Annual Report

2014

Real Estate Real Estate | Water Infrastructure | Financial Services | Emerging Markets | Sustainable solutions | International focus | Local operations | Real Estate | Water Infrastructure | Financial Services | Emerging Markets | Sustainable solutions | International **Water Infrastructure** Real Estate | Water Infrastructure | Financial Services | Emerging Markets | Sustainable solutions | International focus | **Financial Services** Real Estate | Water Infrastructure | Financial Services | Emerging Markets | Sustainable solutions | International focus | Local operations | Real Estate | Water Infrastructure | Financial Services | **Emerging Markets** Sustainable solutions | International focus | Local operations | Real Estate | Water Infrastructure | Financial Services | Emerging Markets | Sustainable solutions | International focus | Local operations | Real Estate | **Sustainable solutions** Services | Emerging Markets | Sustainable solutions | International focus | Local operations | Real Estate | Water Infrastructure | Financial Services | **International focus** solutions | International focus | Local operations | Real Estate | Water Infrastructure | Financial Services | Emerging Markets | Sustainable solutions | International focus | Local operations | Real Estate | Water Infrastructure | **Local operations** Markets | Sustainable

KARDAN N.V.

Profile

Kardan identifies and develops projects and assets in promising emerging markets, mainly in Asia (predominantly China), Africa and selected CEE and CIS countries. We are mainly focused on three sectors that benefit from the rising middle class, Real Estate, Water Infrastructure and Banking and Retail Lending, through our main operating companies Kardan Land China, Tahal and TBIF. We aim to hold controlling interests in our investments and are actively involved in the definition and implementation of our strategy through our local business platforms.
Our company headquarters are in the Netherlands. Kardan is listed on Euronext Amsterdam and the Tel Aviv Stock Exchange.

€ in million	2014	2013	2012
Revenues	257.8	208.0	161.8
Net profit (loss) before income taxes	21.6	(32.4)	(6.0)
Net profit (loss)	5.1	(122.0)	(138.9)
Net profit (loss) net of non-controlling interest	5.1	(101.4)	(32.8)
Total equity	97.8	71.8	708.6
Equity net of non-controlling interest	92.4	66.1	166.2
Total consolidated assets	1,013.6	924,6	2,986.7
Solvency (total equity/total consolidated assets)	9.6%	7.8%	23.7%
Return on average equity net of non-controlling interest	6.4%	(87.3%)	(17.8%)
Number of employees (as at year-end)	2,554	2,873	3,056

€ per share	2014	2013	2012
Basic earnings (loss)	0.05	(0.92)	(0.3)
Diluted earnings (loss)	0.05	(0.92)	(0.3)
Total consolidated equity	0.88	0.65	6.41
Equity net of non-controlling interest	0.83	0.60	1.50
Number of shares (used for calculation of information per share, in 000')			
	110,753,633	110,575,647	110,419,779
December 31	111,848,583	111,848,583	111,824,638
Weighted average for the year *	110,753,633	110,575,647	110,419,779
Diluted	110,753,633	110,575,647	110,419,779

* Excluding treasury shares outstanding as of December 31

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KARDAN N.V.

Annual Report 2014

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 in March 2014, 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's Business Strategy

Background

Our business philosophy is based on the view that emerging markets generally grow and develop faster than developed markets and that this growth significantly increases middle class economic power. This in turn leads to greater demand for housing, retail centers, adequate water infrastructure and a range of retail financial services. Accordingly, Kardan developed and managed assets and projects in a number of carefully selected emerging markets in real estate, water infrastructure and retail banking. In order to fund our activities in 2007 and 2008, we issued two debentures in Israel, to be repaid between 2013 and 2020. The global financial crisis of 2008 and the ensuing European sovereign debt crisis both resulted in substantial economic downturns, negative consumer and investment sentiment and increasing unemployment, among others. The financial services and the real estate sector were particularly severely impacted. As our portfolio comprised substantial real estate assets as well as a sizeable financial services group, we were faced with large impairments and devaluations of our assets leading to significant consolidated losses. In addition, market circumstances were not favorable for selling assets which, in line with our strategy, would accommodate repayment of debt and investment in new assets.

Taking advantage of strategic and timely opportunities however, we have managed to sell various assets, including our Central and Eastern European real estate activities. During this period also, as a result of focused strategies and various reorganization plans, our continuing operating subsidiaries were able to generally report positive results from operations before finance expenses.

During 2014 it became clear that, as a result of the still heavy debt burden and to maintain the future viability of Kardan, we should seek a rescheduling of future payments with our Debenture Holders whilst committing to a full repayment of those debts. Early 2015, the Debenture Holders agreed to postpone the February 2015 repayment of principal and interest until August 2015, and to the main principles of a debt settlement* – entailing in headline deferring payment of some principals by 24 months against certain conditions, restrictions and collateral – which are now being formalized in new deeds of trust to be approved by the Debenture Holders.

Strategy

Given the background as painted above, Kardan's current strategy is focused on the repayment of debt according to the Principles of the Debt Settlement. 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.

The principle agreements with our Debenture Holders include certain business restrictions, such as provisions relating to our real estate company, Kardan Land China ('KLC'). KLC will for now, primarily focus on a successful opening of the shopping mall of its Europark Dalian project, which combines a major retail and entertainment center with luxury residential and small office apartments, and currently has a 63% occupancy. Galleria Dalian, which has already won design awards, reflects KLC's target to lead the way in developing and managing malls in which family entertainment is a key element. In addition to completing the Europark Dalian project, KLC 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 primarily due to population growth. It is dedicated to providing high quality integral EPC (Engineering, Procurement and Construction) project management expertise with a specific focus on water

* For further information regarding the Principle Debt Settlement see Note 1 to the 2014 Financial Statements.

related projects, including agricultural development, solid waste and natural gas and to delivering sustainable solutions based on its specialist engineering expertise.

Kardan Financial Services, through its operating company TBIF in Bulgaria and Romania, aims to further strengthen its market position by servicing SME (small and medium sized enterprises) and retail clients efficiently and recognizing their individual needs.
By using multiple sales channels, (branches, points of sale, direct sales force, online marketing and sales) TBIF provides both standardized as well as tailor made services and solutions to its clients.

Foreword of the Chairman

Following a number of recent years where Kardan's performance has been generally disappointing, I am pleased to be able to report on 2014, our first profitable year since 2008, reflecting the substantial changes that we have made within Kardan during the year. This has also been a year in which we have successfully initiated and completed a number of transactions to sell assets and have made great strides in restructuring our crippling debt burden, providing an opportunity for the Company to focus once again on increasing shareholder value.

In light of the many challenges that Kardan faced during the year, I am delighted that all our subsidiaries have reported profits from operations before finance expenses and tax.

In September 2014, the Board decided that it was timely to formally enter into negotiations with our Debenture Holders to examine the possibility of postponing the instalments on our Debentures in order to reduce the financial pressures we were facing.

From the outset, we were firm in our resolve to pay down the debt in full. Rescheduling the Debenture payments would allow us more time to create additional value in our assets and in our operating companies. These negotiations, conducted by our CEO, Shouky Oren, and his team with considerable skill and patience, were by their very nature very complicated and time consuming and the members of the Board were kept informed and involved throughout the whole process. Early January 2015, an agreement in principle was approved by the Board and the Debenture Holders. This entails an initial six month postponement of the February 2015 installments and interest together with approval for the representatives of the Debenture Holders to work with us on formalizing the agreement – postponing the bulk of the installments by two years, against certain conditions, collateral and restrictions – in new deeds of trust. These will then again need to be approved by the Debenture Holders.

During the year 2014 our Board also focused on the development of our operating companies and other issues. Early in 2014 the whole Board visited one of Tahal's water infrastructure operations in Israel, in line with our aim to become even better acquainted with Kardan's subsidiaries. In addition, we addressed risk management and dedicated specific attention to the risks we foresaw. The countries in which we operate encountered their own specific challenges last year, from continuing weak macroeconomic circumstances to geopolitical instability. We concluded, after having discussed our control systems with respect to risks, that – as far as possible – the Company has taken the appropriate measures to mitigate risks throughout the Group.

As we announced last year, Kardan has to comply with the mandatory rotation of audit firms for Dutch public interest entities as of January 1, 2016. Consequently, the Audit Committee – together with the Executive Management – reviewed the proposals of several audit firms and submitted its findings to the Board. This has resulted in a recommendation to our forthcoming AGM to appoint PWC as Kardan's external auditor responsible for auditing the annual accounts for the financial year 2015.

Early in 2014, the RAS Committee recommended the appointment of Mr. Guy Elias as a member of the Executive Management as well as Vice President Business Development, a recommendation that the Board has accepted. Our Executive Management, under the leadership of our CEO, Mr. Shouky Oren, and comprising Mrs. Einat Oz-Gabber as CFO and Mr. Elias, have made a significant contribution in 2014 to steering Kardan into calmer waters.

Another significant Board decision was to ratify a recommendation of the RAS Committee to introduce a remuneration policy for newly appointed senior managers throughout the Group, providing guidelines to better align their remuneration with the corporate objectives of Kardan and the objectives of the relevant Group company as well as according with best corporate guidelines and practice.

Looking back on 2014, I am particularly grateful for the dedication and commitment of my colleagues on the Board. The composition of our Board, comprising members with extensive financial, business and sector expertise, has proven its value. All of my Board colleagues contributed valuable individual insights, knowledge and experience from their different backgrounds during the many meetings held during the year. I consider it essential that a Board operates as a team and the fruitful bilateral meetings which I conducted with all Board members in 2014 have shown that all members share my view.

We consider good Corporate Governance essential to successfully execute Kardan's strategy. Moreover, besides complying with legal standards, we are of the opinion that having an ethical and social framework in place, which provides structure and clarity to our daily operations, helps us to be a responsible corporate citizen. In our view, setting a good example is essential for the internal organization and equally for our external relationships. I am therefore all the more proud to say that Kardan's workforce reflects the character of the Company: international, aiming for the best and being respectful. We have elaborated further on our objective to contribute to a sustainable future in this Annual Report, in the chapter on Environmental and Social Governance as well as in the specific chapters on the three divisions. In addition, I refer to the Corporate Governance Statement 2014 – which is posted on our website only (in line with Dutch legislation) and forms an integral part of our Annual Report – and to the chapter Governance and Compliance' starting on page 72 of this Annual Report for more detailed information.

Our Executive Management dedicated considerable time to relations with our various stakeholders and will continue to do so. Several meetings took place with the trustees and representatives of the Debenture Holders during the year, culminating in the debt settlement negotiations at the end of the year. In order to convey the full commitment of the Board to our resolve to pay back the debt in full, I joined our CEO in some of the meetings.

Our Board is firm in our resolve to overcome our challenges and to maximize the potential of our subsidiaries to create additional value in our Group and to provide a level of comfort to our Debenture Holders and other stakeholders. I believe that the steps we have taken recently to sell a subsidiary of TBIF, our stake in Galleria Chengdu (China) and our shares in KWIG (China) demonstrate this commitment.

All of our employees around the world – each contributing a specific part to the total picture that makes Kardan – have again shown great dedication and commitment during 2014, not always under easy circumstances. I am truly grateful to them. Moreover, I want to thank all our stakeholders for their trust. My colleagues and I are 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

'2014: a marked step towards a stronger company'

Looking back on 2014, I am pleased to note that our efforts to reorganize our business operations and our portfolio have paid off. Throughout the year our operating subsidiaries benefitted from a strong focus on their core activities and continuing cost awareness, generally resulting in profits from operations before financing expenses and tax in all quarters of 2014.

The reality of Kardan is, however, that although our subsidiaries are showing improving results, we continue to have a significant debt which we are committed to repay to our Debenture Holders.

At the beginning of the year 2014, we needed to repay installments on both Series A and Series B of our Debentures. In order to generate cash, and taking into account the still challenging circumstances for real estate companies in Central and Eastern Europe and thus the possibility of ongoing negative effects on the results of Kardan, we decided to sell our remaining stake in GTC SA at the end of 2013. The proceeds of this sale were used to first repay an outstanding bank loan and subsequently, combined with additional funds of Kardan, to fulfil our dues to the Debenture Holders.

We continued to embark on a number of sale processes during 2014 as it was clear that we needed to generate additional cash, predominantly through the sale of assets, for the upcoming repayments of Debentures at the beginning of 2015. Taking into account the additional challenge for our company to sell assets whilst having been branded as a company 'in trouble' by external parties, I am all the more pleased to note that these sales processes culminated in successful transactions in the fourth quarter of 2014 and the first quarter of 2015. We consequently reported a strong final quarter of 2014, which resulted in a net profit of EUR 5.1 million for the full year 2014, the first profitable year since 2008.

With the proceeds of the various sale transactions we were recently able to repay our only outstanding bank loan, thereby releasing the relating pledges.

It is important to point out that following the sale of GTC SA our company has become more exposed to foreign currency exchange movements as we report in Euro, we have our liabilities in NIS and our assets are predominantly RMB denominated. We therefore think it is important to also mention the total comprehensive income[1] of EUR 32.0 million for our equity holders in 2014. Due to the significant appreciation of the RMB versus the Euro and including our net profit our equity increased by 40% year on year.

1 Total comprehensive income comprises predominantly the net result combined with the direct equity impact of foreign currency translation differences and hedge reserves.

Real Estate

Our real estate operations, under the brand name Kardan Land China, are located in China where we have been operational since 2005. It is our policy to closely follow the strategy of the Chinese government, which is to shift its economic growth model from export dependent to internal consumption led growth. KLC is therefore focused on developing mixed-use projects, whereby retail and residential real estate go hand in hand, taking into account the 'lifestyle' requirements such as green surroundings, public transport access etc., and building on the emphasis that the government puts on stimulating consumers' purchasing behavior. Our significant project Europark in Dalian is indicative of our mission: to create a lifestyle experience for consumers and individuals with high quality requirements offering a complete shopping and entertainment area combined with apartments situated around a green park and connected to a subway station.

2014 was a challenging year for the Chinese government in which it was faced with the effects of a complicated and volatile international environment and a domestic speculative property market.

KLC experienced these difficult market circumstances in the development and sale of its residential apartment projects, as individuals adopted a 'wait and see' approach to buying an apartment for own use. Consequently, KLC decided to look into the possibility of selling the Europark Dalian residential apartment buildings en-bloc, which led to the successful sale and subsequent delivery of the A2 building in June and December 2014 respectively. However, indicative of the market circumstances, the sale and delivery of apartments from our joint venture projects in 2014 were significantly lower than during 2013.

The construction of the Europark shopping mall was near completion by year-end 2014 and, as a result of the great efforts which were put in attracting (anchor) tenants, at present some 63% of the mall has been pre-leased and more leases are about to be signed. The opening of the mall will take place in steps – mainly following preferences of tenants – in the coming months, with a large opening event to take place in the second half of this year.

And last but not least, in line with our focus on generating cash in order to be able to repay our debts, it was decided to sell the remaining 50% stake in the successful retail center in Chengdu. This sale was positively concluded at the end of the year 2014, and resulted in a significant gain.

Water Infrastructure

Although the water quantity on Earth has been stable for many years, the quality of water has deteriorated considerably, mainly due to population growth and urbanization. Moreover, as the (economic strength of the) middle class is growing, particularly in emerging markets, the demand for more and better food as well as an improved infrastructure is also increasing. Tahal Projects' 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 for one of the most critical challenges which the world faces today: providing water and food to people in need.

In 2014, Tahal Projects continued to capitalize on its sustainable reputation through large irrigation and engineering projects, mainly in Africa, and managed to sign up attractive new projects in its clearly defined core market sectors, such as water related projects with an agricultural focus. At year-end 2014, Tahal had a backlog of USD 358 million, 12% better than the year before. Moreover, Tahal Projects contributed a profit to the bottom line of Kardan, demonstrating – among other things – the success of all of the efficiency efforts taken by management in the past periods.

In the course of 2014, management of Tahal Assets, predominantly comprising KWIG in China, decided to sell its shares in KWIG as this company has an ongoing need for funding its capital intensive water treatment assets. Moreover, Tahal Group International wished to

be able to focus more on the EPC activities rendered by Tahal Projects and on the level of Kardan we were looking to generate cash. The announcement that we had signed a sale agreement for the shares of KWIG was made in January 2015 and in March the first phase (75%) of the transaction was concluded.
We plan to complete the second and final phase (25%) of this sale in the second quarter of 2015. Although this announcement to sell KWIG led to an impairment in the fourth quarter results 2014 results of Tahal Assets and consequently to a full year loss for the segment, we expect a significant gain in the first quarter of this year on this successful transaction.

Banking and Retail Lending

TBIF, our banking and retail lending operation, is predominantly operational in Bulgaria and Romania and has a stake in a car leasing operation in Ukraine. Bulgaria experienced political instability in 2014 as well as unrest in the banking sector as the fourth largest bank in the country was declared insolvent.
In Romania, confidence indicators improved which resulted in individuals and corporates slowing down their deleveraging. The political situation in Ukraine remained very unstable and volatile. Despite these markets, which were far from easy, TBIF recorded an excellent result and contributed a significant profit to our consolidated net result, indicating that the measures taken by management on various levels resulted in a stronger, better and resilient organization.

TBIF announced the sale of TBI Credit in the fourth quarter of 2014, which was recently concluded successfully. Already in 2013 we indicated that TBIF plans to sell its stake in AVIS Ukraine. We are monitoring the situation in Ukraine closely, both in respect to our operational results and our intention to sell.

Going forward

We look back on an interesting year 2014, in which we have accomplished a lot, both operationally as well as in terms of generating cash through the sale of assets. In addition, we initiated negotiations with our Debenture Holders in the second half of 2014, to examine the possibility of deferring the installments on our Debentures in order to reduce the financial pressures we were and are facing. Early 2015 we reached agreement with our Debenture Holders on postponing the upcoming (February 2015) payments for 6 months and on the main principles of a debt settlement, entailing in headline delaying payment of the bulk of the installments by 24 months against certain conditions, restrictions and collateral.
At present we are working with the representatives and trustees of the Debenture Holders on formalizing the agreed principles in new deeds of trusts, which then again need to be approved by the Debenture Holders. In postponing the payment of principal we can focus fully on continuing to improve the results – and thus value – of our operating subsidiaries.

Considering the measures taken throughout our Group, I am cautiously optimistic about the progress of our various operating companies. Resulting from the various transactions which were completed in the first quarter of this year we expect the net gains on the sale of TBI Credit and of KWIG to impact our first quarter 2015 results positively. However, as mentioned, we are particularly exposed to the movement of the NIS and the RMB. Whilst I am writing this letter, the NIS has again appreciated, thus leading to a negative impact on our financing expenses, and the RMB has also appreciated, leading to a positive impact on our equity.

We remain fully committed to strengthen the financial position of Kardan and to bring back stability to the Company.
I believe that we can achieve our objectives.

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, 2014 a total of 111,848,583[1] 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[2] that they had an interest of 3% or more in the share capital of Kardan as at December 31, 2014[3,4]:

DECEMBER 31, 2014
A TOTAL OF
111,848,583
ORDINARY SHARES HAVE BEEN ISSUED AND ARE OUTSTANDING

	Number of shares held (ordinary shares of € 0.20 each)	Holding rate
Y. Grunfeld (1)(4)	21,493,927	19.22%
A. Schnur (2)(4)	19,818,465	17.72%
E. Rechter (3)(4)	4,098,719	3.66%
Kardan Israel Ltd. (5)	12,300,330	11.00%
Migdal Insurance & Financial Holdings Ltd.	4,020,756	3.59%
M. Listenberg	5,696,313	5.10%

(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) Mr. Grunfeld, Mr. Schnur and Mr. Rechter have a voting agreement which represents approximately 40.6% of the votes.
(5) Mr. Grunfeld, Mr. Schnur and Mr. Rechter have a voting agreement with respect to their respective shareholdings in the capital of Kardan Yazamut (2011) Ltd. (42.64% jointly). Kardan Yazamut (2011) Ltd. holds 73.67% of the shares in the share capital of Kardan Israel Ltd, which holds 11% of the shares in the Company.

1 As part of the Principle Debt Settlement, shares representing 12% of the Company's share capital (after issuance) are planned to be issued to the Company's Debenture holders, series A and B.
2 Under Israeli Securities' Law, shareholders are required to disclose their shareholdings to TASE.
3 Figures may differ as the reporting obligations of shareholders depend on certain thresholds being met, as further described in the Dutch Financial Supervision Act.
4 Kardan N.V. and its wholly owned subsidiary GTC Real Estate Holding B.V. jointly hold 1,167,585 shares.

Board participations and employee options

Besides the above listed shareholdings of Mr. Grunfeld, Mr. Schnur and Mr. 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 2,532,135 options to purchase shares in the capital of Kardan are granted to a) the CEO as part of his remuneration (see also the Remuneration Report on page 79 of this Annual Report) and b) to 4 senior employees of Kardan (250,000 options in total), with an exercise price of EUR 1.298 (NIS 6.136).

Key financial figures per share

€ per share	2014	2013	2012
Basic earnings (loss)	0.05	(0.92)	(0.30)
Diluted earnings (loss)	0.05	(0.92)	(0.30)
Total consolidated equity	0.87	0.65	6.4
Equity net of non-controlling interest *	0.83	0.60	1.5

* Excluding treasury shares outstanding as of December 31

Share prices in 2014

	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 net profit of EUR 5.1 million over 2014. Given the Company's financial liabilities and commitments towards the Debenture Holders, the Board does not propose a distribution of dividend over 2014. For further information regarding the commitments towards the Debenture Holders see Note 1 of the Financial Statements.

Financial calendar

Q4 2014 and Annual results 2014 – March 26, 2015

Q1 2015 results – May 28, 2015

Annual General Meeting of Shareholders – May 28, 2015

Q2 2015 results – August 27, 2015

Q3 2015 results – November 26, 2015

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 2014.

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

During 2014, Kardan's management continued to focus on reducing Kardan's debt and on further improving the results of the operating companies. The main events in Kardan's portfolio of activities that took place during 2014, as well as the subsequent events in Q1 2015, predominantly reflect these two objectives and are described in more detail below, per division.

Kardan N.V.

In September 2014, following numerous meetings with the Debenture Holders and their representatives, our Board of Directors complied with a request of the trustees and the joint representatives of the Debenture Holders to enter into discussions in order to examine the possibility of coming to an agreement with the Debenture Holders on postponing the instalments payable by Kardan, with the commitment to repay the debt in full. In December, Kardan's Board of Directors decided to propose an agreement in principle regarding debt restructuring ('the Principles') to the Debenture Holders, as negotiated and agreed upon in principle with the trustees and representatives of the Debenture Holders.

The proposed agreement in principle, comprised two phases:

1) A proposal to amend the deeds of trust for Debentures Series A and Series B (combined referred to as 'the Immediate Amendment'), which in headline entailed to 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, which in headline entailed to postpone the majority of payment of principals by 24 months against certain conditions, restrictions and collateral.

On January 6, 2015 Kardan was informed that both meetings of the Debenture Holders had given their approval to the Immediate Amendment and to the trustees of both Series to conduct negotiations with the Company to reach final agreements based on the proposed Principles.

On November 25, 2014, Kardan published a Shelf Prospectus in Israel; a generic prospectus that serves as a primary document to enable a company to offer to the public all types of securities 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 ISA via the Tel Aviv Stock Exchange ('TASE'). It gives a company the possibility to act faster once a decision regarding an offering has been taken, by only having to additionally publish a Shelf Offering Report. The Shelf Prospectus predominantly describes the Company's activities by referring to Kardan's financial statements dated December 31, 2013 and June 30, 2014 as well as to Kardan's Periodic Report for 2013 (the annual report according to Israeli law and regulations, as then approved by the Board) and refers to all other major events announced by the Company since the day of publication of the 2013 financial statements. Filing a Shelf Prospectus does not imply that the Company has decided to offer securities to the market through the TASE.

Maalot, the Israeli subsidiary of Standard & Poor's ('S&P'), reported in July 2014 that it retained the rating of Kardan at ilB with Negative outlook for Kardan and ilB for its Debentures Series A and Series B, which had been determined by S&P in August 2013. Two months later, following the publication of Kardan's H1 2014 results, S&P adjusted the rating of Kardan to ilCC with outlook Negative, and to ilCC for its Debentures Series A and Series B, as cash through the sale of assets in order to repay the upcoming repayment instalments on its debts had not yet been generated, and as the Company's H1 2014 financial statements included an emphasis of matter regarding a going concern. After the reporting period, in January

2015, S&P reported that it had changed the rating of Kardan and of its Debentures (series A and series B) 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 upgraded the rating of Kardan to ilCCC Negative Outlook, and of its Debentures to ilCCC, taking into account the interim debt agreement which had been approved as well as that this approval entailed that Kardan and the trustees of the Debenture Holders would begin to draft the amendments to the deeds of trust according to the proposed Principles.

In March 2015, the Company announced that it intended to early repay interest and principal of Debentures series A and Debentures series B on March 31, 2015. According to its announcement the Company early repaid interest amounting to approximately EUR 4.3 mn relating to series A and approximately EUR 14.1 million of interest to series B. Additionally, the Company early repaid principal amounting to approximately EUR 3.3 million relating to series A (3.69% of the outstanding series) and approximately EUR 3.4 million of principal to series B (1.23% of the outstanding series).
The total repayment amounted to approximately EUR 25.1 million.

Additionally, the Company announced on April 2, 2015, that it has not yet reached a final agreement on the final wording of the deeds of trust (for additional information refer to Note 1) with respect to the Debentures. The Company estimated that the publication of the deeds of trust will be postponed by approximately 30 days from that date.

Real Estate

In January 2014, a financing agreement was signed between GTC RE and Israel Discount Bank ('the Bank') for a loan in the amount of EUR 33 million ('the New Credit'), which amount was used, together with additional amounts of Kardan, to repay Kardan's Debenture Holders in February 2014. The New Credit was to be repaid in two installments: EUR 28 million no later than December 26, 2014 and the remainder no later than December 25, 2015. As collateral for the New Credit, the Company pledged all the shares of KFS and all the shares of TGI and 51% of the shares of KLC (and all the shareholder loans) in favor of the Bank which were all released after full repayment of the New Credit in February 2015. In December 2014, GTC RE repaid EUR 28 million, using funds from the proceeds of the sale of the 50% stake it indirectly held in Galleria Chengdu in China (see below).
After reporting date, in February 2015, GTC RE repaid the remaining EUR 5 million plus interest, using the proceeds from the sale of the TBIF subsidiary (see below).

Kardan Land Dalian Ltd., an indirectly wholly owned subsidiary of the Company, entered into an agreement in February 2014 with a syndicate of two banks in China (the 'Syndicate') for an additional credit of RMB 400 million (at that time approximately EUR 48 million) with respect to the Europark Dalian project. Before taking on the additional credit, Kardan Land Dalian already had a loan of RMB 500 million (then approximately EUR 60 million) from one of the banking institutions that comprise the Syndicate, so that the total loan arrived at RMB 900 million and therefore became a material loan for the Company and as such a 'reportable credit' under Israeli regulations. The duration of the total loan is until September 2017 and repayment will be made in three tranches.

In April 2014 Kardan Land Dalian signed a Letter of Intent with a Chinese investor for the sale of building A2 in the Europark Dalian project in China, which comprised 201 SOHO units as well as 100 parking spaces. The Letter of Intent was formalized in a sale agreement in June 2014. The total consideration of RMB 334 million (at the time approximately EUR 39 million), split in RMB 319 million for the apartments and RMB 16 million for the parking lots was paid in three tranches: 10% in April at the signing of the Letter of Intent, 60% in June 2014 and 30% at the delivery of the building, which took place in Q4 2014. The proceeds of this sale are used by Kardan Land Dalian to further develop the Europark Dalian project.

In line with its program to sell assets in order to generate cash to be allocated to debt repayment, KLC signed a share purchase agreement in December 2014 to sell its 50% shares in Kardan Land Chengdu (HK) Ltd.to its 50% co-shareholder, BR Spicy (B.V.I) Ltd. for a consideration of approximately RMB 555 million (at the time approximately EUR 72.6 million) ('the Consideration'), which reflected a value of the shopping mall Galleria Chengdu (100%) of RMB 1,254 million (then approximately EUR 164 million), off-set by a bank loan and other assets and liabilities of Kardan Land Chengdu as of October 30, 2014. The sale was completed later in December 2014, when KLC received the final Consideration of approximately EUR 74 million, of which some EUR 30 million was transferred to the Company to repay a bank loan. The Transaction resulted in a gain (before tax) to Kardan of approximately EUR 11.3 million.

Furthermore, it was agreed that KLC will continue to manage Galleria Chengdu.

Water Infrastructure

In March 2014, Tahal Group signed an agreement to manage part of a larger agricultural development project, involving developing, engineering, procurement, construction and consulting, which was initiated by the client in an Eastern European country ('the Project'). The Project entails the development and cultivation of considerable agricultural areas and is expected to take four years. The consideration for the Project, amounting to EUR 62 million, will be paid over the duration of the Project to Tahal. The duration of the Project may be extended, for payment of an additional consideration, for further periods of one year each. The first down payment of 10% of the total consideration was received in May 2014.

Tahal signed another significant agreement in December 2014, this time regarding the planning and construction of a water treatment plant and pumping system in the city of Yakutsk, Russia ('the Project'). The total compensation for the Project is USD 67 million (including VAT) (approximately EUR 55 million), which will be paid during the expected duration of the Project (approximately 40 months). A down payment of 15% of the total compensation was paid to Tahal in February 2015. Most of the funding for the project is provided by the European Bank of Reconstruction and Development and the balance is funded by the Republic of Yakutsk. 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 Project is a Turn Key project, which entails that Tahal has full responsibility until the water treatment plant is in operation.

After the reporting period, in January 2015, Kardan announced that Tahal Assets, its indirectly held subsidiary, 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, as part of the Company's asset disposal plan, 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 of the release approximately EUR 86 million / USD 102 million, 'the Consideration') ('the Transaction'). Additionally, on top of the Consideration and as part of the Transaction, CGGC Investment repays all outstanding loans provided to KWIG by Kardan Group companies, totaling approximately USD 49 million (approximately EUR 42 million).
In March, 2015, the first phase (75%) of the sale was completed, when CGGC Investment paid Tahal Assets an amount of USD 75.5 million (approximately

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EUR 68 million), and repaid all outstanding loans provided to KWIG by Kardan Group companies. The second phase of the Transaction is scheduled to take place before June 30, 2015, when the remaining 25% of the Consideration will be paid to Tahal Assets. The decision to sell KWIG is due to TGI's wish to focus on its core competences as an Engineering, Procurement and Construction player and KWIG's need for funding in order to further grow its capital intensive operations as well as due to Kardan's need to generate cash. The funds of the Consideration will be used by TGI for its ongoing business operations as well as for repayment of debt. Tahal and CGGC furthermore agreed to cooperate in order to expand their activities both in China and abroad.

In March 2015, TGI fully repaid 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 is expected to record a financial expense of approximately EUR 2.5 million due to the early repayment.

Financial Services

In October 2014, TBIF signed an agreement to sell all of its shares in a subsidiary that holds a non-performing credit portfolio and other non-banking financial operations ('the Subsidiary'). In consideration of the shares of the Subsidiary, TBIF received approximately EUR 10 million in February 2015. The Company used the proceeds to fully repay a bank loan of EUR 5 million plus interest, thus releasing all relating pledges. As a result of the transaction the Company is expected to record a small net gain.

For a more detailed overview of the operations of each of the divisions, see pages 42 to 56.

Financial Review 2014

General

Kardan finished the year 2014 with a very strong fourth quarter, and consequently reported its first profitable year since 2008, with a full year 2014 net profit of EUR 5.1 million and a total comprehensive income (*) of EUR 32.0 million for equity holders. Following a significant appreciation of the RMB versus the Euro and including the net profit, equity as at year-end 2014 increased by 40% (y-o-y).
In comparison: for 2013 a net loss of EUR 101.4 million was reported, which included a EUR 55 million loss with respect to the discontinued real estate operations in Central and Eastern Europe (GTC SA), and a total comprehensive loss equal to the net loss.

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.

* Total comprehensive income comprises predominantly the net result combined with the direct equity impact of foreign currency translation differences and changes in hedge reserves.

Consolidated Income Statement Kardan N.V. by Quarter

The 2014 quarterly results of Kardan N.V. are presented in the table below in a condensed form:

€ in million	Q1/2014	Q2/2014	Q3/2014	Q4/2014	2014
Total revenues	56.3	57.7	46.8	97.1	257.9
Total expenses	50.9	52.7	45.1	93.8	242.5
Profit (loss) from operation before fair value adjustments, disposal of assets and financial expenses	5.4	5.0	1.7	3.3	15.4
Profit (loss) from fair value adjustments and on disposal of assets and investments	0.9	2.7	1.7	14.4	19.7
Result from operations before finance expenses and income taxes	**6.3**	**7.7**	**3.4**	**17.7**	**35.1**
Financing income (expenses), net	(1.9)	(13.3)	(7.4)	2.4	(20.2)
Share of profit of associates and joint ventures according to equity method	0.5	0.5	(1.5)	7.2	6.7
Profit (Loss) before income tax	4.9	(5.1)	(5.5)	27.3	21.6
Income tax (expenses)/benefit	(1.9)	(1.8)	(2.0)	(10.8)	(16.5)
Profit (Loss) from continuing operations	**3.0**	**(6.9)**	**(7.5)**	**16.5**	**5.1**
Profit (Loss) for the period	**3.0**	**(6.9)**	**(7.5)**	**16.5**	**5.1**
Attributed to equity holders	**3.0**	**(6.9)**	**(7.5)**	**16.5**	**5.1**
Other Comprehensive income / (loss)	(2.3)	2.9	23.3	3.0	26.9
Total Comprehensive income/(loss) to equity holders	**0.7**	**(4.0)**	**15.8**	**19.5**	**32.0**

Consolidated Income Statement Kardan N.V.

The 2014 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 2014 results of every individual segment is analyzed in more detail.

€ in million	Real Estate	Infrastructure		Banking and Retail lending	Other	Total	
	Asia	Assets	Projects			12M - 2014	12M - 2013
Total revenues	52.0	135.9	34.4	35.6	–	257.9	208.0
Total expenses	56.4	125.6	26.3	28.1	6.1	242.5	203.0
Profit (loss) from operation before fair value adjustments, disposal of assets and financial expenses	(4.4)	10.3	8.1	7.5	(6.1)	15.4	5.0
Profit (loss) from fair value adjustments, disposal of assets and investments, equity earnings (loss)	32.9	(1.2)	(6.5)	1.3	(0.1)	26.4	8.2
Result from operations before finance expenses	**28.5**	**9.1**	**1.6**	**8.8**	**(6.2)**	**41.8**	**13.2**
Financing income (expenses), net	5.4	(1.6)	(4.1)	(0.9)	(19.0)	(20.2)	(45.6)
Profit (Loss) before income tax	33.9	7.5	(2.5)	7.9	(25.2)	21.6	(32.4)
Income tax (expenses)/benefit	(9.3)	(2.9)	(3.6)	(0.3)	(0.4)	(16.5)	(14.4)
Profit (Loss) from continuing operations	**24.6**	**4.6**	**(6.1)**	**7.6**	**(25.6)**	**5.1**	**(46.8)**
Profit (Loss) from discontinued operations	–	–	–	–	–	–	(75.2)
Profit (Loss) for the period	24.6	4.6	(6.1)	7.6	(25.6)	5.1	(122.0)
Attributable to:							
Non-controlling interest	–	0.4	(0.4)	–	–	–	(20.6)
Net result for equity holders	**24.6**	**4.2**	**(5.7)**	**7.6**	**(25.6)**	**5.1**	**(101.4)**
Other comprehensive income/(expense)						26.9	–
Total Comprehensive Income / (Loss) to equity holders						**32.0**	(101.4)

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Overall 2014 review

Kardan recognized a **consolidated net profit of EUR 5.1 million**, significantly better than the net loss of EUR 101.4 million in 2013, which included the loss of EUR 55 million of discontinued operations (i.e. the remaining stake in GTC SA that was sold in Q4 2013). The main improvements were due to: (a) significantly better operating results (before fair value adjustments, disposal of assets and financial expenses) of the banking and retail lending segment as well as the Water Infrastructure Projects segment, (b) the gain on the sale of the 50% stake in Galleria Chengdu, mitigated by the impairment on KWIG in China, and (c) lower financing expenses following repayment of debt and including a smaller negative impact due to the strengthening of the Israeli Shekel (NIS) versus the Euro and the increase of the CPI index (EUR 3.8 million compared to EUR 10 million negative impact in 2013). Total comprehensive income was EUR 32.0 million for equity holders, mainly the result of the significant appreciation of the RMB versus the Euro (the majority of Kardan's assets are in denominated in RMB).

The Q4 2014 net profit of EUR 16.5 million was significantly higher than in the comparable period last year (Q4 2013: EUR 5.2 million profit), mainly as a result of the profit from fair value adjustments and gain on disposal of assets (EUR 14.4 million). In addition, KLC contributed a good operational fourth quarter and at corporate level, due to the weakening of the Israeli Shekel versus the Euro and CPI changes, a forex gain of EUR 6.2 million on the Company's Debentures could be recognized.

Real Estate Asia contributed a profit of EUR 24.6 million (2013: EUR 18.3 million) to the 2014 net result of Kardan, predominantly on the back of the very strong Q4 result (EUR 20.6 million profit). Revenue from delivery of apartments was significantly higher due to the handover of the A2 building (Europark Dalian) en-bloc in Q4 2014, albeit at lower margins. Equity earnings in Q4 2014 improved compared to the previous 2014 quarters as nearly two third of the total 2014 (joint venture) handovers took place in this quarter. During the full year 2014, however, 46% (y-o-y) fewer apartments from joint venture projects were handed over, leading to a (y-o-y) similar decrease in equity earnings. In addition, the gain on the sale of the 50% stake in Galleria Chengdu (EUR 16.8 million, before taxes) in Q4 2014 contributed substantially.

The construction of the retail center in Dalian which was nearly completed as at year-end 2014 translated into a positive revaluation. As a result of the significant strengthening of the RMB versus the Euro, net financing income included a substantial positive forex impact. The number of sold apartments in 2014 (1,254) reflects the challenging market circumstances when compared to the 2,118 apartments sold in 2013.

Water Infrastructure Projects contributed a net profit of EUR 4.2 million in 2014 compared to a net loss of EUR 2.9 million in 2013, mainly the result of 11% higher (y-o-y) revenues at higher margins, fairly stable costs and lower tax expenses (in 2013 tax expenses were impacted by the tax on the sale of a real estate property and the impact of closing down of the Polish subsidiary).

Water Infrastructure Assets contributed a net loss of EUR 5.7 million compared to EUR 3.1 million net profit in 2013. The main reason for the loss is the impairment of EUR 6.9 million and tax provision of EUR 1.3 million on KWIG (the main subsidiary of Tahal Assets) following the announcement in January 2015 of its sale, of which the first phase (75%) was completed beginning of March 2015. As the growth in 2014 revenue derived mainly from construction activities at KWIG, and these activities generally have a lower margin, the gross profit decreased by 7%. Although Tahal Assets kept its costs under control and equity earnings improved (y-o-y), this could not off-set the impairment of KWIG in the results of Q4 2014.

The **Banking and Retail Lending** segment reported a significant contribution in 2014 of EUR 7.6 million profit, a marked improvement on the loss of EUR 18.8 million in 2013 (which included impairments totaling EUR 12 million). With 37% higher revenues (y-o-y) in 2014 – due to better quality loan portfolios and less interest expenses on deposits – and stable costs of banking, combined with lower financing and tax expenses, TBIF has proven the success of its reorganizations, risk approach and business model.

Avis Ukraine, reported under equity earnings, managed to record a slight positive result in 2014, despite the continued unstable situation in the country.

Included in '**Other**' are the expenses and finance costs of Kardan and GTC RE, contributing a loss of EUR 25.6 million in 2014 compared to a loss of EUR 101.1 million in 2013, which included the loss from discontinued operations (GTC SA). Financing expenses decreased significantly following repayment of the majority of a loan and of debenture instalments. Moreover, in Q4 2014, the NIS weakened against the Euro leading to a positive foreign exchange result of EUR 6.2 million. For the full year 2014, the forex and CPI effect amounted to a negative impact of EUR 3.8 million, lower than the EUR 10 million negative forex impact in 2013.

