

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, 2017	December 31, 2016	Notes
Total balance sheet	668,576	665,637	No material change compared to December 31, 2016.
Current assets	362,952	281,987	The increase as of December 31, 2017 in current assets compared to December 31, 2016, is mainly due to the presentation of TGI’s assets as held for sale under current assets.
Non-current assets	305,624	383,380	The decrease as of December 31, 2017 in non-current assets compared to December 31, 2016, is mainly due to the presentation of TGI’s assets as held for sale under current assets and due to the decrease in value of investment property, mainly as a result of foreign exchange differences.
Current liabilities	367,046	320,964	The increase as of December 31, 2017 in current liabilities compared to December 31, 2016, is mainly due to the classification of the current maturities of the debentures as current liabilities and to the classification of all TGI liabilities as current liabilities related to assets held for sale. The increase was partially set off by the repayment of the Dalian loan (Ping-An) in Q4 2017
Debentures	188,708	288,978	The decrease as of December 31, 2017 compared to December 31, 2016, is mainly due to the classification of the current maturities of the debentures as current liabilities.
Long term Interest-bearing loans and borrowings	104,933	419	The increase as of December 31, 2017 compared to December 31, 2016 is due to the new refinancing loan granted by HuaRong to the Europark Dalian projects
Equity attributable to equity holders of the parent	(4,368)	37,333	The decrease as of December 31, 2017 in equity compared to December 31, 2016, is mainly due to the loss for the period and currency translation differences (other comprehensive expense).

1. The average balance of long-term and short-term loans is not significantly different than their book value as at December 31, 2017.
2. The average balance of trade receivables and trade payables is €4.9 million and €2.8 million, respectively.

2. Cash Flow Statement analysis (in EUR thousands)

	FY 2017	FY 2016	FY 2015	Notes
Net cash provided by (used in) operating activities	(50,196)	(51,944)	3,866	<p>The Company's cash flow from operating activities is significantly influenced by interest payments and currency translation differences.</p> <p>In 2017 and 2016, most of the deficit is related to the operational activities of the Company's subsidiaries. In addition, the Company paid approximately € 4 mn of remaining interest on its debentures which fell due in February 2017.</p>
Net cash provided by (used in) investing activities	11,594	74,492	52,986	<p>In 2017, approximately €20 mn generated from the sale of Star Pumped Storage, and were partially offset by investments in fixed assets in the water infrastructure activities.</p> <p>In the year 2016 € 103.7 mn were generated from the sale of TBIF and € 2.8 mn were proceeds from the sale of assets, mainly the assets of Foodyard Bulgaria. € 7.7 mn were used for investment in fixed assets and investment properties.</p>
Net cash provided by (used in) financing activities	25,098	(66,346)	(69,223)	<p>In 2017 €11.2 mn net were proceeds from long term loan in the real estate Asia activity and €8.2 mn were proceeds from short term credit provided to the water infrastructure activity.</p> <p>In 2016 €86.5 mn were used for the early repayment of debentures and €28 mn were provided by short and long term loans.</p>

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 2017. For details regarding credit balances as of the balance sheet date refer to Section 1 above.

3. Cash Flow Forecast

The audit opinion of the external auditors as of December 31 2017, includes a mandatory emphasis of matter regarding the ability of the Company to continue as going concern (see also Note 1B to the financial statements). In addition, the Company has a negative working capital on a stand-alone basis and has recorded a loss for the period. 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 commencing on January 1, 2018.

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

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

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 13 below.
2. The cash flows from investing activities in 2018 and 2019 refer to the consideration from the expected sale of TGI, taking into account the assumptions, comments and reservations detailed

below, and to transactions in the other assets of the Company - KLC and Avis Ukraine. As of the date of this report, negotiations regarding the sale of the Company's holdings in TGI are in an advanced stage. Negotiations regarding the sale of the Company's holdings in KLC and Avis Ukraine, an investment or the sale of any of their assets, have not yet begun.

3. In regards to the sale of the Company's holdings in TGI –as of the date of this report **the Company does not have accurate information regarding the net consideration which would be received from the transaction** and which would be used for repayment to the Debenture Holders. **As aforesaid, as of the date of this report, the negotiations regarding the sale of TGI were not yet completed, and accordingly, it is not certain that a sale agreement will be signed, that the expected consideration will equal the consideration included in the cash flow forecast or the date on which the consideration would be received by the Company.**
4. It is noted, that according to the negotiations for the sale of TGI, the Company expects to receive the majority of the consideration upon completion of the sale transaction, if completed, and that it could be used to make payment to the Debenture Holders (assuming that there will be no other restrictions from making such payments). The remaining part of the consideration is expected to be deposited in escrow for a certain period to secure certain representations given by the Company. In the preparation of the cash flow forecast, it was assumed that all of the expected consideration from the sale of TGI, could be used by the Company for the repayment to the Debenture Holders, however, as stated above, this is a mere assumption and there is no certainty that it would materialize.
5. Generally, uncertainty is inherent in a forecast of sales of assets, mainly due to dependence on third parties, inter alia, due to: the need to find potential buyers and to reach agreements with them regarding the terms of the transaction, the need to receive relevant approvals, the Company's need to obtain the approval of the debenture holders to some of the transactions, and the need of potential buyers to reach agreements with financing parties in order to obtain funding for such acquisitions.
6. As detailed in the press release issued by the Company on November 23, 2017, the Company approached the trustees of the Debenture Holders ('the Trustees') requesting them to conduct negotiations in relation to rescheduling the payments to the Debenture Holders (series A and B) ('the Debenture Holders') due to reasonable possibility of delays in the sale process of 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.
7. The cash flow forecast in respect to the debentures principal repayment is based on the payment schedule as stated in the Deeds of Trust, including linkage to the Israeli CPI and interest at the rate specified in the deed (without interest on arrears), including the principal and interest payment dates scheduled for February 2018, in light of the Company's inability to postpone the payment date as mentioned.
8. **The cash flow forecast does not include interest on arrears resulting from failure to meet the repayment dates set out in the Deeds of Trust and deferment of payments to the Debenture Holders, in light of the Company approaching the Trustees as mentioned above, and as of the date of approval of this report, the Company does not have information regarding the date of actual payment to the Debenture Holders. Readers of the cash flow forecast should take these facts into consideration, with all that it might entail or imply.**
9. **In addition, the cash flow forecast does not include the balance payment to debenture holders series B as defined in article 43 to the Deed of Trust, as a result of the Company's request to negotiate a restructuring of the debt.**
10. Loan repayment and dividends include the estimated dividend amounts that the Company could receive from Avis Ukraine as well as the release of €5 million deposit which is pledged to secure

various representations made by the Company in respect to the sale of the subsidiary TBIF in 2016. According to the sale agreement the deposit would be released in August 2018.

11. The interest calculations are based on the Israeli CPI, exchange rates and interest rates which are applicable as of December 31, 2017, and as aforesaid, were calculated on the assumption that the total payments (including interest) were paid on time (an assumption that did not materialize). The principal and interest payments for the debentures are presented on the net outstanding balance, excluding the debentures held by GTC RE and Emerging Investment XII BV. A change of 5% in the Euro/NIS rate will lead to a change of approximately € 6 million in the amount of principal and interest payment in each of the years 2018 and 2019.
12. Restrictions on transferring funds:
Transfer of funds between Kardan NV, GTC RE, Emerging Investments XII, and KFS is mostly done through intercompany loans or distribution of dividend or capital reserves as permitted by Dutch law¹. Breakdown of distributable reserves according to Dutch law and intercompany loans balances is as follows:

Subsidiary	Distributable reserves as of 31.12.17	Intercompany loan as of 31.12.17
(EUR million)		
GTC RE	169.4	4.8
KFS	7.9	-
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), difficulties in raising credit, decrease in value of investments, changes in the transactions terms of the sale of TGI, difficulties in reaching an agreement with the buyers of TGI, delays or lack of completion of the conditions precedent to the sale transaction to the extent an agreement will be signed and change in cash amounts expected to be received from affiliated companies. The Company, being a holding company, is generating cash flows from its investee companies mainly through dividend distributions and repayments of shareholder loans or through the realization (in part or in full) of its stakes in the investee companies. The generation of such cash flows may at times be subject to factors which are out of the control of the Company (such as the need to obtain third parties consent, foreign currency exchange, market prices of assets, risk factors of the company and more). It may also be the case – as it is with the distribution of dividends – that such cash flows sources are dependent on resolutions to be taken by the relevant organs in those companies. For details regarding the risk factors which are relevant to the cash flow forecast, refer to sections 7.24, 8.18, 9.25 and 21 of part 1 of the 2017 Israeli Annual Report. Due attention should be given to the risk factors, which should be read together with the cash flow forecast. It should be noted that in case one or more of the underlying assumptions upon which the cash flow forecast was based fail to materialize, it might result in the inability of the Company to fulfill its obligations in accordance with the Debt Settlement.
14. Comparison table and explanations for material deviations between the Company's estimates as included in the cash flow forecast presented in the Directors' report as of December 31, 2016, and the actual results:

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

Cash flow Forecast	January 1, 2017 - December 31, 2017 (projected)	January 1, 2017 - December 31, 2017 (actual)	Comments
Sources	in EUR millions		
From investing activities			
Sale of assets	126.3	11.5	1

The cash flow forecast presented in the financial statements as of December 31, 2016 assumed the Company would receive cash from the realization of certain assets. Those plans were dependent on factors not under the Company's complete control and therefore there was uncertainty whether those plans would be completed on time. The major sale contemplated, the sale of the Company's investment in TGI, was not concluded by 31 December 2017.

4. Financial situation Kardan Group as of December 31, 2017

Net debt

The Company	Financial debt net	
Kardan NV/ GTC RE/ Emerging Investments XII	Liabilities:	
	Debentures (**)	(303.8)
	Liabilities long term	(2.0)
	Assets:	
	Cash and short-term investments	6.2
	<u>Net debt</u>	<u>(299.6)</u>
KFS	Assets:	
	Cash and short-term investments	5.8
	Loans to related parties	6.6
	Net cash	12.4
TGI/TG/TGA(***)	Liabilities	
	Liability long term	(0.4)
	Assets:	
Cash and short-term investments	0.3	
	Net debt	(0.1)

(*) 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 12 below.

(***) Assets and liabilities shown as held for sale in the consolidated financial statements of Kardan NV as of 31.12.2017.

