

Financial position

1. Following is a summary of Kardan N.V.'s consolidated balance sheet (in EUR thousands)

	30.06.2018	30.06.2018	31.12.2017	Notes
Total balance sheet	646,569	637,257	668,576	The decrease in total balance sheet compared to December 31 2017, is mainly due to the decrease in apartment inventory.
Current assets	342,666	322,983	362,952	The decrease in current assets compared to December 31, 2017, is mainly due to the decrease in apartment inventory following the delivery of building B in the Europark Dalian project.
Non-current assets	303,903	314,274	305,624	No material change compared to December 31, 2017.
Current liabilities	557,389	434,093	367,046	The increase as at June 30, 2018 is a result of the classification of the debentures as current liabilities.
Current maturities of debentures	286,433	-	95,452	In February 2018 the Company did not make the scheduled payments to the Debenture Holders series A and B, and therefore the Company classified the entire outstanding debt as current liability.
Other current liabilities	270,956	434,093	271,594	The decrease in the other current liabilities compared to December 31, 2017 is mainly due to the decrease in the advances from apartment buyers following the delivery of building B in Europark Dalian. As of June 30, 2017 the Europark Dalian loan was classified as short term.
Non-current liabilities	112,181	197,761	302,356	The decrease compared to December 31, 2017 and March 31 2017, is due to the classification of the entire debentures balance to current maturities as of June 30 2018.
Debentures	-	190,179	188,708	The decrease compared to December 31, 2017 and March 31 2017, is due to the classification of the entire debentures balance to current maturities as of June 30 2018.
Long term Interest-bearing loans and borrowings	104,496	2,529	104,933	As of June 30, 2017 the said loan for the Dalian project was classified as current maturities.
Other non-current liabilities	7,685	5,053	8,715	No material change compared to December 31, 2017.
Equity attributable to equity holders of the parent	(25,789)	1,076	(4,368)	The decrease in equity compared to December 31, 2017, is mainly due to the impact of the adoption of new accounting standards (IFRS 9) for the first time, as described in note 3 to the financial statements, and due to foreign currency translation differences (other comprehensive expense).

2. Cash Flow Statement analysis (in EUR thousands)

	H1 2018	H1 2017	Q2 2018	Q2 2017	FY 2017	Notes
Net cash provided by (used in) operating activities	5,674	(32,465)	1,965	(7,203)	(50,196)	<p>Cash flow from operating activities comprised the following:</p> <p>In H1 2018, €16 million were provided for changes in payables and receivables which were partially offset by exchange rates and finance expenses.</p> <p>In H1 2017, €25 million were used for changes in payables and receivables as well as exchange rates and finance expenses. In addition, the Company repaid approximately €4 million of remaining interest on its debentures which fell due in February 2017.</p> <p>In 2017, approximately €27 million were used for payment of interest and taxes as well as decrease in payables and receivables.</p>
Net cash provided by (used in) investing activities	(11,064)	(1,274)	(4,174)	1,431	11,594	<p>In the reporting period, most of the Group's investments was in short-term deposits.</p> <p>In H1 2018, €14 million were used for investments in short term deposits and were partially offset by collection of loans to companies accounted for using the equity method.</p> <p>In H1 2017, most of the deficit is related to acquisition of fixed assets of €3.5 million in the Water Infrastructure activities, partially offset by proceeds from the sale of fixed assets in the Real Estate activities;</p> <p>In 2017, approximately €20 million generated from the sale of Star Pumped Storage, and were partially offset by investments in fixed assets in the water infrastructure activities.</p>
Net cash provided by (used in) financing activities	15,882	15,410	2,413	6,732	25,098	<p>In H1 2018 €14.9 million were proceeds from short term credit provided to the water infrastructure activity.</p> <p>In H1 2017 €14.9 million were proceeds from short term credit.</p> <p>In 2017 €11.2 million net were proceeds from long term loan in the real estate activity and €8.2 million were proceeds from short term credit provided to the water infrastructure activity.</p>

Kardan finances its operations by the Company's debentures, the sale of assets and dividend received from subsidiaries (for details, see also section 3 below regarding cash flow forecast). The subsidiaries' activities are being financed by equity, credit provided by banks and other financial institutions, loans from the parent company, proceeds from the sale of apartments in the Real Estate activities and from cash surplus in projects in the Water Infrastructure activities. For details regarding material credit in the Group see section 4 of the "Significant Events and Developments" part below. For details regarding credit balances as of the balance sheet date refer to section 1 above.

The average balance of long-term and short term loans for the period is not significantly different than their book value as at June 30, 2018 and amounted to €107 million.

The average balance of trade receivables and trade payables for the period is €8 million and €1.5 million, respectively.

3. Cash Flow Forecast

The review report of the external auditors as of June 30, 2018, includes a mandatory emphasis of matter regarding the ability of the Company to continue as going concern (see also Note 2 to the condensed interim consolidated financial statements). In addition, the Company has a negative working capital on a consolidated and stand-alone basis and an ongoing negative cash flow from operating activity. These are considered "warning signs" as defined in Regulation 10 (b) (14) of the Israeli Securities Authority regulations. Therefore, the Company provides a cash-flow forecast (stand-alone) for a period of two years as starting July 1, 2018.

As announced by the Company, payments to the debenture holders that were scheduled for February 2018 were not executed on time and were not carried out by the date of this report. As at the date of this report, the Company is negotiating with the debenture holders for rescheduling the payments.

In view of the fact that the date for making the payments to debenture holders that were scheduled for February 2018 passed without the Company having repaid these payment, and that the terms of a debt settlement have not yet been agreed with the debenture holders, the Company cannot estimate the date on which such payments will be made. Accordingly, the cash flow forecast below includes, inter alia, the payments to the debenture holders that were scheduled for February 2018, as well as the other payments to the debenture holders for the next two years in accordance with their existing contractual obligations, without consideration of a debt settlement, if and when agreed (not including interest on arrears). Therefore, the Company emphasizes that the assumptions used by the Company in deriving the cash flow forecast should be read carefully.

Forecast cash flow	July 1, 2018 – December 31, 2018	January 1, 2019 - December 31, 2019	January 1, 2020 – June 30, 2020
	in €millions		
Cash and cash equivalents at the beginning of the period	3.0	(91.1)	(90.0)
From operating activities			
General and administrative expenses	(1.8)	(3.6)	(1.8)
From investing activities			
Sale of shares and holdings in subsidiaries (2) – (5)	-	95.0	-
Dividend distributions (6)	15.0	13.0	5.0
Loan repayments and release of deposits (7)	3.5	4.0	-
Total Resources	19.7	17.3	(86.8)
From financing activities (8) - (11)			
Principal and interest payment of debentures – Series A	48.0	-	-
Principal and interest payment of debentures – Series B	62.8	107.3	101.0
Total Uses	110.8	107.3	101.0
Cash and cash equivalents at the end of the period	(91.1)	(90.0)	(187.8)

Main Assumptions to the Cash Flow Forecast

- The cash flow forecast has been jointly prepared for Kardan NV (company-only) and its wholly owned subsidiaries GTC Real Estate Holding BV, Kardan Financial Services BV, and Emerging Investments XII BV, as the treasury of these companies is centralized. With respect to limitations regarding the transfer of funds between the companies, see note 13 below.

It should be brought to the attention of the readers of the cash flow forecast that during the cash flow forecast period, the cash flow from operating activities, as well as the cash balance at the end of the period are expected to be negative. Accordingly, the Company is negotiating the restructuring of its debt towards the Debenture Holders series A and B.

- The cash flows from investing activities in 2018-2020 refer to the consideration from the expected sale of TGI, taking into account the assumptions, comments and reservations detailed below. As of the date of this report, negotiations regarding the sale of the Company's holdings in TGI are in an advanced stage. Negotiations regarding the sale of the Company's holdings in KLC and Avis

Ukraine, an investment or the sale of any of their assets, have not yet begun. In addition, as of the date of this report, the Company does not have any information regarding the nature of such future transaction (investment in shares, sale of shares or sale of operations). Nevertheless, in light its difficulties to locate a potential buyer for Avis Ukraine, for the purpose of preparation of the cash flow forecast, the Company's estimation is that the realization of its investment in Avis Ukraine will be done in a way of realization of its assets and the distribution of dividends to its shareholders.

3. In regards to the sale of the Company's holdings in TGI – as of the date of this report **the Company does not have accurate information regarding the net consideration which would be received from the transaction** and which would be used for repayment to the Debenture Holders. **As aforesaid, as of the date of this report, the negotiations regarding the sale of TGI were not yet finalized, and accordingly, there is no certainty that a sale agreement will be signed, that the expected consideration will equal the consideration included in the cash flow forecast or the date on which the consideration would be received by the Company.**
4. It is noted, that according to the negotiations for the sale of TGI, the Company expects to receive the lion's share of the consideration upon completion of the sale transaction, if completed, and that it could be used to make payments to the Debenture Holders (assuming there will be no other restrictions from making such payments). The remaining part of the consideration is expected to be deposited in escrow (for a period of about 2 years) to secure certain representations given by the Company. In the preparation of the cash flow forecast, it was assumed that all of the expected consideration from the sale of TGI could be used by the Company for the repayment to the Debenture Holders, however, as stated above, this is a mere assumption and there is no certainty that it would materialize.
5. Generally, **uncertainty is inherent in a forecast of sales of assets, mainly due to dependence on third parties, inter alia, due to: the need to find potential buyers and to reach agreements with them regarding the terms of the transaction, the need to receive relevant approvals, the Company's need to obtain the approval of the Debenture Holders to some of the transactions, and the need of potential buyers to reach agreements with financing parties in order to obtain funding for such acquisitions. The forecast readers must take these facts into account when assessing the Company's probability of meeting the cash flow forecast.**
6. The 'Dividend distributions' line assumes the receipt of dividends from the Group's companies KLC and Avis Ukraine. The amount of dividend distributions in 2018 is expected to be received from KLC. Regarding the distribution of dividends from Avis Ukraine, as aforesaid, the Company's estimation is that the realization of its investment in Avis Ukraine will be done in a way of realization of its assets and the distribution of dividends to its shareholders and accordingly will spread over several years.
7. The 'Loan repayments, and release of deposits' line includes a bridge loan in the amount of €2.5 million granted to TGI and the release of a deposit of €5 million pledged to secure various representations in respect of the sale of the subsidiary TBIF in 2016. As of the date of this report, as long as the purchaser of TBIF shares would not demand the forfeiture of the deposit due to an allegation of breach of the representations included in the TBIF sale agreement, the deposit will be partially released during August 2018 (€ 1 million) and the remaining balance in March 2019 (€ 4 million).
8. As detailed in the press release issued by the Company on November 23, 2017, the Company approached the trustees of the Debenture Holders ('the Trustees') requesting them to conduct negotiations in relation to rescheduling the payments to the Debenture Holders (series A and B) ('the Debenture Holders') due to reasonable possibility of delays in the sale process of TGI which may prevent the Company from meeting the coming payment due in February 2018. On January 11, 2018, the Company announced it was unable to complete the sale transaction of its holdings in TGI in a manner that will allow it to meet the payments to the Debenture Holders set for February 2018. On January 31, 2018, the Company issued an announcement clarifying and emphasizing that the Company will not be able to execute the payments to the Debenture Holders scheduled for February 2018, on time. In addition, according to the Company's announcements, as at the date of this report the Company has not yet repaid the payments to the Debenture Holders scheduled for February 2018.