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		For the three months ended December 31	
	2014	2013	2014	2013
Delivery of units	46.9	24.0	37.7	24.0
Management fee and other revenues	5.1	5.0	1.7	1.4
Total revenues	52.0	29.0	39.4	25.4
Cost of Sales	47.5	21.9	38.1	20.3
Gross profit	4.5	7.1	1.3	5.1
SG&A expenses	8.9	8.3	3.1	2.6
Adjustment to fair value (impairment) of investment property	8.9	8.8	**4.4**	3.6
Gain on disposal of assets and other income	16.8	0.1	16.8	0.1
Equity earnings (losses)	7.2	14.5	7.2	7.8
Result from operations before finance expenses	**28.5**	**22.2**	**26.6**	**14.0**
Financing income (expenses), net	5.4	(0.1)	(2.0)	0.2
Income tax (expenses) / benefit	(9.3)	(3.8)	(8.0)	(3.2)
Net profit (loss)	**24.6**	**18.3**	**20.6**	**11.0**
Attributable to:				
Equity holders (Kardan N.V.)	**24.6**	**18.3**	**20.6**	**11.0**

Additional information Real Estate Asia

Additional information Kardan Land China € in million	2014 (31.12)	2013 (31.12)
Balance sheet		
Share of investment in JVs	60.7	105.8
Investment Property Under Construction	181.1	118.1
Inventory	98.1	96.9
Cash & short term investments	66.6	26.2
Total Assets	470.3	364.7
Loans and Borrowings	120.7	60.9
Advance payments from buyers	0.2	5.7
Total Equity	305.6	269.5

Additional information Real Estate Asia continue

Operational Information Residential	FY 2014	FY 2013	Q4/14	Q4/13
Operational Information Residential				
Revenue Residential - JV (in € million)	50.0	79.2	28.1	38.0
Gross profit residential - JV (in € million)	14.6	24.3	8.1	10.8
Apartments sold in period (a)	1,254	2,118	267	516
Apartments delivered in period (Dalian, 100%)	250	120	204	120
Apartments delivered in period (Joint Venture, 50%)	1,480	2,727	949	1,381
Total apartments sold, not yet delivered	2,832(b)	3,308	2,832	3,308

Operational Information Retail € in million	FY 2014	FY 2013	Q4/14	Q4/13
Revenue Retail (50% rental Chengdu, 100% service fees)	8.0	7.4	2.4	2.0
Gross profit Retail	5.1	4.8	1.6	1.4

(a) All residential apartments, incl. Dalian (100%).
(b) Includes approximately EUR 26 million gross profit (Kardan Land China share).

Result analysis

The Real Estate Asia segment, fully comprising Kardan Land China, contributed EUR 24.6 million to the consolidated 2014 net result, which was significantly more than the EUR 18.3 million contribution in 2013, mainly on its strong results in the fourth quarter.

The results of KLC's joint venture residential activities and the results of the 50% stake in Galleria Chengdu are reported as 'Equity in net earnings of joint ventures'. 'Management fee and other revenues' consequently predominantly relates to the 100% asset management activities of Chengdu, and 'delivery of units' relates to the revenue resulting from the handover of apartments of the Europark Dalian project (100%).

It is noted that the results of Real Estate Asia are impacted by an appreciation of the RMB by 11.4% (y-o-y) as at December 31, 2014.

KLC recognized significantly higher (y-o-y) revenue from the delivery of units in 2014 than in 2013, predominantly following the en-bloc delivery of 201 apartments after the sale of the A2 building of the Europark Dalian project in Q2 of 2014. In comparison: the first 120 apartments of the Europark Dalian project were handed over in the last quarter of 2013. The revenue relating to the asset management activities for Galleria Chengdu remained stable in 2014 compared to 2013. It is noted that although Galleria Chengdu has been sold in Q4 2014, KLC will continue to manage the mall.

The gross margin on delivery of apartments was significantly lower (6%) in 2014 than in 2013 (18%). This was the effect of the en-bloc sale of the A2 building, at a lower margin compared to sale to individuals. The gross margin on management fees and other revenues (i.e. of the asset management activities with respect to Galleria Chengdu) decreased slightly to 53% from 55% in 2013.

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Total sales & marketing, and general & administrative expenses (SG&A) grew by 7% (y-o-y), mainly on higher administrative expenses following some one-off costs (e.g. consultants) (which were recognized in Q4 2014), and on the back of higher selling and distribution expenses linked to the progress of the Europark Dalian project.

As the construction of the Europark Dalian shopping mall progressed according to plan, and more contracts were signed with tenants (current pre-lease is 63%, and more leases are about to be signed) a fair value adjustment of EUR 8.9 million was recognized in 2014 (of which EUR 4.4 million in Q4), which was similar to in 2013.

The gain on disposal of assets reflects the sale of the remaining 50% stake in Galleria Chengdu, which includes a substantial foreign exchange contribution of the strong RMB. In 2013, no assets were sold.

'Equity earnings', comprising the results of the retail center in Chengdu and of the residential apartments from joint venture projects, was significantly lower than in 2013. The results of Galleria Chengdu were the main contribution in the equity earnings 2014. The mall recognized good revenue growth (y-o-y) against stable costs and therefore a higher gross margin. In addition, a valuation gain was recognized at the time of the sale of the mall.

In Q4 2014, nearly two third (i.e. 949) of the total 2014 number of hand-overs of apartments from joint venture projects (1,480) were delivered. As the total number of deliveries of residential apartments from joint venture projects was 46% lower in 2014 than in 2013, the relating revenue decreased by a similar percentage (y-o-y). Despite an impairment of EUR 0.8 million on inventory of parking spaces in the joint venture projects, the gross margin in 2014 was 28% (2013: 30%).

The net financing income, which includes exchange rate differences, was impacted predominantly by the strengthening of the RMB versus the Euro during 2014 (y-o-y) which added EUR 4.2 million in 2014, whereas in 2013 a negative forex impact of EUR 1.4 million was recognized. The increase of EUR 5.5 million in tax expenses is attributable to the tax on the sale of the 50% stake in Galleria Chengdu.

Additional Information

Investment property under construction, which relates fully to the Europark Dalian shopping mall, increased by 53% (from December 31, 2013) as the result of the construction progress and the consequential positive valuation as well as a substantial positive forex effect due to the strengthening of the RMB versus the Euro.

'Loans and borrowings', which predominantly relates to the use of a construction loan for Europark Dalian, nearly doubled as at year end 2014 compared to year end 2013. The increase is the result of the additional construction loan of RMB 400 million, that was taken on in February 2014 (at that time approximately EUR 48 million) and was fully drawn down by the end of 2014, and of the forex effect of the RMB.

Following the delivery of the A2 building apartments in Q4 of 2014 and taking into account the slow sale of 'individual' apartments of the Dalian project, 'Advance Payments from Buyers' decreased significantly at year end 2014 compared to year end 2013.

The increase of equity in 2014 by 13% (y-o-y) is attributable to a combination of the profit in the period combined with the forex effect of the RMB, off-set by the impact of pay-out of a vested employee stock option plan.

In general, KLC aligns the pace of construction to match the market conditions and to control the percentage of completed unsold apartments in the inventory. Given the market circumstances, in which buyers of apartments have taken a 'wait and see' approach, pending decisions by the Chinese government to unveil eased mortgage conditions, the percentage as at December 31, 2014 was 9%, higher than at the end of 2013 (6%). In addition, KLC also looks into possibilities of selling the service apartment buildings en-bloc (i.e. the total building), evidenced by the sale of the A2 building in June 2014. Moreover, KLC has also adjusted its apartments (in terms of lay out as well as price) and increased its marketing efforts. Despite these actions, however, fewer sale contracts for apartments were signed in 2014 than in 2013.

Water Infrastructure

Tahal Group International B.V. ('TGI'), Kardan's water infrastructure company, focuses on executing water related projects worldwide through Tahal Projects and focused on developing water assets (e.g. wastewater, water treatment and water supply plants) through Tahal Assets. Tahal Projects is active in Africa, Central and Eastern Europe, Latin America and in other regions and countries, such as Israel, whilst Tahal Assets was mainly active in China, through its subsidiary KWIG, and also in Turkey. The sale of the shares of KWIG was announced and 75% of the transaction was concluded in Q1 2015.

Results Water Infrastructure Projects

€ in million	For the year ended December 31		For the three months ended December 31	
	2014	2013	2014	2013
Contract revenues	135.9	122.0	37.7	35.6
Contract cost	113.4	105.2	31.6	30.9
Gross profit	22.5	16.8	6.1	4.7
SG&A expenses (*)	12.2	11.9	3.3	2.9
Equity earnings / (losses)	(1.0)	(0.1)	(0.2)	(0.1)
Gain on disposal of assets and other income	(0.2)	(0.9)	(0.5)	(0.3)
Result from operations before financing expenses	**9.1**	**3.9**	**2.1**	**1.4**
Financing income (expenses), net	(1.6)	(2.4)	(0.5)	–
Income tax (expenses) / benefits	(2.9)	(4.1)	(0.9)	(0.4)
Net profit (loss)	**4.6**	**(2.6)**	**0.7**	**1.0**
Attributable to:				
Non-controlling interest holders	0.4	0.3	0.1	0.1
Equity holders (Kardan N.V.)	**4.2**	**(2.9)**	**0.6**	**0.9**

* General and Administrative expenses of TGI have been allocated to Water Infrastructure Projects.

Board Report

Additional Information Projects

€ in million	2014 (31.12)	2013 (31.12)
Balance sheet		
Cash & short term investments	12.9	7.0
Total Assets	140.3	140.9
Net Debt (excl shareholder loans) *	(12.6)	(5.5)
Equity **	37.4	40.8
Equity ** / Assets	26.7%	28.9%
Other (in USD million)		
Backlog	358	320

* Bank loans net of cash and cash equivalents
** Group equity including shareholder loan

Result analysis
Tahal Projects contributed EUR 4.2 million net profit in 2014, compared to a net loss of EUR 2.9 in 2013, mainly on higher revenues at higher margins and lower tax expenses.

Revenue grew by 11% y-o-y in 2014 on the back of accelerated progress in existing projects, particularly in Africa and Central and Eastern Europe. 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. During 2014 a number of new contracts were signed, of which an agricultural project in Central and Eastern Europe and the project in Yakutsk, Russia, (announced in December 2014) were the larger ones.

As a result of Tahal's project mix which included more projects (than in 2013) in the agricultural sector which generally involve lower contract costs, and as some of the existing projects progressed better than schedule, a higher gross margin could be recorded in 2014 (16.6%) than in 2013 (13.8%). Continued focus on cost efficiency in the operations mitigated by a slight increase in administrative costs at TGI has resulted in a 2.5% increase of SG&A expenses in 2014 compared to last year, although as a percentage of revenue these expenses are trending down.

Following a lower outstanding debt and a more favorable mix of interest payable in 2014 than in 2013, the net financing expenses came in lower (y-o-y). The tax expenses in 2014 were lower than in 2013 when these were impacted by the tax on the sale of real estate asset in Israel combined with the impact of the bankruptcy of Tahal's subsidiary in Poland.

Results Water Infrastructure Assets

€ in million	For the year ended December 31		For the three months ended December 31	
	2014	2013	2014	2013
Contract revenues	34.4	31.0	10.3	9.6
Contract cost	20.5	16.1	6.4	5.5
Gross profit	13.9	14.9	3.9	4.1
SG&A expenses	5.8	6.4	1.6	1.8
Equity earnings / (losses)	0.4	(0.2)	0.3	–
Gain / (loss) on disposal of assets and other income	(6.9)	0.2	(6.9)	0.1
Result from operations before financing expenses	**1.6**	**8.5**	**(4.3)**	**2.4**
Financing income (expenses) net (*)	(4.1)	(3.5)	(1.1)	(1.2)
Income tax (expenses) / benefit	(3.6)	(2.8)	(2.0)	(0.9)
Net profit (loss)	**(6.1)**	**2.2**	**(7.4)**	**0.3**
Attributable to:				
Non-controlling interest holders	(0.4)	(0.9)	(0.1)	(0.2)
Equity holders (Kardan N.V.)	**(5.7)**	**3.1**	**(7.3)**	**0.5**

* Finance expenses of TGI have been allocated to Water Infrastructure Assets.

Additional Information Assets

€ in million	2014 (31.12)	2013 (31.12)
Balance sheet		
Cash & short term investments	1.1	7.3
Total Assets	180.6	166.6
Net Debt (excl shareholder loans)*	62.2	62.4
Equity**	86.4	84.5
Equity**/ Assets	47.8%	50.7%

* Bank loans net of cash and cash equivalents
** Group equity including shareholder loan

Board Report

Result analysis

The results of Tahal Assets are predominantly impacted by KWIG in China.

The 2014 net result of Tahal Assets contributable to Kardan was a loss of EUR 5.7 million, compared to a EUR 3.1 million profit contribution in 2013, mainly resulting from the impairment and tax of KWIG amounting to EUR 8.3 million due to its announced sale. As the first phase (75%) of the sale was completed in Q1 2015 and a release of positive foreign exchange reserves of EUR 13 million is expected, this emplies a net gain of approximately EUR 5 million to be recognized in Q1 2015. The second and final phase of this sale is planned to be completed in Q2 2015.

Reported total revenue comprises the operational revenue from rendering of water services and the effect of construction activities. KWIG reported a decrease in revenue from rendering of services of 6% (y-o-y) in the 2014 period compared to the same period last year, predominantly due to lower output from one plant and a delay in output from another plant. During 2014, KWIG initiated construction activities (expansion) on one particular project – whereas hardly any construction activities took place during 2013 – which was the main contributor to the 11% (y-o-y) increase of the total revenue of Tahal Assets for the reported period.

The construction activities in China, which predominantly took place in the second and fourth quarter of 2014, were the main reason for the decrease in the overall gross margin of Tahal Assets to 40.2% from 48.4% in 2013, as construction activities generally have lower margins. The SG&A expenses were kept under control (9% lower y-o-y in 2014 than in 2013). Taking into account the equity earnings which turned slightly positive (from a slight loss in 2013), the 2014 results from running operations remained fairly stable. Financing expenses were EUR 0.6 million higher in 2014 than in 2013 which included a positive impact of the valuation of a warrant.

Additional information

The equity of Tahal Assets as at December 31, 2014 (compared to December 31, 2013) showed a net increase of EUR 1.9 million mainly due to the loss for the year, partly off-set by a net increase in the foreign currency translation reserve.

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 (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.

The results of Avis Ukraine and two other small entities are presented according to the equity method.

Results Banking and Retail Lending

€ in million	For the year ended December 31		For the three months ended December 31	
	2014	2013	2014	2013
Banking and retail lending activities	33.3	24.4	8.8	6.4
Other revenues	2.3	1.6	0.7	0.2
Total revenues	35.6	26.0	9.5	6.6
Costs of banking and lending activities	25.6	25.2	7.0	4.4
Other expenses, net	2.6	1.1	0.7	0.9
Gross profit	7.4	(0.3)	1.8	1.3
SG&A expenses	–	1.1	(0.3)	0.1
Equity earnings (losses)	0.2	(2.7)	(0.1)	0.4
Gain on disposal of assets and other income	1.2	(8.4)	0.4	(5.0)
Impairment losses on goodwill	–	(3.9)	–	(0.5)
Result from operations before financing expenses	**8.8**	**(16.4)**	**2.4**	**(3.9)**
Financing income (expenses), net	(0.9)	(1.9)	(0.4)	(0.1)
Income tax (expenses) / benefits	(0.3)	(0.5)	0.1	(0.7)
Net Profit (loss)	**7.6**	**(18.8)**	**2.1**	**(4.7)**
Attributable to:				
Equity holders (Kardan N.V.)	**7.6**	**(18.8)**	**2.1**	**(4.7)**

Additional information KFS Banking and Retail Lending

€ in million	2014 (31.12)	2013 (31.12)
Balance sheet		
Net loan portfolio	152.1	137.2
Cash & short term investments	71.0	67.3
Total Assets	304.4	268.8
Deposits	189.5	149.7
Total Equity	37.8	29.2
Portfolio quality		
Provisions / non-performing loans	66%	77%

Result analysis

Despite the unstable political and banking sector situation in Bulgaria during 2014, TBIF contributed a significant profit of EUR 7.6 million to the 2014 result of Kardan, whereas this was still a loss of EUR 18.8 million last year (including impairments totaling EUR 12 million).

Revenues increased by 37% y-o-y in 2014 as loan portfolios grew in volume and in quality. As a result of the better quality of the portfolio, lower provisions were deducted from revenues, albeit that in Q3 2014 a loan to VAB Bank was impaired by EUR 2.8 million following the deterioration of the situation of VAB bank in Ukraine. Moreover, less interest expenses were recognized as, particularly in the first half of 2014, a decline in deposits was recorded in Bulgaria following the banking crisis in the country. In Q4 2014, however, clients of a large Bulgarian bank which had become insolvent transferred their deposits to other banks, leading to a large influx of cash although at lower interest rates given the competition. As TBIF kept its costs of banking – which also includes the wages of the staff in the operations – under control, the gross profit improved significantly from a loss in 2013 to EUR 7.4 million in 2014. It is noted, however, that the Q4 2014 costs of banking showed an increase due to marketing expenses related to the holiday season.

Financing expenses decreased (y-o-y) mainly as a result of foreign exchange differences.

Avis Ukraine reported a small profit of EUR 0.1 million in very difficult market and economic circumstances, reported under equity earnings. In 2014 receivables were collected (recognized under 'gain on disposal of assets and other income'), compared to a substantial loss in 2013 relating to impairments on intangible assets.

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		For the three months ended December 31	
	2014	2013	2014	2013
General and administration expenses	6.1	5.8	2.2	1.9
Equity earnings (losses)	(0.1)	0.8	0.2	0.3
Financing income (expenses), net	(19.0)	(37.7)	2.5	(4.5)
Income tax expenses (benefit)	(0.4)	(3.2)	–	0.1
Profit (loss) from continuing operations	(25.6)	(45.9)	0.5	(6.0)
Net Profit (loss) from discontinued operations	–	(75.2)	–	3.5
Net profit (loss)	**(25.6)**	**(121.1)**	**0.5**	**(2.5)**
Attributable to:				
Non-controlling interest holders	–	(20.0)	–	–
Equity holders (Kardan N.V.)	**(25.6)**	**(101.1)**	**0.5**	**(2.5)**

General
Results under 'Profit (loss) from continuing operations' relate to the holding and finance expenses of Kardan N.V. and its direct subsidiary GTC RE.

Financing expenses in 2014 were less than in 2013, following repayment of bank debts and of debenture instalments, less negative impacted from CPI and foreign exchange differences relating to the debentures (as the Israeli Shekel strengthened versus the Euro) in the amount of a EUR 3.8 million (Q4 2014: profit of EUR 6.2 million) compared to the negative impact of EUR 10 million in 2013 (Q4 2013: profit of EUR 1.4 million). Currently, the Company 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. The income tax expense relates to deferred and current tax on hedge instruments.

Financial position of the holding companies of the Kardan Group

The net debt position of Kardan N.V., GTC RE, Emerging Investments XII, KFS, TBIF as of December 31, 2014 amounts to EUR 323.6 million (year end 2013: EUR 425 million).

Board Report

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, 2014:

€ in million Company	Net Debt *	
Kardan NV / GTC RE / Emerging Investments XII**	**Liabilities:**	
	Debentures	(352.5)
	Bank loan	(5.1)
	Assets:	
	Loan to KFS	41.5
	Cash and short term investments	1.4
	Net debt	(314.7)
KFS/TBIF	**Liabilities:**	
	Loans from Kardan NV	(41.5)
	Assets:	
	Cash and short term investments	5.4
	Loans to others	11.0
	Loans to subsidiaries and other receivables	16.2
	Net debt	**(8.9)**
TGI	**Liabilities:**	
	Loans (and related warrant)	(18.6)
	Assets:	
	Cash and short term investments	0.1
	Net debt	**(18.5)**

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

** Emerging Investments XII is a wholly owned subsidiary of Kardan N.V. During Q4 2012, Kardan assigned all the loans provided to its subsidiaries to Emerging Investments XII. In addition, the majority of the repurchased Debentures are held by Emerging Investments XII.

Consolidated Balance Sheet

Total balance sheet

Total consolidated balance sheet increased to EUR 1,013 million as at December 31, 2014 from EUR 925 million as at December 31, 2013, predominantly due to the increase in raising of loans and the appreciation of the RMB.

Shareholders' equity

The equity, attributable to equity holders, increased by 40% to EUR 92.4 million as at December 31, 2014 from EUR 66.1 million as at year-end 2013, resulting from the profit in the period (EUR 5.1 million) and a significant appreciation of the RMB, mitigated by the impact of transactions with non-controlling interest holders.

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	2014	2013
Total Assets	459	486
Total Equity	92	66
Equity/Total assets (%)	20%	14%

Total assets

Kardan N.V.'s total assets decreased by EUR 27 million, which is mainly the result of the decrease in its debt position following repayment of debentures.

Shareholder's equity

Shareholder's equity of Kardan N.V. increased from EUR 66 million as of December 31, 2013 to EUR 92 million as of December 31, 2014, on a combination of the profit in the period (EUR 5.1 million) and a significant appreciation of the RMB, mitigated by the impact of transactions with non-controlling interest holders.

Interest bearing liabilities

Kardan N.V. owed EUR 352 million to debenture holders as at December 31, 2014, (December 31, 2013: EUR 419 million. The cash position of Kardan N.V. decreased by EUR 16 million to EUR 1 million, as of December 31, 2014.

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, March 25, 2015)

€ in million	2015	2016	2017	2018	2019	2020	Total
Debentures – Series A *	3.3	–	37.9	41.2			82.4
Debentures – Series B	3.4	–	39.2	42.6	85.1	85.2	255.5
Total	**6.7**	**–**	**77.1**	**83.8**	**85.1**	**85.2**	**337.9**

* Assuming the Principle Debt Settlement will be finalized, pending approval of Debenture Holders, and including the prepayments on March 31, 2015

Kardan N.V. has extended guarantees in favor of third parties for the liabilities of companies in the Kardan Group stemming from various loans. The balance of the guarantees amounts to, as at December 31, 2014 and around the date of these annual accounts, approximately EUR 0.9 million (relating to TGI and its subsidiaries). In addition, 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 65 million.

The Company plans to service the liabilities maturing in the years 2015 and 2016 according to the following cash-flow projection:

Forecast cash flow € in million	January 1, 2015 - December 31, 2015	January 1, 2016 – December 31, 2016
Cash and cash equivalents at the beginning of the period – Kardan N.V.*	**1.4**	**52.6**
Cash and cash equivalents at the beginning of the period – GTC RE	**–**	**–**
Company only resources		
From operating activities		
General and administration expenses	(5.5)	(4.5)
From investing activities		
Sale of assets	82.1	110.0
Other	0.1	0.1
Resources from investee companies		
From operating activities in investments – Loan repayment	2.0	4.0
From operating activities in investments – Management fees	0.6	0.6
Expected Uses		
For financing activities		
Repayment of a loan	5	–
Interest payment of debentures – Series A	3.7	4.8
Interest payment of debentures – Series B	12.7	16.9
Principal payment of debentures – Series A	3.3	–
Principal payment of debentures – Series B	3.4	–
Total Uses	**28.1**	**21.7**
Cash and cash equivalents at the end of the period	**52.6**	**141.1**

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 RE 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.
2. The projected cash flow was prepared under the assumption that the Company will complete the Principle Debt Settlement with the Debenture Holders. Accordingly, the repayment of principal of the Debentures will be postponed by 2 years to February 2017. The repayment of principal and interest in 2015 was calculated according to the early repayment announced by the Company and took take place on March 31, 2015.

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 2014 and 2015, the Company is conducting processes through its subsidiaries to sell a part or the total of its significant assets. The Company recently reported the sale of the following assets:

   2015

   - During Q1 2015, TBIF concluded the sale of TBI Credit. As a result the Company received from KFS a repayment of a shareholders' loan in the amount of EUR 9.9 million which was used to repay the outstanding balance of a EUR 5 million bank loan of GTC RE.
   - During Q1 2015, Tahal Assets concluded the first phase (75%) of its sale of the shares in KWIG for a consideration amounting to USD 75.7 million. According to the agreement all loans which were provided by Group companies to KWIG were repaid in a total amount of USD 45.8 million. After repayment of liabilities on the level of TGI, an amount of USD 52.5 million was transferred from TGI to the Company. It is expected that in June 2015 the second phase (25%) of the transaction will be completed for the remaining consideration of approximately USD 25.2 million. On March 15, 2015 the Company announced the early repayment of interest and principal of Debentures A and B for a total amount of NIS 108.5 million (approximately EUR 23 million) using the funds transferred to it from this transaction.

   2016

   - In 2016, funds are expected to be received from a sale of real estate and / or sale of shares in subsidiaries from the real estate and banking and retail lending segments, which will be used for 2017 principal and interest payments of the Debentures according to the Principle Debt Settlement.
5. In 2014 and 2015, most of the loan repayments are due to be received from KFS. The balance of the shareholder's loan to KFS amounted to EUR 41.5 million as of the balance sheet date. This loan was assigned to Emerging Investments XII BV, which in its turn will distribute the proceeds to Kardan as dividend. In Q1 2015, KFS repaid an amount of EUR 9.9 million to the Company from the sale of TBI Credit.
6. 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.
7. The Interest calculations are based on CPI, exchange rates and interest rates which are applicable as of December 31, 2014. The principal and interest payments for the Debentures are presented net of the amount due on Debentures held by GTC RE and Emerging Investment XII BV. It is noted that due to the appreciation of the NIS versus the Euro in Q1 2015, the actual payable amounts in Euro may be higher than presented in this cash flow forecast.
8. 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 in line with the limitations as agreed in the Principle Debt Settlement. As of the date of authorization of these financial statements, the Company did not approve any new investments. It should be noted that the projected cash flow does not include amounts relating to the claw-back clause, in the sale agreement of GTC SA, which may be due in 2015 and 2016.
9. Limitations on transferring funds: transfer of funds between Kardan NV and GTC RE is done through a loan, of which the balance amounts to EUR 19.1 million as of December 31, 2014. In addition, GTC RE has free distributable reserves according to Dutch law amounting to EUR 220 million as of December 31, 2014. In Q1 2015 GTC RE repaid the bank loan and therefore is not subject to any financial covenants.

10. 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 22.3 million as of December 31, 2014.
11. Restrictions on transfer of funds: money transfer from TGI to Kardan N.V.: a) TGI has distributable reserves of EUR 85.5 according to Dutch Law as at December 31, 2014, and b) covenants of lending banks of TGI Group need to be met.
12. Covenants: in February 2015, GTC RE repaid the remaining balance to Discount Bank and consequently as of the publication date of this report the Company is no longer subject to any financial covenants.
13. This estimate is forward looking information as defined in the Israeli Securities Act, based on management assumptions and expectations. The aforesaid may not materialize completely or part thereof, or materialize in a different manner, including materially different from what is expected as a result of changes in the state of the market, difficulties in raising credit, decrease in value of investments and change in cash amounts expected to be received from affiliated companies.

Covenants

As at reporting date, December 31, 2014, the Company and its subsidiaries were not in breach of any covenants.

For additional information on covenants, see Note 27 to the 2014 Financial Statements.

Dividend 2014

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 profit of EUR 5.1 million over the year 2014. Given the Company's financial liabilities and commitments towards the Debenture Holders, the Board does not propose a distribution of dividend over 2014. For further information regarding the commitments towards the Debenture Holders see Note 1 of the Financial Statements.

Outlook 2015

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 and banks. As a result of the sale of KWIG (China) in the first quarter of 2015, we expect to recognize the gain on this disposal of assets in our Q1 2015 results. On the basis of the current currency movements, the Company estimates the Q1 2015 results to be negatively impacted in its income statement by the strengthening of the NIS as the Debentures are denominated in NIS. As the RMB has appreciated versus the Euro, however, the Company estimates to recognize a positive movement in its equity as part of the other comprehensive income, as the majority of its assets are denominated in RMB.

Management is committed to succeed both in strengthening its financial position and in organically growing Kardan's existing businesses. The Company does not foresee new substantial investments in 2015, as a result of the debt repayments.

Real Estate Division

General

Through its wholly owned subsidiary GTC RE, Kardan operates in the real estate segment in China under the brand name Kardan Land China (KLC).

Development of Real Estate Asia (Kardan Land China)

Market development China
During 2014, the Chinese government was faced with the effects of a complicated and volatile international environment, a domestic speculative property market as well as increasing credit growth. Consequently, various support measures were taken – such as granting tax breaks to small businesses, some monetary easing measures and stimulating investments in social housing and railways – in order to maintain domestic development, reform and stability and to support its aim to shift China's economic growth model from investment-led to consumption-led growth.

GDP growth in China held steady at 7.3% (y-o-y) in the fourth quarter of 2014 (Q3 GDP was also up by 7.3% annually), a combination of better retail sales and industrial production, mitigated by a slow-down in fixed asset investment, particularly in the development of residential buildings. The stimulus measures which were introduced during the year began to show some positive results, such as an uptick in home sales in December 2014, the first year on year advance in 12 months.

Over the full year 2014, however, the Chinese economy grew at its slowest pace (by 7.4% y-o-y, just off the targeted 7.5%), albeit that this growth appears to be slowly becoming better balanced. Consumption drove 51 % of the 2014 growth, whereas this was still 48% in 2013, and trade also contributed better to the overall 2014 growth than in the previous year, whilst investment in fixed assets decelerated. The internal consumption was underpinned by a (nominal) growth in national per capita disposable income (up 10.1% y-o-y in 2014), an increase in retail sales on domestic markets (up by 12% y-o-y in 2014) and a low inflation rate of on average 2% during 2014.

Kardan Land China's business strategy
KLC's strategy is to develop mixed-use real estate projects (retail centers that offer a lifestyle experience by including entertainment facilities, for instance, combined with residential apartments) in cities where the expectation is that the growth in the purchasing power of the middle-class will exceed that of the country average.

The fundamentals of the Chinese real estate market are strong: a large population, continued urbanization, growing income and upgrading of living standards. KLC based its strategy on these growth characteristics and accordingly developed both residential apartments in various joint venture projects, a successful shopping mall in Chengdu and currently it is developing a large mixed-use project in Dalian. The opening of the Europark shopping mall in Dalian is planned to take place in phases to be concluded in the second half of 2015; some tenants are expected to open in Q2 2015 at the same time as the opening of the subway station adjacent to the Europark Dalian project, whilst other tenants have a preference to open simultaneously with their new seasonal offering after summer.

During 2014, KLC still owned 50% of Galleria Chengdu, the shopping mall which KLC developed, opened in 2010 and of which it sold 50% in 2011. In line with the asset disposal program of Kardan, to generate funds to repay its debt, KLC's remaining 50% stake was sold to its co-shareholder in December 2014. KLC will, however, continue to manage the mall.

The Chinese residential real estate market continues to face challenges, as buyers of apartments are hesitant to buy and await possible new eased mortgage measures. KLC follows these developments closely and – as far as possible – paces the development of its residential apartments from joint venture projects in order not to build up too large an inventory. As at December 31, 2014, the percentage of completed but unsold apartments in the inventory increased to 9% (compared to 6% as at December 31, 2013). With respect to the residential apartment buildings in the Europark Dalian project, KLC also looks into possibilities of selling the service apartment buildings en-bloc (i.e. the total building), evidenced by the sale of the A2 building in June 2014, comprising of 201 SOHO apartments that were handed over in the fourth quarter of 2014. Moreover, KLC has also adjusted its residential apartments from joint venture projects (in terms of lay out as well as price) and increased its marketing efforts. Despite these actions, however, fewer sale contracts for apartments were signed in 2014 than in 2013.

Residential projects Kardan Land China

Units sold in the period	2014	2013	Q4/14	Q4/13
*Joint Venture projects**				
Olympic Garden	550	818	133	230
Suzy	162	540	21	62
Palm Garden	75	134	38	24
City Dream	256	562	73	175
	1,043	2,054	**265**	491
100% owned				
Dalian	211	64	2	25
Total	**1,254**	2,118	**267**	516

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

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, which it undertook together with a partner in order to spread the risk and to obtain a good, and local, reputation. KLC subsequently also started to focus on development of shopping malls (retail only) and in November 2010 the first stand-alone shopping center was opened in Chengdu. In August 2011, KLC sold 50% of Galleria Chengdu to an international private equity real estate company.

The Galleria, with 100% occupancy, showed growth in rental income and footfall in the following years. The remaining 50% of the mall was sold in December 2014. KLC will, however, continue to manage and operate Galleria Chengdu, given its proven success in the past years.

At present KLC is mainly dedicated to developing mixed-use projects, in which retail center(s) are constructed conjunct with residential apartment buildings on one location. 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.

As mentioned, as of the start, KLC has also been active in purely residential projects in which it co-operates with Lucky Hope, a company from Hong Kong, generally on a 50/50 basis. The joint venture projects are located in Shenyang (3), Xi'an and Changzhou. Together, these joint venture projects represent a total of approximately 29,000 apartments (100%; KLC share is 50%). Approximately 17,000 of all planned apartments has been sold and some 83% of these has been handed over. All of the apartments of the Qili Xiangdi project in Shenyang have been sold and delivered. Three projects comprise development of residential apartments combined with a small to medium sized retail center, aimed at servicing the local community. Only once the residential apartments are all sold and occupied will KLC consider initiating the construction of the retail centers.

KLC plans to develop 1,030 (residential) apartments in the Europark Dalian project (KLC owns 100%), in five buildings. Construction of the first building (A1) started in 2012, and currently approximately 70% of the apartments has been sold. In April 2014, building A2 was sold en-bloc and in December 2014 the building was handed over to its new owner.

During 2014, KLC delivered a total of 1,730 apartments, comprising 250 apartments of the Europark project and 1,480 apartments from joint venture projects, which was significantly fewer than the total of 2,847 delivered apartments in 2013.

As at December 31, 2014, a number of 4,841 apartments were held in inventory of which 59% was sold, evidence of the fact that KLC paces its construction according to demand. In comparison, as at December 1, 2013 the inventory counted 6,004 apartments of which 55% was sold.

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. As of 2005, 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. This, over time, has helped to expand its operations throughout China. 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 272.0 million as of December 31, 2014

(December 31, 2013: EUR 269.5 million). The increase is due to the result in the reporting period and the strengthening of the RMB versus the Euro, off-set by the partial transfer of the proceeds of the sale of Galleria Chengdu to GTC RE.

As of December 31, 2014 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 the time of signing 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 the time of signing approximately EUR 48 million), bringing the total loan to RMB 900 million. The loan principal will be repaid as follows: RMB 225 million in 2015, RMB 360 million in 2016 and RMB 315 million in 2017 (by September 2017).
As one of the conditions, the Project Company was to meet a specific sales target by the end of 2014. As this target was not met, KLC needed to inject RMB 200 million as equity in the Project Company, which was done end of March 2015. Subsequent to the report date, the syndicate demanded that RMB 95 million of the RMB 200 million, to be injected by KLC, would be deposited in the custodial account and stated that the Project Company will not be able to use said RMB 95 million at present. Currently KLC and the syndicate are in discussion on this subject.

Risks during 2014
The Chinese housing market has certain specific characteristics:

- Property (a second or third home) is generally regarded as an investment due to the lack of investment alternatives;
- Urbanization fuels the demand for housing;
- Households generally have a small mortgage debt;
- The Chinese Central Bank and the banking supervisor have a strong grip on the size and conditions of mortgage loans in order to be able to influence the housing market when deemed necessary.

Accordingly, the Chinese government has made a great effort in previous years to try to curtail the capital appreciation of (higher-end) urban private housing while simultaneously encouraging the development of social housing units and apartments targeted at first time home-buyers and occupiers. As the GDP growth of China slowed down gradually from 7.7% (y-o-y) in 2013 to 7.4% (y-o-y) in 2014, the government took various measures to maintain domestic development, reform and stability. This involved fighting the domestic speculative property market on the one hand, whilst introducing some monetary easing measures to support the residential real estate market for own use. As residential property prices in general showed a downward trend, to a certain extent due to an increasing oversupply, home buyers took on a 'wait and see' attitude. Consequently, there is a risk for developers of creating a significant inventory.

KLC is active in tier-2 and tier-3 cities with an above country average economic growth rate, where it develops residential apartments for 'own use' buyers from the middle- to higher-middle-class. In addition, 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 by offering a complete living area near Dalian's seashore, with SOHO apartments as well as serviced and luxury apartments situated around a green park on top of a parking garage and with direct connection to the city's new subway line.

An overview of the main risk categories for the Kardan Group can be found in the chapter 'Risk Management' starting on page 60.

Environmental and Social Governance

KLC is required to comply with various provisions regarding the protection of the environment, such as noise, pollution, soil impact etc. when developing new real estate projects. Before acquiring land, therefore, KLC conducts preliminary tests to examine compliance with the environmental provisions. 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. Europark Dalian, for example, is designed and will be operated according to the LEED standard.

Over time, KLC has been granted many awards for its development activities. During 2014, Europark Dalian won several awards, such as being recognized as China's best mixed-use development, best residential and best retail development during the prestigious Asia-Pacific Property Awards in May 2014. In September 2014, Galleria Dalian won 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. Also in September, Galleria Dalian was named as on the of the top three future retail projects during the 2014 Cityscape Awards for Emerging Markets.

KLC values its long-term relationship with its tenants and accordingly puts a lot of effort in proactive asset management for its mall and for its tenants. This dedication and successful approach is evidenced by the fact that, although Galleria Chengdu was sold at the end of 2014, KLC will continue as asset manager of the mall.
KLC's local asset management team won various awards among which the 2014 Mall China Elite Team award and the 2014's Best China Commercial Real Estate Operator.

KLC realizes that success is to a large extent dependent on the dedication, professionalism and commitment of its employees. Not only does KLC put a lot of effort into recruiting the best people and offering them appropriate and attractive remuneration packages, a lot of attention is dedicated to training, development and social events. In 2014, besides a number of training sessions – with a specific focus on health and safety – social happenings such as sports- and cultural events were organized for KLC staff.

As of December 31, 2014, KLC employed 154 people (205 as of December 31, 2013), of which 35 people worked at the Kardan China headquarters in 2014, one more staff member than in 2013. It is noted that the people working in the joint venture operations are not included.

The decrease in the number of staff is mainly the result of a change in the allocation of staff on the asset management activities. KLC in total has twice as many male staff as female staff – but at the head office the ratio female / male staff is 60/40% – with a low, stable, absence rate of around 2%. This is, among other things, due to the pro-active approach which KLC takes to its human resources policy.

Financial results 2014

Real Estate Asia contributed a profit of EUR 24.6 mn (2013: EUR 18.3 mn) to the 2014 net result of Kardan, predominantly on the back of the very strong Q4 result (EUR 20.6 mn profit). Revenue from delivery of apartments was significantly higher due to the handover of the Europark Dalian A2 building in Q4 2014, albeit at lower margins. Equity earnings in Q4 2014 improved compared to the previous 2014 quarters as nearly two-third of the total 2014 (joint venture) handovers took place in this quarter. During the full year 2014, however, 46% (y-o-y) fewer apartments from joint venture projects were handed over, leading to a (y-o-y) similar decrease in equity earnings.

In addition, the gain on the sale of the 50% stake in Galleria Chengdu (EUR 16.8 mn, before taxes) in Q4 2014 contributed substantially.

The construction of the retail center in Dalian was nearly completed as at year-end 2014 which translated into a positive revaluation. As a result of the significant strengthening of the RMB versus the Euro, net financing income included a substantial positive forex impact.

For a more detailed analysis of the 2014 financial result of Kardan's real estate segment (Real Estate Asia) we refer to the chapter 'Financial Review 2014' on page 21.

Outlook 2015

Real Estate Asia

KLC plans to open the shopping mall of Europark Dalian during 2015 and focuses on selling residential apartments from its joint venture operations as well as from the Europark project – both as separate units as well as possibly an en-bloc sale of an apartment building. Handover of apartments will continue and generally take place approximately 18 – 24 months after the sale contract has been signed.

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 in approximately 50 countries across four continents.

Its advanced technical resources include a worldwide staff of approximately 1,000 employees, including engineers and scientists in a wide variety of disciplines.

Tahal Group B.V. (Tahal Projects) engages in two basic types of projects: EPC and design projects.
EPC projects include planning, procurement, management, and construction, as well as 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 Projects is involved in projects in Africa, Central and Eastern Europe, Latin America, Asia and in other regions and countries such as in Israel. The total number of projects is approximately 1,200 out of which 40 are EPC projects.

Tahal Group Assets B.V. (Tahal Assets) invests in water-related assets such as wastewater treatment plants, water re-use facilities, municipal water systems, desalination plants and hydropower plants.
During 2014, Tahal Assets was predominantly operational in China via KWIG. In January 2015, the sale of KWIG was announced and in March 2015 the first phase (75%) of the sale was concluded. The second and final phase of the transaction is planned to take place in the second quarter of 2015.

Strategy

Taking into account an expected growth of the global population of approximately 20% (2010 – 2020; source: United Nations) it is estimated that the global gap between water supply and water demand will increase to around 40% by 2030. This will mainly have a growing and significant impact on agricultural development, particularly in emerging markets, and consequently on the production and availability of food.