5. Main events in the period and subsequent events

Kardan NV

- On July 3, 2017, Maalot, the Israeli subsidiary of Standard & Poor's ("S&P"), affirmed the rating of iIB for Kardan and for its Debentures Series A and Series B. In addition, S&P has put the Company and the Debentures on CreditWatch with negative implications.
- On October 3, 2017 Maalot, the Israeli subsidiary of Standard & Poor's ("S&P"), adjusted the rating from iIB to iLCCC with negative outlook, for Kardan and for its Debentures Series A and Series B due to lack of secured sources to repay significant debt maturities in February 2018. In addition, S&P removed the Company and the Debentures from CreditWatch with negative implications to which it was added on July 3, 2017. For additional information, refer to the announcement issued by the Company on October 3, 2017.
- On January 18, 2018, Maalot, the Israeli subsidiary of Standard & Poor's ("S&P"), adjusted the rating from iLCCC to iLCC with negative outlook, for Kardan and for its Debentures Series A and Series B due to the assessment that the Company will fail to meet the upcoming debentures maturities in February 2018 in light of its inability to complete the sale transaction of its holdings in TGI and in parallel, its intention to approach the debenture holders to negotiate a new debt settlement. For additional information, refer to the announcement issued by the Company on January 18, 2018.
- On February 8, 2018, Maalot, the Israeli subsidiary of Standard & Poor's ("S&P"), adjusted the rating from iLCC to D, for Kardan and for its Debentures Series A and Series B due to the fact that the Company did not pay its obligations to debentures Series B (due on February 1, 2018) on time, and following its announcement on January 31, 2018, Kardan is also not expected to pay the upcoming repayment to debentures Series A. . For additional information, refer to the announcement issued by the Company on February 8, 2018.
- On November 1, 2017 the Company approached the trustees of debenture holders Series A and B ('the Debenture Holders') to enter into discussions with the Company with a view to reach certain agreements required for the terms of the intended sale of the Company's entire holdings in Tahal Group International B.V. ('TGI') in relation to the timetable of such transaction, and the implications of the terms of the intended sale for the timing of the upcoming payment to the Debenture Holders, due in February 2018. It should be noted that as of the date of approval of this report, no agreement had been signed and it is not certain that such an agreement will be signed or completed in the future.
- On November 20, 2017 the Company received a letter from the representatives of the trustee of debenture holders series B ('the Trustee'). In this letter, the debenture holders of series B claim that the financial situation of the Company has deteriorated since the date of signing the deeds of trust of the debentures in July 2015 ('the Deeds of Trust' and 'the 2015 Debt Settlement'), which, in their view, places the Company in breach based on the terms and definitions of article 43 to the Deeds of Trust. Therefore series B debenture holders claim that the balance payments between the debentures of series A and series B, as defined in article 43 to the Deeds of Trust, should be implemented and that the Company should be making payments to repay debentures series B before making any payments to debenture holders of series A, due to an expected immediate repayment and the implication of the said article 43. Under these circumstances, the Trustee claims that according to the Deeds of Trust, Debenture Holders B have the right to call the debt for immediate repayment.

On November 23, 2017 the Company has replied to the Trustee's Letter. In its response, the Company clarified that so far it has fulfilled all its obligations stemming from the 2015 Debt Settlement

and substantiated that most of the reasons detailed by the Trustee in its letter as support to its claim regarding the deterioration in the financial position of the Company were incorrect. In relation to this, the Company noted that the complexity of the negotiations and the complexity of TGI as well as other circumstances not within the Company's control, resulted recently to a change in its estimated date of completion of the sale of TGI and consequently the payment of the consideration to the Debenture Holders. The Company also noted that it faces a challenge in meeting the upcoming repayment to its debenture holders and therefore it has approached the trustees. However, this challenge cannot be considered as a significant deterioration of the financial position of the Company. For additional information, refer to the announcement issued by the Company on November 21, 2017 and November 24, 2017.

- On November 23, 2017, the Company announced that it has approached the Debenture Holders requesting them to conduct negotiations in relation to rescheduling the payments to the Debenture Holders. This request is related to a reasonable possibility of delays in the sale process of TGI which may prevent the Company from meeting the coming payment due in February 2018. It is noted that the Company is in advanced negotiations for the sale of TGI, and in parallel, the Company continues its efforts to complete the sale of TGI as soon as possible. For additional information, refer to the announcement issued by the Company on November 23, 2017.
- On January 7, 2018, the Company announced that it is in advanced negotiations with several entities, including the Fortissimo Fund, for the sale of its holdings in Tahal. Should such transaction be completed, the Company will be able to meet the upcoming payments to the debenture holders on time, or on terms to be agreed with the debenture holders, or any of them. On January 11, 2018 the Company announced that according to updated information received, it will not be able to complete a transaction for the sale of its holdings in TGI in a manner that will enable the Company to meet the upcoming payments to the debenture holders in February 2018 and that intends to approach the debenture holders in order to negotiate a new debt settlement under the given circumstances. For additional information, refer to the announcement issued by the Company on January 7, 2018 and January 11, 2018.
- On January 31, 2018, the Company announced that it will not be able to meet the upcoming payments to the debenture holders in February 2018, and for avoidance of doubt, the Company wishes to clarify that it will not pay the upcoming repayments to the debenture holders, due in February 2018. The Company continues to operate in the ordinary course of business. For additional information, refer to the announcement issued by the Company on 31 January 2018.

Real Estate

- On October 24, 2017 Kardan Land Dalian Ltd. (the project company) which is indirectly wholly owned by the company (through GTC Real Estate Holding B.V., Kardan Land China Ltd. ("KLC") and Kardan Land Dalian (HK) Ltd (the direct parent of the project company - "KLD")) KLD (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 regarding a credit facility of RMB 900 million (€ 115 million). The credit facility will primarily be used to refinance the outstanding debt of the current loan received from Shenzhen Ping An Da Hua Huitong Wealth Management Co., amounting to RMB 800 million as at September 30, 2017, and remaining RMB 100 million, will be used to finance the additional funding requirement of Europark Dalian project. As of November 15, 2017 KLC received the entire facility amount. For additional information, refer to the announcements issued by the Company on October 24, 2017 and November 15, 2017.

Water Infrastructure (discontinued operation)

- On June 7, 2017, Water Planning for Israel Ltd. ('WPI'), an indirectly owned subsidiary of the Company, signed an agreement for the sale of its entire holdings (40.5%) in Star Pumped Storage Ltd. to Noy Fund, for a total consideration of NIS 81 million (approximately € 19.5 million) in a two-part transaction. For additional information, refer to Note 6 to the Interim Financial Statements and to the announcements made by the Company on June 7, 2017, July 13, 2017 and August 9, 2017.

- As detailed in the water infrastructure's result analysis, during the reporting period, Tahal Group B.V. ('Tahal'), an indirectly owned subsidiary of the Company, signed several significant contracts:
 - (1) For a multipurpose agriculture and water project in Zambia for a total amount of USD 176 million for the completion of the entire project (Tahal's share – 50%). For additional details, refer to the press release issued by the Company on August 20, 2017;
 - (2) For the design and development of three large scale agriculture projects located in three different areas in Angola – Cabinda, Huambo and Lunda Sul totaling \$ 291 million (Tahal's share – 50%). For additional information, refer to the announcement issued by the Company on August 23, 2017;
 - (3) Two turn-key water infrastructure design-build projects in India, for a total amount of approximately USD 76 million. For additional information, refer to the announcement issued by the Company on September 13, 2017;
 - (4) For the construction of water supply and treatment systems, in India, for a total amount of approximately USD 29 million (€25 million). For additional information, refer to the announcement issued by the Company on November 19, 2017;
 - (5) For the construction of sewerage systems in Poti, Georgia for a total amount of approximately USD 26.3 million (€22.2 million). For additional information, refer to the announcement issued by the Company on November 29, 2017;
 - (6) For the renovation of a biological facility for wastewater treatment, in the city of Ivanovo in Russia for a total amount of approximately USD 37 million (€30 million). For additional information, refer to the announcement issued by the Company on February 6, 2018;
 - (7) For the renewal, expansion, upgrade and operation of a water supply network of which 42,000 households will be connected. The total compensation for the Project is approximately USD 28 million (€23 million). For additional information, refer to the announcement issued by the Company on February 26, 2018.

In addition Tahal entered into additional agreements which were not announced.

Corporate Governance Aspects

6. Directors with financial knowledge

Kardan NV 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 Peter Sheldon, Cor van Den Bos, Ariel Hasson and Eytan Rechter.

All members of Executive Management have accounting and finance expertise. For additional information about their education and experience see section 4 of the periodical report.

7. Directors with financial knowledge

The Corporate Governance code recommends that the majority of the non-executive board members would be independent. Insofar this recommendation is not met, the Company should disclose this fact in its annual report. However, failure to comply with this recommendation does not constitute a violation of the provisions of the law. As of December 31, 2017, five out of eight non-executive board members are independent. As of the date of this report, three out of the five non-executive members are independent.

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

8. Internal Audit at Kardan NV

Kardan NV 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.

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.

In April 2017, CPA Yossi Ginosar stopped serving as the internal auditor of the Company. The Audit Committee and the Board of Directors of the Company are of the opinion that there is no room to continue appointing an internal auditor. The main reason are: Kardan is a holding company which focus on holding companies in different sectors of operations, and these subsidiaries are audited by their own internal auditors in an orderly manner, and because the Company has no extensive activity that justifies the engagement of an internal auditor and performing audits as an independent unit. Instead, the board of directors approved engaging with a different auditing source, EY Israel, that will provide advisory services in matters related to internal audit and will perform audits as and when required (ad-hoc).

Details regarding the internal audit:

Appointing the internal audit:	The Company engaged EY Israel for providing internal audit services to the Company.
The internal audit firm:	EY Israel
The organ in charge of internal audit:	CFO
The audit plan:	In March 2018 the 3-year audit plan was approved. The plan was prepared based on risk assessment. The main considerations in determining the internal audit are: (a) the core business activity of the Company and its scope; (b) the exposure to risks; the audit plan and the internal audit recommendation of the annual audits are determined based on the ranking and importance of the various items in the risk assessment surveys, taking into consideration the management's recommendations. The audit plan is flexible and will allow for changes at the consideration of the internal audit.
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 hat 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 audit plan, which is based on risk assessment, was presented. In 2018, 1-2 audits are planned.
Fees:	The internal audit is remunerated according to the number of audit hours approved in the audit plan.

	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.
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9. Donations policy

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

Additional information

10. Fair Value Disclosure

Galleria Dalian shopping mall – China, Dalian

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

For additional information regarding the valuation, see Section 7.6.8.8 in Part A to the Israeli Annual Report 2017.

11. 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, 2017 and December 31, 2016 (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 31.12.17	Share holders Loans (*)	Total Investment in books 31.12.17	Total Investment in books 31.12.16
Kardan NV	GTC RE	100%	229.8	229.8	3.8	233.6	(4.8)	228.9	261.9
	KFS	100%	23.9	23.9	-	23.9	-	23.9	36.6
	TGI	98.43%	50.9	50.9	(3.7)	47.2	-	47.2	40.2
	Emerging Investments XII	100%	65.2	65.2	-	65.2	-	65.2	53.5

Holding Company	Name of subsidiary	Share in subsidiary	Consolidated equity	Share holders console -dated equity	Adjustments of GTC RE	Book value in TGI 30.12.17	Shareholders Loans	Total Investment in books 31.12.17	Total Investment in books 31.12.16
GTC RE Holding	Kardan Land China	100%	270.1	270.1	1.7	271.8	(**)(50.2)	221.6	254.2

Holding Company	Name of subsidiary	Share in subsidiary	Consolidated equity	Share holders console -dated equity	Adjustments of TGI	Book value in TGI books 30.12.17	Loans granted by TGI	Total Investment in books 31.12.17	Total Investment in books 31.12.16
TGI	Tahal Group Assets B.V.	100%	6.2	9.6	-	9.6	(3.4)	6.2	5.4
	Tahal Group B.V.	100%	50.8	47.5	-	47.5	(0.1)	47.4	40.5

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

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

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

(****) Emerging Investment XII held the following Kardan N.V. Debentures as of December 31, 2017:

	Nominal Value In NIS	Liability Value including accrued interest In EUR millions
Series A	109,839,448	33.4
Series B	120,381,450	36.9

12. Information to the Debenture Holders

The following are details regarding the marketable debentures of Kardan NV as of September 30, 2017:

	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 286.3 million (NIS 1,190,000,000)	EUR 320.9 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 September 30, 2017	EUR 71.6 million (NIS 297,500,000 par value)	EUR 229.2 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
Indexed par value	EUR 356.7 million	EUR 1,140.9 million
Total debt up to the date of the balance sheet (including interest and Israeli CPI linkage) (*)	EUR 48.9 million	EUR 252.6 million
Market capitalization as of December 31, 2017(*)	EUR 25.4 million	EUR 152.5 million
The trustee	Aurora Fidelity Trust Co. Ltd	Hermetic Trust (1975)
Rated by	S&P Maalot	S&P Maalot
Rating at the time of issuance	AA - (February 2007)	AA - (February 2007)
Updated rating	D (February 2018)	D (February 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. 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. During and at the end of 2017 the Company met the terms of the Deeds of Trust. However as at 31.12.2017 the Company does not meet the debt coverage ratio it has committed to meet. Failure to meet this covenant in two consecutive quarters constitute a breach of the Deeds of Trust. As of that date, this non-compliance is not a breach of a commitment towards the debenture holders. In addition, in February 2018 the Company did not make the scheduled repayments. The details presented above are in accordance with the Deed of Trust of July 3, 2015. For additional information

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

- On November 13, 2017 Hermetic Trust (1975) Ltd., the trustee of debenture holders Series B of the Company ('Hermetic') announced the results of the assembly of the debenture holders series B that was convened on November 6, 2017. The resolutions of the assembly were as follows: (1) to authorize the Trustee and he legal advisors to take actions – including legal actions in order to protect the debenture holders' rights; (2) to appoint an appraiser for the valuation of Galleria Dalian shopping mall. For additional information, refer to the announcement dated November 13, 2017.
- On November 28, 2017 Hermetic announced the results of the assembly of the debenture holders series B that was convened on November 27, 2017. The resolutions of the assembly were in respect to the appointment of the representatives of the Debenture holders and determining their mandate.
- On December 11, 2017 Hermetic announced the results of the assembly of the debenture holders series B that to appoint certain representatives (for no remuneration) of the Debenture holders series B.
- On January 7, 2018 Hermetic announced that an assembly of the debenture holders series B will be convened, on the agenda of which the following: the position of the Company, consultation regarding actions to be taken for protecting the rights of debenture holders series B.
- On January 10, 2018 Hermetic published a notice to a voting assembly of the debenture holders series B, on the agenda of which the following: instructions to the trustee to bring the debentures series B for immediate repayment and to take legal actions in Israel and/or abroad.
- On January 30, 2018 Hermetic announced the results of the assembly of the debenture holders series B dated January 30, 2018, in which it was resolved not to count the voting of the assembly of debenture holders series B which was convened on January 10, 2018.
- On February 18, 2018 Aurora Fidelity Trust Company Ltd., the trustee of debenture holders series A ('Aurora') announced the results of the assembly of the debenture holders series A from February 14, 2018, in which it was resolved to postpone the final repayment date of debentures series A to 25.3.2018.
- On March 19, 2018 Aurora published an announcement regarding postponing the final repayment date of debentures series A to 1.4.2018, in order to allow the debentures holders to instruct the trustee regarding the postponement of the final repayment date and the interest payment for a period of one month or any other period to be decided by the assembly.
- On March 26, 2018 Aurora announced the results of the assembly of the debenture holders series A of March 22, 2018 in which it was resolved to postpone the final repayment date of debentures series A to 1.5.2018.

For details regarding correspondence between the trustees of the debenture holders Series A and Series B and the Company in January and February 2018, refer to the Company's announcements dated 10 January, 29 January, 5 February and 13 February 2018.

13. Classification of negligible transactions

For information about a procedure to neglect adopted by Kardan NV see section D of the periodical report.

14. Critical accounting estimates

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

15. Accounting Fees

Accounting fees for the Company and its material subsidiaries, including audit services, services related to audit and tax for 2017 and 2016 was as follows:

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

2016							
Company name	Accounting firm	Audit fees (thousands of Euro)	Hours worked	Tax advisory services (thousands of Euro)	Hours worked	Other services (thousands of Euro)	Hours worked
Kardan NV	PWC	455	4,550	4	97	-	-
Subsidiaries	PWC	647	11,050	25	284	-	-
	Others	17	1,126	-	-	-	-

Date of signature: 28 March 2018

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 Financial Statements

For the year ended December 31, 2017

CONTENTS

NON-STATUTORY FINANCIAL REPORT

NON STATUTORY FINANCIAL STATEMENTS

CONSOLIDATED NON-STATUTORY FINANCIAL STATEMENTS

Consolidated statements of financial position	3
Consolidated income statements	5
Consolidated statements of other comprehensive income	6
Consolidated statements of changes in equity	7
Consolidated cash flow statements	10
Notes to the consolidated IFRS financial statements.....	14

COMPANY-ONLY NON STATUTORY FINANCIAL STATEMENTS

Company-only statements of financial position	104
Company-only income statements	105
Company-only statements of other comprehensive income	105
Company-only statements of changes in equity	106
Company-only cash flow statement.....	108
Notes to the company-only financial statements	109

OTHER INFORMATION

Independent Auditor's Report.....	117
Additional information according to Rule 9c of the Israeli Securities Regulation.....	130

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

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

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

E q u i t y a n d l i a b i l i t i e s

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

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

CONSOLIDATED INCOME STATEMENTS

For the year ended December 31,

	Note	For the year ended December 31,		
		2017	2016	2015
		Audited		
		In €000		
Rental revenues		3,883	3,732	1,822
Revenues from sale of apartments		8,556	761	791
Management fees and other revenues		2,584	6,615	3,398
<i>Total revenues</i>		<u>15,023</u>	<u>11,108</u>	<u>6,011</u>
Rental cost	27	1,346	1,493	1,473
Cost of apartment sold	27	7,993	676	889
Management fees and other expenses, net	28	2,847	5,521	6,178
<i>Total expenses</i>		<u>12,186</u>	<u>7,690</u>	<u>8,540</u>
Gross profit (loss)		2,837	3,418	(2,529)
Selling and marketing expenses	29	5,668	3,760	4,918
General and administration expenses	30	10,180	10,501	11,937
Loss from operations before fair value adjustments, disposal of assets and investment and other income		(13,011)	(10,843)	(19,384)
Adjustment to fair value of investment properties	8	(4,181)	(2,588)	20,907
Gain (loss) on disposal of assets and other income, net	31	836	(1,580)	(298)
<i>Profit (loss) from fair value adjustments, disposal of assets and investments and other income, net</i>		<u>(3,345)</u>	<u>(4,168)</u>	<u>20,609</u>
Profit (loss) from operations		(16,356)	(15,011)	1,225
Financial income	32	6,845	475	1,096
Financial expenses	32	(34,321)	(47,843)	(63,954)
<i>Total financial expenses, net</i>		<u>(27,476)</u>	<u>(47,368)</u>	<u>(62,858)</u>
Loss before share of profit from investments accounted for using the equity method		(43,832)	(62,379)	(61,633)
Share of profit of investments accounted for using the equity method, net	9,10	18,853	3,996	4,226
Loss before income taxes		(24,979)	(58,383)	(57,407)
Income tax expenses (benefit)	33	5,180	(4,504)	3,580
Loss for the period from continuing operations		(30,159)	(53,879)	(60,987)
Net profit from discontinued operations	5	12,783	22,553	38,029
Loss for the year		(17,376)	(31,326)	(22,958)
Attributable to:				
Equity holders		(17,101)	(31,330)	(22,915)
Non-controlling interest holders		(275)	4	(43)
		<u>(17,376)</u>	<u>(31,326)</u>	<u>(22,958)</u>
Earnings (loss) per share attributable to shareholders	34			
Basic and diluted from continuing operations		(0.25)	(0.44)	(0.53)
Basic and diluted from discontinued operations		0.10	0.18	0.33
		<u>(0.15)</u>	<u>(0.26)</u>	<u>(0.20)</u>

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

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

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

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						Total	Non-controlling interest	Total equity
	Issued and paid-in capital	Share premium	Foreign currency translation reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Accumulated deficit (*)			
	In €000								
Balance as of January 1, 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 18)	-	-	-	-	4	-	4	77	81
Transaction with non-controlling interest (Note 21)	-	-	-	-	-	-	-	37	37
Reclassification according to the Netherlands civil code requirements (*)	-	-	-	(3,135)	-	3,135	-	-	-
Balance as of December 31, 2017	<u>25,276</u>	<u>206,482</u>	<u>37</u>	<u>31,637</u>	<u>5,586</u>	<u>(273,386)</u>	<u>(4,368)</u>	<u>3,542</u>	<u>(826)</u>

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the parent						Total	Non-controlling interest	Total equity
	Issued and paid-in capital	Share premium	Foreign currency translation reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Accumulated deficit (*)			
	In €000								
Balance as of January 1, 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 18)	-	-	-	-	(146)	-	(146)	(527)	(673)
Dividend distributed to non-controlling interest holders	-	-	-	-	-	-	-	(379)	(379)
Disposal of a subsidiary	-	-	-	-	-	-	-	92	92
Transaction with non-controlling interest holders (Note 21)	-	-	-	-	-	(166)	(166)	-	(166)
Reclassification according to the Netherlands civil code requirements (*)	-	-	-	(1,941)	-	1,941	-	-	-
Balance as of December 31, 2016	<u>25,276</u>	<u>206,482</u>	<u>23,590</u>	<u>34,772</u>	<u>6,633</u>	<u>(259,420)</u>	<u>37,333</u>	<u>3,850</u>	<u>41,183</u>

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

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

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

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

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

CONSOLIDATED CASH FLOW STATEMENTS

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

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

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

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

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

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

For the year ended December 31

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

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

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

1. GENERAL

A. Introduction

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

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

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

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

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 2017 annual report in Israel on or before March 31, 2018. 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 28, 2018.

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

B. Financial Position and Going Concern

As at December 31, 2017 the Company had, on a stand-alone basis and on a consolidated basis, a working capital deficit of €107 million and €4 million, respectively (excluding debentures held by subsidiaries). The consolidated loss of the Company for the year 2017 amounted to €7 million. In addition, the Company generated positive cash flows from operating activities of €10 million on a stand-alone basis, and negative cash flows from operating activities of €0 million on a consolidated basis in 2017.

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

The main source of cash for the Company, in order to repay its debt, will be generated from the sale of assets. The Company is conducting processes, directly or through its subsidiaries, and negotiating transactions to sell assets with a number of prominent parties which, it is expecting, will generate adequate resources to meet its liabilities, as well as strengthening its financial and equity position. The main process being the sale of Tahal Group International B.V. ('TGI'). The Company is conducting advanced negotiations with respect to the intended sale of TGI. Based

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

on these negotiations, the Company estimates that the majority of the consideration will be received at closing and will be used to repay the debentures. The remaining consideration will be held in trust to secure certain representations for a limited period of time.

As a result of the lengthy process to sell TGI, in November 2017 the Company approached the Debenture Holders requesting them to conduct negotiations in relation to rescheduling the payments to the Debenture Holders. On January 11, 2018 the Company announced that following updated information received that day, it would not be able to complete a transaction for the sale of its holdings in TGI in a manner that would enable the Company to meet the upcoming payments to the debenture holders in February 2018. As of the date of the approval of these financial statements, the Company continues to negotiate with several parties regarding the sale of its holdings in TGI. In parallel it approached the Debenture Holders in order to negotiate a new debt settlement under the given circumstances.

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

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

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

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

2. BASIS OF PREPARATION

A. Basis of preparation

The consolidated 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, 2017.