9. The cash flow forecast for the second half of 2018 includes the principal and interest payment that were scheduled for February 2018 and were not yet repaid. The cash flow forecast for the remaining period is based on the repayment schedule included in the Deeds of Trust, including CPI linkage and interest at the rate specified in the Deeds of Trust (without interest in arrears), in light of the Company's inability to estimate the payment dates, and considering that the Company has not yet repaid these payments and that according to the Company's estimate, these payments will be repaid from funds received by the Company during the cash flow forecast period.
10. The cash flow forecast includes accrued interest up to the original payment date, in respect of payments that were scheduled for February 2018 and does not include interest for the subsequent period or interest in arrears resulting from failure to meet the repayment dates set out in the Deeds of Trust and deferment of payments to the Debenture Holders, both in light of the Company's request to the Trustees as mentioned above, and of the Company's estimation that the payments to the Debenture Holders that were scheduled for February 2018 will be repaid from the consideration received from the sale of TGI (if materialized), and that as of the date of this report, the Company is unable to estimate the closing date of the sale transaction, and therefore the Company has no information regarding the date of actual payment to the Debenture Holders and is unable to calculate the interest in arrears, if paid. Readers of the cash flow forecast should take these facts into consideration, with all that it might entail or imply.
11. In addition, as a result of the Company's request to negotiate the restructuring of the debt, the cash flow forecast does not include the balance payment to debenture holders series B as defined in article 43 to the Deed of Trust. It should be noted that article 43 to the Deed of Trust obliges the Company to make balance payments between the two series of debentures, according to the mechanism specified in the article, in the event that the Company did not meet the payments according to the payment schedule specified in the Deed of Trust. According to this mechanism, all the funds received by the Company during the cash flow forecast period will be used to repay the payments to debenture holders (series B) so that no payment will be made to debenture holders (series A). In light of the dispute arisen between the Trustee of the Debenture Holders (series A) and the Trustee of the Debenture Holders (series B) regarding the implementation of article 43, it was decided at this stage not to include in the cash flow forecast the balance payments.
12. The interest calculations are based on the Israeli CPI, exchange rates and interest rates which are applicable as of June 30, 2018, and as aforesaid, do not include interest on arrears. The principal and interest payments for the debentures are presented on the net outstanding balance, excluding the debentures held by GTC RE and Emerging Investment XII BV. A change of 5% in the Euro/NIS rate will lead to a change of approximately €6 million in the amount of principal and interest payment in each of the years 2018, 2019 and 2020.
13. Restrictions on transferring funds:
Transfer of funds between Kardan NV, GTC RE, Emerging Investments XII, and KFS is mostly done through intercompany loans or distribution of dividend or capital reserves as permitted by Dutch law¹. Breakdown of distributable reserves according to Dutch law and intercompany loans balances is as follows:

Subsidiary	Distributable reserves as of 30.6.2018	Intercompany loan as of 30.6.2018
(EUR million)		
GTC RE	150.6	0.2
KFS	8.8	-
Emerging	74.7	-

¹ For details regarding restrictions of transferring funds by TGI, refer to section 8.17.6 to the 2017 Israeli Annual Report.

14. This estimate regarding the sources of cash in this forecast is forward looking information as defined in the Israeli Securities Act, based on management assumptions and expectations. The aforesaid may not materialize completely or part thereof, or materialize in a different manner, including materially different from what is expected as a result of market changes (including changes in foreign currencies and CPI), difficulties in raising credit, decrease in value of investments, changes in the transactions terms of the sale of TGI, difficulties in reaching an agreement with the buyers of TGI, delays or lack of completion of the conditions precedent to the sale transaction to the extent an agreement will be signed and change in cash amounts expected to be received from affiliated companies. The Company, being a holding company, is generating cash flows from its investee companies mainly through dividend distributions and repayments of shareholder loans or through the realization (in part or in full) of its stakes in the investee companies. The generation of such cash flows may at times be subject to factors which are out of the control of the Company (such as the need to obtain third parties consent, foreign currency exchange, market prices of assets, risk factors of the company and more). It may also be the case – as it is with the distribution of dividends – that such cash flows sources are dependent on resolutions to be taken by the relevant organs in those companies. For details regarding the risk factors which are relevant to the cash flow forecast, refer to sections 7.18, 8.25 and 20 of part 1 of the 2017 Israeli Annual Report. Due attention should be given to the risk factors, which should be read together with the cash flow forecast. It should be noted that in case one or more of the underlying assumptions upon which the cash flow forecast was based fail to materialize, it might result in the inability of the Company to fulfill its obligations.

4. Financial Position of holding companies of the Kardan Group as of June 30, 2018

- **Net debt (*)**

The following table summarizes the net debt of Kardan N.V. and of its directly held subsidiaries (company only) as of June 30, 2018:

Company	Net Debt (in EUR million)	
Kardan NV / GTC RE / Emerging Investments XII	Liabilities:	
	Debentures**	(319.1)
	LT Liability	(2.8)
	Assets:	
Cash and short term investments	1.9	
	Net debt	(320.0)
KFS	Assets:	
	Cash and short term investments	6.4
	Loans to related parties	5.0
	Net cash	11.4
TGI/TG/TGA***	Liabilities:	
	LT Liability	(2.9)
	Assets:	
	Cash and short term investments	0.6
	Net cash	2.3

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

(**) The balance is presented net of debentures held by subsidiaries, see section 9 below.

(***) These assets and liabilities are presented as held for sale in the consolidated financial statements as of June 30, 2018.

5. Main events in the first half of 2018 and subsequent events

See Section 5 of the Directors' Report attached to the annual financial statements for 2017, as well as the part on Significant Events and Developments in the period.

Corporate governance

6. Directors with accounting and financial expertise and Independent Directors

Kardan N.V. is a company incorporated in the Netherlands and consequently the Israeli Companies Law 5759-1999 does not apply to it, so that, among other things, it does not have to appoint external directors and is not required to appoint directors with accounting and financial expertise.

However, in accordance with the Netherlands Corporate Governance Code ("the Code"), Kardan N.V. has adopted the duty whereby at least one of the independent non-executive members of the Board, has knowledge of financial management and accounting, as this term is defined in the Code.

The directors with financial and accounting knowledge currently serving on the Board are: Peter Sheldon, Cor van den Bos, Ferry Houterman, Ariel Hasson and Eytan Rechter. For further information regarding education and experience, reference is made to the corporate site and to regulation 26 in part 4 of the 2017 Israeli Annual Report.

For further details regarding Mr. Ferry Houterman, see the summon of the annual meeting of the Company's shareholders on whose agenda, inter alia, the appointment of Mr. Ferry Houterman to serve as a director of the Company, as published in an immediate report dated April 17, 2018.

Independent Directors

As stated above, the Israeli Companies Law does not apply to Kardan NV. Accordingly, among other things, Kardan NV does not appoint external directors. Yet, according to the Corporate Governance Code, the majority of the Board members must be independent, as defined by Dutch law.

In addition, accordance with Kardan's articles of association, there are decisions that the Board has to take according to a special approval procedure which requires, among other things, the consent of the independent directors who attend the Board meetings, as defined in Company's Articles of Association and Corporate Governance Code. As of June 30, 2018 and the date of this report, four out of the seven Board members are independent. For further information regarding these directors, see Regulation 26 in Chapter D of the Periodic Report for 2017 and the immediate report dated April 17, 2018.

For further information regarding the Corporate Governance Code refer to section 15 of part 1 of 2017 Israeli Annual Report.

Additional information

7. Fair Value Disclosure

Galleria Dalian shopping mall – China, Dalian

Identification of the property subject of the valuation	Shopping mall in Dalian, China, having net leasable area of 64,834 sqm.
Date of the valuation	31.12.2017
External valuer	Savills
Value of the property as at the valuation date (31.12.2017)	€ 221.1 million
Value of the property in the financial statements (30.6.2018)	€ 223.4 million
Key parameters used in the valuation	<ul style="list-style-type: none"> • Discount rate – 10.5% • Terminal capitalization rate – 5.5% • Rent per sqm/month – 162.4 RMB • Price per sqm for comparison approach – 16,587 RMB
Valuation Method	The average of Direct Comparison Approach and DCF methods

The fair value of the property as at June 30, 2018 is based on the valuation report which was attached to financial statements as of December 31, 2017 and the valuation model used in that valuation report. As of June 30, 2018 there were no material changes to the significant assumptions that were used in the valuation of investment property, apart from adjustments to certain parameters that were required to reflect the changes as of June 30, 2018, which resulted in a decrease in the value of the investment property of approximately €2.1 million.

For details regarding the valuation, including the main assumptions used by the valuer, and details regarding the valuer, see section 7.6.8.8 in Part A to the 2017 Israeli Annual Report.

In addition the value of the investment property as at June 30, 2018 increased compared to December 31, 2017, due to the change in exchange rate of the EUR vs. RMB since its value is denominated and evaluated in the local currency, in the amount of approximately €4.4 million. For additional information also refer to section 2 of the chapter “Significant Events and Developments”.

8. Book value of investments Kardan N.V.

The following table summarizes the book value of the companies held directly by Kardan as of June 30, 2018 and December 31, 2017 (amounts in EUR millions):

Holding Company	Name of subsidiary	Share in subsidiary	Consolidated equity	Share holders consolidated equity	Adjustments of Kardan NV	Book Value in Kardan NV	Share holders Loans (*)	Total Investment in books 30.06.18	Total Investment in books 31.12.17
Kardan NV	GTC RE	100%	219.1	219.1	5.7	224.8	0.2	225.0	228.9
	KFS	100%	25.2	25.2	-	25.2	-	25.2	23.9
	TGI	98.43%	43.2	44.4	(1.1)	43.3	2.5	45.8	49.5
	Emerging Investments XII	100%	74.7	74.7	-	74.7	-	74.7	65.2

Holding Company	Name of subsidiary	Share in subsidiary	Consolidated equity	Share holders console dated equity	Adjustments of GTC RE	KLC Book Value	Share holders Loans	Total Investment in books 30.06.18	Total Investment in books 31.12.17
GTC RE Holding	Kardan Land China	100%	267.2	267.2	0.9	268.1	(50.2)	217.9	221.6

Holding Company	Name of subsidiary	Share in subsidiary	Consolidated equity	Share holders console dated equity	Adjustments of TGI	Book Value	Loans granted by TGI	Total Investment in books 30.06.18	Total Investment in books 31.12.17
TGI	Tahal Group Assets B.V.	100%	6.0	9.3	-	9.3	(2.7)	6.6	6.2
	Tahal Group B.V.	100%	44.0	41.9	-	41.9	(0.5)	41.4	47.4

(*) The shareholder's loans were granted through the Company's 100% subsidiary, Emerging Investments XII B.V. For convenience, the shareholder's loans are presented as part of the investments in subsidiaries.

(**) The loan is considered a capital loan and is expected to be written off from KLC's equity.

(***) GTC RE held NIS 26,666,667 par value debentures (Series A) of the Company having a liability value of EUR 8.0 million as of June 30, 2018.

(****) Emerging Investment XII held the following Kardan N.V Debentures as of June 30, 2018:

	Nominal Value In NIS	Liability Value including accrued interest In EUR millions
Series A	109,839,448	32.8
Series B	120,381,450	39.2

9. Information to the Debenture Holders

The following are details regarding the marketable debentures of Kardan NV as of June 30, 2018:

	Debenture series A	Debenture series B
Issuance date	20.2.2007, 13.8.2007, 16.2.2008	16.2.2008
Par value of issued debentures	EUR 279.7 million (NIS 1,190,000,000)	EUR 313.5 million (NIS 1,333,967,977)
Linkage basis	Principal and interest linked to Israeli CPI (CPI of January 2007)	Principal and interest linked to Israeli CPI (CPI of December 2006)
Par value of debentures as of June 30, 2018	EUR 69.9 million (NIS 297,500,000 par value)	EUR 223.9 million (NIS 952,834,318 par value)
Debentures held by subsidiaries	NIS 136,506,115 par value	NIS 120,381,450 par value
Interest rate (per annum)	6.325%	6.775%
Principal repayment	Two installments one in February 2017 and the second in February 2018 (as detailed above, the principal repayment scheduled for February 2018 was not executed).	Four installments from February 2017 to February 2020 (as detailed above, the principal repayment scheduled for February 2018 was not executed) .
Interest payment dates	3 annual installments on 25 February in the years 2016 – 2018 (as detailed above, the principal repayment scheduled for February 2018 was not executed)	5 annual installments on 1 February in the years 2016-2020 (as detailed above, the principal repayment scheduled for February 2018 was not executed)
Total debt up to the date of the balance sheet (including interest and Israeli CPI linkage) (*)	EUR 49.7 million	EUR 263.8 million
Market capitalization as of June 30, 2018(*)	EUR 14.8 million	EUR 113.1 million
The trustee	Aurora Fidelity Trust Co. Ltd	Hermetic Trust (1975)
Rated by	S&P Maalot	S&P Maalot
Rating at the time of issuance	AA - (February 2007)	AA - (February 2007)
Updated rating	D (July 2018)	D (July 2018)
Right of early repayment	In accordance with the amended deeds of trust, the Company is eligible to announce on a partial or full early repayment throughout the entire term of the debentures. Such early repayment will be carried out without any compensation and in accordance to the full liability value of the debentures.	
Pledged Assets	<p>According to the Deeds of Trust, the Company established and registered primary, exclusive pledges with no limitations of amounts over all of the Group's interests in GTC RE, KFS, TGI, EMERGING and KLC (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. A primary exclusive pledge with no limitation of amounts over all the rights of EMERGING for the repayments of loans it has granted to any of the corporations in Kardan Group. As of June 30 2018 the balance amounts to 2.7 million.</p> <p>A primary exclusive pledges with no limitations of amounts over the bank accounts of the Company.</p> <p>Pledge on all the Company's debentures held by the Group. Commitment for certain negative pledges. The book value of the debentures held by the Group as of June 30 2018 is €80.3 million</p>	
Guarantee to secure the obligations of Kardan NV	A limited guarantee in the amount of EUR 100 million by Kardan Land China.	

