KARDAN N.V.

Part B – Report of the Board of Directors

Financial position

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

	December 31, 2018	December 31, 2017	Notes
Current assets	388,402	362,952	The increase as of December 31, 2018 in current assets compared to December 31, 2017, is mainly due to reclassification of the investment in joint venture Avis Ukraine as 'Assets Held for Sale' under current assets, and increase in the assets of a subsidiary classified as held for sale. The increase was partly offset by the decrease in apartment inventory following the delivery of building B in the Europark Dalian project.
Non-current assets	256,489	305,624	The decrease as of December 31, 2018 in non-current assets compared to December 31, 2017, is mainly due to the reclassification of the investment in joint venture Avis Ukraine as 'Assets Held for Sale' in the current assets, due to the repayment of loans granted to companies accounted for using the equity method, and due to the devaluation of the investment property.
Total balance sheet	644,891	668,576	The decrease in total balance sheet compared to December 31 2017, is mainly due to the decrease in apartment inventory following the delivery of building B.
Current maturities of debentures	282,703	95,452	In February 2018 the Company did not make the scheduled payments to the Debenture Holders series A and B, and therefore the entire outstanding debt was classified as current liabilities.
Other current liabilities	322,670	271,594	The increase in the other current liabilities compared to December 31, 2017 is mainly due to the increase in short term credit lines usage in the water infrastructure activity, which is presented as Held-For-Sale, partially offset by the decrease in the advances from apartment buyers following the delivery of building B in Europark Dalian project.
Current liabilities	605,373	367,046	The increase as at December 31, 2018 compared to December 31, 2017 is a result of the classification of the debentures as current liabilities.
Debentures	-	188,708	The decrease as of December 31, 2018 compared to December 31, 2017 is due to the classification of the entire debentures balance as current maturities.
Long term Interest-bearing loans and borrowings	87,287	104,933	The change as at December 31, 2018 compared to December 31, 2017 is mainly due to partial early repayment of the Europark Dalian project loan, in the amount of €16 million.
Other non-current liabilities	5,988	8,715	No material change compared to December 31, 2017.
Non-current liabilities	93,275	302,356	The decrease compared to December 31, 2017 is due to the classification of the entire debentures outstanding balance as current liabilities as of December 31, 2018.
Equity (deficit) attributable to equity holders of the parent	(59,497)	(4,368)	The increase in the deficit compared to December 31, 2017, is mainly due to the result for the period, negative foreign currency translation differences (other comprehensive expense), and the impact of the adoption of new accounting standard (IFRS 9) for the first time, as described in note 4 to the financial statements.

2. Cash Flow Statement analysis (in EUR thousands)

	FY 2018	FY 2017	FY 2016	Notes
Net cash used in operating activities	(3,290)	(50,196)	(51,944)	Cash flow from operating activities includes the following: In 2018, €52 million were generated from the decrease in apartment inventory following the delivery of building B in the Europark Dalian project; €44 million were used for changes in operating assets and liabilities. Finance and exchange rate expenses were partially offset by interest and tax payments. In 2017, €70 million were used for changes in operating assets and liabilities, equity losses from joint ventures, and interest expenses, which were partly offset by positive exchange rate impact. In addition, the Company repaid approximately € 4 million of remaining interest on its debentures which fell due in February 2017. In 2016, most of the deficit is a result of interest and tax payments of €59 million, and to changes in operating assets and liabilities.
Net cash provided by (used in) investing activities	1,347	11,594	74,492	In 2018, €12.5 million were generated from collection of loans granted to companies accounted for using the equity method, which were partially offset by investment in fixed assets in the water infrastructure activity. In 2017, approximately €20 million were generated from the sale of Star Pumped Storage, partially offset by investments in fixed assets in the water infrastructure activities. In the year 2016 € 104 million were generated from the sale of TBIF and € 2.8 million were proceeds from the sale of the assets of the subsidiary Foodyard in Bulgaria; on the other hand, € 7.7 million were used for investment in fixed assets and investment properties.
Net cash provided by (used in) financing activities	11,824	25,098	(66,346)	In 2018, €27 million were generated from short term credit provided to the water infrastructure activity, and were partially offset by repayment of long term loans in the amount of €16 in the real estate activity. In 2017, €11.2 million were generated from long term loans (net) in the real estate activity, and €8.2 million were generated from short term credit provided to the water infrastructure activity. In 2016, €86.5 million were used for the early repayment of debentures, and €28 million were provided by short and long term loans.

Kardan finances its operations by the Company's debentures, the sale of assets and dividend receipts 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 Part A to the Israeli Annual Report 2018. 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 is not significantly different than their book value as at December 31, 2018. The cost of the short-term and long-term credit amounted to €34.1 million in 2018 (out of which €2.6 relate to short term credit), and €33 million in 2017 (out of which €0.2 relate to short term credit), including cost in relation to the Company's debentures.

The average balance of trade receivables and trade payables is €6.4 million and €5.5 million, respectively, compared to €4.9 million and €2.8 million in 2017, respectively.

3. Cash Flow Forecast

The audit opinion of the external auditors as of December 31, 2018, includes a mandatory emphasis of matter regarding the ability of the Company to continue as a going concern (see also Note 1 to the consolidated IFRS financial statements). In addition, the Company presents in its financial statements as at December 31, 2018 an equity deficit, and a negative working capital on a consolidated and stand-alone basis and a continuing 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 January 1, 2019.

As announced by the Company, payments to the debenture holders that were scheduled for February 2018 were not paid on time and were not paid by the date of this report. As at the date of this report, the Company is negotiating with the debenture holders the rescheduling of the payments and reached understandings with the Trustee of the Debenture Holders series B regarding the main principles of a debt settlement which include, among others: the principal amount of the Debentures and the interest rate will remain unchanged; the final repayment date of the Debentures will be postponed to December 2021; In parallel the Company will commit to sell assets – and in relation to one asset, according to an agreed upon timetable – and to use the funds received from such disposals for early repayment of Debentures A and B, and other uses according to terms which will be detailed in amended deeds of trust ('The New Debt Settlement Principles'). In addition, the Company will pay each year interest at a rate of 4% p.a. The remaining interest will be payable at each date the Company repays (part of) the principal of the Debentures. For additional information, refer to the announcement issued by the Company on October 23, 2018.

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 payments, that, as the date of this report, the Company reached agreements with the trustee of debenture holders series B regarding the principles of a new debt settlement with the debenture holders and that the Company is preparing to implement these principles, the cash flow forecast was prepared under the assumption that the terms of the Debentures will be adjusted according to the New Debt Settlement Principles. Accordingly, the following cash flow forecast includes, inter alia, the interest payments to the debenture holders that were fixed for February 2018 (which have not yet been paid), the balance payments to debenture holders Series B as well as the early repayment of the debt to the Debenture Holders (pro-rata to Series A and B), according to the New Debt Settlement Principles.
It should be noted that to best of the Company's knowledge, to date, the negotiations between the trustees of the Debenture Holders series A and B regarding the order of the repayments of debt between the two series are ongoing and that the Company is conducting negotiations with the Debenture Holders regarding the terms of the amended debt settlement. Accordingly, it is possible that the final agreement approved by the assemblies of the Debenture Holders will be different than the New Debt Settlement Principles according to which the cash-flow forecast was prepared. Such change would impact the sources detailed in the cash flow forecast, and the amounts paid to the debenture holders.

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

Forecast cash flow (EUR million)	January 1, 2019 - December 31, 2019	January 1, 2020 – December 31, 2020
Cash and cash equivalents at the beginning of the period	**20.7**	**2.8**
From operating activities		
General and administrative expenses	(3.4)	(3.1)
From investing activities		
Sale of shares and holdings in a subsidiaries and joint ventures (2) – (3)	110.4	-
Dividend distribution (4)	8.0	7.5
Release of deposit (5)	4.0	-
Loan repayment (6)	1.1	1.1
Total Resources	**140.8**	**8.3**
From financing activities (7) – (10)		
Principal and interest payment of debentures – Series A	(5.8)	-
Principal and interest payment of debentures – Series B	(132.2)	-
Total Uses	**(138.0)**	**-**
Cash and cash equivalents at the end of the period	**2.8**	**8.3**

Main Assumptions to the Cash Flow Forecast

1. The cash flow forecast has been jointly prepared for Kardan NV (company-only) and its wholly owned subsidiaries GTC Real Estate Holding BV, Kardan Financial Services BV, and Emerging Investments XII BV, as the treasury of these companies is centralized. With respect to limitations regarding the transfer of funds between the companies, see note 12 below.

2. The cash flows from investing activities in 2019-2020 refer to considerations from the sale of TGI and Avis Ukraine, taking into account the assumptions, comments and reservations detailed below:

   a. As of the date of this report, the Company is conducting discussions with several parties regarding the possible sale or allocation of its holdings in TGI, in order to meet its obligations according to the New Debt Settlement Principles being formulated with the debenture holders (Series A and B). When preparing this cash flow forecast, it was assumed that all the amounts that will be received on the date of completing a transaction (during 2019) will be used by the Company to repay the debenture holders. However, as stated above, this is only an assumption, and there is no certainty that this assumption will actually materialize.

   b. The cash flow forecast was prepared under the assumption that the proceeds from the sale of TGI will be according to the considerations previously negotiated with third parties that did not materialize. It is emphasized that as of the date of this report, the Company in not conducting advanced negotiations with any party regarding the sale of TGI. Accordingly, **the Company <u>does not</u> have accurate information regarding the net consideration which would be received from exercising its holdings in TGI** and which would be used for repayments to the Debenture Holders**, and accordingly, <u>there is no certainty that sale agreements will be signed, that the expected consideration will equal the consideration included in the cash flow forecast, and there is no certainty as to the date on which the consideration would be received</u> by the Company.**

   c. It should also be noted that the Company is considering alternatives in the event that such sale is delayed. Due to the lack of certainty regarding the completion of the negotiations for the sale of TGI, including completion of a sale transaction in the timetables agreed upon with the representatives of the debenture holders, the option to include a provision in the debt settlement with the debenture holders to distribute TGI shares to the debenture holders as repayment of the Company's debt is being considered. Due to the fact that the terms of such distribution of TGI shares to the Debenture Holders and/or the distribution date have not yet been agreed, the cash flow forecast is prepared under the assumption that the distribution of TGI shares (if carried out) will be at a value reflecting the sale price of TGI shares to a third party, and therefore materializing TGI in such a manner will not affect the cash flow forecast. As mentioned above, as of the date of this report, the terms of the distribution of TGI shares to the Debenture Holders, the number of distributed shares, the distribution date etc. have not yet been agreed, and therefore, the distribution terms may be different. It should be emphasized that any change in the terms of the distribution in TGI shares will affect the cash flow forecast.

d. The cash flow forecast is taking into consideration that the proceeds from the sale of Avis Ukraine will equal the selling price as specified in the agreement signed in January 2019 (US$14.2 million) and completed on March 14, 2019.

e. It is noted that as of the date of this report, the Company is not conducting negotiations regarding the sale of its holdings in KLC (or in any of KLC's subsidiaries). The cash flow forecast therefore does not assume the receipt of proceeds from such transaction.

3. Generally, **uncertainty is inherent in a forecast of sales of assets, mainly due to dependence on third parties, inter alia, due to: the need to find potential buyers and to reach agreements with them regarding the terms of the transaction, the need to receive relevant approvals, the Company's need to obtain the approval of the Debenture Holders to the transactions, and the need of potential buyers to reach agreements with financing parties in order to obtain funding for such acquisitions. The forecast readers must take these facts into account when assessing the Company's probability of meeting the cash flow forecast.**

4. The 'Dividend distributions' line assumes the receipt of dividends from KLC, which will be received in KLC from Lucky Hope companies over several years. It is noted that as of the date of this report, no decision regarding distribution of dividends has been made in Lucky Hope companies and accordingly, such decision has not been made by KLC. Nevertheless, the assumption of the receipt of such dividends is in line with Lucky Hope companies' policy and the Company is not aware of any restrictions that may raise reasonable doubt regarding the distribution of such dividends. In addition, the Company is not aware of any restrictions on distributing the dividends detailed in the cash flow forecast by KLC.

5. The 'Release of deposit' line refers to the release of the remaining deposit of €4 million, which, as of December 31, 2018, was pledged to secure various representations in respect of the sale of the subsidiary TBIF in 2016. As of the date of this report, the pledge was removed.

6. Within the framework of the sale agreement of AVIS Ukraine, it was determined that loans provided by KFS to AVIS Ukraine will continue to stand in force and be repaid according to the loan agreement, and that AVIS Ukraine will provide collateral to secure repayment of these loans. As of the date of this report, the balance of the loans amounts to € 2.3 million and the loans are repaid in quarterly installments until December 2020.

7. As detailed in the press release issued by the Company on November 23, 2017, the Company approached the trustees of the Debenture Holders requesting them to conduct negotiations in relation to rescheduling the payments to the Debenture Holders (series A and B), due to reasonable possibility of delays in the sale process of TGI which 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 and February 2019.

8. **As noted above, the cash flow forecast was prepared assuming that the settlement that will be approved by the assemblies of the Debenture Holders will be according to the New Debt Settlement Principles (as defined above) and accordingly the cash flow forecast includes in the year 2019 the interest payments to debentures series B that were scheduled for February 2018 and were not yet repaid. The remaining outstanding payments are presented in the forecast based on the understandings with the trustees of the debenture holders Series B, according to which the balance payments to the Debenture Holders series B will be paid after the said interest payment, and thereafter the Company will repay the debt of each series according to the relative share of each series in the total debt. It should be noted that to best of the Company's knowledge the terms of the interest payments and balance payments are being reviewed by the trustees of the Debenture Holders series A and B and may change. It is further noted, as mentioned above, that as of the date of this report, the Company does not have the resources to make payments to the debenture holders in 2019 and 2020.**

9. **It is also noted that due to the fact that the cash flow forecast is assuming that the deeds of trust will be amended according to the New Debt Settlement Principles, according to which the debenture principal repayments (series A and B) will be delayed to December 2021, while the Company will be obligated to make early repayments from its available funds, the cash flow forecast assumes that the Company will make early repayments to the Debenture Holders out of the funds that will be made available to it from the sale of assets, dividends received and loan repayments. Accordingly, any change in the amounts that will be received in practice, will affect the amounts repaid to the Debenture Holders (series A and B). In light of the fact that the cash flow forecast assumes that the repayments to the Debenture Holders will be carried out of available funds, it does not include a split between the repayment of interest and principal to the Debenture Holders.**

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 <u>does not include interest for the subsequent period or interest in arrears</u> resulting from failure to meet the repayment dates set out in the Deeds of Trust and deferment of payments to the Debenture Holders, in light of the fact that as of the date of this report, the Company is unable to estimate the dates of repayments to the debenture holders, and therefore the Company has no information regarding the date of actual payment to the Debenture Holders and is unable to calculate the final interest, if paid. Readers of the cash flow forecast should take these facts into consideration, with all that it might entail or imply.**

11. The interest calculations are based on the Israeli CPI, exchange rates and interest rates which are applicable as of December 31, 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 € 7 million, in the amount of principal and interest payment in the years 2019 and 2020.

12. Restrictions on transferring funds:
    Transfer of funds between Kardan NV, GTC RE, Emerging Investments XII, and KFS is mostly done through intercompany loans or distribution of dividend or capital reserves as permitted by Dutch law[1]. For details regarding the limitations that apply on KLC, refer to section 7.6.8.7 to part A of the Israeli Annual Report. For details regarding the limitations that apply on TGI regarding the transfer of funds to the Company, refer to section 18.8 to part A of the Israeli Annual Report.

Breakdown of distributable reserves according to Dutch law and intercompany loans balances is as follows:

Subsidiary	Distributable reserves as of 31.12.18	Intercompany loan as of 31.12.18
	(EUR million)	
GTC RE	138.3	9.7
KFS	5.6	-
Emerging	65.2	-

13. 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), failure to reach an agreement with the Debenture Holders regarding the terms of the debt settlement, the disapproval of the debt settlement with the Debenture Holders, changes in the principles of the debt settlement and the principles of the debt settlement which were used in the basis of the preparation of the cash flow forecast, 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, failure to reach agreements with the Debenture Holders regarding the distribution of TGI shares, etc. The Company, being a holding company, is generating cash flows from its investee companies mainly through dividend distributions and repayments of shareholder loans or through the realization (in part or in full) of its stakes in the investee companies. The generation of such cash flows may at times be subject to factors which are out of the control of the Company (such as the need to obtain third parties consent, foreign currency exchange, market prices of assets, risk factors of the company and more). It may also be the case – as it is with the distribution of dividends – that such cash flows sources are dependent on resolutions to be taken by the relevant organs in those companies. For details regarding the risk factors which are relevant to the cash flow forecast, refer to sections 7.24, 8.18, 9.25 and 21 of part A of the 2018 Israeli Annual Report. Due attention should be given to the risk factors, which should be read together with the cash flow forecast. It should be noted that in case one or more of the underlying assumptions upon which the cash flow forecast was based fail to materialize, it might result in the inability of the Company to fulfill its obligations in accordance with the Debt Settlement.

14. A comparison between the cash flow forecast included in the 2017 annual report and the actual cash flow in 2018:

(EUR million)	January 1, 2018 – December 31, 2018	January 1, 2019 – December 31, 2019
Resources from investing activities		
Sale of shares and holdings in a subsidiary - negotiations for its sale have already begun	98.0	-
Sale of shares and holdings in subsidiaries - negotiations for their sale have not yet begun	12.0	-
Loan repayment and dividends	6.0	17.0
Resources from financing activities		
Principal and interest payment of debentures	113.7	-

The cash flow forecast presented in the financial statements as of December 31, 2017 assumed that the Company would receive cash from the sale of its holdings in TGI during 2018. The Company also assumed that it could sell its holdings in Avis Ukraine and / or receive funds from the sale of one of Kardan Land China's projects. As aforementioned, due to factors beyond the

Company’s control, the advanced negotiations that the Company conducted have not progressed to a binding sale agreement, and accordingly, the Company's plans regarding the receipt of the proceeds from the sale of its holdings in TGI were not materialized. It should be noted that the Company clarified in its cash flow forecast that this assumption taken are considered forward-looking information, which depends on factors beyond the Company's full control, and accordingly there is significant uncertainty regarding their realization. It is also noted that due to the delay in the sale of its holdings in TGI, the Company did not repay the Debenture Holders as stated in Section 7 above. In addition, as stated in the Company's announcements, the Company completed the sale of its holdings in Avis Ukraine only in 2019, and the consideration of €12.4 was received in March 2019. With respect to the repayment of loans and dividends, the Company received cash from its subsidiaries beyond its estimates, in relation to the distribution of cash in the amount of €15 million by Kardan Land China.

4. Financial situation Kardan Group as of December 31, 2018

Net debt (*)

The Company	Financial debt net	
	Liabilities:	
Kardan NV/ GTC RE/	Debentures (**)	
Emerging Investments XII	Liabilities long term	(317.0)
		(2.8)
	Assets:	
	Cash and short-term investments	17.8
	Net debt	**(302.0)**
KFS		
	Assets:	7.0
	Cash and short-term investments	4.4
	Loans to related parties	
	Net cash	**11.4**
TGI/TG/TGA(***)		
	Liabilities	
	Liability long term	(0.4)
	Assets:	
	Cash and short-term investments	1.3
	Net cash	**0.9**

(*) net financial debt includes liabilities for interest bearing loans and debentures net of cash and cash equivalents and interest bearing loan receivables.
(**) Net balance after compensating debenture balances held by subsidiaries, see section 11 below.
(***) Assets and liabilities shown as held for sale in the consolidated financial statements of Kardan NV as of 31.12.2018.

Material loans and credits

For details regarding material loans and credits in the Group, see section 12.1, 7.6.8.6, 8.18 to part A of the Israeli Annual Report.

5. Main events in the period and subsequent events

Kardan NV

- 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.

- For information regarding Q1 2018 financial statements and IR presentation refer to the announcement issued by the Company on May 30, 2018.

- 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.

- Mr. Ferry Houterman's appointment as a non-executive Board member took effect on May 30, 2018.

- 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.

- For details regarding the senior management and officers of the Company as of August 23, 2018 see the Immediate Report dated of August 23, 2018.

- Following the merger between Brightman Trusts and Aurora Fidelity Trust Company Ltd. (hereinafter: "Aurora"), both companies controlled by Brightman Almagor Zohar & Co., in which Aurora was liquidated ,the new trustee for the Series A bondholders of the Company is Almagor-Brightman Trusts Ltd. For further details ,refer to the Immediate Report dated August 28, 2018

- For details regarding the results of a special general meeting of the Company's shareholders held on Monday, October 22, 2018 ,on which agenda was the approval of an annual bonus to the CEO of the Company in respect of 2018, see announcement issued on September 5, 2018 and amendment to the announcement issued on September 13, 2018.

- For details regarding the identity of the observer, refer to announcement issued on October 4, 2018.

- For details regarding the debt settlement principles agreed between the Company and the trustee of Debenture Holders series B, refer to the announcement issued on October 23, 2018.

- On November 20, 2018 the Company issued a response to press reports regarding the debt settlement of Mr. Grunfeld, one of the Company's controlling shareholders. For more information see the announcement issued by the Company on November 20, 2018.

- For details regarding the transfer of the Company's shares held by Shamait Ltd. to Mr. E. Rechter and Aloterra Ltd., refer to the announcement issued on December 13, 2018.

- On January 3, 2019, the Company announced that the Israeli court has approved the debt settlement of Mr. Grunfeld, one of the Company's controlling shareholders. For more information see the announcement issued by the Company On January 3, 2019.

- On January 14, 2019, Kardan Financial Services B.V., a 100% subsidiary of the Company, signed an agreement to sell its 66% stake in TBIF Dan Leasing Limited and its shareholder's loans to its partner in TDLL, Universal Transportation Solutions Ltd. The Company estimates, based on AVIS Ukraine's reviewed financial statements as of September 30, 2018, that the consideration will amount to US$ 14.2 million. For more information, see the Immediate Report issued by the Company on December 15, 2018.

- For details regarding technical delays in the completion of Mr. Grunfeld debt settlement, refer to the immediate report issued on January 25, 2019.

- On February 27, 2019 the Company issued an update, further to an article published in the Israeli press, that advanced negotiations regarding the sale of its holdings in Tahal Group International B.V. are not advancing, and that Kardan is working to advance negotiations with a number of other parties regarding this sale transaction. For more information, see the announcement issued by the Company on February 27, 2019.

- On March 4, 2019 the Company announced that the debt settlement of Mr. Grunfeld have been settled. For more information see the immediate report issued by the Company on March 4, 2019.

- For details regarding approval of the Antitrust Commissioner in Ukraine for the sale of the Company's holdings in Avis Ukraine, see the immediate report of March 11, 2019.

- For details regarding the closing of the transaction for the sale of Avis Ukraine in consideration of US$ 14.2 million, see the immediate report of March 14, 2019.

- 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	7.6.2018
	7.6.2018	416,952	0.5957	11.6.2018
	10.6.2018	195,861	0.5540	11.6.2018
	26.6.2018	377,393	0.5408	27.6.2018
	27.6.2018	110,000	0.5325	28.6.2018
Mr. Y. Grunfeld	5.7.2018	374,000	0.4920	6.7.2018
Mr. A.A. Schnur	11.6.2018	269,880	0.5780	12.6.2018
	12.6.2018	117,176	0.5820	13.6.2018
	13.6.2018	300,975	0.5730	14.6.2018
	14.6.2018	94,078	0.5763	17.6.2018
	17.6.2018	9,797	0.5820	18.6.2018
	18.6.2018	105,000	0.5680	19.6.2018
	19.6.2018	120,864	0.5625	20.6.2018
	20.6.2018	382,632	0.5636	20.6.2018
	21.6.2018	93,970	0.5313	28.6.2018
	24.6.2018	2,391	0.5750	24.6.2018
	28.6.2018	27,004	0.5310	29.6.2018
	1.7.2018	58,548	0.5250	2.7.2018
	2.7.2018	494,481	0.5153	3.7.2018
	2.7.2018	264,867	0.4982	4.7.2018
	4.7.2018	166,289	0.4983	5.7.2018
	5.7.2018	52,048	0.4954	6.7.2018
	28.1.2019	39,528	0.3806	29.1.2019
	29.1.2019	15,000	0.38	30.1.2019
	30.1.2019	13,137	0.38	31.1.2019, 19.2.2019
	3.2.2019	47	0.38	19.2.2019
	12.2.2019	7,835	0.38	13.2.2019
	13.2.2019	94	0.38	14.2.2019
	14.2.2019	28,887	0.38	17.2.2019
	19.2.2019	35,241	0.346	19.2.2019

Water Infrastructure (discontinued operation)

- 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 US$ 60 million.

