations
Regulations pertaining to the responsibilities and functioning of the Board

CEE
Central and Eastern Europe

CEO
Chief executive officer of the Company and executive member of the Board, Mr. Shouky Oren

CFO
Chief financial officer of the Company and member of the Executive Management of Kardan, Mrs. Einat Oz-Gabber

Chairman
Chairman of the Board, Mr. Peter Sheldon

Code
Dutch Corporate Governance Code adopted on December 9, 2003, as amended per January 1, 2009

Company
Kardan N.V.

Committee
A committee of the Board

CPI
The Israeli consumer price index

CSR
Corporate Social Responsibility

Debentures
Debentures Series A and Series B issued by Kardan N.V., listed on the Tel Aviv Stock Exchange

Debenture Holders
Holders of Debenture Series A and of Debenture Series B, as issued by Kardan N.V., combined

Debt Settlement
The agreement with the Debenture Holders regarding debt restructuring.
Reference is made to Note 1 of the Financial Statements

delivered/handed over
Residential apartments are usually handed over / delivered approximately 18-24 months after they have been sold. Only at the moment that an apartment is handed over / delivered will the selling price be recognized as revenue in the income statement

Diversification
The strategy to diversify our activities over various countries and sectors in order to decrease risks

EGM
Extraordinary General Meeting of Shareholders

EPC
Engineering, Procurement and Construction projects. Tahal Projects engages in EPC and in design projects

ESG
Environmental and Social Governance

Executive Management
The CEO (who is also the executive Board Member) together with the CFO and the Vice President Business Development

Financial Statements
The formal report of the financial results of a business

General Meeting of Shareholders
The corporate body representing the shareholders of Kardan

GLA
Gross Leasable Area; a term used to indicate the total floor space of real estate, which includes all the common areas

GTC RE
GTC Real Estate Holding B.V., a wholly owned subsidiary of Kardan N.V.

head office
The head office of an operating subsidiary of Kardan

headquarters
The headquarters of Kardan N.V., located in Amsterdam, the Netherlands

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 100% owner of TBIF

KLC
Kardan Land China Ltd., the wholly owned subsidiary of GTC RE, active in China in mixed-use projects (retail combined with residential) and residential real estate

KWIG
Kardan Water International Group, a wholly owned subsidiary of Tahal Assets, located in China.
In January 2015 the sale of KWIG was announced

LEED
'Leadership in Energy and Environmental Design' is a set of rating systems for the design, construction, operation, and maintenance of green buildings, homes and neighborhoods and is developed by the U.S. Green Building Council (USGBC)

mixed-use
Real estate projects in which retail centers are combined with residential apartments

NIS
The Israeli currency, New Israeli Shekel

NRA
Net Rentable Area: the actual square footage of the tenant's space

Platform
A head quarter of a division or a regional management office of a division

RAS Committee
The remuneration, appointment and selection committee of the Board of Kardan

RMB
The Chinese currency, the Renminbi

Shareholders
Shareholders of Kardan N.V.

SOHO
Small office home office apartments. This term is used by KLC to reflect residential apartments with a business appropriation

Shelf Prospectus
A shelf prospectus is a generic prospectus that serves as a primary document to enable a company to offer to the public, via the Tel Aviv Stock Exchange ('TASE'), all types of securities as described in it, several times and on different dates, during the effective period of the shelf prospectus (two years with the possibility to extend one more year after having been approved by the Israel Securities Authority) by only having to additionally publish a Shelf Offering Report. It gives a company the possibility to act faster once a decision regarding an offering has been taken

Special Committee
A sub-committee of the Board, assigned to address a specific topic

Tahal
The business unit of Tahal Group International which focuses on water and irrigation projects in emerging and frontier markets

TBIF
TBIF Financial Services BV, the wholly owned banking and retail lending business unit of KFS

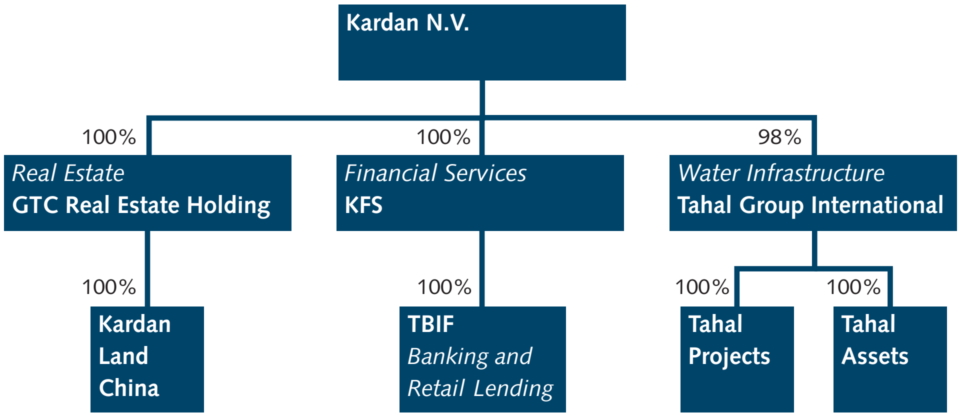
TGI
Tahal Group International B.V., a 98% subsidiary of Kardan N.V.

Tier 2/3
In respect of China: cities that are considered less developed than the four tier 1 (Beijing, Shanghai, Guangzhou and Shenzhen) cities
The tier 2 and tier 3 cities are considered to be the fast growing cities which are most impacted by the urbanization

Vice-Chairman
The vice-chairman of the Board of Directors of Kardan

Vice President Business Development
The vice president business development of Kardan N.V., Mr. Guy Elias

Organization Chart Kardan N.V. (April 2016)



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