(*) Net of debentures which are held by subsidiaries;

The Debentures (Series A and B) are material to the Company. As of June 30, 2018, the Company does not meet the financial covenants it has undertaken to comply with. In addition, in February 2018, the Company did not make the scheduled repayments to the debenture holders. Accordingly, as of the date of this report, the debenture holders have the right to call the debentures for immediate repayment.

For additional information regarding the terms of the debentures and the related restrictions apply to the Company, see Section 12.2.3 in the 2017 Israeli Annual Report.

For details regarding the meetings of debenture holders convened during the reporting period, see the chapter “Significant Events and Developments” below.

For details regarding the discussions with the debenture holders for reaching a debt settlement, see the cash flow forecast.

DISCLAIMER

This press release 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 Central Eastern Europe and China as a result of which Kardan Group is strongly exposed to these particular markets (iii) from risks related to the financial markets as a result of Kardan N.V.’s listings on NYSE 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 Kardan N.V.’s Annual Report and in the related “Periodic Report ” (published by Kardan N.V. in Israel) published in April and which is also available at the Kardan website. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Kardan N.V. does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.

Interim report on effectiveness of internal control over financial reporting and disclosure

The management under the supervision of the Board of Directors of Kardan N.V. ("the Company") is responsible to determine and maintain proper internal control over financial reporting and disclosure by the Company.

For this matter, the Management consists of:

1. A. Hasson, CEO and Board member
2. E. Oz-Gabber, Chief Financial Officer

Internal control on financial reporting and disclosure comprises existing controls and procedures at the Company – determined by the CEO and most senior financial officer, or under their supervision, or by those acting in said capacities, under supervision of the Company's Board - which are designed to provide reasonable certainty with respect to the reliability of financial reporting and preparation of reports pursuant to statutory provisions, and to ensure that information which the Company is required to disclose in reports, issued pursuant to statutory provisions, is collected, processed, summarized and reported on schedule and in the format prescribed by law.

Internal control includes, inter alia, controls and procedures designed to ensure that information which the Company is required to disclose, is collected and submitted to the Company's management, including to the CEO and to the most senior financial officer, or to those acting in said capacities, so as to enable decisions to be made at the appropriate time with regard to the required disclosure.

Due to structural limitations, internal control over financial reporting and disclosure is not designed to provide absolute certainty that misrepresentation or omission of information on the reports would be avoided or discovered.

In the quarterly report on the effectiveness of the internal control over financial reporting and disclosure, which is attached to the Israeli periodic report for the period ended June 30, 2018 (hereinafter – the "latest interim report on internal control"), the internal control is effective.

As of the date of the report, no event or matter came to the attention of the Board of Directors, nor to the Management, that would change the assessment of the effectiveness of the internal control as presented as part of the latest annual report on internal control.

As of the reporting date, based on the assessment of the effectiveness of the internal control in the latest quarterly report on internal control and based on the information brought to the attention of the Board and the management, as above, the internal control is effective.

Certification by CEO pursuant to Regulation 38C (D)(1) of the regulations:

I, A. Hasson, certify that:

1. I have reviewed the periodic report of Kardan NV ("the corporation") for the second quarter of 2018 ("the report").
2. To the best of my knowledge, the report is free of any misrepresentation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.
3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.
4. I have disclosed to the corporation's Independent Auditor, Board and Audit Committee and the Financial Statement Review Committee of the corporation, based on my most current assessment of the internal control over financial reporting and disclosure:
 - a. All significant faults and material weaknesses in specification of operation of internal control over financial reporting and disclosure which may reasonably impact the corporation's capacity to collect, process, summarize or report financial information in a manner which may cast doubt over the reliability of financial reporting and preparation of financial statements pursuant to statutory provisions; and –
 - b. Any fraud, whether or not material, involving the Chief Executive Officer or any of the direct reports thereof, or involving any other employees having a significant capacity in internal control over financial reporting and disclosure;
5. I, on my own or with others at the corporation:
 - a. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under our supervision, designed to ensure that material information with regard to the corporation, including subsidiaries thereof, as defined in Securities Regulations (Annual financial statements), 2010, is brought to my attention by others at the corporation and its subsidiaries, specifically during preparation of the report; and –
 - b. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to reasonably ensure the reliability of financial reporting and preparation of the financial statements pursuant to statutory provisions, including pursuant to generally-accepted accounting principles;
 - c. No event or issue came to my attention in the period between the last periodic report and the date of this report that may change the conclusion of the Management or Board with respect to the effectiveness on the internal control over financial reporting and disclosure.

The foregoing shall not detract from my statutory responsibility, or that of any other person.

August 22, 2018

A. Hasson – CEO and Director

Certification by CFO pursuant to Regulation 38C(D)(2) of the regulations:

I, E.Oz-Gabber, certify that:

1. I have reviewed the financial statements and other financial information which is included in the report of Kardan NV ("the corporation") for the second quarter of 2018 ("the report").
2. To the best of my knowledge, the report is free of any misrepresentation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.
3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.
4. I have disclosed to the corporation's Independent Auditor, Board and Audit Committee and the Financial Statement Review Committee of the corporation, based on my most current assessment of the internal control over financial reporting and disclosure:
 - a. All significant faults and material weaknesses in specification of operation of internal control over financial reporting and disclosure as long as it relates to the financial statements and other financial information in the report, which may reasonably impact the corporation's capacity to collect, process, summarize or report financial information in a manner which may cast doubt over the reliability of financial reporting and preparation of financial statements pursuant to statutory provisions; and –
 - b. Any fraud, whether or not material, involving the Chief Executive Officer or any of the direct reports thereof, or involving any other employees having a significant capacity in internal control over financial reporting and disclosure;
5. I, on my own or with others at the corporation:
 - a. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under our supervision, designed to ensure that material information with regard to the corporation, including subsidiaries thereof, as defined in Securities Regulations (Annual financial statements), 2010, as long as it relates to the financial statements and other financial information in the report, is brought to my attention by others at the corporation and subsidiaries, specifically during preparation of the report; and –
 - b. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under our supervision, designed to reasonably ensure the reliability of financial reporting and preparation of the financial statements pursuant to statutory provisions, including pursuant to generally-accepted accounting principles;
 - c. No event or issue relating to the interim financial statements or any other financial information which is included in the interim financial reports came to my attention in the period between the last periodic report and the date of this report that may change the conclusion of the Management or Board with respect to the effectiveness on the internal control over financial reporting and disclosure.

The foregoing shall not detract from my statutory responsibility, or that of any other person.

August 22, 2018

E.Oz-Gabber, CFO

Kardan N.V.
(the “Company”)
Significant events and developments
Filings pursuant to Israeli Law
August 22, 2018

In accordance with Regulation 39 (a) of the Israeli Securities Regulations (Periodic and Immediate Reports) - 1970, below is a description of all events and significant updates in respect to the matters described in the 2017 annual financial statements published by the Company on March 28, 2018 ('the Annual Report').

For details regarding the material events that occurred in the first quarter 2018 up to March 28, 2018, reference is made to the Annual Report.

For details regarding material events that occurred in the first and second quarter of 2018 up to May 30, 2018, reference is made to the significant event and developments chapter of Q1 2018 financial statements published by the Company on May 30, 2018.

Real Estate

- Detailed below is information regarding the most significant projects in the real estate development segment:

Europark Dalian

Data per 100%, Kardan Land China share – 100%		Q2 - 2018	Q1 - 2018	2017
Invested costs	Cumulative costs for land at the end of the period	76.13	75.28	74.65
	Cumulative costs for development, taxes, and fees	3.27	3.23	2.76
	Cumulative costs for construction	114.34	109.44	103.08
	Cumulative costs in respect of financing (capitalized)	10.46	9.90	9.28
	Total cumulative cost	204.2	197.85	189.77
	Total cumulative carrying costs	204.2	197.85	189.77
Costs yet to be invested and completion rate	Costs in respect of land not yet invested (estimate)	1.41	1.39	1.38
	Development costs, taxes and fees not yet invested (estimated)	-	-	-
	Costs for construction not yet invested (estimated)	35.98	39.20	44.22
	Cumulative costs in respect of financing expected to be capitalized in the future (estimate)	2.94	3.35	3.85
	Total costs remaining for completion	40.33	43.94	50.01
	Completion rate (excluding land) (%)	76%	74%	70%
	Expected construction completion date	2020	2020	2020
	Exchange rate for this table	7.6515	7.738	7.802

		Q2 - 2018	Q1 - 2018	2017
Agreements signed during the current period (not including apartment purchase orders)	Housing units (#)	36	26	111
	Housing units (sqm)	4,006	2,981	11,836
Average price per m ² in agreements signed during the current period	Housing units	2,594	2,300	2,251
Cumulative agreements up to the end of the period:	Housing units (#)	816	780	754
	Housing units (sqm)	78,959	74,953	71,972
Cumulative average price per m ² in agreements signed up to the end of the period (in euro)	Housing units	2,399	2,361	2,344
	Total expected income from the entire project (in millions of euros)	288	285	283
Marketing percentage of the project	Total cumulative expected income from signed agreements (EUR millions)	189	177	169
	Marketing rate as of the last day of the period (%)	66%	62%	60%
Areas for which no agreement has been signed:	Housing units (#)	267	287	313
	Housing units (sqm)	29,569	35,031	38,012
Total cumulative cost (remaining inventory) attributed to areas no binding agreements were signed for in the report of the financial situation (in millions of euros)		67	55	57
Exchange rate for this table		7.6515	7.738	7.802
*** **				
Number of agreements signed from the end of the period to the report date (#) / m ²	Residential	17 2,281 m ²		
Average price per m ² in agreements signed between the end of the period and the date of the report (EURO)	Residential	2,732		

Suzy

Data per 100%, Kardan Land China share – 50%		Q2 - 2018	Q1 - 2018	2017
Invested costs	Cumulative costs for land at the end of the period	26	24	23
	Cumulative costs for development, taxes, and fees	6	5	5
	Cumulative costs for construction	4	4	3
	Cumulative costs in respect of financing (capitalized)	-	-	--
	Total cumulative cost	36	33	31
	Total cumulative carrying costs	36	33	31
Costs yet to be invested and completion rate	Costs in respect of land not yet invested (estimate)	8	8	7
	Development costs, taxes and fees not yet invested (estimated)	38	38	38
	Costs for construction not yet invested (estimated)	93	93	93
	Cumulative costs in respect of financing expected to be capitalized in the future (estimate)	-	-	--
	Total costs remaining for completion	139	139	139
	Completion rate (excluding land) (%)	7%	6%	6%
	Expected construction completion date	Q4 2021	Q4 2020	Q4 2020
Exchange rate for this table	7.6515	7.738	7.802	