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 for one of the most critical challenges which the world faces today: providing water and food to people in need.

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

Water supply crises and food security are generally considered as global risks with a significant impact if they were to manifest over the next coming years, as economic growth and social well-being depend on a safe and secure water and food supply. Although the water quantity on Earth has been stable for many years, the quality of water has deteriorated considerably, mainly due to population growth and urbanization. Moreover, as the (economic strength of the) middle class is growing, particularly in emerging markets, the demand for more and better food as well as an improved infrastructure is also increasing.
Taking into account that approximately 70% of all the worldwide available water is used for agricultural purposes, and therefore inextricable linked to food supply, this leads to the necessity to not only facilitate better and more access to (potable) water, but also to

force the world to find new ways to generate higher growth while using much less water. It requires collaboration between governments to provide sound policies and regulation, financial institutions to provide funding and the private sector to provide innovation, technology and at times to arrange funding too. As a result of the economic weakening in some Western countries, which used to finance projects in emerging markets, Brazil and the Far East have gradually become more important in funding water projects in the developing countries. In addition, as water is a local resource, it is therefore not surprising that solutions to water scarcity are generally likely to be (searched for) local(ly). However, engineering expertise and reputation, such as Tahal has, are crucial in the water solutions market, which means that barriers to entry are high.

At present, Tahal Projects is conducting a number of larger projects in Africa – with an integrated agricultural and regional development focus – as well as other water related projects in various countries.

Development of Group companies

Tahal Projects

During 2014, the majority of the existing projects progressed according to plan. Tahal managed to sign up a significant number of new projects in its focal market sectors during 2014, with a combined total value of approximately USD 229 million (as the majority of the projects is US dollar denominated the backlog is reported in USD). Consequently at the end of 2014 the backlog of Tahal Projects amounted to USD 358 million (year-end 2013: USD 320 million) as the result of newly signed agreements and the effect of the progress of execution (and thus revenues) of projects. Tenders for new projects usually have long lead times, as so many parties are involved.

Tahal Projects mainly focused on executing three large projects and their promotion in 2014. In addition, a lot of effort was dedicated to identifying appropriate projects and proposals for a number of interesting tenders were submitted, which combined added substantially to the backlog. In March 2014, for instance, Tahal signed an agreement to manage part of a larger agricultural development project which was already initiated by the client in an Eastern European country ('the Project'). The Project – which involves EPC and consulting – entails the development and cultivation of considerable agricultural areas and is expected to take four years. The consideration for the Project, amounting to EUR 62 million, will be paid over the duration of the Project to Tahal, which may be extended (for payment of an additional consideration) for further periods of one year each. The first down payment of 10% of the total consideration was received in May 2014.

Another large agreement was signed by Tahal Projects in December 2014, 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), which will be paid during the expected duration of the project (approximately 40 months). A down payment of 15% of the total compensation was received in February 2015. Most of the funding for the project is provided by the European Bank of Reconstruction and Development and the balance is funded by the Republic of Yakutsk. 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 Project is a Turn Key project, which entails that Tahal has full responsibility until the water treatment plant is in operation.

Tahal Assets

During 2014, Tahal Assets was predominantly active in China via KWIG, as well as in Turkey through a joint venture. The sale of the shares of KWIG was announced in January 2015, and the first phase (75%) of the sale was also concluded in Q1 2015. Further reference is made to the chapter 'Main events in the portfolio of Kardan', starting on page 17.

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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 Projects, loans from banks and other financial institutions and 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. Consequently, the balance of loans which Kardan provided to TGI was nil as of December 31, 2014.

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), to be drawn before July 2012 and repaid after 5 years from the date the agreement was signed, and would receive warrants in the same amount to purchase an equity stake in TGI based on a pre-money company valuation for TGI which would be the lower of (a) USD 250 million plus interest or (b) 25% discount on the company valuation at an exit event (such as an IPO).

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. It is noted that the warrants, as granted in the agreement of 2010, remain valid even after the date of the repayment of the loan.

In addition, 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 according to the 2014 consolidated financial statements of TGI amounts to approximately EUR 38 million (December 31, 2013: EUR 47 million). Total cash and cash equivalents remained stable at EUR 14 million (December 31, 2013: EUR 15 million).

Risks during 2014

Tahal Projects 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 Projects has significant experience in arranging financing for a project and considers this risk element to be part of the project scope. During 2014, Tahal Projects encountered delays in tender processes which it had no influence on. The majority of these tender processes have been completed successfully for Tahal Projects, whilst some are still pending.

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. During 2014,Tahal Projects implemented an anti-corruption policy 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 60.

Environmental and Social Governance

Before embarking on a project, Tahal Projects carries out in-depth research and ground work, including responsible behavior and environmental impact assessments. Besides – at times – including the aspect of finding appropriate funding for a project in its tender offers, a sound assessment on how Tahal will prevent and mitigate environmental risks is included, which meets a new pre-condition for leading commercial banks to consider funding (water) infrastructure projects. Tahal has implemented strict tender policies and processes, aligning these with its own ESG policies. Once an agreement for a project has been signed, Tahal focuses on delivering a complete, sustainable and customer-oriented high-quality result, which may include training programs to ensure proper use of the project. This training 'on the spot' occurs more and more frequently and has become a key selling proposition of Tahal. Executing these kinds of projects invariably entails creating jobs for local people, which is also taken into consideration in the planning phase of a project. In doing so, Tahal demonstrates clearly how it intertwines its economic with its environmental and social and ethical objectives.

With so many projects in so many places around the world taking place concurrently, it is clearly a challenge

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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. A relatively stable staffing, low absence rate and on average a long tenure are the result.
As of December 31, 2014, Tahal Projects employed 594 people and Tahal Assets employed 393 people, bringing the total number of emplyees of TGI to 987 employees (December 31, 2013: 1,042). The decrease is mainly the result of a reduction of staff within Tahal Projects, specifically in Romania. Excluding the KWIG employees in China, the number of staff of TGI was 669 as at year end 2014.

The gender ratio of the people working at Tahal head office in Israel is 50/50, whereas this ratio is 9/1 (male/female) in the project operations, which are active mainly in emerging and frontier markets.

Being environmentally aware and responsible is an example of Tahal's corporate values. Accordingly, most communication with subsidiaries and customers is 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, recyclable paper and cans etc.) has been implemented at Tahal.

As of 2007, Tahal was also operational in the construction of water treatment facilities, predominantly in China through its subsidiary KWIG, which was recognized several times as a highly professional company delivering high quality water treatment whilst also reducing the energy consumption in its operating processes. In January 2015, Tahal signed an agreement to sell KWIG – of which the first phase (75%) was concluded in March – as part of Kardan's plan to generate cash to service its debt, mainly through asset disposal.

Financial Results 2014
Water Infrastructure Projects recorded a net profit of EUR 4.2 million in 2014 compared to net loss of EUR 2.9 million in 2013, mainly the result of 11% higher (y-o-y) revenues at higher margins, fairly stable costs and lower tax expenses (in 2013 tax expenses were impacted by tax on the sale of a real estate property and the impact of closing down of the Polish subsidiary).

Water Infrastructure Assets contributed a net loss of EUR 5.7 million compared to EUR 3.1 million net profit in 2013. The main reason for the loss is the impairment of EUR 6.9 million and tax provision of EUR 1.3 million on KWIG, the main subsidiary of Tahal Assets, following the announcement in January 2015 of its sale, of which the first phase (75%) was completed beginning of March 2015. As the growth in 2014 revenue derived mainly from construction activities at KWIG, and these activities generally have a lower margin, the gross profit decreased by 7%. Although Tahal Assets kept its costs under control and equity earnings improved (y-o-y), this could not off-set the impairment of KWIG in the results of Q4 2014.

For detailed information on the 2014 results of the segments Water Infrastructure Projects and Water Infrastructure Assets, see the chapter 'Financial Review 2014', starting on page 21.

Outlook 2015

As of Q1 2015, following the sale of KWIG, Water Infrastructure Assets will no longer be presented as a separate segment.

The spectrum of activities of the water infrastructure project company Tahal is focused on Engineering, Procurement and Constructions (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.

Financial Services Division

General

Kardan operates in the financial services sector through its fully owned subsidiary Kardan Financial Services B.V. (KFS), which in its turn fully owns TBIF Financial Services B.V. (TBIF). KFS's strategy is to strengthen the existing investments in Bulgaria and Romania primarily through organic growth. Additionally, KFS also has a 66% indirect stake in the operational lease franchise 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 after the reporting period, in February 2015.

Kardan used the proceeds to fully repay a bank loan of EUR 5 million plus interest, thus releasing all relating pledges. As a result of the transaction TBIF is expected to record a small gain in Q1 2015.

TBIF has been planning to sell its stake in Avis Ukraine, which focuses on operational leasing services mainly to international corporations, as of 2013. Given the continuing unstable political situation in Ukraine, TBIF is monitoring the situation closely both with respect to Avis Ukraine's operations as with respect to its intention to sell its stake in this company.

Banking and Retail Lending

Market development Bulgaria and Romania
The pace of economic recovery remained subdued in most of the European Union's countries during 2014. Besides unfinished macroeconomic adjustments and sluggish implementation of reforms, uncertainty about the geopolitical situation, among others, weighed down on economic growth. However, most macroeconomists are cautiously optimistic with respect to 2015, albeit that diversity is likely to persist since idiosyncratic features shape the growth performance. Substantial risks to the recovery remain, but a number of developments bode well: the lagged effect of a weakening Euro, easing fiscal austerity in some countries, ECB's quantitative easing program, a more stable banking sector and currently lower oil prices.

The Bulgarian economy, although influenced by political instability and unrest in the banking sector, still managed to grow by 1.4% in 2014 mainly on the back of domestic consumption and public investment using available EU funds. Household's real disposable income grew and purchasing power improved underpinned by deflation, caused by a combination of worldwide decreased energy prices and lower food prices following a good harvest in Bulgaria. It is noted though, that Bulgaria is still one of the poorest countries of the EU and that it is experiencing a decline in the working-age population, due to aging and emigration, which is slowing down private consumption. Early 2014, consumer confidence appeared to improve, evidenced by households carefully taking on loans and depositing savings. In H2 2014 however, the turmoil around the elections and the closing of a large bank in Bulgaria (KTB Bank) led to a sharp deterioration of confidence, especially in the domestic banking system. The stability of the financial system has, however, not materially been impacted. In addition, the statutory guarantee on deposits was applied to KTB clients in December 2014, which helped to restore consumer confidence, evidenced by a country wide growth of retail deposits by 16%

(y-o-y) in 2014. The banking sector in Bulgaria ended the year 2014 with a 27% higher profit than in 2013.

TBI Bank Bulgaria managed to benefit from the liquidity in the system and saw deposits increase by 4% (y-o-y) as individuals transferred their deposits from KTB Bank to other banks. Against the general market trend (-1%), deposit balances from small and medium-sized enterprises ('SMEs') at TBI grew by 5% (y-o-y), both in volume as in clients as the result of the bank's focus on long term account relationships. The net loan portfolio increased by 10% (y-o-y), particularly on the back of the retail portfolio development.

Romania's GDP growth in 2014 arrived at 2.9% – slightly lower than in 2013 which benefitted from a bumper harvest – on strengthening private consumption and continuing robust export mitigated by investments. Following a stellar Q3 2014 GDP growth of 1.9% (q-o-q), the fourth quarter (0.5% q-o-q) was impacted by a weakening of export. Consumer demand is expected to remain strong as labor market conditions improve, wages continue to increase and the inflation rate is anticipated to stay low and interest rates to decline. During 2014, confidence indicators in Romania moved back to pre-crisis levels, resulting in individuals and corporates slowing down their deleveraging. Supported by easing credit conditions and favorable tax policy changes, local currency lending picked up again.

The net loan portfolio of TBIF's activities in Romania grew (by 16%, y-o-y), particularly on the back of a strong increase in the SME segment. In 2014, the first full year in which TBI could raise deposits in Romania after having obtained permission to perform banking activities, the growth in deposit taking was significant: retail deposits increased by 78% and SMEs deposited nearly three and a half times more funds than in 2013, demonstrating the successful strategy of TBI Bank's Romanian branch.

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. In Bulgaria and Romania, 76% and 81% respectively of total bank assets are internationally owned. Whereas in previous years these 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 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.

The ability to enter the CEE markets for newcomers under a new banking platform remains limited, however, 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. It should be mentioned that following the crisis in the global economy, the cost of acquiring an existing bank has decreased. Nonetheless, finding appropriate and sufficient funding to support and grow the 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 faces this challenge 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, 2014 is EUR 8.9 million (December 31, 2013: net debt EUR 7.9 million).

KFS/TBIF **€ in million**	
Liabilities	
Loans from Kardan N.V.	(41.5)
Assets	
Cash and short-term investments	5.4
Loans to others	11.0
Loans to subsidiaries & other receivables	16.2
Net debt	**(8.9)**

Risks during 2014

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. During 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. Notwithstanding the decline in confidence, the stability of the banking system in Bulgaria has not been materially impacted. The effect of the guarantee on deposits which was applied to clients of KTB was that these clients transferred their funds to other banks. As a result of the large influx of funds, interest rates were adjusted to lower levels, also at TBI Bank. Although consumer and retail confidence in Bulgaria remained fairly fragile, TBI managed to grow its loan portfolio and its deposit balances.

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

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 66% as at year-end 2014 (December 31, 2013: 77%) mainly due to the sale of its subsidiary holding a non-performing credit portfolio.

An overview of the main risk categories for the Kardan Group can be found in the chapter 'Risk Management', starting on page 60.

Environmental and social governance

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 its key strategic priorities, next to growing its market share whilst strictly complying with banking rules and regulations. 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. As such, the bank has strict policies and procedures in place with respect to risk management and taking on board new clients.

Additionally, TBI considers it vital to employ and retain staff of the highest ethical standards. Emphasis is put on establishing a working environment with a customer friendly atmosphere that is also conscientious about energy saving and recycling. The human resource policy reflects this high standard, addressing equal opportunities, training, non-discrimination and other aspects which enhance TBIF Group as a respected and good employer. Excluding the staff working in the joint venture operations (mainly Avis Ukraine), TBIF employed 1,395 people as of December 31, 2014, less than in 2013 (1,450) following some reorganizations. As in 2013, TBIF had more female staff (Romania: 69%, Bulgaria: 81%) than male staff in 2014, representing various age groups and backgrounds.

Financial results 2014

The Banking and Retail Lending segment, comprising TBIF reported a significant contribution in 2014 of EUR 7.6 million profit, a marked improvement on the loss of EUR 18.8 million in 2013 (which included impairments totaling EUR 12 million). With 37% higher revenues (y-o-y) in 2014 – due to better quality loan portfolios and less interest expenses on deposits – and stable costs of banking, combined with lower financing and tax expenses, TBIF has proven the success of its reorganizations, risk approach and business model.

Avis Ukraine, reported under equity earnings, managed to record a slight positive result in 2014, despite the continued unstable situation in the country.

For a detailed analysis with respect to the results and financial developments of KFS, see the chapter 'Financial Review 2014' (page 21).

Outlook 2015

TBIF focuses on increasing its loan origination and its 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.

Personnel and Organization

Kardan is a decentralized organization with mostly majority owned subsidiaries that operate fairly autonomously in many different countries. Accordingly, our personnel policy and operational structure are decentralized. One key common denominator is that Kardan considers its employees as fundamental to its success and is therefore committed to attracting and retaining highly competent personnel throughout its organization. Given the international character of the Company and its practice to 'be global but to act local', this translates into the Kardan Group having a very diverse group of employees representing many nationalities, age groups and backgrounds.

Kardan's headquarters is located in Amsterdam, the Netherlands. Apart from general activities related to its ongoing operations as a listed company, the headquarters deals with supervising Kardan's operations abroad and with the corporate finance, legal and corporate positioning activities of the Group. The head office employees therefore, in line with the responsibilities and activities of the headquarters, predominantly provide services to the Group companies.
In relation to the listing of its shares and Debentures on the Tel Aviv Stock Exchange, Kardan also draws on specialists of the listed company Kardan Israel, particularly with respect to the Israeli capital markets and related legal services.

As at December 31, 2014, 18 people worked for Kardan Holding, of which 16 at the head office in Amsterdam and 2 in Tel Aviv, in a ratio of 72% female and 28% male staff members. As at year-end 2013 Kardan Holding employed 17 people in a similar ratio. The holding company Kardan contributes its business and specialist experience to its 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 to initiate and develop assets in emerging markets. This ensures that we have timely access to appropriate opportunities, while also understanding and managing local risks.

At year-end 2014, the number of people employed by Kardan Group totaled 2,554. As of December 31, 2013 the number of employees was 2,713 (excluding the employees working for the joint venture operations). The reduction of the number of employees is the result of continued efficiency processes within the subsidiaries, yet mitigated by a slight increase of staff in the banking and retail lending operations in Romania.

With the exception of the impact of the sale of KWIG, the Company does not foresee significant changes in the number of staff in its existing Group companies in 2015.

	Number of employees as of December 31, 2014 *				
	Kardan Holding	Real Estate	Water Infrastructure	Financial Services	Total
Europe (mainly CEE)	16	–	125	1,395	1,536
China	–	154	318	–	472
Israel	2	–	414	–	416
Other	–	–	130	–	130
Total	**18**	**154**	**987**	**1,395**	**2,554**

* 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 2014, 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, 2014, KLC employed 154 people (205 as of December 31, 2013), of which 35 people worked at the Kardan China headquarters in 2014, one more staff member than in 2013. It is noted that the people working in the joint venture operations are not included.

The decrease in the number of staff is mainly the result of continued efficiency measures. KLC in total has twice as many male staff as female staff – but at the head office the ratio female / male staff is 60/40% – with a low, stable, absence rate of around 2%. This is, among other things, due to the pro-active approach which KLC takes to its human resources policy.

Water Infrastructure

TGI's organization during 2014 was based on operations divided into two business segments: Tahal Projects and Tahal Assets. Each business segment is led by its own management, this in addition to the management and headquarters of TGI itself.

Early 2015, Tahal Assets signed an agreement to sell its shares in its subsidiary KWIG in China.
At the beginning of March 2015, the first phase, comprising 75% of the transaction, was concluded.

As of December 31, 2014, Tahal Projects employed 594 people and Tahal Assets employed 393 people, bringing the total number of employees of TGI to 987 employees (December 31, 2013: 1,042). The decrease is mainly the result of a reduction of staff within Tahal Projects, specifically in Romania. Excluding the KWIG employees in China, the number of staff of TGI was 669 as at year end 2014.

In order to retain an organizational culture of achievement and excellence, Tahal implemented several human resource programs focused on various topics (e.g. engineering, project management, health & safety etc.), which resulted – among others – in a low absence rate of staff during 2014. Specific attention is given to internal communication, as creating a sense of cohesion is considered important in a company with employees that are active all over the world.

The gender ratio of the people working at the Tahal head office in Israel is 50/50, whereas this ratio is 9/1 (male / female) in the project operations, which are active mainly in emerging and frontier markets.

Financial Services

As of December 31, 2014, Kardan Financial Services, through its operating company TBIF, employed 1,395 people. This was 4% less than last year (1,450) following some reorganizations. Approximately 81% of the staff in Bulgaria was female, whereas this was 69% in Romania. A lot of effort is put into retaining a good working environment, both in terms of office space and infrastructure as well as in terms of business atmosphere. This has resulted in a very low absence rate (under 1% both in Bulgaria as well as in Romania), a higher average tenure of staff and many internal promotions, as part of the policy.

The CEO of TBIF Group is located in Amsterdam, the Netherlands. All other TBIF Group employees are employed locally in Bulgaria and Romania. As AVIS Ukraine is operated as a joint venture, its employees are not included in the total personnel number of TBIF.

Risk Management

Kardan's business model inherently comprises risks

Kardan's operating subsidiaries are predominantly active in emerging markets. 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, following the global financial crisis of 2008, our real estate and financial services activities were for a long time considered to have a high risk profile. We therefore see risk management as an integral part of our daily management responsibility.

The Board is of the opinion that we have sufficient controls in place to identify and manage risks within the boundaries of our chosen strategy and operations. In all the markets in which we are active our management teams consist of local and international members to ensure adequate knowledge and understanding of our local business environments.

Our risk management approach

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

We have a consistent and structured management information system in place, based on monthly management reports submitted and presented by the subsidiaries to enable sound analyses and decisions. As Kardan is listed on both the Euronext Amsterdam as well as the Tel Aviv Stock Exchange, we have solid governance structures in place and are obliged to report on the quarterly results of the Group, which – among other things – entails that Executive Management discusses strategic and budgetary issues with management and boards of our subsidiaries at least on a quarterly basis. We refer to the Corporate Governance statement 2014 which can be found on the corporate site, www.kardan.nl.

Our risk management framework and processes

The risk management framework that we use has been developed on the basis of the original principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), updated since according to COSO IC 2013, which aims to develop and maintain internal control systems to enhance the likelihood of a company achieving its targets and to be able to adapt effectively to changes in the business and operating environments. We consider this framework to constitute a link between strategy, policy-making and execution and to be instrumental in obtaining a clear view on our business environment and the challenges we face. Our risk management framework and approach provide us with reasonable assurance that the Group's objectives can be achieved.

The Board holds at least one formal strategy (and budget) meeting per year. The strategy and business development of Kardan, and consequently of its subsidiaries, are recurring topics on the agenda of Board meetings during the year. If deemed appropriate, for instance, due to changing market circumstances, the corporate strategy and related objectives may be adjusted. The Executive Management discusses the objectives for the coming year(s) with the managers of the subsidiaries in order for them to include these targets into their budgets and strategic plans. Moreover, the Board and the Executive Management require the subsidiaries to identify business and operational risk factors and controls in their budgets and plans. After approval of the subsidiaries' budgets and strategic plans, the Executive Management prepares the final budget and strategic plan for the Board, which includes the main risk categories and the relating control measures that have been determined during a risk assessment session. This session is conducted by the Executive Management in close cooperation with risk management professionals. Subsequently, the Executive Management may decide to integrate some of the identified risk categories and controls in ongoing management information systems.

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 addition, Kardan 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 and until the date of this report, 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, 2014 the control over financial reporting and disclosure is effective ('the Control Statement').

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

Main risk categories and measures

The main risk categories (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 2014 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 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.

Capital availability

Kardan has a substantial debenture debt at present. In order to finance the interest and capital repayments, the required cost needs to be funded 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 business model, as well as to grow and generate future financial returns.

Measures:
In order to bring down debt at the level of Kardan, we have initiated a program of selling selected assets from our portfolio. At the end of 2014 we sold our remaining 50% stake in Galleria Chengdu in China as well as a subsidiary of TBIF, which enabled us to fully repay an outstanding bank loan. We intend to selectively continue with the disposal of further assets. After the reporting period, we completed the first phase (75%) of the sale of our shares in KWIG. In addition, we are currently formalizing the wording of new deeds of trust with respect to our Debentures, on the basis of the agreed upon Principle Debt Settlement early 2015. In headline this debt settlement entails a deferral of 24 months for some principal payments against certain conditions, restrictions and collateral. Once the new deeds of trust have been determined, these need to be approved by the

Debenture Holders. This will give us more time to create additional value in our subsidiaries.

In November 2014, we issued a shelf prospectus in Israel to allow us – should we decide to make an offering of any securities in the future – to do so expeditiously. It is emphasized that no such offering is contemplated at the present time. We intensively manage the capital structure and liquidity position of Kardan and each of our subsidiaries. In line with our financial strategy, our operating companies are largely responsible for their own funding. Our Principle Debt Settlement, however, does 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. We recently completed the first phase (75%) of the sale of our shares in KWIG, in line with our plan to generate cash for Kardan. 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:
With the recent divestments of our remaining 50% stake in the shopping mall Galleria Chengdu and of KWIG, we have significantly reduced our exposure in China. The remaining real estate activities in China are currently 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 both in the residential and the commercial retail real estate sector, which diversifies our risk further. At present, following the Principle Debt Settlement with the Debenture Holders, it is not foreseen that we will further invest in new real estate projects in China in the short term.
Our water infrastructure company Tahal Projects 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 our geographical spread of operational activities gradually, albeit that – given the difference in sector - 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.

Contract Commitment

Our decentralized organization is operational in many different jurisdictions and sectors. Besides long term contracts with our clients in our various segments, such as rental agreements with tenants of shopping mall(s) and EPC contracts with public authorities, we also have many other contract commitments (e.g. with financial institutions) within the Group. As a consequence, we run the risk that lack of relevant or reliable information regarding outstanding contractual commitments may result in decisions that are not in our best interest. It is therefore of essence that we are continuously updated with relevant and reliable information on outstanding contractual commitments.

Measures:
The legal teams within the Group are in regular contact and have a reporting and communication structure in place, as laid down in a Legal Procedures Policy. The Executive Management regularly receives an overview of the main outstanding contractual commitments. The financial exposure of contracts is incorporated in budgets, cash flow forecasts and quarterly reporting. In addition, each business segment has its own dedicated in-house legal counsel who is involved in the main contracts of the Group companies. When deemed necessary, a selection of reputable local law firms is consulted. Our main contracts are also reviewed as part of the 'entity level controls' of the Israeli SOX, as mentioned earlier, and in internal audits.

Financial markets

Kardan is a listed company and is strongly dependent on external financing. It has a high exposure to emerging markets in general and China in particular and it currently has a significant debt position. As such, we are exposed to fluctuations in currencies, prices, interest rates and indices which may affect the value of our financial assets, the size of our financial liabilities and the prices of our listed securities (equity and debt). Although we are not able to estimate the impact of this, developments in the financial markets could adversely affect our results, the equity base of Kardan, the value of our assets, our ability to comply with the covenants, repay our debt and the ability within the Group to raise financing as well as the terms of such financing.
It is noted specifically 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 Israeli Shekel (NIS) denominated debts and most of its assests are denominated in Chinese RMB. These effects may be material.

Measures:
Kardan intensively monitors the financial positions within its businesses 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 Principle Debt Settlement with the Debenture Holders, and on enhancing the direct financing of our operating activities within the subsidiaries. Moreover, we put 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.

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 we have introduced additional measures which will enable us at an early stage to identify possible operational irregularities. Our water infrastructure business Tahal, for instance, implemented an anti-corruption plan

Board Report

during 2014.
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. On top of this, Kardan is subject to internal audits on an ongoing basis.

Health and Safety

The sectors and geographical areas in which Kardan is operational are all inherently exposed to health and safety risks: for instance a possible fire in a retail center, unsafe locations for our water projects, a bank robbery. Such incidents may affect our staff and/or clients psychologically, physically, financially and may also impact the reputation of Kardan. In addition, such incidents may lead to penalties or mandatory compensations for Kardan.

Measures:
We have implemented formal health and safety policies and procedures throughout the Group according to specific regulations and have initiated dedicated training programs for relevant staff.
Within each subsidiary, the relevant risk manager is responsible for identifying potential health and safety risks, taking appropriate measures and for regular and consistent reporting. The Executive Management is kept abreast of health and safety issues within the subsidiaries on a regular basis by means of the quarterly reports.

Human resources

Kardan considers having highly qualified and committed personnel as a critical success factor.
We depend on a relatively small group of skilled professionals, experienced in the markets in which they operate or in a specified specialism. Particularly in the emerging markets, the availability of local personnel qualified to manage local businesses in accordance with standards applied in developed countries is limited and under continuous pressure from strong competition. A lack of effective succession planning with respect to key personnel may – temporarily – impact the execution of our business model and critical business objectives.

Measures:
As a decentralized organization, Kardan's subsidiaries all have their own human resource policies and procedures in place. The one common denominator is that Kardan considers its employees as fundamental to its success and is therefore committed to attracting and retaining highly competent personnel throughout its organization. Evaluation policies and procedures provide local management with an annual insight in the development of their human capital and in the possible need for additional training programs.
We continuously take measures to mitigate the dependency on a limited number of key staff members, such as rotating personnel, improving succession planning and creating a diversified pool of people available for key positions. Moreover, we endeavor to ensure the long-term commitment of key personnel by, for example, having attractive remuneration packages, which may include incentive schemes that are aligned with the long-term business development of the subsidiary and with Kardan's objectives. Accordingly, a remuneration policy has been adopted by the Board of Kardan with respect to key personnel of the subsidiaries.

Performance Incentives

In order to ensure the long-term commitment of key personnel, Kardan has some incentive schemes in place, such as senior employee stock option plans, which are aligned with the long-term development of assets and with value creation of the relevant subsidiary. As a decentralized company with several investments in its portfolio, Kardan could run the risk that such incentive plans may induce managers to act in a manner inconsistent with Kardan's overall objectives.

Measures:
The remuneration of executives and senior managers within the Kardan Group is approved by their respective Supervisory Board or Board of Directors, as the case may be. It was recently deemed appropriate, however, to further review senior management remuneration throughout the Group. The Board has accordingly approved a remuneration policy for newly appointed senior managers in the Group, which, among others, provides guidelines to ensure their remuneration is aligned with the corporate objectives of Kardan as well as with the objectives of the relevant Group company.

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.

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.

Measures:
The management of our subsidiaries closely monitors the political situation of the countries in which we are located and adjusts 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.

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; and
- internal control over financial reporting is effective; and
- the risk management and control systems worked properly in the year under review; and
- applicable laws and regulations are being complied with.

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

Environmental and Social Governance (ESG)

'Being a responsible corporate citizen'

We consider Environmental and Social Governance (ESG) behavior essential for the future success of the operations of our Group. We therefore strive for long-term, sustainable, solutions throughout the Kardan Group.

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

In line with our strategic vision, our core operations are located in those emerging markets where we address, and benefit from, the needs of the middle class. We are confronted with the environmental and social challenges specific to these markets and activities, as it is a known fact that economic development of emerging markets frequently comes at the expense of the environment. With urbanization and industrialization comes the need for more water, food and energy, and this can lead to significant pollution. Governments are consequently taking more measures to protect the environment and combat pollution. In addition, after unethical labor practices were uncovered in a number of dramatic incidents in some emerging 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 will not occur unless human and environmental well-being is protected. In addition, consumers and investors worldwide are demanding that CSR is taken seriously. For corporations, this manifests itself in, among others, the requirement to report on their ESG policies in their annual reports, and thus to have such policies and procedures in place.

We follow these developments carefully and are dedicated to implementing ESG standards wherever and whenever possible.

To underpin our belief that ESG should be considered a core value 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 facility, employees have the opportunity to (anonymously) report on incidents in violation of the Code of Conduct to the Group's senior management, upon which an investigation is executed.

We continuously focus on providing an inspiring working environment for our employees and on enhancing long term relationships with our clients by offering environmentally sound solutions, thereby creating a socially responsible company for our stakeholders.

Likewise, in line with our strategy to establish local organizations (platforms) that create positions for both international and local professionals, we believe that bringing diversity to our staff ameliorates our insights into market opportunities and customers' requirements.

On a practical level we monitor our ESG activities using the table as presented below. Each operating company implements its own 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 – Diversity – Health and safety	– Offices near public transport – Waste policies	– Job security – Continuity – Career opportunities
Customers	– Long term relationships – Retention of customers – Partnering	– Green building standards (real estate) – Sustainability standards in water infrastructure projects – Agricultural projects as sustainable solutions to water and food security crisis	– Price / quality balance – Continuity – Reliability
Stakeholders	– Corporate governance – Transparency – Accessibility	– CSR – ESG reporting	– Return on Investment – Consistency in reporting – Reliability and accessibility

FOCUSED ON DELIVERING SUSTAINABLE SOLUTIONS

Real Estate

More and more, tenants of shopping malls and buyers of residential apartments demand of real estate developers that they adhere to sustainability standards. Kardan Land China aims to meet these standards by, among others, delivering high quality assets and by carrying out its activities with future tenants and residents in mind as of the start. We also consider it important to be a 'good corporate citizen'; i.e. to be well respected within the local community, both by means of the assets and their sustainability characteristics as by means of our corporate social positioning such as employing local staff, business ethics, values, and operating principles.

In its large mixed-use Europark Dalian project, KLC not only addresses the retail sector but appeals to individuals with high quality living demands by offering a complete living area near Dalian's seashore, with SOHO apartments as well as serviced and luxury apartments situated around a green park, with direct connection to the city's new subway line. Working with the best (inter)national consultants, we ensure that the buildings in our projects are safe and energy friendly. Europark Dalian, for instance, is designed and will be operated according to the LEED (Leadership in Energy & Environmental Design) standard. We always aim to use local contractors for our developments, consequently providing local professionals with jobs.

Europark Dalian also won several awards, such as being recognized as China's best mixed-use development, best residential and best retail development during the prestigious Asia-Pacific Property Awards in May 2014. In September 2014, Galleria Dalian won 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. Also in September, Galleria Dalian was named as one of the top three future retail projects during the 2014 Cityscape Awards for Emerging Markets.

As we value the long-term relationship with our tenants, we accordingly put a lot of effort in proactive asset management for our mall and for our tenants. Our dedication and successful approach is evidenced by the fact that, although we sold our remaining 50% stake in Galleria Chengdu at the end of 2014, we will continue as asset manager of the mall. During 2014 we organized many events in Galleria Chengdu, which attracted a significant number of visitors and led to strong buying behavior. KLC's local asset management team won various awards among which the 2014 Mall China Elite Team award and the 2014's Best China Commercial Real Estate Operator.

We realize that success is to a large extent dependent on the dedication, professionalism and commitment of our employees. Not only do we put a lot of effort into recruiting the best people and offering them appropriate and attractive remuneration packages, we also pay a lot of attention to training, development and social events. In 2014, besides a number of training sessions – with a specific focus on health and safety – social happenings such as sports- and cultural events were organized for KLC staff. Our dedication to providing an inspiring working environment for our employees – comprising a ratio of 1 to 2 (female/male) of various nationalities and backgrounds – resulted in a stable low (approximately 2%) absence ratio during 2014 and in the average tenure of staff gradually growing.

Water Infrastructure

Water is essential for all socio-economic development and for maintaining healthy ecosystems. As indicated earlier in this report, the world is facing a growing gap between the demand for (access to) natural or treated water and supply of water, specifically in emerging markets as a result of population growth, urbanization and industrialization and compounded by climate change. This challenge is exacerbated by the ensuing deterioration of the water quality, whereas researchers state that the water quantity on Earth has been stable for many of years.

As such, it is essential to develop water supply systems particularly in rural areas in frontier and developing countries, not only for food security but also to improve the general health of people. A beneficial side effect is that generally these water projects create job opportunities for local people, which in its turn stimulates economic growth.

Concurrently, it is crucial that polluted water is treated, so that this water can again be used, mainly for agricultural and industrial purposes. This requires the construction of many wastewater treatment plants, for which engineering expertise and the availability of significant funding are key preconditions. Currently, of all the worldwide available water some 70% is used for agricultural purposes, approximately 19% for industrial and the remaining 11% for domestic use.

Our subsidiary Tahal has been providing high quality integral Engineering, Procurement and Construction (EPC) project management expertise, with a specific focus on water related projects, including agricultural development, producing energy from solid waste and natural gas for over 60 years. Before embarking on a project, Tahal carries out in-depth research and ground work, including responsible behavior and environmental impact assessments. In most cases, significant water projects are put for tender by governments or municipalities. Funding such – mainly long-term – projects is frequently a challenge, specifically in emerging countries. Taking this into consideration, Tahal includes its experience of finding appropriate funding for a project as part of its tender offers. Moreover, a sound assessment on how the company will prevent and mitigate environmental risks is included in the offer, which meets a new pre- condition for leading commercial banks to consider funding (water) infrastructure projects. Tahal has implemented strict tender policies and processes, aligning these with its own ESG policies.

Once an agreement for a project has been signed, Tahal combines its engineering, environmental, technological, training and marketing expertise to deliver a complete, sustainable and customer-oriented high-quality result. At present, for instance, we are managing a number of major projects in Africa – one in Angola and four in Ghana – which include development and construction activities (e.g. water supply, sewage and drainage systems for agricultural purposes) as well as training programs, which we will continue to deliver after completion of the technical parts, to ensure proper use of the project. This training 'on the spot' occurs more and more frequently and has become a key selling proposition of Tahal.
Executing these kinds of projects invariably entails creating jobs for local people, which is also taken into consideration in the planning phase of a project.
In doing so, Tahal demonstrates clearly how it intertwines its economic with its environmental and social and ethical objectives.

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. A relatively stable staffing, low absence rate and on average a long tenure are the result. In 2014, Tahal organized several social events for its staff to nurture corporate cohesion. In addition, health and safety training programs were implemented, to assure a safe working environment in its worldwide offices and project sites. At the Tahal head office in Israel there is an approximate balance between male and female staff, whilst in the project companies there are significantly more males (9:1) involved than females. The diversity in terms of nationality and background, particularly in the project companies, is high.

Being environmentally aware and responsible is an example of Tahal's corporate values. Accordingly, most communication with subsidiaries and customers is 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, recyclable paper and cans etc.) has been implemented at Tahal. Tahal's quality assurance system is certified in compliance with ISO 9001:2008, and our environmental and occupational health & safety management systems are certified in compliance with ISO 14001:2004 and OHSAS 18001:2007.

As of 2007, Tahal was also operational in the construction of water treatment facilities, predominantly in China through its subsidiary KWIG. KWIG operated 11 water treatment projects in China with a combined capacity of around 640k t/day. Over the years, KWIG was recognized several times as a highly professional company delivering high quality water treatment whilst also reducing the energy consumption in its operating processes. In January 2015, we signed an agreement to sell KWIG – of which the first 75% was concluded in March – as part of our plan to generate cash to service the Kardan debt, mainly through asset disposal.

Financial Services

Our banking and retail lending activities predominantly take place in Bulgaria and Romania where we operate under the brand name TBI. Our clients are mainly middle class individuals and small and medium sized enterprises (SMEs) through which we offer loans, consumer credit and leasing services to accommodate their basic financial needs and to invest in their businesses. We believe that our services enable economic and social development for our clients.

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. During 2014, this confidence was tested in Bulgaria when the National Bank of Bulgaria revoked the banking license of the fourth largest bank of the country and started insolvency procedures. Notwithstanding the decline in confidence, the stability of the banking system in Bulgaria has not been materially impacted.

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

Customer satisfaction and consequently retention is one of our key strategic priorities, next to growing our market share whilst strictly complying with banking rules and regulations. We finance all sectors of the economy in an ethically responsible manner, paying considerable attention to the indirect impact that its actions may have on society. As such, we have strict policies and procedures in place with respect to risk management and taking on board new clients.

Additionally, we consider it vital to employ and retain staff of the highest ethical standards. We put emphasis on establishing a working environment with a customer friendly atmosphere that is also conscientious about energy saving and recycling. The human resource policy reflects this high standard, addressing equal opportunities, training, non-discrimination and other aspects which enhance TBIF Group as a respected and good employer. As in 2013, TBIF had more female staff (Romania: 69%, Bulgaria: 81%) than male staff, representing various age groups and backgrounds.

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 ultimate responsibility for the management of Kardan, whilst the responsibility for the day-to-day management is assigned to the CEO of Kardan, jointly with Executive Management, 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 2014. In 2014, 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 the (v) statement in light of Article 10 of the European Takeover Directive. Kardan's Corporate Governance Statement 2014 is available on its website and forms an integral part of this Annual Report.

Board

Composition and Reappointment schedule

During 2014, the Board comprised of nine Board Members, eight non-executive Board Members and one executive Board Member, being the CEO.

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	AGM 2016
Mr. Y. Grunfeld		1942	Israeli	Non-executive Non-independent	February 6, 2013	AGM 2017
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	AGM 2017
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

Board Meetings

The Board meets at least once every quarter, principally at Kardan's head office in Amsterdam or, where necessary, by conference call. In 2014, the Board met sixteen 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 2014, 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 short- and long-term

Board Report

debts, particularly in light of the payment obligations of the Company pursuant to its outstanding Debentures, were discussed frequently. This resulted in the Company deeming it necessary to add ‘significant doubts’ as to the Company’s ability to repay its liabilities and continue as a going concern to its Q2 and Q3, 2014 financial statements. In the second half of the year, the Company entered into negotiations with its Debenture Holders regarding a debt settlement. 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 appointed a Special Committee that was convened regularly to discuss the progress and discussion items of the negotiations with the representatives of the Debenture Holders. The Special Committee reported to the entire Board from time to time. At the end of the year, the Board discussed a proposal to reach an amended agreement with the trustees of its Debentures Series A and B. The Board thoroughly assessed and weighed all aspects of this proposal and concluded that it was in the best interest of the Company to approve it.

The Company’s and Kardan Group’s main focus in 2014 was the realization of assets in order to meet the Company’s and its subsidiaries payment obligations. The CEO updated the Board frequently on the progress of various sales processes such as: the sale of TBI Credit, a subsidiary’s stake in the Galleria Chengdu (China), the sale of the A2 apartment building in the Europark Dalian project, as well as the sale of KWIG.