- 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 US$72 million.

Human capital

- On May 30, 2018, the general meeting of shareholders of the Company approved the commencement (retroactively as of September 1, 2017) of the amended service agreement between the Company and Kardan Israel. 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) secretarial services (in consideration of 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.

Corporate Governance Aspects

6. Directors with financial knowledge

Kardan N.V. is incorporated pursuant to the laws of the Netherlands and is not subject to the Israeli Companies Law. Therefore, it does not appoint external directors and is not committed to appoint directors who possess accounting and finance expertise. However in accordance with Kardan NV articles of association, there are decisions that the Board of Directors need to take in a special procedure that requires, among others, the agreement of the independent directors present, as defined in the articles of association of the Company and the Dutch corporate governance code. In addition, according to the said corporate governance code, the Company adopted the duty that at least one member of the Board of Directors would have financial management and accounting knowledge.

The directors having accounting and finance expertise (as acceptable in the Netherlands) currently serving in the Board of Directors are messers. Peter Sheldon, Cor van Den Bos, Ariel Hasson, Eytan Rechter and Ferry Houterman.

All members of Executive Management have accounting and finance expertise. For additional information about their education and experience see part 4 of the 2018 Israeli annual report.

Independent Directors

As mentioned above, the Israeli Companies Law does not apply to Kardan. Accordingly, amongst others, Kardan does not appoint external directors'. Nevertheless, the Corporate Governance code recommends that the majority of the non-executive board members would be independent. In addition, according to the articles of association of Kardan, certain decisions are to be taken according to a special approval procedure which requires, amongst others, the approval of the independent directors (as defined in the articles of association and the corporate governance code) present at the meeting.

As of December 31, 2018, four out of seven non-executive board members are independent (Mr. Peter Sheldon, Mr. Cor van der Bos, Mrs. Cecile Tall, and Mr. Ferry Houterman).

For further information regarding the Corporate Governance Code refer to Section 14 of part A of this 2018 Israeli Annual Report.

7. Internal Audit

Kardan N.V. is incorporated pursuant to the laws of the Netherlands and is not subject to the Israeli Companies Law. Therefore, the duty to appoint an internal auditor by virtue of the Companies Law 1999 does not apply to it. However, according to the Corporate Governance Code recommends appointing such a body. Kardan decided to adopt the recommendation.

Within the framework of adopting the Corporate Governance Code in this respect, Kardan N.V. further determined that the internal auditor's activity would be under the Kardan N.V. Management's responsibility and which would assist the internal auditor in examining the risk management structure and the controls system within the Company. The external auditor and the Audit Committee are involved in determining the internal auditor's tasks and they are informed on its findings.

Details regarding the internal audit:

Appointing the internal audit:	In May 2017, the Company engaged EY Israel for providing internal audit services to the Company and since then EY provides internal audit services to the Company.
The internal audit firm:	EY Israel. On March 16, 2017, the appointment was approved by the Audit Committee. The decision to appoint EY as the internal auditor was made in light of EY's experience in providing internal audit services as well as its familiarity with the Company.
Compliance with the provisions of the Audit Law:	To the best of the Company's knowledge, based on the internal auditor's statements, the internal auditor complies with the provisions of sections 33 (a) and 8 of the Internal Audit Law and in the provisions of Section 146 (b) of the Companies Law.
The organ in charge of internal audit:	CFO. The decision to appoint the CFO as in charge of the internal audit was made due to the fact that the CFO is in ongoing contact with the internal auditor.
The audit plan:	In March 2018 a 3-year audit plan was approved. The plan was prepared based on risk assessment. The audit plan was prepared by the internal auditor after consulting with the Company's management and was approved by the Company's audit committee. The main considerations in determining the internal audit plan are: (a) the business activities of the Company and their scope; (b) the exposure to risks; the audit plan and the internal audit recommendation of the annual audits are determined based on ranking and importance of the various items in the risk assessment surveys, taking into consideration management's recommendations. The audit plan is flexible and will allow for changes at the discretion of the internal audit. Since its appointment, the internal audit hasn't reviewed any material transactions due to lack of relevancy.
Subsidiaries:	The audit plan does not include audit of subsidiaries. TGI Group and KLC have internal auditors, which are responsible for performing internal audits in these subsidiaries.
Professional Standards:	The internal audit informed that the audits are performed according to acceptable and international internal audit standards, as published from time to time by the IIA. Management and the audit committee estimate that the internal audit is performed according to acceptable professional internal audit standards. This estimate was made following discussions with the EY partner that is in charge of internal audit in this firm as well as EY extensive experience in this field.
Access to information:	In order to perform its work, the internal audit has full access to documents, information, including financial information, and information systems of the Company.
Internal audit report:	In March 2018, the multi-year work plan of the Internal Audit, which was prepared in accordance with a risk survey, was presented. During July 2018, an audit was conducted regarding fraud risk assessment and audit

	regarding the administrative enforcement program. The auditor's reports regarding the results of his work were sent in writing to the members of the audit committee on November 23 after which, they were presented to the Company's Audit Committee and Board of Directors on November 28, 2018.
Fees:	The internal audit is remunerated according to the number of audit hours approved in the audit plan. In 2018, the internal auditor carried out 180 hours of work in respect of which he received a fee of € 13.5 thousand.
	In the opinion of the Company's Board of Directors, the scope, nature and continuity of the internal audit activity and the work plan are reasonable under the circumstances and may fulfill the purpose of the internal audit.

8. Donations policy

Kardan NV does not have a donation policy, nor does it contribute significant amounts.

Additional information

9. 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	31.12.2018
External valuer	Savills
Value of the property in the financial statements as of the date of the valuation and as of 31.12.2018	€ 213.6 million
Details regarding the valuator	Savills Real Estate Valuation (Beijing) Limited. (" Savills") The valuation was performed by Mr. James Woo who serves as a director in Savills. According to the valuator's declaration, Mr. James Woo is a member of the Royal Institution of Chartered Surveyors, has 25 years of experience in the valuation field and holds the knowledge, skills and understanding of valuations of similar assets.
Key parameters used in the valuation	• Capitalization rate – 6.5% • Growth rate: 1-6 (y) 10%-15% 7-8 (y) 8% 9-10 (y) 5% • Terminal value – 63% (€134.3 million) • Discount rate: 10.5% • Terminal capitalization rate: 5.25% • Rent per sqm/month – 95-270 RMB • Price per sqm for comparison approach – 16,000 RMB • Number of comparable assets: 3
Valuation Method	The average of Direct Comparison Approach and DCF methods

The fair value of the property as at December 31, 2018 is based on the valuation report which is attached to financial statements.
As of December 31, 2018 adjustments to certain parameters were made in order to reflect changes and trends in the relevant markets as of that date, and to reflect the results of the operation of Galleria

Dalian in 2018, compared to the assumptions used to prepare the valuation as at December 31, 2017. These adjustments resulted in a decrease in the value of the investment property of € 6.3 million in 2018.
The valuation as at December 31, 2017 assumed, for the purpose of the DCF method, revenues of €7.4 million (RMB 58 million) and a negative NOI of €0.1 million (RMB 0.9 million). In practice, revenues of € 5.8 million and a negative NOI of €0.95 million were recorded.

For details regarding the valuation, including the main assumptions used by the valuator, and details regarding the valuator, see section 7.6.8.8 in Part A to the 2018 Israeli Annual Report.

In addition, the value of the investment property as at December 31, 2018 decreased by approximately €1.2 million compared to December 31, 2017, due to the change in exchange rate of the EUR vs. RMB since its value is denominated and valuated in the local currency (RMB).

10. Book value of investments Kardan N.V.

The following table summarizes the book value of the companies held directly by Kardan as of December 31, 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 31.12.18	Share holders Loans (*)	Total Investment in books 31.12.18	Total Investment in books 31.12.17
Kardan NV	GTC RE	100%	195.8	195.8	7.6	203.4	(9.7)	193.7	228.9
	KFS	100%	22.0	22.0	-	22.0	-	22.0	23.9
	TGI	98.43%	42.5	41.8	(0.9)	40.9	-	40.9	47.2
	Emerging Investments XII	100%	65.2	65.2	-	65.2	-	65.2	65.2

Holding Company	Name of subsidiary	Share in subsidiary	Consolidated equity	Share holders consolidated equity	Adjustments of GTC RE	Book value in TGI 30.12.18	Shareholders Loans	Total Investment in books 31.12.18	Total Investment in books 31.12.17
GTC RE Holding	Kardan Land China	100%	213.8	213.8	0.9	214.7	(**)(28.2)	186.5	221.6

Holding Company	Name of subsidiary	Share in subsidiary	Consolidated equity	Share holders consolidated equity	Adjustments of TGI	Book value in TGI books 30.12.18	Loans granted by TGI	Total Investment in books 31.12.18	Total Investment in books 31.12.17
TGI	Tahal Group Assets B.V.	100%	7.9	7.8	-	7.8	(2.7)	5.1	6.2
	Tahal Group B.V.	100%	42.6	40.6	-	40.6	(0.8)	39.8	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 €7.9 million.

(****) Emerging Investment XII held the following Kardan N.V Debentures as of December 31, 2018:

	Nominal Value In NIS	Liability Value including accrued interest In EUR millions
Series A	109,839,448	32.5
Series B	120,381,450	39.0

11. Information to the Debenture Holders

The following are details regarding the marketable debentures of Kardan NV as of December 31, 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 277.3 million (NIS 1,190,000,000)	EUR 310.8 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 December 31, 2018	EUR 69.3 million (NIS 297,500,000 par value)	EUR 222.0 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.	Four installments from February 2017 to February 2020.
Interest payment dates	3 annual installments on 25 February in the years 2016 - 2018	5 annual installments on 1 February in the years 2016-2020
Total debt up to the date of the balance sheet (including interest and Israeli CPI linkage) (*)	EUR 52.5 million	EUR 270.5 million
Market capitalization as of December 31, 2018(*)	EUR 6.8 million	EUR 78.0 million
The trustee	Almagor Brightman Trusts Ltd. Mrs. Iris Shlevin Tel.: 03-6085492 1 Azrieli Center, Tel-Aviv	Hermetic Trust (1975) Ltd. Mr. Dan Avnon, Adv. Tel.: 03-5544553 30 Sheshet Hayamim St, Bnei-Braq
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	• 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. • A primary exclusive pledges with no limitations of amounts over the bank accounts of the Company. • Pledge on all the Company's debentures held by the Group. In addition, there is commitment for certain negative pledges.	
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 December 31, 2018 the Company does not meet the financial covenants it has committed towards. In addition, in February 2018 and February 2019 the Company did not make the scheduled repayments. 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 2018 Israeli Annual Report.

<u>Below are details of the meetings of the debenture holders convened during the reporting period and additional notices published by the Company on behalf of the trustee for the Debentures (Series A and B):</u>

- For information regarding the convening of a meeting of the Debenture Holders Series B, refer to the immediate reports issued by the Trustee on April 8, 2018.

- 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.

- 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 Debenture Holders Series A on May 15, 2018.

- For information regarding the annual report published by the Trustee of Debenture Holders (series B), refer to the announcement issued by the Company on June 19, 2018.

- 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.

- 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.

- 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.

- 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.

- 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.

- For more information regarding convening a meeting 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 additional matters to be raised by the Trustee and / or the debenture holders, see announcement issued by the Company on August 19, 2018 .

- For more information regarding the convening 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.

- For details regarding the results of Debentures Holders 'B voting meeting regarding the appointment of an observer on behalf of the Debenture Holders and the trustee, refer to the announcement issued on September 3, 2018.

- For details regarding the results of Debenture Holders A voting assembly regarding the appointment of an observer on behalf of the debenture holders and the trustee, refer to the announcement issued on September 6, 2018.

- For details regarding the meeting of the Debenture Holders on which agenda was a report regarding the progress of the negotiations between the Company and the debenture holders (Series B) and a technical postponement of debenture A repayment ,refer to the announcement issued on October 21, 2018.

- On October 23, 2018, the Company published an announcement on behalf of the trustee regarding the legal postponement of the final repayment of debentures Series A. For details, refer to announcement issued by the Company on October 23, 2018.

- On October 25, 2018 a meeting of the debentures holders (series A) approved the postponement of the final repayment of debentures series A (interest and principle), for details see summon announcement from October 23, 2018 and an immediate report on the results issued on October 28, 2018 .

- On October 31, 2018, the Company issued an announcement on behalf of the trustee regarding the lawful postponement of the final repayment date of the debentures series A. For more information, see the Immediate Report issued by the Company on October 31, 2018.

- On January 6, 2019 the company published an announcement on behalf of the trustee regarding the end of his representation term of the debentures holders (series B). For more information see the announcement issued by the Company On January 6, 2019.

- For details regarding the convening of a meeting of debenture holders on whose agenda approval of the postponement of the date of payment of the principal and interest to the holders of the Series B Bonds as of March 3, 2019, and the trustee's authorization for further postponement of the payment dates of the principal and interest from time to time, see immediate report of January 16, 2019

- On January 17, 2019 the Company issued an announcement on behalf of the trustee regarding the lawful postponement of the repayment date of the principal and interest of the debentures series B. For more information, see the Immediate Report issued by the Company on January 17, 2019.

- On January 20, 2019 a meeting of the debenture holders (series B) approved the postponement of the repayment date of the principal and interest of the debentures series B. For more information, see the Immediate Report issued by the Company on January 20, 2018.

- On January 23, 2019 a meeting of the debenture holders (series A) approved the postponement of the final repayment of debentures series A (interest and principle). For more information, see the Immediate Report issued by the Company on January 24, 2018.

- On January 24, 2019, the Company issued an announcement on behalf of the trustee regarding the lawful postponement of the final repayment date of the debentures series A. For more information, see the Immediate Report issued by the Company on January 24, 2019.

- For details regarding the announcement on behalf of the trustee regarding the convening of a meeting of the debenture holders on whose agenda is a report on the progress of the negotiations for a new agreement between the Company and the debenture holders Series B, see immediate reports dated February 18, 2019.

- For details regarding the announcement on behalf of the trustee regarding the convening of a meeting of the debenture holders on whose agenda is a report on the progress of the negotiations for a new agreement between the Company and the debenture holders Series A, see immediate reports dated February 19, 2019.

- On February 19, 2019 the Company issued an announcement on behalf of the trustee regarding the lawful postponement of the repayment date of the principal and interest of the debentures series B. For more information, see the Immediate Report issued by the Company on February 19, 2019.

- For details regarding the notice on behalf of the Trustee regarding the lawful postponement of the payment dates of the Debentures (Series B) that were fixed as of April 3, 2019 as of May 1, 2019. See the immediate report dated March 18, 2019.

Below are details regarding the rating of the debentures:

Rating date	Rate
8.2.2018	D
18.1.2018	ilCC
3.10.2017	ilCCC
3.7.2017	ilB
4.8.2017	ilB
13.7.2015	ilB

12. Critical accounting estimates

For information about critical accounting estimates see Note 3 to the Consolidated Financial Statements.

13. Accountants Fees

The accountants fees for the Company and its material subsidiaries, including audit services, audit related services and tax for 2018 and 2017 was as follows:

2018					
Company name	**Accounting firm**	**Audit fees (thousands of Euro)**	**Hours worked**	**Tax advisory services (thousands of Euro)**	**Hours worked**
Kardan NV	PWC	422	5,252	-	-
Subsidiaries	PWC	652	11,639	7	35

2017					
Company name	**Accounting firm**	**Audit fees (thousands of Euro)**	**Hours worked**	**Tax advisory services (thousands of Euro)**	**Hours worked**
Kardan NV	PWC	451	4,400	4	30
Subsidiaries	PWC	617	11,730	45	435

Date of signature: 27 March 2019

Peter Sheldon	Chairman of the Board

Ariel Hasson	CEO and Director

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.

KARDAN N.V.
AMSTERDAM, THE NETHERLANDS

NON-STATUTORY FINANCIAL REPORT

IFRS Consolidated Financial Statements

For the year ended December 31, 2018

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

A s s e t s

	Note	**December 31, 2018**	December 31, 2017
		In €'000	
Non-current assets			
Deferred tax assets	32	313	464
Tangible fixed assets, net	6	748	627
Investment property	7	213,577	221,089
Investments in joint ventures	9	23,114	49,889
Loans to joint ventures	9	14,859	25,432
Long-term loans and receivables	10	3,878	8,123
		256,489	305,624
Current assets			
Apartments inventory	11	64,734	117,900
Trade receivables	12	7,416	5,401
Current tax assets		2,452	1,502
Other receivables and prepayments	13	3,515	5,686
Short-term investments	14	17,427	11,969
Cash and cash equivalents	15	51,949	37,140
		147,493	179,598
Assets classified as held for sale	5	240,909	183,354
Total current assets		388,402	362,952
Total assets		644,891	668,576

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

Equity and liabilities

	Note	December 31, 2018	December 31, 2017
		In €'000	
Equity attributable to equity holders of the parent	16		
Issued and paid-in capital		25,276	25,276
Share premium		206,482	206,482
Foreign currency translation reserve		(12,049)	37
Property revaluation reserve		25,179	31,637
Revaluation reserve, other		4,837	5,586
Accumulated deficit		(309,222)	(273,386)
		(59,497)	(4,368)
Non-controlling interests		5,740	3,542
Total equity		(53,757)	(826)
Non-current liabilities			
Interest-bearing loans and borrowings	18	87,287	104,933
Other long-term liabilities	19	1,033	1,054
Financial instruments	20	-	1,306
Debentures	21	-	188,708
Deferred tax liabilities	32	4,955	6,355
		93,275	302,356
Current liabilities			
Trade payables		3,159	2,294
Current maturities of debentures	21	282,703	95,452
Interest-bearing loans and borrowings	22, 18	13,510	10,187
Current tax liabilities		1,185	1,342
Financial instruments	20	678	-
Advances from apartment buyers	11	32,509	61,208
Other payables and accrued expenses	23	87,301	63,765
		421,045	234,248
Liabilities directly associated with assets classified as held for sale	5	184,328	132,798
Total current liabilities		605,373	367,046
Total liabilities		698,648	669,402
Total equity and liabilities		644,891	668,576

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

CONSOLIDATED INCOME STATEMENT

	Note	2018	2017	2016
		For the year ended December 31, In €'000		
Revenues from sale of apartments		72,711	8,556	761
Rental revenues		3,862	3,883	3,732
Management fees and other revenues		2,885	2,584	6,615
Total revenues		79,458	15,023	11,108
Cost of apartment sold	26	69,002	7,993	676
Rental cost	26	1,145	1,346	1,493
Management fees and other expenses, net	27	2,817	2,847	5,521
Total expenses		72,964	12,186	7,690
Gross profit		6,494	2,837	3,418
Selling and marketing expenses	28	4,083	5,668	3,760
General and administration expenses	29	8,126	10,180	10,501
Loss from operations before fair value adjustments, disposal of assets and investment and other (loss) income		(5,715)	(13,011)	(10,843)
Adjustment to fair value of investment properties	7	(8,610)	(4,181)	(2,588)
Gain (loss) on disposal of assets and other income, net	30	1,507	836	(1,580)
Loss from fair value adjustments, disposal of assets and investments and other income, net		(7,103)	(3,345)	(4,168)
Loss from operations		(12,818)	(16,356)	(15,011)
Financial income	31	11,813	6,845	475
Financial expenses	31	(35,516)	(34,321)	(47,843)
Total financial expenses, net		(23,703)	(27,476)	(47,368)
Loss before share of profit from investments accounted for using the equity method		(36,521)	(43,832)	(62,379)
Share of profit of investments accounted for using the equity method, net	8,9	1,491	16,424	2,468
Loss before income taxes		(35,030)	(27,408)	(59,911)
Income tax expenses (benefit)	32	(605)	5,180	(4,504)
Loss for the period from continuing operations		(34,425)	(32,588)	(55,407)
Net (loss) profit from discontinued operations	5	(311)	15,212	24,081
Loss for the year		(34,736)	(17,376)	(31,326)
Attributable to:				
Equity holders		(36,775)	(17,101)	(31,330)
Non-controlling interest holders		2,039	(275)	4
		(34,736)	(17,376)	(31,326)
Earnings (loss) per share attributable to shareholders	33			
Basic and diluted from continuing operations		(0.27)	(0.25)	(0.45)
Basic and diluted from discontinued operations		-	0.10	0.19
		(0.27)	(0.15)	(0.26)

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	For the year ended December 31		
	2018	2017	2016
	In €'000		
Net loss for the year	(34,736)	(17,376)	(31,326)
Foreign currency translation differences	(15,014)	(15,202)	(362)
Change in hedge reserve, net of tax (1)	(751)	(1,051)	(1,362)
Share of other comprehensive expense of associates and joint ventures accounted for using the equity method	(1,279)	(8,498)	(579)
Other comprehensive expense for the year to be reclassified to profit or loss in subsequent periods	(17,044)	(24,751)	(2,303)
Total comprehensive expenses	(51,780)	(42,127)	(33,629)
Attributable to:			
Equity holders	(49,612)	(41,705)	(33,816)
Non-controlling interests holders	(2,168)	(422)	187
	(51,780)	(42,127)	(33,629)

(1) Mainly relates to unwinding of hedge transactions in prior periods. The amounts are presented net of tax amounting to €250 thousand, €346 thousand and €522 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent								
	Issued and paid-in capital	Share premium	Foreign currency translation reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Accumulated deficit (*)	Total	Non-controlling interest	Total equity
	In €'000								
Balance as of January 1, 2018	25,276	206,482	37	31,637	5,586	(273,386)	(4,368)	3,542	(826)
Adjustments on adoption of IFRS 15	-	-	-	-	-	688	688	-	688
Adjustments on adoption of IFRS 9	-	-	-	-	-	(7,246)	(7,246)	-	(7,246)
Balance as of January 1, 2018 (after adjustments on the adoption of IFRS 15 and IFRS 9)	25,276	206,482	37	31,637	5,586	(279,944)	(10,926)	3,542	(7,384)
Other comprehensive expense	-	-	(12,086)	-	(751)	-	(12,837)	(4,207)	(17,044)
Loss for the year	-	-	-	-	-	(36,775)	(36,775)	2,039	(34,736)
Total comprehensive expense	-	-	(12,086)	-	(751)	(36,775)	(49,612)	(2,168)	(51,780)
Share-based payment (Note 17)	-	-	-	-	2	-	2	289	291
Transaction with non-controlling interest (Note 20, 35)	-	-	-	-	-	1,039	1,039	4,077	5,116
Reclassification according to the Netherlands civil code requirements, net of tax (*)	-	-	-	(6,458)	-	6,458	-	-	-
Balance as of December 31, 2018	25,276	206,482	(12,049)	25,179	4,837	(309,222)	(59,497)	5,740	(53,757)

(*) In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 7B and 16E).

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the parent								
	Issued and paid-in capital	Share premium	Foreign currency translation reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Accumulated deficit (*)	Total	Non-controlling interest	Total equity
	In €'000								
Balance as of January 1, 2017	25,276	206,482	23,590	34,772	6,633	(259,420)	37,333	3,850	41,183
Other comprehensive expense	-	-	(23,553)	-	(1,051)	-	(24,604)	(147)	(24,751)
Loss for the year	-	-	-	-	-	(17,101)	(17,101)	(275)	(17,376)
Total comprehensive expense	-	-	(23,553)	-	(1,051)	(17,101)	(41,705)	(422)	(42,127)
Share-based payment (Note 17)	-	-	-	-	4	-	4	77	81
Transaction with non-controlling interest (Note 20)	-	-	-	-	-	-	-	37	37
Reclassification according to the Netherlands civil code requirements, net of tax (*)	-	-	-	(3,135)	-	3,135	-	-	-
Balance as of December 31, 2017	25,276	206,482	37	31,637	5,586	(273,386)	(4,368)	3,542	(826)

(*) In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 7B and 16E).