		Q2 - 2018	Q1 - 2018	2017
Agreements signed during the current period	Housing units (#)	106	77	318
	Housing units (sqm)	6,140	5,363	23,652
	Commercial areas (sqm)	-	-	-
Average price per m ² in agreements signed during the current period	Housing units	720	683	656
	Commercial areas	-	-	-
Cumulative agreements up to the end of the period:	Housing units (#)	501	395	318
	Housing units (sqm)	35,155	29,015	23,652
	Commercial areas (sqm)	-	-	-
Cumulative average price per m ² in agreements signed up to the end of the period (in euro)	Housing units	681	666	656
	Commercial areas	-	-	-
Marketing percentage of the period	Total expected income from the entire project (in commercial currency)	258	255	253
	Total cumulative expected income from signed agreements (EUR millions)	24	19	16
	Marketing rate as of the last day of the period (%)	9%	8%	6%
Areas for which no agreement has been signed:	Housing units (#)	2,530	2,636	2,713
	Housing units (sqm)	238,210	244,350	249,713
	Commercial areas (sqm)	33,092	33,092	33,092
Total cumulative cost (remaining inventory) attributed to areas no binding agreements were signed for in the report of the financial situation (in millions of euros)		12	12	14
*** **				
Number of agreements signed from the end of the period to the report date (#) / m ²	Residential	28 2,511 m ²		
	Commercial	-		
Average price per m ² in agreements signed between the end of the period and the date of the report (EURO)	Residential	876		
	Commercial	-		

2. Detailed below is information regarding the projects which are not the most significant in the real estate development segment:

Project Name		Q2 - 2018	Q1 - 2018	2017	
Olympic Garden	Agreements signed during the current period	Housing units (#)	142	45	709
		Housing units (sqm)	13,136	3,743	70,474
		Commercial areas (sqm)	314	21	1,963
Presented according to 100% (Company's share – 50%)	Average price per m ² in agreements signed during the current period (RMB)	Housing units	1,418	1,223	770
		Commercial areas	3,739	2,755	2,408
City Dream	Agreements signed during the current period	Housing units (#)	51	-	56
		Housing units (sqm)	5,944	-	16,387
		Commercial areas (sqm)	782	-	9,203
Presented according to 100% (Company's share – 50%)	Average price per m ² in agreements signed during the current period (RMB)	Housing units	1,418	-	774
		Commercial areas	1,779	-	1,255
Palm Garden	Agreements signed during the current period	Housing units (#)	15	2	-
		Housing units (sqm)	1,549	146	-
		Commercial areas (sqm)	3,382	-	-
Presented according to 100% (Company's share – 50%)	Average price per m ² in agreements signed during the current period (RMB)	Housing units	209	516	-
		Commercial areas	255	-	-

Shopping mall – Galleria Dalian (Dalian, China)

(Data according to 100%; Kardan N.V. indirect share in the property: 100%)	Q2 2018	Q1 2018	Year 2017
Fair value at the end of the period (€ in millions) (*)	223.6	222.9	221.1
NOI (€ in millions)	(0.1)	(0.5)	2.57
Valuation losses for the period (€ in millions)	(1.8)	-	(4.2)
Average occupancy rate in the period	86%	82.2%	77.7%
Average rental rate per sqm. (in €) (**)	10	8.9	10.25
Part of the area for which rental agreements or letters of intent were signed during the period, net (%)	3.3%	4.3%	7.8%
Part of the area for which rental agreements or letters of intent were signed accumulated (%)	87%	83.6%	79.3%
Average monthly rent per sqm in contracts signed during the Period, gross (per month) (RMB) (***)	11.4	10.0	12.86

(*) The asset functional currency is the RMB. The changes in the fair value are mainly due to the fluctuation in the exchange rate of the RMB versus the Euro.

(**) Average rental rate per sqm includes leased areas (mainly anchor tenants with turnover based contracts), in respect of which rental income was not yet recognized.

(***) Represents basic rent only, however, the rental agreements also include a turnover element.

Water Infrastructure

3. Following the description of the Company's material customers in Water Infrastructure in section 8.7.5 to the Annual Report:
 - 3.1. On May 23, Tahal Consulting Engineers Ltd. ('Tahal') won a tender (together with a partner who owns 5% of the project company) for the planning and execution of works for the reconstruction of two waste water and sludge treatment facilities in the city of Kharkiv, in the Ukraine. The total compensation for the Project is approximately USD 60 million.
 - 3.2. Subsequent to the balance sheet date, on August 1, 2018, Tahal Consulting Engineers Ltd. And Tahal Group BV, subsidiaries controlled by Kardan, (hereinafter in this section: "Tahal"), have been notified that the supreme authority in an African country has approved the engagement with Tahal and its partner (50% Tahal and the partner 50%) for the development and construction of a large-scale agricultural project, including an agricultural farm for the cultivation of vegetables and various crops, such as potatoes, onions, corn, etc., The total consideration is approximately \$72 million.

Financing

4. The following are updates concerning the material credit agreements of the Company and its subsidiaries:

<i>Name of the Loan and the section in the Annual Report which refers to the loan</i>	<i>Update information</i>	<i>Calculation of financial covenants</i>
Debentures series A section 12.1.2 (1) to the Annual Report	-	See section 12.1.2 to the Annual Report. The coverage ratio of Kardan NV according to the financial statements as of 30.6.2018 is 91.8%; the coverage ratio of Kardan Land China according to the financial statements as of 30.6.2018 is 328% accordingly, the company is in breach of its financial covenants.
Debentures series B section 12.1.2 (2) to the Annual Report		
Credit facility amounting up to RMB 900 million (approximately €115 million at the date of the signing) taken by Kardan Land Dalian Ltd, section 7.6.8.6 to the Annual Report	-	See section 7.6.8.6 to the Annual Report. (1) The ratio between the balance of the loan, net of the cash balances and the value of the pledged properties is 37% (i.e. lower than 50%) (2) As of the report date, KLC signed guarantees at a total sum of 118 million euros, constituting 44% of its equity (i.e. lower than its shareholders' equity. (3) There was no material adverse change in the value of the shares of the Project Company, which affected the ability to repay the loan (4) KLD met the milestone set forth in the loan agreement in connection with construction progress

Human capital

5. The following are updates in regards to section 9.1.3 to the annual report:

Effective September 1 2017, the services agreement between the Company and Kardan Israel was amended. According to the amended agreement, Kardan Israel will provide the Company the following services: (1) General services and contact with the local market (2) Accounting services (3) Bookkeeping and secretarial services (all together: "the services"). For the services provided, the Company will pay Kardan Israel an annual fee of NIS 200 thousands. In addition, for consulting services and assistance in raising capital in Israel, the Company will pay Kardan Israel fees amounting to 0.25% of the net capital raised. The amended agreement will be valid until August 31, 2020. Each side will be entitled to terminate the agreement giving a 60 day notice. For additional information refer to the announcements issued by the Company on April 17 and May 30, 2018.

General

6. For information regarding the convening of a meeting of the Debenture Holders Series B, refer to the announcement issued by the Trustee on April 8, 2018.
7. For information regarding the convening of an annual meeting of the Company's shareholders, to be held on Wednesday, May 30, 2018 and on the Company's Board of Directors decision not to put the approval of an annual bonus to the Company's CEO for 2018 up for vote, refer to the notices issued by the Company on April 17, 2018 and May 22, 2018.
8. For information regarding the announcement issued by the Trustee of Debenture Holders Series A regarding the postponement of the payment dates of the Debentures Series A, refer to the announcement issued on April 25, 2018 and May 7, 2018.

9. For information regarding the convening of a voting assembly of the Debenture Holders Series A on which agenda is the postponement of the final repayment date of the principal and interest of the Debentures Series A, from May 22, 2018 to July 24, 2018 or any other date that will be determined in coordination with the Tel Aviv Stock Exchange, refer to the announcement issued by the Trustee of the Debenture Holders Series A on April 8, 2018.
10. For information regarding Q1 2018 financial statements and IR presentation refer to the announcement issued by the Company on May 30, 2018.
11. For information regarding the results of the annual general meeting of shareholders held on May 30, 2018, refer to the announcement issued by the Company on May 30, 2018.
12. Mr. Ferry Houterman's appointment as a non-executive Board member took effect on May 30, 2018.
13. During June and July 2018, stakeholders of the Company sold part of their holdings in the Company's shares in the stock exchange:

Stakeholder	Transaction date	Number of shares sold	Average price per share (NIS)	Date of announcement issued by the company
Mr. E. Rechter	6.6.2018	1,286,942	0.6026	6.7.2018
	6.7.2018	416,952	0.5957	6.11.2018
	6.10.2018	195,861	0.5540	6.11.2018
	6.26.2018	377,393	0.5408	6.27.2018
	6.27.2018	110,000	0.5325	6.28.2018
Mr. Y. Grunfeld	7.5.2018	374,000	0.4920	7.6.2018
Mr. A.A. Schnur	6.11.2018	269,880	0.5780	6.12.2018
	6.12.2018	117,176	0.5820	6.13.2018
	6.13.2018	300,975	0.5730	6.14.2018
	6.14.2018	94,078	0.5763	6.17.2018
	6.17.2018	9,797	0.5820	6.18.2018
	6.18.2018	105,000	0.5680	6.19.2018
	6.19.2018	120,864	0.5625	6.20.2018
	6.20.2018	382,632	0.5636	6.20.2018
	6.21.2018	93,970	0.5313	6.28.2018
	6.24.2018	2,391	0.5750	6.24.2018
	6.28.2018	27,004	0.5310	6.29.2018
	7.1.2018	58,548	0.5250	7.2.2018
	7.2.2018	494,481	0.5153	7.3.2018
	7.2.2018	264,867	0.4982	7.4.2018
	7.4.2018	166,289	0.4983	7.5.2018
	7.5.2018	52,048	0.4954	7.6.2018

14. For information regarding the annual report published by the Trustee of the Debenture Holders (series B), refer to the announcement issued by the company on June 19, 2018.
15. On July 3, 2018 the Trustee of the Debenture Holders (series B) published an announcement regarding the candidacy to serve as an observer in the Company on behalf of the Debenture Holders (series B). For more information refer to the announcement issued by the Company on July 3, 2018.
16. For information regarding the annual report published by the Trustee of the Debenture Holders (series A), refer to the announcement issued by the company on July 9, 2018.
17. For more information regarding the affirmation of the rating 'D' for Kardan and for its Debentures Series A and Series B by Maalot, the Israeli subsidiary of Standard & Poor's ("S&P"), refer to the announcement issued by the Company on July 11, 2018.

18. On July 15, 2018, the assembly of the Debenture Holders Series A approved the postponement of the final repayment date of the principal and interest of the Debentures Series A, from July 24, 2018 to October 31, 2018 or any other date that will be determined. For more information refer to the announcements issued by the Company on July 16 and July 17, 2018.
19. For more information regarding the summoning of a voting assembly of Debenture Holders Series B (without actual convening) on August 21, 2018 on which agenda is the appointment of an observer on behalf of the Debenture Holders and the Trustee, see announcements issued by the Company on August 14 and August 20, 2018.
20. For more information regarding the results of the voting assembly of Debenture Holders (Series B) on August 21, 2018 regarding the appointment of an observer on behalf of the Debenture Holders and the Trustee, see announcement issued by the Company on August 21, 2018.
21. For more information regarding the meeting convening of Debenture Holders (Series A) on August 21, 2018 on which agenda is the discussion and consultation regarding the Company's request from August 9, 2018, and regarding additional matters to be raised by the Trustee and / or the debenture holders, see announcement issued by the Company on August 19, 2018 .
22. For more information regarding the summoning of an additional voting assembly of Debenture Holders Series B (without actual convening) on August 27, 2018, on which agenda is the appointment of an observer on behalf of the Debenture Holders and the Trustee, see announcement issued by the Company on August 21, 2018.