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

As part of the Board’s strategy discussions, the Board assessed the Company’s dual listing on both Euronext (Amsterdam) and Tel Aviv Stock Exchanges. Having reviewed the benefits and disadvantages of the dual listing and possible adverse consequences of a delisting it came to the conclusion that it would be beneficial for the Company to maintain its listing on both exchanges.

The whole Board visited the operations of its water operating subsidiary, Tahal, in Israel at the beginning of the year, and was given extensive presentations on its various operational divisions.

Once every year, the Board is given an extensive presentation on the main risks for the Kardan Group and the conclusions of Executive Management on how these risks are being and 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 discussed Health and Safety issues within the Kardan Group, which is now included as a specific risk category.

In the beginning of the year, the Board approved, at the recommendation of the RAS Committee, the appointment of Mr. Elias as Vice President Business Development and member of the Company’s Executive Management. The Board deems it very important for the CEO to have someone working closely with him particularly given the challenges that the Kardan Group is facing.

At the request of the Chairman, the Board reviewed the authorization limits for the CEO and Executive Management as set out in the Board Regulations and considered them too high. Accordingly the levels were reduced.

The Board extensively discussed option plans and remuneration of senior officers in the Kardan Group. The RAS Committee was requested to formulate a recommendation to the Board on levels of future remuneration packages throughout the Kardan Group and as a result, the Board adopted a senior management remuneration policy which is to be adhered to throughout the Kardan Group.

The Board approved the issuance of a shelf prospectus, based on the 2013 and H1 2014 results. The Board was of the opinion that it is beneficial to the Company to have a shelf prospectus at hand, as it could facilitate the issuance of any securities at short notice on the Tel Aviv Stock Exchange should the occasion arise.

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 prepared by the respective committees.

Board evaluation

As a result of the Board evaluation 2013, the Chairman conducted bilateral meetings with all Board Members in 2014. The RAS Committee agreed to continue this process on an annual basis. Further, as part of the annual self-assessment, the Board Members submitted an extensive questionnaire to the RAS Committee in 2014. 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 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 was appointed as the Chairman of the Audit Committee at the beginning of 2014 after Mr. Groen stepped down from this position. The Audit Committee met five times during 2014 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 impact of ongoing negotiations on the presentation of certain assets, impairment testing of goodwill, provisioning of TBI Bank and the financial impact of transactions negatively impacting the Company's equity.
The internal auditor presented several audits, which were discussed, and updates were given on the follow-up of the internal audit findings. The Audit Committee also reviewed and discussed the internal auditor's Audit Plan for 2014. In respect of the external auditor, the Audit Committee discussed the statutory auditor rotation that will come into effect as of January 1, 2016, for EU listed companies.
The Company started preparing for this rotation and Executive Management presented certain replacement possibilities to the Audit Committee. This has resulted in a recommendation to our forthcoming AGM to appoint PriceWaterhouseCoopers as Kardan's external auditor for the financial year 2015. In addition, the Audit Committee discussed annual compliance and integrity updates, both from the Dutch and the Israeli perspective, pursuant to which internal procedures have been implemented/updated. The Audit Committee is to periodically address IT in the Kardan Group. Given the fact that IT is regularly audited as part of internal audits and ISOX-testing, the Audit Committee agreed that this subject shall only be discussed in case of an event which needs the Committee's attention.

During the course of 2014, the chairman of the Audit Committee had frequent meetings with Kardan's financial executives and the external auditors in preparation of the Audit Committee's meetings.

Remuneration, Appointment and Selection Committee

2014 was a busy year for the RAS Committee. It met ten times, either in physical meetings or via teleconference. At the beginning of the year, the Committee discussed the proposal to appoint Mr. Elias as Vice President Business Development and member of the Executive Committee. As the appointment was deemed to be beneficial as support for the CEO, it gave a positive recommendation to the Board. The Committee further assessed the performance of the CEO and CFO, which was deemed satisfactory, and presented a proposal for a conditional bonus for the CEO to the Board (which was later approved by the shareholders at the AGM 2014).

Furthermore, the Committee discussed and analyzed the self-assessments submitted by the Board Members, whereupon the main findings were shared with the entire Board.

At the request of the Board, the Committee spent considerable time and attention developing a Kardan Group senior management remuneration policy. This was requested in light of a statement on fairness and reasonableness of the remuneration of the five highest paid employees of the Kardan Group which the Board is required to issue on an annual basis to comply with Israeli reporting requirements, as well as the discussion in the Board regarding option plans and remuneration packages of senior managers within the Kardan Group. Proposed remuneration for new senior managers or amended remuneration for existing ones, are now assessed according to this new policy.

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 2014, Mr. May reported a conflict of interest with respect to him rendering services to an investor with a potential interest in a division of the Kardan Group. The Board had already approved – given the extensive experience of Mr. May in this particular field – Mr. May's engagement by this investor as it could be an excellent opportunity for the Kardan Group. Mr. May did not participate in any discussions and/or 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. Non-executive Board Members receive a fixed remuneration, and a specific remuneration package was adopted for the executive Board Members. The General Meeting of Shareholders determines the remuneration of each Board Member.

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 11% of the shares in Kardan. Mr. Oren holds 100,000 shares in the capital of Kardan. In addition, 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.

Detailed information on the remuneration of all Board Members can be found in the Remuneration Report on page 79 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 2014, it was not needed to follow this procedure.

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, during 2014, had multiple discussions with Kardan's Debenture Holders and their representatives. Shareholders are given the opportunity to ask questions at the General Meetings of Shareholders and, in addition, Kardan addressed their questions 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 2014, one anonymous report was received under this policy, which was investigated and appropriate measures were taken. 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 business. In order to safeguard a level playing field for investors, Kardan has put in place an Insider Trading Policy and a Investor Relations Policy. All of the aforementioned policies can be found on Kardan's website under 'Governance'.

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 Financial Markets Authority ('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.

In the AGM 2012, a remuneration policy was adopted for non-executive Board Members (the 'Policy') and a remuneration package for the CEO (the 'Remuneration Package') was approved, as explained in more detail below. It is noted that pension arrangements are not provided for by Kardan.

Remuneration policy for the non-executive Board Members

The AGM 2012 adopted the Policy, which stipulates that each non-executive Board Member receives a fixed remuneration of EUR 26,000 per year. No change to this Policy was proposed in 2014. The Chairman receives an additional fee of EUR 9,000 per year; a committee chairman receives an additional fee of EUR 6,000 per year; committee members who are not a chairman receive an additional fee of EUR 4,000 per year. The remuneration for non-executive Board Members consists of fixed remuneration only. A breakdown of the total remuneration as paid in 2014 is presented in the table below. The Board will propose an amendment to the Policy to the AGM 2015.

Non-executive Board Member [1]		Gross Annual remuneration in €	Gross Remuneration in 2014 in €
Mr. P. Sheldon	Chairman of the Board; member of the Audit Committee and of the RAS Committee	43,000	43,000
Mr. C. van den Bos *	Vice-Chairman of the Board and Chairman of the Audit Committee	32,000	31,500
Mr. M. Groen **	Member of the Audit Committee	30,000	30,500
Mr. Y. Grunfeld		26,000	26,000
Mr. A. May	Chairman of the RAS Committee and member of the Audit Committee	36,000	36,000
Mr. E. Rechter		26,000	26,000
Mr. A. Schnur		26,000	26,000
Mrs. M. Seinstra	Member of the RAS Committee	30,000	30,000

* The actual remuneration of Mr. van den Bos is lower than the annual remuneration due to the fact that he was appointed as chairman of the Audit Committee in March 2014.

** The actual remuneration of Mr. Groen is higher than the annual remuneration due to the fact that he acted as chairman of the Audit Committee until the end of March 2014.

1 Pursuant to the Principle Debt Settlement, the remuneration of the non-executive Board Members who are Holders of Control (Mr. Grunfeld, Mr. Rechter and Mr. Schnur), shall not be paid if certain conditions as defined in the Principle Debt Settlement 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). In 2014, the Company entered into indemnity agreements with the Board Members and members of Executive Management. The sole purpose of these agreements is to address (practical) issues with regard to indemnification pursuant to the Articles; they do not extend the Board Members' rights to indemnification beyond the scope of the Articles.
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.
No indemnification was granted in 2014.

Remuneration of the CEO

The Remuneration Package of the CEO was proposed and adopted during the AGM 2012. Insofar as the Remuneration Package deviates from the Code, this is explained in the Company's Corporate Governance Statement 2014.

The Remuneration Package is valid for a period of five years and entails a fixed remuneration and a variable short-term and long-term remuneration, as described below. Prior to proposing the Package to the AGM 2012, the RAS Committee and the supervisory board at the time assessed the full Package including the variable remuneration, taking into account various Company specific aspects including the challenges ahead and market developments.

Fixed remuneration
The CEO is entitled to receive 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 fee 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.

Variable remuneration – short term [2]
The Board may propose to the General Meeting of Shareholders to grant the CEO an annual bonus for each calendar year, based on his achievements during the relevant year and taking into account his total Package.

It is noted that the General Meeting of Shareholders is ultimately the corporate body to approve a bonus.

In the event that the CEO leaves the Company at the initiative of the Company, he is entitled to a severance fee equal to six months' fixed remuneration.

In the AGM 2014, a bonus for the CEO in the amount of EUR 725.000 was approved. This bonus was to be paid following the end of the financial year 2014 and would be dependent on the Company having raised sufficient cash to redeem the Debentures due for repayment on February 15, 2015 plus repayment of a bank loan of EUR 28 million due for repayment by the end of 2014.
In February 2015, the Board concluded that the repayment of the bank loan as result of the successful sale of Galleria Chengdu, in combination with the contracted sale of KWIG, the sale of TBI Credit and the achievement of the Principle Debt Settlement with the Debenture Holders, were to be considered to be achievements of at least equivalent value to the Company as the aforementioned targets. As such, the Board approved, at the recommendation of the RAS Committee, to allocate the full amount, i.e. EUR 725,000, to Mr. Oren (under the conditions that the KWIG sale would reach completion and that the Debenture Holders approved the new deeds of trust according to the Principle Debt Settlement). [3]

2 Pursuant to the Principle Debt Settlement, the CEO's bonus, if applicable in any year, shall be reduced by 20% if certain conditions as defined in the Principle Debt Settlement are not met.
3 At the time of publication of this Annual Report, the bonus has not yet been paid to the CEO.

Variable Remuneration – long term

At the AGM 2012, the shareholders approved to grant the CEO an option to purchase ordinary shares in the share capital of the Company constituting 2% of the outstanding share capital (the 'Option').

It is noted that, in deviation of the Code, the Option is not linked to pre-defined, measurable targets. However, the nature of the Option schedule is such that the CEO will only benefit from the Option in case of good long-term performance of the Company.

The Option vests over a period of five years from February 20, 2012 (the 'Effective Date'), this being the date that he was nominated as CEO, as follows:
1/4 after two years from the Effective Date;
1/4 after three years from the Effective Date;
1/4 after four years from the Effective Date;
1/4 after five years from the Effective Date;

The following conditions apply:
Upon termination of the engagement as described above, during the first year as of the Effective Date, the Option shall expire, without any further right to compensation.

Upon termination of the engagement during the second year as of the Effective Date, the CEO will be entitled to exercise a relative part of the first portion he is entitled to exercise at the end of the second year.

Upon termination of the engagement as of the Effective Date, after the end of the second year, the CEO will be entitled to exercise all the vested portions and the relative part of the next portion, up to the termination date.

In the event of termination for cause as of the Effective Date, the entire unexercised portions (whether vested or not) shall expire, without any further right to compensation.

The only condition is that Mr. Oren is the CEO at the time of vesting. It is noted that Mr. Oren can exercise 25% of the Option after two years from the Effective Date. The Code prescribes that options may not be exercised within three years from the date of grant. Given the fact that half of the options can be exercised only after the three-year period, the nature of the option schedule is such that Mr. Oren will only benefit in the case of good long-term performance of the Company.

It is noted that the act on the revision and claw back of bonuses and profit-sharing arrangements of, amongst others, board members of public limited liability companies entered into force on January 1, 2014, (the 'Act'). The Act explicitly provides for the possibility to: revise a bonus prior to payment, if unaltered payment of the bonus would be unacceptable pursuant to the criteria of 'reasonableness and fairness' and claw back (part of) a paid bonus, if payment took place on the basis of incorrect information on the fulfilment of the bonus targets or conditions for payment of the bonus.
The revision and clawback provisions under the Act apply only to bonuses paid from January 1, 2014.

Total remuneration

A breakdown of the total costs of the remuneration for the CEO in 2014 is presented in the following table:

Element	Remuneration in 2014
Base Fee [4]	
(including social benefits)	EUR 466,000
Allowances	company car, cell phone
Annual Bonus [5]	EUR 725,000
Share-based payment	EUR 179,000
(grant day: February 6, 2013)	0
Pension	nil

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 paragraph 'Variable remuneration – short term' above. Further, reference is made to Note 39 of the 2014 Consolidated Financial Statements ('Remuneration to Related Parties). At the time of publication of this Annual Report, the full amount has not yet been paid to the CEO.

Employee Options

In 2013, the Company granted 250,000 options to purchase shares in the Company to four senior employees. For each employee, the options vest in four equal annual installments commencing on June 1, 2014. Options (whether vested or not) shall lapse immediately and automatically, without any consideration becoming due, upon the occurrence of the earliest of the following events: (i) June 1, 2020; (ii) a participant ceases to be an employee for any reason other than, due to his death, as a consequence of total and permanent disability or retirement, or any other reason the CEO so decides at his absolute discretion, (iii) the participant transfers or encumbers the options. The option price is EUR 1.298 (NIS 6.136) and options can be exercised either by payment of the option price by the participant or by a) either issuing or transferring shares to the participant in an amount as shall reflect the net value of the exercised options per the exercise date, or b) settling the exercise of the options in cash in an amount equal to the difference between (i) the market price of the underlying shares of the exercised options at the exercise date and (ii) the option price multiplied by the number exercised options at the exercise date. As at December 31, 2014, no options were exercised. No options were granted to employees in 2014.

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

Declaration by the Board

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

(i) The Consolidated Financial Statements for the 2014 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 2014 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 2014 financial year, and all material risks to which Kardan and its affiliated companies are exposed.

Amsterdam, April 15, 2015

Board of Directors

P. Sheldon (Chairman)

S. Oren (CEO)

C. van den Bos (Vice-Chairman)

M. Groen

Y. Grunfeld

A. May

E. Rechter

A. Schnur

M. Seinstra

Statutory Financial Statements

for the year ended December 31, 2014 by Kardan N.V., Amsterdam, The Netherlands

Notes to the Consolidated IFRS Financial Statements

Consolidated Statement of Financial Position

€ in '000	Note	December 31, 2014	December 31, 2013
Assets			
Non-current assets			
Tangible fixed assets, net	6	60,862	56,227
Investment property	7	181,072	118,068
Investments in associates	8	7,378	5,695
Investments in joint ventures	9	84,445	128,658
Other financial assets		521	–
Loans to bank customers	10	63,763	50,392
Long-term loans and receivables	11	104,521	86,762
Intangible assets and goodwill, net	12	17,640	22,513
Deferred tax assets	36	2,898	3,985
		523,100	**472,300**
Current assets			
Inventories, contract work, buildings and apartments inventory and land bank	13	112,745	109,957
Current maturities of long-term loans and receivables	11	18,708	29,735
Loans to bank customers	10	54,596	48,522
Trade receivables	14	62,001	67,259
Income tax receivables		1,071	1,298
Other receivables and prepayments	15	53,449	56,209
Short-term investments	16	7,250	14,427
Cash and cash equivalents	17	148,545	118,268
		458,365	**445,675**
Assets held for sale	5	32,144	6,640
Total current assets		**490,509**	**452,315**
Total assets		**1,013,609**	**924,615**

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

€ in '000	Note	December 31, 2014	December 31, 2013
Equity and liabilities			
Equity attributable to equity holders of the parent	18		
Issued and paid-in capital		23,041	23,041
Share premium		208,002	208,117
Foreign currency translation reserve		23,943	(4,680)
Property revaluation reserve		21,033	34,300
Revaluation reserve, other		10,765	12,296
Non-controlling interest holders transactions reserve		15,178	21,104
Treasury shares		(2,625)	(2,786)
Accumulated deficit		(206,939)	(225,297)
		92,398	**66,095**
Non-controlling interests		**5,362**	**5,655**
Total equity		**97,760**	**71,750**
Non-current liabilities			
Interest-bearing loans and borrowings	20	84,131	70,423
Banking customers accounts	21	230	128
Other long-term liabilities	22	3,111	6,887
Options	23	1,442	4,317
Debentures	24	250,047	327,240
Deferred income tax liabilities	36	20,062	12,584
Accrued severance pay, net		1,502	1,488
		360,525	**423,067**
Current liabilities			
Advances from customers in respect of contracts	13	56,454	40,214
Banking customers accounts	21	189,239	137,593
Trade payables		21,666	21,296
Current maturities of debentures	24	83,802	67,409
Interest-bearing loans and borrowings	25	89,719	47,786
Income tax payables		8,952	1,419
Advances from apartment buyers	13	164	5,667
Derivatives		49	273
Other payables and accrued expenses	26	87,340	108,141
		537,385	**429,798**
Liabilities associated with assets held for sale	5	17,939	–
Total current liabilities		**555,324**	**429,798**
Total liabilities		**915,849**	**852,865**
Total equity and liabilities		**1,013,609**	**924,615**

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, 2014	2013	2012
Contract revenues		170,258	153,010	142,967
Retail lending activities	29	33,295	24,406	10,966
Sale of apartments		46,866	23,984	–
Management fees and other revenues		7,425	6,595	7,835
Total revenues		**257,844**	**207,995**	**161,768**
Contract costs		133,887	121,342	121,962
Costs of retail lending activities	30	25,578	25,182	23,562
Cost of sale of apartments		44,217	19,697	–
Other expenses, net	31	6,108	3,358	5,370
Total expenses		**209,790**	**169,579**	**150,894**
Gross margin		**48,054**	**38,416**	**10,874**
Selling and marketing expenses	32	**8,192**	**7,912**	8,210
General and administration expenses	33	24,527	25,513	27,740
Profit (loss) from operations before fair value adjustments, disposal of assets and investment and other income		**15,335**	**4,991**	**(25,076)**
Adjustment to fair value of investment properties	7	8,859	8,802	10,383
Impairment losses on goodwill	12	(5,190)	(3,926)	(4,005)
Gain (loss) on disposal of assets and other income, net	34	16,018	(8,947)	(1,690)
Profit (loss) from fair value adjustments, disposal of assets and investments and other income		**19,687**	**(4,071)**	**4,688**
Profit (loss) from operations		**35,022**	**920**	**(20,388)**

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, 2014	2013	2012
Financial income	35	2,048	6,185	50,072
Financial expenses	35	(22,235)	(51,803)	(41,389)
Adjustment to fair value of other financial instruments, net		–	–	1,073
Total financial income (expenses), net		**(20,187)**	**(45,618)**	**9,756**
Profit (loss) before share of profit (loss) from investments accounted for using the equity method		**14,835**	**(44,698)**	**(10,632)**
Share of profit of investments accounted for using the equity method, net	8, 9	**6,712**	**12,345**	4,662
Profit (loss) before income taxes		**21,547**	**(32,353)**	**(5,970)**
Income tax expenses	36	16,485	14,443	938
Profit (loss) for the year from continuing operations		5,062	(46,796)	(6,908)
Net loss from discontinued operations	5	–	(75,177)	(131,948)
Net profit (loss) for the year		**5,062**	**(121,973)**	**(138,856)**
Attributable to:				
Equity holders		5,091	(101,333)	(32,852)
Non-controlling interest holders		(29)	(20,640)	(106,004)
		5,062	**(121,973)**	**(138,856)**
Earnings (loss) per share attributable to shareholders	37			
Basic from continuing operations		0.05	(0.42)	(0.06)
Basic from discontinued operations		–	(0.50)	(0.24)
		0.05	**(0.92)**	**(0.30)**
Diluted from continuing operations		0.05	(0.42)	(0.06)
Diluted from discontinued operations		–	(0.50)	(0.24)
		0.05	**(0.92)**	**(0.30)**

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

Statement of Comprehensive Income

€ in '000	For the year ended December 31,		
	2014	2013	2012
Net profit (loss) for the year	**5,062**	**(121,973)**	**(138,856)**
Foreign currency translation differences [3]	28,638	(4,596)	(5,931)
Change in hedge reserve, net of tax [1]	(1,676)	6,677	10,123
Other comprehensive income (expense) for the year to be reclassified to profit or loss in subsequent periods [2]	26,962	2,081	4,192
Total comprehensive income (expenses)	**32,024**	**(119,892)**	**(134,664)**
Attributable to:			
Equity holders	32,038	(101,409)	(37,641)
Non-controlling interests holders	(14)	(18,483)	(97,023)
	32,024	**(119,892)**	**(134,664)**

1 Including reclassification of reserve due to the sale of derivative instruments in the amount of €(1,300) thousand, €2,201 thousand, €3,000 thousand for the years ended December 31, 2014, 2013 and 2012, respectively (see also Note 38 and Note 5C). The amounts presented are net of tax amounting to €(1,659) thousand, €622 thousand and €713 thousand for the years ended December 31, 2014, 2013 and 2012, respectively.

2 Including the impact resulting from associates and joint ventures for the years 2014, 2013 and 2012 amounting to €(2,500) thousand, €(1,059) thousand and €(4,610) thousand respectively.

3 See also Note 9.

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, 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 (**)	–	–	–	–	–	(5,926)	–	–	(5,926)	(872)	(6,798)
Reclassification according to the Netherlands civil code requirements law (*)	–	–	–	(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).
** See also Note 19.

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 according to the Netherlands civil code requirements law (*)	–	–	–	(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 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	Accumulated deficit *	Total	Non-controlling interest	Total equity
Balance as of January 1, 2012	**23,041**	**208,165**	**6,868**	**52,169**	**5,328**	**18,765**	**(2,847)**	**(109,324)**	**202,165**	**533,137**	**735,302**
Other comprehensive income (expense)	–	–	(7,330)	–	2,541	–	–	–	(4,789)	8,981	4,192
Net loss for the year	–	–	–	–	–	–	–	(32,852)	(32,852)	(106,004)	(138,856)
Total comprehensive income (expense)	**–**	**–**	**(7,330)**	**–**	**2,541**	**–**	**–**	**(32,852)**	**(37,641)**	**(97,023)**	**(134,664)**
Share-based payment	–	–	–	–	287	–	–	–	287	2,627	2,914
Issuance of shares in a subsidiary	–	–	–	–	–	–	–	–	–	72,403	72,403
Shares purchased in consolidated and transaction with non-controlling interest holders	–	–	–	–	–	1,233	–	–	1,233	33,061	34,294
Other	–	–	–	–	–	130	–	–	130	(1,751)	(1,621)
Reclassification according to the Netherlands civil code requirements (*)	–	–	–	5,633	–	–	–	(5,633)	–	–	–
Balance as of December 31, 2012	**23,041**	**208,165**	**(462)**	**57,802**	**8,156**	**20,128**	**(2,847)**	**(147,809)**	**166,174**	**542,454**	**708,628**

* 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	2014	2013	2012
Cash flow from operating activities			
Profit (Loss) from continuing operations before taxes on income	21,547	(32,353)	(5,970)
Profit (Loss) from discontinued operations before taxes on income	–	(69,531)	(126,377)
Adjustments to reconcile net profit (loss) to net cash (see A below)	7,202	(20,235)	(62,953)
Adjustment on operating activities from discontinued operations	–	81,720	134,520
Net cash provided by (used in) operating activities	**28,749**	**(40,399)**	**(60,780)**
Cash flow from investing activities			
Acquisition of tangible fixed assets and investment properties	(45,257)	(36,128)	(31,241)
Investments and collection (granting) loans from (to) companies accounted for using the equity method, net	(1,958)	471	6,589
Proceeds from sale of assets and investments	496	18,439	4,191
Change in loans to bank customers, net	8,200	(41,965)	(35,687)
Change in long-term loans and receivables	(35,105)	26,174	48,014
Change in short-term investments	(632)	(286)	2,492
Disposal of an investment accounted for using the equity method (*)	74,369	–	84,770
Change from full consolidation to equity method (see B below)	–	1,223	–
Disposal of a previously consolidated subsidiary due to bankruptcy (see C below)	–	(22)	–
Change from equity method to full consolidation (see D below)	–	208	–
Change in deferred brokerage fees and other assets	70	(1,990)	1,410
Capital withdrawal from investment in joint ventures	–	–	952
Net cash provided by (used in) investing activities from continuing operation	183	(33,876)	81,490
Change from full consolidation to equity method (see E below) (discontinued operation)	–	(197,151)	–
Disposal of an investment accounted for using the equity method (discontinued operation)	–	157,349	–
Net cash provided by (used in) investing activities from discontinued operation	–	(8,181)	109,194
Net cash provided by (used in) investing activities	**183**	(81,859)	**190,684**

* See also Note 9.

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	2014	2013	2012
Cash flows from financing activities			
Issuance of debentures	2,155	–	1,869
Repayment and repurchase of debentures	(68,538)	(58,390)	(100,381)
Change in loans from bank customers	51,748	69,401	54,081
Proceeds from long-term loans	89,152	30,849	71,588
Repayment of long-term loans	(48,003)	(132,045)	(150,560)
Change in short-term loans and borrowings	(1,415)	(8,432)	(1,389)
Release of pledged Deposit	8,025	(8,029)	43,520
Repayment of long term liability	(8,031)	–	–
Change in short-term deposits	(351)	–	–
Proceeds from sale of hedge instruments	–	11,634	52,155
Costs related to issuance of loans	(267)	–	–
Change in other long term liabilities	75	–	–
Transaction with non-controlling interest holders (**)	(6,791)	(356)	(2,870)
Net cash (used in) provided by financing activities from continuing operations	**17,759**	**(95,368)**	**(31,987)**
Net cash used in financing activities from discontinued operations	–	(31,707)	(60,042)
Net cash provided by (used in) financing activities	17,759	(127,075)	(92,029)
Foreign exchange differences relating to cash and cash equivalents	5,127	(1,640)	797
Increase (decrease) in cash and cash equivalents	51,818	(250,973)	38,672
Change in cash of assets held for sale	(21,541)	131	(287)
Cash and cash equivalents at the beginning of the year	118,268	369,110	330,725
Cash and cash equivalents at the end of the year	**148,545**	**118,268**	**369,110**

** See also Note 19.

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	2014	2013	2012
A. Adjustments to reconcile net profit (loss) to net cash			
Charges / (credits) to profit (loss) not affecting operating cash flows:			
Share of profit of companies accounted for using the equity method	(6,712)	(12,345)	(4,662)
Impairment of investment in investee	–	8,254	–
Impairment of goodwill and other intangible assets	5,429	13,588	4,005
Gain on disposal of assets and investments, net	(16,739)	–	–
Share-based payment	1,302	1,804	2,182
Depreciation and amortization	5,473	7,196	8,888
Fair value adjustments of investment properties	(8,859)	(8,802)	(10,383)
Financial expense and exchange differences, net	30,268	37,366	47,190
Capital loss (gain) from sale property plant and equipment	(19)	(7,886)	500
Decrease (increase) in fair value of securities held for trading and hedge instruments, net	–	(1,736)	(12,697)
Increase in provision for bad debts in the financial services segment	7,797	7,026	14,077
Gain from early repayment of loans and debentures	–	–	(43,035)
Changes in operating assets and liabilities:			
Change in trade and other receivables	(32,298)	(71,225)	(129,752)
Change in inventories and in contract work in progress, net of advances from customers	13,683	2,368	1,372
Change in trade and other payables	1,566	16,688	50,127
Increase of concession finance receivables	(7,358)	(4,854)	(8,681)
Movement in pledged time deposit	(1,752)	–	–
Interest paid	(17,151)	(37,835)	(66,033)
Interest received	35,476	36,412	75,816
Income taxes paid	(3,124)	(6,027)	(1,925)
Dividend received from joint ventures accounted for using the equity method, net of tax	–	–	10,482
Other	220	(227)	(424)
	7,202	**(20,235)**	**(62,953)**

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	2014	2013	2012
B. Change from full consolidation to equity method			
Working capital (excluding cash and cash equivalents)	–	(475)	–
Receivable from sale of an investment in a subsidiary	–	(3,759)	–
Non-current assets	–	10,768	–
Investment in an associate accounted for using the equity method	–	(5,681)	–
Gain on disposal of investment	–	370	–
	–	1,223	–
C. Disposal of a previously consolidated subsidiary due to bankruptcy			
Working capital (excluding cash and cash equivalents)	–	(2,921)	–
Non-current assets	–	2,571	–
Deferred tax	–	328	–
	–	(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	2014	2013	2012
E. Change from full consolidation to equity method			
Working capital (excluding cash and cash equivalents)	–	(161,058)	–
Non-current assets	–	1,689,273	–
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 company accounted for at equity	–	(204,706)	–
	–	(197,151)	–
F. Material non-cash transaction			
Liability to purchase shares from non-controlling interest Holders (*)	3,380	–	–
	3,380	–	–

* See also Note 19.

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

Notes to the Consolidated IFRS Financial Statements

December 31, 2014

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, infrastructure projects, infrastructure assets, banking and retail lending, and others 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, 2014 was 2,554 (December 31, 2013 – 2,875) of which 154 are part of the real estate sector, 987 are part of the infrastructure segments, 1,395 are part of the banking and retail lending sector and 18 which are part of the headquarters.

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

These financial statements were approved by the Board of Directors of the Company on March 25, 2015.

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. GOING CONCERN

As at December 31, 2014, the Company had, on a stand-alone basis and in the consolidated financial statements, a working capital deficit of €106 million and €65 million respectively, which is mainly due to the current maturities of the Company's Debentures to repay € 101.2 million and € 94.5 million in August 2015 and February 2016, respectively.

In September 2014, the Board decided to accept the offer of the trustees and the representatives of the Debenture Holders (series A and B) of the Company ('the Debentures') to begin negotiations in order to examine the possibilities of an arrangement with the Debenture Holders, which included postponement or rescheduling the repayments of the Debentures, while repaying the debt in full.

Subsequent to the balance sheet date, an interim arrangement was reached in stages and was approved by the Debentures Holders in January 2015. The final settlement is expected to be approved by the Debentures Holders in April 2015.

The amendment of the deeds of trust outlined in section C below is subject to the approval of the Debenture Holders by a special majority. The Company's management is of the opinion that the chances for approving and finalizing the final debt settlement in accordance with the principles set forth in section C below are high in view of the fact that the Company was successful in selling assets in accordance with its plan and fully paid on March 31, 2015, the interest which was deferred from February 2015.

However, the approval and finalization of the debt settlement is not under the control of the Company and is dependent on the approval of third parties. These conditions indicate the existence of a 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 financial statements do not include any adjustments to the carrying amounts and classifications of assets and liabilities that would result if the Company was unable to continue as a going concern.

The Company's plans for the repayment of principal and interest of the Debentures in 2017 and onwards, in case that the final debt settlement will be approved, include mainly disposal of assets and / or receipt of dividends from its subsidiaries. The Company's management and the Board estimate that the Company has the ability to obtain the required resources for repaying its obligations and continue its business operations in the future.

C. DEBT SETTLEMENT BETWEEN THE COMPANY AND ITS DEBENTURE HOLDERS

The interim arrangement which was approved on January 6, 2015, includes two phases, as follows: the first phase includes an immediate amendment to the deeds of trust and postponement of principal and interest payments from February 2015 to August 2015 with additional interest and linkage differences as described below. In the second phase a period of 90 days has been given to the Company, the trustees and the Debenture Holders in order to reach a final debt settlement which will include a comprehensive amendment to the deeds of trust according to the proposed principles that were presented to the Debenture Holders as detailed below.

Interim arrangement 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.

Establishment of pledges in favor of the debenture holders

According to the interim arrangement, the Company committed to establish and register 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. These pledges were registered on February 17, 2015.

Final debt settlement main principles

The final debt settlement ('the Final Settlement') constitutes new deeds of trust to series A and B and replaces the original deeds of trust, including all related amendments. The 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 Final Settlement which will be detailed in the amended deeds of trust which were approved by the general meetings of the debenture holders of each series ('the Amended Deeds of Trust').

Principal and interest payments according to the Final Settlement

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 to the debenture holders

The Company should allocate to the Debenture Holders, without consideration, shares of the Company, which shall constitute 12% of the Company's issued and paid in capital immediately after the issuance. Due to legal limitations applicable to the Company according to the Dutch law, it was agreed that the Company will issue, upon signing of the Amended Deeds of Trusts or close to that date, 9.9% of the Company's issued and paid-in capital immediately after the issuance. Additional 2.1% will be issued 12 months following the date of the first shares issue.

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.

In addition, the Company will establish 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, shall be 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 will provide 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 from Chinese Banks 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 5C) 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 and concluded that the changed terms are not substantially different and therefore accounting for the debt settlement if finalized will be as a modification and not as an extinguishment.

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 income statement is presented according to the function of expense method.

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') and in accordance with Part 9 of Book 2 of the Dutch Civil Code.

C. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2014.

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 its power to direct the activities of the investee company. Regarding an investee company, there is a presumption that a majority of voting rights result in control. When the Company has less than half of the voting rights, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) The reporting entity has the power over the investee, which is described as having existing rights that give the current ability to direct the activities of the investee that significantly affect the investee's returns;

(b) The reporting entity has exposure, or rights, to variable returns from its involvement with the investee;

(c) The reporting entity has the ability to exert power over the investee to affect the amount of the investor's returns.

In determining control, the effects of potential voting rights existing as of the balance sheet date are taken into account (see also Note 5C).

Subsidiaries continue to be consolidated until the date when such 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 deferred in OCI, 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, 2014.

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

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group as all offsetting arrangement meet the IAS 32 amendments.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

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 and of investment properties under construction
Investment property includes investment property under construction and completed investment property. Completed investment property comprises real estate (land or buildings or both) held by the Group or leased under a finance lease in order to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services or for administrative purposes or in the ordinary course of business.

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 Sales 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 (Sales Comparison Method).

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.

In cases where fair value cannot be reliably determined, such properties are presented at the lower of cost or recoverable amount. The fair value of investment properties under construction is determined using either the Discounted Cash Flow Method or the Residual Method, except if such values cannot be reliably determined. The Group has adopted the following internal guidelines, depending on the geographical area in which the Company operates, to assess whether the substantial risks are eliminated (and therefore the fair value can be reliably measured):

– Agreement with general contractor is signed
– Building permit is signed
– Rental vacancy rate to tenants (pre-lease).

Management can decide to fair value investment property under construction even if all internal guideline criteria have not yet been met, but 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.

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable risk-adjusted discount rate in order to calculate the present values of those cash flows. Generally, the Group uses the Weighted Average Cost of Capital of the applicable cash-generating units. The carrying amount of goodwill as of December 31, 2014 was €8 million (2013– €13 million), all of which allocated to the infrastructure activities.

Service concession arrangements

The Group measures the total investment of the concession agreements based on the investments during construction and the operational period, taking into account an estimated gross margin. The estimated gross margin has been initially determined during the acquisition of the project and will be evaluated continuously during the period of the project. The carrying amount of the service concession intangible assets and financial receivable arrangements as of December 31, 2014 amounted to a total of €9 and €104 million, respectively (2013 – €8 million and €85 million, respectively).

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, 2014 was €3 million (2013 – €4 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 put options granted to non-controlling shareholders, share options and conversion components of convertible Debentures, 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.

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, 2014 was €113 million (December 31, 2013 - €110 million). See Note 13 for additional information with regards to impairments in the reporting period.

Future interest payable
Under IFRS 7 an entity has to provide a maturity table of financial liabilities including future interest due. In cases where interest is variable, future interest is estimated based on currently known variables (see Note 38).

Provision for legal claims
In estimating the chances of lawsuits filed against the Group and its investee companies, the Group relies on the opinion of its legal councils. These estimates are based on the legal advisers' best professional judgment, considering the stage which proceedings are in, and the legal experience gained on the various issues. Since the results of the claims will be determined in the courts, these results may differ from these estimates.

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 deferred in OCI 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 or as a change to other comprehensive income. 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 subsidiaries 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.

Following are the representative exchange rates of the USD, NIS and RMB in relation to the EUR and the changes in the Israeli Consumer Price Index (CPI) in points:

	USD	NIS	RMB	CPI
December 31, 2014	0.82	0.21	7.4556	132.8
December 31, 2013	0.73	0.21	8.3491	133.0
December 31, 2012	0.74	0.20	8.2207	130.7
Change in 2014	13.4%	1.2%	(10.70%)	(0.15%)
Change in 2013	(4.3%)	2.9%	1.54%	1.81%
Change in 2012	(3.9%)	-	1.23%	1.6%

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.

On an interim basis, management presents the valuation results to the Audit Committee. This includes a discussion of the major assumptions used in the valuations.

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, excluding the costs of day-to-day servicing, 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 (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 or disposal. 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. Completed properties are either valued on the basis of the Income Approach (which includes DCF and the Yield methods), on basis of the Residual Method or on the basis of Sales Comparison Method. 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.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. 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 (mainly 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. Inventory is stated at the lower of cost and 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. SERVICE CONCESSION ARRANGEMENTS

Service concession arrangements which contractually oblige the Group, acting as operator, to provide the services to the public on behalf of the public sector entity are accounted for in accordance with the accounting policies mentioned below. Service concession arrangements which do not meet that criterion are dealt with by other accounting policies adopted by the Group.

Financial assets

A financial asset is recognized to the extent that the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.

The financial asset is measured on initial recognition at its fair value, and interest is calculated on the balance using the effective interest rate method. Revenue is recognized when the contract work is performed using the percentage of completion method. This means that the financial asset will be recognized from the beginning of contract activity.

Intangible assets

The Group recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.

The Group recognizes the intangible asset at deemed cost, i.e. the fair value of consideration transferred to acquire the asset, which is the fair value of the consideration received or receivable for the construction services delivered. During the construction phase of the arrangement the Group's asset (representing its accumulating right to be paid for providing construction services) is classified as an intangible asset (license to charge users of the infrastructure). The Group estimates the fair value of its consideration received to be equal to the forecast construction costs plus applicable margin and additionally capitalizes the borrowing costs during the construction phase of the arrangement.

The intangible asset is subsequently amortized on a systematic basis over its useful life, whereby the Group adopts the straight-line method.

Mixed assets

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset it accounts separately for each component of the consideration. The consideration received or receivable for both components is recognized initially at the fair value of the consideration received or receivable. The nature of the consideration given by the grantor to the

Group is determined by reference to the contract terms and, when applicable to relevant contract law.

Revenue recognition

Both under intangible and financial asset models the Group accounts for revenue and costs relating to construction or upgrade services in accordance with the stage of completion method provided that the outcome can be measured reliably. The Group accounts for revenue and costs relating to operation services in accordance with the criteria it has adopted for revenue recognition, i.e. when the outcome of a transaction involving the rendering of services can be estimated reliably, and revenue associated with the transaction is recognized by reference to the stage of completion of the transaction at the financial position date.

If the Group performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

Impairment

The Group assesses potential impairments of the concession assets at each reporting date.

J. 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.

K. 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 or cash-generating unit's fair value less costs to sell and its 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.

L. 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.

M. CASH AND CASH EQUIVALENTS

Cash and short-term deposits 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.

N. IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is 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.

Assets carried at cost

If there is objective evidence that an impairment loss on assets carried at cost has been incurred, 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 discounted at the current market rate of return for a similar financial asset.

Assets carried at cost relate to an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument.

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.

O. 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.

P. 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.

Q. 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.

R. 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.

S. 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.

T. 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.

U. 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. All cancellations of equity-settled transaction awards are treated equally.

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).

V. 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.

W. 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 houses and apartments is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. The risks and rewards are considered as transferred to the buyer when the houses or apartments have been substantially constructed, accepted by the customer and the vast majority of the amount resulting from the sale agreement was paid by the buyer. Revenue from the sale of apartments is recognized within the Company's real estate segment.

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.

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Sale of goods in these consolidated financial statements includes revenues from sale of consumer goods.

Interest and dividend income

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset). Dividend income is recognized when the Group's right to receive payments is established.

X. 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.

Y. 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 receivables and 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.

Z. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps 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.

AA. 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. 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 as if nothing happened. 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.

BB. 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.

CC. 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.

DD. PERIOD OF OPERATIONAL BUSINESS CYCLE

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.

EE. 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.

FF. FUTURE CHANGES IN ACCOUNTING POLICIES

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 2015. The Group is intends to early adopt on January 1, 2015. The adoption of IFRS 9 will have an effect 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.