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the parent								
	Issued and paid-in capital	Share premium	Foreign currency translation reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Accumulated deficit (*)	Total	Non-controlling interest	Total equity
	In €'000								
Balance as of January 1, 2016	25,276	206,482	24,711	36,713	8,144	(229,865)	71,461	4,477	75,938
Other comprehensive income (expense)	-	-	(1,121)	-	(1,365)	-	(2,486)	183	(2,303)
Profit (loss) for the year	-	-	-	-	-	(31,330)	(31,330)	4	(31,326)
Total comprehensive income (expense)	-	-	(1,121)	-	(1,365)	(31,330)	(33,816)	187	(33,629)
Share-based payment (Note 17)	-	-	-	-	(146)	-	(146)	(527)	(673)
Dividend distributed to non-controlling interest holders	-	-	-	-	-	-	-	(379)	(379)
Disposal of a subsidiary	-	-	-	-	-	-	-	92	92
Transaction with non-controlling interest holders (Note 20)	-	-	-	-	-	(166)	(166)	-	(166)
Reclassification according to the Netherlands civil code requirements, net of tax (*)	-	-	-	(1,941)	-	1,941	-	-	-
Balance as of December 31, 2016	25,276	206,482	23,590	34,772	6,633	(259,420)	37,333	3,850	41,183

(*) In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 7B and 16E).

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

CONSOLIDATED CASH FLOW STATEMENT

	Note	For the year ended December 31 **2018**	2017	2016
		In €'000		
Cash flow from operating activities				
Loss from continuing operations before taxes on income		(35,030)	(27,408)	(59,911)
Profit from discontinued operations before taxes on income	5	1,683	20,309	29,146
Adjustments to reconcile profit (loss) to net cash (see A below)		36,637	(43,097)	(21,179)
Net cash provided by (used in) operating activities		**3,290**	**(50,196)**	**(51,944)**
Cash flow from investing activities				
Acquisition of tangible fixed assets and investment properties		(8,211)	(13,641)	(7,764)
Investments and collecting (granting) of loans to companies accounted for using the equity method, net	8,9	12,757	3,274	(2,381)
Proceeds from sale of assets and investments in associates	5	56	22,738	2,813
Change in loans to bank customers, net		-	-	(6,404)
Change in long-term loans and receivables		-	(934)	(6,517)
Change in short-term investments		(2,923)	183	(7,335)
Disposal of a previously consolidated subsidiary (see B below)		-	(1,008)	103,670
Acquisition of a subsidiary (see C below)		(332)	(537)	-
Change in pledged deposits, net		-	1,519	(1,590)
Net cash provided by investing activities		**1,347**	**11,594**	**74,492**

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

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	Note	2018	2017	2016
		For the year ended December 31		
		In €'000		
Cash flows from financing activities				
Repayment and of debentures	21	-	-	(86,458)
Change in loans from bank customers, net		-	-	(6,117)
Proceeds from long-term loans		-	117,304	14,481
Repayment of long-term loans		(16,540)	(106,076)	(1,391)
Change in short-term loans and borrowings, net		27,042	8,156	13,582
Increase of pledged deposit		16	-	-
Change in short-term deposits		-	176	-
Change in other long-term liabilities, net		1,306	5,538	(64)
Dividend to non-controlling interest holders of a subsidiary		-	-	(379)
Net cash provided by (used in) financing activities		**11,824**	**25,098**	**(66,346)**
Increase (decrease) in cash and cash equivalents		16,461	(13,504)	(43,798)
Foreign exchange differences relating to cash and cash equivalents		2,979	1,910	(1,797)
Change in cash of assets held for sale	5C	(4,631)	(9,049)	(40,542)
Cash and cash equivalents at the beginning of the year	15	37,140	57,783	143,920
Cash and cash equivalents at the end of the year	15	**51,949**	**37,140**	**57,783**

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

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

		For the year ended December 31		
		2018	2017	2016
	Note	In €'000		
A. Adjustments to reconcile net profit (loss) to net cash charges / (credits) to profit (loss) not affecting operating cash flows:				
Impairment of joint venture held for sale	5	3,323	-	-
Gain from disposal of investments in subsidiaries, net (see B below)	5	-	-	(15,861)
Share in loss (profit) of companies accounted for using the equity method, net	9,5	499	(17,770)	(2,869)
Gain on disposal of assets and investments in associates, net	5	(51)	(8,390)	-
Share-based payment		735	81	594
Depreciation and amortization		262	449	3,538
Fair value adjustments and impairment of investment properties	7	8,610	4,181	2,588
Financial expense and exchange differences, net		27,897	27,178	52,224
Capital gain from sale tangible fixed assets		(838)	(831)	(451)
Fair value adjustments of derivative financial instrument		(184)	240	-
Increase in provision for bad debts in the financial services operations		-	-	1,914
Changes in operating assets and liabilities:				
Change in trade and other receivables		(52,064)	(29,195)	(17,892)
Change in inventories		51,825	(13,918)	(5,565)
Change in contract work in progress, net of advances from customers		(52,056)	26,408	(2,740)
Change in trade and other payables		60,464	(18,453)	(2,422)
Dividend received	9	12,160	13,386	2,413
Interest paid		(14,696)	(16,781)	(56,565)
Interest received		1,062	304	22,464
Income taxes paid		(10,311)	(9,986)	(2,549)
		36,637	(43,097)	(21,179)

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

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	Note	2018	2017	2016
		For the year ended December 31		
		In €'000		
B. Disposal of a previously consolidated subsidiaries				
Working capital (excluding cash and cash equivalents)		-	-	(68,489)
Non-current assets (excluding fixed assets and concession assets)		-	-	121,864
Fixed assets		-	-	11,231
Long-term liabilities		-	-	(2,108)
Recycling of reserves to the income statement		-	-	4,137
Gain on disposal of investment, net of tax		-	-	15,179
Asset classified as held for sale		-	(1,008)	21,856
		-	(1,008)	103,670
C. Acquisition of a subsidiary (in discontinued operation)				
Working capital (excluding cash and cash equivalents and bank borrowings)		2,120	726	-
Property, plant and equipment		(51)	(66)	-
Intangible assets		(745)	(237)	-
Goodwill		(1,656)	(960)	-
		(332)	(537)	-
D. Material non-cash transactions				
Reserve from transaction with NCI		1,047	-	-

1. GENERAL

A. Introduction

Kardan N.V. ('Kardan' or 'the Company') having its legal seat in Amsterdam, the Netherlands, was incorporated on May 2, 2003, and acts as an active investment company which is engaged in the development of real estate in Asia and water infrastructure, through its subsidiaries, joint ventures and associated companies.

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

The total number of employees in the Company and its subsidiaries as of December 31, 2018 was 1,519 (December 31, 2017 – 1,248) of which 141 are part of the real estate segments, 1,369 are part of the water infrastructure activity (discontinued operations – see Note 5) and 9 form the headquarters of the Company.

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

The Company is listed for trade both in Amsterdam (the Netherlands) and Tel Aviv (Israel). The Company has prepared these non-statutory financial statements in order to meet Israeli reporting requirements to publish the Israeli 2018 annual report in Israel on or before March 31, 2019. The non-statutory financial statements do not include specific Dutch legal requirements. The Dutch statutory financial statements will be prepared in accordance with Dutch law and will be published by the Company at a later stage.

These non-statutory financial statements were approved by the Board of Directors of the Company on March 27, 2019.

For additional information included in the Israeli 2018 annual report as required by the Israeli Securities Regulations, reference is made to the website of the Company (www.kardan.com).

B. Financial Position and Going Concern

a. As at December 31, 2018 the Company had, on a stand-alone basis and on a consolidated basis, a working capital deficit of €267 million and €217 million, respectively (excluding debentures held by subsidiaries), as a result of the classification of the debentures as short-term liabilities, see detailed below. For the year ended December 31, 2018, the Company recorded a (consolidated and on a stand-alone basis) net loss of €37 million, and generated positive cash flow from operating activities of €14 million on a stand-alone basis, and positive cash flow from operating activities of €3 million on a consolidated basis. In addition, as at December 31, 2018 the Company had a deficit of €59 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.

b. On January 11, 2018 the Company announced that it would not be able to complete a transaction for the sale of its holdings in TGI in a manner that would enable the Company to meet the scheduled payments to the debenture holders in February 2018. Further to this announcement, the Company has not repaid the principal and interest payments which were due in February 2018. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, from March 31, 2018 and until the repayments are

rescheduled, the debentures are presented as current liabilities. 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, see also below.
In February 2018, following the announcement that the Company will not make the February 2018 repayments, Maalot, the Israeli subsidiary of Standard & Poor's, has adjusted the rating of the Company and its Debentures Series A and Series B to "D".

c. In October 2018, the Company has published the main principles of a debt settlement as negotiated and agreed with debenture holders series B, which include among others, the following: The principal amount of the Debentures and the interest rate will remain unchanged; the final repayment date of the Debentures will be postponed to December 2021, and in parallel the Company will commit to sell assets – and in relation to one asset, according to an agreed upon timetable – and to use the funds received from such disposals for early repayment of Debentures A and B, and other uses according to terms agreed with the representatives of the Debentures. In addition, the Company will pay each year interest at a rate of 4% p.a.; the remaining interest will be payable at each date the Company repays (part of) the principal of the Debentures; the Company shall issue to Debenture Holders A and B shares of the Company; the funds to be used for repayment will be used first to make the balance payments (as defined in the existing deeds of trust) to Debenture Holders B, and each subsequent amount will be repaid pro-rata to the two debenture series; each material transaction of the Company and its subsidiaries will be subject to approval of a joint meeting of the debenture holders A and B; a mutual exemption from claims shall be determined at a form to be agreed between the parties.
The negotiations with the trustee to debenture holders series B have been completed, and management was informed that as of the date of the approval of these financial statements, the discussions between series A and series B are in advanced stage and most issues have been agreed between the two series. It is noted that to reach a binding agreement the approval of both debenture holders is needed. Accordingly, management estimates that a debt settlement with the debenture holders will be signed in 2019.

d. 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 with a number of parties for the sale or allocation of its holdings in TGI, in order to meet its liabilities, according to the principles of the debt settlement being formulated with debenture holders (series A and B). In addition, the Company is acting to improve its assets in China; assuming the Company will have sufficient time to continue improving these assets, the Company estimates it will be able to maximize their value in future sales transactions while making an orderly sale. The Company expects that these actions will strengthen its financial and equity position. The Company estimates, in the abovementioned liquidity analysis, that the consideration will be received in 2019.

As mentioned above, the Company is working to advance negotiations with respect to the intended sale of TGI with a number of parties, and preparing alternatives in case such sale will be delayed. In view of the lack of certainty of completing these negotiations, including completing a sale transaction in the timetables agreed upon with the representatives of the debenture holders in particular, the option to include a provision in the arrangement with

debenture holders to distribute TGI shares to the debenture holders as repayment of the Company's debt is being considered.
For details regarding the financial position of TGI, see note 5C.
In addition, in January 2019 the Company signed an agreement to sell its investment in its joint venture AVIS Ukraine for a consideration of approximately USD 14.2 million. The investment is accordingly presented as held-for-sale as at December 31, 2018. On March 14, 2019 the transaction was completed.

As announced, according to the intentions of the Company, the net consideration to be received from the sale of AVIS Ukraine, together with funds available within the Company, and the additional amounts it expects to receive by March 31, 2019, amounting to a total of €38 million, will be used to repay the Company's debenture holders, upon the completion of the debt settlement.

e. The directors expect that, taking into account the current status of the discussions with the Debenture Holders and the expected terms of the debt settlement, and taking into account the process of realizing the holdings in TGI and the sale of AVIS Ukraine, and potential future value of the Company's assets in China, the Company has the ability to obtain the required resources for repaying its obligations and continue its business operations in the future. Management believes that a controlled sale of assets is in the best interest of all stakeholders. Accordingly, the directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

   However, the directors emphasize that the realization of the Company's plans depends on factors that are not within the Company's control, including the approval of debenture holders to a debt settlement, transaction value of the Company's assets, and macroeconomic developments, and therefore there is uncertainty that transactions for the sale of assets as aforesaid, will be completed according to the forecasted consideration and timing 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 financial statements do not include any adjustments to the carrying amounts and classifications of assets and liabilities that would result if the Company is unable to continue as a going concern.

2. BASIS OF PREPARATION

A. Basis of preparation

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

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

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

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

B. Statement of compliance

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

C. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2018.

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

Determination of control

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

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

If the Group loses control over a subsidiary, it:

- Derecognizes all assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the entire carrying amount of any NCI;
- Derecognizes amounts of other comprehensive income deferred in equity, as appropriate;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in the income statement;
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

D. Changes in accounting policies and disclosures

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2018.
The adoption of these amendments had a material impact on the current period or any prior period (for additional information see note 4Z and 4AA).

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Going Concern

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

Revaluation of investment properties

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

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

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

Impairment losses on inventory

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

Asset held for sale and discontinued operation

When certain conditions are met, the Company presents certain operations as discontinued and classify their assets and liabilities as held for sale. The company estimates that although TGI has been presented as Held for sale for more than one year the conditions of IFRS 5 are still met.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BUSINESS COMBINATIONS AND GOODWILL

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

B. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

The Group's investments in its associates and in joint ventures (both equity and loans) are accounted for using the equity method. An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Under the equity method, the investment in the associate or a joint venture is initially recognized at cost and adjusted thereafter to recognize the Group’s share of the post acquisition changes in the Group's share of net assets of the associate or joint venture. Goodwill relating to associates or joint ventures is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group’s OCI.
In addition, where there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

When the group’s share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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

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

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

When the group no longer applies the equity method over the associate or joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the income statement. Amounts deferred in OCI are reclassified to the income statement or transferred directly to retained earnings.

C. FOREIGN CURRENCY TRANSLATION

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

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

D. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

E. FAIR VALUE MEASUREMENT

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

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

In the principal market for the asset or liability

Or

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

A. Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

B. Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

C. Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

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

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

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

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

F. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets and disposal groups classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. Costs to sell are the incremental costs directly attributable to the sale or distribution, excluding the finance costs and income tax expense. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

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

a. represents a major separate line of business or geographical area of operations;

b. is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or

c. is a subsidiary acquired with a view to resale.

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

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

G. TANGIBLE FIXED ASSETS

Tangible fixed assets, which do not qualify as investment property, are stated at cost, less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred, providing the recognition criteria are met. Land is not depreciated.

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

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

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

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

H. INVESTMENT PROPERTIES

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

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

Investment properties where management deemed that fair value can be reliably measured, are externally valued (in most cases) based on open market values. For a description of these valuation techniques and assumptions, see Note 7 and Note 3.

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

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Lease origination costs /deferred brokerage fees

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

I. APARTMENTS INVENTORY IN PROGRESS

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

- Costs incurred relating to phases of the project that are not available for sale; and

- Costs incurred relating to units unsold associated with a phase of the project that is available for sale.

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

- i. Leasehold rights for land, construction costs paid to subcontractors for the construction of housing units; and

- ii. Capitalized costs, which include borrowing costs, planning and design costs, construction overheads and other related costs.

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

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

J. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

Goodwill

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

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

Investment in associates or Joint ventures

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

K. INVESTMENTS AND OTHER FINANCIAL ASSETS

Classification

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

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and

- those to be measured at amortized cost.

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

The group reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.
Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Impairment

From 1 January 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.
For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 12(c) for further details.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Accounting policies applied until 31 December 2017

The group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Until 31 December 2017, financial assets within the scope of IAS 39 were classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition, when they are measured at fair value, plus, in the case of investments not carried at fair value through profit or loss, directly attributable transaction costs.

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

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

Available-for-sale financial assets

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

Impairment of Financial assets

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

Assets carried at amortized cost

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

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

Available-for-sale financial assets

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

L. CASH AND CASH EQUIVALENTS

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

M. BORROWING COSTS

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

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

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

N. FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.
All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.
The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 22.

Debentures

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

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Until 31 December 2017, financial liabilities within the scope of IAS 39 were classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognized initially at fair value, less, in the case of loans and borrowings, directly attributable transaction costs.

Financial liabilities at fair value through profit or loss

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

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

Loans and borrowings

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

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

Financial guarantee liabilities

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

Debentures

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

O. OFFSETTING OF FINANCIAL INSTRUMENTS

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

P. PROVISIONS

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

Q. SHARE-BASED PAYMENT TRANSACTIONS

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

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 17.

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

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

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

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

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 33).

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using mostly the binomial model, further details of which are given in Note 17. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense (see Note 17 and 20).

R. LEASES

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

Group as a lessee

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

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

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

Group as a lessor

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

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

S. REVENUE RECOGNITION

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

Rental income

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

Sale of apartments

The Group develops and sells residential properties. Revenue is recognised when or as the control of the goods or service is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the properties may be transferred over time or at a point in time. In most cases for the Company it will at a point in time. Revenue is recognised when a performance obligation is satisfied by transferring control of the promised properties to a customer in an amount that reflects the consideration expected to be collected in exchange for those properties.

The Group determines whether control of a property is transferred to a customer over time or at a point in time based on the analysis of the following three criteria. Revenue is recognised over time if any of such criteria are met that the Group:

• provide all of the benefits received and consumed simultaneously by the customer; or
• create and enhance an asset that the customer controls as the Group perform; or
• do not create an asset with an alternative use of the Group and the Group have an enforceable right to payment for performance completed to date.

A performance obligation is satisfied at a point in time if none of the above criteria for satisfying a performance obligation over time are met.

The revenue is measured at the transaction price agreed under the contract. In most cases, the consideration is due when legal title has been transferred. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component.

The costs related to the real estate development incurred during the construction period are capitalised in inventory. Once revenue is recognised, the costs in respect of sold units are expensed.

The accounting policy applied until December 31, 2017 in respect of the revenue recognition is as follows:

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

The following specific recognition criteria must also be met before revenue is recognized:

Contract revenues

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

Rental income

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

Sale of apartments

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

Rendering of services (including management fees)

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

T. TAXES

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

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

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

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

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

U. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

V. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial

instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.
The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by independent valuators using agreed-upon valuation models.

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

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

Fair value hedges

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

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

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

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

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

W. PUT OPTION GRANTED TO NON-CONTROLLING SHAREHOLDERS

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

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

X. EARNINGS PER SHARE

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

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

Y. CASH FLOW STATEMENT

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

Z. CHANGE IN ACCOUNTING POLICIES

The impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with costumers* on the Group's financial statements:

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.

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.

As described in Note 2D 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. The company did not use the practical expedients. The modified retrospective application allows recognition of the cumulative 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.

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

IFRS 16 Leases

International Financial Reporting Standard 16 Leases (IFRS 16) replaces IAS 17 Leases, and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (leases with a lease term of 12 months or less).

IFRS 16 will be effective retrospectively for annual periods beginning on or after January 1, 2019, taking into account the reliefs specified in its transitional provisions.

At the commencement date of a lease, the Company, as a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The Company estimates that the impact expected of IFRS 16 adoption on its Consolidated Financial Statements, may result in lease assets and liabilities in the approximate amount of € 8.4 million, causing an increase in operating activity in its cash flows in the approximate amount of €320 thousand, and a decrease in the Group's cash flow from financing activities in the approximate amount of €464 thousand. The impact of IFRS 16 adoption on the Group's consolidated statement of income is expected to be in an insignificant amount.

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

IAS 28 – Investment in associates and joint ventures

The IASB has issued a narrow scope amendment to IAS 28. The amendment clarifies that long-term interests in an associate or joint venture to which the equity method is not applied, should be accounted for using IFRS 9. The application of this amendment will become effective from 1 January 2019. Management of the Company does not anticipate that the application of the amendment will have a significant impact on the Company's financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 "Income Tax" are applied where there is uncertainty over income tax treatment.
An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that approach will be accepted by the tax authority. Uncertainty may exist until the relevant taxation authority or a court takes a decision in the future. Consequently, a dispute or examination of a particular tax treatment by the taxation authority may affect an entity’s accounting for a current or deferred tax asset or liability arising from that tax position. IFRIC 23 provides guidance as to accounting for the following income tax-related uncertainties:

- How an entity determines the measurement unit for considering the accounting treatment (i.e. whether an entity needs to consider uncertain tax treatments separately).
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, relating to uncertainties.
- How an entity considers changes in facts and circumstances.

IFRIC 23 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted. The company examines the expected impact of IFRIC 23 on its financial statements.

DEFINITIONS

The following definitions are used throughout these financial statements:

Kardan or the Company – Kardan N.V.
The Group or Kardan Group – Kardan N.V. and its subsidiaries
GTC RE – GTC Real Estate Holding B.V.
GTC Group – GTC RE and its subsidiaries, joint ventures and associates
KFS – Kardan Financial Services B.V.
KFS Group – KFS and its subsidiaries, joint ventures and associates
TBIF – TBIF Financial Services B.V.
TBIF Group – TBIF and its subsidiaries, joint ventures and associates
Kardan Israel – Kardan Israel Ltd.
TGA - Tahal Group Assets B.V.
TGI – Tahal Group International B.V.
TGI Group – TGI and its subsidiaries, joint ventures and associates
Kardan Land China or KLC – Kardan Land China Ltd.
KLC Group – Kardan Land China, its subsidiaries and joint ventures
TASE – The Tel-Aviv Stock Exchange
EI XII- Emerging Investment XII B.V.

5. BUSINESS COMBINATIONS AND INVESTMENT IN SUBSIDIARIES

A. Principle subsidiaries (consolidated into the Group)

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

Holding company	Name of subsidiary	Country of incorporation	% equity interest by the direct and indirect holding as of December 31	
			2018	2017
Kardan N.V.	Kardan Financial Services B.V.	The Netherlands	100	100
	GTC Real Estate Holding B.V.	The Netherlands	100	100
	Tahal Group International B.V.	The Netherlands	98.43	98.43
	Emerging Investments XII B.V.	The Netherlands	100	100
GTC Real Estate Holding B.V.	Kardan Land China Limited	Hong Kong	100	100
Kardan Land China Limited	Kardan Land (BJ) Management & Consulting Co. Ltd.	China	100	100
	GTC (China) Investment Co. Ltd	China	100	100
	Kardan Land Dalian (HK) Ltd.	Hong Kong	100	100
Tahal Group International B.V.	Tahal Group B.V.	The Netherlands	100	100
	Tahal Group Assets B.V.	The Netherlands	100	100
Tahal Group B.V.	Tahal Consulting Engineers Ltd.	Israel	100	100
	Water Planning for Israel Ltd.	Israel	99.99	99.99
	Sitahal 'Hagal' (Talia) Partnership	Israel	100	100
	Palgey Maim Ltd.	Israel	55.5	55.5
	Tahal Angola Ltd.	Angola	70	70
	Tahal Consulting Engineers India Pvt. Ltd.	India	100	100
	Evergreen for Development B.V.	The Netherlands	100	100
	Tahal Romania Ltd.	Romania	100	100
	Tahal Russ	Russia	100	100
	Sterna B.V.	The Netherlands	90.75	91.3
	TMNG Ltd.	Israel	62.9	65
Tahal Group Assets B.V.	Task Water B.V.	The Netherlands	100	100
	Agri Products N.V.	The Netherlands	51	51
	Food-Yard Holding JSC	Bulgaria	44.6	44.6
	Mast Foods S.A.	Greece	60.7	60.7

B. Significant transactions and business combinations

1. <u>Sale of the investment in Joint venture – TBIF Dan Leasing ('Avis Ukraine')</u>

Subsequent to the balance sheet, in January 2019, KFS, a 100% subsidiary of Kardan, signed an agreement to sell its 66% stake in TBIF Dan Leasing Limited ('TDLL') and its shareholder's loans to its partner in TDLL, Universal Transportation Solutions Ltd. ('UTS'). TDLL is the sole shareholder of 'company with Foreign Investment VIP Rent' which operates the AVIS franchise in the Ukraine ('AVIS Ukraine').
The consideration for KFS' 66% stake in TDLL will amount to USD 14.2 million (approximately €12.4 million).
In accordance with IFRS 5, the investment in Avis Ukraine is presented as Held for Sale and measured at the lower of carrying amount and fair value less costs to sell, which resulted in devaluation of the investment of approximately €3.3 million in the fourth quarter of 2018. The transaction was completed on March 14, 2019. Following the completion of the transaction, the company estimate it will release a capital reserve in the amount of €1.3 million.