KARDAN N.V.
AMSTERDAM, THE NETHERLANDS

Condensed Interim Consolidated Financial Statements (unaudited)
As at June 30, 2018

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

A s s e t s

	Note	June 30, 2018	June 30, 2017	December 31, 2017
		Unaudited		Audited
		In €000		
Non-current assets				
Deferred tax assets		473	510	464
Tangible fixed assets, net		617	762	627
Investment property		223,355	225,950	221,089
Investments in joint ventures	7	51,425	38,668	49,889
Loans to joint ventures		23,153	39,570	25,432
Long-term loans and receivables		4,880	8,814	8,123
		<u>303,903</u>	<u>314,274</u>	<u>305,624</u>
Current assets				
Apartments inventory		62,528	103,797	117,900
Trade receivables		11,162	5,721	5,401
Current tax assets		483	1,268	1,502
Other receivables and prepayments		3,995	9,538	5,686
Short-term investments		27,524	7,590	11,969
Cash and cash equivalents		39,736	22,096	37,140
		<u>145,428</u>	<u>150,010</u>	<u>179,598</u>
Assets held for sale	8	<u>197,238</u>	<u>172,973</u>	<u>183,354</u>
Total current assets		<u>342,666</u>	<u>322,983</u>	<u>362,952</u>
Total assets		<u><u>646,569</u></u>	<u><u>637,257</u></u>	<u><u>668,576</u></u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Equity and liabilities

	Note	June 30, 2018	June 30, 2017	December 31, 2017
		Unaudited		Audited
		In €000		
Equity (deficit) attributable to equity holders of the parent company				
Issued and paid-in capital	5	25,276	25,276	25,276
Share premium		206,482	206,482	206,482
Foreign currency translation reserve		(3,373)	7,840	37
Property revaluation reserve		30,058	34,183	31,637
Revaluation reserve, other		5,200	6,107	5,586
Accumulated deficit		(289,432)	(278,812)	(273,386)
		(25,789)	1,076	(4,368)
Non-controlling interests		2,788	4,327	3,542
Total equity (deficit)		(23,001)	5,403	(826)
Non-current liabilities				
Interest-bearing loans and borrowings		104,496	2,529	104,933
Other long-term liabilities		1,055	945	1,054
Financial instruments		672	967	1,306
Debentures	2	-	190,179	188,708
Deferred tax liabilities		5,958	3,141	6,355
		112,181	197,761	302,356
Current liabilities				
Trade payables		691	2,478	2,294
Current maturities of debentures	2	286,433	105,893	95,452
Interest-bearing loans and borrowings		2,535	103,231	-
Current tax liabilities		1,395	1,359	1,342
Advances from apartment buyers		27,272	47,442	61,208
Other payables and accrued expenses		87,944	48,418	73,952
		406,270	308,821	234,248
Liabilities associated with assets held for sale	8	151,119	125,272	132,798
Total current liabilities		557,389	434,093	367,046
Total liabilities		669,570	631,854	669,402
Total equity and liabilities		646,569	637,257	668,576

The accompanying notes are an integral part of these condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
Note	In €000				
Rental revenues	1,902	1,933	930	941	3,883
Revenues from sale of apartments	65,391	1,088	3,764	1,088	8,556
Management fees and other revenues	1,315	1,301	838	651	2,584
<i>Total revenues</i>	<u>68,608</u>	<u>4,322</u>	<u>5,532</u>	<u>2,680</u>	<u>15,023</u>
Rental cost	633	779	218	364	1,346
Cost of apartment sold	63,776	994	3,392	994	7,993
Management fees and other expenses, net	1,673	1,224	1,078	580	2,847
<i>Total expenses</i>	<u>66,082</u>	<u>2,997</u>	<u>4,688</u>	<u>1,938</u>	<u>12,186</u>
Gross profit	<u>2,526</u>	<u>1,325</u>	<u>844</u>	<u>742</u>	<u>2,837</u>
Selling and marketing expenses	2,176	2,595	1,149	1,566	5,668
General and administration expenses	3,999	5,064	1,519	2,579	10,180
Loss from operations before fair value adjustments, disposal of assets and investment and other income	<u>(3,649)</u>	<u>(6,334)</u>	<u>(1,824)</u>	<u>(3,403)</u>	<u>(13,011)</u>
Adjustment to fair value of investment properties	(2,105)	(785)	(2,105)	(785)	(4,181)
Gain on disposal of assets and other income, net	-	793	-	793	836
<i>Gain (loss) from fair value adjustments, disposal of assets and investments and other income</i>	<u>(2,105)</u>	<u>8</u>	<u>(2,105)</u>	<u>8</u>	<u>(3,345)</u>
Loss from operations	<u>(5,754)</u>	<u>(6,326)</u>	<u>(3,929)</u>	<u>(3,395)</u>	<u>(16,356)</u>
Financial income	9,986	231	1,897	109	6,845
Financial expenses	(17,761)	(24,846)	(16,018)	(4,817)	(34,321)
<i>Total financial expenses, net</i>	<u>(7,775)</u>	<u>(24,615)</u>	<u>(14,121)</u>	<u>(4,708)</u>	<u>(27,476)</u>
Loss before share of profit from investments accounted for using the equity method	<u>(13,529)</u>	<u>(30,941)</u>	<u>(18,050)</u>	<u>(8,103)</u>	<u>(43,832)</u>
Share of profit of investments accounted for using the equity method, net	7 2,834	9,931	1,122	4,569	18,853
Loss before income taxes	<u>(10,695)</u>	<u>(21,010)</u>	<u>(16,928)</u>	<u>(3,534)</u>	<u>(24,979)</u>
Income tax expense (benefit)	1,252	1,186	(375)	(35)	5,180
Loss for the period from continuing operations	<u>(11,947)</u>	<u>(22,196)</u>	<u>(16,553)</u>	<u>(3,499)</u>	<u>(30,159)</u>
Net profit from discontinued operations	8 2,605	1,480	2,443	906	12,783
Loss for the period	<u>(9,342)</u>	<u>(20,716)</u>	<u>(14,110)</u>	<u>(2,593)</u>	<u>(17,376)</u>
Attributable to:					
Equity holders	(11,074)	(19,981)	(15,343)	(2,178)	(17,101)
Non-controlling interest holders	1,732	(735)	1,233	(415)	(275)
	<u>(9,342)</u>	<u>(20,716)</u>	<u>(14,110)</u>	<u>(2,593)</u>	<u>(17,376)</u>
Earnings (loss) per share attributable to					
Basic and diluted from continuing operations	(0.10)	(0.18)	(0.13)	(0.03)	(0.25)
Basic and diluted from discontinued operations	0.02	0.01	0.02	0.01	0.10
	<u>(0.08)</u>	<u>(0.17)</u>	<u>(0.11)</u>	<u>(0.02)</u>	<u>(0.15)</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements

KARDAN N.V., AMSTERDAM

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In €000				
Loss for the period	(9,342)	(20,716)	(14,110)	(2,593)	(17,376)
Foreign currency translation differences	(7,772)	(9,206)	103	(7,898)	(15,202)
Change in hedge reserve, net of tax (1)	(388)	(528)	(180)	(395)	(1,051)
Share of other comprehensive income (expense) of associates and joint ventures accounted for using the equity method	1,397	(6,552)	1,469	(6,409)	(8,498)
Other comprehensive income (expense) for the year to be reclassified to profit or loss in subsequent periods	(6,763)	(16,286)	1,392	(14,702)	(24,751)
Total comprehensive expense	(16,105)	(37,002)	(12,718)	(17,295)	(42,127)
Attributable to:					
Equity holders	(14,872)	(36,259)	(13,051)	(16,707)	(41,705)
Non-controlling interest holders	(1,233)	(743)	333	(588)	(422)
	(16,105)	(37,002)	(12,718)	(17,295)	(42,127)

(1) Mainly relates to unwinding of hedge transactions in prior periods. The amounts are presented net of tax amounting to €129 thousand and €172 thousand for the six months period ended June 30, 2018 and June 30, 2017, respectively, €60 thousand and €86 thousand for the three months period ended June 30, 2018 and June 30, 2017, respectively, and €346 thousand for the year ended December 31, 2017.

The accompanying notes are an integral part of these condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						Total	Non-controlling interest	Total equity
	Issued and paid-in capital	Share premium	Foreign currency translation reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Accumulated deficit			
	In €000								
Balance as of January 1, 2018 (Audited)	25,276	206,482	37	31,637	5,586	(273,386)	(4,368)	3,542	(826)
Adjustments on adoption of IFRS 15	-	-	-	-	-	688	688	-	688
Adjustments on adoption of IFRS 9	-	-	-	-	-	(7,246)	(7,246)	-	(7,246)
Balance as of January 1, 2018 (after adjustments on the adoption of IFRS 15 and IFRS 9)	25,276	206,482	37	31,637	5,586	(279,944)	(10,926)	3,542	(7,384)
Other comprehensive loss	-	-	(3,410)	-	(388)	-	(3,798)	(2,965)	(6,763)
Profit (loss) for the period	-	-	-	-	-	(11,074)	(11,074)	1,732	(9,342)
Total comprehensive loss	-	-	(3,410)	-	(388)	(11,074)	(14,872)	(1,233)	(16,105)
Transaction with non controlling interest holders	-	-	-	-	-	7	7	-	7
Share-based payment	-	-	-	-	2	-	2	479	481
Reclassification according to the Netherlands civil code requirements (*)	-	-	-	(1,579)	-	1,579	-	-	-
Balance as of June 30, 2018 (Unaudited)	25,276	206,482	(3,373)	30,058	5,200	(289,432)	(25,789)	2,788	(23,001)

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

The accompanying notes are an integral part of these condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)-

	Attributable to equity holders of the parent						Total	Non-controlling interest	Total equity
	Issued and paid-in capital	Share premium	Foreign currency translation reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Accumulated deficit			
	In €000								
Balance as of January 1, 2017 (audited)	25,276	206,482	23,590	34,772	6,633	(259,420)	37,333	3,850	41,183
Other comprehensive expense	-	-	(15,750)	-	(528)	-	(16,278)	(8)	(16,286)
Loss for the period	-	-	-	-	-	(19,981)	(19,981)	(735)	(20,716)
Total comprehensive expense	-	-	(15,750)	-	(528)	(19,981)	(36,259)	(743)	(37,002)
Share-based payment	-	-	-	-	2	-	2	38	40
Transaction with non controlling interest holders	-	-	-	-	-	-	-	1,182	1,182
Reclassification according to the Netherlands civil code requirements (*)	-	-	-	(589)	-	589	-	-	-
Balance as of June 30, 2017 (unaudited)	25,276	206,482	7,840	34,183	6,107	(278,812)	1,076	4,327	5,403

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

The accompanying notes are an integral part of these condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the parent						Total	Non-controlling interest	Total equity
	Issued and paid-in capital	Share premium	Foreign currency translation reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Accumulated deficit			
	In €000								
Balance as of April 1, 2018 (unaudited)	25,276	206,482	(5,845)	31,637	5,379	(275,668)	(12,739)	2,454	(10,285)
Other comprehensive income (expense)	-	-	2,472	-	(180)	-	2,292	(900)	1,392
Profit (loss) for the period	-	-	-	-	-	(15,343)	(15,343)	1,233	(14,110)
Total comprehensive income (expense)	-	-	2,472	-	(180)	(15,343)	(13,051)	333	(12,718)
Share-based payment	-	-	-	-	1	-	1	1	2
Reclassification according to the Netherlands civil code requirements (*)	-	-	-	(1,579)	-	1,579	-	-	-
Balance as of June 30, 2018 (unaudited)	25,276	206,482	(3,373)	30,058	5,200	(289,432)	(25,789)	2,788	(23,001)