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 recognise 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 is effective for annual periods beginning on or after 1 January 2015. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 January 2015 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 January 2015 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Properties

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

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, 2017 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.

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.

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.
IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal
IFRS 7 Financial Instruments: Disclosures: Servicing contracts
Applicability of the amendments to IFRS 7 to condensed interim financial statements.

IAS 19 Employee Benefits: Regional market issue.
IAS 34 Interim Financial Reporting: Disclosure of information “elsewhere in the interim financial report”

The Group is currently assessing the impact of these improvements. The improvements will become effective for financial years beginning on or after 1 January 2016.

GG. 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

5 Business combinations and investment in subsidiaries

A Principal directly held subsidiaries

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

Name of subsidiary	Country of incorporation	% equity interest and voting rights as of December 31		
		2014	2013	
Kardan Financial Services B.V.	Netherlands	100	100	Subsidiary
GTC Real Estate Holding B.V.	Netherlands	100	100	Subsidiary
Tahal Group International B.V.	Netherlands	98.43	98.42	Subsidiary
Emerging Investments XII B.V.	Netherlands	100	100	Subsidiary

Additional information regarding directly held subsidiaries:

€ in '000	Investment in shares	Credit facilities provided by the Company to its subsidiaries		Total investment in the subsidiary *
		Loans **	Guarantees	
2014				
Kardan Financial Services B.V.	37,763	–	–	37,763
GTC Real Estate Holding B.V.	297,369	–	–	297,369
Tahal Group International B.V.	99,431	–	861	99,431
Emerging Investments XII B.V.	22,341	–***	–	22,341
	456,904	–	861	456,904
2013				
Kardan Financial Services B.V.	29,230	–	–	29,230
GTC Real Estate Holding B.V.	267,007	–	–	267,007
Tahal Group International B.V.	47,490	–	6,240	47,490
Emerging Investments XII B.V.	124,235	–***	–	124,235
	467,962	–	6,240	467,962

* The total investment in a subsidiary includes the investment in shares and loans granted by Kardan N.V.. The Company has no goodwill balances in the investment in directly held subsidiaries.

** All loans to KFS and TGI and GTC RE were granted (provided to) by Emerging Investment XII B.V. (a wholly owned subsidiary).

*** As of December 31, 2014 and 2013 the Company has an outstanding loan balance with its subsidiary Emerging Investment XII B.V. in the amount of €97,061 thousand and €120,682 thousand respectively (including interest) which was granted for sole purpose of purchasing the Company's Debentures Series A and B. The Company has 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 and 2013, the Company offset the loan balance against its liability.

B Principle indirectly held 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 indirectly held subsidiaries.

Holding company	Name of subsidiary	Country of incorporation	% equity interest of the direct holding as of December 31	
			2014	2013
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	TBI Leasing EAD	Bulgaria	100	100
	TBI Credit EAD *	Bulgaria	100	100
GTC Real Estate Holding B.V.	Kardan Land China Limited	Hong Kong	100	100
Kardan Land China Limited	Kardan Land (BJ) Management & Consulting Co. Ltd.	China	100	100
	GTC (China) Investment Co. Ltd	China	100	100
	Kardan Land Dalian Ltd.	China	100	100
Tahal Group International B.V.	Tahal Group B.V.	The Netherlands	100	100
	Tahal Group Assets B.V.	The Netherlands	100	100
Tahal Group B.V.	Tahal Consulting Engineers Ltd.	Israel	100	100
	Water Planning for Israel Ltd.	Israel	100	100
	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

* The subsidiary was sold after the balance sheet date. See also Note 5C.
** See also Note 5C.

Holding company	Name of subsidiary	Country of incorporation	% equity interest of the direct holding as of December 31	
			2014	2013
Tahal Group Assets B.V.	Kardan Water International Group Limited *	Hong Kong	100	100
	Task Water B.V.	The Netherlands	100	100
	Agri Products N.V.	The Netherlands	51	51
Kardan Water International Group Limited *	Perilla Water Group Ltd.	Hong Kong	100	100
	Tri-River Water Group Ltd.	Hong Kong	100	100
	Dazhou Tianhe Water Supply and Drainage Co., Ltd.	China	100	100
	KWIG Xuanhua Development Limited	Hong Kong	100	100
	KWIG Dingzhou Development Ltd.	Hong Kong	100	100
	Zhangjiakou Kardan Water Development Co., Ltd.	China	100	100
	Zhangjiakou Kardan Water Development Co., Ltd.	China	100	100

* For details regarding the sale of shares in this subsidiary, see also Note 40.

C Significant transactions and business combinations

1. GTC Group (Real Estate)

2014

There were no significant transactions or business combinations in 2014.

2013

a. Investment in GTC SA: Sale and presentation

Until February 22, 2013 GTC SA was accounted for as a subsidiary of GTC RE, and its results were consolidated in the Company's financial statements. On February 22, 2013, due to changes in the composition of the shareholders of GTC SA, the Company concluded that its accounting effective control (de facto control) over GTC SA ceased to exist and accordingly it stopped consolidating its financial statements. As of that date the Company accounted for its investment in GTC SA according to the equity method. For details regarding the impact of the deconsolidation, see below in the paragraph 'Loss of control – GTC SA'.

As of September 30, 2013 the investment in GTC SA was presented in the interim financial statements as 'Assets held for sale' following a decision to sell the 27.75% stake. The carrying value of GTC SA prior to the classification amounted to €194.5 million. The market value (which was determined based on the share price of GTC SA on the Warsaw Stock Exchange as at September 30, 2013), less costs to sell amounted to €150.6 million. Accordingly in the third quarter of 2013, GTC RE recorded a revaluation loss in the amount of €43.9 million which is presented in the income statement, along with the past results of GTC SA as part of 'Net profit (loss) for the period from discontinued operations'.

On November 22, 2013, GTC RE completed the sale of its investment in GTC SA for a consideration of €160 million. An amount of €150 million was paid on the closing date, and an amount of €10 million was paid in December 2013.

The share purchase agreement contains 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 investment fund has the right to receive an amount of €3.15 million per target. The fair value of the liability amounts to €3.15 million as at December 31, 2014. In April 2015, GTC RE and the Company received a demand from the investment fund to pay an amount of € 3.15 million, as the investment fund claims that GTC SA did not meet one of the said targets. The Company is reviewing the said demand.

Presented in the table below is the composition of the gain recognized from the sale:

	€ in '000
Carrying value of the investment in GTC SA as held for sale on November 22, 2013	(150,613)
Consideration received	160,014
Fair value – claw-back option	(3,150)
Transaction costs	(2,665)
Recycling of capital reserves to the profit and loss	(64)
Gain from the sale of GTC S.A. (net)	**3,522**

As the GTC SA shares were pledged to a lending bank as security for a loan of approximately €100.6 million, the consideration was mostly used for the repayment of this loan. The net proceeds, after repayment of the loan, amounted to approximately €57 million and were used to repay the Company's Debentures in December 2013.

b. Loss of control in GTC SA

As mentioned above, on February 22, 2013, the Company concluded that its accounting control (de facto control) over GTC SA ceased to exist.

As a result of the loss of control over GTC SA, and based on the requirements of IFRS 10, the Company re-measured the investment in GTC SA at fair value on the date when control was lost, according to the share price on the Warsaw Stock Exchange. As a result of the re-measurement of the investment in GTC SA the Company recognized a loss of €30 million in the first quarter of 2013. In addition, the Company reclassified to the income statement foreign currency translation reserve and hedge reserve, net of tax, amounting to €1.3 million gain and €5.8 million loss, respectively. These amounts were included in 'Net profit/loss from discontinued operations' in the income statement.

Following the above, the Company accounted for the retained investment using the equity method as defined in IAS 28. At the date control was lost the Company prepared a provisional purchase price allocation according to the acquisition method as described in IFRS 3, and as a result recognized a bargain gain of approximately €31.8 million. Since the Company sold the entire investment in GTC SA in November 2013, the Company did not conclude the PPA, and the provisional PPA was deemed the final one. It should be noted that the results of the Company's investment in GTC SA, including the abovementioned loss and bargain gain, and the results of the sale transaction, are included in one line item 'discontinued operations' for the year ended December 31, 2013. Therefore the results of the PPA do not have an impact on the net result from discontinued operations.

c. Discontinued operations related to loss of effective control and sale of GTC SA:

The activities of GTC SA were classified as discontinued operations. These activities were clearly distinguishable, operationally and for financial reporting purposes as 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,		
	2014	2013	2012
Income	–	31,409	130,814
Expenses	–	(52,066)	(257,190)
Loss before tax	–	(20,657)	(126,376)
Equity losses **	–	(22,190)	–
Income tax expenses, net	–	(5,644)	(6,097)
Loss from discontinued operations before revaluation and release of capital reserves ***	–	(48,491)	(132,473)
Loss from revaluation of investment ***	–	(25,707)	–
Release of capital reserves due to deconsolidation ***	–	(4,501)	–
	–	(30,208)	–
Discontinued operation items related to the November 2013 sale of GTC SA:			
Capital gain	–	3,586	–
Release of capital reserves due to sale	–	(64)	–
Net Loss from discontinued operations	–	(75,177)	(132,473)
Attributable to:			
Equity holders	–	(55,303)	(26,948)
Non-controlling interest holders	–	(19,874)	(105,525)
	–	**(75,177)**	**(132,473)**

* The 2012 income statement includes an immaterial amount for the banking and retail lending activities which was not included in the above table.

** Including equity losses from Q2 and Q3 2013, bargain gain (in the amount of €31.8 million) and impairments (in the amount of €43.9 million).

*** The net loss from discontinued operations before revaluation and release of capital reserves relates to 100% results of GTC SA, including the share attributable to the non-controlling interest holders, while the loss from revaluation of investment and release of capital reserves only reflects the 27.75% interest held by the Company.

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

€ in '000	For the year ended December 31,		
	2014	2013	2012
Change in fair value of hedge instrument, net of tax *	–	3,467	10,967
Adjustments arising from translating financial statements of foreign operations	–	(1,875)	(295)
Recycling to the income statement of the hedge reserve due to loss of control over a subsidiary *	–	5,782	–
	–	**7,374**	**10,672**
Attributable to:			
Equity holders	–	5,276	3,338
Non-controlling interest holders	–	2,098	7,334
	–	**7,374**	**10,672**

* includes 100% results of GTC SA, including the share attributable to the non-controlling interest holders, while the release of capital reserves only reflects the 27.75% interest held by the Company.

2. KFS Group (Banking and Retail Lending)

2014

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.

The transaction, which was subject to various regulatory approvals, was finalized in February, 2015. Upon closing, the Company recognized a gain of approximately €1 million.

In accordance with the requirements of IFRS 5, as of December 31, 2014, the Company presents the assets of TBI Credit as 'Assets held for sale' and the liabilities as 'Liabilities associated with assets held for sale'.

The below table represents the assets and liabilities of TBI Credit EAD presented as held for sale:

€ in '000	December 31, 2014
Assets	
Cash and cash equivalents	18,852
Trade receivables	22
Other receivables and prepayments	7,657
Current maturities of long-term loans and receivables	821
Tangible fixed assets	290
Total assets *	**27,642**
Liabilities	
Trade payables	880
Interest-bearing loans and borrowings	75
Other payables and accrued expenses	16,984
Total liabilities	**17,939**
Total Equity	**9,703**

* Additional assets held for sale in the amount of €4.5 million which are not included in the above table are repossessed assets held for sale in TBIF group.

2013

There were no significant transactions or business combinations in 2013.

2012

Sale of 50% Sovcom bank

In June 2011, TBIF signed an agreement with Sovco Capital Partners B.V. (TBIF's partner in Sovcom Bank) to sell the shares in Sovcom Bank owned by TBIF (a total of 50% of the share capital of the bank), which was accounted for using the equity method, in total consideration of €123 million.

In the beginning of 2012, after receiving the approval from the Central Bank of Russia with regards to the closing of the transaction, TBIF had stopped applying the equity method to the investment in Sovcom Bank as of January 1, 2012 and presented the results of the investment as discontinued operations.

The transaction was finalized in May 2012. The total consideration received for the sale in 2011 and 2012 amounted to €105 million (€33 million were received in 2011) and an amount of €18 million was received as dividend (€7 million were received in 2011).

Due to the closing of the transaction, a foreign currency translation reserve in the amount of €0.5 million was classified to the income statement in 'Net profit (loss) for the period from discontinued operations' as well as interest rate differences on the proceeds which amounted to €2 million, were included in the income statement as part of 'Net profit (loss) for the period from discontinued operations'.

In accordance with the requirements of IFRS 5, and as management considered Sovcom Bank's operations as a major geographical area, past results of the bank were included in 'Net profit for the period from discontinued operations' in the consolidated income statement.

3. TGI Group (water infrastructure)

2014

a. 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.

b. Liquidation of Watek Polska -

In July and August 2013, Watek Polska SP ('Watek'), a wholly owned subsidiary of TGI received a notice cancellation of two contracts by two clients. In September 2013, after examining Watek's financial position, TGI decided not to provide any additional financial support to Watek. As a result in September 2013, Watek filed a declaration of bankruptcy at the district court in Poland and in December 2013 the bankruptcy of Watek was announced and the court appointed a liquidator. As a result, TGI ceased consolidating Watek. In 2013, TGI fully impaired its equity investment in Watek of approximately €5.8 million and in addition TGI booked a provision of €2.4 million due to a guarantee which was provided to an insurance company in Poland. In 2014 TGI has reached an agreement with the insurance company, whereby TGI will reimburse the insurance company with a total amount of approximately €1.4 million. As a result of this agreement, TGI recorded an income of approximately €0.9 million. The total amounts are included in the income statement as part of the 'Gain (loss) on disposal of assets and other income (expenses).

2013

a. Sale of shares in Star Pumped Storage Ltd.

On December 29, 2013, a transaction between Water Planning for Israel Ltd. ('Tahal' – a wholly-owned subsidiary of the Company, indirectly) and Hutchison Water International Holdings Pte Limited ('HWIH') was completed, upon which Star Pumped Storage Ltd. (previously Tahal Water Energy Ltd.) ('Star'), a company previously held (indirectly) 81% by the Group, allocated to HWIH 40.5% of the Star shares. Consequently, each of Tahal and HWIH holds 40.5% of Star and a third party – Triple R Energy (1995) Ltd. – holds the remaining 19% of Star.

Star was granted a license to build, operate and own a 300 MW power plant ("the Plant") in Israel, producing energy for the Israel Electric Company based on pumped storage technology. The consideration, by means of a shareholder loan, shall be approximately NIS 29 million (approximately USD 8.3 million) which Star shall use to repay part of the shareholder loan provided by Tahal in two parts: NIS 5.5 million (approximately USD 1.6 million) on signing and NIS18 million (approximately USD 4.6 million) upon the financial closing of the Pumped Storage Project ('the Project'). In addition, Tahal is entitled to a premium of NIS 10 million (approximately USD 2.6 million) upon financial closing of the Project, subject to meeting certain conditions agreed upon by the parties.

In addition, Star was recently granted a conditional license for the expanded capacity to 340 MW (from 300 MW) following discussions and consultations with both the Grid Operator (Israel Electric Corporation) and the Public Utility Authority - Electricity (PUA). The construction of the Plant is expected to take approximately 54 months.

As a result of the decrease in holding stake in Star, the Group ceased the consolidation of Star starting December 29, 2013. Since the transaction was valued based on book value of Star, no gain was recorded due to the transaction.

b. TMNG Ltd

In October 2013, Tahal Consulting Engineers Ltd. ('TCE'), signed an agreement to increase its holding in TMNG Ltd. ('TMNG') from 51% (which was previously accounted for as a joint venture using the equity method) to 65% in exchange for TCE's business of natural gas plants. Due to the agreement, a third party's share of 49% of TMNG was diluted to 35%.

As part of the agreement, the seller was granted a put option, according to which the seller will be entitled to sell to the TGI Group his entire stake at fair value in the period of six years starting after two years from the agreement date.

Prior to the transaction, the investment in TMNG was accounted for using the equity method. Upon gaining control, the Group has recognized a gain from revaluation of its previously held stake of approximately USD 921 thousand (€670 thousand). In addition, the Group recognized a liability reflecting the fair value of the option granted to the third party and treated its investment in TMNG as if the non-controlling stake was already acquired.

The fair value of the identifiable assets and liabilities of TMNG and the corresponding carrying amount as determined provisionally were:

€ in '000	Fair value	Carrying amount
Cash and cash equivalents	212	212
Trade receivables	413	413
Other accounts receivable	65	65
Receivables from construction contracts	189	–
Property, plant and equipment, net	2	2
	881	**692**
Trade payables	(529)	(529)
Liabilities from construction contracts	(241)	(241)
Other accounts payable	(114)	(114)
Deferred taxes	(50)	–
	(934)	**(884)**
Net identifiable assets	(53)	(192)
Goodwill arising on acquisition	1,241	
Total acquisition cost		**1,188**

D. The following shares are used as collateral by the Group companies:

As of December 31, 2014, the shares the company owns in TGI, KFS, TBIF and 51% of KLC were pledged in favor of a lending bank. Subsequent to the balance sheet date the pledges were removed due to repayment of the underlying loan. See Note 1.

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

€ in '000	2014	2013
Subsidiaries	134,395	84,231

The amounts above relate to transfers from Emerging Investments XII B.V. a subsidiary holding the shareholders loans of the Group.

6 Tangible fixed assets

€ in '000	Freehold Land, buildings and assets under construction	Property, plant and equipment	Motor vehicles	Office furniture and equipment	Leasehold improve-ments	Total
Cost						
Balance as of January 1, 2013	38,248	35,745	10,313	19,877	963	105,146
Additions	4,672	664	1,966	1,036	1,365	9,703
Disposals	–	(10,768)	(1,176)	(3,349)	(1)	(15,294)
Reclassification	(3,325)	(2,236)	(2,620)	(7,697)	–	(15,878)
Exchange rate differences	(356)	(182)	(185)	(16)	24	(715)
Balance as of December 31, 2013	**39,239**	**23,223**	**8,298**	**9,851**	**2,351**	**82,962**
Additions	135	404	3,719	1,157	449	5,864
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	**42,553**	**24,092**	**10,849**	**11,330**	**2,911**	**91,735**
Accumulated depreciation:						
Balance as of January 1, 2013	2,435	17,157	5,403	10,619	155	35,769
Depreciation for the year	531	1,126	1,373	1,105	248	4,383
Disposals	(511)	(1,750)	(1,907)	(6,357)	–	(10,525)
Disposals consolidated subsidiaries	–	–	(689)	(2,112)	–	(2,801)
Exchange rate differences	7	73	(118)	(60)	7	(91)
Balance as of December 31, 2013	**2,462**	**16,606**	**4,062**	**3,195**	**410**	**26,735**
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	**3,199**	**18,092**	**4,599**	**4,228**	**755**	**30,873**
Net book value						
December 31, 2013	36,777	6,617	4,236	6,656	1,941	56,227
Net book value						
December 31, 2014	**39,354**	**6,000**	**6,250**	**7,102**	**2,156**	**60,862**

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

7 Investment properties

A General

As of December 31, 2014 and 2013, the closing balances relate to the shopping mall in the city of Dalian, China which is under construction.

B The movements in investment properties for the years ended December 31, 2014 and 2013 are as follows:

€ in '000	2014	2013
Opening balance	118,068	1,565,044
Additions capitalized subsequent expenditure	34,954	32,280
Valuation gains	8,859	8,849
Valuation losses and impairment adjustments	–	(25,406)
Deconsolidation of a subsidiary [1]	–	(1,462,863)
Foreign currency translation differences	19,191	(1,789)
	181,072	**116,115**
Transfer (to) from assets held for sale	–	1,953
Closing balance [2]	**181,072**	**118,068**

1 Due to the loss of control in GTC SA in February 2013, the Company ceased to consolidate the financial statements of GTC SA, for additional information see Note 5C.

2 An investment property valued at December 31, 2014 of €152,639 thousand is pledged in favor of a lending bank.
Investment property under construction carried at cost includes the borrowing costs incurred in connection with the construction of the projects. During 2014 borrowing costs capitalized as Investment property under construction amounted to €3,602 thousand (2013: €1,979 thousand).

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

€ in '000	For the year ended December 31, 2014	2013	2012
Valuation gains from newly completed investments properties	–	–	5,586
Valuation losses from newly completed investments properties	–	–	(9,668)
Valuation gains from investments properties completed in prior years	–	47	8,670
Valuation loss from investments properties completed in prior years	–	(8,933)	(93,958)
Adjustment to fair value of investment property under construction	8,859	8,802	14,953
Reversal of impairment of investment property measured at recoverable amount	–	–	2,395
Impairment of investment properties measured at recoverable amount	–	(16,473)	(20,834)
Fair value of properties held for sale	–	–	4,466
Adjustment to fair value, impairments and reversal of impairments of investment property presented as discontinued operation	–	25,359	98,773
Total fair value adjustments, impairments, reversal for the year	**8,859**	**8,802**	**10,383**

D Fair value measurement of investment property (Level 3 of fair value measurements) 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 valuer 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') was determined as of December 31, 2014 and December 31, 2013 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 the GDV of the retail portion of the Property. For the GDV of the car parking portion of the Property, the Direct Capitalisation 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.

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

€ in '000	December 31, 2014	December 31, 2013
DCF method *		
Estimated rental value per sqm per month (in €)	23	26
Discount rate	10.5%	9%
Rental growth	5%-12% (mainly 7.8%)	0.5%-10% (mainly 3.7%)
Terminal cap rate	5.5%	5.5%
Residual method		
Remaining construction cost (in € millions) *	28	53
Remaining construction period (in months)	1	7
Development profit	8%	12%

* As of December 31, 2014 the percentage of completion of the project is 71% (December 31, 2013: 45%)

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, 2014	December 31, 2013
Investment property under construction		
Change of 25 BP in discount rate and terminal yield	2,547	1,188
Change of 5% in estimated rental income	2,547	1,544
Change of RMB 5 million (approximately €600 thousand) in the remaining construction costs	402	356
Change of 1 month in the remaining construction period	670	356
Addition of 2% in the development profit	2,011	1,544

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, 2014	December 31, 2013	Country
Tahal India B.V.	MVV Water Utility Pvt Ltd.	26.0	26.0	India
Water Planning for Israel Ltd.	Star Pumped Storage Ltd. (previously Tahal Water Energy Ltd.)	40.5	40.5	Israel

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

€ in '000	December 31, 2014	December 31, 2013
Total of equity investments	84	14
Loans	7,294	5,681
Total investment in associates	**7,378**	**5,695**

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

€ in '000	2014	2013
Balance as of January 1	5,695	41,817
Additions *	70	204,706
Change in loans, net	1,539	(1,419)
Equity earnings (losses) **	(625)	(10,407)
Changes due to deconsolidation of a subsidiary ***	–	(40,341)
Foreign currency translation differences and other	3	168
Classification as held for sale ****	–	(194,510)
Change from full consolidation to equity method *****	–	5,681
Capitalized interest	696	–
Balance as of December 31	**7,378**	**5,695**

* Due to the loss of control over GTC SA, the investment in GTC SA was accounted for, from the date of loss of control as an investment in an associate company.

** Equity losses for the years 2013 and 2012 in the amount of €10,346 thousand and €9,992 thousand respectively, are included in the income statement as part of the 'Net profit (loss) from discontinued operations'.

*** Due to the loss of control over GTC SA, as described in Note 5C, associated companies of GTC SA had been deconsolidated from the date of loss of control.

**** Regarding the Company's sale GTC SA, see Note 5C.

***** For additional information relating to the Star Pumped Storage Ltd. deal, see Note 5C.

D Loans:

The investment in associated companies includes loans as follows:

€ in '000	Interest rate (p.a.)	December 31, 2014	December 31, 2013
In NIS	10.5% linked to the CPI	7,294	5,681

9 Investments in joint ventures

A 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 December 31, 2014	% of ownership and control by the direct holding company as of December 31, 2013	Loans granted to the joint venture and their subsidiaries as of December 31, 2014 (In €'000)	Country	Nature of activities
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	7,334	Hong-Kong	Holding
	Sino Castle Development Ltd.	50.0	50.0	54	Hong-Kong	Dormant
	Kardan Land Chengdu (HK) Ltd	–	50.0	–	Hong-Kong	Holding
	Green Power Development Ltd	50.0	50.0	13,515	Hong-Kong	Holding
	Rainfield Development Ltd.	50.0	50.0	7,069	Hong-Kong	Holding
	Shanxi GTC Lucky Hope Real Estate Development Ltd.	50.0	50.0	–	China	Real estate development, property lease and property management

Holding company	Name of joint venture	% of ownership and control by the direct holding company as of December 31, 2014	December 31, 2013	Loans granted to the joint venture and their subsidiaries as of December 31, 2014 (In €'000)	Country	Nature of activities
Task water B.V	Akfen SU Kanalizasyon	50.0	50.0	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.	50.0	50.0	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	1,156	Cyprus	Holding
TBI Financial Services Bulgaria EAD	Creditex OOD	50.0	50.0	6,357	Bulgaria	Mortgage lending
TBI Financial Services Bulgaria EAD	Hypocredit AD	50.0	50.0	–	Bulgaria	Mortgage lending

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

€ in '000	December 31, 2014	December 31, 2013
Total of equity investments *	45,346	61,723
Goodwill *	8,206	14,007
Deemed cost on China projects **	2,085	2,870
Loans and other long-term balances	36,383	57,831
	92,020	136,431
Less impairments (see E below)	(7,575)	(7,773)
Total investment in joint ventures	**84,445**	**128,658**

* The decrease in equity investments relates to the sale of Kardan Land Chengdu (HK) Ltd., see F below.
** Deemed cost are the group financial cost which were capitalized to projects in joint ventures prior to adoption of IFRS11.

C Loans:

The investment in joint ventures companies includes loans as follows:

€ in '000	Interest rate (p.a.)	December 31, 2014	December 31, 2013
In EUR	–	7,493	31,287
In EUR	3 months Euribor + 3.5%	3,217	3,100
In EUR	6 months Euribor + 3.5%	2,572	2,628
In EUR	6 months Euribor + 3.125%	1,156	1,156
In HKD	–	14	11
In USD	–	21,363	18,537
In USD	10%	–	558
In USD	6 months libor + 3.5%	568	505
In ZAR	–	–	49
		36,383	**57,831**

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

The requirements of the Israeli Securities Regulations stipulate that if the net results of a joint venture or an associated company exceed 10% of the net results of the Company for the reported period, a summary of financial information will be disclosed in the interim financial statements. The above criterion was met by Kardan Land Chengdu (HK) Ltd., whose summary of financial information is presented below:

GTC Lucky Hope Dadong Ltd.
Summary of financial data from the statement of financial position:

€ in '000	December 31, 2014	December 31, 2013
Current assets (not including cash and cash equivalents)	68,902	64,139
Cash and cash equivalents	496	358
Non-current assets	1,830	2,185
Current liabilities	69,766	65,606
Total equity attributed to the owners	1,462	1,076
% held in the joint venture	50	50
	731	538
Deemed cost on projects	895	950
Total investment	**1,626**	**1,488**

Summary of financial data from the income statement:

€ in '000	For the year ended December 31,		
	2014	2013	2012
Revenues from operations	11,966	3,373	9,554
Cost of operations	9,851	2,757	6,402
Selling and marketing, other income (expenses), and administrative expenses	1,502	1,802	2,206
Interest income	2	4	7
Other financial income (expenses), net	(1,457)	485	–
Profit (loss) before tax	(842)	(697)	953
Income tax expenses	(318)	223	(423)
Profit (loss) for the year attributed to equity holders	(1,160)	(474)	530
% held of the joint venture	50	50	50
	(580)	(237)	(265)
Realizing of deemed cost on projects	(55)	(326)	(61)
Group's share of loss for the year	(635)	(563)	(326)
Total other comprehensive income (expenses) attributed to equity holders	1,546	(134)	226
% held of the joint venture	50	50	50
Group share of the total other comprehensive income (expenses)	773	(67)	113

Shanxi GTC Lucky Hope Real Estate Development Ltd.

Summary of financial data from the statement of financial position:

€ in '000	December 31, 2014	December 31, 2013
Current assets (not including cash and cash equivalent)	155,182	114,488
Cash and cash equivalent	11,640	11,572
Non-current assets	15,154	11,512
Current liabilities	140,044	105,748
Current financial liabilities	9,470	4,514
Non-current liabilities	414	294
Non-current financial liabilities	–	4,752
Total equity attributed to the owners	32,048	22,264
% held in the joint venture	50	50
	16,024	11,132
Deemed cost on projects	121	316
Total investment in joint ventures	**16,145**	**11,448**

Summary of financial data from the income statement:

€ in '000	For the year ended December 31, 2014	2013	2012
Revenues from operations	28,488	75,550	35,332
Cost of operations	15,316	52,658	23,182
Selling and marketing, other income (expenses), and administrative expenses	4,802	6,548	4,718
Interest income	82	28	32
Profit before tax	8,452	16,372	7,464
Income tax expenses	2,114	4,142	3,054
Profit for the year attributed to equity holders	6,338	12,230	4,410
% held of the joint venture	50	50	50
	3,169	6,115	2,205
Realizing of deemed cost on projects	(195)	(104)	(120)
Group's share of profit for the year	2,974	6,011	2,085
Total other comprehensive income (expenses) attributed to equity holders	3,446	(374)	(1,730)
% held of the joint venture	50	50	50
Group share of the total other comprehensive income (expenses)	1,723	(187)	(865)

Green Power Development Ltd.

Summary of financial data from the statement of financial position:

€ in '000	December 31, 2014	December 31, 2013
Current assets (not including cash and cash equivalent)	155,926	118,732
Cash and cash equivalent	2,328	4,166
Non-current assets	7,460	8,050
Current liabilities	149,728	117,337
Non-current liabilities	–	217
Non controlling interest holders	3,274	2,801
Total equity attributed to the owners	12,712	10,593
% held in the joint venture	50	50
	6,356	5,297
Deemed cost on projects	790	938
Total investment in joint ventures	**7,146**	**6,235**

Summary of financial data from the income statement:

€ in '000	For the year ended December 31,		
	2014	2013	2012
Revenues from operations	41,449	33,522	54,250
Cost of operations	32,636	21,970	38,884
Selling and marketing, other income (expenses), and administrative	6,299	3,867	4,094
Interest income	31	18	90
Other financial income (expenses), net	(3,514)	1,168	–
Profit (loss) before tax	(969)	8,871	11,362
Income tax expenses	1,593	2,147	3,545
Profit (loss) for the year attributed to equity holders	(2,562)	6,724	7,817
Profit (loss) for the year attributed to non controlling interest	(74)	(430)	(558)
	(2,636)	6,294	7,259
% held of the joint venture	50	50	50
	(1,318)	3,147	3,630
Realizing of deemed cost on projects	(148)	(118)	(399)
Group's share of profit (loss) for the year	(1,466)	3,029	3,231
Total other comprehensive income (expenses)	4,758	(532)	(1,077)
Total other comprehensive income (expenses) attributed to the non-controlling interest	368	(40)	162
Total other comprehensive expense attributed to equity holders	4,390	(492)	(915)
% held of the joint venture	50	50	50
Group share of the total other comprehensive income (expenses)	2,195	(246)	(458)

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

€ in '000	December 31, 2014		December 31, 2013	
	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)
Kardan Land Chengdu (HK) Ltd. *	–	–	5,801	–
TBIF-Dan leasing Ltd.	7,007	(7,435)	7,007	(7,435)
GTC Investments B.V.	–	–	–	(198)
	8,206	(7,575)	14,007	(7,773)

* See F below.

F Additional information

1. Kardan Land China

a. Capital commitments:

As of December 31 2014, the contractual commitments of KLC amount to €10,969 thousand (2013: €21,500 thousand).

b. Dividend distribution restrictions:

As of December 31, 2014, Shanxi GTC Lucky Hope Real Estate Development Ltd. have 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.

c. 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.

d. Guarantees:

As at December 31, 2014, the joint ventures of KLC and its subsidiaries provided guarantees of €91.2 million (2013: €75.3 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.

e. Sale of 50% of Galleria Chengdu
On 23 December 2014, Kardan Land China disposed of its remaining 50% equity interest in Kardan Land Chengdu (HK) Limited, a joint venture of the KLC, for a consideration of €74.7 million. Immediately prior to the disposal, KLC's investment in Kardan Land Chengdu (HK) Limited was €37.3 million which includes goodwill of €5.2 million. Taken into account of the repayment of shareholder's loan to Kardan Land Chengdu (HK) Limited of €20.7 million, a gain of disposal of an associate company in amount of €16.7 million thousand was recognized by the Group for the year ended 31 December 2014.

The sale resulted in reclassification of exchange rate differences in credit previously recognized in other comprehensive income to the income statement in the amount of €12.7 million (which included in the €16.7 above).

2. GTC Investments B.V.

Insolvency procedures – German portfolio
Blitz Portfolio GmbH, a subsidiary of GTC Investments B.V., is under insolvency court procedures since April 2013. As a result, GTC Investments B.V. has no control over this company.

3. Impairment of TBIF-Dan leasing

In 2013 TBIF recognized an impairment of €4 million on its investment in TBIF-Dan Leasing Ltd. (Avis Ukraine) further to a prospective deal to sell its stake in the joint venture.

10 Loans to bank customers

A Composition

€ in '000	December 31, 2014	December 31, 2013
Loans and advances to individuals	83,102	69,794
Mortgage loans	758	733
Other loans and advances to banks	8,180	9,489
	92,040	80,016
Corporate loans	36,952	27,083
Total loans and advances gross	128,992	107,099
Less – allowance for impairment losses [1]	(10,633)	(8,185)
	118,359	**98,914**

1 Movements in allowance for impairment losses are:

€ in '000	2014	2013
Balance as per January 1	8,185	4,695
Allowance for the period, net	2,448	5,237
Recognized written off uncollectible debts	–	(1,747)
Balance as per December 31	**10,633**	**8,185**

B Maturities

€ in '000	December 31, 2014	December 31, 2013
Presented as current assets	54,596	48,522
Presented as non-current assets	63,763	50,392
	118,359	**98,914**

During 2014, TBIF repossessed assets with a carrying value of €4.5 million (€5.7 million in 2013). 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, 2014	December 31, 2013
In USD	–	1,116
In EUR [1]	45,453	76,308
In other currencies [2]	26,917	27,824
	72,370	**105,248**
Less – current maturities	(18,708)	(29,735)
	53,662	**75,513**
Service concessions [3]	86,637	68,919
Provision for doubtful debts [4]	(37,817)	(57,678)
Other	2,039	8
	104,521	**86,762**

1 As of December 31, 2014 the balance includes: an amount of €28,941 thousand and €35,651 thousand from consumer finance and financial lease respectively (2013: € 28,049 thousand and € 38,682 thousand, respectively). The decrease relates to the sale of TBI Credit (see Note 5C).

2 The balance includes mainly consumer finance denominated primarily in Romanian lei.

3 The concession agreements are based on guaranteed volumes and tariffs, which in accordance with IFRIC 12 are accounted for as concession financial receivables.
According to the relevant concession agreements, the Group has an unconditional right to receive cash as the grantor contractually guarantees to pay at specified amounts or the shortfall between the actual and the guaranteed water volume. The interest on the finance receivables amounts to an average of approximately 6.67% (2013: 6.67%).
A short-term portion of concession agreements in the amount of €17 million (in 2013 - €16 million) is presented in other receivables (see Note 15). The increase in 2014 relates to new financial assets and foreign exchange.

4 Provision for doubtful debts primarily includes provision for impairment losses relating to consumer credit, mortgages and finance leases. The amounts decreased due to a sale of TBI Credit (see Note 5c).

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 is 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 EUR 2.8 million (net of a provision of EUR 2.1 million) in the third quarter of 2014.

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

€ in '000	December 31, 2014	December 31, 2013
Financial leases *	22,880	26,238
Consumer credits and mortgages	10,888	12,032
	33,768	**38,270**
Current	2,892	22,160
Non-current	30,876	16,110
	33,768	**38,270**

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

€ in '000	December 31, 2014	December 31, 2013
Not more than one year	24,813	26,946
Later than one year and not later than five years	12,200	14,752
Later than five years	4,473	2,774
Gross receivables from financial leases	41,486	44,472
Less – gross earnings allocated to future periods	(5,835)	(5,790)
Less – allowance for impairment losses	(12,771)	(12,444)
Net investment in financial leases [1]	**22,880**	**26,238**
(1) Maturity table:		
Not more than one year	10,408	12,607
Later than one year and not later than five years	8,832	11,661
Later than five years	3,640	1,970
	22,880	**26,238**

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

B Movement in the provision for doubtful debts:

€ in '000	2014	2013
Balance as per January 1	57,678	59,534
Allowance for the period, net	3,615	1,788
Recognized written off uncollectible debts	(1,854)	(4,429)
Translation differences	13	785
Disposal of an investment (held for sale)	(21,644)	–
Others	9	–
Balance as of December 31	**37,817**	**57,678**

12 Intangible assets and goodwill

A Movement in goodwill, service concession and other intangible assets is as follows:

€ in '000	Goodwill	Service concessions [5]	Other intangibles [1]	Total
Balance as of January 1, 2013	15,921	9,045	11,729	36,695
Additions [2]	1,241	33	517	1,791
Change due to disposal of subsidiaries	–	–	(60)	(60)
Impairment and amortization [3]	(3,926)	(524)	(11,235)	(15,685)
Foreign currency exchange differences	(138)	(103)	13	(228)
Balance as of December 31,2013	13,098	8,451	964	22,513
Additions	–	–	218	218
Change due to disposal of subsidiaries	–	(239)	–	(239)
Impairment and amortization [4]	(5,190)	(528)	(273)	(5,991)
Foreign currency exchange differences	135	1,004	–	1,139
Balance as of December 31, 2014	**8,043**	**8,688**	**909**	**17,640**

1 In 2013 other intangible assets included mostly excess cost allocated to banking license and loan benefits.
2 The additions in 2013 relate primarily to the TMNG deal – for additional information, refer to Note 5C.
3 Impairment of intangible assets in 2013 relates primarily to the banking license and loan benefit.
4 Impairment in 2014 relate primarily to the Group's 'Water Infrastructure – Assets' segment. For the impairment of goodwill see further in this note.
5 Tianjin Tanggu Huanke Xinhe Sewage treatment plant. The plant's remaining operational period is 18 years as of December 31, 2014.

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

€ in '000	December 31, 2014	December 31, 2013
Infrastructure segment:		
Assets segment:		
KWIG *	–	3,343
Dahzou Tianhe Water Supply *	593	974
Tianjin Huanke Water Development Co., Ltd. *	2,287	3,753
Project segment:		
Tahal Consulting Engineers Ltd. (TCE)	3,508	3,398
TMNG (see Note 5C)	1,244	1,241
Palgey Maim	411	389
	8,043	**13,098**

Goodwill acquired through business combinations has been allocated to the relevant cash-generating units, and is primarily allocated to anticipated future benefits arising from synergies. 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.

* As of December 31, 2014 TGI determined the recoverable amounts based on the consideration in the agreement to sell KWIG less costs to sell. KWIG is a subsidiary in the 'Water infrastructure – Assets' segment. The total impairment of the investment in KWIG amounted to €6.9 million, out of which an amount of €5.2 million relates to goodwill. For additional information see also Note 40.

C Impairment of goodwill

TGI

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 5-30 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
Projects segment:				
2014	12%	3%	13%	5.3%
2013	13.5%	2%	11.6%	3.3%

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;
- Other expenses;
- Finance expenses;
- Net profit (loss) from discontinued operations;
- Impairment of goodwill.