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

Determination of control

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

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

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

If the Group loses control over a subsidiary, it:

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

D. Changes in accounting policies and disclosures

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Going Concern

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

Revaluation of investment properties

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

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

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

Impairment losses on inventory

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

Discontinued operation

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

B. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

C. FOREIGN CURRENCY TRANSLATION

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

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

D. FAIR VALUE MEASUREMENT

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

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

In the principal market for the asset or liability

Or

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

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

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.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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

Non-current assets and disposal groups classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. Costs to 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 cooperated plan to dispose of a separate major line of business or geographical area of operations; or
- c. is a subsidiary acquired with a view to resale.

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

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

F. TANGIBLE FIXED ASSETS

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

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

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

G. INVESTMENT PROPERTIES

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

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

Investment properties where management deemed that fair value can be reliably measured, are externally valued (in most cases) based on open market values. For a description of these valuation techniques and assumptions, see Note 8 and Note 3.

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

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

Lease origination costs /deferred brokerage fees

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

H. APARTMENTS INVENTORY IN PROGRESS

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

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

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

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

I. OTHER INTANGIBLE ASSETS

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

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

J. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

Goodwill

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

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

Investment in associates or Joint ventures

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

K. FINANCIAL ASSETS

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

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

Available-for-sale financial assets

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

L. CASH AND CASH EQUIVALENTS

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

M. IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

Available-for-sale financial assets

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

N. BORROWING COSTS

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

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

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

O. FINANCIAL LIABILITIES

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

Financial liabilities at fair value through profit or loss

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

Loans and borrowings

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

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

Financial guarantee liabilities

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

Debentures

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

P. OFFSETTING OF FINANCIAL INSTRUMENTS

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

Q. DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

A financial asset is derecognized when:

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

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

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

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

Financial liabilities

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

R. PROVISIONS

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

S. SHARE-BASED PAYMENT TRANSACTIONS

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

Equity-settled transactions

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

Cash-settled transactions

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

T. LEASES

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

Group as a lessee

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

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

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

Group as a lessor

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

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

U. REVENUE RECOGNITION

General

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

Contract revenues

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

Rental income

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

Sale of apartments

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

Rendering of services (including management fees)

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

V. TAXES

Current income tax

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

W. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

X. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

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

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

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

Fair value hedges

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

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

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

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

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

Cash flow hedges

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

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

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

Y. PUT OPTION GRANTED TO NON-CONTROLLING SHAREHOLDERS

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

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

Z. EARNINGS PER SHARE

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

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

AA. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

Defined contribution plans

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

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

BB. CASH FLOW STATEMENT

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

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

IFRS 9 Financial Instruments

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

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

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

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

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

In connection with the Company's operations, the significant possible impact of the standard that was required to be examined by the Company's management is in the area of residential construction carried out by a subsidiary and companies accounted for using the equity method in China. In order to determine the possible effect, the Company's management examined, in accordance with the provisions of IFRS 15, recognition of income from the sale of apartments over the period of their establishment, in lieu of the current policy according to which income from sale of apartments is recognized when the main risks and rewards of ownership have been transferred to the purchaser. The examination included analyzing the sales contracts of the apartments, examining the legislation and legal precedents in China.

The results of the examination showed that in the vast majority of transactions involving the Group companies, the sales contracts do not meet the criteria for revenue recognition over time. Therefore, after the Company examined the effect of the implementation of the Standard on its other operations, the Company concluded that the implementation of the standard is not expected to have a material impact on its financial statements and in the context of these transactions the Company is expected to recognize revenue for the major part of the transactions upon delivery of the apartments to the client.

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

IFRS 16 Leases

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

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

Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Company has yet to finalize the evaluation of the potential impacts of applying IFRS 16 on its financial statements, however,

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

as the Company has only a limited number of operational leases, it is of the opinion that applying IFRS 16 will not have a material effect on its consolidated financial statements.

DEFINITIONS

The following definitions are used throughout these financial statements:

Kardan or the Company – Kardan N.V.

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

GTC RE – GTC Real Estate Holding B.V.

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

KFS – Kardan Financial Services B.V.

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

TBIF – TBIF Financial Services B.V.

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

Kardan Israel – Kardan Israel Ltd.

TGA - Tahal Group Assets B.V.

TGI – Tahal Group International B.V.

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

KWIG- Kardan Water International Group Limited

Kardan Land China or KLC – Kardan Land China Ltd.

KLC Group – Kardan Land China, its subsidiaries and joint ventures

TASE – The Tel-Aviv Stock Exchange

EI XII- Emerging Investment XII B.V.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

5. BUSINESS COMBINATIONS AND INVESTMENT IN SUBSIDIARIES

A. Principle subsidiaries (consolidated into the Group)

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

Holding company	Name of subsidiary	Country of incorporation	% equity interest by the direct holding as of December 31		
			2017	2016	
Kardan N.V.	Kardan Financial Services B.V.	The Netherlands	100	100	
	GTC Real Estate Holding B.V.	The Netherlands	100	100	
	Tahal Group International B.V.	The Netherlands	98.43	98.43	
	Emerging Investments XII B.V.	The Netherlands	100	100	
GTC Real Estate Holding B.V.	Kardan Land China Limited	Hong Kong	100	100	
	Kardan Land China Limited	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	55.55	55.5	
	Fideco DOO	Serbia	100	100	
	Tahal Angola Ltd.	Angola	70	70	
	Tahal Consulting Engineers India Pvt. Ltd.	India	100	100	
	Evergreen for Development B.V.	The Netherlands	100	100	
	Tahal Romania Ltd.	Romania	100	100	
	Tahal Russ	Russia	100	100	
	Sterna B.V.	The Netherlands	91.3	91.3	
	TMNG Ltd.	Israel	65	65	
	Tahal Group Assets B.V.	Task Water B.V.	The Netherlands	100	100
		Agri Products N.V.	The Netherlands	51	51
Food-Yard Holding JSC		Bulgaria	87.6	87.6	
Mast Foods S.A.		Greece	60.7	60.7	

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

B. Significant transactions and business combinations

1. Sale of TBIF

On February 24, 2016, KFS has signed an agreement to sell its 100% holding in TBIF to a third party (4finance Holding S.A. ('the Buyer')). On August 11, 2016, the transaction was completed. The total consideration for the transaction was comprised of two parts ('the Consideration'): on the completion date ('the Completion Date') the Buyer paid KFS an amount of approximately €9 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 €2 million to KFS prior to the Completion Date.

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

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

2. Sale of Star Pump Storage

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

In addition, in July and December 2017 WPI received an amount of NIS 37 million (approximately €9.9 million) as reimbursement of expenses and repayment of loans granted to the project company on behalf of third parties.

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

C. Discontinued operations and assets held for sale

Further to Note 1B above, due to the various processes conducted by the Company, as of March 31, 2017 the terms of classifying the investment in TGI as Held-For-Sale and its results as discontinued operations, in accordance with IFRS 5, were met. In 2016, following the sale of TBIF (as described in 5B above), the results of TBIF were classified as discontinued operations.

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

2) Net profit from discontinued operations:

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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

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

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

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

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

* 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.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

D. Collaterals

As of December 31, 2017, the shares the Company (indirectly) owns in GTC RE, KLC, KFS, TGI, and EI XII are pledged in favor of the trustees of the Company's debenture holders.

E. Dividend

The following dividend amounts were received in the reporting period:

	<u>2017</u>	<u>2016</u>
	<u>€in thousands</u>	
Subsidiaries	<u>19,430</u>	<u>167,740</u>

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

6. INTANGIBLE ASSETS

A. Movement:

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

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

(2) The decrease is due to classification of TGI as 'Assets held for sale'.

B. Amortization and impairment expenses:

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

7. TANGIBLE FIXED ASSETS

2017	Buildings	Production equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost:	€in thousands					
Balance as of January 1, 2017	7,813	20,360	1,589	7,448	2,826	40,036
Additions	-	5	7	321	94	427
Disposals	(1,965)	-	-	(5)	-	(1,970)
Exchange rate differences	(94)	-	(12)	(57)	(62)	(225)
Reclassification of Assets as held for sale	(5,754)	(20,178)	(1,395)	(6,354)	(1,844)	(35,525)
Balance as of December 31, 2017	-	187	189	1,353	1,014	2,743
Accumulated depreciation:						
Balance as of January 1, 2017	1,264	18,161	949	4,596	1,377	26,347
Depreciation for the year	28	11	18	147	200	404
Disposals	(163)	-	-	(3)	-	(166)
Exchange rate differences	(9)	-	(8)	(24)	(51)	(92)
Re classification of Assets as held for sale	(1,120)	(18,001)	(823)	(3,797)	(636)	(24,377)
Balance as of December 31, 2017	-	171	136	919	890	2,116
Net book value December 31, 2017	-	16	53	434	124	627
2016	Buildings	Production equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost:	€in thousands					
Balance as of January 1, 2016	10,155	24,735	12,632	7,315	2,744	57,581
Additions	1,499	852	439	1,331	28	4,149
Disposals	(3,882)	(5,796)	(11,519)	(1,387)	-	(22,584)
Exchange rate differences	41	569	37	189	54	890
Balance as of December 31, 2016	7,813	20,360	1,589	7,448	2,826	40,036
Accumulated depreciation:						
Balance as of January 1, 2016	2,102	20,233	5,339	4,745	1,001	33,420
Depreciation for the year	77	793	179	693	376	2,118
Disposals	(924)	(3,326)	(4,582)	(944)	-	(9,776)
Exchange rate differences	9	461	13	102	-	585
Balance as of December 31, 2016	1,264	18,161	949	4,596	1,377	26,347
Net book value December 31, 2016	6,549	2,199	640	2,852	1,449	13,689

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

8. INVESTMENT PROPERTY

A. General

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

B. The movements in investment property are as follows:

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

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

C. Fair value adjustments comprise:

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

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

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

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

Starting Q2 2015, the construction was completed, and the investment property under construction was transferred to completed investment property. As of December 31, 2017 and 2016, a weighted average between the DCF Approach and the Direct Comparison Method has

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

been adopted to assess the fair value of the investment property. A

Significant assumptions used in the valuation of the investment property:

	December 31, 2017	December 31, 2016
<u>DCF method</u>		
Estimated rental value per sqm per month (in €)	35	23
Discount rate	10.5%	10.5%
Rental growth	5%-20%	5%-15%
Terminal cap rate	5.5%	5.5%
Occupancy rate	80%-97%	77%-96%
<u>Direct Comparison method</u>		
Adopted unit rate (RMB/sqm)	16,587	17,200

E. Sensitivity analysis:

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

9. INVESTMENTS IN ASSOCIATES

A. Main associates include:

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

B. Composition:

	December 31, 2017 ⁽²⁾	December 31, 2016 ⁽¹⁾
	€in thousands	
Total of equity investments	-	201
Loans (3)	-	12,687
Total investment	-	12,888

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

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

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

10. INVESTMENTS IN JOINT VENTURES

A. Main Joint Ventures:

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

Holding company	Name of joint venture	% of ownership by the direct holding company as of December 31,		Country	Nature of activities
		2017	2016		
Kardan Land China Limited	Shenyang Taiying Real Estate Development Ltd.	50.0	50.0	China	Real estate development and property management
	GTC Lucky Hope Dadong Ltd.	50.0	50.0	Hong Kong	Holding
	Sino Castle Development Ltd.	50.0	50.0	Hong Kong	Real estate development
	Green Power Development Ltd.	50.0	50.0	Hong Kong	Holding
	Rainfield Development Ltd.	50.0	50.0	Hong Kong	Holding
	Shaanxi GTC Lucky Hope Real Estate Development Ltd.	50.0	50.0	China	Real estate development, property lease and property management
	Task Water B.V. *	Akfen SU Kanalizasyon	50.0	50.0	Turkey
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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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

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

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

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

C. Loans:

The investment in joint ventures companies includes loans as follows:

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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

GREEN POWER DEVELOPMENT LTD.