2. <u>Sale of TBIF</u>

On February 24, 2016, KFS has signed an agreement to sell its 100% holding in TBIF to a third party (4finance Holding S.A. ('the Buyer')). On August 11, 2016, the transaction was completed. The total consideration for the transaction was comprised of two parts ('the Consideration'): on the completion date ('the Completion Date') the Buyer paid KFS an amount of approximately €69 million and in October 2016 the Consideration was adjusted to take into account the reviewed result of the sold asset in the period January 1, 2016 until the Completion Date ('the Adjustment'), and the Company received in October 2016 the Adjustment amount which totaled to €13 million.
According to the agreement, TBIF transferred certain non-lending assets including the investment in Avis Ukraine, with a net value of approximately €32 million to KFS prior to the Completion Date.

KFS undertook to indemnify the Buyer for costs and damages which might occur under circumstances which have been specifically detailed in the agreement, including a breach of the customary representations and warranties given by KFS. Accordingly, on the Completion Date KFS deposited an amount of €6 million for a period of two years and pledge this in favor of the Buyer as collateral for the indemnification, which amount was reduced to €5 million after one year. According to an agreement between the parties, in August 2018 additional €1 million was released from pledge, and the pledge on the remaining €4 million was extended till March 2019. Subsequent to the balance sheet date on March 2019 the pledge was removed.
As a result of the transaction, the Company recorded in 2016 a profit of approximately €15 million.

3. <u>Sale of Star Pump Storage</u>

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

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

Following the transaction, the Company recognized in 2017 a gain of €8.4 million (before tax) which is included in 'Net profit from discontinued operations'.

C. Discontinued operations and assets held for sale

Further to Note 1B above, due to the various sale transactions conducted by the Company, the terms of classifying the investment in TGI and Avis Ukraine as Held-For-Sale and its results as discontinued operations, in accordance with IFRS 5, were met. In 2016, following the sale of TBIF (as described in 5B above), the results of TBIF were classified as discontinued operations. Regarding the financial position of TGI, see also 5 below.

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

	December 31,			
	2018			2017
	TGI	Avis Ukraine	Total	TGI
	€ '000			
Assets				
Trade receivable	72,111	-	72,111	96,401
Accrued income	50,603	-	50,603	-
Other current assets	48,668	-	48,668	35,730
Tangible fixed assets, net	17,689	-	17,689	19,822
Other non-current assets	25,731	-	25,731	22,352
Cash and cash equivalents	13,680	-	13,680	9,049
Investment in Joint venture Avis Ukraine	-	12,427	12,427	-
Total assets	228,482	12,427	240,909	183,354
Liabilities				
Interest bearing loans and borrowings	50,195	-	50,195	21,903
Advances from customers	35,987	-	35,987	48,147
Other liabilities	98,146	-	98,146	62,748
Total liabilities	184,328	-	184,328	132,798
Net asset value	44,154	12,427	56,581	50,556

2) Net (loss) profit from discontinued operations:

	For the year ended December 31,									
	2018			2017			2016			
	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	TBIF *	Total
	€ in thousands									
Income	-	175,397	175,397	-	176,442	176,442	-	138,455	20,545	159,000
Operating and finance expenses and Share of profit of investments accounted for using the equity method, net	908	(171,677)	(170,769)	2,429	(166,357)	(163,928)	1,528	(134,425)	(13,297)	(146,194)
Other income, net	-	378	378	-	7,795	7,795	-	480	-	480
Profit before tax	908	4,098	5,006	2,429	17,880	20,309	1,528	4,510	7,248	13,286
Income tax expenses, net	-	1,994	1,994	-	5,097	5,097	-	3,444	796	4,240
Profit from discontinued operations	908	2,104	3,012	2,429	12,783	15,212	1,528	1,066	6,452	9,046
Discontinued operation items related to the sales transactions:										
Net loss from devaluation of investment - Avis	(3,323)	-	(3,323)	-	-	-	-	(144)	-	(144)
Capital gain	-	-	-	-	-	-	-	-	19,316	19,316
Release of capital reserves due to sale	-	-	-	-	-	-	-	-	(4,137)	(4,137)
Net (loss) profit from discontinued operations	(2,415)	2,104	(311)	2,429	12,783	15,212	1,528	922	21,631	24,081
Attributable to:										
Equity holders	(2,415)	65	(2,350)	2,429	12,582	15,011	1,528	918	21,631	24,077
Non-controlling interest holders	-	2,039	2,039	-	201	201	-	4	-	4
	(2,415)	2,104	(311)	2,429	12,783	15,212	1,528	922	21,631	24,081

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

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

	For the year ended December 31,									
	2018			2017			2016			
	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	TBIF *	Total
	€ in thousands									
Net cash used in operating activities	(2,415)	(19,280)	(21,695)	2,429	(27,821)	(25,392)	1,528	(8,378)	(3,672)	(10,522)
Net cash (used in) provided by investing activities	-	(7,219)	(7,219)	-	3,401	3,401	-	16,919	38,714	55,633
Net cash provided by (used in) financing activities	-	28,347	28,347	-	13,940	13,940	-	12,876	(138)	12,738

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

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

	For the year ended December 31,									
	2018			2017			2016			
	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	Total	Avis Ukraine	TGI	TBIF *	Total
	€ in thousands									
Adjustments arising from translating financial statements of foreign operations	409	(13,338)	(12,929)	(1,919)	(3,746)	(5,665)	589	1,903	4,135	6,627
Change in hedge reserve, net	-	-	-	-	(13)	(13)	-	203	-	203
Total other comprehensive income (expense)	409	(13,338)	(12,929)	(1,919)	(3,759)	(5,678)	589	2,106	4,135	6,830
Attributable to:										
Equity holders	409	(9,280)	(8,871)	(1,919)	(3,345)	(5,264)	589	1,897	4,135	6,621
Non-controlling interest holders	-	(4,058)	(4,058)	-	(414)	(414)	-	209	-	209
	409	(13,338)	(12,929)	(1,919)	(3,759)	(5,678)	589	2,106	4,135	6,830

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

5) Financial position of a subsidiary:

a) In 2018 TGI had EUR 17.3 million negative cash flows from operating activities (2017: EUR 27.8; 2016: EUR 8.4 million, negative in both years).
b) TGI uses short term credit lines from banks and financial institutions to finance its operations. As a result of the delays in receiving advance payments from certain projects, TGI had to extend some of those credit lines. TGI management estimates that these credit lines will be extended if needed.
c) One of TGI's group companies did not meet certain covenants in relation to a short-term credit from a bank, for which a waiver was received subsequent to the balance sheet date (see also note 24).
d) Management of TGI expects a positive outcome regarding all uncertain events described above, i.e. that the credit lines will be approved, and the advance payments will be received. In order to address any adverse outcome that may result from some or all of the uncertain events as described above, TGI developed a contingency plan which, if needed, should generate sufficient positive cash flows as of the date of the approval of these financial statements, even if the credit lines are not approved, the waiver from the bank is not granted nor extended, and the advance payments are not received during the above-mentioned period.
e) The external auditor of TGI issued for group reporting purposes an opinion with an emphasis of matter referring to the matters described above.

D. Collaterals

As of December 31, 2018, the shares the Company (indirectly) owns in GTC RE, KLC, KFS, TGI, and EI XII are pledged in favor of the trustees of the Company's debenture holders.

E. Dividend

The following dividend amounts were received in the reporting period:

	2018	2017
	€ in thousands	
Subsidiaries	17,500	19,430

6. TANGIBLE FIXED ASSETS

2018	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost:	€ in thousands			
Balance as of January 1, 2018	189	1,540	1,014	2,743
Additions	-	307	80	387
Disposals	-	(9)	-	(9)
Exchange rate differences	(1)	(31)	(6)	(38)
Balance as of December 31, 2018	188	1,807	1,088	3,083
Accumulated depreciation:				
Balance as of January 1, 2018	136	1,090	890	2,116
Depreciation for the year	18	216	28	262
Disposals	-	(7)	-	(7)
Exchange rate differences	(1)	(30)	(5)	(36)
Balance as of December 31, 2018	153	1,269	913	2,335
Net book value December 31, 2018	35	538	175	748

2017	Motor vehicles	Office furniture and equipment	Leasehold improvements	Buildings	Production equipment	Total
Cost:	€ in thousands					
Balance as of January 1, 2017	1,589	7,630	2,826	7,813	20,178	40,036
Additions	7	326	94	-	-	427
Disposals	-	(5)	-	(1,965)	-	(1,970)
Exchange rate differences	(12)	(57)	(62)	(94)	-	(225)
Reclassification of Assets as held for sale	(1,395)	(6,354)	(1,844)	(5,754)	(20,178)	(35,525)
Balance as of December 31, 2017	189	1,540	1,014	-	-	2,743
Accumulated depreciation:						
Balance as of January 1, 2017	949	4,756	1,377	1,264	18,001	26,347
Depreciation for the year	18	158	200	28	-	404
Disposals	-	(3)	-	(163)	-	(166)
Exchange rate differences	(8)	(24)	(51)	(9)	-	(92)
Re classification of Assets as held for sale	(823)	(3,797)	(636)	(1,120)	(18,001)	(24,377)
Balance as of December 31, 2017	136	1,090	890	-	-	2,116
Net book value December 31, 2017	53	450	124	-	-	627

7. INVESTMENT PROPERTY

A. General

As of December 31, 2018 and 2017 investment property solely comprises the shopping mall in the city of Dalian, China ('Galleria Dalian').

B. The movements in investment property are as follows:

	2018	2017
	€ in thousands	
Opening balance	221,089	240,461
Capital expenditure	2,281	-
Fair value adjustments (1)	(8,610)	(4,181)
Foreign currency translation differences	(1,183)	(15,191)
Closing balance	213,577	221,089
Total accumulated unrealized gains as of the end of the period which recognized in the statement of profit and loss	33,572	42,182

(1) The fair value adjustment in 2018 includes an impairment of capital expenditure in the amount of €2.3 million.

The investment property is pledged as security to a loan (see Note 18).

C. Fair value adjustments comprise:

	For the year ended December 31,		
	2018	2017	2016
	€ in thousands		
Valuation loss from investments properties completed in prior years	(8,610)	(4,181)	(2,588)

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

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

As of December 31, 2018 and 2017, a weighted average between the DCF Approach and the Direct Comparison Method has been adopted to assess the fair value of the investment property.

Significant assumptions used in the valuation of the investment property:

	December 31, 2018	December 31, 2017
DCF method		
Estimated rental value per sqm per month (in €)	34	35
Discount rate	10.5%	10.5%
Rental growth	10%-15% (Y) 1-6 8% (Y) 7-8 5% (Y) 9-10	10%-20% (Y) 1-6 and thereafter 5% p.a.
Terminal cap rate	5.25%	5.5%
Occupancy rate	93%-97%	80%-97%
Capitalization rate	6.5%	6.5%
Direct Comparison method		
Adopted unit rate (RMB/sqm)	16,579	16,587

E. Sensitivity analysis:

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

	December 31, 2018
	€ in thousands
Increase of 25 BP in discount rate and terminal cap	(9,557)
Decrease of 25 BP in discount rate and terminal cap	10,576
Increase of 5% in estimated rental income	10,067
Decrease of 5% in estimated rental income	(9,940)
Increase in general vacancy by 1%	(2,676)

8. INVESTMENTS IN ASSOCIATES

Main associates include:

		% of ownership and control by the direct holding company as of		
Holding company	Name of associate	**December 31, 2018**	December 31, 2017	Country
Tahal Group B.V.	Agroquiminha	20.0	20.0	Angola
Tahal Group Assets B.V.	MVV Water Utility Pvt Ltd.	23.0	23.0	India

The entire balance of investment in associates is presented under assets held for sale.

9. INVESTMENTS IN JOINT VENTURES

A. Main Joint Ventures:

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

		% of ownership by the direct holding company as of December 31,			
Holding company	Name of joint venture	2018	2017	Country	Nature of activities
Kardan Land China Limited	Shenyang Taiying Real Estate Development Ltd. (***)	-	50.0	China	Real estate development and property management
	GTC Lucky Hope Dadong Ltd.	50.0	50.0	Hong Kong	Holding
	Sino Castle Development Ltd. (***)	-	50.0	Hong Kong	Real estate development
	Green Power Development Ltd.	50.0	50.0	Hong Kong	Holding
	Rainfield Development Ltd.	50.0	50.0	Hong Kong	Holding
	Shaanxi GTC Lucky Hope Real Estate Development Ltd.	50.0	50.0	China	Real estate development, property lease and property management
Task Water B.V. *	Akfen SU Kanalizasyon	50.0	50.0	Turkey	Management and construction of establishments for producing drinking water
Sitahal 'Hagal' (Talia) Partnership *	Energy Hagal- Talia Partnership	50.0	50.0	Israel	Biogas projects
Tahal Consulting Engineers Ltd. *	Lahat Joint Venture	50.0	50.0	Israel	Water desalination
GTC Real estate Holding B.V.	GTC Investments B.V.	48.75	48.75	Netherlands	Holding
Kardan Financial Services B.V.**	TBIF-Dan Leasing Ltd.	66.0	66.0	Cyprus	Holding

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

**) KFS has a joint control agreement with its 34% partner in this company, therefore the Company does not consolidate TBIF-Dan Leasing Ltd. in its financial statements. As of December 31, 2018 the investment is presented as 'Assets held for sale'. See note 5.

***) During 2018 the joint venture was liquidated.

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

	December 31, 2018(*)	December 31, 2017
	€ in thousands	
Total of equity investments	25,356	52,122
Goodwill	-	6,498
Deemed cost on real estate projects (**)	193	202
Less impairments	(2,435)	(8,933)
	23,114	49,889
Loans and other long-term balances	14,859	25,432
Total investment in joint ventures	37,973	75,321

(*) During the year 2018 dividend in the amount of €12 million was distributed from joint venture companies.

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

C. Loans:

The investment in joint ventures companies includes loans as follows:

	Interest rate (p.a)	**December 31, 2018**	December 31, 2017
		€ in thousands	
In EUR	-	7,022	7,017
In EUR	3 months Euribor + 3.5%	-	2,952
In EUR	6 months Euribor + 3.5%	-	2,520
In USD	-	7,816	12,338
In USD	6 months libor + 3.5%	-	581
In HKD	-	21	24
		14,859	25,432

The movement in 2018 is due to repayment of loan from joint ventures and reclassification of investment as 'Held for Sale'.
The loans are expected to be repaid according to the liquidity position of the joint ventures.

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

	For the year ended		
	2018	2017	2016
	€ in thousands		
(Loss) profit from continuing operations	(2,273)	11,329	160
Other comprehensive expense	(1,008)	(6,302)	(1,345)
Total comprehensive (expense) income	(3,281)	5,027	(1,185)

The total investment in immaterial joint ventures amounts to €22 million.

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

SHAANXI GTC LUCKY HOPE REAL ESTATE DEVELOPMENT LTD.

Summary of financial data from the statement of financial position:

	December 31, 2018	December 31, 2017
	€ in thousands	
Current assets (not including cash and cash equivalent)	93,374	83,640
Cash and cash equivalent	33,858	27,342
Non-current assets	15,020	13,390
Current liabilities	(5,903)	(6,702)
Current financial liabilities	(104,505)	(88,496)
Total equity attributed to the owners	31,844	29,174
% held in the joint venture	50	50
Total investment in joint ventures	15,922	14,587

Summary of financial data from the income statement:

	For the year ended		
	2018	2017	2016
	€ in thousands		
Revenues from operations	31,376	60,712	35,040
Cost of operations	(18,193)	(40,066)	(21,537)
Selling and marketing, other expenses and administrative expenses (of which depreciation and amortization expenses amounted to €1 million , €0.4 million and €0.15 million for the year 2018,2017 and 2016 respectively)	(4,237)	(7,178)	(5,262)
Interest income	-	-	25
Other Financial income	963	120	-
Profit before tax	9,909	13,588	8,266
Income tax expenses	(2,378)	(3,396)	(3,614)
Profit for the year	7,531	10,192	4,616
% held of the joint venture	50	50	50
Group's share of profit for the year	3,765	5,096	2,308
Total other comprehensive income attributed to equity holders	7,326	7,038	3,382
% held of the joint venture	50	50	50
Group share of the total other comprehensive income	3,663	3,519	1,691

F. Additional information

Kardan Land China

1. Capital commitments:

As of December 31 2018, KLC's share in the contractual commitments of its joint ventures amount to €18,765 thousand (December 31, 2017: €21,034 thousand).

2. Guarantees:

As of December 31, 2018, the joint ventures of KLC provided guarantees amounting to €42.5 million (December 31, 2017: €24.5million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of properties of the joint ventures of KLC , which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiration date of the guarantees, the joint ventures of KLC are responsible for repaying the outstanding mortgage principals and interest to the banks.

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

10. LONG-TERM LOANS AND RECEIVABLES

Composition:

	December 31, 2018	December 31, 2017
	€ in thousands	
Long term loans	2,597	-
Long term prepaid expenses	1,259	5,407
Other	22	2,716
	3,878	8,123

11. APARTMENTS INVENTORY, CONTRACT WORK AND MERCHANDISE INVENTORY

Composition:

	December 31, 2018	December 31, 2017
	€ in thousands	
Apartments inventory (1)	64,734	117,900

(1) Apartments inventory:

a. As of December 31, 2018 and 2017 inventory in the amount of €56,427 thousand and €55,325 thousand, respectively, is pledged as security for a loan (see also Note 24).

b. Inventory is presented at cost including finance expenses capitalized during the construction of the project.

c. Composition of cost of buildings and apartments inventory:

	December 31, 2018	December 31, 2017
	€ in thousands	
Current:		
Completed	8,307	12,675
Under construction	56,427	105,225
	64,734	117,900

d. Buildings and apartments inventory is stated in gross figures. Advances from apartment buyers are presented under current liabilities and amount to €32,509 thousand as of December 31, 2018 (December 31, 2017: €61,208 thousand).

e. During the past year the Group entered into 105 sale contracts of apartments (in 2017 - 112 contracts), for which the total consideration is estimated at €29.9 million (RMB 233.7 million) (in 2017 - €26.9 million). As of December 31, 2018, the aggregated number of signed contracts of existing projects for which revenues were not recognized amounts to 148 contracts (in 2017 – 72) for which the aggregated revenues is estimated at approximately €42.4 million (RMB 331 million) (in 2017 - €17.6 million).

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

	Residential construction			
	2018		2017	
	For the year 2018	Cumulative up to the end of the reporting period	For the year 2017	Cumulative up to the end of the reporting period
	€ in thousands			
Revenues recognized	72,711	153,669	8,556	80,958
Cost recognized	69,002	141,510	7,993	72,508

12. TRADE RECEIVABLES

A. Composition:

	December 31, 2018	December 31, 2017
	€ in thousands	
Trade receivables	9,207	6,751
Less provision for doubtful debts	(1,791)	(1,350)
	7,416	5,401

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

B. As of December 31 the aging analysis of trade receivables, net of provision for doubtful debts is as follows:

		Past due (net of impairment)						
	Neither past due nor impaired	< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	120 – 365 days	>365 days	Total
	€ in thousands							
2018	3,443	2,344	306	239	202	412	470	7,416
2017	3,310	336	434	89	244	946	42	5,401

C. Movement in the provision for doubtful debts:

	2018	2017
	€ in thousands	
Opening balance	1,350	5,390
Reclassification to assets as held for sale	-	(4,666)
Addition during the year	1,056	685
Collection during the year	(605)	(83)
Foreign currency translation	(10)	24
Closing balance	1,791	1,350

13. OTHER RECEIVABLES AND PREPAYMENTS

	December 31, 2018	December 31, 2017
	€ in thousands	
VAT receivable	43	43
Receivables from joint ventures of KLC	854	817
Prepaid expenses	1,577	3,271
Deposit receivable	393	1,280
Other	648	275
	3,515	5,686

14. SHORT-TERM INVESTMENTS

	December 31, 2018		December 31, 2017
	Average interest rate	€ in thousands	
Bank deposits in NIS	0%-0.5%	5	7
Bank deposits in RMB	1.1%-4.4%	10,704	6,793
Restricted bank deposits in RMB	0.4%	2,549	-
Restricted bank deposits in EUR	0%	4,169	5,169
		17,427	11,969

15. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
	€ in thousands	
Cash at bank and in hand	51,508	26,480
Short-term deposits *)	441	10,660
	51,949	37,140

*) As of December 31, 2018 and 2017 the range of the annual interest rate earned on short-term deposits was 0.5%-1.5%.

16. ISSUED AND PAID-IN CAPITAL

A. Composition:

	December 31, 2018		December 31, 2017	
	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

B. Movement in issued and paid-in shares:

During 2017 and 2018 there were no movements in the issued and paid-in shares.

	Number of shares	par value in €
Balance as of December 31, 2017 and 2018	123,022,256	24,604,451

C. Changes in share capital and treasury shares

During 2018, 2017 and 2016, no transactions took place

D. Dividend:

In 2018 and 2017, the Company did not distribute dividends.

E. Restrictions on distribution:

In accordance with the Netherlands civil code, part of the retained earnings is restricted for distribution following the regulation to maintain reserves in respect of unrealized fair value revaluation of real estate ('Property Revaluation Reserve'), cash flow hedges, foreign currency translation differences on investment in foreign operations, and equity gains from associates and joint ventures ('Other revaluation reserve').
It is further noted that according to the Deeds of Trust there are limitations of distribution of dividend: dividend will not be distributed before 75% of the debentures outstanding as at December 31, 2014 are repaid.

17. SHARE-BASED PAYMENTS

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

	For the year ended		
	December 31, 2018	December 31, 2017	December 31, 2016
		€ in thousands	
Expense arising from equity-settled share-based payment transactions of the Company and the subsidiaries	2	4	254
Expense arising from cash-settled share-based payment transactions of a subsidiary	-	-	339
	2	4	593

The expenses are presented as part of 'Payroll and related expenses' within the General and administrative expenses (see Note 29 and Note 4Q).

B. Option plans:

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

(1) Kardan N.V.

In September 2013 (the 'Grant Date'), the Board of the Company approved a stock-option plan according to which the Company granted to several employees of the Company a total of 250,000 options exercisable into up to 250,000 ordinary shares of the Company, each having a par value of €0.20 (subject to adjustments). In August 2015 the plan was modified. According to the modification, the exercise price would be €0.2807 or NIS 1.191 and the options will vest in two equal tranches, 50% of the options would be exercisable from December 31, 2016 and 50% of the options will be exercisable from June 30, 2018. The grant was accounted for assuming equity settlement and the total expense booked in the year was less than €2 thousand and were included in 'General and administration expenses' in the income statement.

Movement in the year

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

	2018		2017	
	No.	WAEP	No.	WAEP
		NIS		NIS
Outstanding on January 1	100,000	1.191	250,000	1.191
Expired during the year	-	1.191	(150,000)	1.191
Outstanding on December 31	100,000	1.191	100,000	1.191
Exercisable on December 31	100,000	1.191	91,743	1.191

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

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

(2) TGI (discontinued operations)

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

b. In August 2014, the supervisory board of TGI decided to grant five executive managers options to purchase 1.9 % of TGI's share capital. The total value of the grant is approximately USD 1 million (€0.7 million) and was calculated using the Black & Scholes model. The exercise price of the options amounts to €1,567 per option (after adjustments).

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

d. During 2012, the supervisory board and the general meeting of shareholders of TGI approved a grant 797 options, constituting approximately 3% of the shares of TGI at that time, post-issuance to the CEO of TGI. The newly issued stock option plan was divided into two agreements which have comparable option terms except for the vesting periods. Each option plan has been valued separately.
The exercise price of the options amounts to €1,370 per option (after adjustments). The options can be exercised until December 31, 2018. The total value of the options at date of grant was estimated at €1.9 million. This fair value was determined by an independent external valuator. The expected life of the options is based on historical data. TGI accounts for all the options granted, as described above, assuming equity payments will be affected.

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

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

Movements in the year

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

	2018	**2017**	**2018 WAEP**	**2017 WAEP**
	No.	**No.**	EUR	
Outstanding on January 1	2,041	2,041	1,787	1,497
Granted for the year	-	-	-	-
Outstanding on December 31	2,041	2,041	1,787	1,497
Exercisable on December 31	2,041	1,901	1,787	1,496

On November 19, 2018 the Supervisory Board of TGI has approved an extension of the options of certain executives, which were about to expire. The extension was granted through September 30, 2019. The total benefit of the extension is approximately USD 0.3 million and was calculated by the Company using the Black&Scholes model.