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

A Composition:

€ in '000	December 31, 2014	December 31, 2013
Building and apartments inventory and land bank [1]	99,857	96,864
Contract work in progress [2]	9,874	9,900
Merchandise inventories [3]	3,014	3,193
	112,745	**109,957**

(1) Building and apartments inventory and land bank:

a. As of December 31, 2014 inventory in the amount of €98,075 thousand 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 2014, finance expenses capitalized on account of inventory property under construction amounted to €5,712 thousand (in 2013: €2,527 thousand).

c. Composition of cost of buildings and apartments:

€ in '000	December 31, 2014	December 31, 2013
Current:		
Completed	14,889	21,657
Under construction	84,968	75,207
	99,857	**96,864**

d. Buildings and apartments inventory is stated in gross figures. Advances from apartment buyers are presented under current liabilities and amount to €164 thousand as of December 31, 2014 (December 31, 2013: €5,667 thousand).

e. During the past year the Group entered into 1,254 sales contracts of apartments, for which the total consideration is estimated at €106.7 million

(RMB 866.9 million). As of December 31, 2014, the aggregated number of signed contracts of existing projects for which revenues were not recognized amounts to 2,681 contracts for which the aggregated consideration is estimated at approximately €169.3 million (RMB 1,375.4 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, 2014	December 31, 2013
Contract costs incurred	521,805	321,788
Less – invoices on account of progress	(568,385)	(352,102)
	(46,580)	(30,314)
Presented in statement of financial position:		
Current assets – contract work in progress costs	9,874	9,900
Current liabilities – advances from customers in respect of contracts	(56,454)	(40,214)
	(46,580)	**(30,314)**

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) In 2014 and 2013 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, 2014 € in '000	Residential construction For the year ended 2014	Residential construction Cumulative up to the end of the reporting period	Infrastructure works For the year ended 2014	Infrastructure works Cumulative up to the end of the reporting period
Revenues recognized	46,866	70,850	86,292	318,606
Cost recognized	43,543	62,950	75,151	242,552

December 31, 2013 € in '000	Residential construction For the year ended 2013	Residential construction Cumulative up to the end of the reporting period	Infrastructure works For the year ended 2013	Infrastructure works Cumulative up to the end of the reporting period
Revenues recognized	23,984	23,984	90,707	232,314
Cost recognized	19,697	19,697	55,630	167,401

14 Trade receivables

A Composition:

€ in '000	December 31, 2014	December 31, 2013
Trade receivables	64,682	68,426
Less provision for doubtful debt	(2,681)	(1,167)
	62,001	**67,259**

As of December 31, 2014 an amount of €53,518 thousand (31 December 2013: €60,469 thousand) derives from the infrastructure projects 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 days	Total
2014	31,051	11,344	4,493	1,513	1,852	11,748 *	62,001
2013	30,019	8,715	8,567	10,261	1,687	8,010	67,259

* Subsequent to the balance sheet date, the Group collected over €5 million of this amount.

15 Other receivables and prepayments

€ in '000	December 31, 2014	December 31, 2013
Central bank in Bulgaria [1]	16,812	15,546
Accrued income	3,891	5,523
Concession current financial assets	17,458	16,266
VAT receivable	695	1,378
Receivables from joint ventures in China	2,061	743
Prepaid expenses	2,290	5,875
Advances to suppliers	4,575	5,490
Other	5,667	5,388
	53,449	**56,209**

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 2014 and 2013.

16 Short-term investments

	Average interest rate	December 31, 2014	December 31, 2013
	%	€ in '000	€ in '000
Bank deposits in other currencies	0%-5.5%	155	858
Restricted bank deposits	0%-5.5%	6,503	13,481
Other	–	592	88
		7,250	**14,427**

17 Cash and Cash Equivalents

€ in '000	December 31, 2014	December 31, 2013
Cash at bank and in hand	43,225	61,792
Short-term deposits *	105,320	56,476
	148,545	**118,268**

* In 2013 the amount includes also €604 thousand which is held for trading securities. As of December 31, 2014 the range of the annual interest rate earned on short-term deposits was 0.5%-1.5% (December 31, 2013 - up to 3%).

18 Issued and Paid-In Capital

A Composition

Number of shares	December 31, 2014		December 31, 2013	
	Authorized	Issued and paid-in	Authorized	Issued and paid-in
Ordinary shares with nominal value of €0.20 each	225,000,000	111,848,583	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, 2013	111,824,638	22,364,927
Issuance of shares in 2013	23,945	4,789
Balance as of December 31, 2013 and 2014	**111,848,583**	**22,369,716**

C Changes in share capital

During 2013, the Company issued 23,945 shares to one of its senior manager in relation to following the 2010 Share Plan; for additional information see Note 19B.

D Movement in treasury shares

	Number of shares	Par value in €
Balance as of January 1, 2013	1,268,422	253,685
Treasury shares granted to a former officer	(27,832)	(5,566)
Balance as of December 31, 2013	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

	December 31, 2014	December 31, 2013
Rate of treasury shares from the issued and paid-in share capital	1%	1%

During 2014 and 2013, the following transactions took place:

In January 2014, the Company transferred 73,005 shares to senior managers of the Company according to the 2010 Share Plan, for additional information see Note 19.

In March 2013, the Company granted 27,832 shares to a former officer of the Company as part of his termination agreement (see also Note 19B).

E Dividend:

For limitations regarding the distribution of dividends refer to Note 1. In 2014 and 2013, 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		
	2014	2013	2012
Expense arising from equity-settled share-based payment transactions of the Company and the subsidiaries	776	1,247	2,039
Expense arising from cash-settled share-based payment transactions of a subsidiary	526	557	143
	1,302	**1,804**	**2,182**

The expenses are presented as part of 'Payroll and related expenses' within the General and administrative expenses.

B Option plans

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

(1) Kardan N.V

a 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 will be 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 are 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.

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 are 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.

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

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:

	2014		2013	
	No.	WAEP €	No.	WAEP €
Outstanding on January 1	2,532,135	6.136	2,532,135	6.136
Granted during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding on December 31	2,532,135	6.136	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.

(2) GTC RE and its subsidiaries

A. Kardan Land China

Employee Share Option Plan
During 2010, Kardan Land China adopted the Employee Share Option Plan ('ESOP').
According to 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 granted during the year ended December 31, 2013, was estimated on December 31, 2013, using the following assumptions:

Dividend yield (%)	0.00
Expected volatility (%)	51
Risk-free interest rate (%)	1.93
Expected life (years)	7.7
Share price (EUR)	3,856.85

In June 2013, certain share options under ESOP were modified, with options to settle in cash. The cash settlement price is a specified amount with respect to 2/3 of the options; the last 1/3 cash settlement will be according to the fair value of KLC. The modified share options vest immediately.

The fair value of the options which were modified is €2.6 million, see also Note 27.

Senior Executive Plan

Under the Senior Executive Plan (SEP), which was adopted in 2011, 2,637 share options of Kardan Land China (which represent 5% of the share capital of KLC) were granted to a senior executive of Kardan Land China. According to the plan the senior executive is 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 has 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 vest at the date of the grant. Options which are not exercised by the end of the exercise period shall expire.

The fair value of the options granted is 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 a 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 shall exercise his share options in equal parts in February, June and December 2014 and simultaneously KLC shall acquire the shares resulting from the exercise. The agreement determined the settlement price for the first 66% of the share options. As for the last third, it was agreed that the settlement price would be agreed between the parties or determined by an external appraiser. The exercise price of the options reflects the cost of the Company's investments in Kardan Land China. 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 consideration of €6.7 million. As of December 31, 2014 the Company has a provision in the amount of €3.38 million for the settlement of the last third. Subsequent to the balance sheet date, the senior executive announced his wish to exercise the third tranche.

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:

	2014		2013	
	No.	WAEP EUR	No.	WAEP EUR
Outstanding on January 1	3,559	4,004.46	4,105	4,056.94
Cancelled during the year	(330)	4,394.48	(546)	4,394.48
Exercised during the year	(1,758)	3,219.61	–	–
Outstanding on December 31	1,471	3,692.43	3,559	4,014.08
Exercisable on December 31	**1,454**		**3,514**	

The weighted average remaining contractual life for the share options outstanding as of December 31, 2014 is 3.25 years (2013: 4.25 years).

The range of the exercise prices per option for options outstanding at the end of the year was €3,219.61 to €4,394.48 (2013: €3,868.09 to € 4,394.48).

The following tables list the inputs to the models used for the two plans for the years ended December 31, 2014 and December 2013:

	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 is 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, 2014, KLC has recognized €211 thousand of share-based payment expense in the statement of profit or loss (2013: €553 thousand).

(3) KFS and its subsidiaries

a. In 2014 consolidated companies in the financial services sector incurred expenses in the amount of €0.2 million (2013: €0.3 million), arising from options granted to senior managers in those companies.

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. TGI

1. In 2009, the management board, the supervisory board and the general meeting of shareholders of TGI approved a stock option plan, according to which TGI has granted key management members of TGI 1,253 options exercisable up to 1,253 shares of TGI. The exercise price of the options has ranges between €869 to €1,717 per option. The options can be exercised until December 31, 2012, unless extended and have different vesting periods for each of the option holders. During 2012, TGI extended the outstanding options of a manager holding 97 options by one year; however these options expired without being exercised. In December 2012 the former chairman of the supervisory board of TGI exercised his options in return for 578 shares.

   In March 2013, 578 new shares each were issued to the heirs of the former chairman of TGI.

   Upon exercise of the options, the supervisory board of TGI will determine whether to allocate the full number of shares deriving from the exercise of options or the number of shares reflecting only the benefit component inherent in the options, as calculated at the exercise date, or alternatively, the supervisory board of TGI may elect to pay that benefit in cash.

   The total value of the options at date of grant was estimated at €1.2 million. This fair value was determined by an independent external valuator. The expected life of the options is based on historical data. TGI accounts for the options granted assuming equity payment will be effected.

   In July 2013 the heirs sold 185 of the TGI shares to the Company in consideration of €663 thousand. The proceeds were used to settle the loan to TWP and the tax liability deriving from selling of shares to the tax authorities.

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

Expected volatility (%)	50.52%
Risk-free interest rate (%)	2.68%
Expected term of options (years)	3
Weighted average share price (€)	1,758.24
Model used	Black-Scholes

2. During 2011, the supervisory board and the general meeting of shareholders of TGI formally approved TGI to grant to one management member of TGI 797 options, constituting approximately 3% of the shares of TGI, post-issuance. The newly issued stock option plan is divided into two agreements which have comparable option terms except from the vesting periods. Each option plan has been valuated 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 the options granted in accordance with IFRS 2, assuming equity payments will be affected.

3. 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:

Value per share	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

4. 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

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:

	2014	2013	2014	2013
	No.	No.	WAEP €	WAEP €
Outstanding on January 1	982	1,472	4,334	2,641
Granted for the year	499	185	4,510	4,741
Expired during the year	–	(675)	–	991
Outstanding on December 31	1,481	982	4,393	4,334
Exercisable on December 31	916	531	4,366	4,317

B. Kardan Water International Group Ltd.

2010 Plan
During 2010, KWIG approved a stock option plan to eligible employees of KWIG.

Pursuant to the plan, 1,600 share options of KWIG were granted to the eligible employees, which constitute 3.4% of the total issued share capital. Under this plan, the eligible employees have the right to acquire 50% of the granted option shares on the 3rd anniversary of the date of commencement of services, 25% on the 4th anniversary, and 25% on the 5th anniversary. The options will expire at the 5th anniversary for the first 50% of the vested options and at the 7th anniversary for the remaining 50%.

During 2013, 669 options were extended for another two years. The fair value of the options extended was €216 thousand.

During the year ended December 31, 2013, 750 options were granted to two other eligible employees. Under this plan, the eligible employees have the right to exercise 50% of the granted option shares on the 2nd anniversary of the date of commencement of services, 25% on the 3rd anniversary and 25% on the 4th anniversary. The option period will expire on the 4th anniversary for the first 50% of the vested options and on the 5th anniversary for the remaining 50%.

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

There are no cash settlement alternatives.

2011 Plan
In 2011, pursuant to the 2011 Employee Stock Option Plan (the ‘Plan’), 1,021 new share options were granted to a director of KWIG. The option shares were fully vested upon grant.

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

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

	2014	2014	2013	2013
	No.	WAEP €	No.	WAEP €
Outstanding on 1 January	2,396	1,262	1,442	1,031
Forfeited during the year	–	–	(215)	1,061
Granted during the year	–	–	750	1,773
Extended during the year	–	–	669	1,061
Expired during the year	(125)	1,061	(250)	1,061
Outstanding at December 31	2,271	1,331	2,396	1,262
Exercisable at December 31	1,521	1,112	1,646	1,029

The following tables list the inputs to the binomial model used in the grants:

	2014	
	SEP	ESOP
Dividend yield (%)	0	0
Expected volatility (%)	42.82	33.99
Risk-free interest rate (%)	2.94	0.53
Expected life of share options (years)	3.50	3.18
Weighted average share price (EUR)	1,291	1,749

The weighted average remaining contractual life for the share options outstanding as at December 31, 2014 is 2.62 years (December 31, 2013: 3.43 years).

After the balance sheet date, as part of the transaction to sell KWIG (see Note 40), 1,250 share options had been cancelled against cash consideration. The deeds of waiver and release were signed by these option holders in February 2015. Additionally, 1,021 option shares were exercised by an option holder in February 2015 into KWIG shares, which were purchased from him by TGA shortly afterwards. There are no outstanding share options as of the end of February 2015. In total, USD 1.9 million has been paid by TGA to the employees. The excess of the consideration over the previously recognized expense in was recorded as an expense as of December 31, 2014 (see also Note 40).

20 Non-Current Interest-Bearing Loans and Borrowings

A Composition

	December 31, 2014		December 31, 2013	
	Weighted interest rate as of %	€ in '000	Weighted interest rate as of %	€ in '000
Banks:				
In EUR	3.5-7.1	10,807	3.97-7.89	10,489
In USD	4-5.4	19,063	4-5.24	19,672
In NIS	4-7	149	3.5-4	297
In RMB	3-8.1	138,870	5.54-7.36	79,088
Linked to other currencies	–	332	–	–
Others – in EUR	2	3,425	2	1,042
Linked to other currencies	4-7	196	3.66-5.75	760
		172,842		**111,348**
Less:				
- Current maturities		(59,536)		(13,630)
- Long-term interest-bearing loans related to current inventory		(29,175)		(27,295)
		84,131		**70,423**

B Maturities

€ in '000	December 31, 2014	December 31, 2013
First year – current maturities	59,536	13,630
Second year	53,616	32,279
Third year	58,560	31,991
Fourth year	941	15,842
Fifth year	189	821
Thereafter	–	16,785
	172,842	**111,348**

For details regarding covenants, refer to Notes 27 and 38.

21 Banking Customers Accounts

A Composition

€ in '000	December 31, 2014	December 31, 2013
Deposits from corporate clients	85,856	47,624
Deposits from individual clients	103,613	90,097
	189,469	**137,721**

B Maturities

€ in '000	December 31, 2014	December 31, 2013
First year – current maturities	189,239	137,593
Second year	106	102
Third year and forward	124	26
	189,469	**137,721**

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, 2014	December 31, 2013
Advances from customers	–	515
Site coverage and rehabilitation provision	2,298	2,092
Claw-back liability regarding the sale of GTC SA (See Note 5C)	–	3,150
Other	813	1,130
	3,111	**6,887**

23 Options and warrants

€ in '000	December 31, 2014	December 31, 2013
Call options to third parties [1,2]	428	3,650
Put option of third parties [3]	1,014	667
	1,442	**4,317**

1 In March 2009, the Company has reached an agreement with Israel Discount Bank ('IDB') to buy back the 11% stake IDB holds in KFS. Within the framework of the agreement, the Company has granted IDB an option to repurchase a 5% stake in KFS during the subsequent six years, at a price changing gradually, reflecting a valuation of KFS of €386 million plus an annual interest of 5% from the third year. In January 2014 the option was cancelled by IDB. As a result of the cancellation an increase in equity of €2.9 million (in NCI reserve) was recorded.

2 The balance 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 (December 31, 2013: €0.8 million).

3 As part of the purchase agreement to increase the holding in TMNG to 65%, the third party was granted a put option, according to which, he 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 his entire stake at fair value. The liability for the option is presented at fair value. For additional information refer to Note 5C.

24 Debentures

A Composition

	Par value (net) as of December 31, 2014	Balance as of December (Net) 31, 2014	Balance as of December (Net) 31, 2013	Interest rate	Currency and linkage	Maturities principal
	€ in '000	€ in '000	€ in '000	%		
Issuer						
The Company – 2007	68,151	82,452	113,190	4.45	[1]	2013-2016
The Company – 2008	211,435	252,121	278,901	4.9	[1]	2014-2020
Other subsidiaries		–	3,507	6.5%	In or linked to €	2008-2015
		334,573	395,598			
Less - current maturities		(83,802)	(67,409)			
Less - debentures issuance expenses		(724)	(949)			
		250,047	**327,240**			

1 The Company's Debentures are traded on the TASE. The Debentures are denominated in NIS and are linked to the Israeli CPI. For additional information refer to Note 38 and Note 1.

2 Early repayment
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).

3 In January 2014, TCE sold its entire amount of the Company's Debentures (NIS 11,955,355 par value) for a total consideration of approximately €2 million.

4 Repurchase of Kardan N.V. Debentures
In 2012, GTC RE purchased NIS 431,237,185 par value Debentures Series A issued by the Company in 2007 at an average price of NIS 0.88 per debenture, for a consideration of €77.3 million (approximately NIS 377 million) and NIS 120,222,513 par value Debentures Series B at an average price of NIS 0.63, for a consideration of €15.5 million (approximately NIS 76 million). The Company accounted for these purchases as an early repayment of Debentures. The repurchase resulted in a gain of €43 million which was included as 'Other finance income' in 2012 income statement.

As of December 31, 2014, the Company holds through its subsidiaries NIS 273,012,229 par value Debentures Series A (which represent 45.9% of the par value of Debentures Series A) and NIS 144,457,732 par value Debentures Series B (which represent 12.6% of the par value of Debentures Series B).

5 With respect to early repayment of interest and principal subsequent to the balance sheet date, please see Note 40.

Maturities:

€ in '000	December 31, 2014	December 31, 2013
First year – current maturities	83,802	67,409
Second year	83,135	81,466
Third year	41,909	81,183
Fourth year	41,909	41,385
Fifth year	41,909	41,385
Sixth year onwards	41,909	82,770
Total	**334,573**	**395,598**

25 Interest-bearing loans and borrowings

	Weighted average annual interest rate	December 31, 2014	Weighted average annual interest rate	December 31, 2013
	%	€ in '000	%	€ in '000
Short-term credit from banks:				
In USD	–	–	4.5	2,717
In RMB	–	–	5.48	2,959
In EUR	4.5	1,008	4.5	1,185
		1,008		**6,861**
Long-term interest-bearing loans related to current inventory (refer to Note 20)		29,175		27,295
Current maturities:				
Loans (see Note 20)		59,536		13,630
		89,719		**47,786**

Collateral – see Note 27.

26 Other payables and accrued expenses

€ in '000	December 31, 2014	December 31, 2013
Financial:		
Accrued expenses	29,628	17,662
Payroll and related expenses	5,960	6,396
VAT payable	2,540	9
Payable to joint ventures in China accounted using the equity method	11,574	10,052
Liability regarding share-based payment	5,280	2,626
Factoring liability	–	3,143
Deferred purchase price for shares in a subsidiary	–	8,016
Other	8,903	10,017
Non Financial:		
Advances from customers	20,305	49,954
Unearned revenues	–	266
Other	3,150	–
	87,340	**108,141**

27 Liens, contingent liabilities and commitments

A Financial covenants, Liens and collaterals:

1. Financial Covenants

a. As of December 31, 2014 all Group companies met their financial covenants.

b. Subsequent to the balance sheet date, GTC RE fully repaid a loan to Discount Bank. Following that, GTC RE has no outstanding loans and no financial covenants.

c. TGI Group committed towards banks and financial institutions, with respect to long- and short-term loans, and guarantees, to maintain certain financial covenants relating to: minimum equity, the ratio of total current assets and total current liabilities, the ratio of equity and total credit and loans, the ratio of equity to total assets, the ratio of financial debt to operating income, and minimum EBITDA. Subsequent to the balance sheet date, in March 2015 TGI repaid a long-term loan of USD 25 million, and accordingly the financial covenants attached to that loan were removed.

d. In February 2014 KLC signed a loan agreement with respect to the construction of Europark Dalian. As part of the loan agreement, the project company should maintain certain covenants including: ratio of total debt to total assets, current ratio, and the ratio of contingent liabilities to net assets.

2. Pledges

a. Subsequent to the balance sheet date, in relation to the Interim settlement with the debenture holders, as described in Note 1, the Company pledged all its rights in shares and loans of GTC RE in favor of the trustees of the debenture holders of the Company. Additional pledges will be established after signing the final debt settlement, as described in Note 1.

b. As of December 31, 2014 the Company and GTC RE had pledges on their rights in shares of TGI, KFS, TBIF and KLC and on shareholder's loans granted to these companies. Subsequent to the balance sheet date, following the repayment of the Discount Bank loans, all these pledges were released.

c. As of December 31, 2014 long-term loans amounting to €120.7 million granted to a subsidiary of KLC was secured by mortgages over investment property under construction and inventory.

d. TBIF Group pledged assets with a carrying value of €4.9 million as of December 31, 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, 2014 and 2013, TGI provided bank guarantees in an aggregated amount of approximately €30.8 million and €13.7 million, respectively, in favor of customers in respect of advances received from them for projects and for performance and tender guarantees.

b. As at December 31, 2014, Kardan Land China provided guarantees of €6,434 thousand (2013 - €4,871 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.

c. The Company provided guarantees to its subsidiaries in favor of lending banks which amounted to €0.9 million and €7.6 million as of December 31, 2014 and 2013, respectively.

d. For additional information regarding maturities of financial guarantees, refer to Note 38.

4. Legal claims and contingencies:

As of December 31, 2014 the Company and its main subsidiaries do not have any material legal claims.

5. Commitments:

a. With respect to commitments to towards the debenture holders of the Company in relation to debt settlement, 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, 2014	December 31, 2013
Contingent liabilities		
Financial guarantees	1,279	792
Commitments		
Undrawn commitments to lend	7,771	12,293
Total	**9,050**	**13,085**

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. 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. The 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, 2014 Kardan Land China Group had commitments of €36.5 million (December 31, 2013: €62.3 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. The TGI Group owns concession agreements to provide water supply and wastewater treatment services in China and Turkey. The agreements have a contract period of 5 to 30 years. Depending on the nature of the agreement, the plant facility developed under the concession agreement will be owned by the Group (BOO contracts) or transferred to the client (BOT projects). Until the day of these financial statements there are no breaches relating to these concession agreements.

e. In relation to loans provided to TGI and some of its group companies, the Company committed, under certain circumstances, not to collect shareholder's loans granted to TGI and not to decide on dividend distribution from TGI, unless consent from the relevant bank was obtained. See also Note 40.

f. TGI has three large development projects in Ghana, Angola and Russia. 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 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).

B Operating lease commitments:

1 Operating lease commitments – Group as lessor

The Group has entered into various operational lease contracts with tenants related to the shopping center under construction in Dalian, China. The aggregate amount of contracted future rental income as of December 31, 2014 amounts to approximately €29.4 million from signed contracts as of the balance sheet date.

The expected dates for the minimum lease under the operating lease contracts which cannot be canceled as of December 31, 2014 and 2013:

€ in '000	2014	2013
First year	1,425	166
Second to fifth year	11,374	3,031
After the fifth year	16,950	8,223
	29,749	**11,420**

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. Certain Group companies have entered into operating lease agreements with respect of office buildings rental. The total commitment as of December 31, 2014 amounts to €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 €7.7 million as of December 31, 2014.

28 Segment information

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 GTC SA in November 2013 (for additional information see Note 5C), the Company's CODM re-examined its operating segments. In the past, the results of GTC SA were the company main activities included in 'Real Estate – Europe' segment. Following the sale, the Company is substantially no longer active in the 'Real Estate – Europe' segment and the results of GTC SA have been presented as discontinued operation and thus no longer form a reportable operating segment. The comparative information has been amended accordingly.

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 renting and leasing of vehicles in Ukraine through in holding in Avis Ukraine.

Real Estate

The real estate activities are incorporated under GTC RE and currently include the real estate in Asia. In the past, the operations of the real estate segment were split into two segments: real estate in Europe and real estate in Asia. Due to the sale of GTC SA (as described above) results of GTC SA have been presented as discontinued operation. In the real estate operations the Group is involved in the construction of office buildings, shopping centers and in residential projects.

Infrastructure

The Infrastructure activities are incorporated under TGI Group, and include the following two segments: Infrastructure Projects and Infrastructure Assets. Due to the sale of KWIG (see Note 40), from Q1 2015 there will be one infrastructure segment.

Through the TGI Group companies, the Company develops and invests in infrastructure assets and provides engineering, consulting and design services. TGI Group 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 segments are operating segments and are fully independent from each other. Apart from invoicing of management fees or recharge of expenses, there is no material segment to segment invoicing. Allocated segment asset 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, 2014:

€ in '000	Real Estate Asia	Banking and Retail lending	Infrastructure			Total
			Projects	Assets	Other	
Revenue	51,957	35,630	135,870	34,387	–	257,844
Other income (expense) *	32,861	1,281	(1,135)	(6,526)	(82)	26,399
Total income	84,818	36,911	134,735	27,861	(82)	284,243
Segment result	28,390	8,747	9,111	1,642	(82)	47,808
Unallocated expenses						(6,074)
Gain from operations and share in profit of associates companies before finance expenses, net						41,734
Finance expenses, net						(20,187)
Loss before income tax						21,547
Income tax expenses						(16,485)
Loss from continuing operations						5,062
Net 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.

For the year ended December 31, 2013:

€ in '000	Real Estate Asia	Banking and Retail lending	Infrastructure		Other	Total
			Projects	Assets		
Revenue	28,917	26,065	122,043	30,970	–	207,995
Other income (expense) *	23,422	(14,998)	(838)	(29)	864	8,421
Total income	52,339	11,067	121,205	30,941	864	216,416
Segment result	22,130	(16,359)	3,972	8,455	864	19,062
Unallocated expenses						(5,797)
Loss from operations and share in profit of associates companies before finance expenses, net						13,265
Finance expenses, net						(45,618)
Loss before income tax						(32,353)
Income tax expenses						(14,443)
Loss from continuing operations						(46,796)
Loss from discontinued operations						(75,177)
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.

For the year ended December 31, 2012:

€ in '000	Real Estate Asia	Banking and Retail lending	Infrastructure Projects	Infrastructure Assets	Other	Total
Revenue	4,927	13,871	107,351	35,619	–	161,768
Other income (expense) *	20,045	(4,157)	(872)	531	(6,197)	9,350
Total income	24,972	9,714	106,479	36,150	(6,197)	171,118
Segment result	15,271	(18,198)	(6,149)	6,755	(6,197)	(8,518)
Unallocated expenses						(7,208)
Loss from operations and share in profit of associates companies before finance expenses, net						(15,726)
Finance expenses, net						9,756
Loss before income tax						(5,970)
Income tax expenses						(938)
Loss from continuing operations						(6,908)
Loss from discontinued operations, net						(131,948)
Loss for the year						**(138,856)**

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

C Segments assets

€ in '000	December 31, 2014	December 31, 2013
Real Estate – Asia	420,392	354,101
Banking and Retail Lending	304,437	254,829
Infrastructure – Assets	178,352	165,182
Infrastructure – Projects	107,778	110,458
Others	15	–
	1,010,974	**884,570**
Unallocated assets	2,635	40,045
	1,013,609	**924,615**

D Segments liabilities

€ in '000	December 31, 2014	December 31, 2013
Real estate – Asia *	163,315	95,190
Banking and Retail Lending	225,194	197,416
Infrastructure – Assets	49,045	117,634
Infrastructure – Projects	100,168	106,934
	537,722	**517,174**
Unallocated liabilities **	378,127	335,691
	915,849	**852,865**

* During the second quarter of 2014, Kardan Land Dalian (which is the main activity in 'Real estate – Asia' segment) raised an additional bank loan in the amount of RMB 400 million (approximately €54 million). As of December 31, 2014 and December 31, 2013 the outstanding liability amounts to RMB 900 million (approximately €115 million) and RMB 500 million (approximately €60 million), respectively.

** 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		
	2014	2013	2012
China and Hong Kong	79,417	59,887	34,287
Bulgaria and Romania	55,330	27,542	13,293
Israel	21,410	32,021	25,694
Other	101,687	88,545	88,494
	257,844	**207,995**	**161,768**

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

€ in '000	December 31, 2014	December 31, 2013
China and Hong Kong	235,025	167,293
Bulgaria and Romania	10,585	10,000
Israel	6,136	8,077
Other	7,828	11,438

Non-current assets include the investment properties, goodwill and intangible assets and property plant and equipment.

29 Revenues from retail lending activities

€ in '000	For the year ended December 31,		
	2014	2013	2012
Interest income	38,431	34,545	24,426
Finance costs	(6,209)	(10,122)	(6,511)
	32,222	24,423	17,915
Commission and service fees	9,168	7,008	7,127
Impairment of loans granted	(8,095)	(7,025)	(14,076)
	33,295	**24,406**	**10,966**

30 Cost of retail lending activities

€ in '000	For the year ended December 31,		
	2014	2013	2012
Staff costs	13,491	14,261	12,847
Other operating expenses	12,087	10,921	10,715
	25,578	**25,182**	**23,562**

31 Other expenses, net

€ in '000	For the year ended December 31,		
	2014	2013	2012
Cost of services	4,700	3,861	1,802
Other expenses, net	1,408	(503)	3,568
	6,108	**3,358**	**5,370**

32 Selling and marketing expenses

€ in '000	For the year ended December 31,		
	2014	2013	2012
Payroll and related expenses	3,307	2,928	3,117
Commissions	195	684	211
Marketing and advertising	1,160	1,526	2,204
Other	3,530	2,774	2,678
	8,192	**7,912**	**8,210**

33 General and administrative expenses

€ in '000	For the year ended December 31,		
	2014	2013	2012
Payroll and related expenses (1)	12,572	10,495	11,968
Share-based payment (see Note 19)	805	1,327	1,803
Management fees	2,171	2,132	1,996
Office maintenance	2,348	2,698	1,934
Professional fees	3,658	3,616	4,091
Depreciation and amortization	258	579	322
Other	2,715	4,666	5,626
	24,527	**25,513**	**27,740**

Payroll and related expenses are as follows:

€ in '000	For the year ended December 31,		
	2014	2013	2012
Wages and salaries	11,291	9,290	10,476
Unemployment contributions	714	753	1,094
Other social expenses	567	452	398
	12,572	**10,495**	**11,968**

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,		
	2014	2013	2012
Impairment of an investment in a subsidiary [1]	(1,782)	(8,254)	–
Gain on disposal of investment in companies [2]	17,156	–	–
Impairments of investments held for sale [3]	(1,362)	(553)	(632)
Gain from sale of fixed assets [4]	–	8,038	–
Other [5]	2,006	(8,178)	(1,058)
	(16,018)	**(8,947)**	**(1,690)**

1 The amount for 2014 relates to the sale of KWIG; for additional information, see Note 40. The amount for 2013 relates to Impairment of TGI investment in Watek; for additional information, see Note 5C.
2 Refer to Note 9 mainly regarding capital gains that were recognized due to disposal of Chengdu.
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. For additional information see Note 12 and Note 9
.

35 Financial income and expenses

€ in '000	For the year ended December 31, 2014	2013	2012
Income:			
Income from bank deposits	432	1,512	2,073
Revaluation of warrants	461	2,199	2,497
Gain from early repurchase of debentures (see Note 24)	–	–	43,035
Other	1,155	2,474	2,467
Total financing income	**2,048**	**6,185**	**50,072**
Expenses:			
Interest on long-term loans and borrowings	5,057	8,230	10,957
Interest on debentures	17,290	27,327	23,790
Exchange differences, net	(2,353)	12,096	6,519
Other	2,241	4,150	123
Total financing expenses	**22,235**	**51,803**	**41,389**

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 2014 and 2013, 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.

New interest deduction limitation rule regarding Participation Debt as per 2013

As per 1 January 2013, the Company might be subject to a new 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 new 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.

New substance requirement regulations as per 2014
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 2014	Tax rate 2013
Bulgaria	10%	10%
China	25%	25%
Hong-Kong	16.5%	16.5%
Israel	26.5%	25%
Romania	16%	16%
The Netherlands	20-25%	20-25%

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

€ in '000	For the year ended December 31,		
	2014	2013	2012
Current taxes	8,396	7,154	1,375
Deferred taxes (see also E below)	8,089	7,289	(437)
	16,485	**14,443**	**938**

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,		
	2014	2013	2012
Accounting profit (loss)	21,547	(32,353)	(5,970)
Tax expense (tax benefit) computed at the statutory tax rate 25%	5,387	(8,088)	(1,493)
Increase (decrease) in tax expense (tax benefit) due to:			
Carry forwards tax losses for which no deferred tax assets were recognized (In brackets – Utilization of tax losses from previous years for which no deferred taxes were recognized in the past)	4,113	16,625	(3,504)
Adjustment in respect to tax of previous years	1,537	797	108
Share of results of investments accounted using the equity method	(1,678)	(2,588)	(35)
Non deductible expenses (income) and others, net	1,618	4,293	5,379
Impact of different tax rates	351	(654)	(183)
Temporary difference for which no deferred taxes were recognized	2,478	3,031	696
Other	2,679 *	1,027	(30)
	16,485	14,443	938

* 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, 2014	December 31, 2013	Movement for the year ended December 31,		
			2014	2013 *	2012 *
Deferred income tax assets (deferred tax liabilities) with respect to:					
Investment properties	(7,680)	(4,664)	(2,215)	(2,200)	(2,596)
Tangible fixed assets	–	–	–	(273)	–
Financial instruments	(14,115)	(7,849)	(5,613)	(1,984)	(960)
Temporary differences in reserves and allowances	198	(21)	(440)	221	43
Carry forwards losses available for offset against future taxable income	5,650	5,485	(127)	(791)	4,198
Differences in measurement basis	1,088	956	132	(200)	(8)
Accelerated depreciation for tax purposes	(1,654)	(1,654)	–	(2,577)	(27)
Timing differences of projects	(1,738)	(1,639)	–	(753)	(462)
Non-current assets eliminated for rendering of service among group companies	566	566	(99)	(52)	(52)
Other	521	221	273	1,320	301
	(17,164)	**(8,599)**	**(8,089)**	**(7,289)**	**437**

* In 2013 and 2012 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, 2014	December 31, 2013
Net deferred income tax asset	2,898	3,985
Net deferred income tax liability	(20,062)	(12,584)
	(17,164)	**(8,599)**

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, 2014 of Kardan NV company-only amount to €201.8 million (according to the 2013 tax return). The Company received final tax assessments up to and including the year 2013. The Company does not expect the year 2014 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	2014	2013	2012
Net profit (loss) attributable to ordinary equity holders of the parent (€ in thousands)	5,091	(101,333)	(32,852)
Effect of dilution of earnings of group companies	(98)	(893)	(347)
Effect of dilution of convertibles and options of the Company	–	–	–
	4,993	**(102,226)**	**(33,199)**
Weighted average number of ordinary shares for basic earnings per share (in thousands)	110,754	110,576	110,420
Effect of dilution:			
Shares options	–	–	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**110,754**	**110,576**	**110,420**

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, 2014, 2013 and 2012.

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 loss used is nil, €55,304 thousand and €26,423 thousand for the years 2014, 2013 and 2012, 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.

At this time there is instability in the global financial markets, which has affected other global markets. These economic trends could possibly 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. Refer to Note 1A for additional information.

The Group operates primarily in emerging markets. It is vulnerable to the dangers which exist in developing countries, mostly of political nature, and involving local economies. The Group is exposed to fluctuations of supply and demand in the real estate market in which it operates.

The various boards of directors (as applicable) of the various Group companies provide overall risk-management principles, and also the specific policy on certain exposure to risks, 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 aims to ensure capital preservation and maintain healthy capital ratios in order to support its business, maximize shareholder value and monitor the status of bank covenants. Each Group company considers its equity to be its capital.

In addition, capital management objectives aim to ensure 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, in light of 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, refer to Note 1A.

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 of business development) works closely with chief risk managers within the Group, and together they have developed functional lines of responsibility and have overall responsibility for the development of the risk strategy and implementation of principles, frameworks, policies and limits. The Board of Kardan N.V. has the responsibility to monitor the overall risk process. The Board is responsible for 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 corporate levels as well as at country levels or subsidiary levels (e.g. in TBIF). When a country has a risk manager, the risk manager is in charge of all risk-related issues in that country. The country risk manager is guided from a professional point of view by the chief risk manager of the relevant subsidiary.

(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 and asset ownership) 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
Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly 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

The Group operates in various sectors, primarily in emerging markets. The Group is exposed to inherent risks in developing countries, mainly political and other risks which include local economic and legal issues.

Success of the Group in the emerging markets depends on the continued development of these markets, continued development of real-estate business, development of financial services and water infrastructure. Decreased development rates of these markets may have an adverse impact on the business of the Group. It should also be noted that due to high volatility of developing countries, the complex nature of operations, lack of consistent data and agreed-upon definitions providing one set of official information is complex.

The Group conducts some operations in Central-Eastern Europe, mainly in the financial services sector, and in China, where the Group is active in commercial and residential real estate. The Company closely monitors the economic developments in Central-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 and in expectation that the trend of decreasing general and economical differences between Eastern to Western Europe will continue. 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, that opens up to international markets. A change in these 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 contribute significantly to its operating success and handling of the above-mentioned risks:

(1) Skilled and experienced management team and a constant local presence in the countries of operation.
(2) Close 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, and adherence to project completion dates committed to.

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 in China, Africa, 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. Refer to Section C with respect to the Ukraine unrest.

5) Credit risk

Credit risk is a risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk is also applicable for 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 to trade generally with recognized 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 (refer to Note 14 and Section C in this note).

Credit risk, or the risk of counter-parties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. To manage this risk the Group companies periodically assess the financial viability of customers.

A concentration of credit risk exists when changes in economic, industry, or geographic factors similarly affect groups of counter-parties 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 diverse creditworthy counter-parties, 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.

Counter-parties 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 counter-parties.

With respect to trade receivables, the maximum exposure equals to the amount on the face of the statement of financial position (refer to Note 14).

As of December 31, 2014 and 2013, cash and cash equivalent amounted to €148,545 thousand and €118,268 thousand, respectively, and deposits in banks amounted to €7,250 thousand and €14,427 thousand, respectively (refer to Notes 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 in order to decrease its credit risk, which exists primarily in its banking and retail lending segment. As of December 31, 2014, credit risk with respect to loans given by Group companies in the banking and retail lending segment, in the amount of €134,203 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 table 10.4 and the sum of all financial guarantees is presented in table 8.3 below showing the maximum exposure to credit risk for the components of the Group. The maximum exposure is shown 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 relates 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. To manage this mix in a cost-efficient manner, from time to time, the Group enters into interest-rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. In order to manage the risk profile, the relevant management discusses instruments to be used. Hedge accounting is only applied if detailed requirements are met.

The possible exposure to financial assets such as loans to bank customers is considered immaterial due to a compensating impact of financial liabilities.

The tables below present the sensitivity of the consolidated profit and loss of the Group to changes in certain interest rates. The change is calculated using the known interest rate as of the year end as the basis of the calculation.

Further a detailed analysis performed by the Company.

1 The table below presents the sensitivity of the consolidated profit (loss) of the Group before tax due to change in interests rates:

6.1

€ in '000	Sensitivity to change in RMB interest rate			
	Effect on profit and loss			
	+100%	+50%	-50%	-100%
2014	(9,580)	(4,790)	4,790	9,580
	+100%	+50%	-50%	-100%
2013	(1,228)	(614)	614	1,228

7 Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting 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, institutional investors and from financial institutions. The Group raises financing according to needs and market conditions at that time.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2014 and 2013. The liabilities are based on contractual undiscounted cash flow. The tables include repayments of principal amounts as well as interest due. 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, refer to Notes 1 and 27, respectively.

7.1 Liquidity table 2014:

€ in '000	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
Liabilities					
Trade payables	14,611	7,055	–	–	21,666
Other payables and accrued expenses	14,645	28,792	–	–	43,437
Income tax payable	40	8,912	–	–	8,952
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
Employee benefit liabilities	–	–	–	1,502	1,502
Other long term liabilities	–	–	–	2,298	2,298
Total liabilities	**261,026**	**194,220**	**157,148**	**258,568**	**870,962**

7.2 Liquidity table 2013:

€ in '000	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
Liabilities					
Trade payables	5,682	15,614	–	–	21,296
Other payables and accrued expenses	7,675	47,001	–	–	54,676
Income tax payable	203	1,216	–	–	1,419
Banking customers accounts	62,830	90,787	119	26	153,762
Interest-bearing loans and borrowings	1,062	40,337	36,147	67,549	145,095
Other debentures	68,108	2,354	100,608	283,992	455,062
Other financial liabilities	–	80,573	2,900	1,424	84,897
Others	–	1,419	8,378	–	9,797
Total liabilities	**145,560**	**279,301**	**148,152**	**352,991**	**926,004**

7.3 Contingent liabilities and commitments:

€ 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**

€ in '000	2013				
	0-3 months	4-12 months	1 to 3 years	4 to 5 years	Total
Financial guarantees	6	238	534	14	792
Undrawn commitments to lend	9,543	1,142	848	760	12,293
Total	**9,549**	**1,380**	**1,382**	**774**	**13,085**

8 Foreign currency risk

Since the Group conducts business in a variety of countries, it is exposed to a foreign currency exchange rate risk, resulting from exposure to different currencies. The foreign currency exchange rate risk arises from transactions conducted in a currency that is not the functional currency of the relevant company in the Group.