Summary of financial data from the statement of financial position:

	December 31, 2017	December 31, 2016
	<u>€in thousands</u>	
Current assets (not including cash and cash equivalent)	44,697	110,717
Cash and cash equivalent	28,045	30,647
Non-current assets	3,022	3,585
Current liabilities	(25,629)	(90,463)
Current financial liabilities	(18,161)	(36,055)
Non-Controlling interest holders	<u>(1,677)</u>	<u>(3,626)</u>
Total equity attributed to the owners	30,297	14,805
% held in the joint venture	50%	50%
Total investment in joint ventures	<u>15,149</u>	<u>7,403</u>

Summary of financial data from the income statement:

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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

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

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

G. Additional information

Kardan Land China

1. Capital commitments:

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

2. Guarantees:

As of December 31, 2017, the joint ventures of KLC provided guarantees amounting to €2.45 million (December 31, 2016: €7.4 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of properties of the joint ventures of Kardan Land China, which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiration date of the guarantees, the joint ventures of Kardan Land China are responsible for repaying the outstanding mortgage principals and interest to the banks.

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

11. LONG-TERM LOANS AND RECEIVABLES

Composition:

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

12. APARTMENTS INVENTORY, CONTRACT WORK AND MERCHANDISE INVENTORY

Composition:

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

(1) Apartments inventory:

- a. As of December 31, 2017 and 2016 inventory in the amount of €55,325 thousand and €4,513 thousand, respectively, is pledged as security for a loan (see also Note 25).
- b. Inventory is presented at cost including finance expenses capitalized during the construction of the project.
- c. Composition of cost of buildings and apartments inventory:

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

- d. Buildings and apartments inventory is stated in gross figures. Advances from apartment buyers are presented under current liabilities and amount to €61,208 thousand as of December 31, 2017 (December 31, 2016: €50,011 thousand).
- e. During the past year the Group entered into 112 sale contracts of apartments (in 2016 - 6 contracts), for which the total consideration is estimated at €26.9 million (RMB 209.9 million) (in 2016 - €1.1 million). As of December 31, 2017, the aggregated number of

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

signed contracts of existing projects for which revenues were not recognized amounts to 72 contracts (in 2016 – 265) for which the aggregated revenues is estimated at approximately €17.6 million (RMB 137.2 million) (in 2016 - €6.3 million).

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

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

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

13. TRADE RECEIVABLES

A. Composition:

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

*As of December 31, 2016 an amount of €1,550 thousand derives from the water infrastructure activity which is presented as held for sale as of December 31, 2017.

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

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

	Past due (net of impairment)							Total
	Neither past due nor impaired	< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	120 – 365 days	>365 days	
	€in thousands							
2017	3,310	336	434	89	244	946	42	5,401
2016	46,655	5,709	1,362	2,527	1,342	2,611	6,241	66,447

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

C. Movement in the provision for doubtful debts:

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

14. OTHER RECEIVABLES AND PREPAYMENTS

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

15. SHORT-TERM INVESTMENTS

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

(*) In 2017 mostly in Euro.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

16. CASH AND CASH EQUIVALENTS

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

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

17. ISSUED AND PAID-IN CAPITAL

A. Composition:

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

B. Movement in issued and paid-in shares:

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

	<u>Number of shares</u>	<u>par value in €</u>
Balance as of December 31, 2016 and 2017	<u>123,022,256</u>	<u>24,604,451</u>

C. Movement in treasury shares:

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

D. Changes in share capital and treasury shares

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

E. Dividend:

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

F. Restrictions on distribution:

In accordance with the Netherlands civil code, part of the retained earnings is restricted for distribution following the regulation to maintain reserves in respect of unrealized fair value revaluation of real estate, cash flow hedges, foreign currency translation differences on investment in foreign operations, and equity gains from associates and joint ventures.

It is further noted that according to the Deeds of Trust there are limitations of distribution of dividend: dividend will not be distributed before 75% of the debentures outstanding as at December 31, 2014 are repaid.

18. SHARE-BASED PAYMENTS

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

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

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

B. Option plans:

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

(1) Kardan N.V.

In September 2013 (the ‘Grant Date’), the Board of the Company approved a stock-option plan according to which the Company granted to several employees of the Company a total of 250,000 options exercisable into up to 250,000 ordinary shares of the Company, each having a par value of €0.20 (subject to adjustments). In August 2015 the plan was modified. According to the modification, the exercise price would be €0.2807 or NIS 1.191 and the options will vest in two equal tranches, 50% of the options would be exercisable from December 31, 2016 and 50% of the options will be exercisable from June 30, 2018. The grant was accounted for assuming equity settlement and the total expense booked in the year was less than €4 thousand and were included in ‘General and administration expenses’ in the income statement.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

Movement in the year

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

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

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

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

(2) TGI (discontinued operations)

- a. In March 2016, the supervisory board of TGI decided to grant the CEO 560 options to purchase 2% of TGI's share capital at that time. The total fair value of the grant is approximately USD 1 million approximately (€0.7 million) and was calculated using the Black & Scholes model. The exercise price was determined at USD 1,594 per option, reflecting TGI's value post distributions in 2015 and 2016.
- b. In August 2014, the supervisory board of TGI decided to grant five executive managers options to purchase 1.9 % of TGI's share capital. The total value of the grant is approximately USD 1 million (€0.7 million) and was calculated using the Black & Scholes model. The exercise price of the options amounts to €1,567 per option (after adjustments).
- c. In March 2013, TGI granted two senior employees stock options totaling to 2.2% of TGI's issued and paid-in capital (185 options). TGI accounted for these options as equity settled based on B&S model, the total fair value of the options is €0.6 million. The exercise price of the options amounts to €1,794 per option (after adjustments). The options can be exercised until March 31, 2019.
- d. During 2012, the supervisory board and the general meeting of shareholders of TGI approved a grant 797 options, constituting approximately 3% of the shares of TGI at that time, post-issuance to the CEO of TGI. The newly issued stock option plan was divided into two agreements which have comparable option terms except for the vesting periods. Each option plan has been valued separately.
The exercise price of the options amounts to €1,370 per option (after adjustments). The options can be exercised until December 31, 2018. The total value of the options at date of grant was estimated at €1.9 million. This fair value was determined by an independent external valuator. The expected life of the options is based on historical data.
TGI accounts for all the options granted, as described above, assuming equity payments will be affected. The total expense booked in 2017 was €130 thousand.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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

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

Movements in the year

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

	2017	2016	2017	2016
	No.	No.	WAEP	WAEP
			EUR	
Outstanding on January 1	2,041	2,041	1,787	1,787
Granted for the year	-	-	-	-
Outstanding on December 31	<u>2,041</u>	<u>2,041</u>	<u>1,787</u>	<u>1,787</u>
Exercisable on December 31	<u>1,901</u>	<u>1,650</u>	<u>1,806</u>	<u>1,764</u>

19. NON-CURRENT INTEREST-BEARING LOANS AND BORROWINGS

A. Composition:

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

(*) On October 27, 2015, Kardan Land Dalian Ltd. ('the Project Company') entered into a framework agreement with the investment fund Shenzhen Ping An Da Hua Huitong Wealth

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

Management Co., (‘the Fund’) in China, with respect to a credit facility (the ‘Credit’) amounting up to RMB 1 billion (approximately €142 million) for the Europark Dalian project and to replace the bank loan at the time. In November 2015 the Project Company withdrew an amount of RMB 700 million (approximately €105 million) from the Credit. The withdrawn funds were used, together with additional existing cash reserves, to repay the current project loan in full. In February 2016, additional RMB 100 million was withdrawn from the Credit. The Credit is for a period of 2 years from the date of the initial drawdown, which can be extended by one year with the mutual consent of both parties.

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

Maturities:

	December 31, 2017	December 31, 2016
	€in thousands	
First year	-	111,455
Second year	-	272
Third year	104,933	-
Thereafter	-	147
	<u>104,933</u>	<u>111,874</u>

20. OTHER LONG-TERM LIABILITIES

	December 31, 2017	December 31, 2016
	€in thousands	
Site coverage and rehabilitation provision (*)	-	2,669
Deferred revenues	1,054	833
Other	-	502
	<u>1,054</u>	<u>4,004</u>

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

21. FINANCIAL INSTRUMENTS: OPTIONS AND WARRANTS

	December 31, 2017	December 31, 2016
	€in thousands	
Liability to FIMI (1)	-	2,745
PUT option liability (2)	1,306	976
Share-base payment liability (3)	-	245
	<u>1,306</u>	<u>3,966</u>

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

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

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

- (2) The Company entered into a PUT option agreement with a CEO of a subsidiary, according to which the Company granted the CEO an option to sell to the Company (following the employment termination date) all the shares which he will choose to exercise under his option agreement with the subsidiary. The exercise price of the PUT option will be determined based on the fair value of the option shares as of the date of the PUT notice. Subsequent to the balance sheet date, the parties entered into an agreement cancelling 50% of the PUT option.
- (3) The share base payment liability relating to phantom options that was fully paid during the first quarter of 2017.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

22. DEBENTURES

A. Composition:

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

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

(2) Subsequent to the balance sheet date the Company did not repay Debenture Holders series A and B the February 2018 interest and principal.–For additional information see Note 1B.

(3) Debt settlement between the Company and its Debenture Holders

In 2015 the Company reached a debt settlement with its Debenture Holders. The amended Deeds of Trust dated July 3, 2015 constitute new deeds of trust to series A and B and replace the original deeds of trust, including all related amendments ('the Deeds of Trust'). This debt settlement postponed the debt repayment dates that were determined in the original deeds of trust while repaying the debt in full to the Debenture Holders. Below are the main principles of the Deeds of Trust.

Series A:

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

Series B:

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

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

Pledges and guarantees in favor of the Debentures holders

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

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

In addition, to secure the Company's commitments, KLC provided a guarantee in favor of the trustees limited to an amount of €100 million which will expire upon meeting the Relief Conditions as detailed below. The trustees will not be able to use the guarantee or to take any action against KLC as long as the construction loan to the Dalian project has not been fully repaid, as well as loans that will be obtained, if obtained, in relation to the Dalian project.

Financial Covenants

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

Additional provisions

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

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

Restrictions on business activities

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

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

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

TGI and TGA or any entity under their control (except TG and entities under its control) shall not be allowed to enter into new business activities except for those detailed in the Deeds of Trust. They can make investments and obtain credit insofar the source of the investments is from the operating activities of any of the entities controlled by TGI; and the securities for such credit will be provided by TGI and entities under its control and not by other Group companies.

Relief Conditions

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

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 will result in a change of the accounting of similar modifications of financial liabilities. For additional information, see Note 4CC.

(4) Early repayments

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

On March 31, 2015 the Company early repaid principal amounting to approximately €6.7 million. Additionally on the same day, the Company paid the interest deferred to August 2015 in the amount of approximately €8.7 million to Debenture Holders series A and series B. The total repayment amounted to approximately €25.4 million.

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

As at December 31, 2017, the Company's subsidiaries hold NIS 136,506,115 par value Debentures Series A (which represent 45.9% of the outstanding par value of Debentures Series A) and NIS 120,381,443 par value Debentures Series B (which represent 12.6% of the outstanding par value of Debentures Series B).