18. NON-CURRENT INTEREST-BEARING LOANS AND BORROWINGS

A. Composition:

	December 31, 2018		December 31, 2017	
	Weighted interest rate as of %	€ in thousands	Weighted interest rate as of %	€ in thousands
Banks:				
Others - In RMB (*)	11.6-13.3	100,797	11.6-13.3	115,120
Less:				
- Current maturities		(13,510)		(10,187)
		87,287		104,933

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

During 2018, the Company made an early repayment in the amount of €16.5 million.

For additional information regarding collaterals and covenants, see Note 24A.

B. Maturities:

	December 31, 2018	December 31, 2017
	€ in thousands	
First year	13,510	10,187
Second year	87,287	-
Third year	-	104,933
	100,797	115,120

19. OTHER LONG-TERM LIABILITIES

	December 31, 2018	December 31, 2017
	€ in thousands	
Deferred revenues	1,033	1,054

20. FINANCIAL INSTRUMENTS: OPTIONS AND WARRANTS

	December 31, 2018	December 31, 2017
	€ in thousands	
PUT option liability	678	1,306

The Company entered into a PUT option agreement with a CEO of a subsidiary, according to which the Company granted the CEO an option to sell to the Company (following the employment termination date) all the shares which he will choose to exercise under his option agreement with the subsidiary. The exercise price of the PUT option will be determined based on the fair value of the option shares as of the date of the PUT notice. In 2018, the parties entered into an agreement cancelling 50% of the PUT option. As a result of the cancellation an amount of €0.4 million was recorded in the non-controlling interest reserve.

21. DEBENTURES

Composition:

	Par value (net) as of December 31, 2018	Balance as of December 31, 2018	Balance as of December 31, 2017	Nominal Interest rate	Effective interest rate	Currency and linkage	Maturities principal
	NIS	€ in thousands		%	%		
Issuer:							
The Company – 2007	160,993,886	45,560	46,420	6.325	4.45%	(1)	2017-2018
The Company – 2008	832,452,875	237,143	237,740	6.775	4.9%	(1)	2017-2020
		282,703	284,160				
Less – current maturities		(282,703)	(95,452)				
		-	188,708				

(1) The Company's Debentures (series A and series B) are traded on the TASE. The Debentures are denominated in NIS and are linked to the Israeli CPI. The amount presented above is net of Debentures held by the Company's subsidiaries.

(2) The Company has not repaid the principal and interest payments which were due in February 2018. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, from March 31, 2018 and until the repayments are rescheduled, the debentures are presented as current liabilities. For additional information see note 1B.

(3) Debt settlement between the Company and its Debenture Holders
In 2015 the Company reached a debt settlement with its Debenture Holders. The amended Deeds of Trust dated July 3, 2015 constitute new deeds of trust to series A and B and replace the original deeds of trust, including all related amendments ('the Deeds of Trust'). This debt settlement postponed the debt repayment dates that were determined in the original deeds of trust while repaying the debt in full to the Debenture Holders.
The settlement also included an increase to the interest rate as well as register primary, an exclusive pledges with no limitations of amounts over all of the Group's interests in GTC RE, KLC, KFS, TGI, EMERGING (the 'Pledged Subsidiaries'). In addition, to secure the Company's commitments, KLC provided a guarantee in favor of the trustees limited to an amount of €100 million. The trustees will not be able to use the guarantee or to take any action against KLC as long as the construction loan to the Dalian project has not been fully repaid, as well as loans that will be obtained, if obtained, in relation to the Dalian project.

In addition, the Company established in favor of the trustees primary exclusive pledges with no limitations of amounts over the bank accounts of the Company ('the Pledged Accounts').

All the funds in the Company's possession, were deposited and kept in the Pledged Accounts, excluding the Free Amount ('Free Amount' signifies a maximum of €3 million, which will serve for the payment of the Company's general and administrative expenses), which will not be pledged in favor of the trustees and which can be deposited in a bank account which is not pledged in favor of the trustees. Insofar the said pledge has not been exercised, the Company may use the funds freely.

Financial Covenants
The Company's debt coverage ratio shall not be below 100% during the years 2015 till 2017 (including) and shall not be below 120% from 2018 onwards. The coverage ratio is the total value of the assets according to the Company's stand-alone financial statements divided by the total stand-alone liabilities of the Company, net of certain amounts as detailed in the Deeds of Trust. If the Company's coverage ratio in the years 2015-2017 shall be lower than 110%, and as of 2018 – lower than 130%, KLC's coverage ratio shall not be lower than 180%. As of December 31, 2018 the Company did not meet the abovementioned coverage ratio. For additional details see Note 24.

Restrictions on business activities
It was agreed that the Company and its subsidiaries will have certain restrictions which related mostly to initiate any new business activity, making new investments and shall not be allowed to raise any new credit.

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

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

debentures post settlement amounts to 7.05% and 7.64% respectively.
The adoption of IFRS 9 as of January 1, 2018 resulted in a change of the accounting of modifications of financial liabilities. For additional information, see Note 4Z.

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

(5) Kardan N.V. Debentures held by subsidiaries
As at December 31, 2018, the Company's subsidiaries hold NIS 136,506,115 par value Debentures Series A (which represent 45.9% of the outstanding par value of Debentures Series A) and NIS 120,381,443 par value Debentures Series B (which represent 12.6% of the outstanding par value of Debentures Series B).

For details regarding financial covenants and pledges, please refer to the above and to Note 24.

22. INTEREST-BEARING LOANS AND BORROWINGS

	December 31, 2018	December 31, 2017
	€ in thousands	
Current maturities:		
Loans (see Note 18)	13,510	10,187
Debentures (see Note 21)	282,703	95,452
	296,213	105,639

23. OTHER PAYABLES AND ACCRUED EXPENSES

	December 31, 2018	December 31, 2017
	€ in thousands	
Financial:		
Accrued expenses	68,969	50,032
Payroll and related expenses	997	987
Payable to joint ventures of KLC accounted using the equity	12,426	8,917
Deposit from tenants	2,928	2,349
Other	1,981	1,480
	87,301	63,765

24. LIENS, CONTINGENT LIABILITIES AND COMMITMENTS

A. Financial covenants, Liens and collaterals:

1. Financial Covenants

(a) The Company's financial covenants, as defined within the framework of the Deeds of Trust, as described in Note 21 above, relate to the debt coverage ratio of the Company. Non-compliance with the debt coverage ratio for five consecutive quarters would be considered as a breach of the covenants. As at December 31, 2018, the Company did not meet the coverage ratio as agreed with the Company's debenture holders. 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.

(b) TGI Group committed towards banks, with respect to long-term and short-term loans, credit facilities and guarantees, to maintain certain financial covenants such as minimum equity and EBITDA, the ratio of equity to total assets, the ratio of equity to net debt and the ratio of financial debt to total assets. Furthermore some restrictions relating to dividend distribution were imposed on TCE. As of December 31, 2018 TGI Group companies met all their financial covenants except for one subsidiary that is not in compliance with certain covenants relating to one of its short-term credit lines, for which a waiver had been received subsequent to the balance sheet date.

(c) KLC Group committed towards a financial institutions which granted a construction loan amounting to up to RMB 900 million, to meet an initial loan-to-value ratio of not more than 50%. As of December 31, 2018 the covenant was met.

2. Pledges

(a) Within the framework of the Deeds of Trust, as described in Note 21 above, the Company pledged in favor of the trustees of the debenture holders of the Company all its rights in shares and loans of the subsidiaries GTC RE, KLC, EI XII, TGI and KFS, certain bank accounts, and the Company's debentures held by the subsidiaries GTC RE and EI XII.

(b) As of December 31, 2018 long-term loans amounting to €98.3 million granted to a subsidiary of KLC was secured by mortgages over investment property, inventory and trade receivables.

(c) Within the framework of the sale of TBIF in 2016, KFS undertook to indemnify the buyer for costs and damages which might occur under circumstances which have been specifically detailed in the share purchase agreement, including a breach of the customary representations and warranties given by KFS. Accordingly, KFS has deposited an amount of € 6 million for a period of two years and pledged this in favor of the buyer as collateral for the indemnification, this amount was reduced to € 5 million after one year and reduced to €4 million in August 2018 which expected to be released in March 2019.

3. Guarantees:

   (a) As of December 31, 2018 and 2017, TGI provided bank guarantees in an aggregated amount of approximately €101.4 million and €65.9 million, respectively, in favor of customers in respect of advances received from them for projects and for performing works.

   (b) A subsidiary of TGI, TCE, is a guarantor by an irrevocable guarantee for the fulfillment of its subsidiary's obligations by means of placing the subsidiary's real estate properties as securities, or in any means as it will be agreed from time to time.

   (c) As at December 31, 2018, Kardan Land China provided guarantees of €8,410 thousand (December 31, 2017 - €1,328 thousand) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Kardan Land China Group's properties, which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiry of the guarantees, the Kardan Land China Group is responsible for repaying the outstanding mortgage principals and interest to the banks.

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

   (d) With respect to such guarantees provided in joint ventures companies, refer to Note 9.

4. Legal claims and contingencies:

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

   (b) From time to time, Kardan Land China is involved in discussions with customers relating to the fulfillment of certain contractual obligations. To the extent there are gaps between the current performance of KLC and the relevant terms in the underlying agreements, these gaps may expose KLC to risks which may result in future cash out flows. As of the date of issuance of these financial statements, none such discussions resulted in legal claims being lodged or asserted and management of KLC concluded that the exposure to such risks is, in most cases, remote, and when the exposure is assessed to be between remote and probable, it is not practicable to estimate the related amount. Consequently, no provision is included in the accounts in respect of any such risks.

5. Commitments:

   (a) With respect to commitments towards the debenture holders of the Company as outlined in the Deeds of Trust, refer to Note 21.

   (b) As of December 31, 2018 Kardan Land China Group had commitments of €4.5 million

(December 31, 2017: €10.2 million) principally relating to the property development cost of the construction projects of the KLC Group.

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

(d) With respect to such guarantees provided in joint ventures companies, refer to Note 9.

B. Operating lease commitments:

1. Operating lease commitments – Group as lessor

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

Future minimum rentals receivable under non-cancellable operating leases as of December 31, 2018 and 2017:

	2018	2017
	€ in thousands	
First year	7,397	4,714
Second to fifth year	18,272	19,621
After the fifth Year	11,201	19,131
	36,870	43,466

2. Operating lease commitments – Group as lessee

(a) TGI Group companies have entered into commercial operating lease agreements on commercial vehicles. These leases have an average life of three years with no renewal option included in the contracts. The annual rentals total approximately €1.4 million (2017 - €0.7 million).

(b) TGI Group companies have entered into operating lease agreements with respect of office buildings rental. Future minimum rentals payables under non-cancellable operating leases as of December 31, 2018 and 2017:

	2018	2017
	€ in thousands	
First year	2,311	2,520
Second to fifth year	4,957	6,566
After the fifth Year	3,259	3,346
	10,527	12,432

(c) With respect to b above, one of the buildings was sub-leased to a third party under an operating lease agreement for a period of eight years. Future minimum rentals payables under non-cancellable operating leases as of December 31, 2018 and 2017:

	2018	2017
	€ in thousands	
First year	1,487	1,537
Second to fifth year	619	2,178
	2,106	3,715

(d) KLC leases various offices under non-cancellable operating lease agreements. The lease terms are up to 1 year, and the majority are renewable at market rate. The total commitment as of December 31, 2018 amounts to €0.2 million (December 31, 2017 - €0.5 million).

(e) KNV leases offices under non-cancellable operating lease agreements. The lease period is 5 years ending on December 31, 2022.

Future minimum rental payables:

	2018	2017
	€ in thousands	
First year	93	56
Second year	93	93
Third year	111.4	93
Forth year	111.4	111.4
Fifth year	-	111.4
	408.8	464.8

25. OPERATING SEGMENTS

A. General:

The Group's operating businesses are organized and managed separately. Each segment represents a strategic business activity that offers different products and serves different markets. The segmentation was determined by the Company's CODM – the CEO
Allocated segment assets and liabilities are those directly linked to the segment activities in the operating companies. In most cases assets and liabilities of the holding companies are considered unallocated.

Real Estate
The real estate activities are incorporated under GTC RE and currently include real estate in China. The real estate activity is divided into 2 separate segments: the development and sale of residential property, and the development and lease of investment properties ('Real Estate development' segment and 'Real Estate investment property' segment). For comparative purposes, 2016 segment information was retroactively adjusted in accordance with the updated segment presentation.

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

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

B. Segments results

For the year ended December 31, 2018:

	Real Estate		
	Development	Investment property	Total
	€ in thousands		
Revenues	73,634	5,824	79,458
Fair value adjustments of investment property	-	(8,610)	(8,610)
Total Income	73,634	(2,786)	70,848
Share in profit of investment accounted using the equity method	1,491	-	1,491
Segment result	5,490	(10,890)	(5,400)
Unallocated expenses			(5,927)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net			(11,327)
Finance expenses, net			(23,703)
Loss before income tax			(35,030)
Income tax benefit			(605)
Loss from continuing operations			(34,425)
Loss from discontinued operations			(311)
Loss for the period			(34,736)

For the year ended December 31, 2017:

	Real Estate		
	Development	Investment property	Total
	€ 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	16,424	-	16,424
Segment result	15,331	(7,440)	7,891
Unallocated expenses			(7,823)
Profit from operations and share in profit of investment accounted using the equity method before finance expenses, net			68
Finance expenses, net			(27,476)
Loss before income tax			(27,408)
Income tax expense			5,180
Loss from continuing operations			(32,588)
Profit from discontinued operations			15,212
Loss for the period			(17,376)

For the year ended December 31, 2016:

	Real Estate			
	Development	Investment property	Other	Total
	€ in thousands			
Revenue	1,670	6,866	2,572	11,108
Fair value adjustments of investment property	-	(2,588)	-	(2,588)
Total Income	1,670	4,278	2,572	8,520
Share in profit of investment accounted using the equity method	2,468	-	-	2,468
Segment result	1,563	(6,175)	(873)	(5,485)
Unallocated expenses				(7,058)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net				(12,543)
Finance expenses, net				(47,368)
Loss before income tax				(59,911)
Income tax benefit				(4,504)
Loss from continuing operations				(55,407)
Profit from discontinued operations				24,081
Loss for the period				(31,326)

C. Segments assets

	December 31	
	2018	2017
	€ in thousands	
Real Estate – Residential	107,506	176,320
Real Estate – Commercial	219,186	232,326
	326,692	408,646
Assets held for sale (former water infrastructure segment and investment in Avis Ukraine)	240,909	183,354
Unallocated assets (*)	77,290	76,576
	644,891	668,576

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

D. Segments liabilities

	December 31	
	2018	2017
	€ in thousands	
Real Estate – Residential	68,193	101,538
Real Estate – Commercial	10,127	7,958
	78,320	109,496
Liabilities associated with assets held for sale (former water infrastructure segment)	184,328	132,798
Unallocated liabilities (*)	436,000	427,108
	698,648	669,402

(*) Most unallocated liabilities relate to financing at the level of the holding companies.

E. Information about geographical areas:

(1) Revenues by geographical markets (according to location of customers):

	For the year ended December 31,		
	2018	2017	2016
	€ in thousands		
China	79,458	15,023	8,536
Bulgaria and Romania	-	-	2,572
	79,458	15,023	11,108

The Company does not have any income generating activity in the Netherlands.

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

	December 31, 2018	December 31, 2017
	€ in thousands	
China	214,211	221,587
Other	114	128

Non-current assets include investment properties and property plant and equipment.
The Company does not have material non-current assets in the Netherlands.

(3) Revenues from major customers, responsible for more than 10% of the revenues:

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Costumer A	57,251	-	-

26. COST OF SALE

A. RENTAL COST:

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Payroll and related expenses	12	12	127
Property management fee	22	103	221
Utility fees	178	209	74
Property Tax	911	922	1,020
Others	22	100	51
	1,145	1,346	1,493

B. COST OF APPARTMENT SOLD:

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Land Cost	21,869	2,847	240
Construction Cost	36,958	3,863	325
Project Management and supervision	3,588	298	25
Finance Cost	3,179	508	46
Other	3,408	477	40
	69,002	7,993	676

27. MANAGEMENT FEES AND OTHER EXPENSES, NET

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Payroll and related expenses	730	918	1,551
Property management fee	376	110	639
Cleaning related cost	128	150	159
Safety and engineering system management fee	328	240	200
Car park management fee	137	183	459
Utility fees	663	681	830
Other	455	565	1,683
	2,817	2,847	5,521

28. SELLING AND MARKETING EXPENSES

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Payroll and related expenses	746	728	792
Commissions	338	205	31
Marketing and advertising	1,907	3,225	1,772
Other	1,092	1,510	1,165
	4,083	5,668	3,760

29. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31		
	2018	2017	2016
	€ in thousands		
Payroll and related expenses (*)	3,740	3,891	6,042
Share-based payment (see Note 17)	2	4	193
Management fees	439	876	741
Office maintenance	520	921	932
Professional fees	2,447	2,471	1,503
Depreciation and amortization	86	84	89
Other	892	1,933	1,001
	8,126	10,180	10,501

(*) Payroll and related expenses are as follows:

	For the year ended December 31		
	2018	2017	2016
		€ in thousands	
Wages and salaries	3,142	3,230	5,128
Unemployment contributions	429	419	626
Other social expenses	169	242	288
	3,740	3,891	6,042

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

30. GAIN (LOSS) ON DISPOSAL OF ASSETS AND OTHER INCOME

	For the year ended December 31		
	2018	2017	2016
		€ in thousands	
Gain (loss) on disposal of investment in companies (1)	2,322	-	(1,734)
Gain (loss) from sale of fixed assets	-	836	39
Other	(815)	-	115
	1,507	836	(1,580)

(1) In 2018 the amount is due to liquidation of a JV in China. In 2016, relates to revaluation of the remaining mortgage activity in light of its disposal.

31. FINANCIAL INCOME AND EXPENSES

	For the year ended December 31		
	2018	2017	2016
		€ in thousands	
Income:			
Income from bank deposits	621	373	314
Exchange differences, net	11,082	6,335	-
Other	110	137	161
Total financing income	11,813	6,845	475
Expenses:			
Interest on long-term loans and borrowings	11,083	11,758	13,124
Interest on debentures	20,378	21,038	19,990
Exchange differences, net	-	-	14,110
Devaluation of warrant	-	-	236
Other	4,055	1,525	383
Total financing expenses	35,516	34,321	47,843

32. TAXES ON INCOME

A. The Company has its statutory seat in the Netherlands, and is therefore subject to taxation according to the Dutch law.

For 2018 and 2017, the standard Dutch corporate income tax rate amounts to 25%. A tax rate of 20% applies to the first € 200,000 of taxable income.

Dutch Participation Exemption

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

Interest deduction limitation rule regarding Participation Debt

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

It is noted that certain exceptions exist. The impact of Section 13L CITA can be limited if and to the extent that the interest held in an operational participation can be considered an expansion of the operational activities of the group ('expansion investment escape'). Also a grandfathering rule applies for participations held by the Dutch tax payer on or before 1 January 2006.

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

Substance requirement regulations

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

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

Amendments of Dutch fiscal unity regime announced

The Company is the parent of a fiscal unity for Dutch corporate income tax purposes with its subsidiaries GTC Real Estate Holding B.V. and Emerging Investments XII BV.

On 22 February 2018 it was ruled by the European Court of Justice that some elements of the Dutch fiscal unity regime are not compatible with EU law. In response to this decision, the Dutch government published draft legislation to amend the Dutch fiscal unity regime. In short, the legislative proposal as published on 6 June 2018 stipulates that for the application of certain provisions a fiscal unity would be deemed not to exist. These provisions include certain interest deduction limitation rules, specific elements of the participation exemption rules and loss relief rules in case of change of ownership. If enacted, the Dutch fiscal unity regime will be amended with retroactive effect to 1 January 2018.

The Company is in the process of analyzing the impact of the proposed amendment of the fiscal unity regime on the 2018 corporate income tax position of all Dutch group companies that are part of a fiscal unity. As there is no final legislation available yet, it is not possible to quantify the impact at this stage, if at all.

Changes in Dutch corporate income tax law that might impact the tax position of Kardan NV

The following amendments of the Dutch CITA as per 1 January 2019 could impact the tax position of the Company for financial years as of 2019:

- The statutory Dutch corporate income tax rates will be reduced in the period 2019 through 2021. The standard rate of currently 25% will be reduced to 22.55% in 2020 and 20.5% in 2021, while the step-up rate of currently 20% for the first € 200.000 taxable profit will be reduced to 19% in 2019, 16.5% in 2020 and 15% in 2021.
- The carry forward of losses (on which the Company has not recorded any deferred tax assets) is restricted to six years, for fiscal years starting 1 January 2019.
- The interest deduction limitation rule of Section 13L CITA will be abolished as per 1 January 2019.
- As per 1 January 2019, a new interest deduction limitation rule will become effective (the earnings stripping rule). The earnings stripping rule is a general interest deduction limitation which limits the deduction of the surplus of interest expenses based on a fixed percentage of the gross operating income (EBITDA). Based on this rule, net borrowing costs on debt attracted from both related and unrelated parties by a Dutch taxpayer will only be tax-deductible up to the higher of 30% of a taxpayer's corrected taxable profit, or a threshold of € 1 million. The non-deductible amount of net borrowing costs can be carried forward indefinitely in time.
- As per 1 January 2019, the Netherlands introduced Controlled Foreign Company-rules (or CFC-rules). Based on these rules, all undistributed passive income of a CFC will be included in the Dutch taxpayer's taxable income. A CFC is defined as (i) a foreign entity in which the Dutch taxpayer has a direct or indirect interest of more than 50% (vote or value) or (ii) a permanent establishment of a Dutch taxpayer, which foreign entity or permanent establishment is tax resident of a country that is either on the EU Blacklist or has a statutory CIT-rate of <9% (exhaustive list of such countries will be published by the Ministry of Finance on an annual basis). The CFC-rules will however not apply if the CFC carries out genuine economic activities in the foreign jurisdiction.

The Company is in the process of analyzing the (potential) impact of these amendments on its Dutch CIT-position for 2019.

Transfer pricing documentation requirements

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

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

Although the Company is not required to submit the CbCR template regarding financial year 2018 to the Dutch Tax Authorities, it has the obligation to prepare a Master file and Local file for financial year 2018 before filing of the 2018 corporate income tax return. The Company is currently in the process of preparing a Master file and Local file for financial year 2018.

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

	Tax rate	
Country	**2018**	2017
Bulgaria	10%	10%
China	25%	25%
Hong-Kong	16.5%	16.5%
Israel	23%	24%
Romania	16%	16%
The Netherlands	20-25%	20-25%

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

	For the year ended December 31,		
	2018	2017	2016
	€ in thousands		
Current taxes	649	1,544	34
Tax expenses related to previous years	(22)	20	(228)
Deferred taxes (see also E below)	(1,232)	3,616	(4,310)
	(605)	5,180	(4,504)

D. The reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:

	For the year ended December 31,		
	2018	2017	2016
	€ in thousands		
Accounting loss	(35,030)	(27,408)	(59,911)
Tax (tax benefit) expense computed at the statutory tax rate 25%	(8,757)	(6,852)	(14,978)
Increase (decrease) in tax expense (tax benefit) due to:			
Carry forwards tax losses for which no deferred tax assets were recognized	4,928	10,299	9,529
Adjustment in respect to tax of previous years	(22)	20	(227)
Share of results of investments accounted using the equity method	(373)	(4,106)	427
Withholding tax for dividends distributed from joint ventures	407	1,277	-
Impact of different tax rates	3,078	4,385	727
Other	134	157	18
	(605)	5,180	(4,504)

E. Composition of deferred taxes

	Consolidated statement of financial position		Recorded in the income statement		
			Movement for the year ended December 31,		
	December 31, 2018	December 31, 2017	**2018**	2017	2016(*)
	€ in thousands		€ in thousands		
Deferred income (tax liabilities) tax assets with respect to:					
Investment properties	(8,142)	(10,778)	(2,149)	(588)	(646)
Carry forwards losses available for offset against future taxable income	3,074	4,223	681	4,224	(3,807)
Differences in measurement basis	426	664	219	-	785
Timing differences of projects	-	-	-	-	(1,039)
Other	-	-	-	-	(10)
	(4,642)	(5,891)	(1,249)	3,636	(4,717)

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

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

	December 31,	
	2018	2017
	€ in thousands	
Net deferred income tax asset (Non-current)	313	464
Net deferred income tax liability (Non-current)	(4,955)	(6,355)
	(4,642)	(5,891)

A. Losses carry-forwards and final tax assessments

Under the 2018 Dutch Tax legislation the carry back of losses is restricted to one year and furthermore the carry forward of losses (on which the Company has not recorded any deferred tax assets) is restricted to nine years. The accumulated unused tax losses up to 2018 of Kardan N.V. company-only amount to €315.1 million (according to the filed 2017 tax return, net of tax losses evaporated as per 1 January 2018). The tax losses expire as follows: €17.5 million on 1 January 2019, €85.5 million on 1 January 2020, €29.1 million on 1 January 2021, €41.1 million on 1 January 2023, €24.1 million on 1 January 2024, €61.7 million on 1 January 2025, €39.5 million on 1 January 2026, and €16.7 million on 1 January 2027.
The Company received final tax assessments up to and including the year 2014. The Company does not expect the year 2018 to result with a tax liability.