Group companies conduct currency translation transactions at times to hedge the exposure to the foreign currency risk.

As of December 31, 2014:

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	–	–	–	–	–	–	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 borrowing	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**

As of December 31, 2013:

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	–	–	–	–	–	–	56,227	56,227
Investment properties	–	–	–	–	–	–	118,068	118,068
Goodwill	–	–	–	–	–	–	22,513	22,513
Investments in associates	39,233	18,536	5,681	–	–	62	70,841	134,353
Long-term receivables	37,370	–	2,285	68,919	–	7,923	–	116,497
Loans to bank customers	67,769	–	–	–	–	31,145	–	98,914
Derivatives	22	–	–	–	–	–	–	22
Deferred tax assets	–	–	–	–	–	–	3,985	3,985
Inventory	–	–	–	–	–	–	109,957	109,957
Account receivable	20,251	28,963	12,625	3,551	–	1,869	–	67,259
Other receivables	26,659	5,499	6,019	17,442	175	1,116	575	57,485
Restricted bank deposits	11,226	1,813	858	530	–	–	–	14,427
Cash and cash equivalents	62,862	16,321	4,534	26,539	472	7,540	–	118,268
Assets classified as held for sale	–	–	–	–	–	12	6,628	6,640
	265,392	**71,132**	**32,002**	**116,981**	**647**	**49,667**	**388,794**	**924,615**
Liabilities								
Deferred tax liability	–	–	–	–	–	–	12,584	12,584
Interest bearing loans and borrowing	15,006	23,456	834	77,443	–	1,470	–	118,209
Derivatives	273	–	–	–	–	–	–	273
Warrants and options	2,900	750	667	–	–	–	–	4,317
Debentures	3,507	–	391,142	–	–	–	–	394,649
Other long term liabilities	3,150	–	2,091	515	–	1,131	–	6,887
Other payables and accrued expenses	49,777	402	7,034	21,973	17	2,868	27,558	109,629
Trade payables	6,628	4,935	4,557	4,785	209	182	–	21,296
Advances from apartment buyers	308	415	–	–	–	4,132	41,026	45,881
Income Tax payable	431	44	–	939	5	–	–	1,419
Banking customers accounts	116,097	2,066	–	–	–	19,558	–	137,721
Differences between assets and liabilities	**67,315**	**39,064**	**(374,323)**	**11,326**	**416**	**20,326**	**307,626**	**71,750**

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%
2014	(2,284)	(1,142)	1,142	2,284
2013	(1,870)	(935)	935	1,870

8.4

€ in '000	Sensitivity to change in USD\EUR Effect on profit and loss			
	+20%	+10%	-10%	-20%
2014	(1,612)	(806)	806	1,612
2013	(92)	(46)	46	92

8.5

€ in '000	Sensitivity to change in EUR\RON Effect on profit and loss			
	+20%	+10%	-10%	-20%
2014	7,691	3,846	(3,846)	(7,691)
2013	4,700	2,350	(2,350)	(4,700)

8.6

€ in '000	Sensitivity to change in EUR\NIS Effect on profit and loss			
	+20%	+10%	-10%	-20%
2014	(70,569)	(35,284)	35,284	70,569
2013	(79,002)	(39,501)	39,501	79,002

8.7

€ in '000	Sensitivity to change in RMB\EUR Effect on profit and loss			
	+20%	+10%	-10%	-20%
2014	902	451	(451)	(902)
2013	2,920	1,460	(1,460)	(2,920)

8.8

€ in '000	Sensitivity to change in Israeli CPI Effect on profit and loss			
	+3%	+2%	-2%	-3%
2014	(10,135)	(6,757)	6,757	10,135
2013	(11,888)	(7,911)	7,911	11,888

9 Fair value disclosure:

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

9.1 Fair value schedule

€ in '000	Methods of determining fair value	Carrying amount		Fair value		
		2014	2013	2014	2013	Comment
Assets						
Short-term investment		7,250	14,427	7,250	14,427	A
Loans to bank customers	(2)	118,358	98,914	118,327	100,871	F
Long-term loans and receivables		123,229	116,497	123,162	116,497	G
Loans to associates and Joint ventures		43,766	63,512	43,766	63,512	
Liabilities						
Banking customers accounts	(2)	189,469	137,849	189,720	139,855	H
Debentures	(1)	348,485	395,278	220,252	253,770	B
Interest-bearing loans and borrowings		156,727	111,348	156,721	111,348	C
Derivatives, net	(3)	49	273	49	273	E
Other long-term liabilities	(3)	3,111	3,150	3,111	3,150	D
Warrants and options	(3)	1,442	4,317	1,442	4,317	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 €14,637 thousand for 2014 and €629 thousand in 2013.

C As of December 31, 2014 and 2013 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 2014, the related current maturities were in the amount of €18,708 thousand. In 2013, the related current maturities in the amount of €29,735 thousand were included. 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, 2014. 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

9.2 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)
Share based payments and other liabilities	–	(11)	(5,280)	(5,291)

December 31, 2013 € in '000	Level 1	Level 2	Level 3	Total
Financial assets:				
Held for trading securities and other	604	22	–	626
Financial liabilities at fair value through profit or loss:				
Warrant and call option	–	–	(1,417)	(1,417)
Put option	–	–	(2,900)	(2,900)
Claw-back liability	–	–	(3,150)	(3,150)
Other Liabilities	–	(273)	–	(273)

During 2014 and 2013 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, 2014	Fair value gain (loss) recorded in P&L	Gains recorded in other compre-hensive 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)
Share-based payment liability	–	(855)	–	(11,124)	6,699	(5,280)	(855)
Claw-back	(3,150)	–	–	–	–	(3,150)	–
Total liabilities	**(8,134)**	**(213)**	**–**	**(11,124)**	**9,599**	**(9,872)**	**(213)**

€ in '000	As of January 1, 2013	Fair value gain (loss) recorded in P&L	Gains recorded in other compre-hensive income	Addition	Disposal	As of December 31, 2013	Total gains (losses) for the period included in P&L
Derivative assets	12,895	1,510	(2,771)	–	(11,634)	–	1,510
Total assets	**12,895**	**1,510**	**(2,771)**	**–**	**(11,634)**	**–**	**1,510**
Warrants and call options	(2,546)	1,129	–	–	–	(1,417)	1,129
Put option	(2,900)	–	–	–	–	(2,900)	–
Derivative liabilities	(65,852)	(4,952)	3,931	–	66,873	–	(4,952)
Share-based payment liability	(5,584)	2,339	–	–	3,245	–	2,339
Claw-back	–	–	–	(3,150)	–	(3,150)	–
Total liabilities	**(76,882)**	**(1,484)**	**3,931**	**(3,150)**	**70,118**	**(7,467)**	**(1,484)**

9.4 IAS 39 classification of financial assets and liabilities:

€ in '000	December 31, 2014	December 31, 2013
Financial assets:		
Cash, loans and receivables	558,229	538,638
Derivatives that are designated as hedging instruments	–	22
	558,229	**538,660**
Financial Liabilities:		
Financial liabilities presented at amortized cost	427,613	763,957
Financial liability through P&L	6,350	3,150
Derivatives that are designated as hedging instruments	36	273
Put option	1,014	667
Call option	428	3,650
	435,441	**771,697**

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, as implemented by the Bulgarian National Bank for supervisory purposes. The minimum Tier 1 ratio is 4% and the minimum total capital ratio is 8% of all risk-weighted assets including off-balance sheet items and market risk associated with trading portfolios.

Regulatory capital Bulgaria (TBI Bank)

€ in '000	2014	2013
Tier 1 capital	26,268	15,561
Tier 2 capital	–	–
Total capital	**26,268**	**15,561**
Risk-weighted assets	**152,367**	**112,843**
Tier 1 capital ratio	16.89%	13.79%
Total capital ratio	17.24%	13.79%

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	2014	2013
Cash and cash equivalents (excluding cash on hand)	62,060	59,827
Deposits in banks	3,224	3,122
Balances with central banks	16,812	15,546
Loans and advances to clients	129,247	110,946
Finance leases	22,880	26,238
Other loans and long-term receivables	811	13,853
Available-for-sale financial assets	521	–
Non-current assets held for sale	27,352	
Other receivables	3,958	6,841
	266,865	236,373
Financial guarantees	1,279	792
Undrawn commitments to lend	7,771	12,293
	9,050	13,085
Total credit risk exposure	**275,915**	**249,458**

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, 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**

Risk concentration of the maximum exposure to credit risk as of December 31, 2013 (€'000):

€ in '000	Loans and advances to clients	Leasing	Others	Total
Romania	105,458	5,405	175	111,038
Bulgaria	122,328	4,721	1,156	128,205
Others	–	–	10,215	10,215
	227,786	**10,126**	**11,546**	**249,458**

(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, 2014 and excluding the effects of overcollateralization, is as follows:

	2014	2013
Net investment in finance leases	93%	84%
Bank loans granted	21%	14%
Other loans and long-term receivables	–	16%

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 Loans and advances to customers and as of 31 December amount to € 118,358 thousand (31 December 2013 – € 98,914 thousand). The rest of the balance of Loans and advances to customers consists of unsecured loans granted by the consumer credit companies in the Group.

No collateral can be sold or repledged in the absence of default by the owner of the collateral.

Repossessed collateral

During 2014, TBIF repossessed assets (vehicles, machinery and property) with carrying value as of December 31, 2014 of € 4.5 million (2013 – € 5.7 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 TBIF. A 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. A low grade is given to assets which would be past due or impaired but were renegotiated to avoid that. A standard grade is given to all remaining assets. A description of the nature of the remaining assets in the standard grade is included in Notes 10 and 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, 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**

Credit quality per class of financial assets as of December 31, 2013 (€'000) – before impairment:

€ in '000	Neither past due nor impaired				
	High grade	Standard grade	Low grade	Past due/ impaired	Total
Cash in banks	29,655	30,172	–	–	59,827
Deposits in banks	–	3,122	–	–	3,122
Balances with central banks	15,546	–	–	–	15,546
Loans and advances to clients	–	39,718	2,105	118,863	160,686
Finance leases	–	13,936	869	23,877	38,682
Other loans and receivables	–	3,066	4,847	9,619	17,532
Other receivables	–	6,792	–	226	7,018
	45,201	**96,806**	**7,821**	**152,585**	**302,413**

(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, 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**

Aging analysis of past due but not individually impaired loans and receivables as of December 31, 2013 (€'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	2,117	1,482	1,203	53,533	58,335
Finance leases	5,719	665	789	1,665	8,838
Other loans and receivables	–	–	–	3,100	3,100
Other receivables	5	4	32	184	225
	7,841	**2,151**	**2,024**	**58,482**	**70,498**

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	2014	2013
Loans and advances to clients	2,914	2,105
Finance leases	1,144	869
Long-term loans and receivables	–	4,847
Total credit risk exposure	**4,058**	**7,821**

The following table presents the amounts of individually impaired assets:

€ in '000	December 31, 2014	December 31, 2013
Loans and advances to clients	17,960	60,527
Finance leases	19,765	15,040
Long-term loans and receivables	7,199	6,520
Non-current assets held-for-sale	2,256	–
	47,180	**82,087**

(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.

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 assets and liabilities as of December 31, 2014 (€'000):

€ in '000	0-3 months	4-12 months	1-3 years	4-5 years	Thereafter	Total
Loans and advances to clients	32,705	46,171	62,063	16,389	6,095	163,423
Finance leases	5,491	6,759	8,896	3,130	4,446	28,722
Other long-term receivables	811	–	–	–	–	811
Non-current assets held-for-sale	27,352	–	–	–	–	27,352
Trade and other receivables	3,959	–	–	–	–	3,959
Balances with the central bank	16,812	–	–	–	–	16,812
Available-for-sale fin. assets	37	18	506	–	–	561
Bank deposits	–	3,224	–	–	–	3,224
Cash and cash equivalents	67,595	–	–	–	–	67,595
	154,762	**56,172**	**71,465**	**19,519**	**10,541**	**312,459**
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**
Liquidity gap	**5,721**	**(16,240)**	**69,207**	**19,233**	**10,427**	**88,348**

Maturity analysis of TBIF's assets and liabilities as of December 31, 2013 (€'000):

€ in '000	0-3 months	4-12 months	1-3 years	4-5 years	Thereafter	Total
Loans and advances to clients	30,423	48,463	31,921	10,202	5,357	126,366
Finance leases	6,605	8,361	11,540	2,828	2,695	32,029
Other long-term receivables	6,305	3,387	3,005	1,157	–	13,854
Trade and other receivables	6,863	–	–	–	–	6,863
Balances with central banks	15,546	–	–	–	–	15,546
Bank deposits	–	3,122	–	–	–	3,122
Cash and cash equivalents	64,046	–	–	–	–	64,046
	129,788	**63,333**	**46,466**	**14,187**	**8,052**	**261,826**
Bank customer accounts	89,559	64,058	145	–	–	153,762
Loans from banks and others	1,062	4,094	4,234	1,612	–	11,002
Non-convertible debentures	807	2,354	509	–	–	3,670
Other liabilities	8,318	–	–	–	–	8,318
	99,746	**70,506**	**4,888**	**1,612**	**–**	**176,752**
Liquidity gap	**30,042**	**(7,173)**	**41,578**	**12,575**	**8,052**	**85,074**

Bank customers accounts, as of December 31, 2014 include on-demand deposit in the amount of €61,990 thousand (December 31, 2013 - €40,813 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, 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**

Maturity analysis of TBIF's contingent liabilities and commitments as of December 31, 2013 (€'000):

€ in '000	0-3 months	4-12 months	1-3 years	4-5 years	Total
Financial guarantees	6	238	534	14	792
Undrawn commitments to lend	9,543	1,142	848	760	12,293
Total	**9,549**	**1,380**	**1,382**	**774**	**13,085**

TBIF expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Ukraine unrest

The situation in Ukraine during and after 2014 was characterized by instability, caused by the tension in relations with Russia. The group withdrew its business from Crimea area, all contracts were ceased by either repayment of residual value or by early contract closing. No direct losses were recognized. The future developments in Ukraine could adversely affect results and financial position of the Group in a manner not currently determinable. Management continues to monitor closely the political developments in the country. The Group's exposure to Ukraine as of 31 December 2014 amounts to €5,836 thousand of investment in the shares of the joint venture TBIF-Dan Leasing Ltd, which holds 100% of the shares of the Ukrainian company VIP-Rent and € 6,357 thousand of loans granted to these two companies.

39 Related Parties Disclosures

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, 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

As of December 31, 2013:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Trade receivables	14	–	1,186	–
Other receivables and prepayments	15	123	743	–
Loans and long-term assets (including current maturities)	8,9	5,681	57,831	–
Other payables and accrued expenses	26	–	10,052	328

B Transactions

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	–

For the year ended December 31, 2012:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Management fee, net	–	–	1,696	–
General and administrative expenses	33	–	–	1,241
Finance income	35	2,078	1,712	–
Finance expenses	35	–	355	–

1. Management fees for the year 2014, 2013 and 2012 related mostly to management fees from joint ventures by Kardan Land China companies. 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 sister company and a former subsidiary) 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 Israeli CPI (approximately € 119 per quarter).
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). Subsequent to the balance sheet date, the parties agreed to an additional amendment to the services agreement under which the scope of services will reduce and the company will pay a total of € 200 thousands per year, effective from March 2015.

3. Kardan Israel provides various services to the Group 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 2014, the Company paid to Kardan Israel a total of € 25 thousands (2013- € 54 thousands).

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:

Below please find the breakdown of the compensation of the board members of the one-tier structure from May 31, 2012 and the members of the Supervisory Board and management board, prior to the establishment of the one-tier Board.

Compensation of executive management, management board, supervisory board and board of the Company:

1 Fees to board

€ in '000	Short term employee benefits		
	For the year ended		
	December 31, 2014	December 31, 2013	December 31, 2012
P. Sheldon	43	43	25
A. May	36	36	21
M. Groen	31	32	30
A. Schnur	26	26	25
J. Grunfeld	26	23	10
E. Rechter	26	23	–
M. Seinstra	30	27	–
C. van den Bos	31	27	–
J. Krant	–	–	16
I. Fink	–	–	10
J. Pomrenze	–	–	11
H. Benjamins	–	–	11
	249	**237**	**159**

2 Fees to Executive Management from January till 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**

* includes a conditional bonus provision of €725 thousands.

3 Fees to Executive Management from January till 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**

4. Fees to Executive Management from January till December 31, 2012:

€ in '000	Short-term employee benefits	Post-employment pension and medical benefits	Share-based payment transaction	Total
S. Oren (*)	375	–	229	604
E. Oz-Gabber (*)	200	–	5	205
W.van Damme	96	–	–	96
A. Ickovics	118	–	8	126
A. Shlank	–	–	8	8
J. Slootweg (*)	263	222 **	37	522
	1,052	**222**	**287**	**1,561**

* Mr. Oren is the CEO of the Company and a member of the Board. The amounts stated in the table are from the start of his employment in February 2012.

** An additional amount of €36 thousand was paid by the company on account of crisis levy tax.

5. Grant of options by the Company (*):

	No. of options
E. Oz-Gabber	100,000
S. Oren	2,282,135
	2,382,135

* For additional information see also Note 19B.

40 Subsequent events

A. Sale of KWIG

Subsequent to the balance sheet date, 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 (100%) 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 (approximately €86 million, the FX was predetermined to be 6.24 RMB/USD) (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 will 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. The second phase of the transaction is expected to take place before June 30, 2015, when the remaining 25% of the Consideration will be paid to TGA.

The funds of the Consideration will be used by Tahal Group International's for its ongoing business operations and for repayment of debt, the Company is received at least €65 million of net proceeds (after payment of transaction costs, taxes and external loans).

Given that the different negotiations were not sufficiently progressed at the reporting date, and given our past experience with negation processes, and the surrounding uncertainties, towards closing deals in China As of December 31, 2014, management did not consider the transaction to be highly probable and accordingly, in line with IFRS 5, did not classify the investment in KWIG as held for sale and its results as discontinued operations.

Main items from the consolidated statement of financial position of KWIG

€ in '000	December 31, 2014	December 31, 2013
Non-current assets	139,807	117,638
Current assets	24,446	26,145
Non-current liabilities	18,140	27,545
Current liabilities	58,389	42,259

Main items from the consolidated income statement of KWIG

€ in '000	For the year ended		
	December 31, 2014	December 31, 2013	December 31, 2012
Revenue	27,463	24,047	30,920
Gross profit	12,002	12,892	12,552
Operating profit	8,737	9,568	9,135
Net profit	4,125	4,045	3,679

Following the completion of the transaction the Company expects to recognize a gain of €13 million net of tax, resulted by a reclassification of foreign currency translation reserve from OCI to the income statement.

With respect to impairment of goodwill related to the investment in KWIG, please refer to Note 12B.

B. FIMI loan repayment

In March 2015 TGI fully repaid FIMI the loan principle of USD 25 million (approximately €22.6 million) together with accrued interest as of that date. As a result, in the first quarter of 2015, TGI is expected to record a financial expense of approximately €2.5 million due to the early repayment.

C. Early Repayment of Debentures

Subsequent to the balance sheet date, on March 31, 2015 the Company early repaid interest amounting to approximately €4.3 million relating to series A and approximately €14.1 million of interest to series B. Additionally, the Company early repaid principal amounting to approximately €3.3 million relating to series A (3.69% of the outstanding series) and approximately €3.4 million of principal to series B (1.23% of the outstanding series). The total repayment amounted to approximately €25.1 million.

Additionally, the Company announced on April 2, 2015 that it has not yet reached a final agreement on the final wording of the deeds of trust (for additional information see Note 1). The Company estimated that the publication of the deeds of trust will be postponed by approximately 30 days from that date.

D. Executive employees grant of options in TGI

Subsequent to the balance sheet date, in March 2015, the board of directors of TGI decided to grant one management member of the TGI options to purchase 2.0 % of TGI's share capital (fully diluted). The total benefit 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 (%)	(-0.053)%
Expected term of options (years)	4
Weighted average share exercise price ($)	5,978
Weighted average share value ($)	6,137

E. Foreign currency impact

During the first quarter of 2015 and just before publishing these financial statements, a material appreciation (circa 10%) has occurred in the NIS/EUR exchange rate. Since the Company's debentures, whose carrying value including interest amounted to €348.5 million as at December 31, 2014 are denominated in NIS, the Company expects it will recognize a material financial expense during Q1/2015. Also, during the same period a material appreciation (circa 10%) has occurred in the RMB/EUR exchange rate. Since a large part of Company's assets are denominated in RMB, the Company expects it will record a material positive other comprehensive income during Q1/2015. For additional information refer to the sensitivity to exchange rates disclosure in Note 38.

Company-only Dutch GAAP Financial Statements

Statement of Financial Position

December 31, 2014 – After Appropriation of Net Result

€ in '000	Note	December 31, 2014	December 31, 2013
Assets			
Non-current assets			
Tangible fixed assets		127	147
Investments in subsidiaries	5A	456,880	467,937
Loans to subsidiaries		20	20
		457,027	**468,104**
Current assets			
Cash and cash equivalents	6	605	16,224
Short-term investments	7	796	853
Other receivables and derivatives	4	536	1,109
		1,937	**18,186**
Total assets		**458,964**	**486,290**
Equity and liabilities			
Equity	8		
Share capital		23,041	23,041
Share premium		208,002	208,117
Property revaluation reserve		21,033	34,300
Foreign currency translation reserve		23,943	12,296
Other reserves		10,765	(4,680)
Non-controlling interest holders transaction reserve		15,178	21,104
Treasure shares		(2,625)	(2,786)
Retained earnings (accumulated deficit)		(206,939)	(225,297)
		92,398	**66,095**
Non-current liabilities			
Debentures	9	258,226	344,363
Options and other long-term liabilities	10	–	2,900
		258,226	**347,263**
Current liabilities			
Current portion of debentures	9	90,630	71,238
Other payables	12	17,710	1,694
		108,340	**72,932**
Total equity and liabilities		**458,964**	**486,290**

See accompanying Notes.

Company-only Dutch GAAP Income Statement

Year ended December 31, 2014

€ in '000	Note	2014	2013
Net result from investments for the year	5B	31,079	(56,931)
Other income (expense), net	13	(25,988)	(44,402)
Net profit (loss)		**5,091**	**(101,333)**

See accompanying Notes.

Notes to the company-only Dutch GAAP Financial Statements

December 31, 2014

1 General

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

These Company-only Dutch GAAP financial statements are meant to be the statutory financial statements.

2 Significant Accounting Policies

The Company-only Dutch GAAP statutory financial statements are drawn up in accordance with accounting policies generally accepted in the Netherlands (Dutch GAAP).

In accordance with the provisions of article 362-8 of Book 2 of the Netherlands Civil Code, the accounting policies used are the same as those used in the Notes to the consolidated financial statements, prepared under IFRS as endorsed by the European Union. In accordance with Article 402 of part 9, Book 2 of the Netherlands Civil Code, the company-only Dutch GAAP income statement is presented on a condensed basis, as its income statement is already included in the consolidated IFRS income statement. Investments in subsidiaries are stated at net asset value, determined applying the IFRS accounting policies as described in the consolidated financial statements.

3 Intangible Fixed Assets

a Intangible fixed assets include other intangibles created in various transactions. The movement is as follows:

2014

€ in '000	2014	2013
Balance as of January 1	–	6,508
Amortization	–	(1,085)
Impairment losses	–	(5,423)
Balance as of December 31	**–**	**–**

For additional information see also Note 12 of the consolidated financial statements.

Other intangibles

€ in '000	2013 Total	Movement	2014 Total
At January 1			
Cost	14,100	–	14,100
Less accumulated amortization and impairment losses	(14,100)	–	(14,100)
At December 31	**–**	**–**	**–**

Other intangibles

€ in '000	2012 Total	Movement	2013 Total
At January 1			
Cost	14,100	–	14,100
Less accumulated amortization and impairment losses	(7,592)	(6,508)	(14,100)
At December 31	**6,508**	**(6,508)**	**–**

b For additional information regarding the impairment of the other intangible asset refer to Note 12 to the consolidated financial statements.

4 Derivatives

The derivatives were all related to swap transactions on the Company's debentures. Further details of these derivatives are described in Note 27 to the consolidated IFRS financial statements.

€ in '000	2014	2013
Opening balance as of January 1	–	12,895
Revaluation of derivatives	–	(1,261)
Sale of derivatives	–	(11,634)
	–	–

The Company's principle financial instruments consist of debentures and cash deposits. The main purpose of these financial instruments is to raise funds for the Group's operations.

During 2013, the Company sold a hedge instrument (a cross currency swap). The proceeds from the sale amounted to €11,634 thousand. As a result from the sale, the related hedge reserve in equity, will be released over the remaining term of the debentures. The amounts released from the sold hedge instruments amount to €1,315 thousand and €1,229 thousand for the years 2014 and 2013 respectively.

Due to the sale of cross currency swap financial instruments, the company's exposure to changes in the Israeli shekel increased. The exposure relates primarily the debentures of the Company, which are denominated in New Israeli Shekel.

5 Financial Fixed Assets

A Investments in consolidated subsidiaries

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

€ in '000	2014	2013
Balance as of January 1	467,937	569,125
Investment in a subsidiary (A)	72,797	29,743
Sale of subsidiaries (Emerging Investment IX and X)	–	(37)
Change in treasury shares (held by a subsidiary)	26	61
Change in capital reserves (B)	19,436	3,692
Dividend distributed	(134,395)	(84,224)
Share in profit/(loss) of investments for the year	31,079	(50,423)
Balance as of December 31	**456,880**	**467,937**

(A) In 2013 the Company purchased 185 shares of TGI, which were issued during 2013 to a former position holder in TGI for the amount of €663 thousands. For additional information see Note 19 to the consolidated financial statements.
In 2014 the Company capitalized a shareholder's loan to TGI in the amount of €50,830 thousands.
(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	2014	2013
Gross investment in subsidiaries, as of December 31	459,343	470,561
Treasury shares	(2,463)	(2,624)
Net investment in subsidiaries, as of December 31(*)	**456,880**	**467,937**

* Under Dutch GAAP, the goodwill is presented separately from the investment.

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

Names of significant subsidiaries	2014 Ownership %	2014 Total value € in '000	2013 Ownership %	2013 Total value € in '000
GTC Real Estate Holding B.V.	100	297,369	100	267,007
Kardan Financial Services B.V.	100	37,763	100	29,230
Tahal Group International B.V. *	98.43	99,431	98.42	47,490
Emerging Investments XII B.V.	100	22,341	100	124,234
Kardan Asia B.V.	100	(24)	100	(24)
Total investments in significant consolidated subsidiaries **		**456,880**		**467,937**

* See Note 5A.
** 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.

As described in Note 5 above, the Company's loans to its subsidiaries Tahal Group International, Kardan Financial Services and GTC Real Estate Holding B.V were assigned to Emerging Investments XII B.V. As of December 31, 2014 and 2013 the Company has an outstanding loan balance with its subsidiary Emerging Investment XII B.V in the amount of €97 million (2013: €121 million) (Including interest) which was granted for sole purpose of purchasing the Company debentures series A and B. The Company has 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 and 2013, the Company off-set the loan balance against its liability.

B Net result from investments for the year

€ in '000	2014	2013
Net profit/(loss) of investments for the year	31,079	(50,423)
Impairment losses	–	(5,423)
Amortization	–	(1,085)
Net result as presented in the income statement	**31,079**	**(56,931)**

6 Cash And Cash Equivalents

Cash and cash equivalents comprise mainly short-term deposits.
The average interest earned in 2014 on short-term deposits is 0.55%-1.5% (2013 – 0.2%-1.5%).

7 Short-term Investments

€ in '000	December 31, 2014	December 31, 2013
Deposits	732	–
Trust account	64	853
	796	**853**

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 2014, the average interest rate earned was 0.55% (2013 – 0.52%).

8 Dutch GAAP 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, 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
Profit (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 Netherlands civil code requirements law *	–	–	(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 '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, 2013	**23,041**	**208,165**	**57,802**	**8,156**	**(462)**	**20,128**	**(150,656)**	**166,174**
Other comprehensive income (expense)	–	–	–	4,142	(4,218)	–	–	(76)
Loss for the period	–	–	–	–	–	–	(101,333)	(101,333)
Share-based payment	–	–	–	295	–	1,766	–	2,061
Issuance of treasury shares	–	(48)	–	(13)	–	–	61	–
Disposal of a subsidiary	–	–	–	(343)	–	–	343	–
Transaction with non-controlling interest	–	–	–	–	–	(790)	–	(790)
Other	–	–	–	59	–	–	–	59
Reclassification according to requirements *	–	–	(23,502)	–	–	–	23,502	–
Balance as of December 31, 2013	**23,041**	**208,117**	**34,300**	**12,296**	**(4,680)**	**21,104**	**(228,083)**	**66,095**
Comprises:								
Balance before treasury shares	23,041	208,117	34,300	12,296	(4,680)	21,104	(225,297)	68,881
Treasury shares	–	–	–	–	–	–	(2,786)	(2,786)
Balance as of December 31, 2013	**23,041**	**208,117**	**34,300**	**12,296**	**(4,680)**	**21,104**	**(228,083)**	**66,095**

* 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 for investments in foreign operations, and equity gains in associates and joint ventures (as disclosed in footnote **).

** As of December 31, 2014 and 2013, amounts of €27,226 and €12,345 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.

9 Debentures

Composition:

€ in '000	December 31, 2014	December 31, 2013	Interest rate %
Debentures Series A	96,109	135,917	4.45
Debentures Series B	255,456	283,014	4.9
	351,565	**418,931**	
Less – discount	(1,984)	(2,381)	
Less – debt issuance expenses	(725)	(949)	
	348,856	**415,601**	

Maturities:

€ in '000	December 31, 2014	December 31, 2013
First year – current maturities	90,630	71,238
Second year	90,630	89,632
Third year	42,576	89,632
Fourth year	42,576	42,107
Fifth year	42,576	42,107
Sixth year onwards	42,577	84,215
Total	**351,565**	**418,931**

A Repayment of debentures:

In December 2013, the Company made an early repayment of NIS 21,895,392 par value Debentures Series A and 46,404,084 par value Debentures Series B (net of the relative portion of debentures held by the Company's subsidiaries) for a total amount of approximately €34 million (approximately NIS 164 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 N.V.

B. For information regarding the debt settlement of the Company and the debenture holders refer to Note 1 in the consolidated financial statements.

10 Share plan

A. In September 2013 (the 'Grant date'), the Board of the Company approved a stock-option plan according to which the Company will grant to several employees of the Company 250,000 options exercisable in 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 equals to NIS 6.136. The options are 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 the 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.

B. In March 2012, the supervisory board of the Company approved a grant of 119,759 non-listed shares of the Company ('the Unreleased Shares') under the 2010 Share Plan to executives and employees of the Company.

According to the Share Plan, the Unreleased Shares would be held by the Company as custodian for a period of two years and will be released for trade at the moment the participant has accumulated (at least) five consecutive years of service with the Company since January 1, 2009.

The participants may elect to receive up to 50% of this incentive by way of a cash payment, subject to the approval of the Company's board of directors. The grant was approved by the Annual General Meeting of Shareholders in May 2012.

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.

During April 2013, 23,945 shares were issued and deposited with a trustee for the former Board of Directors member. Subsequent to the balance sheet date, in January 2014, 73,005 shares were granted to the former members of the management board and to an employee, from treasury shares that were held by the Company subsidiary – see also Note 19 to the consolidated financial statements.

11 Taxes on income

The Company has received final tax assessments for the years 2003 to 2010.

Net profit for the year amounts to €5.1 million (2013: €101million), including net result from investments of €31.1 million profits (2013: €57 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 2013, Kardan N.V. has estimated tax losses of €201.8 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 and financing activities. 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, exceed that balance in the financial year the losses were incurred, unless it can be demonstrated that the increase of the financing activities was not predominantly aimed at the compensation of the holding and financing losses. Kardan N.V. received confirmation from the tax authorities that its tax losses available for carry forward as per December 31, 2010 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 €1,772 thousand as of December 31, 2014 (as of December 31, 2013 amounted to €2,100 thousand). As of December 31, 2013 no deferred tax assets are presented in the balance sheet.

For more information regarding to taxes on income refer to Note 37 to the Consolidated Financial Statements.

12 Other Payables

€ in '000	December 31, 2014	December 31, 2013
Accrued expenses (mainly accrued interest on debentures) [1]	15,170	1,264
Others	2,540	430
	17,710	**1,694**

1 During December 2013, as part of the early repayment of the debentures (for additional information see Note 9 above) the Company repaid all the accumulated interest.

13 Other Income (Expense)

In 2014, other income (expense), net comprise mainly of finance expenses of €20,144 thousand, general and administrative and other income and expenses amounting to €5,508 thousand.

In 2013, other income (expense), net comprise mainly of finance expenses of €37,192 thousand, management fees income of €995 thousand, general and administrative and other income and expenses amounting to €8,219 thousand.

The finance income is the result on repurchase of the Company's debentures for which a separate line is opened in the income statement, also refer to Note 9.

14 Audit Fees

The table below summarizes the fees invoiced to the Company's by its auditors, Ernst & Young Accountants and others in:

€ in '000	Ernst & Young	Others	Total
2014			
Audit services - Kardan NV	453	–	453
Audit services - subsidiaries	776	–	776
Total statutory audit fees	**1,229**	**–**	**1,229**
Other services relevant to taxation	59	39	98
Other non-audit services	75	54	129
Total non-audit services	**134**	**93**	**227**
Total	**1,363**	**93**	**1,456**

€ in '000	Ernst & Young	Others	Total
2013			
Audit services - Kardan NV	492	–	492
Audit services - subsidiaries	842	100	942
Total statutory audit fees	**1,334**	**100**	**1,434**
Other services relevant to taxation	55	23	78
Other non-audit services	54	6	60
Total non-audit services	**109**	**29**	**138**
Total	**1,443**	**129**	**1,572**

15 Remuneration of Management Board and Supervisory Board, and Board of Directors

The Company's Board received remuneration in 2014 and 2013 as described in note 39 to the consolidated IFRS financial statements.

16 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.

17 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

M. Groen

A. Schnur

Y. Grunfeld

E. Rechter

M. Seinstra

C. van den Bos

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 2014 result

The proposal is to deduct the result of 2014 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 2014.

Subsequent events

For subsequent events please refer to Note 40 of the consolidated financial statements.

Independent Auditor's Report

To: Shareholders of Kardan N.V.

Report on the audit of the financial statements 2014

Our opinion

We have audited the accompanying statutory financial statements 2014 of Kardan N.V. (also referred to as 'the Company'), Amsterdam, the Netherlands. The financial statements include the consolidated IFRS financial statements and the company-only Dutch GAAP financial statements.

In our opinion:
- The consolidated IFRS financial statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2014, and of its result and its cash flows for 2014 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 company-only Dutch GAAP financial statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2014 and of its result for 2014 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated IFRS financial statements comprise:
- The consolidated statement of financial position as at December 31, 2014.
- The following statements for 2014: the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement.
- The notes, comprising a summary of significant accounting policies and other explanatory information.

The company-only Dutch GAAP financial statements comprise:
- The company-only statement of financial position as at December 31, 2014.
- The company-only income statement.
- The notes, comprising a summary of significant accounting policies and other explanatory information.

Material uncertainty related to going concern

We draw attention to Note 1 to the financial statements which indicate that the Company had, on a stand-alone basis, and on the consolidated basis a working capital deficit of €106 million and €65 million, respectively, per December 31, 2014 which is mainly due to the current maturities of the Company's debentures to repay € 101.2 million and € 94.5 million in August 2015 and February 2016, respectively. Subsequent to the balance sheet date, an interim arrangement was reached and approved by the debentures holders in January 2015. The Company's management is of the opinion that the chances for approving and finalizing the final debt settlement in accordance with the principles mentioned in Note 1 are high. However, the approval and finalization of the debt settlement is not under the control of the Company and is dependent on the approval of third parties. These conditions indicate the existence of a 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. Our opinion is not modified in respect of this matter.

The going concern assumption is affected by subjective elements including the projected cash flows, negotiations with third parties and the assessment of the probability to finalize the debt settlement. The going concern assumption therefore involves significant judgment. The Company monitors its liquidity continuously and prepares two-year cash flow forecasts on a quarterly basis.

We performed procedures to evaluate the assumptions and methodologies used by the Company to prepare cash flow forecasts and to assess the chances of finalizing the debt settlement. We discussed these with the Board of Directors on a quarterly basis and evaluated the evidence in relation to the debt settlement, sale of assets, available cash resources and other assumptions in the cash flow forecasts.

Disclosure of this item is included in note 1 of the financial statements.

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 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Kardan N.V. in accordance with the Auditor Independence Regulation for Assurance Engagements (Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten, 'ViO') and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the Regulation Code of Conduct and Professional Practice Accountants (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.

Materiality

Misstatements may arise from fraud or error and are considered material if they, individually or in the aggregate, may reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgment, we determined the materiality for the statutory financial statements as a whole at EUR 3,750,000. Materiality was based on approximately 0.5% of total consolidated assets, taking into account the expected sale of certain assets.

We have also taken into account misstatements and/or possible misstatements that, in our opinion, are material for qualitative reasons to users of the financial statements.

We agreed with the board of directors that unadjusted misstatements in excess of EUR 188,000, identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of group audit

Kardan N.V. is the parent company of a group of entities. The financial information of this group is included in the IFRS consolidated financial statements of Kardan N.V.

Given the fact that we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

Our group audit mainly concentrated on significant group entities in China, Israel and Bulgaria which entails the operational Real Estate, Infrastructure Project and Assets, and Banking and Retail lending activities of the Group. We have selected 27 entities which represent the principal business units of the Group. We have performed audit procedures, mainly by foreign EY audit colleagues, at 22 entities. We used the work of other auditors when auditing 5 foreign entities. We performed review procedures or specific audit procedures at the other group entities.

By performing the procedures mentioned above at group entities, together with additional procedures carried out at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the IFRS consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the statutory financial statements. We have communicated the key audit matters to the Board of Directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the statutory financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the 'Material uncertainty related to going concern' section of our report we selected the following key audit matters.

Valuation of contract work in progress
The valuation of contract work in progress is affected by subjective elements including estimated costs and projected revenue, whether or not from additional services, progress and disputes. The project revenue recognition process, including determining the appropriate cut-off of revenues, involves significant management estimates. We therefore identified revenue recognition in relation to percentage of completion and project recoverability as a significant risk.

We tested internal controls, performed detailed procedures on individually significant projects, including discussions with project leaders, and evaluated management's assumptions in the determination of amongst others the percentage of completion of a project, budget versus actual for both revenue and costs, and provisions for loss making projects.

Disclosures of this item are included in note 4.H and note 13 of the financial statements.

Valuation of investment property
The valuation of the investment property is important to our audit as it represents a significant judgment area and an important part of the total assets of the company. The valuation of the investment property is highly dependent on estimates. We therefore identified the valuation of investment property as a significant risk. The group policy is that property valuations are performed by external experts at least once a year. These valuations are amongst others based on assumptions, such as estimated rental revenues, discount rates, occupancy rates, historical transactions, market knowledge, developers risk and historical transactions.

Amongst others, we have considered the objectivity, independence and expertise of the external appraisers. We furthermore assessed the correctness of the property related data as used as input for the valuations and utilized our real estate valuation specialists to assist us in analyzing the valuations and challenging the underlying assumptions. We further focused on the adequacy of the disclosures on the valuation of investment property.

Disclosures of this item are included in note 4.G and note 7 of the financial statements.

Valuation of loans to bank customers
The valuation of the bank customers credit portfolio is important for our audit as it represent a significant part of the total assets of the Company. The determination of the loan loss provision of the portfolios is dependent on estimates made by management. We therefore identified the valuation of loans to bank customers and the completeness of the loan loss provision as significant risks. The Company has a process for determining the loan loss provision and assesses the credit quality frequently. Each quarter management prepares, based on historical information, the collective loan loss provisioning calculation including incurred losses and loss ratios. For individually significant portfolios, management determines the provision on a case by case basis based on valuation models.

We performed procedures to gain a detailed understanding of the correctness and completeness of the loan loss provision. We tested internal controls, performed detailed procedures on the individually significant loan portfolios and the collective loan portfolios, verified whether the accounting of the provision is adequate and assessed the loan related data and challenged the assumptions used in the valuation models. We further focused on the adequacy of the company's disclosure regarding the loan loss provisions and the related risks such as credit risk, liquidity risk and the aging of the loans to bank customers.