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

Maturities:

	December 31, 2017	December 31, 2016
	€in thousands	
First year	95,452	-
Second year	100,593	109,281
Third year	88,115	95,790

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

Fourth year	-	83,907
Total	<u>284,160</u>	<u>288,978</u>

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

23. INTEREST-BEARING LOANS AND BORROWINGS

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

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

24. OTHER PAYABLES AND ACCRUED EXPENSES

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

25. LIENS, CONTINGENT LIABILITIES AND COMMITMENTS

A. Financial covenants, Liens and collaterals:

1. Financial Covenants

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

2. Pledges

- (a) Within the framework of the Deeds of Trust, as described in Note 22 above, the Company pledged in favor of the trustees of the debenture holders of the Company all its rights in shares and loans of the subsidiaries GTC RE, KLC, EI XII, TGI and KFS, certain bank accounts, and the Company's debentures held by the subsidiaries GTC RE and EI XII.
- (b) As of December 31, 2017 long-term loans amounting to €12.6 million granted to a subsidiary of KLC was secured by mortgages over investment property, inventory and trade receivables.
- (c) Within the framework of the sale of TBIF in 2016, KFS undertook to indemnify the buyer for costs and damages which might occur under circumstances which have been specifically detailed in the share purchase agreement, including a breach of the customary representations and warranties given by KFS. Accordingly, KFS has deposited an amount of €6 million for a period of two years and pledged this in favor of the buyer as collateral for the indemnification, this amount was reduced to €5 million after one year and expected to be released in August 2018.

3. Guarantees:

- (a) As of December 31, 2017 and 2016, TGI provided bank guarantees in an aggregated amount of approximately €5.9 million and €4.3 million, respectively, in favor of customers in respect of advances received from them for projects and for performing

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

works.

- (b) A subsidiary of TGI, TCE, is a guarantor by an irrevocable guarantee for the fulfillment of its subsidiary's obligations by means of placing the subsidiary's real estate properties as securities, or in any means as it will be agreed from time to time.
- (c) As at December 31, 2017, Kardan Land China provided guarantees of €1,328 thousand (December 31, 2016 - €9,150 thousand) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Kardan Land China Group's properties, which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiry of the guarantees, the Kardan Land China Group is responsible for repaying the outstanding mortgage principals and interest to the banks.

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

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

4. Legal claims and contingencies:

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

5. Commitments:

- (a) With respect to commitments towards the debenture holders of the Company as outlined in the Deeds of Trust, refer to Note 22.
- (b) As of December 31, 2017 Kardan Land China Group had commitments of €0.2 million (December 31, 2016: €3.1 million) principally relating to the property development cost of the construction projects of the KLC Group.
- (c) On May 2, 2016 a Cooperation Framework was signed between TGI and ZRB Consulting Finance & Development Limited ('ZRB'), in which the parties agreed to fully cooperate in Angola in any future project/activity for any project and activity from January 1, 2016 to December 31, 2020
 According to the cooperation agreement: (1) All projects in Angola will be managed jointly by TGI and ZRB; (2) TGI has the right to acquire majority in voting by means of purchasing a casting vote, in a case of deadlock in relation to management decisions and relating to all aspects of the cooperation, without change in its rights to profits and for a payment of USD 1 million.
 On May 1, 2017 the above mentioned Cooperation Framework with ZRB was amended in order to include cooperation in Zambia as well.
- (d) With respect of commitments relating to Joint Venture companies, refer to Note 9.

B. Operating lease commitments:

1. Operating lease commitments – Group as lessor

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

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

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

2. Operating lease commitments – Group as lessee

- (a) TGI Group companies have entered into commercial operating lease agreements on commercial vehicles. These leases have an average life of three years with no renewal option included in the contracts. The annual rentals total approximately €0.7 million (2016 - €0.9 million).

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

- (b) TGI Group companies have entered into operating lease agreements with respect of office buildings rental. Future minimum rentals payables under non-cancellable operating leases as of December 31, 2017 and 2016:

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

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

26. OPERATING SEGMENTS

A. General:

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

Real Estate

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

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

Water Infrastructure

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

B. Segments results

For the year ended December 31, 2017:

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

For the year ended December 31, 2016:

	Real Estate		Other	Total
	Development	Investment property		
	€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	2,467	-	1,529	3,996
Segment result	1,563	(6,175)	655	(3,957)
Unallocated expenses				(7,058)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net				(11,015)
Finance expenses, net				(47,368)
Loss before income tax				(58,383)
Income tax benefit				(4,504)
Loss from continuing operations				(53,879)
Profit from discontinued operations				22,553
Loss for the period				(31,326)

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

For the year ended December 31, 2015:

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

C. Segments assets

	December 31	
	2017	2016
	€in thousands	
Real Estate – Residential	176,320	180,748
Real Estate – Commercial	232,326	251,749
Water infrastructure	-	155,536
	408,646	588,033
Assets held for sale (former water infrastructure segment)	183,354	-
Unallocated assets (*)	76,576	77,334
	668,576	665,367

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

D. Segments liabilities

	December 31	
	2017	2016
	€in thousands	
Real Estate – Residential	101,538	82,788
Real Estate – Commercial	7,958	15,948
Water infrastructure	-	111,671
	109,496	210,407

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

Liabilities associated with assets held for sale (former water infrastructure segment)	132,798	-
Unallocated liabilities (*)	427,108	413,777
	<u>669,402</u>	<u>624,184</u>

(*) 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,		
	2017	2016	2015
	€in thousands		
China	15,023	8,536	6,726
Bulgaria and Romania	-	2,572	(715)
	<u>15,023</u>	<u>11,108</u>	<u>6,011</u>

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, 2017	December 31, 2016
	€in thousands	
China	221,587	243,035
Israel	-	11,441
Other	128	5,830

Non-current assets include investment properties and property plant and equipment.

The Company does not have material non-current assets in the Netherlands.

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

	For the year ended December 31		
	2017	2016	2015
	€in thousands		
Customer A	2,640	-	-
Customer B	2,701	-	-
Customer C	1,108	1,096	786
	<u>6,449</u>	<u>1,096</u>	<u>786</u>

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

27. COST OF SALE

A. RENTAL COST:

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

B. COST OF APARTMENT SOLD:

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

28. MANAGEMENT FEES AND OTHER EXPENSES, NET

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

29. SELLING AND MARKETING EXPENSES

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

30. GENERAL AND ADMINISTRATIVE EXPENSES

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

(*) Payroll and related expenses are as follows:

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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

	For the year ended December 31		
	2017	2016	2015
	€in thousands		
Loss on disposal of investment in companies (1)	-	(1,734)	-
Gain (loss) from sale of fixed assets	836	39	(423)
Other	-	115	125
	836	(1,580)	(298)

(1) In 2016, relates to revaluation of the remaining mortgage activity in light of its disposal.

32. FINANCIAL INCOME AND EXPENSES

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

33. TAXES ON INCOME

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

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

Dutch Participation Exemption

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

Interest deduction limitation rule regarding Participation Debt

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

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

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

Substance requirement regulations

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

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

Amendments of Dutch fiscal unity regime announced

On 22 February 2018 it was ruled by the European Court of Justice that some elements of the Dutch fiscal unity regime are not compatible with EU law. Following this decision, the Dutch government announced that a proposal to amend the fiscal unity regime with retroactive effect to 25 October 2017 will be sent to Dutch Parliament during the second quarter of 2018 to restrict certain benefits of the fiscal unity regime (including benefits in relation to the Participation Exemption and interest deductibility).

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

Transfer pricing documentation requirements

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

E. Composition of deferred taxes

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

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

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

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

F. Losses carry-forwards and final tax assessments

Under the 2017 Dutch Tax legislation the carry back of losses is restricted to one year and furthermore the carry forward of losses (on which the Company has not recorded any deferred tax assets) is restricted to nine years. The accumulated unused tax losses up to 2017 of Kardan N.V. company-only amount to €13.4 million (according to the filed 2016 tax return, net of tax losses evaporated in 2016 and in 2017). The tax losses expire as follows: €14.9 million on 1 January 2018, €17.5 million on 1 January 2019, €85.5 million on 1 January 2020, €29.1 million on 1 January 2021, €41.1 million on 1 January 2023, €24.1 million on 1 January 2024, €1.7

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

million on 1 January 2025, and €39.5 million on 1 January 2026.

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

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

34. EARNINGS PER SHARE

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

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

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

Certain warrants, employee options and convertibles issued by the Group were excluded from the calculation of diluted earnings per share as they did not result in a dilutive effect ('out of the money') as of December 31, 2017, 2016 and 2015.

To calculate earnings per share amounts for discontinued operations, the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The profit used is €12,582 thousand, €2,549 thousand and €37,689 thousand for the years 2017, 2016 and 2015, respectively.

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A. Introduction

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

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

B. The Kardan Group

1) Risk management

Financial risk management

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

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

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

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

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

Capital risk management

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

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

Risk management structuring

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

(i) Corporate level

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

(ii) Group companies

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

(iii) Risk mitigation

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

(iv) Excessive risk concentration

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

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

2) **Liquidity risk**

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

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

As of December 31, 2017, the main liquidity risk of the Company is meeting its obligations to repay the upcoming payments of principal and interest to the Company's Debenture Holders. The Company manages this risk by preparing a liquidity analysis which indicates the required liquidity to be able to repay interest and principal of the Company's debentures and to finance its operating activities. Included in this analysis are, among others, the current cash balances and the projected cash from future operations and transactions.. It should be noted that the realization of the Company's plans depends on factors that are not within the Company's control and therefore there is uncertainty that such transactions will be completed at all.

After balance sheet date, the Company has not repaid the principal and interest payments which were due in February 2018. Consequently, as of February 2018 the Company is in default according to the Deeds of Trust 8. Management is currently conducting advanced discussions with the representatives of the Debenture Holders in order to reach an agreement on postponing the payments.

The following tables present the payment dates for financial liabilities as of December 31, 2017 and 2016. The table includes repayment as per forecasted cash flow not capitalized. The table includes repayments of principal and interest. The calculation of the expected interest is done as per an estimation based on the repayment table for the financial liabilities.

Liquidity table 2017:

	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

Liquidity table 2016:

	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
	EUR in thousands				
Liabilities					
Trade payables	16,752	3,688	-	-	20,440
Other payables and accrued expenses	12,980	42,476	2,888	-	58,344
Interest-bearing loans and borrowings	5,168	134,195	272	147	139,782
Other debentures	4,453	-	113,398	216,574	334,425
Other long term liabilities	-	-	-	8,327	8,327
Total liabilities	39,353	180,359	116,558	225,048	561,318

3) Foreign currency risk

The foreign currency exchange rate risk arises from transactions conducted in a currency that is

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

not the functional currency of the relevant company in the Group.

Because of the Company's activities in different countries, it is exposed to changes in the exchange rates of different currencies including Euro, US Dollar, RMB and NIS. In order to mitigate these risks the Group companies evaluate, from time to time, the need to hedge the different currencies transactions.

Most of the Company's assets are denominated in RMB whereas it has NIS denominated debt. Consequently, changes in the currency rates have a significant effect both on Kardan NV's results and equity. Foreign currency changes during 2017 had a material effect on the Group's financial statements, in light of the strengthening of EUR against the RMB.