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

33. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, less the weighted average number of treasury shares.
Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent, after adjusting for interests on convertible shares of the Company and Group companies, by the weighted average number of ordinary shares outstanding during (less the weighted average number of treasury shares) the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, adjusted for the effects of dilutive options and dilutive convertible Debentures of the Company and of Group companies.

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

	2018	2017	2016
		€ in thousands	
Net loss attributable to ordinary equity holders of the parent (€ in thousands)	(36,775)	(17,101)	(31,330)
Effect of dilution of losses of group companies	-	(83)	(10)
	(36,775)	(17,184)	(31,340)
Weighted average number of ordinary shares for basic earnings per share (in thousands)	123,022	123,022	123,022
Effect of dilution:			
Shares options	-	-	-
Adjusted weighted average number of ordinary shares for diluted earnings per share	123,022	123,022	123,022

Certain warrants, employee options and convertibles issued by the Group were excluded from the calculation of diluted earnings per share as they did not result in a dilutive effect ('out of the money') as of December 31, 2018, 2017 and 2016.

To calculate earnings per share amounts for discontinued operations, the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The profit (loss) used is €(311) thousand, €15,212 thousand and €24,081 thousand for the years 2018, 2017 and 2016, respectively.

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A. Introduction

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

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

B. The Kardan Group

1) <u>Risk management</u>

Financial risk management
The Group's principle financial instruments comprise of bank loans, debentures, receivables and cash deposits. The main purpose of these financial instruments is to finance the Group's

operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

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

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

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

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

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

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

Risk management structuring
The Board of Kardan N.V. and of each Group company is responsible for identifying and controlling risks. However, there are separate independent bodies within the Group that are responsible for managing and motoring risks.

(i) Corporate level
The Executive Management of Kardan N.V. (CEO, CFO) work closely with chief risk managers within the Group, by means of functional lines of responsibility and jointly they have overall responsibility for the execution of the risk strategy and implementation of principles, frameworks, policies and limits. The Board of Kardan N.V. is responsible for monitoring the overall risk process, including the overall risk-management approach and for approving the risk strategies and principles.

(ii) Group companies
Some of the Kardan Group companies have appointed risk managers at their corporate levels as well as at country levels or subsidiary levels.

(iii) Risk mitigation
Kardan uses the analysis of the structure of its portfolios in order to mitigate excessive risk. The

risk is spread among the different activities of the Kardan Group and in the countries of operation. The diversification of the businesses (investment property and development real estate, infrastructure projects) as well as collateral management are useful risk mitigation tools as well. In addition, management may change its targets in order to mitigate specific (excessive) risk.

(iv) Excessive risk concentration

A concentration of risk may arise from financial instruments with similar characteristics that are affected likewise by changes in economic or other conditions. Concentrations indicate the relative sensitivity of Kardan's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, Kardan's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (PRC, India, CEE, CIS, etc.); industry diversification (real estate and water infrastructure); product diversification (investment property and development real estate, different operations of water infrastructure projects).

2) Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

To limit this risk, the Group finances its operations through diversified, short-term and long-term credit obtained from the public and institutional investors and from financial institutions. The Group raises financing according to needs and market conditions when required.

The Company has not repaid the principal and interest payments which were due in February 2018. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, from March 31, 2018 and until the repayments are rescheduled, the debentures are presented as current liabilities. 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

The main liquidity risk of the Company is meeting its future obligations to repay the principal and interest to the Company's Debenture Holders as will be agreed on in the new agreement. The Company manages this risk by preparing a liquidity analysis which indicates the required liquidity to be able to repay interest and principal of the Company's debentures and to finance its operating activities. Included in this analysis are, among others, the current cash balances and the projected cash from future operations and transactions. It should be noted that the realization of the Company's plans depends on factors that are not within the Company's control and therefore there is uncertainty that such transactions will be completed at all (for additional information see note 1B).

With respect to TGI subsidiary, as of December 31 2018 TGI group has several available short term credit lines. In view of delays in obtaining advances from certain projects, the TGI Group extended these credit lines. As at the date of approval of the financial statements, the Company's management estimates that it will be possible to extend all the credit lines used by it. In order to deal with the uncertainty regarding the required liquidity, the TGI management prepared an emergency plan that includes an efficiency plan, the execution of transactions for the sale of assets and the creation of a sufficient positive cash flow in 2019. For further details, see Note 5.

The following tables present the payment dates for financial liabilities as of December 31, 2018 and 2017. The table includes repayment as per forecasted cash flow not capitalized. The table includes repayments of principal and interest. The calculation of the expected interest is done as per an estimation based on the repayment table for the financial liabilities.

Liquidity table 2018:

	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
	EUR in thousands				
Liabilities					
Trade payables	23,400	-	-	-	23,400
Other payables and accrued expenses	15,173	38,287	7,899	-	61,359
Interest-bearing loans and borrowings	2,995	61,550	110,225	-	174,770
Debentures	317,007	-	-	-	317,007
Other long-term liabilities	-	-	-	1,073	1,073
Total liabilities	**358,575**	**99,837**	**118,124**	**1,073**	**577,609**

Liquidity table 2017:

	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
	EUR in thousands				
Liabilities					
Trade payables	11,389	11,090	-	-	22,479
Other payables and accrued expenses	13,045	41,586	3,277	-	57,907
Interest-bearing loans and borrowings	3,445	34,490	13,658	126,529	178,122
Debentures	113,688	-	109,018	102,514	325,220
Other long-term liabilities	-	-	-	1,052	1,052
Total liabilities	**141,567**	**87,166**	**125,953**	**230,095**	**584,780**

3) Foreign currency risk

The foreign currency exchange rate risk arises from transactions conducted in a currency that is not the functional currency of the relevant company in the Group.
Because of the Company's activities in different countries, it is exposed to changes in the exchange rates of different currencies including Euro, US Dollar, RMB, Cuanza and NIS. In order to mitigate these risks the Group companies evaluate, from time to time, the need to hedge the different currencies transactions.

Most of the Company's assets are denominated in RMB whereas it has NIS denominated debt. Consequently, changes in the currency rates have a significant effect both on Kardan NV's results and equity. Foreign currency changes during 2018 had a material effect on the Group's financial statements, in light of the strengthening of EUR against the RMB.

Linkage terms of monetary balances:

As of December 31, 2018:

	In euros	In US dollars	In NIS (Israel)	In RMB (China)	In AOA (Angola)	In INR (India)	In Rub (Russia)	In other currencie	Non-monetary	Reconciliation (*)	Total
	€ in thousands										
Assets											
Property and equipment	-	-	-	-	-	-	-	-	18,436	(17,688)	748
Investment properties	-	-	-	-	-	-	-	-	213,577	-	213,577
Goodwill	-	-	-	-	-	-	-	-	9,150	(9,150)	-
Investments in companies accounted for using the equity method	11,651	7,817	-	-	-	-	-	65	27,740	(9,300)	37,973
Long-term receivables	2,619	-	1,554	-	-	-	-	-	1,259	(1,554)	3,878
Deferred tax assets	-	-	-	-	-	-	-	-	3,930	(3,617)	313
Inventory	-	-	-	-	-	-	-	-	86,326	(21,592)	64,734
Trade receivables	9,871	20,258	22,179	7,416	14,678	45,266	10,420	42	-	(122,714)	7,416
Other receivables	762	893	1,110	982	-	739	1,732	1,303	27,338	(28,892)	5,967
Short-term investments	4,344	-	124	13,253	-	-	-	-	-	(294)	17,427
Cash and cash equivalents	22,047	14,242	6,513	16,046	1,172	1,564	2,426	1,620	-	(13,681)	51,949
Assets classified as held for sale	12,427	-	-	-	-	-	-	-	-	228,482	240,909
	63,721	43,210	31,480	37,697	15,850	47,569	14,578	3,030	387,756	-	644,891
Liabilities											
Deferred tax liability	-	-	-	-	-	-	-	-	6,104	(1,149)	4,955
Interest-bearing loans and borrowing	2,687	43,869	4,512	100,800	-	431	-	-	-	(51,502)	100,797
Options	-	3,228	-	-	-	-	-	-	-	(2,550)	678
Debentures	-	-	282,703	-	-	-	-	-	-	-	282,703
Other long-term liabilities	300	-	5,853	-	461	-	-	128	1,033	(6,742)	1,033
Other payables and accrued	2,745	1,820	40,320	45,416	-	12,530	13,589	147	33,902	(63,168)	87,301
Trade payables	4,509	196	5,599	3,087	1,351	5,940	2,164	555	-	(20,242)	3,159
Advances from customers in respect of contracts	-	-	-	-	-	-	-	-	35,987	(35,987)	-
Advances from apartment	-	-	-	-	-	-	-	-	32,509	-	32,509
Income tax payable	-	-	-	-	-	-	-	-	4,173	(2,988)	1,185
	10,241	49,113	338,987	149,303	1,812	18,901	15,753	830	113,708	(184,328)	514,320
Differences between assets and liabilities	53,480	(5,903)	(307,507)	(111,606)	14,038	28,668	(1,175)	2,200	274,048	184,328	130,571

(*) Reconciliation due to the reclassification of TGI and Avis as Held for Sale.

As of December 31, 2017:

	In euros	In US dollars	In NIS (Israel)	In RMB (China)	In Rub	In other currenci	Non-monetary	Reconciliation (*)	Total
	€ in thousands								
Assets									
Property and equipment	-	-	-	-	-	-	20,449	(19,822)	627
Investment properties	-	-	-	-	-	-	221,089	-	221,089
Goodwill	-	-	-	-	-	-	6,908	(6,908)	-
Investments in companies accounted for using the equity method	15,876	18,971	-	-	-	23	49,453	(9,002)	75,321
Long-term receivables	667	-	1,133	2,563	-	-	5,537	(1,777)	8,123
Deferred tax assets	-	-	-	-	-	-	3,111	(2,647)	464
Inventory	-	-	-	-	-	-	129,999	(12,099)	117,900
Trade receivables	11,105	11,044	62,653	5,401	1,676	9,923	-	(96,401)	5,401
Other receivables	3,530	8,006	1,705	1,461	67	5,767	12,024	(25,372)	7,188
Short-term investments	5,346	-	105	6,793	-	-	-	(275)	11,969
Cash and cash equivalents	7,583	4,348	5,668	25,498	853	2,241	-	(9,051)	37,140
	44,107	42,369	71,264	41,716	2,596	17,954	448,570	(183,354)	485,222
Liabilities									
Deferred tax liability	-	-	-	-	-	-	7,538	(1,183)	6,355
Interest-bearing loans and borrowing	1,806	16,248	4,518	115,122	-	-	-	(32,761)	104,933
Options	-	3,740	-	-	-	-	-	(2,434)	1,306
Debentures	-	-	284,160	-	-	-	-	-	284,160
Other long-term liabilities	3,628	1,572	4,251	-	-	-	1,054	(9,451)	1,054
Other payables and accrued	3,898	-	25,694	44,846	-	5,051	10,724	(16,261)	73,952
Trade payables	6,916	7,370	1,336	2,195	30	4,632	-	(20,185)	2,294
Advances from customers in respect of contracts	-	-	-	-	-	-	48,147	(48,147)	-
Advances from apartment	-	-	-	-	-	-	61,208	-	61,208
Income tax payable	-	-	-	-	-	-	3,718	(2,376)	1,342
	16,248	28,930	319,959	162,163	30	9,683	132,389	(132,798)	536,604
Differences between assets and liabilities	27,859	13,439	(248,695)	(120,447)	2,566	8,271	316,181	(50,556)	(51,382)

(*) Reconciliation due to the reclassification of TGI as Held for Sale.

The following table demonstrates the sensitivity of the Group's profit and loss before tax to a reasonably realistic change in exchange rates compared to other main currencies in which the Group operates, when all other variables are held constant:

	Sensitivity to change in EUR\USD Effect on profit and loss € in thousands			
	+10%	+5%	-5%	-10%
2018	(1,152)	(2,305)	1,152	2,305
2017	(119)	(59)	59	119

	Sensitivity to change in EUR\ NIS Effect on profit and loss € in thousands			
	+10%	+5%	-5%	-10%
2018	(32,387)	(16,193)	16,193	32,387
2017	(30,359)	(15,179)	15,179	30,359

	Sensitivity to change in RMB/EUR Effect on profit and loss € in thousands			
	+10%	+5%	-5%	-10%
2018	(1,931)	(966)	966	1,931
2017	(2,813)	(1,406)	1,406	2,813

	Sensitivity to change in EUR/AOA Effect on profit and loss € in thousands			
	+50%	+10%	-10%	-50%
2018	7,019	1,404	(1,404)	(7,019)

The sensitivity analysis of the EUR/AOA in the year 2017 was immaterial

	Sensitivity to change in Israeli CPI Effect on profit and loss € in thousands			
	+3%	+2%	-2%	-3%
2018	(8,481)	(5,654)	5,654	8,481
2017	(8,595)	(5,730)	5,730	8,595

4) <u>Market risk</u>

Market risk is the risk that the fair value or future cash flows from a financial instrument will change as a result of changes in market prices. Market risk includes three types of risk: interest rate risk, currency risk, and other price risks such as share price risk and commodity price risk. Financial instruments that are affected by market risk include, inter alia, loans and credit, deposits and investments available for sale.

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

Achieving the Group's objectives in emerging markets depends on, among others, the pace of economic development of these markets and in particular the pace of development of the real estate sector and water infrastructure sectors. Low development pace in these markets and sectors may have a negative impact on Group's business objectives.

The Group operates in investment property and development real estate in China, water infrastructure activities mostly in CEE, India and Africa. In addition, the Group operates in the car leasing business in the Ukraine (which was sold in 2019). The Company closely monitors the economic developments in the countries of operations and directs management and financial resources to and from these regions based on its current strategy. China is considered to be the largest emerging economy in the world, which has been gradually shifting over the last decades from a central government-controlled economy to an open market economy and consequently more interlinked with international markets.

In the water infrastructure activities the company operates, among others in Africa, a region that is exposed to frequent political changes. These changes might influence the economic status and cause economical, fiscal and monetary instability and frequent changes in the economic legislation. As a result, the company's activity in Africa might be negatively affected including its ability to continue to operate and to collect debts.
A change in trends in these countries may negatively affect the Groups operations.

The management of the Company believes that the following factors are instrumental in handling the above-mentioned risks:
(1) Skilled and experienced management team, combining local expertise with international experience in the countries of operation.
(2) Focus on selection of major projects which are developed in stages, according to demand (real estate).
(3) Strict due diligence before embarking on a project combined with high quality project management.

5) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.
Kardan's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investments in each country.

The Group does not have a material exposure to financial instruments which are impacted by market prices, therefore it has no significant price risk.

6) Political risk

The Group has significant business activities predominantly in China, Africa and Central and Eastern Europe. Political and economic changes in these regions can have consequences on the Group's activities, as well as an impact on the results and financial positions of the Group. The management is mitigates the risks which might derive from changes in the political trends by strict supervision, keeping up with changes and working closely with consultants in the field and relevant countries.

7) Credit risk

Credit risk is the risk that the counterparty will not meet its obligations as a customer or its liabilities arising from a financial instrument and as a result the Group will incur a loss. Credit risk is also applicable to derivatives, financial guarantees and loan commitments. The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, deposits, and other financial assets, financial guarantees and loan commitments. It is the policy of the Group, in general, to enter into trade agreements with reputable third parties with good credit ratings.

The Group companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from provision of credit, with respect to specific debts whose collection is doubtful. As a result, the Group's exposure to bad debts is not considered significant.

Credit risk, is controlled by the application of credit approvals, limits and monitoring procedures. To manage this risk, the Group companies periodically and regularly assess the financial viability of their customers. It should be noted that for TGI, most of its customers are various government and municipal entities, and the projects usually include a guaranteed financial closing. However, there are delays, sometimes significant, in payments that may cause the Group losses due to the need to use credit lines.
A concentration of credit risk exists when changes in economic, industry, or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instruments is diversified along product and geographic lines and transactions are entered into with various creditworthy counterparties, thereby mitigating any significant concentration of credit risk. The Group performs ongoing credit evaluations of their customers' financial condition and requires collateral as deemed necessary.

Counterparties to financial instruments consist of a large number of financial institutions. The Group has no significant concentration of credit risk with any single counterpart or group of counterparties.
With respect to trade receivables, the maximum exposure is equal to the amount on the face of the statement of financial position. Refer to Note 12 for more information regarding trade receivables and their aging analysis.

As of December 31, 2018 and 2017, cash and cash equivalent amounted to €51,949 thousand (not including an amount of €13,681 thousand of TGI which are included in the ‘Assets held for Sale’) and €37,140 thousand, respectively, and deposits in banks amounted to €4,169 thousand (not including an amount of €293 thousand of TGI which are included in the ‘Assets held for Sale’) and €11,969 thousand, respectively (see Note 14 and 15). All deposits are deposited with highly rated financial institutions primarily in the countries of operation. As of December 31, 2018, the Group operates primarily in PRC, where a majority of the banks and financial institutions are endorsed by the national credit and therefore the credit risks for banks and financial institutions are considered remote

Maximum exposure to credit risk
The sum of all financial assets presented in the table 9B below and the sum of all financial guarantees is presented in the table below, showing the maximum exposure to credit risk for the components of the Group. The maximum exposure is presented gross, before the effect of mitigation through the use of collateral agreements.

8) Interest-rate risk

Interest risk is the risk that the fair value or future cash flows from a financial instrument will change as a result of changes in market interest rates.

The Group's exposure to market risk for changes in interest rates usually relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest cost using a combination of debt with fixed and variable interest rates. Interest rate risk management aims to limit the impact of fluctuations in interest rates on the results and reduce total interest expenses as much as possible.

The majority of the Group’s financial liabilities (debentures, loans and borrowings) bear a fixed interest rate and are therefore not exposed to interest rate risk.
9) Fair value disclosure:

Fair value risk is the risk that the book value of the financial instruments measured at fair value would vary as a result of market conditions.

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

9.1 Fair value schedule		Carrying amount			Fair value			
	Methods of	**2018**			**2018**			
	determining fair value	Carrying value	Reconciliation (*)	Total	Fair Value	Reconciliation (*)	Total	
	€ in thousands							Comment
Assets								
Short-term investment		17,721	(294)	17,427	17,721	(294)	17,427	1
Long-term loans and receivables		5,432	(1,554)	3,878	5,432	(1,554)	3,878	5
Loans to associates and joint ventures		19,533	(4,674)	14,859	19,533	(4,674)	14,859	3
Liabilities								
Debentures	(1)	322,844	-	322,844	84,674	-	84,674	2
Interest-bearing loans and borrowings		152,301	(65,014)	87,287	152,301	(65,014)	87,287	3
Financial instruments - options	(3)	3,228	(2,195)	1,033	3,228	(2,195)	1,033	4

9.1 Fair value schedule		Carrying amount			Fair value			
	Methods of	**2017**			**2017**			
	determining fair value	Carrying value	Reconciliation (*)	Total	Fair Value	Reconciliation (*)	Total	
	€ in thousands							Comment
Assets								
Short-term investment		12,244	(275)	12,169	12,244	(275)	12,169	1
Long-term loans and receivables		9,899	(1,776)	8,123	9,899	(1,776)	8,123	5
Loans to associates and joint ventures		34,337	(8,905)	25,432	34,337	(8,905)	25,432	3
Liabilities								
Debentures	(1)	301,484	-	301,484	177,856	-	177,856	2
Interest-bearing loans and borrowings		137,692	(22,572)	115,120	137,692	(22,572)	115,120	3
Financial instruments - options	(3)	3,740	(2,434)	1,306	3,740	(2,434)	1,306	4

(*) Reconciliation due to the reclassification of TGI as Held for Sale.

Methods of determining the fair value of the financial assets and liabilities:

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

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

Comments regarding determining the fair value:

1) The carrying amount of cash and cash equivalents and short-term investments, which only include bank deposits, approximates their fair values, due to the short-term nature of such financial assets. Refer to Note 14 and 15 for additional information.
2) Market prices of Debentures Series A and Series B of the company have been used to determine the fair value of the listed Debentures which were issued by the Group. Please refer to Note 21 for additional information. The carrying value includes accrued interest in the amount €40,142 thousand for 2018 and €17,325 thousand in 2017.
3) As of December 31, 2018 and 2017 most of the loans bear a fixed interest rate, and management estimates that this rate is approximately the same as the one at yearend. Refer to Note 8, 9 for additional information.
4) Warrants, options and certain long-term liabilities were valued internally by the Group. The valuations were based on the DCF approach using the following assumptions: the exercise price, the price of the underlying asset, the contractual term of the option, the expected volatility of the asset price and the dividend yield. Refer to Note 20 for additional information.
5) In determining that the carrying value approximated the fair value, management considered the continuous process for determining whether the value of these financial assets was impaired. Refer to Note 10 for additional information.
6) The carrying value of cash and cash equivalents and other financial instruments such as trade and other receivables, trade and other payables, which were not included in the table above, is assumed to approximate their fair value due to their short-term nature.

B. Financial assets and liabilities measured at fair value through profit and loss

9.2 Fair value levels schedule:	December 31, 2018				
	Level 1	Level 2	Level 3	Reconciliation (*)	Total
	€ in thousands				
Financial assets:					
Held for trading securities and other	12,937	-	-	(119)	12,818
Financial liabilities at fair value through profit or loss:					
Warrant and call option	-	-	2,550	(2,550)	-
Put option	-	-	678	-	678

9.2 Fair value levels schedule:	December 31, 2017				
	Level 1	Level 2	Level 3	Reconciliation (*)	Total
	€ in thousands				
Financial assets:					
Held for trading securities and other	100	-	-	(100)	-
Financial liabilities at fair value through profit or loss:					
Warrant and call option	-	-	2,434	(2,434)	-
Put option	-	-	1,306	-	1,306

(*) Reconciliation due to the reclassification of TGI as Held for Sale.

During 2018 and 2017 there have been no transfers between financial instruments valuated in Level 1 to Level 2 or between Level 2 to Level 1.