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

The accompanying notes are an integral part of these condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the parent						Total	Non-controlling interest	Total equity
	Issued and paid-in capital	Share premium	Foreign currency translation reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Accumulated deficit			
	In €000								
Balance as of April 1, 2017 (unaudited)	25,276	206,482	21,985	34,772	6,490	(277,223)	17,782	3,711	21,493
Other comprehensive expense	-	-	(14,145)	-	(384)	-	(14,529)	(173)	(14,702)
Loss for the period	-	-	-	-	-	(2,178)	(2,178)	(415)	(2,593)
Total comprehensive expense	-	-	(14,145)	-	(384)	(2,178)	(16,707)	(588)	(17,295)
Share-based payment	-	-	-	-	1	-	1	22	23
Transactions with non-controlling interest holders	-	-	-	-	-	-	-	1,182	1,182
Reclassification according to the Netherlands civil code requirements (*)	-	-	-	(589)	-	589	-	-	-
Balance as of June 30, 2017 (unaudited)	<u>25,276</u>	<u>206,482</u>	<u>7,840</u>	<u>34,183</u>	<u>6,107</u>	<u>(278,812)</u>	<u>1,076</u>	<u>4,327</u>	<u>5,403</u>

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

The accompanying notes are an integral part of these condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

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

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

The accompanying notes are an integral part of these condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT

	For the six months period ended June 30,		For the three months period ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In €000				
Cash flow from operating activities					
Loss from continuing operations before taxes on income	(10,695)	(21,010)	(16,928)	(3,534)	(24,979)
Profit from discontinued operations before taxes on income	2,908	1,648	2,887	1,394	17,880
Adjustments to reconcile net loss to net cash (see A below)	13,460	(13,103)	16,005	(5,063)	(43,097)
Net cash provided by (used in) operating activities	5,673	(32,465)	1,964	(7,203)	(50,196)
Cash flow from investing activities					
Acquisition of tangible fixed assets and investment properties	(3,307)	(4,764)	(2,469)	(2,188)	(13,641)
Investments and collection (granting) of loans from (to) companies accounted for using the equity method, net	5,799	(1,713)	2	(553)	2,737
Acquisition of a subsidiary (see B below)	160	-	-	-	-
Proceeds from sale of assets and investments in associates	48	2,707	7	2,707	22,738
Change in long-term loans and receivables	-	(344)	-	(344)	(934)
Change in short-term investments	(13,764)	2,329	(1,714)	1,298	183
Disposal of a previously consolidated subsidiary (see B below)	-	(1,008)	-	(622)	(1,008)
Change in pledged deposits, net	-	1,519	-	1,133	1,519
Net cash provided by (used in) investing activities	(11,064)	(1,274)	(4,174)	1,431	11,594

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

CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	For the six months Period ended June 30,		For the three months period ended June 30,		For the year ended December 31, 2017
	2018	2017	2018	2017	
	Unaudited				Audited
	In €000				
Cash flows from financing activities					
Proceeds from long-term loans	1,042	2,565	1,042	2,565	117,304
Repayment of long-term loans	(14)	(1,802)	(14)	(26)	(106,076)
Change in short-term loans and borrowings	14,743	14,897	1,357	6,629	8,156
Change in short term deposit	-	-	-	-	176
Change in other long term liabilities, net	111	168	28	144	5,538
Decrease in pledge deposit	-	(418)	-	(2,580)	-
Net cash provided by financing activities	<u>15,882</u>	<u>15,410</u>	<u>2,413</u>	<u>6,732</u>	<u>25,098</u>
Increase (decrease) in cash and cash equivalents	<u>10,491</u>	<u>(18,329)</u>	<u>203</u>	<u>960</u>	<u>(13,504)</u>
Cash relating to assets held for sale	<u>(12,168)</u>	<u>(13,364)</u>	<u>(612)</u>	<u>(822)</u>	<u>(9,049)</u>
Foreign exchange differences relating to cash and cash equivalents	<u>4,273</u>	<u>(3,994)</u>	<u>3,818</u>	<u>(3,419)</u>	<u>1,910</u>
Cash and cash equivalents at the beginning of the period	<u>37,140</u>	<u>57,783</u>	<u>36,327</u>	<u>25,377</u>	<u>57,783</u>
Cash and cash equivalents at the end of the period	<u><u>39,736</u></u>	<u><u>22,096</u></u>	<u><u>39,736</u></u>	<u><u>22,096</u></u>	<u><u>37,140</u></u>

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

CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	For the six months period ended June 30,		For the three months period ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In €000				
A. Adjustments to reconcile net profit (loss) to net cash charges / (credits) to profit (loss) not affecting operating cash flows:					
Share of loss of companies accounted for using the equity method	(2,536)	(9,415)	(896)	(4,371)	(17,770)
Gain on disposal of assets and investments in associates, net	-	-	-	-	(8,390)
Share-based payment	26	86	10	37	81
Depreciation and amortization	307	1,234	257	630	449
Fair value adjustments of investment property	2,105	785	2,105	785	4,181
Financial expense and exchange differences, net	8,392	24,357	14,223	4,092	27,178
Capital loss (gain) from sale tangible fixed assets	14	(793)	18	(793)	(831)
Fair value adjustments of derivative financial instrument	(196)	-	(274)	-	240
Changes in operating assets and liabilities:					
Change in trade and other receivables	(19,967)	(18,878)	(3,267)	(10,683)	(29,195)
Change in inventories	55,230	(8,414)	(80)	(6,338)	(13,918)
Change in contract work in progress, net of advances from customers	(42,001)	5,380	4,140	8,782	26,408
Change in trade and other payables	23,890	(3,002)	5,221	(1,726)	(18,453)
Dividend received	-	9,768	-	9,768	13,386
Interest paid	(6,824)	(10,914)	(3,588)	(3,077)	(16,781)
Interest received	426	327	307	231	304
Income taxes paid	(5,406)	(3,624)	(2,171)	(2,400)	(9,986)
	<u>13,460</u>	<u>(13,103)</u>	<u>16,005</u>	<u>(5,063)</u>	<u>(43,097)</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	For the six months period ended June 30,		For the three months period ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In €000				
B. Proceeds from sale/aquisition of subsidiaries (presented as assets held for sale)					
Working capital (excluding cash and cash equivalents and bank borrowings)	963	-	-	-	-
Property, plant and equipment	(46)	-	-	-	-
Goodwill	(757)	-	-	-	-
Asset classified as held for sale (*)	-	(1,008)	-	(622)	(1,008)
	160	(1,008)	-	(622)	(1,008)

(*) During the first half of 2017 the Company transferred a tax amount of €1 million to the PRC tax authorities for the remaining 25% of KWIG shares sold.

The accompanying notes are an integral part of these condensed interim consolidated financial statements

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

1. Corporate information

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 operating holding company which is engaged in the development of real estate and (water) infrastructure projects (discontinued operations, see Note 8), through its subsidiaries, joint ventures and associated companies.

The Company and its subsidiaries are referred to as 'the Group'.

These condensed interim consolidated financial statements were approved by the Board of Directors on August 22, 2018.

2. Financial Position and Going Concern

As at June 30, 2018 the Company had, on a stand-alone basis and on a consolidated basis, a working capital deficit of €11 million and €15 million, respectively (excluding debentures held by subsidiaries). For the six and three months periods ended June 30, 2018, the Company recorded a (consolidated and on a stand-alone basis) net loss of €0.3 million and €4.1 million, respectively, and generated negative cash flow from operating activities of €1.9 million and €0.9 million, respectively, on a stand-alone basis, and positive cash flow from operating activities of €5.7 million and €2.0 million, respectively, on a consolidated basis. In addition, as at June 30, 2018 the Company had a deficit of €25.8 million in its equity attributable to equity holders. The Company has not repaid the February 2018 principal and interest payments to the debenture holders and is in default according to the Deeds of Trust – see below.

In order to assess the liquidity position of the Company, management prepared a two-year liquidity analysis which indicates the required liquidity to be able to repay interest and principal of the Company's debentures and to finance its operating activities. Included in this analysis are, among others, the current cash balances and the projected cash from future operations and transactions. The main source of cash for the Company, in order to repay its debt, will be generated from the sale of assets. The Company is conducting processes, directly or through its subsidiaries, and negotiating transactions to sell assets with a number of prominent parties, which, it is expecting, will generate adequate resources to meet its liabilities, as well as strengthening its financial and equity position. The main process being the sale of TGI.

On January 11, 2018 the Company announced that following updated information received that day, it would not be able to complete a transaction for the sale of its holdings in TGI in a manner that would enable the Company to meet the scheduled payments to the debenture holders in February 2018. Further to this announcement, the Company has not repaid the principal and interest payments which were due in February 2018. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, as at June 30, 2018 (and until the repayments are rescheduled) the debentures are presented as current liabilities. Management is currently conducting advanced discussions with the representatives of the Debenture Holders in order to reach an agreement on postponing the payments as part of a new debt settlement.

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

In addition, the Company is conducting advanced negotiation with respect to the intended sale of TGI. Based on this negotiation, the Company estimates that the majority of the consideration will be received at closing and will be used to repay the debentures. The remaining consideration will be held in escrow to secure certain representations for a limited period of time.

The directors expect that, taking into account the current status of the discussions with the Debenture Holders and taking into account the plans to realize the transactions and the progress which has been made in that respect, as mentioned-above, the Company has the ability to obtain the required resources for repaying its obligations and continue its business operations in the future. Management believes that a controlled sale of assets is in the best interest of all stakeholders. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

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

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

3. Basis of presentation and preparation

A. General

The condensed interim consolidated financial statements as at June 30, 2018 have been prepared in accordance with International Accounting Standard (IAS) 34 as defined by the International Accounting Standards Board and as endorsed by the European Union to be used for the preparation of interim consolidated financial statements.

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2017 ('the 2017 annual financial statements').

The accounting policies adopted in the preparation of these condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2017.

New standards and amendments to standards have been effective in 2018 and adopted by the Group:

IFRS 15 Revenue from Contracts with Customers

As described in Note 4CC to the 2017 annual financial statements regarding the first-time implementation of International Financial Reporting Standard No. 15 - Revenues from Customer Contracts ("the Standard"), the Company applied IFRS 15 in accordance with the transitional directive. This transitional directive allows the modified retrospective application. The modified retrospective application allows recognition of the accumulative effect of the initial application as an adjustment of the opening balance of retained earnings in the period of initial application as at January 1, 2018 in the amount of €0.7 million. Comparative prior period/year are not adjusted.

Regarding the accounting policy implemented until December 31, 2017 in respect of the revenue recognition - see Note 4U to the 2017 annual financial statements.

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

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

- 1) Identify the contract(s) with a customer;
- 2) Identify the performance obligations in the contract;
- 3) Determine the transaction price;
- 4) Allocate the transaction price to the different performance obligations in the contract; and
- 5) Recognize revenue when (or as) the entity satisfies a performance obligation.

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

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

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

Revenue recognition

In accordance with the Standard, revenue from customer contracts is recognized in profit or loss when control of the asset or service is transferred to the customer. Revenue is measured and recognized at fair value of the consideration expected to be received in accordance with the terms of the contract, net of the amounts collected in favor of third parties (such as taxes). Revenue is recognized in profit or loss to the extent that the economic benefits are expected to flow to the Company, and the income and expenses, if relevant, can be measured reliably.

Rental income

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

Sale of apartments

The Company is operating in construction and sale of residential properties and offices in China.

In accordance with the law, regulations and the commercial characteristic in China, in case of a mortgage taken for the purchase of an apartment, the control over the property is transferred to the buyer only upon delivery of the apartment and therefore the income from the sale of the residential units, offices and commercial areas is recognized at one point (on the date of delivery), in cases where the apartment was purchased without the a bank financing, no asset was created with alternative use of the company, and it has an enforceable right for payment based on percentage of completion up to that date. Under these circumstances, the company recognizes income over time. The percentage of completion is determined based on completion of engineering stages of the work.

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

The Company applied IFRS 9 from the annual reporting periods beginning on January 1, 2018, Retrospective application is required, but comparative information is not compulsory.