Linkage terms of monetary balances:

As of December 31, 2017:

	In US In euros	In NIS dollars	In RMB (Israel)	In (China)	In Rub	In other currenci	Non- monetary	Reconciliation (*)	Total
Assets									
	€in thousands								
Property and equipment	-	-	-	-	-	-	20,449	(19,822)	627
Investment properties	-	-	-	-	-	-	221,089	-	221,089
Goodwill	-	-	-	-	-	-	6,908	(6,908)	-
Investments in companies accounted for using the equity method	15,876	18,971	-	-	-	23	49,453	(9,002)	75,321
Long-term receivables	667	-	1,133	2,563	-	-	5,537	(1,777)	8,123
Deferred tax assets	-	-	-	-	-	-	3,111	(2,647)	464
Inventory	-	-	-	-	-	-	129,999	(12,099)	117,900
Accounts receivable	11,105	11,044	62,653	5,401	1,676	9,923	-	(96,401)	5,401
Other receivables	3,530	8,006	1,705	1,461	67	5,767	12,024	(25,372)	7,188
Short-term investments	5,346	-	105	6,793	-	-	-	(275)	11,969
Cash and cash equivalents	7,583	4,348	5,668	25,498	853	2,241	-	(9,051)	37,140
	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	9,920	314,532	(50,556)	(51,382)

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

As of December 31, 2016:

	In euros	In US dollars	In NIS (Israel)	In RMB (China)	In Rub (Russia)	In other currencies	Non-monetary	Total
Assets								
	€in thousands							
Property and equipment	-	-	-	-	-	-	13,689	13,689
Investment properties	-	-	-	-	-	-	240,461	240,461
Goodwill	-	-	-	-	-	-	6,156	6,156
Investments in companies accounted for using the equity method	14,936	24,792	-	-	-	12,712	56,487	108,927
Long-term receivables	5,000	-	2,530	-	-	-	4,165	11,695
Deferred tax assets	-	-	-	-	-	-	2,452	2,452
Inventory	-	-	-	-	-	-	119,421	119,421
Accounts receivable	7,329	10,497	40,452	4,897	-	3,272	-	66,447
Other receivables	20	1,467	4,993	5,686	1,731	895	13,326	28,118
Short-term investments	1,507	-	243	8,468	-	-	-	10,218
Cash and cash equivalents	20,062	4,535	6,961	19,424	2,666	4,135	-	57,783
	48,854	41,291	55,179	38,475	4,397	21,014	456,157	665,367
Liabilities								
Deferred tax liability	-	-	-	-	-	-	4,763	4,763
Interest-bearing loans and	2,865	11,590	1,486	111,232	62	-	-	127,235
Warrants and options	-	3,966	-	-	-	-	-	3,966
Debentures	-	-	288,978	-	-	-	-	288,978
Other long-term liabilities	169	-	4,092	-	-	-	833	5,094
Other payables and accrued	1,712	171	11,630	43,804	-	3,559	17,198	78,074
Trade payables	5,198	2,108	6,330	3,985	-	2,819	-	20,440
Advances from apartment buyers	-	-	-	-	-	-	88,900	88,900
Income tax payable	-	-	-	-	-	-	6,734	6,734
	9,944	17,835	312,516	159,021	62	6,378	118,428	624,184
Differences between assets and liabilities	38,910	23,456	(257,337)	(120,546)	4,335	14,636	337,729	41,183

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%
2017	(119)	(59)	59	119
2016	3,021	1,511	(1,511)	(3,021)

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

		Sensitivity to change in EUR\NIS			
		Effect on profit and loss			
		€in thousands			
		+10%	+5%	-5%	-10%
2017		(30,359)	(15,179)	15,179	30,359
2016		(29,579)	(14,789)	14,789	29,579

		Sensitivity to change in RMB/EUR			
		Effect on profit and loss			
		€in thousands			
		+10%	+5%	-5%	-10%
2017		(2,813)	(1,406)	1,406	2,813
2016		513	257	(257)	(513)

		Sensitivity to change in Israeli CPI			
		Effect on profit and loss			
		€in thousands			
		+3%	+2%	-2%	-3%
2017		(8,595)	(5,730)	5,730	8,595
2016		(8,876)	(5,917)	5,917	8,876

4) Market risk

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

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

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

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

In the water infrastructure activities the company operates, among others in Africa, a region that is exposed to frequent political changes. These changes might influence the economic status and cause economical, fiscal and monetary instability and frequent changes in the economic legislation. As a result, the company's activity in Africa might be negatively affected including

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

its ability to continue to operate and to collect debts.

A change in trends in these countries may negatively affect the Groups operations.

The management of the Company believes that the following factors are instrumental in handling the above-mentioned risks:

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

5) **Price risk**

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

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

6) **Political risk**

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

7) **Credit risk**

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

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

Credit risk, is controlled by the application of credit approvals, limits and monitoring procedures. To manage this risk, the Group companies periodically and regularly assess the financial viability

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2017

of their customers.

A concentration of credit risk exists when changes in economic, industry, or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instruments is diversified along product and geographic lines and transactions are entered into with various creditworthy counterparties, thereby mitigating any significant concentration of credit risk. The Group performs ongoing credit evaluations of their customers' financial condition and requires collateral as deemed necessary.

Counterparties to financial instruments consist of a large number of financial institutions. The Group has no significant concentration of credit risk with any single counterpart or group of counterparties.

With respect to trade receivables, the maximum exposure is equal to the amount on the face of the statement of financial position. Refer to Note 13 for more information regarding trade receivables and their aging analysis.

As of December 31, 2017 and 2016, cash and cash equivalent amounted to €37,140 thousand (not including an amount of €9,049 thousand of TGI which are included in the 'Assets held for Sale') and €57,783 thousand, respectively, and deposits in banks amounted to €1,969 thousand (not including an amount of €75 thousand of TGI which are included in the 'Assets held for Sale') and €10,218 thousand, respectively (see Note 15 and 16). All deposits are deposited with highly rated financial institutions primarily in the countries of operation. As of December 31, 2017, the Group operates primarily in PRC, where a majority of the banks and financial institutions are endorsed by the national credit and therefore the credit risks for banks and financial institutions are considered remote

Maximum exposure to credit risk

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

8) Interest-rate risk

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

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

The majority of the Group's financial liabilities (debentures, loans and borrowings) bear a fixed interest rate and are therefore not exposed to interest rate risk.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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	Methods of determining fair value	Carrying amount				Fair value				Comment
		2017		2016		2017		2016		
		Carrying value	Reconciliation (*)	Total	2016	Fair Value	Reconciliation (*)	Total	2016	
€in thousands										
Assets										
		12,244	(275)	12,169	10,218	12,244	(275)	12,169	10,218	1
		9,899	(1,776)	8,123	11,695	9,899	(1,776)	8,123	11,695	5
		34,337	(8,905)	25,432	52,440	34,337	(8,905)	25,432	52,440	3
Liabilities										
	(1)	301,484	-	301,484	291,509	177,856	-	177,856	213,056	2
		137,692	(22,572)	115,120	127,235	137,692	(22,572)	115,120	127,235	3
	(3)	-	-	-	3,171	-	-	-	3,171	4
	(3)	3,740	(2,434)	1,306	3,966	3,740	(2,434)	1,306	3,966	4

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

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

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 – Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 – Techniques which use inputs which have a significant effect on the recorded fair value that is not based on observable market data.

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

Comments regarding determining the fair value:

- 1) The carrying amount of cash and cash equivalents and short-term investments, which only include bank deposits, approximates their fair values, due to the short-term nature of such financial assets. Refer to Note 15 and 16 for additional information.
- 2) Market prices of Debentures Series A and Series B of the company have been used to determine the fair value of the listed Debentures which were issued by the Group. Please refer to Note 22 for additional information. The carrying value includes accrued interest in the amount €17,325 thousand for 2017 and €2,531 thousand in 2016.
- 3) As of December 31, 2017 and 2016 most of the loans bear a fixed interest rate, and management estimates that this rate is approximately the same as the one at yearend.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

Refer to Note 8, 9, 19 and 23 for additional information.

- 4) Warrants, options and certain long-term liabilities were valued internally by the Group. The valuations were based on the DCF approach using the following assumptions: the exercise price, the price of the underlying asset, the contractual term of the option, the expected volatility of the asset price and the dividend yield. Refer to Note 18 and 21 for additional information.
- 5) In determining that the carrying value approximated the fair value, management considered the continuous process for determining whether the value of these financial assets was impaired. Refer to Note 11 for additional information.
- 6) The carrying value of cash and cash equivalents and other financial instruments such as trade and other receivables, trade and other payables, which were not included in the table above, is assumed to approximate their fair value due to their short-term nature.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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

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.

9.2 Fair value levels schedule:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	€in thousands			

Financial assets:

Held for trading securities and other	238	-	-	238
---------------------------------------	-----	---	---	-----

Financial liabilities at fair value through profit or loss:

Warrant and call option	-	-	2,745	2,745
Put option	-	-	975	975
Phantom options	-	-	245	245

During 2017 and 2016 there have been no transfers between financial instruments valued in Level 1 to Level 2 or between Level 2 to Level 1.

C. Level 3 financial assets and liabilities reconciliation

	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)	(635)	239	2,434	(1,306)

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

	As of January 1, 2016	Fair value gain (loss) recorded in P&L	Additions	Disposals	As of December 31, 2016	Total gains (losses) for the period included in P&L
	€in thousands					
Securities	46	-	-	(46)	-	-
Total assets	46	-	-	(46)	-	-
Warrants and call options	(2,495)	(250)	-	-	(2,745)	(250)
Claw-back	(4,000)	-	-	4,000	-	-
Put option	-	-	(976)	-	(976)	-
Phantom options	-	-	(245)	-	(245)	-
Total liabilities	(6,495)	(250)	(1,221)	4,000	(3,966)	(250)

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

	Short term loans and credit	Long term loans	Other long term liabilities	Total
	€in thousands			
Opening balance	13,333	112,620	(373)	125,580
Cash received	9,245	117,304	5,538	132,087
Cash paid	(1,091)	(106,076)	-	(107,167)
Amounts recorded in P&L	(18)	(7,221)	-	(7,239)
Amounts recorded in other comprehensive income – foreign currency translation	148	8	(41)	115
Closing balance	21,617	116,635	5,124	143,376

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

9.4 IAS 39 classification of financial assets and liabilities:

	December 31,	
	<u>2017</u>	<u>2016</u>
	€in thousands	
Financial assets:		
Cash and cash equivalent, loans and receivables	220,029	209,210
Derivatives that are designated as hedging instruments	-	-
	<u>220,029</u>	<u>209,210</u>
Financial liabilities:		
Financial liabilities presented at amortized cost	536,037	497,529
Financial liability through P&L	2,601	3,171
Put option	1,306	976
Phantom options	-	245
FIMI liability	2,434	2,745
	<u>542,378</u>	<u>504,666</u>

36. RELATED PARTIES

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

A. Balances:

	Note	December 31,	December 31,	
		2017	2016	
		Joint ventures	Joint ventures	Associates
€in thousands				
Trade receivables	13	743	794	-
Other receivables and prepayments	14	817	928	-
Loans and long-term assets (including current maturities)	8,9	25,432	43,334	12,687
Other payables and accrued expenses	24	8,917	11,574	-

B. Transactions

	Note	Joint ventures	Fellow subsidiaries
€in thousands			
For the year ended December 31, 2017:			
Management fee, net		765	-
Finance income	32	137	109
For the year ended December 31, 2016:			
Management fee, net		960	-
Finance income	32	137	162
For the year ended December 31, 2015:			
Management fee, net		1,477	-
Finance income	32	264	168
Other		-	1,276

- 1) Management fees for the years 2017, 2016 and 2015 relate mostly to management fees from joint ventures received by Kardan Land China. Finance income from joint ventures are from loans granted to joint ventures.
- 2) In May 2017 the services agreement between the Company and Kardan Israel (a company controlled by the Company's controlling shareholders) has been amended. According to the amended agreement, effective January 1, 2017, the scope of services will be reduced and accordingly, the corresponding service fees would be reduced to a total of approximately €130 thousand per year (550 NIS thousand per year), linked to Israeli CPI.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

- 3) In September 2017 the services agreement between the Company and Kardan Israel has been further amended. According to the amended agreement, effective September 1, 2017, the scope of services will be reduced and accordingly, the corresponding service fees would be reduced to a total of approximately €48 thousand per year, linked to Israeli CPI, subject to the approval of the general meeting of shareholders.
- 4) Kardan Israel provides various services to the Group which are not part of the abovementioned services agreement, including, among others, the provision of office space and services. In addition, Kardan Israel is entitled to reimbursement of expenses incurred in connection with such services. In 2017 Kardan Israel did not provide such services (in 2016 €30 thousand were paid to Kardan Israel for such services).