C. Level 3 financial assets and liabilities reconciliation

2018

	As of January 1, 2018	Fair value gain (loss) recorded in P&L	Disposals	As of December 31, 2018
	€ in thousands			
Put option	(1,306)	184	444	(678)

2017

	As of January 1, 2017	Fair value gain (loss) recorded in P&L	Disposals	Reconciliation (*)	As of December 31, 2017
	€ in thousands				
Warrants and call options	(2,745)	311	-	2,434	-
Put option	(976)	(330)	-	-	(1,306)
Phantom options	(245)	6	239	-	-
Total liabilities	(3,966)	(13)	239	2,434	(1,306)

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

2018

	Short term loans and credit	Long term loans	Total
	€ in thousands		
Opening balance	21,617	121,759	143,376
Cash received	27,778	1,531	29,309
Cash paid	(744)	(26,822)	(27,566)
Amounts recorded in P&L	(79)	7,420	7,419
Amounts recorded in other comprehensive income – foreign currency translation	(443)	(50)	(493)
Closing balance	48,129	103,916	152,045

2017

	Short term loans and credit	Long term loans	Total
	€ in thousands		
Opening balance	13,333	112,247	125,580
Cash received	9,245	122,842	132,087
Cash paid	(1,091)	(106,076)	(107,167)
Amounts recorded in P&L	(18)	(7,221)	(7,239)
Amounts recorded in other comprehensive income – foreign currency translation	148	(33)	115
Closing balance	21,617	121,759	143,376

E. 9.4 IFRS 9 classification of financial assets and liabilities:

	December 31,	
	2018	2017
	€ in thousands	
Financial assets:		
Cash and cash equivalent, loans and receivables	257,137	220,029
	257,137	220,029
Financial liabilities:		
Financial liabilities presented at amortized cost	578,115	536,037
Financial liability through P&L	2,524	2,601
Put option (See note 20)	678	1,306
FIMI liability	2,550	2,434
	583,867	542,378

35. RELATED PARTIES

The Group has entered into a variety of transactions with its related parties. The Group has adopted the policy to enter into such transactions, which are being concluded in the normal course of business, on an arm's-length basis. The sales and purchases from related parties are made at comparable normal market prices. Outstanding balances relating to such sales and purchases at year-end are unsecured, interest free, and settlement occurs in cash. Outstanding loans from related parties are unsecured and presented with accrued interest. The significant of these balances and transactions are as follows:

A. Balances:

	Note	December 31, 2018	December 31, 2017
		Joint ventures	Joint ventures
		€ in thousands	
Trade receivables	12	798	743
Other receivables and	13	854	817
Loans and long-term assets	8,9	19,302	25,432
Other payables and accrued	23	12,426	8,917

B. Transactions

	Note	Joint ventures	Fellow subsidiaries
		€ in thousands	
For the year ended December 31, 2018:			
Management fee, net		962	(48)
Finance income	31	109	-
For the year ended December 31, 2017:			
Management fee, net		765	(109)
Finance income	31	137	-
For the year ended December 31, 2016:			
Management fee, net		960	(162)
Finance income	31	137	-

1) On December 2018, Tahal Angola Lda, a subsidiary of Tahal Group B.V. (70%) had signed a shareholders Agreement with a non-controlling interest holder, according to which approximately USD13.8 million were converted into equity capital according to an approved shareholders scheme, which is different from their current holdings. As a result of the transaction, the Company recorded €1 million in reserve.

2) Management fees for the years 2018, 2017 and 2016 relate mostly to management fees from joint ventures received by Kardan Land China. Finance income from joint ventures are from loans granted to joint ventures.

3) In May 2017 the services agreement between the Company and Kardan Israel (a company controlled by the Company’s controlling shareholders) has been amended. According to the

amended agreement, effective January 1, 2017, the scope of services will be reduced and accordingly, the corresponding service fees would be reduced to a total of approximately €130 thousand per year (550 NIS thousand per year), linked to Israeli CPI.

4) In September 2017 the services agreement between the Company and Kardan Israel has been further amended. According to the amended agreement, effective September 1, 2017, the scope of services will be reduced and accordingly, the corresponding service fees would be reduced to a total of approximately €48 thousand per year (200 NIS thousand per year), linked to Israeli CPI, subject to the approval of the general meeting of shareholders.

5) Kardan Israel provides various services to the Group which are not part of the abovementioned services agreement, including, among others, the provision of office space and services. In addition, Kardan Israel is entitled to reimbursement of expenses incurred in connection with such services. In 2018 and 2017 Kardan Israel did not provide such services (in 2016 €30 thousand were paid to Kardan Israel for such services).

C. Remuneration to related parties:

Remuneration of members of the Board of Directors and executive management, of the Company:

1) Board (*):

For the year ended December 31,		
2018	2017	2016
In € '000		
204	263	263

(*) The amounts for the year 2018 related to 8 Board members, in 2017 and 2016 relate to 9 Board members.

2) Executive Management (*):

For the year ended December 31,	Short-term employee benefits (***)	Post-employment pension and medical benefits	Share-based payment transaction	Total
	In € '000			
2018	592	21	3	616
2017	665	20	4	689
2016 (**)	1,324	152	359	1,835

(*) The amounts for the year 2018, 2017 and 2016 relate to 2, 2 and 4 executives, respectively.
(**) The amounts in 2016 include the new CEO fees from his appointment as CEO on April 15, 2016 and the former CEO until termination of employment on September 30, 2016.
(***) Short term employee benefits include bonuses over the years 2016 and 2017.

3. Options granted by the Company as of December 31, 2018 and 2017 (*):

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

(*) For additional information see also Note 17B.

36. SUBSEQUENT EVENTS

After balance sheet date in January 2019, KFS, signed an agreement to sell its 66% stake in TBIF Dan Leasing Limited. For additional information see note 5B. In March 2019 the transaction was completed.

KARDAN N.V.
AMSTERDAM, THE NETHERLANDS

COMPANY-ONLY NON-STATUTORY FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

COMPANY-ONLY NON-STATUTORY STATMENT OF FINANCIAL POSITION
December 31, 2018

	Note	**December 31, 2018**	December 31, 2017
		In €'000	
A s s e t s			
Non-current assets			
Tangible fixed assets		114	128
Investments in subsidiaries	5	290,610	322,761
Loans to subsidiaries		24	24
		290,748	322,913
Current assets			
Short-term investments	7	169	169
Other receivables	4	1,798	1,406
Cash and cash equivalents	6	17,595	5,979
		19,562	7,554
Assets classified as held for sale		40,878	49,495
Total current assets		60,440	57,049
Total assets		351,188	379,962
E q u i t y a n d l i a b i l i t i e s			
Equity			
Share capital		25,276	25,276
Share premium		206,482	206,482
Foreign currency translation reserve		(12,049)	37
Property revaluation reserve		25,179	31,637
Revaluation reserve, other		4,837	5,586
Accumulated deficit		(309,222)	(273,386)
		(59,497)	(4,368)
Non-current liabilities			
Debentures	8	-	216,087
Options and other long-term liabilities	9	-	3,323
		-	219,410
Current liabilities			
Current portion of debentures	8	355,656	141,901
Option liability		2,791	-
Other payables	11	52,238	23,019
		410,685	164,920
Total equity and liabilities		351,188	379,962

See accompanying notes.

COMPANY-ONLY NON-STATUTORY INCOME STATEMENT
Year ended December 31, 2018

	Note	**2018**	2017
		In €'000	
General and administration expenses	12	(2,602)	(3,459)
Loss from operations		(2,602)	(3,459)
Financial expenses, net	13	(17,722)	(16,081)
Loss before share of profit from investments accounted for using the equity method		(20,324)	(19,540)
Share of (loss) profit of subsidiaries	5	(16,125)	(10,035)
Loss before income taxes		(36,449)	(29,575)
Income tax expenses	10	250	346
Loss for the period from continuing operations		(36,699)	(29,921)
Net profit (loss) from discontinued operations		(76)	12,820
Loss for the year		(36,775)	(17,101)

See accompanying notes.

COMPANY-ONLY STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended December 31,

	2018	2017
	In €'000	
Net loss for the year	(36,775)	(17,101)
Foreign currency translation differences	(12,086)	(23,553)
Change in hedge reserve, net	(751)	(1,051)
Other comprehensive expense for the year to be reclassified to profit or loss in subsequent periods	(12,837)	(24,604)
Total comprehensive expense	(49,612)	(41,705)

COMPANY-ONLY NON-STATUTORY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year ended December 31, 2018

	Issued and paid-in capital	Share premium	Property revaluation reserve (*)	Revaluation reserve, other (*)	Foreign currency translation reserve (*)	Accumulated deficit (*)	Total
	In €'000						
Balance as of January 1, 2018	25,276	206,482	31,637	5,586	37	(273,386)	(4,368)
Adjustments on adoption of IFRS 15	-	-	-	-	-	688	688
Adjustments on adoption of IFRS 9	-	-	-	-	-	(7,246)	(7,246)
Balance as of January 1, 2018 (after adjustments on the adoption of IFRS 15 and IFRS 9)	25,276	206,482	31,637	5,586	37	(279,944)	(10,926)
Other comprehensive expense	-	-	-	(751)	(12,086)	-	(12,837)
Loss for the year	-	-	-	-	-	(36,775)	(36,775)
Total comprehensive expense	-	-	-	(751)	(12,086)	(36,775)	(49,612)
Share-based payment (Note 9)	-	-	-	2	-	-	2
Transaction with non-controlling interest	-	-	-	-	-	1,039	1,039
Reclassification according to the Netherlands civil code requirements, net of tax (*)	-	-	(6,458)	-	-	6,458	-
Balance as of December 31, 2018	25,276	206,482	25,179	4,837	(12,049)	(309,222)	(59,497)

COMPANY-ONLY NON-STATUTORY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year ended December 31, 2017

	Issued and paid-in capital	Share premium	Property revaluation reserve (*)	Revaluation reserve, other (*)	Foreign currency translation reserve (*)	Retained earnings(**)	Total
				In €'000			
Balance as of January 1, 2017	25,276	206,482	34,772	6,633	23,590	(259,420)	37,333
Other comprehensive expense	-	-	-	(1,051)	(23,553)	-	(24,604)
Profit (loss) for the period	-	-	-	-	-	(17,101)	(17,101)
Total comprehensive income (expense)	-	-	-	(1,051)	(23,553)	(17,101)	(41,705)
Share-based payment	-	-	-	4	-	-	4
Reclassification according to the Netherlands civil code requirements law, net of tax (*)	-	-	(3,135)	-	-	3,135	-
Balance as of December 31, 2017	25,276	206,482	31,637	5,586	37	(273,386)	(4,368)

(*) In accordance with the Dutch civil code, equity attributable to equity holders is restricted for distribution following the regulation to maintain reserves in respect of real estate unrealized fair value revaluations, cash flow hedges, foreign currency differences from investments in foreign operations and equity gains from associates and joint ventures (as also disclosed in Note 7B and 16E to the Consolidated IFRS Financial Statements).

(**) As of December 31, 2018 and 2017 amounts of €53,122 thousand and €51,631 thousand, respectively, resulted from equity gains in associates and joint ventures held by the Company subsidiaries, and therefore the distribution of these amounts is pending on approval of the shareholders and partners. This part of the retained earnings is therefore restricted for distribution.

COMPANY-ONLY NON-STATUTORY CASH FLOW STATEMENT

	For the year ended December 31, 2018	2017
	In €'000	
Cash flow from operating activities of the Company		
Loss for the year	(36,775)	(17,101)
Adjustments to reconcile profit (loss) to net cash of the Company		
Financial expense	17,580	16,317
Share-based payment	2	4
Equity earnings	16,201	(2,785)
Fair value adjustments of derivative financial instrument	(184)	240
Changes in working capital of the Company		
Change in receivables	(128)	(89)
Change in payables	(50)	(352)
Cash amounts paid and received during the year		
Dividend received	17,500	18,170
Interest paid	-	(4,457)
Net cash provided by operating activities of the Company	**14,146**	**9,947**
Cash flow from investing activities of the Company		
Short term investments, net	-	(38)
Investments in subsidiary	(2,560)	(5,684)
Net cash used in investing activities of the Company	**(2,560)**	**(5,722)**
Increase in cash and cash equivalents of the Company	**11,586**	**4,213**
Foreign exchange differences relating to cash and cash equivalents	30	12
Cash and cash equivalents at beginning of the year	5,979	1,754
Cash and cash equivalents of the Company at end of the year	**17,595**	**5,979**

NOTES TO THE COMPANY-ONLY NON-STATUTORY FINANCIAL STATEMENTS
December 31, 2018

1. GENERAL

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

2. SIGNIFICANT ACCOUNTING POLICIES

The Company prepared its non-statutory financial statements in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union. In case no other policies are mentioned, refer to the accounting policies as described in the accounting policies in the non-statutory consolidated financial statements. For an appropriate interpretation, the company-only non-statutory financial statements of Kardan N.V. should be read in conjunction with the non-statutory consolidated financial statements.

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

The company-only non-statutory financial statements, are prepared in accordance with IFRS.

3. INVESTMENTS IN SUBSIDIARIES

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

4. OTHER RECEIVABLES

	December 31, 2018	December 31, 2017
	In €'000	
Intercompany debtors	1,748	1,227
VAT	16	13
Prepaid expenses	34	166
	1,798	1,406

5. FINANCIAL ASSETS

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

	2018	2017
	In €'000	
Balance as of January 1	372,256	406,531
Implementation of new accounting standards	1,866	-
Investment in a subsidiary	2,560	5,684
Change in capital reserves (*)	(11,493)	(23,314)
Dividend distributed	(17,500)	(19,430)
Share of (loss) profit of subsidiaries	(16,201)	2,785
Balance as of December 31	331,488	372,256

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

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

	2018		2017	
Names of subsidiaries	Owner ship	Total Value	Owner ship	Total value
	%	In €'000	%	In €'000
GTC Real Estate Holding B.V.	100	203,358	100	233,645
Kardan Financial Services B.V.	100	22,006	100	23,905
Tahal Group International B.V.	98.43	40,877	98.43	49,495
Emerging Investments XII B.V.	100	65,247	100	65,211
Total investments in significant consolidated subsidiaries		331,488		372,256

6. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
	In €'000	
EURO	17,493	5,558
NIS	100	419
USD	2	2
	17,595	5,979

The cash is primarily comprised out of short term deposits.

The average interest rate on short term deposits is 0.2%-1.5% p.a. in 2018 and 2017.

7. SHORT-TERM INVESTMENTS

	December 31, 2018	December 31, 2017
	In €'000	
Deposits	169	169

In 2018 and 2017, the average interest rate earned was 0.5%.

8. DEBENTURES

Composition:

	Par value as of December 31, 2018	Balance as of December 31, 2018	Balance as of December 31, 2017	Interest rate	Maturities principal
	NIS	In €'000		%	
Issuer:					
The Company – 2007	297,500,001	84,190	86,459	6.325	2017-2018
The Company – 2008	952,834,318	271,466	271,529	6.775	2017-2020
		355,656	357,988		

The Company has not repaid the principal and interest payments which were due in February 2018. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, from March 31, 2018 and until the repayments are rescheduled, the debentures are presented as current liabilities.

9. SHARE PLAN

In September 2013 (the 'Grant Date'), the Board of the Company approved a stock-option plan according to which the Company granted to several employees of the Company a total of 250,000 options exercisable into up to 250,000 ordinary shares of the Company, each having a par value of €0.20 (subject to adjustments). In August 2015 the plan was modified. According to the modification, the exercise price would be €0.2807 or NIS 1.191 and the options will vest in two equal tranches, 50% of the options would be exercisable from December 31, 2016 and 50% of the options will be exercisable from June 30, 2018. The grant was accounted for assuming equity settlement and the total expense booked in the year was less than €2 thousand and were included in 'General and administration expenses' in the income statement.

10. INCOME TAX EXPENSES

The Company has received final tax assessments for all the years up to and including 2014.
Loss for the year amounts to €36.7 million (2017: €17.1 million), including net result from investments of €16.2 million loss (2017: €2.8 million profit), which is not deductible/taxable under the Participation Exemption. The Company assumes that the remaining other expenses and income will not result in tax benefits or tax expenses due to the available tax losses from previous years of the Company.

Up to 2018, Kardan N.V. has estimated tax losses of €315.1 million that are available for carry forward (according to the filed 2017 tax return, net of tax losses evaporated as per 1 January 2018). The carry back of losses is restricted to one year, whereas the carry forward of losses is limited to nine years. Carry forward period will be reduced to 6 years for losses incurred as of 2019. Special provisions apply for compensation of tax losses incurred in years during which a company's activities consists (almost) exclusively of holding activities and the direct or indirect financing of related parties, however these restrictions will be abolished in 2019 (i.e. will not be applicable anymore on losses incurred as of 2019). Such tax losses can only be offset against future taxable profits of years during which the company's activities also consists (almost) exclusively of holding and finance activities. Furthermore compensation of losses is disallowed if the balance of the related-party receivables and the related-party payables of a company with holding and financing losses, during the year in which a profit was realized, exceeds that balance in the financial year the losses were incurred, unless it can be demonstrated that the increase of the balance of related-party receivables and related-party payables has increased for business reasons and was not predominantly aimed at the compensation of the holding and financing losses. According to the final tax assessment for the fiscal year 2014, Kardan N.V. has tax losses available for carry forward as per December 31, 2014 which are not considered holding and financing losses and can therefore be compensated with future taxable profits, taking into account the statutory carry forward period.

Deferred tax assets have been recognized only with respect to potential tax liability in relation with the Company's former hedge transactions. Deferred taxes amounted to €65 thousand as of December 31, 2018 (as of December 31, 2017 amounted to €316 thousand). As of December 31, 2018 no deferred tax assets are presented in the balance sheet. For more information regarding to taxes on income refer to Note 32 to the Consolidated IFRS Financial Statements.

11. OTHER PAYABLES

	December 31, 2018	December 31, 2017
	In €'000	
Accrued expenses (mainly accrued interest on debentures)	50,850	21,581
Others	1,388	1,438
	52,238	23,019

12. GENERAL AND ADMINISTRATION EXPENSES

	December 31, 2018	December 31, 2017
	In €'000	
Payroll and related expenses	799	1,161
Share-based payment	2	1
Management fees	254	371
Office maintenance	143	436
Professional fees	1,818	1,174
Depreciation and amortization	34	27
Revaluation of PUT option	(307)	408
Other	(141)	(119)
	2,602	3,459

13. FINANCIAL EXPENSES, NET

	For the year ended December 31	
	2018	2017
	In €'000	
Income:		
Exchange differences	13,857	12,084
Total financing income	13,857	12,084
Expenses:		
Interest on debentures	26,531	26,396
Other	5,048	1,769
Total financing expenses	31,579	28,165
Total financing expenses	17,722	16,081

14. AUDIT FEES

The tables below summarizes the fees invoiced to the Company's by its independent auditor, PricewaterhouseCoopers Accountants N.V. (PwC) in 2018 and in 2017, respectively:

	In 2018	In 2017
	In €'000	
Audit services – Kardan N.V.	422	451
Audit services – subsidiaries	652	617
Total statutory audit fees	1,074	1,068
Other services relevant to taxation	7	49
Total	1,081	1,117

15. ASSETS HELD FOR SALE

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

16. REMUNERATION OF MANAGEMENT AND BOARD OF DIRECTORS

The Company's management and Board received remuneration in 2018 and 2017 as described in Note 35 to the Consolidated IFRS Financial Statements.

17. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES, AND SUBSEQUENT EVENTS

For commitments, contingent liabilities, guarantees, and subsequent events please refer to Notes 24 and 36, respectively of the Consolidated IFRS Financial Statements.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

For disclosures required by IFRS 7 regarding financial instruments and risk management, refer to Note 34 to the Consolidated IFRS Financial Statements.

Independent auditor's report

To: the shareholders and the board of directors of Kardan N.V.

Report on the non-statutory financial statements 2018

Our opinion

In our opinion, Kardan N.V.'s non-statutory financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS).

What we have audited

We have audited the accompanying non-statutory financial statements 2018 of Kardan N.V., Amsterdam ('the Company'). The non-statutory financial statements include the non-statutory consolidated financial statements of Kardan N.V. together with its subsidiaries ('the Group') and the non-statutory company-only financial statements.

The non-statutory financial statements comprise:
- the consolidated and company-only statement of financial position as at 31 December 2018;
- the following statements for 2018: the consolidated and company-only income statement, the consolidated and company-only statement of other comprehensive income, the consolidated and company-only statements of changes in equity and the consolidated and company-only cash flow statements; and;
- the notes, comprising significant accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the non-statutory financial statements is EU-IFRS.

Material uncertainty related to going concern

We draw attention to note 1B of the non-statutory financial statements regarding the financial position and going concern, which indicates that the Company had on a stand-alone basis and on a consolidated basis, a working capital deficit as at 31 December 2018 of € 267 million and € 217 million, respectively. For the year ended December 31, 2018, the Company recorded a net loss of € 37 million and generated positive cash flows from operating activities of € 14 million on a stand-alone basis and positive cash flows from operating activities on a consolidated basis of € 3 million. In addition, as at 31 December 2018, the Company had a deficit of € 59 million in its equity attributable to equity holders.
It also indicates that in February 2018 the Company did not repay the principal and interest payments which were due in February 2018. Hence, the Company is in default according to the Deeds of Trust as of February 2018. The Company is negotiating a new debt settlement with its debenture holders.
The realization of the Company's plans depends on factors that are not within the Company's control, including the approval of the debenture holders to a debt settlement, the transaction of the Company's assets, and macroeconomic developments and therefore there is uncertainty that transactions for the sale of assets, will be completed according to the forecasted consideration and timing 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. Our opinion is not modified in respect of this matter.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the non-statutory financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Kardan N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

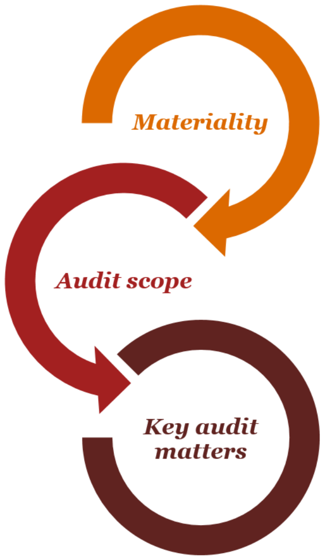
Overview and context

Kardan N.V. is engaged in the development of real estate in Asia, water infrastructure projects and a short term car rental operation, through its subsidiaries, joint ventures and associated companies. The Company is currently in the process to sell its water infrastructure business, Tahal Group International B.V. ('TGI'). The Company sold its short term car rental operation ('Avis Ukraine') in March 2019. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. During our audit the going concern assessment, as described in the paragraph 'Material uncertainty related to going concern', was a prominent issue that led us to allocate significant time and resources on. In addition, we paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the non-statutory financial statements. In particular, we considered where the board of directors made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In note 3 to the non-statutory financial statements the Company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation of investment property, we considered this matter as key audit matter as set out in the section 'Key audit matters' of this report. Furthermore, we identified management override of controls as key audit matter because the Company operates in multiple jurisdictions and is, due to its geographical footprint and decentralised structure, subject to the risk of (local) management override of controls and fraud.

Other areas of focus, that were not considered as key audit matters, were the impairment losses on inventory, the classification of TGI and Avis Ukraine as asset held for sale, valuation of trade receivables, the valuation of investments in joint ventures, the valuation of the debentures and the accounting for foreign exchange rate differences.

We ensured that the audit teams at both group and component level included the appropriate skills and competences, which are needed for the audit of an international Group active in real estate and water infrastructure projects. We included real estate valuation experts and tax specialists in our team.
The outline of our audit approach is as follows:



Materiality

- Overall materiality: €6.4 million.

Audit scope

- We conducted audit work in four locations.
- Site visits were conducted in three countries: China (we visited three sites), the Ukraine and Israel.
- The component auditor of TGI visited us in the Netherlands.
- Audit coverage: 100% of consolidated revenue and 99% of consolidated total assets and 99% of consolidated loss before tax.

Key audit matters

- Valuation of investment property.
- Risk of management override of controls.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the non-statutory financial statements'.
Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the non-statutory financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the non-statutory financial statements as a whole and on our opinion.

Overall group materiality	€6.4 million (2017: €6.1 million).
Basis for determining materiality	We used our professional judgment to determine overall materiality. As a basis for our judgment, we used 1% of the total assets as at 31 December 2018. Last year we took the average of total assets as at 31 December 2017 and 31 December 2016, we changed this as total assets were stable in 2018.
Rationale for benchmark applied	We applied this benchmark, based on our analysis of the common information needs of users of the non-statutory financial statements. The Company and its stakeholders focus on the asset value of the Company as the Company is focussed on repaying its debentures. Cash should be generated by selling the assets, whilst continuing to focus also on further improving the results of the subsidiaries and therefore, their value.
Component materiality	To each component in our audit scope, we, based on our judgement, allocated materiality that is less than our overall group materiality. The range of materiality allocated across components was between €2.1 million and €3.9 million. Certain components were audited with a local statutory audit materiality that was also less than our overall group materiality.

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

We agreed with the audit committee that we report to them misstatements identified during our audit above €300,000 (2017: €305,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Kardan N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated non-statutory financial statements of Kardan N.V.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the non-statutory consolidated financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the Group engagement team and by each component auditor.

At Group level, we audited centrally those aspects, which are managed by Kardan N.V., including the application of the going concern assumption and the accounting and disclosures of the debentures. In addition to these items, we focused on the two significant components of Kardan N.V., being GTC Real Estate Holding B.V. (GTC), of which Kardan Land China Ltd. is the main subsidiary, and Tahal Group International B.V. (TGI), currently recorded as 'Asset Held for Sale', of which Tahal Consulting Engineers Ltd. is the main subsidiary.