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

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

Classification and measurement:

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

1. Those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
2. Those to be measured at amortised cost.

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

The impact of classification and measurement is not material (i.e. no transfer between categories)

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Impairment of financial assets

The Group has four types of financial assets that are subject to IFRS 9 new expected credit loss model

- Loans to joint ventures
- Long term loans and receivables
- Trade receivables
- Other receivables and prepayments

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology was immaterial.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

A. NEW STANDARDS AND AMENDMENTS NOT YET ADOPTED BY THE GROUP**IFRS 16 Leases**

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

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

In addition, it should be noted that the Company chose to apply the exemption from recognition of short-term leases and to leases in which the underlying asset is of low value.

The Company is in the process of evaluating the potential impact of IFRS 16 on its financial statements.

4. Segment information

A. Segments results:

(1) For the six months ended June 30, 2018:

	Real Estate			Total
	Development	Investment property	Other	
Unaudited				
€in thousands				
Revenues	65,866	2,742	-	68,608
Adjustment to fair value of investment property	-	(2,105)	-	(2,105)
Total Income	65,866	637	-	66,503
Share in profit of investment accounted using the equity method	1,926	-	908	2,834
Segment result	2,124	(2,992)	826	(42)
Unallocated expenses				(2,878)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net				(2,920)
Finance expenses, net				(7,775)
Loss before income tax				(10,695)
Income tax expense				(1,252)
Loss from continuing operations				(11,947)
Profit from discontinued operations				2,605
Loss for the period				(9,342)

(2) For the six months ended June 30, 2017:

	Real Estate			Total
	Development	Investment property	Other	
Unaudited				
€in thousands				
Revenues	1,458	2,864	-	4,322
Adjustment to fair value of investment property	-	(785)	-	(785)
Total Income	1,458	2,079	-	3,537
Share in profit of investment accounted using the equity method	8,369	-	1,562	9,931
Segment result	8,229	(2,475)	1,408	7,162
Unallocated expenses				(3,557)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net				3,605
Finance expenses, net				(24,615)
Loss before income tax				(21,010)
Income tax expense				(1,186)
Loss from continuing operations				(22,196)
Profit from discontinued operations				1,480
Loss for the period				(20,716)

(3) For the three months ended June 30, 2018:

	Real Estate			Total
	Development	Investment property	Other	
	Unaudited			
€in thousands				
Revenues	4,059	1,473	-	5,532
Adjustment to fair value of investment property	-	(2,105)	-	(2,105)
Total Income	<u>4,059</u>	<u>(632)</u>	<u>-</u>	<u>3,427</u>
Share in profit of investment accounted using the equity method	<u>687</u>	<u>-</u>	<u>435</u>	<u>1,122</u>
Segment result	<u>121</u>	<u>(2,360)</u>	<u>394</u>	<u>(1,845)</u>
Unallocated expenses				<u>(962)</u>
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net				<u>(2,807)</u>
Finance expenses, net				<u>(14,121)</u>
Loss before income tax				<u>(16,928)</u>
Income tax benefit				<u>375</u>
Loss from continuing operations				<u>(16,553)</u>
Profit from discontinued operations				<u>2,443</u>
Loss for the period				<u>(14,110)</u>

(4) For the three months ended June 30, 2017:

	Real Estate			Total
	Development	Investment property	Other	
	Unaudited			
€in thousands				
Revenues	1,272	1,408	-	2,680
Adjustment to fair value of investment property	-	(785)	-	(785)
Total Income	<u>1,272</u>	<u>623</u>	<u>-</u>	<u>1,895</u>
Share in profit of investment accounted using the equity method	<u>3,762</u>	<u>-</u>	<u>807</u>	<u>4,569</u>
Segment result	<u>3,846</u>	<u>(1,610)</u>	<u>707</u>	<u>2,943</u>
Unallocated expenses				<u>(1,769)</u>
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net				<u>1,174</u>
Finance expenses, net				<u>(4,708)</u>
Loss before income tax				<u>(3,534)</u>
Income tax benefit				<u>35</u>
Loss from continuing operations				<u>(3,499)</u>
Profit from discontinued operations				<u>906</u>
Loss for the period				<u>(2,593)</u>

(5) For the year ended December 31, 2017:

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

B. Segments assets

	June 30,		December 31
	2018	2017	2017
	Unaudited		Audited
	€in thousands		
Real Estate – Development	125,327	165,844	176,320
Real Estate – Investment property	234,164	240,273	232,326
	359,491	406,117	408,646
Assets held for sale (former water infrastructure)	197,238	172,973	183,354
Unallocated assets (*)	89,840	58,167	76,576
	646,569	637,257	668,576

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

C. Segments liabilities

	June 30,		December 31
	2018	2017	2017
	Unaudited		Audited
	€in thousands		
Real Estate – Development	62,256	75,442	101,538
Real Estate – Investment property	2,698	3,260	7,958
	64,954	78,702	109,496
Liabilities associated with assets held for sale (former water infrastructure segment)	151,119	125,272	132,798
Unallocated liabilities (*)	453,497	427,880	427,108
	<u>669,570</u>	<u>631,854</u>	<u>669,402</u>

(*) Most unallocated liabilities relate to the finance on the level of the holding companies.

5. Share capital

Composition

	June 30, 2018		December 31, 2017	
	Unaudited		Audited	
	Authorized	Issued and Paid-in	Authorized	Issued and Paid-in
	Number of shares		Number of shares	
Ordinary shares with nominal value of €0.20 each	225,000,000	123,022,256	225,000,000	123,022,256

6. Financial Instruments and Risk Management

Further to Note 35 to the 2017 annual financial statements, set out below is additional information regarding financial instruments and risk management:

- 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.

Fair value schedule

Level	June 30, 2018		June 30, 2017		December 31, 2017		
	Unaudited		Unaudited		Audited		
	€000'						
	Carrying amount (*)	Fair value (**)	Carrying amount (*)	Fair value (**)	Carrying amount (*)	Fair value (**)	
Liabilities							
Traded Debentures issued by the Company (series A and B)	1	247,141	105,233	304,068	203,606	301,484	177,856
Debentures issued by the Company that ceased to be traded (Series B) (***)	2	65,916	22,616	-	-	-	-

(*) Including accrued interest.

(**) Price on the Tel-Aviv Stock Exchange.

(***) Portion of Debentures Series B that were not repaid and therefore ceased to be traded on the Tel Aviv Stock Exchange. The repayment date of Debentures Series A was postponed and accordingly these debentures continue to be traded.

The fair value of Series B debentures that were delisted from trading was determined according to the market value of series B debentures that remained listed.

Financial instruments for which fair value could not be determined are immaterial.

B. Level 3 financial assets and liabilities reconciliation

Level 3 reconciliation:

	As of January 1, 2018 (*)	Transactions recorded in P&L	As of June 30, 2018
	Audited	Unaudited	
		In €000	
Put options	1,306	(634)	672

(*) Not including a balance of €2,093 thousand which is presented as a liability associated with assets held for sale as of June 30, 2018 (see Note 8).

In March 2018 50% of the Put option was cancelled.

There were no material changes in the valuation processes, the valuation methods used, and the assumptions applied and (narrative) sensitivities, for recurring fair value measurements of investment properties and the above mentioned financial assets and liabilities, for additional information on fair value refer to Note 35 to the 2017 annual financial statements.

C. Further to Note 7 to the 2017 annual financial statements, as of June 30, 2018 there were no material changes to the significant assumptions that were used in the valuation of investment property (Galleria Dalian) as at December 31, 2017, apart from adjustments to certain parameters in order to reflect changes as at June 30, 2018. The adjustments resulted in a decrease in the value of the investment property of €2.1 million.

7. Joint Ventures

Summary of financial information of a material joint venture accounted for using the equity method

1. Green Power Development Ltd. (a joint venture of KLC)

	June 30, 2018	June 30, 2017	December 31, 2017		
	Unaudited	Unaudited	Audited		
	In €000				
Current assets (not including cash and cash equivalent)	64,150	67,682	44,697		
Cash and cash equivalent	2,876	35,147	28,045		
Non-current assets	2,930	3,909	3,022		
Current liabilities	(25,824)	(45,765)	(25,629)		
Current financial liabilities	(10,265)	(43,043)	(18,161)		
Non controlling interest holders	(1,843)	(3,384)	(1,677)		
Total equity attributed to the owners	32,024	14,546	30,297		
% held in the joint venture	50%	50%	50%		
Total investment in joint ventures	16,012	7,273	15,149		
Deemed cost on projects	196	217	202		
Total investment in joint ventures	16,208	7,490	15,351		
	For the six months period ended June 30,		For the three months period ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In €000				
Revenues from operations	7,944	62,608	2,772	11,198	77,246
Cost of operations	(5,362)	(42,995)	(1,753)	(7,066)	(50,256)
Selling and marketing, other expenses net, and administrative expenses	(1,224)	(3,142)	(756)	(997)	(4,577)
Other financial income (expenses)	569	2,732	(124)	2,201	10,723
Profit before tax	1,927	19,203	139	5,336	33,136
Income tax expenses	(1,267)	(6,128)	(609)	(2,332)	(9,116)
Net profit (loss)	660	13,075	(470)	3,004	24,020
Profit (loss) attributed to non-controlling equity holders	70	609	(20)	609	1,338
Profit (loss) for the year attributed to equity holders	590	12,466	(450)	2,395	22,682
% held of the joint venture	50%	50%	50%	50%	50%
Group's share of profit (loss) for the year	295	6,233	(225)	1,197	11,341
Realizing of deemed cost on projects	(7)	(167)	(2)	(12)	(181)
Group's share of profit (loss) for the year	288	6,066	(227)	1,185	11,160
Total other comprehensive income (expenses) attributed to equity holders	1,066	(2,244)	346	(1,800)	13,080
% held of the joint venture	50	50	50	50	50
Group share of the total other comprehensive income (expenses)	533	(1,122)	173	(900)	6,540

2. Shanxi GTC Lucky Hope Real Estate Development Ltd. (a joint venture of KLC)

	June 30, 2018	June 30, 2017	December 31, 2017
	Unaudited	Unaudited	Audited
	In €000		
Current assets (not including cash and cash equivalent)	79,444	111,918	83,640
Cash and cash equivalent	56,648	26,332	27,342
Non-current assets	12,790	12,768	13,390
Current liabilities	(96,910)	(112,248)	(88,496)
Current financial liabilities	(17,512)	(8,884)	(6,702)
Total equity attributed to the owners	34,460	29,886	29,174
% held in the joint venture	50	50	50
Total investment in joint ventures	17,230	14,943	14,587

	For the six months period ended June 30,		For the three months period ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	In €000				
Revenues from operations	20,964	15,888	17,370	13,328	60,712
Cost of operations	(13,160)	(10,116)	(12,240)	(8,630)	(40,066)
Selling and marketing, other expenses, and administrative expenses	(2,284)	(1,352)	(1,410)	(524)	(7,178)
Other financial income	72	68	20	38	120
Profit before tax	5,592	4,488	3,740	4,212	13,588
Income tax expenses	(1,402)	(846)	(946)	(758)	(3,396)
Profit for the year attributed to equity holders	4,190	3,642	2,794	3,454	10,192
% held of the joint venture	50	50	50	50	50
Group's share of profit for the year	2,095	1,821	1,397	1,727	5,096
Total other comprehensive income attributed to equity holders	4,778	1,494	3,128	1,720	7,038
% held of the joint venture	50	50	50	50	50
Group share of the total other comprehensive income	2,389	747	1,564	860	3,519

8. Discontinued operations and assets held for sale

A. Regarding the presentation of TGI as discontinued operations and asset held for sale, please refer to Note 2.

B. Assets held for sale and liabilities associated with assets held for sale

	June 30, 2018	June 30, 2017	December 31, 2017
	TGI	TGI	TGI
	Unaudited		Audited
	€'000		
Assets			
Trade receivables	44,231	43,101	39,068
Accrued income	56,193	33,156	57,333
Other current assets	35,535	32,014	35,730
Tangible fixed assets	16,197	17,031	19,822
Other non-current	23,864	34,307	22,352
Cash and cash	21,218	13,364	9,049
Total assets	197,238	172,973	183,354
Liabilities			
Interest bearing loans	41,082	29,397	21,903
Due to customers for contract work	34,123	39,740	48,147
Other liabilities	75,914	56,135	62,748
Total liabilities	151,119	125,272	132,798
Net asset value	46,119	47,701	50,556

In accordance with IFRS 5, the net asset value of TGI is presented as held for sale in their carrying amount which is lower than their fair values less costs to sell.