Disclosures of this item are included in note 4.L and note 10 of the financial statements.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors of Kardan N.V. is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report of the Board of Directors in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors deems necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. As part of the preparation of the 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 referred to, the Board of Directors is required to prepare the financial statements using the going concern basis of accounting, unless it 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 financial statements.

The Board of Directors is responsible for oversight of the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means that we may not have detected all errors and fraud.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included, among other things:

- Identifying and assessing the risks of material misstatement of the 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 that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or overriding 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, whether a material uncertainty exists

related to events 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 to the related disclosures in the financial statements in our auditor's report, or, if such disclosures are inadequate, to modify our auditor's report. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may result in the company no longer being able to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements fairly represent the underlying transactions and events.

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 findings 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 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.

Report on other legal and statutory requirements

Report on the Report of the Board of Directors and other information

Pursuant to the legal requirement under Part 9 of Book 2 of the Dutch Civil Code (regarding our responsibility to report on the Report of the Board of Directors and the other information):
- We have no deficiencies to report as a result of our examination as to whether the Report of the Board of Directors, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil 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 Report of the Board of Directors, to the extent we can assess, is consistent with the financial statements.

Engagement

We were engaged by the Annual General Meeting of May, 2003 as auditor of Kardan N.V. with effect from the audit for the 2003 financial year, having served as Kardan N.V.'s external auditor since that date.

Amsterdam, April 15, 2015

Ernst & Young Accountants LLP

signed by W.P. de Pater

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, 2014 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, 2014

€ in '000	Additional information	December 31, 2014	December 31, 2013
Assets			
Non-current assets			
Tangible fixed assets		127	147
Financial fixed assets			
Investments in consolidated subsidiaries		456,880	467,937
Loans to consolidated subsidiaries		20	20
		456,900	**467,957**
Current assets			
Cash and cash equivalents	2	605	16,224
Short-term investments	3	796	853
Other receivables	4	536	1,109
		1,937	**18,186**
Total assets		**458,964**	**486,290**
Equity and liabilities			
Equity attributable to equity shareholders			
Share capital		23,041	23,041
Share premium		208,002	208,117
Property revaluation reserve		21,033	34,300
Other reserves		10,765	12,296
Foreign currency translation reserve		23,943	(4,680)
Non controlling interest holders transaction reserve		15,178	21,104
Treasury shares		(2,625)	(2,786)
Accumulated deficit		(206,939)	(225,297)
		92,398	**66,095**
Long-term liabilities			
Debentures		258,226	344,363
Warrants		–	2,900
		258,226	**347,263**
Current liabilities			
Current maturities of debentures		90,630	71,238
Other payables		17,710	1,694
		108,340	**72,932**
Total equity and liabilities		**458,964**	**486,290**

Additional Information from the Company's Income Statement

€ in '000	For the year ended December 31,		
	2014	2013	2012
Net result from investments for the year	31,079	(56,931)	(70,456)
Gain from repurchase of debentures by a subsidiary	–	–	40,764
Total revenues	**31,079**	**(56,931)**	**(29,692)**
General and administrative expenses, net	5,508	3,982	5,396
Total expenses	**5,508**	**3,982**	**5,396**
Profit (loss) from operations before financing expenses	25,571	(60,913)	(35,088)
Financing income (expenses), net	(20,146)	(37,177)	1,419
Income tax expense (benefit)	334	3,243	(817)
Net profit (loss) for the year	**5,091**	**(101,333)**	**(32,852)**

Additional Information from the Company-only Statement of Comprehensive Income

€ in '000	For the year ended December 31,		
	2014	2013	2012
Net profit (loss) for the year	**5,091**	**(101,333)**	**(32,852)**
Foreign currency translation differences	30,701	(4,218)	(7,330)
Change in hedge reserve, net	(3,754)	4,142	2,541
Other comprehensive income (expense) for the year to be reclassified to profit or loss in subsequent periods	26,947	(76)	(4,789)
Total comprehensive income (expense)	**32,038**	**(101,409)**	**(37,641)**

Additional Information from the Company-only Cash Flow Statement

€ in '000	For the year ended December 31,		
	2014	2013	2012
Cash flow from operating activities of the Company			
Profit (loss) for the year	5,091	(101,333)	(32,852)
Adjustments to reconcile Loss to net cash of the Company			
Change in fair value of hedge instruments	–	(1,510)	(9,992)
Financial expense	23,561	19,495	7,589
Dividend received	78,557	75,474	20,681
Gain from early repurchase of debentures	–	–	(40,764)
Share-based payment	191	276	287
Equity losses	(31,079)	56,931	70,456
Changes in working capital of the Company			
Change in receivables	(730)	22	877
Change in payables	1,474	(821)	(474)
Cash amounts paid and received during the year			
Interest paid	(2,997)	(20,256)	(28,549)
Interest received	10	151	3,000
Net cash provided by (used in) operating activities of the Company	**74,078**	**28,429**	**(9,741)**
Cash flow from investing activities of the company			
Short term investments, net	57	(286)	4,992
Collecting (granting) of loans from (to) subsidiaries, net	–	–	69,030
Investments in subsidiaries	(21,966)	(24,127)	(11,310)
Net cash provided by (used in) investing activities of the Company	**(21,909)**	**(24,413)**	**62,712**
Cash flow from financing activities			
Investment in shares of a subsidiary	–	(126)	–
Repurchase of debentures	–	–	(76,387)
Proceeds from sales of hedge instruments	–	11,634	52,155
Repayment of long term debt	(67,788)	(50,537)	(5,756)
Net cash used in financing activities of the Company	**(67,788)**	**(39,029)**	**(29,988)**
(Decrease) / increase in cash and cash equivalents of the Company	**(15,619)**	**(35,013)**	**22,983**
Cash and cash equivalents at beginning of the period	16,224	51,237	28,254
Cash and cash equivalents at end of the period of the Company	**605**	**16,224**	**51,237**

Notes to the Additional Information

1 Financial State

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, infrastructure projects, infrastructure assets, banking and retail lending, and others 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, 2014 was 2,554 (December 31, 2013 – 2,875) of which 154 are part of the real estate sector, 987 are part of the infrastructure segments, 1,395 are part of the banking and retail lending sector and 18 which are part of the headquarters.

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

These non statutory financial statements were approved by the board of the Company on March 25, 2015.

Financial position

As at December 31, 2014, the Company had, on a stand-alone basis and in the consolidated financial statements, a working capital deficit of €106 million and €65 million respectively, which is mainly due to the current maturities of the Company's Debentures to repay € 101.2 million and € 94.5 million in August 2015 and February 2016, respectively.
In September 2014, the Board decided to accept the offer of the trustees and the representatives of the Debenture Holders (series A and B) of the Company ('the Debentures') to begin negotiations in order to examine the possibilities of an arrangement with the Debenture Holders, which included postponement or rescheduling the repayments of the Debentures, while repaying the debt in full.

Subsequent to the balance sheet date, an interim arrangement was reached in stages and was approved by the Debentures Holders in January 2015. The final settlement is expected to be approved by the Debentures Holders in April 2015.

The amendment of the deeds of trust outlined in section C below is subject to the approval of the Debenture Holders by a special majority. The Company's management is of the opinion that the chances for approving and finalizing the final debt settlement in accordance with the principles set forth in section C below are high in view of the fact that the Company was successful in selling assets in accordance with its plan and intends to fully pay the interest which was deferred from February 2015 by the end of Q1 2015.
However, the approval and finalization of the debt settlement is not under the control of the Company and is dependent on the approval of third parties. These conditions indicate the existence of a 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 financial statements do not include any adjustments to the carrying amounts and classifications of assets and liabilities that would result if the Company was unable to continue as a going concern.

The Company's plans for the repayment of principal and interest of the Debentures in 2017 and onwards, in case that the final debt settlement will be approved, include mainly disposal of assets and / or receipt of dividends from its subsidiaries. The Company's management and the Board estimate that the Company has the ability to obtain the required resources for repaying its obligations and continue its business operations in the future.

A. Debt settlement between the Company and its Debenture Holders

The interim arrangement which was approved on January 6, 2015, includes two phases, as follows: the first phase includes an immediate amendment to the deeds of trust and postponement of principal and interest payments from February 2015 to August 2015 with additional interest and linkage differences as described below. In the second phase a period of 90 days has been given to the Company, the trustees and the Debenture Holders in order to reach a final debt settlement which will include a comprehensive amendment to the deeds of trust according to the proposed principles that were presented to the Debenture Holders as detailed below.

Interim arrangement 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.

Establishment of pledges in favor of the debenture holders

According to the interim arrangement, the Company committed to establish and register 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. These pledges were registered on February 17, 2015.

Final debt settlement main principles

The final debt settlement ('the Final Settlement') constitutes new deeds of trust to series A and B and replaces the original deeds of trust, including all related amendments. The 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 Final Settlement which will be detailed in the amended deeds of trust which were approved by the general meetings of the debenture holders of each series ('the Amended Deeds of Trust').

Principal and interest payments according to the Final Settlement

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 to the debenture holders

The Company should allocate to the Debenture Holders, without consideration, shares of the Company, which shall constitute 12% of the Company's issued and paid in capital immediately after the issuance. Due to legal limitations applicable to the Company according to the Dutch law, it was agreed that the Company will issue, upon signing of the Amended Deeds of Trusts or close to that date, 9.9% of the Company's issued and paid-in capital immediately after the issuance. Additional 2.1% will be issued 12 months following the date of the first shares issue.

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.

In addition, the Company will establish 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, shall be 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 will provide 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 from Chinese Banks 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 5C) 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 and concluded that the changed terms are not substantially different and therefore accounting for the debt settlement if finalized will be as a modification and not as an extinguishment.

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).

2 Cash and Cash Equivalents

€ in '000	December 31, 2014	December 31, 2013
EURO	594	14,651
NIS	10	1,563
USD	1	10
	605	**16,224**

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 2014 (in 2013 –0.2%-1.5%).

3 Short-Term Investments

€ in '000	December 31, 2014	December 31, 2013
Pledged deposit	732	–
Deposit in a trust account	64	853
	796	**853**

The Deposit in the trust account in 2013 is held by a trustee for future payment on account of the debentures liability in January and February 2014.

The average interest earned in 2014 and 2013 was 0.5%.

4 Other Receivables

€ in '000	December 31, 2014	December 31, 2013
Intercompany debtors	416	561
Prepaid expenses	120	221
Other	–	327
	536	**1,109**

5 Details of material financial assets in accordance with IAS 39

€ in '000	December 31, 2014	December 31, 2013
Financial assets:		
Loans to subsidiaries	20	20
Receivables	536	1,109
Short term investments	796	853
Cash and cash equivalents	605	16,224
	1,957	**18,206**

6 Expected realization periods of material financial assets and liabilities grouped in accordance with IAS 39 classifications:

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 assets as of December 31, 2013

€ in '000	Up to 1 year	1-2 years	2-3 years	Total
Cash and short term Investments	17,077	–	–	17,077
Loans and receivables	1,109	–	–	1,109
	18,186	**–**	**–**	**18,186**

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

Financial liabilities as of December 31, 2013

€ 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 *	73,794	106,369	102,063	50,360	48,297	90,404	471,287
Payables	1,694	–	–	–	–	–	1,694
Put Option	–	2,900	–	–	–	–	2,900
Total	**75,488**	**109,269**	**102,063**	**50,360**	**48,297**	**90,404**	**475,881**

* Including interest

The substantial majority of the Company's financial assets, other than cash, are denominated in EURO.

7 Taxes on income

For more 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, 2014	December 31, 2013
Debentures held by subsidiary	13,657	22,760
The largest amount of loans and current debts during the year	20	300,482
Collaterals in favor of investee companies *	861	7,620

* Collaterals are in respect of loans undertaken by subsidiaries.

B Transactions with investee companies

€ in '000	December 31,		
	2014	2013	2012
Management fees	522	922	1,105
Guarantee fees	22	71	89
General and administrative expenses	467	552	635
Financial income	–	–	10,622

9 Additional information

a Early repayment of debentures
In December 2013, the Company early repaid NIS 21,895,392 par value Debentures Series A and NIS 46,404,084 par value Debentures Series B (net of the relative portion of debentures held by the Company subsidiaries) and the total accumulated interest till that day. For additional information refer to note 24 of the consolidated financial statements.

b Early repayment of debentures subsequent to the balance sheet date
In January and February, 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 additional information see note 24 of the consolidated financial statements.

c. Repurchase of debentures
As of the balance sheet date, the Company holds through its subsidiaries NIS 273,012,229 par value Debentures Series A (which represent 45.9% of the par value of Debentures Series A) and NIS 144,457,732 par value Debentures Series B (which represent 12.6% of the par value of Debentures Series B).

d. Off-set of financial instruments
As of the balance sheet date, the Company granted a loan to its fully owned subsidiary Emerging Investment XII B.V. for the sole purpose of purchasing the Company debentures series A and B of 97,061 par value debentures series A and 120,682 par value debentures series B. The Company has 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 and 2013, the company off-set the loan balance (including interest) against its liability.

Board of Directors

P. Sheldon

S. Oren

A. May

M. Groen

A. Schnur

Y. Grunfeld

E. Rechter

M. Seinstra

C. van den Bos

Glossary

AGM
Annual General Meeting of Shareholders

Annual Report
The Board Report and the Statutory Financial Statements 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

BOO
Build Operate Own: a term used with respect to a license agreement for water facilities
After construction the ownership of the facility remains with the constructor.

BOT
Build Operate Transfer: a term used with respect to a license agreement for water facilities.
After construction and exploitation. The ownership of the facility is handed over to the client.
The average tenure of a license is approximately 25 years

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

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

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
Senior officers of the Company who support the CEO in executing his duties

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.

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 residential real estate and mixed-use projects (retail combined with residential)

KWIG
Kardan Water International Group, a wholly owned subsidiary of Tahal Assets, located in China. In January 2015 the sale of KWIG was announced. In March 2015, 75% of the sale was concluded.

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

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

Principle Debt Settlement
An agreement in principle with the Debenture Holders regarding debt restructuring of the Debentures comprising two phases:

1) an amendment to the deeds of trust for debentures Series A and Series B, which in headline entails postponing the February 2015 interest and principal payments by six months until August 2015 for both Series (as approved by the Debenture Holders on January 6, 2015).

2) the drafting of amendments to the deeds of trust, to be approved by the Debenture Holders, according to proposed principles, which in headline entail to postpone the majority of payment of principals by 24 months against certain conditions,restrictions and collateral.

At the date of publication of this Annual Report, the amendments have not yet been finalized and approved by the Debenture Holders.

RAS Committee
The remuneration, appointment and selection committee of the Board of Kardan

SOHO

Small office home office apartments. This term is used by KLC to reflect residential apartments with a business appropriation

Special Committee

A sub-committee of the Board, assigned to address a specific topic

Tahal Assets

The business unit of Tahal Group International which focuses on developing water assets such as wastewater, water treatment and water supply plants

Tahal Projects

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

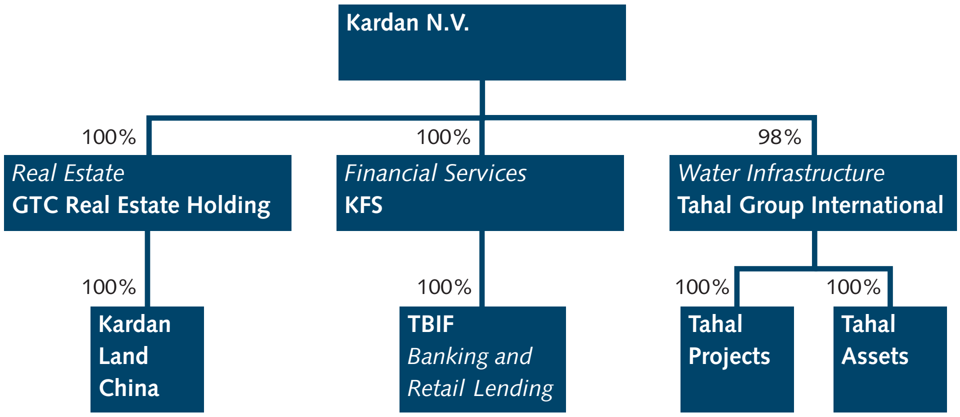
Tahal Group International B.V., a 98% subsidiary of Kardan N.V.

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

Organogram Kardan N.V. (April 2015)



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Corporate Governance Statement

2014

KARDAN N.V.

This Corporate Governance Statement 2014 forms an integral part of the Annual Report 2014 of Kardan N.V.

Corporate Governance Statement 2014 Kardan N.V.

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

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

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

Pursuant to the Decree, companies listed in the Netherlands are required to comply with the Dutch Corporate Governance Code adopted on December 9, 2003, as amended per January 1, 2009 (the 'Code'), or in case of non-compliance explain the reason thereof.
The full text of the Code can be found on www.commissiecorporategovernance.nl, as well as the final report 'Corporate governance in motion' of the Corporate Governance Code Monitoring Committee (the 'Committee'), published on October 1, 2013.

1 Definitions used in this Statement shall have the meaning as set out in Kardans' Annual Report 2014.

The Code sets out sound business principles of corporate governance and contains certain normative standards that pertain, among other things, to the relationship between the various corporate bodies of a company. The Code primarily pertains to a two tier governance system and provides limited guidelines on how to apply the Code to a one tier governance system. However, according to some guidelines provided by the Committee in the above-mentioned report, its main advice is to apply the same principles that refer to (members of) the supervisory board to non-executive directors of a board, irrespective of other responsibilities that these non-executive directors may have. The Committee acknowledges that it is possible that a company cannot apply a principle of the Code that relates to supervisory board members directly to non-executive board members. If this is the case, a company should explain why it cannot apply such principle and relate it to the company-specific situation. The mere fact that a company has a one tier governance system does not constitute a satisfactory explanation.

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

Deviations from the Code

Management board, chapter II: For the explanation of the Code in view of the one tier governance system, this chapter is applied as to pertain to either the Board as a whole or the CEO only, as applicable and indicated per provision.

Provision II.1.1 – term of appointment: the CEO is appointed for a maximum period of five years. Given the fact that the activities and the business model of Kardan are by nature long term, it is deemed in the best interest of Kardan and its stakeholders to include in the Articles the provision that CEOs are appointed for a maximum period of five years. The intention of this is to establish a stable, long-term commitment of management. Although this term constitutes a deviation from the Code, Kardan is of the opinion that it contributes to the (long-term) best interests of Kardan and its stakeholders and as such adheres to the broader sense and interpretation of the Code.

Provision II.1.2 – matters subject to approval: The Board is of the opinion that Kardan complies with this provision since the subject matters of this provision fall outside the scope of the delegated daily management by the Board to the CEO. As such, the subject matters of this provision are subject to the approval of the whole Board, as formalized in the Board Regulations. With respect to item (d) (approval of corporate social responsibility issues) it is noted that the Board fully supports the fact that Environmental and Social Governance (ESG) behavior is an essential element in the future success of the operations of the Group and that emphasis is laid on creating long-term, sustainable solutions throughout the Kardan Group (see the chapter on ESG on page 67 of the Annual Report 2014) as part of Kardan's business. When required, the CEO will seek the approval of the Board with respect to ESG regarding the operational and financial objectives of Kardan and the strategy designed to achieve these objectives. On matters that fall within the managing authority of the CEO, such as operational and/or investor relations matters, the CEO may decide on an ESG approach without the Board's prior approval.

Provisions relating to principle II.2 – remuneration: In view of the one tier governance system, this principle II.2 is applied to the remuneration of the CEO, being the only executive Board Member. It is noted that, in deviation of the Code, a proposal for said remuneration is drafted by the non-executive Board Members, to be approved by the General Meeting of Shareholders as the ultimate corporate body in the Company.

Provision II.2.4 – options: In deviation of the Code, the CEO can exercise 25% of the options granted to him after two years from the effective grant date. The Code prescribes that options may not be exercised within three years from the date of grant. Further, the number of options to be granted is, in deviation of the Code, not linked to achieving pre-defined targets. However, given the fact that half of the options can be exercised only after the three-year period, the nature of the option schedule is such that the CEO will only benefit after Kardan has achieved a satisfactory long-term performance.The deviations from the Code were the result of the negotiation process with the CEO.

Provision II.2.6 and II.2.7 – exercise price option and the amendment thereof: In deviation of the Code, the exercise price of the CEO's options is the average of the share price of Kardan on the five days prior to the effective grant date (the day that the supervisory board proposed the nomination of the CEO to the General Meeting of Shareholders). The Code prescribes that the exercise price is related to the average share price on the five days prior to the day of grant. In the period between February 20, 2012 and the AGM 2012, the share price of Kardan experienced a steep decrease in value. The non-executive Board Members reconsidered the exercise price of the option package and deemed it fair to propose a revision of the option package to the EGM 2013, in deviation of the Code. The revised exercise price was calculated by applying the ratio of the initial exercise price compared to the share price on February 20, 2012, to the share price on the day before the AGM 2012. The Board was of the opinion that the decrease in share price which occurred prior to the appointment of the CEO was beyond his control and that in order to provide a genuine incentive to create future value, which the Board considers to be in the best interest of Kardan and its stakeholders, the CEO should be rewarded, incentivized and bear responsibility as from his appointment by the AGM 2012 onwards, i.e. as of May 31, 2012. The revised option exercise price was still well above the market price of Kardan's shares at both the date of the approval of the new terms by the Board, as well as at the date of the EGM 2013 when the revised option package was adopted.

Supervisory board, Chapter III: For the explanation of the Code in view of the one tier governance system, this chapter is applied to the non-executive Board Members.

Provision III.2 – Independence: The Board comprises a majority of independent non-executive Board Members. In deviation of the Code, three non- executive Board Members are non-independent, being Mr. Grunfeld, Mr. Rechter and Mr. Schnur. The Board is of the opinion that, given the fact that they are the founders of Kardan and as a consequence have extensive knowledge of the sectors in which Kardan operates, their contribution to the Board is of considerable value and thus justifies the deviation from the Code.

Provision III.3.3 and III.4.1.a – Introduction: Kardan does not consider it necessary to make a standard introduction program mandatory for each newly appointed non-executive Board Member. The Board fully underwrites the principle that new non-executive Board Members should be properly introduced to Kardan and its businesses, but takes the view that such introduction need not necessarily be contained in a fixed, standard, program. If a newly appointed non-executive Board Member or the Chairman considers it necessary or desirable, he or she may follow an introduction program that covers general financial and legal matters, financial reporting within the Kardan Group and/or any specific aspects that are unique to Kardan and its business activities and to the collective and individual responsibilities of non-executive Board Members.

Provision III.3.5 – Limitation on terms of appointment: Kardan has no limitation set on the number of terms that non-executive Board Members can serve. Given the extensive knowledge that some non-executive Board Members have of Kardan and its businesses, Kardan considers it in its best interest and that of its stakeholders not to limit the number of terms that non-executive Board Members may serve. It is noted that the General Meeting of Shareholders will at all times be the designated body to appoint and reappoint non-executive Board Members.

Provision III.6.4 – Conflict of interest: Transactions between Kardan and legal or natural persons holding at least 10% of the shares in Kardan's capital: Kardan takes the view that suitable protection in this respect is provided for given the provisions on conflicts of interest included in its Articles and the Board Regulations, in combination with the provisions on transactions with Holders of Control (as defined in the Articles and as further described in the 'Related Party Transactions' section on page 77 of the Annual Report 2014).

Provision IV.3.1 – Meetings with analysts etcetera: As Kardan frequently engages in meetings with its (debt and equity) investors, it does not announce, for practical reasons, all meetings with analysts, presentations to analysts and presentations to investors in advance on Kardan's website or by means of press releases, nor does the Company enable all shareholders and / or debt holders to follow these meetings and presentations in real time. Presentations with respect to the quarterly financial results are publicly announced and posted on Kardan's website before the investor conference call regarding the respective quarterly results takes place. In the event that Kardan will give a special presentation, this presentation will be posted on Kardan's corporate site in accordance with the applicable rules and regulations.

Corporate Governance Statement 2014

Provision IV.3.4 – Analyst meetings, presentations to investors and direct discussions with investors:
Kardan cannot guarantee in advance that discussions with investors will not take place during a closed period before the publication of regular financial information. It is noted, however, that discussions with investors shall always be conducted based on information which is already in the public domain and in compliance with applicable rules and regulations, in particular those concerning selective disclosure, price sensitive information and equal treatment.
During 2014, frequent meetings took place between Kardan and the trustees and representatives of the holders of the Company's Debentures Series A and Series B, as the Company's cash position and the upcoming payment obligations of Kardan to its Debenture Holders led to discussing and negotiating proposed principles with respect to debt restructuring. Given the importance of the outcome of these meetings to the Company and the Kardan Group as a whole, this interest prevailed over adherence to this provision in the Code.
Further, contact with potential new investors may be deemed necessary at any given time when opportunities arise. Kardan will, in line with its Investor Relations Policy (as published on its website), adhere to only discussing information with respect to Kardan that is already publicly available and that can be found on the corporate website and/or in publicly available media/platforms.

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

Kardan believes that taking risks is an integral part of doing business and can create opportunities which in turn can lead to positive results. Consequently, Kardan believes that a proper 'risk culture' throughout the Kardan Group, entailing that all employees share a joint responsibility in being risk aware and acting accordingly is essential and that management should lead the way through example.

Kardan has a consistent and structured management information system in place, based on monthly management reports submitted and presented by the subsidiaries to enable sound analyses and decisions. As Kardan is listed on both the Euronext Amsterdam as well as the Tel Aviv Stock Exchange, it has solid governance structures in place and is obliged to report on the quarterly results of the Kardan Group, which – among other things – entails that Executive Management discusses strategic and budgetary issues with management and boards of its subsidiaries at least on a quarterly basis.

The risk management framework that Kardan uses has been developed on the basis of the original principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), updated since according to COSO IC 2013, which aims to develop and maintain internal control systems to enhance the likelihood of a company achieving its targets and to be able to adapt effectively to changes in the business and operating environments. Kardan considers this framework to constitute a link between strategy, policy-making and execution and to be instrumental in obtaining a clear view on its business environment and the challenges it faces. Kardan's risk management framework and approach provides it with reasonable assurance that the Group's objectives can be achieved.

The Board holds at least one formal strategy (and budget) meeting per year. The strategy and business development of Kardan, and consequently of its subsidiaries, are recurring topics on the agenda of Board meetings during the year. If deemed appropriate, for instance, due to changing market circumstances, the corporate strategy and related objectives may be adjusted. The Executive Management discusses the objectives for the coming year(s) with the managers of the subsidiaries in order for them to include these targets into their budgets and strategic plans. Moreover, the Board and the Executive Management require the subsidiaries to identify business and operational risk factors and controls in their budgets and plans. After approval of the subsidiaries' budgets and strategic plans, the Executive Management prepares the final budget and strategic plan for the Board, which includes the main risk categories and the relating control measures that have been determined during a risk assessment session. This session is conducted by the Executive Management in close cooperation with risk management professionals. Subsequently, the Executive Management may decide to integrate some of the identified risk categories and controls in ongoing management information systems.

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 addition, Kardan 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 and until the date of this report, 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 have made a statement in the Israeli Annual Report that as of December 31, 2014 the control over financial reporting and disclosure is effective ('the Control Statement').

The effectiveness of the internal controls over financial reporting and disclosure was also audited by the Group's external auditors and can be found on page 65 of the Annual Report 2014. Kardan's (main) subsidiaries also provide Kardan with a representation letter on a yearly basis.

3. Functioning of the General Meeting of Shareholders: Shareholders and Shareholders' Rights

General Meeting

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

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

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

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

Voting

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

As a general rule, resolutions are adopted by an absolute majority of the votes cast. Dutch law and the Articles can stipulate that certain resolutions are adopted by a qualified or special majority of the votes cast. An example hereof is the approval of Related Party Transactions as described on page 77 of the Annual Report 2014.

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

Proposed resolutions

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

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

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

4. The composition and functioning of the Board

Board and CEO

Kardan is managed by a one tier Board, which currently comprises one executive Board Member, being the CEO and eight non-executive Board Members. The Board reports to the General Meeting of Shareholders of Kardan.

The Board Members have a shared responsibility for Kardan's general course of affairs and are collectively responsible for: a) Kardan's strategy and objectives; b) Kardan's financial status; c) Kardan's organizational structure; d) the publication of prospectuses or shelf prospectuses by Kardan; e) the financial and periodic reports issued by Kardan;

f) the fairness and reasonableness of the highest remunerated employees within the Kardan Group; and g) issuance of debenture series and/or other securities.

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

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

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

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

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

Chairman

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

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

Appointment and composition of the Board

Following a recommendation of the RAS Committee, the Board has the right to make nominations for Board candidates that are subsequently put forward for appointment by the General Meeting of Shareholders. Each non-executive Board Member is appointed for a period of four years, but may be reappointed for a new term of office. The Board itself determines its size, provided that the Board must comprise at least three members and a maximum of fifteen. Each Board Member must be capable of assessing the broad outline of Kardan's overall policy and must have the specific expertise required for the fulfillment of the duties assigned to the role designated to him/her in the Board profile. In addition, a Board Member must have sufficient time to allocate to the duties required from him/her.

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

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

Biographies

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

All non-executive Board Members are appointed for a period of four years ending no later than at the end of the General Meeting of Shareholders held in the fourth year after the year of their appointment. The executive Board Member (CEO) is appointed for a period of five years.

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

Cor van den Bos (1952) – Vice-Chairman
Vice-Chairman of the Board, non-executive Board Member and Chairman of the Audit Committee
Nationality: Dutch
Mr. Van den Bos has a master's degree in business economics and in auditing/accountancy from the University of Rotterdam. He started his extensive career at AEGON, a Dutch insurance company, where he ultimately served on the executive board, being responsible for, among other things, general insurance business lines, ICT, and investments and finance.
Mr. Van den Bos consecutively served as a member of the executive boards of Athlon Groep N.V., a Dutch listed leasing company and SNS Reaal N.V., a bank and insurance company, which became listed during his tenure. Mr. Van den Bos is currently Supervisory Board member at ASR Nederland N.V. (Chairman of the Audit Committee), C.E.D. Holding b.v. (Chairman) and Noordwijkse Woningstichting (Chairman).

Max Groen (1946)
Non-executive Board Member and member of the Audit Committee
Nationality: Dutch
Mr. Groen holds a master's degree in economics and accounting from the University of Amsterdam, the Netherlands, and has a postgraduate degree in accountancy. Mr. Groen worked as an auditor for over 30 years, ultimately as partner of KPMG Business Advisory Services/KPMG Accountants in Amsterdam. Prior to being appointed as a non-executive Board Member of Kardan, Mr. Groen served as a member of the Kardan's supervisory board from July 2005 until May 2012, when Kardan adopted a one tier governance system. Mr. Groen served as the Chairman of Kardan's Audit Committee until March 2014.
Mr. Groen is currently a member of the Appeals Committee of the Netherlands Foundation Collective Maror Funds.

Yosef Grunfeld (1942)
Non-executive Board Member
Nationality: Israeli
As one of the founders of the Kardan Group, Mr. Grunfeld has a long-term involvement in the Kardan Group and currently holds board positions in, for example, Kardan Israel Ltd., Kardan Yazamut (2011) Ltd. (neither part of the Kardan Group) and Universal Motors Israel Ltd. He currently holds 19.22% of the issued share capital and voting rights of Kardan.
Additionally, Mr. Grunfeld has a voting agreement with Mr. Schnur and Mr. Rechter, which represents a combined total of approximately 40.60% of the voting rights (excluding their voting rights on account of their respective indirect shareholdings in Kardan Israel Ltd., which holds 11% of the issued share capital of Kardan). Given the above, Mr. Grunfeld is considered a non-independent, non-executive Board Member within the meaning of the Code.

Albert May (1955)
Non-executive Board Member, chairman of the RAS Committee and member of the Audit Committee
Nationality: Belgian
Mr. May holds a master's degree in applied economics from the University of Brussels, Belgium, and started his career in the banking industry. Mr. May has extensive experience in corporate and investment banking and covered Central and Eastern Europe (CEE) and the Middle East and Africa (MEA) in various senior positions for the past 15 years. He was Vice-Chairman of Banking for the CEE region at Citigroup until 2012, after having been Head of Corporate and Investment Banking for the same region. Until May 2008, he was the Chief Operating Officer for the CEEMEA region for Citi. Between 1997 and 2003, Mr. May lived in Poland and was responsible for corporate finance and investment banking activities at Citibank Handlowy Warsaw (BHW). Prior to that, he worked in Senior Banking positions in Brussels, Luxembourg, Paris, New York and London, working on international transactions (M&A, equity, debt, restructuring). He is the founder and Managing Partner of EastWest Capital(EWC) a Boutique Investment bank focused on Entrepreneurs and UHNWI active in Europe and Africa. As of January 2015, Mr. May is a non-executive director and member of the Audit Committee in Turkasset, a specialized Turkish Financial institution.

Shouky Oren (1959) – CEO
Chief Executive Officer and executive Board Member
Nationality: Israeli
Mr. Oren holds a BA in economics and an MBA from the Hebrew University of Jerusalem, Israel. He started his career with the Ministry of Finance of Israel and over the years, has held various senior positions in the banking industry, ultimately as CEO of Bank Leumi in Switzerland. In 2007, he was appointed as Accountant General of the State of Israel, in charge of all government finance affairs. This included all public-private partnership projects, domestic and foreign debt, government guarantees to the private sector, as well responsibility for using and applying all

financial tools to mitigate the financial crisis that started in 2008. He has gained knowledge of and broad experience in the international and Israeli capital markets.

Eytan Rechter (1949)
Non-executive Board Member
Nationality: Israeli
As one of the founders of the Kardan Group, Mr. Rechter has a long-term involvement in the Kardan Group and currently holds board positions in various companies including Kardan Israel Ltd., Kardan Technologies Ltd., Kardan Vehicles Ltd. and Kardan Yazamut (2011) Ltd. (none of which are part of the Kardan Group).
Mr. Rechter currently holds 3.66% of the issued share capital and voting rights of Kardan. Additionally, Mr. Rechter has a voting agreement with Mr. Grunfeld and Mr. Schnur, which represents a combined total of 40.60% of the voting rights (excluding their voting rights on account of their respective indirect shareholdings in Kardan Israel Ltd., which holds 11% of the issued share capital of Kardan). Furthermore, Mr. Rechter holds 94,137 Debentures Series B as issued by Kardan. Given the above, Mr. Rechter is considered a non-independent, non-executive Board Member within the meaning of the Code.

Avner Schnur (1948)
Non-executive Board Member
Nationality: Israeli and Belgian
Mr. Schnur has served as President of Astra Diamonds Manufacturers Ltd. since 1986. He also served as a director in various other Israeli companies that are either subsidiaries of, or associated with, the Kardan Group and presently serves as board member of Kardan Yazamut (2011) Ltd. (not part of the Kardan Group). Mr. Schnur has been a member of the supervisory board of Kardan as of July 2009 until May 31, 2012, when Kardan adopted a one tier governance system. Mr. Schnur has extensive knowledge of the Kardan Group and currently holds 17.72% of the issued share capital and voting rights of Kardan. Additionally, Mr. Schnur has a voting agreement with Mr. Grunfeld and Mr. Rechter which represents a combined total of 40.60% of the voting rights (excluding their voting rights on account of their respective indirect shareholdings in Kardan Israel Ltd. which holds 11% of the issued share capital of Kardan). Given the above, Mr. Schnur is considered a non-independent, non-executive Board Member within the meaning of the Code.

Machalina (Elly) Seinstra (1951)
Non-executive Board Member and member of the RAS Committee
Nationality: Dutch
Mrs. Seinstra holds a master's degree in Dutch law and is specialized in regulatory matters, contract law, banking law and corporate law, and has broad experience with international regulated companies in legal management positions, such as MeesPierson N.V., Fortis Bank N.V., Shell International B.V. and TNT N.V. Mrs. Seinstra has been active as a legal consultant to a broad variety of companies in the Netherlands since mid-2007.

Reappointment Scheme

Name	Participation in board committees	Year 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	AGM 2016
Mr. Y. Grunfeld		1942	Israeli	Non-executive Non-independent	February 6, 2013	AGM 2017
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	AGM 2017
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

Board meetings

The Board meets at least every quarter, principally at the Company's head office in Amsterdam and where necessary, by conference call.
Each Board Member has one vote and a resolution is adopted if a simple majority of the Board Members votes in favor. However, the Board strives to resolve matters with full consensus. The Chairman does not have a casting vote.

Internal regulations and conflicts of interest of Board Members

Kardan's Articles include extensive provisions on conflicts of interest between Kardan and Holders of Control (as defined in the Articles), which are also applicable if these Holders of Control hold a position on the Board (for a further description of these provisions, see the section 'Related Party Transactions' in the chapter 'Governance and Compliance' in the Annual Report 2014).

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.

Board Committees

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

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

Audit Committee

The Audit Committee comprises of Mr. Van den Bos (Chairman), Mr. Groen, Mr. Sheldon and Mr. May. Its tasks are:

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

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

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

RAS Committee

The RAS Committee comprises of Mr. May (Chairman), Mr. Sheldon and Mrs. Seinstra.

The tasks of this committee include, among other things, (i) preparing a remuneration policy for the Board, to be adopted by the General Meeting of Shareholders, (ii) preparing a remuneration policy for the Executive Management, to be adopted by the Board, (iii) preparing a proposal concerning the individual remuneration of the CEO and non-executive Board Members, to be adopted by the General Meeting of Shareholders, (iv) preparing the Board's remuneration report for inclusion in Kardan's annual report, (v) preparing the selection criteria and appointment procedures for Board Members, (vi) periodically evaluating the scope and composition of the Board and (vii) periodically evaluating the functioning of individual Board Members and the members of executive management; (viii) proposing (re)election of the CEO and non-executive Board Members to the Board, to be adopted by the General Meeting of Shareholders; and ix) supervising the policy of the CEO in relation to the selection and appointment of the executive management.
In accordance with a newly implemented policy on the remuneration of senior management of the Kardan Group, the RAS Committee approves, on an annual basis, a list of senior managers whose remuneration is deemed to be governed by the policy and assesses and advises the CEO on the packages of such senior managers prior to such package being offered.

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

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

a. An overview of Kardan's capital structure is included on pages 168 and 169 of the Annual Report 2014.
b. Shares in the capital of Kardan are freely transferable.
c. Substantial shareholdings within Kardan are included on page 14 of the Annual Report 2014.
d. There are no special control rights attached to Kardan's shares.
e. The CEO and several senior officers has been granted options to purchase shares in Kardan, which is further described on page 80 of the Annual Report 2014.
f. There are no limitations to voting rights on the shares of Kardan's capital.
g. Kardan is not aware of any agreements that might result in a limitation of the transferability of the voting rights on shares in Kardan's capital.
h. The provisions regarding the appointment and dismissal of Board Members, and the provisions regarding amendments of the Articles are described in Kardan's Articles, which are available on Kardan's website.
i. The General Meeting of Shareholders may authorize the Board (i) to purchase shares in its own capital, and (ii) to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares. Further information can be found in Kardan's Articles and in the minutes of the relevant General Meetings of Shareholders of Kardan with respect to authorizations that have been granted to the Board.
Authorization for Kardan's purchase of its own shares was granted for a period of eighteen months at the AGM 2014.
At the AGM 2012, the authorization to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares was granted for a period of five years, taking into account the limits provided by law and the Articles and provided that no more than 10% of the non-issued shares of the Company's authorized capital can be issued annually.
j. There are no important agreements to which Kardan is a party and which will come into force, be amended or be terminated under the condition of a change of control over Kardan as a result of a public offer. [2]
k. There are no agreements between Kardan and Board Members or other employees that entitle them to any compensation rights upon termination of their employment as a result of the completion of a public offer on Kardan's shares.

Amsterdam, April 15, 2015

Board of Directors

P. Sheldon (Chairman)

S. Oren (CEO)

C. van den Bos (Vice-Chairman)

M. Groen

Y. Grunfeld

A. May

E. Rechter

A. Schnur

M. Seinstra

2 According to the Principle Debt Settlement, in case a prohibited controlling shareholder, as defined below, has joined the Company (or the control of the Company has passed into the hands of a prohibited controlling shareholder), the debenture holders shall have cause for immediate repayment of the Debentures Series A and B. A "Prohibited Controlling Shareholder" signifies a controlling shareholder which a meeting of debenture holders (which was convened at the request of the holder/s who own/s at least 20% of the series) decided – by a majority of at least 75%, within 21 days of the date in which the Company reported that the shareholder has joined the Company as a controlling shareholder (or that he has assumed control of the Company) – that it opposes his joining the controlling shareholders (or assuming the control) on reasonable grounds pertaining to his personal reputation, such as having committed a flagrant offense or if he does not meet the lawful conditions for serving as a director in an Israel-based publically traded company.

Organogram Kardan N.V. (April 2015)