These two components were subject to audits of their complete financial information, as those components are individually significant to the Group. The joint venture in the Ukraine (short-term car rental operation), was subject to specific risk-focused audit procedures performed by the Group audit team (mainly the lease classification), in addition to the local statutory audit, performed by the concerning component auditor.
In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	100%
Total assets	99%
Profit before tax	99%

None of the remaining components represented more than 1% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we obtained sufficient appropriate audit evidence as a basis for our opinion on the non-statutory consolidated financial statements as a whole.

In this respect, we performed amongst others, the following procedures:

- we issued instructions to the component audit teams in our audit scope. These instructions included amongst others our risk analysis, procedures for fraud risk assessments, materiality and scope of the work. We explained to the component audit teams the structure of the Group, the main developments relevant for the component auditors, the risks identified, the materiality levels to be applied and our global audit approach;
- we had individual calls with each of the in-scope component audit teams during the year, including upon conclusion of their work. During these calls, we discussed the significant accounting and audit issues identified by the component auditors, the fraud risks assessments, the reports of the component auditors, the status and findings of their procedures and other matters, which could be of relevance for the non-statutory consolidated financial statements;
- we discussed the emphasis of matter paragraph, with respect to the financial position of TGI, which the component auditor of TGI reported to us, as disclosed in note 5 to the financial statements, with the audit committee and the board of directors of Kardan N.V. We reviewed the work performed by the component auditor with respect to the financial position of TGI and assessed the impact of this matter on the valuation of TGI and on our going concern assessment;
- the reports of the component auditors were assessed by the Group engagement team and observations were discussed with the component auditors and with Group management; and
- the Group engagement team has met the component teams and management of local operations and performed reviews of selected working papers. In the current year the Group audit team visited China

(Kardan Land China Ltd. in three different locations) given the importance of the real estate operations in China and the judgements involved in the valuation of the investment property (refer to key audit matters section). We visited the Ukraine and met the local team and management of Avis. With respect to TGI, we met local management and senior members of the local audit team in Amsterdam and Israel and we reviewed the audit files of the component auditor in Amsterdam.

By performing the procedures above at components, combined with additional procedures at Group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the non-statutory consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the non-statutory consolidated financial statements. We have communicated the key audit matters to the audit committee. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed with the audit committee. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the non-statutory consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the non-statutory consolidated financial statements. Any comments or observations we made on the results of our procedures should be read in this context.

In addition to the matter described in the section 'Material uncertainty related to going concern', we determined the matters described below to be the key audit matters to be communicated in our report.

Due to the nature of the Company's business, we recognise that key audit matters, which we reported in our independent auditor's report on the non-statutory financial statements 2017, may be long-standing and therefore, may not change significantly year over year. As compared to prior year, there have been no changes in our key audit matters.

Key audit matter	***Our audit work and observations***
Valuation of investment property *Note 3 and Note 7 in the non-statutory consolidated financial statements* The investment property of the Company's subsidiary Kardan Land China Ltd., represents a significant part of the total assets (33%) of the Group and is valuated at fair value for an amount of € 213.6 million at year-end 2018 (2017: € 221.1 million). The valuation of investment property is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income for the property. Given the level of management judgement and complexity involved as well as a high degree of estimation uncertainty, we considered this to be a key audit matter as deviations or changes in assumptions could have a significant impact on result and equity. Management determines the fair value of its investment property on a semi-annual basis and has used an external appraisal firm to support the valuation as at 30 June 2018 and as at 31 December 2018. In 2018 management used the same appraisal firm (Savills) as in 2017. The appraisal firm has been engaged by the Group and performed their	*External valuation* We read and analyzed the valuation report for the property and discussed the outcome with the appraisal firm. We confirmed that the valuation approach was in accordance with professional valuation standards and suitable for us in auditing the carrying value of the investment property as at 31 December 2018. It was evident from our discussions with management and the appraisal firm and our review of the valuation report that close attention has been paid to the property's individual characteristics and its overall quality, geographic location and marketability as a whole. There was no evidence of management bias or influence on the appraisal firm. We assessed the appraisal firm's qualifications and expertise and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We also considered other engagements which might exist between the Group

Key audit matter	*Our audit work and observations*
work in accordance with RICS (Royal Institution of Chartered Surveyors) Valuation – Professional Standards, as set out by the RICS. The appraisal firm used by the Group is a well know firm, with experience in the Chinese market, in which the Group operates. The appraisal firm calculates the investment property by using the average of the Discounted Cashflow Approach (DCF) and the Direct Comparison Approach. For the Direct Comparison Approach the appraisal firm uses comparable historical transactions. The investment property classifies as a level 3 valuation under IFRS 13. The key assumptions are the estimated rental value per square meter per month, discount rate, rental growth, terminal capitalization rate, occupancy rate, capitalization rate, and gross retail rental income. In determining the property's valuation from a DCF perspective, the appraisal firm takes into account property specific current information such as the current tenancy agreements and rental income earned. The DCF model assumes a resale of the asset at the end of a 10-year holding period. They then apply assumptions in relation to future cash flows from assets (such as lettings, tenant' profiles and future revenue streams, capital values of fixtures and fittings, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. Future revenue streams, for example comprise contracted rent (passing rent) and estimated rental income after the contract period. The estimated rental value is determined based on the market comparatives adjusted for possible discounts to existing tenants, location, class of the property, year of construction and fit-out. These analysis result in a range of valuation outcomes, which the appraisal firm derive a point estimate for the DCF method. The applied discount rate reflects the likely return required by investors and developers based on the desired rate of return. The discount rate has been determined based on observable inputs, inputs from third party financial analysts and Group-specific inputs. The Group has adopted the assessed value determined by the appraisal firm.	and the appraisal firm. We found no evidence to suggest that the objectivity of the appraisal firm was compromised. We carried out procedures, on a sample basis, to test whether specific information supplied to the appraisal firm by the Group reflected the underlying property record held by the Group. As group auditor we have visited the property ourselves. No issues were identified. *Assumptions* We challenged the most important assumptions, i.e. estimated rental value per square meter per month, , discount rate, rental growth, terminal capitalization rate, occupancy rate, capitalization rate and gross retail rental income and estimates made by management and the external appraiser in the valuation methodology. In challenging these assumptions, we considered the reliability and comparability of the market data used. We also engaged our own in-house valuation experts to assist us to critique and challenge the work performed and assumptions used by the appraisal firm. In particular, we compared projected future cash flows from assets and capital values of fixtures and fittings to actual budgeted data as prepared by the Group and we challenged these data based upon actual current data of revenue streams and capital values of the investment property. We used back testing of the budgeted revenue streams in last year's valuation and compared those with the actual rental income of the tenants of the investment property to ascertain it is in line with budgeted revenue streams. We compared discount rates with comparable market data for discount rates. When calculating the property value under the Direct Comparison Approach, we challenged the comparable historical transactions by verifying that the properties used are comparable with the property of the Group. Based on our audit work on the draft valuation reports, adjustments and clarifications have been made in the final valuation report. We found the assumptions used to be within an acceptable range and the comparables applied reasonable. *Overall valuation estimates* Because of the judgement involved in determining the valuation of the property and the existence of alternative assumptions and valuation methods, we determined a range of values that were considered reasonable to evaluate the independent property valuation used by management. The valuation adopted by the Group fell within an acceptable range. We assessed and corroborated the adequacy and appropriateness of the disclosure in Note 7, including the

Key audit matter	*Our audit work and observations*
	sensitivity disclosures, made in the non-statutory consolidated financial statements.
Risk of management override of controls The Company operates in multiple jurisdictions and is, due to its geographical footprint and decentralised structure, subject to the risk of (local) management override of controls and fraud. Ethical and compliance requirements are impacting the control environment, tone at the top, culture and behaviour of the Group's management and employees. In order to address this risk, the Company has established a comprehensive governance structure and has defined a compliance risk appetite to manage compliance risks divided into counterparty conduct, employee conduct, services conduct and organisational conduct. In view of the considerations outlined above, we addressed the risk of management override of controls as a key audit matter.	In our audit, we performed procedures both at Group and at component level, which allow us to rely, to the extent possible and relevant to our audit, on management's governance structure. We performed audit procedures at group and component level designed to identify the risk of management override of controls. These procedures included, amongst others, an assessment of the 'tone-at-the-top' and the compliance with the Group's policies, laws and regulations, both at Group level and component level. We have discussed the risk of fraud with the Audit Committee and the board of directors and we have read minutes of the Board of Directors. We have applied professional scepticism and assessed key internal controls, such as approval of any project including the pricing and the follow-up on whistle blower allegations and integrity incidents (including the risk of bribery) and business ethics. We have used questionnaires at component level with respect to fraud and bribery to assess the risk of management override of controls and we have performed audit procedures on revenue recognition principles, cost cut-off procedures and year-end estimates of accruals. We tested a risk based selection of journal entries and we included unpredictability, such as visiting different components and performing certain audit procedures on non-significant accounts as part of our audit. We made specific inquiries at different levels in the organisation on fraud risk. With respect to the procedures performed above, we did not note significant findings.

Emphasis of Matter – Basis of Preparation

We draw attention to Note 1A of the non-statutory consolidated financial statements, which states that the Company has a listing in both Amsterdam (the Netherlands) and Tel Aviv (Israel). As the Company has to publish in Israel on or before March 31, 2019, following Israeli Stock Exchange regulatory filing requirements, the Company has prepared these non-statutory financial statements.

The non-statutory financial statements do not include specific Dutch legal requirements. Those Dutch legal requirements will be included in the statutory financial statements, which will be expected to be filed at the Dutch Chamber of Commerce in May 2019. The statutory financial statements will be audited by us. Our opinion on the non-statutory financial statements is not modified in respect of this matter.

Report on the other information included in the non-statutory financial report

In addition to the non-statutory financial statements and our auditor's report thereon, the non-statutory financial report contains the "Additional information according to Rule 9c of the Israeli Securities Regulation". Based on the procedures performed as set out below, we conclude that the other information is consistent with the non-statutory financial statements and does not contain material misstatements.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the non-statutory financial statements or otherwise, we have considered whether the other information contains material misstatements.
By performing our procedures, we comply with the requirements of the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the non-statutory financial statements.
The Board of Directors is responsible for the preparation of the other information, in accordance with Rule 9c of the Israeli Securities Regulation.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Kardan N.V. by the shareholders at the general meeting held on 28 May 2015. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 4 years.

Responsibilities for the non-statutory financial statements and the audit

Responsibilities of the board of directors and the audit committee for the non-statutory financial statements

The board of directors is responsible for:

- the preparation and fair presentation of the non-statutory financial statements in accordance with EU-IFRS; and for
- such internal control as the board of directors determines is necessary to enable the preparation of the non-statutory financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the non-statutory financial statements, the board of directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board of directors should prepare the non-statutory financial statements using the going-concern basis of accounting unless the board of directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The board of directors should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the non-statutory financial statements, refer to note 1B 'Financial position and going concern' for disclosures.

The audit committee is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the non-statutory financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the non-statutory financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the non-statutory financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 27 March 2019
PricewaterhouseCoopers Accountants N.V.

Original has been signed by M.P.A. Corver RA

Appendix to our auditor's report on the non-statutory financial statements 2018 of Kardan N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the non-statutory financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the non-statutory financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the non-statutory financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the non-statutory financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Concluding on the appropriateness of the board of directors' use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-statutory financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the non-statutory financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the non-statutory financial statements, including the disclosures, and evaluating whether the non-statutory financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the non-statutory consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the non-statutory financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the non-statutory financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

KARDAN N.V.

Financial Data included in the

Consolidated Financial Statements related to the Company

For the year ended December 31, 2018

ADDITIONAL FINANCIAL INFORMATION ACCORDING TO RULE 9C

Herewith presented financial data and separate financial information related to the company-only, derived from the consolidated financial statements of the Company as of December 31, 2018 which is published as part of the IFRS Consolidated Financial Statements.

This financial information is presented according to Rule 9c to the Israeli Securities and Exchange Regulations (Periodic and Immediate Reports), 1970. The main accounting policies that were used for this financial information are described in the notes to the Consolidated Financial Statements. The notes to this financial information are those not included in the notes to the Consolidated Financial Statements.

	Note	**December 31, 2018**	December 31, 2017
		In €'000	
A s s e t s			
Non-current assets			
Tangible fixed assets		114	128
Financial fixed assets			
Investments in consolidated subsidiaries		290,610	322,761
Loans to consolidated subsidiaries		24	24
		290,748	322,913
Current assets			
Cash and cash equivalents	2	17,595	5,979
Short-term investments	3	169	169
Other receivables	4	1,798	1,406
		19,562	7,554
Assets classified as held for sale		40,878	49,495
Total current assets		60,440	57,049
Total assets		351,188	379,962
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			
Share capital		25,276	25,276
Share premium		206,482	206,482
Foreign currency translation reserve		(12,049)	37
Property revaluation reserve		25,179	31,637
Other reserves		4,837	5,586
Accumulated deficit		(309,222)	(273,386)
		(59,497)	(4,368)
Long-term liabilities			
Debentures		-	216,087
Options and other long-term liabilities		-	3,323
		-	219,410
Current liabilities			
Current maturities of debentures		355,656	141,901
Option liability		2,791	-
Other payables		52,238	23,019
		410,685	164,920
Total equity and liabilities		351,188	379,962

The accompanying Notes are an integral part of these consolidated financial statements related to the company

THE COMPANY'S INCOME STATEMENT

	For the year ended December 31,		
	2018	2017	2016
	In €'000		
Net result from investments for the year	(16,125)	(10,035)	19,229
General and administrative expenses, net	2,602	3,459	3,379
Profit (loss) from operations before financing expenses	(18,727)	(13,494)	15,850
Finance income	13,857	12,084	4,060
Finance expenses	(31,579)	(28,165)	(51,486)
Financing expenses, net	(17,722)	(16,081)	(47,426)
Income tax expense	250	346	574
Loss for the period from continuing operations	(36,699)	(29,921)	(32,150)
Net profit (loss) from discontinued operations	(76)	12,820	820
Net loss for the year	(36,775)	(17,101)	(31,330)

The accompanying Notes are an integral part of these consolidated financial statements related to the company

ADDITIONAL INFORMATION FROM THE COMPANY-ONLY STATEMENT OF COMPREHENSIVE INCOME

	For the year ended December 31,		
	2018	2017	2016
	In €'000		
Net loss for the year	(36,775)	(17,101)	(31,330)
Foreign currency translation differences	(12,086)	(23,553)	(1,121)
Change in hedge reserve, net	(751)	(1,051)	(1,365)
Other comprehensive expense for the year to be reclassified to profit or loss in subsequent periods	(12,837)	(24,604)	(2,486)
Total comprehensive expense	(49,612)	(41,705)	(33,816)

The accompanying Notes are an integral part of these consolidated financial statements related to the company

ADDITIONAL INFORMATION FROM THE COMPANY-ONLY CASH FLOW STATEMENT

	For the year ended December 31,		
	2018	2017	2016
		In €'000	
Cash flow from operating activities of the Company			
Loss for the year	(36,775)	(17,101)	(31,330)
Adjustments to reconcile profit (loss) to net cash of the Company			
Financial expense	17,610	16,317	49,020
Dividend received	17,500	18,170	113,284
Share-based payment	2	4	(146)
Equity losses (earnings)	16,201	(2,785)	(20,049)
Fair value adjustments of derivative financial instrument	(184)	240	-
Changes in working capital of the Company			
Change in receivables	(128)	(89)	(873)
Change in payables	(50)	(352)	548
Cash amounts paid and received during the year			
Interest paid	-	(4,457)	(41,120)
Interest received	-	-	8
Net cash provided by operating activities of the Company	**14,176**	**9,947**	**69,342**
Cash flow from investing activities of the Company			
Short term investments, net	-	(38)	6
Investments in subsidiary	(2,560)	(5,684)	-
Net cash provided by (used in) investing activities of the Company	**(2,560)**	**(5,722)**	**6**
Cash flow from financing activities			
Investment in shares of a subsidiary	-	-	(4,003)
Repayment of long term debt	-	-	(86,458)
Net cash used in financing activities of the Company	**-**	**-**	**(90,461)**
Increase / (decrease) in cash and cash equivalents of the Company	**11,616**	**4,225**	**(21,113)**
Cash and cash equivalents at beginning of the period	5,979	1,754	22,867
Cash and cash equivalents of the Company at end of the period	**17,595**	**5,979**	**1,754**

The accompanying Notes are an integral part of these consolidated financial statements related to the company

NOTES TO THE ADDITIONAL INFORMATION

1. FINANCIAL POSITION AND GOING CONCERN

a. As at December 31, 2018 the Company had, on a stand-alone basis and on a consolidated basis, a working capital deficit of €267 million and €217 million, respectively (excluding debentures held by subsidiaries), as a result of the classification of the debentures as short-term liabilities, see detailed below. For the year ended December 31, 2018, the Company recorded a (consolidated and on a stand-alone basis) net loss of €37 million, and generated positive cash flow from operating activities of €14 million on a stand-alone basis, and positive cash flow from operating activities of €3 million on a consolidated basis. In addition, as at December 31, 2018 the Company had a deficit of €59 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.

b. On January 11, 2018 the Company announced that it would not be able to complete a transaction for the sale of its holdings in TGI in a manner that would enable the Company to meet the scheduled payments to the debenture holders in February 2018. Further to this announcement, the Company has not repaid the principal and interest payments which were due in February 2018. Consequently, the Company is in default according to the Deed of Trust as of February 2018. Accordingly, from March 31, 2018 and until the repayments are rescheduled, the debentures are presented as current liabilities. 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, see also below.
In February 2018, following the announcement that the Company will not make the February 2018 repayments, Maalot, the Israeli subsidiary of Standard & Poor's, has adjusted the rating of the Company and its Debentures Series A and Series B to "D".

c. In October 2018, the Company has published the main principles of a debt settlement as negotiated and agreed with debenture holders series B, which include among others, the following: The principal amount of the Debentures and the interest rate will remain unchanged; the final repayment date of the Debentures will be postponed to December 2021, and in parallel the Company will commit to sell assets – and in relation to one asset, according to an agreed upon timetable – and to use the funds received from such disposals for early repayment of Debentures A and B, and other uses according to terms agreed with the representatives of the Debentures. In addition, the Company will pay each year interest at a rate of 4% p.a.; the remaining interest will be payable at each date the Company repays (part of) the principal of the Debentures; the Company shall issue to Debenture Holders A and B shares of the Company; the funds to be used for repayment will be used first to make the balance payments (as defined in the existing deeds of trust) to Debenture Holders B, and each subsequent amount will be repaid pro-rata to the two debenture series; each material transaction of the Company and its subsidiaries will be subject to approval of a joint meeting of the debenture holders A and B; a mutual exemption from claims shall be determined at a form to be agreed between the parties.
The negotiations with the trustee to debenture holders series B have been completed, and management was informed that as of the date of the approval of these financial statements, the discussions between series A and series B are in advanced stage and most issues have

been agreed between the two series. It is noted that to reach a binding agreement the approval of both debenture holders is needed. Accordingly, management estimates that a debt settlement with the debenture holders will be signed in 2019.

d. 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 with a number of parties for the sale or allocation of its holdings in TGI, in order to meet its liabilities, according to the principles of the debt settlement being formulated with debenture holders (series A and B). In addition, the Company is acting to improve its assets in China; assuming the Company will have sufficient time to continue improving these assets, the Company estimates it will be able to maximize their value in future sales transactions while making an orderly sale. The Company expects that these actions will strengthen its financial and equity position. The Company estimates, in the abovementioned liquidity analysis, that the consideration will be received in 2019.

   As mentioned above, the Company is working to advance negotiations with respect to the intended sale of TGI with a number of parties, and preparing alternatives in case such sale will be delayed. In view of the lack of certainty of completing these negotiations, including completing a sale transaction in the timetables agreed upon with the representatives of the debenture holders in particular, the option to include a provision in the arrangement with debenture holders to distribute TGI shares to the debenture holders as repayment of the Company's debt is being considered.
   For details regarding the financial position of TGI, see Note 5C to the Consolidated Financial Statements.
   In addition, in January 2019 the Company signed an agreement to sell its investment in its joint venture AVIS Ukraine for a consideration of approximately USD 14.2 million. The investment is accordingly presented as held-for-sale as at December 31, 2018. On March 14, 2019 the transaction was completed.

   As announced, according to the intentions of the Company, the net consideration to be received from the sale of AVIS Ukraine, together with funds available within the Company, and the additional amounts it expects to receive by March 31, 2019, amounting to a total of €38 million, will be used to repay the Company's debenture holders, upon the completion of the debt settlement.

e. The directors expect that, taking into account the current status of the discussions with the Debenture Holders and the expected terms of the debt settlement, and taking into account the process of realizing the holdings in TGI and the sale of AVIS Ukraine, and potential future value of the Company's assets in China, the Company has the ability to obtain the required resources for repaying its obligations and continue its business operations in the future. Management believes that a controlled sale of assets is in the best interest of all stakeholders. Accordingly, the directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

   However, the directors emphasize that the realization of the Company's plans depends on factors that are not within the Company's control, including the approval of debenture holders to a debt settlement, transaction value of the Company's assets, and macroeconomic developments, and therefore there is uncertainty that transactions for the sale of assets as aforesaid, will be completed according to the forecasted consideration and timing 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 financial statements do not include any adjustments to the carrying amounts and classifications of assets and liabilities that would result if the Company is unable to continue as a going concern.

2. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
	In €'000	
EURO	17,493	5,558
NIS	100	419
USD	2	2
	17,595	5,979

Cash and cash equivalents include primarily short-term deposits.
The average interest rate on short term deposits was 0.2%-1.5% p.a. in 2018 and 2017.

3. SHORT TERM INVESTMENTS

	December 31, 2018	December 31, 2017
	In €'000	
Restricted deposit	169	169

4. OTHER RECEIVABLES

	December 31, 2018	December 31, 2017
	In €'000	
Intercompany debtors	1,748	1,228
Prepaid expenses	50	178
	1,798	1,406

5. DETAILS OF MATERIAL FINANCIAL ASSETS IN ACCORDANCE WITH IFRS 9

	December 31, 2018	December 31, 2017
	In €'000	
Financial assets:		
Loans to subsidiaries	24	24
Receivables	1,798	1,406
Short term investments	169	169
Cash and cash equivalents	17,595	5,979
	19,586	7,578

6. EXPECTED REALIZATION PERIODS OF MATERIAL FINANCIAL ASSETS AND LIABILITIES GROUPED IN ACCORDANCE WITH IFRS 9 CLASSIFICATIONS:

Financial assets as of December 31, 2018

	Up to 1 year	1-2 years	2-3 years	Total
	In €'000			
Cash and short term Investments	17,764	-	-	17,764
Loans and receivables	1,822	-	-	1,822
	19,586	-	-	19,586

Financial assets as of December 31, 2017

	Up to 1 year	1-2 years	2-3 years	Total
	In €'000			
Cash and short term Investments	6,148	-	-	6,148
Loans and receivables	1,430	-	-	1,430
	7,578	-	-	7,578

Financial liabilities as of December 31, 2018

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	In €'000						
Debentures (*)	406,506	-	-	-	-	-	406,506
Option liabilities	2,791	-	-	-	-	-	2,791
Total	409,297	-	-	-	-	-	409,297

Financial liabilities as of December 31, 2017

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	In €'000						
Debentures (*)	164,887	124,784	117,338	-	-	-	407,009
Option liabilities	3,323	-	-	-	-	-	3,323
Total	168,210	124,784	117,338	-	-	-	410,332

(*) Including interest.
The majority of the Company's financial assets, other than cash, are denominated in EURO.

7. TAXES ON INCOME

For information regarding to taxes on income refer to Note 32 to the Consolidated Financial Statements.

8. LOANS, MUTUAL BALANCES, COMMITMENTS AND TRANSACTIONS WITH INVESTEE COMPANIES

A. Balances with investee companies

	December 31, 2018	December 31, 2017
	€ thousands	
Debentures held by subsidiaries	83,661	78,085

B. Transactions with investee companies.

	For the year ended December 31,		
	2018	2017	2016
	€ thousands		
Management fees	612	582	702
General and administrative expenses	48	109	210

9. ASSETS HELD FOR SALE

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

Board of Directors

P. Sheldon

A. Hasson

C. van den Bos

J. Grunfeld

F. Houterman

E. Rechter

C. Tall