C. Net profit from discontinued operations:

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	€'000				
	TGI				
Income	73,677	74,229	42,060	43,070	176,442
Operating and finance expenses and Share of profit of investments accounted for using the equity method, net	(70,769)	(72,581)	(39,173)	(41,676)	(166,357)
Other income, net	-	-	-	-	7,795
Profit before tax	2,908	1,648	2,887	1,394	17,880
Income tax expenses (benefit), net	303	168	444	488	5,097
Profit from discontinued operations	2,605	1,480	2,443	906	12,783
Attributable to:					
Equity holders	873	2,215	1,210	1,320	12,582
Non-controlling interest holders	1,732	(735)	1,233	(414)	201
	2,605	1,480	2,443	906	12,783

D. Composition of the cash flow statements related to discontinued operations:

	Six months ended June 30,		Three months ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	€'000				
	TGI				
Net cash used in operating activities	(3,937)	(19,654)	(2,086)	(8,599)	(27,821)
Net cash provided by (used in) investing activities	(3,256)	(4,755)	(3,216)	(1,584)	3,401
Net cash provided by (used in) financing activities	15,894	14,999	2,425	6,747	13,940

E. Composition of other comprehensive income items related to discontinued operations:

	Six months ended June 30,		Three months ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	€'000				
	TGI				
Adjustments arising from translating financial statements of foreign operations	(9,527)	(1,376)	(1,323)	(2,285)	(3,746)
Change in hedge reserve, net	-	(13)	-	(127)	(13)
Total other comprehensive expense	(9,527)	(1,389)	(1,323)	(2,412)	(3,759)
Attributable to:					
Equity holders	(6,673)	(1,403)	(430)	(2,261)	(3,345)
Non-controlling interest holders	(2,854)	14	(893)	(151)	(414)
	(9,527)	(1,389)	(1,323)	(2,412)	(3,759)

9. Financial Covenants

Further to Note 25A to the 2017 annual financial statements, as at June 30, 2018 the Company did not meet its financial covenant, as agreed with the Company's debenture holders. As of June 30, 2018 the other Group companies meet their financial covenants.

Review report

To: the shareholders of Kardan N.V.

Introduction

We have reviewed the accompanying condensed interim consolidated financial information of Kardan N.V., Amsterdam, which comprises the condensed interim consolidated statement of financial position as at 30 June 2018, the condensed interim consolidated income statement, the condensed interim consolidated statement of comprehensive income, the condensed interim consolidated statement of changes in equity, the condensed interim consolidated statement of cash flows and the selected explanatory notes for the three and six months period then ended. Management is responsible for the preparation and presentation of this (condensed) interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, Review of Interim Financial Information Performed by the Independent Auditor of the company. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated interim financial information as at 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Material uncertainty related to going concern

We draw attention to the financial position and going concern paragraph in note 2 of the condensed interim consolidated financial information, which indicates that the Company is negotiating a new debt settlement with its debenture holders. It also indicates that in February 2018 the Company has not repaid the principal and interest payments which were due in February 2018. Hence, the Company is in default according to the Deed of Trust as of February 2018.

The main source of cash for the Company, in order to repay its debt, will be generated from the sale of assets. The realization of the Company's plans depends on factors that are not within the Company's control, including the approval of the debenture holders to a debt settlement, and therefore there is uncertainty that such transactions will be completed at all or that the discussions with the Debenture Holders will result in rescheduling of payments. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Amsterdam, 22 August 2018
PricewaterhouseCoopers Accountants N.V.
A.H. Zoon RA

ADDITIONAL INFORMATION

Required under to rule 38(D) of the Israeli Securities and exchange regulations
(Periodic and immediate reports), 1970

KARDAN N.V.

Presentation of separate financial data included annexed to the

Consolidated financial statements related to the Company

As of June 30, 2018

**ADDITIONAL FINANCIAL INFORMATION FROM THE COMPANY'S
STATEMENT OF FINANCIAL POSITION**

June 30, 2018

	June 30, 2018	June 30, 2017	December 31, 2017
	€in thousand		
A s s e t s			
Non-current assets			
Property and equipment	131	83	128
Financial fixed assets			
Investments in consolidated subsidiaries	368,086	385,663	372,256
Loans to consolidated subsidiaries	24	24	24
	<u>368,110</u>	<u>385,687</u>	<u>372,280</u>
Current assets			
Cash and cash equivalents	1,605	1,422	5,979
Short-term investments	169	131	169
Other receivables and derivatives	1,591	1,386	1,406
	<u>3,365</u>	<u>2,939</u>	<u>7,554</u>
Total assets	<u>371,606</u>	<u>388,709</u>	<u>379,962</u>
E q u i t y a n d l i a b i l i t i e s			
Equity attributable to equity shareholders			
Issued and paid-in capital	25,276	25,276	25,276
Share premium	206,482	206,482	206,482
Foreign currency translation reserve	(3,373)	7,840	37
Property revaluation reserve	30,058	34,183	31,637
Other reserves	5,200	6,107	5,586
Accumulated deficit	(289,432)	(278,812)	(273,386)
	<u>(25,789)</u>	<u>1,076</u>	<u>(4,368)</u>
Long-term liabilities			
Debentures	-	217,811	216,087
Option liability	2,758	3,107	3,323
	<u>2,758</u>	<u>220,918</u>	<u>219,410</u>
Current liabilities			
Current maturities of debentures	360,102	155,233	141,901
Other payables	34,535	11,482	23,019
	<u>394,637</u>	<u>166,715</u>	<u>164,920</u>
Total equity and liabilities	<u>371,606</u>	<u>388,709</u>	<u>379,962</u>

ADDITIONAL INFORMATION FROM THE COMPANY'S INCOME STATEMENT

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	€in thousand				
Net result from investments for the period	(4,688)	2,248	813	(1,635)	2,785
General and administrative expenses, net	1,276	1,667	173	787	3,459
Income from operations before financing expenses	(5,964)	581	640	(2,422)	(674)
Financing expenses, net	(4,981)	(20,390)	(15,923)	331	(16,081)
Loss before tax expenses (benefit)	(10,945)	(19,809)	(15,283)	(2,091)	(16,755)
Income tax expense (benefit)	(129)	(172)	(60)	(87)	(346)
Loss for the period	(11,074)	(19,981)	(15,343)	(2,178)	(17,101)

ADDITIONAL INFORMATION FROM THE COMPANY'S STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	€in thousand				
Net result for the period	<u>(11,074)</u>	<u>(19,981)</u>	<u>(15,343)</u>	<u>(2,178)</u>	<u>(17,101)</u>
Foreign currency translation differences	(3,410)	(15,750)	2,472	(14,145)	(23,553)
Change in hedge reserve, net	<u>(388)</u>	<u>(528)</u>	<u>(180)</u>	<u>(384)</u>	<u>(1,051)</u>
Other comprehensive income (loss) for the period	<u>(3,798)</u>	<u>(16,278)</u>	<u>2,292</u>	<u>(14,529)</u>	<u>(24,604)</u>
Total comprehensive loss	<u>(14,872)</u>	<u>(36,259)</u>	<u>(13,051)</u>	<u>(16,707)</u>	<u>(41,705)</u>

ADDITIONAL INFORMATION FROM THE COMPANY'S CASH FLOW STATEMENT

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
€in thousand					
Cash flow from operating activities of the Company					
Loss for the period	(11,074)	(19,981)	(15,343)	(2,178)	(17,101)
Adjustments to reconcile net profit to net cash of the Company					
Charges to net loss not affecting operating cash flows:					
Financial expenses	4,879	20,610	15,865	(226)	16,317
Fair value loss on derivative financial instruments	(196)	-	(274)	-	240
Share-based payment	2	(1)	1	-	4
Equity earnings	4,688	(2,248)	(813)	1,635	(2,785)
Changes in working capital of the Company					
Change in receivables	(66)	(369)	54	(114)	(89)
Change in payables	(107)	(202)	(345)	(242)	(352)
Cash amounts paid and received during the period					
Dividend received from consolidated companies	-	11,500	-	-	18,170
Interest received	-	(4,457)	-	-	(4,457)
Interest paid	-	-	-	-	-
Net cash provided by (used in) operating activities of the Company	(1,874)	4,852	(855)	(1,125)	9,947
Cash flow from investing activities of the Company					
Short term investments, net	-	-	-	-	(38)
Investments in subsidiaries	(2,500)	(5,184)	(2,500)	(5,121)	(5,684)
Net cash provided by (used in) investing activities of the Company	(2,500)	(5,184)	(2,500)	(5,121)	(5,722)
Net cash used in financing activities of the Company	-	-	-	-	-
Increase (decrease) in cash and cash equivalents of the Company	(4,373)	(332)	(3,355)	(6,246)	4,225
Cash and cash equivalents at beginning of the period of the Company	5,979	1,754	4,960	7,668	1,754
Cash and cash equivalents at end of the period of the Company	1,605	1,422	1,605	1,422	5,979

ADDITIONAL INFORMATION

1. General

This condensed interim separate financial information is presented in accordance to rule 38(D) of the Israeli Securities and Exchange Regulations (periodic and immediate reports), 1970.

This condensed interim separate financial information should be read in conjunction with the additional separate financial information for the year ended December 31, 2017 and the accompanying notes, and in conjunction to the condensed interim consolidated financial statements for the six and three months ended June 30, 2018.

2. Financial position and going concern

As at June 30, 2018 the Company had, on a stand-alone basis and on a consolidated basis, a working capital deficit of €11 million and €15 million, respectively (excluding debentures held by subsidiaries). For the six and three months periods ended June 30, 2018, the Company recorded a (consolidated and on a stand-alone basis) net loss of €0.3 million and €4.1 million, respectively, and generated negative cash flow from operating activities of €0.9 million and €0.9 million, respectively, on a stand-alone basis, and positive cash flow from operating activities of €0.7 million and €2.0 million, respectively, on a consolidated basis. In addition, as at June 30, 2018 the Company had a deficit of €25.8 million in its equity attributable to equity holders. The Company has not repaid the February 2018 principal and interest payments to the debenture holders and is in default according to the Deeds of Trust – see below.

In order to assess the liquidity position of the Company, management prepared a two-year liquidity analysis which indicates the required liquidity to be able to repay interest and principal of the Company's debentures and to finance its operating activities. Included in this analysis are, among others, the current cash balances and the projected cash from future operations and transactions. The main source of cash for the Company, in order to repay its debt, will be generated from the sale of assets. The Company is conducting processes, directly or through its subsidiaries, and negotiating transactions to sell assets with a number of prominent parties, which, it is expecting, will generate adequate resources to meet its liabilities, as well as strengthening its financial and equity position. The main process being the sale of TGI.

On January 11, 2018 the Company announced that following updated information received that day, it would not be able to complete a transaction for the sale of its holdings in TGI in a manner that would enable the Company to meet the scheduled payments to the debenture holders in February 2018. Further to this announcement, the Company has not repaid the principal and interest payments which were due in February 2018. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, as at June 30, 2018 (and until the repayments are rescheduled) the debentures are presented as current liabilities. Management is currently conducting advanced discussions with the representatives of the Debenture Holders in order to reach an agreement on postponing the payments as part of a new debt settlement.

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

In addition, the Company is conducting advanced negotiation with respect to the intended sale of TGI. Based on this negotiation, the Company estimates that the majority of the consideration will be received at closing and will be used to repay the debentures. The remaining consideration will be held in escrow to secure certain representations for a limited period of time.

The directors expect that, taking into account the current status of the discussions with the Debenture Holders and taking into account the plans to realize the transactions and the progress which has been made in that respect, as mentioned-above, the Company has the ability to obtain the required resources for repaying its obligations and continue its business operations in the future. Management believes that a controlled sale of assets is in the best interest of all stakeholders. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

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

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