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2017

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,		
2017	2016	2015
In €'000		
263	263	269

(*) The amounts for the year 2017, 2016 and 2015 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
	€000	€000	€000	€000
2017	665	20	4	689
2016 (**)	1,324	152	359	1,835
2015	1,335	120	170	1,625

(*) The amounts for the year 2017, 2016 and 2015 relate to 2, 4 and 4 executives, respectively.

(**) The amounts in 2016 include the new CEO fees from his appointment as CEO on April 15, 2016 and the former CEO until termination of employment on September 30, 2016.

(***) Short term employee benefits include bonuses over the years 2015 and 2016.

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

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

(*) For additional information see also Note 18B.

37. SUBSEQUENT EVENTS

- After balance sheet date, in February 2018 the Company did not repay the principal and interest due to the Debenture Holders series A and B. For additional information, see Note 1B.

KARDAN N.V.
AMSTERDAM, THE NETHERLANDS

COMPANY-ONLY NON-STATUTORY FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

COMPANY-ONLY NON-STATUTORY STATEMENTS OF FINANCIAL POSITION

December 31, 2017

After appropriation of net result

	Note	December 31, 2017	December 31, 2016	January 1, 2016
			€in thousand	
A s s e t s				
Non-current assets				
Tangible fixed assets		128	95	114
Investments in subsidiaries	5	372,256	406,692	550,493
Loans to subsidiaries		24	23	22
		<u>372,408</u>	<u>406,810</u>	<u>550,629</u>
Current assets				
Cash and cash equivalents	6	5,979	1,754	22,867
Short-term investments	7	169	131	137
Other receivables	4	1,406	1,005	687
		<u>7,554</u>	<u>2,890</u>	<u>23,691</u>
Total assets		<u>379,962</u>	<u>409,700</u>	<u>574,320</u>
E q u i t y a n d l i a b i l i t i e s				
Equity				
	8			
Share capital		25,276	25,276	25,276
Share premium		206,482	206,482	206,482
Property revaluation reserve		31,637	34,772	36,713
Foreign currency translation reserve		5,586	23,590	24,711
Other reserve		37	6,633	8,144
Retained earnings (accumulated deficit)		(273,386)	(259,420)	(229,865)
		<u>(4,368)</u>	<u>37,333</u>	<u>71,461</u>
Non-current liabilities				
Debentures	9	216,087	364,159	468,407
Options and other long-term liabilities	10	3,323	3,246	2,035
		<u>219,410</u>	<u>367,405</u>	<u>470,442</u>
Current liabilities				
Current portion of debentures		141,901	-	-
Other payables	12	23,019	4,962	32,417
		<u>164,920</u>	<u>4,962</u>	<u>32,417</u>
Total equity and liabilities		<u>379,962</u>	<u>409,700</u>	<u>574,320</u>

See accompanying notes.

COMPANY-ONLY NON-STATUTORY INCOME STATEMENT
Year ended December 31, 2017

	<u>Note</u>	<u>2017</u>	<u>2016</u>
		<u>€in thousand</u>	
General and administration expenses	13	<u>(3,459)</u>	<u>(3,379)</u>
Loss from operations		<u>(3,459)</u>	<u>(3,379)</u>
Financial expenses ,net	14	<u>(16,081)</u>	<u>(47,426)</u>
Loss before share of profit from investments accounted for using the equity method		<u>(19,540)</u>	<u>(50,805)</u>
Share of profit of investments accounted for using the equity method, net	5	<u>2,785</u>	<u>20,049</u>
Loss before income taxes		<u>(16,755)</u>	<u>(30,756)</u>
Income tax expenses	11	<u>346</u>	<u>574</u>
Loss for the year		<u><u>(17,101)</u></u>	<u><u>(31,330)</u></u>

See accompanying notes.

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

	<u>2017</u>	<u>2016</u>
	<u>In €000</u>	
Net loss for the year	<u>(17,101)</u>	<u>(31,330)</u>
Foreign currency translation differences	<u>(23,553)</u>	<u>(1,121)</u>
Change in hedge reserve, net	<u>(1,051)</u>	<u>(1,365)</u>
Other comprehensive expense for the year to be reclassified to profit or loss in subsequent periods	<u>(24,604)</u>	<u>(2,486)</u>
Total comprehensive expense	<u><u>(41,705)</u></u>	<u><u>(33,816)</u></u>

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 thousand							
Balance as of January 1, 2017	25,276	206,482	34,772	6,633	23,590	(259,420)	37,333
Other comprehensive income (expense)	-	-	-	(1,051)	(23,553)	-	(24,604)
Profit (loss) for the period	-	-	-	-	-	(17,101)	(17,101)
Total comprehensive income (expense)	-	-	-	(1,051)	(23,553)	(17,101)	(41,705)
Share-based payment	-	-	-	4	-	-	4
Transaction with non- controlling interest	-	-	-	-	-	-	-
Reclassification according to the Netherlands civil code requirements law (*)	-	-	(3,135)	-	-	3,135	-
Balance as of December 31, 2017	<u>25,276</u>	<u>206,482</u>	<u>31,637</u>	<u>5,586</u>	<u>37</u>	<u>(273,386)</u>	<u>(4,368)</u>

COMPANY-ONLY NON-STATUTORY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY.
Year ended December 31, 2016

	Issued and paid-in capital	Share premium	Property revaluation reserve (*)	Revaluation reserve, other (*)	Foreign currency translation reserve (*)	Retained earnings(**)	Total
€in thousand							
Balance as of January 1, 2016	25,276	206,482	36,713	8,144	24,711	(229,865)	71,461
Other comprehensive income (expense)	-	-	-	(1,365)	(1,121)	-	(2,486)
Profit (loss) for the period	-	-	-	-	-	(31,330)	(31,330)
Share-based payment	-	-	-	(146)	-	-	(146)
Transaction with non- controlling interest	-	-	-	-	-	(166)	(166)
Reclassification according to the Netherlands civil code requirements law (*)	-	-	(1,941)	-	-	1,941	-
Balance as of December 31, 2016	<u>25,276</u>	<u>206,482</u>	<u>34,772</u>	<u>6,633</u>	<u>23,590</u>	<u>(259,420)</u>	<u>37,333</u>

(*) In accordance with the Dutch civil code, part of the retained earnings is restricted for distribution following the regulation to maintain reserves in respect of real estate unrealized fair value revaluations, cash flow hedges, foreign currency differences from investments in foreign operations and equity gains from associates and joint ventures (as also disclosed in Note 17F to the consolidated financial statements).

(**) As of December 31, 2017 and 2016, amounts of €3,301 and €2,778 thousand respectively resulted from equity gains in associates and joint ventures held by the Company subsidiaries, and therefore the distribution of these amounts is pending on approval of the shareholders and partners. This part of the retained earnings is therefore restricted for distribution.

COMPANY-ONLY NON-STATUTORY CASH FLOW STATEMENT

	For the year ended December 31,	
	2017	2016
	In €000	
Cash flow from operating activities of the Company		
Loss for the year	(17,101)	(31,330)
Adjustments to reconcile profit (loss) to net cash of the Company		
Financial expense	16,305	47,817
Dividend received	18,170	113,284
Share-based payment	4	(146)
Equity earnings	(2,785)	(20,049)
Fair value adjustments of derivative financial instrument	240	-
Changes in working capital of the Company		
Change in receivables	(89)	(873)
Change in payables	(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	9,935	68,139
Cash flow from investing activities of the Company		
Short term investments, net	(38)	6
Investments in subsidiary	(5,684)	-
Net cash provided by investing activities of the Company	(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	4,213	(22,316)
Foreign exchange differences relating to cash and cash equivalents	12	1,203
Cash and cash equivalents at beginning of the year	1,754	22,867
Cash and cash equivalents of the Company at end of the year	5,979	1,754

NOTES TO THE COMPANY-ONLY NON-STATUTORY FINANCIAL STATEMENTS

December 31, 2017

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 NV 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, for the year ended 31 December 2017, are the first the Company has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2016, the Company prepared its company non-statutory financial statements in accordance with Dutch generally accepted accounting practice (Dutch GAAP). The Company applied the so-called option 3, whereby the company non-statutory financial statements were prepared in accordance with Part 9, Dutch Civil Code.

Accordingly, the Company has prepared company non-statutory financial statements which comply with IFRS applicable for periods ending on or after 31 December 2017, together with the comparative period data as at and for the year ended 31 December 2016, as described in the accounting policies. In preparing these company non-statutory financial statements, the Company's opening statement of financial position was prepared as at 1 January 2017, the Company's date of transition to IFRS.

By adjusting IAS 27, effective from 2016, it is possible to value participating interests using the equity method. As at Kardan N.V. the equity method equals the net asset value, it is possible to keep the total equity and the net result in the company non-statutory and consolidated non-statutory accounts equal to each other. Since the net asset value as at 1 January 2016 and 31 December 2016 was already applied in the company non-statutory accounts, the first application of IFRS has no impact on the single statement of financial position, single statement of changes in total equity and the single net result of Kardan NV. On the basis of IAS1, the position of the financial position was also presented on 1 January 2016.

3. INVESTMENTS IN SUBSIDIARIES

Investments in consolidated subsidiaries are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities and determination of profit based on the principles applied in the consolidated financial statements.

4. OTHER RECEIVABLES

	December 31, 2017	December 31, 2016
	€in thousand	
Intercompany debtors	1,227	896
VAT	13	-
Prepaid expenses	166	109
	<u>1,406</u>	<u>1,005</u>

5. FINANCIAL ASSETS

Investments in consolidated subsidiaries

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

	2017	2016
	€in thousand	
Balance as of January 1	406,531	550,493
Investment in a subsidiary	5,684	4,003
Change in capital reserves (a)	(23,314)	(454)
Dividend distributed	(19,430)	(167,740)
Share in profit of investments for the year	2,785	20,049
Balance as of December 31	<u>372,256</u>	<u>406,351</u>

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

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

Names of subsidiaries	2017		2016	
	Owner ship	Total Value	Owner ship	Total value
	%	€in thousand	%	€in thousand
GTC Real Estate Holding B.V.	100	233,645	100	276,412
Kardan Financial Services B.V.	100	23,905	100	36,610
Tahal Group International B.V.	98.43	49,495	98.43	39,856
Emerging Investments XII B.V.	100	65,211	100	53,473
Total investments in significant consolidated subsidiaries (*)		372,256		406,351

6. CASH AND CASH EQUIVALENTS

	December 31, 2017	December 31, 2016
	€in thousand	
EURO	5,558	1,496
NIS	419	257
USD	2	1
	5,979	1,754

The cash is primarily comprised out of short term deposits.

The average interest rate on short term deposits was 0.2%-1.5% p.a. in 2017 and 2016.

7. SHORT-TERM INVESTMENTS

	December 31,	
	2017	2016
€in thousand		
Deposits	169	131
	169	131

In 2017 and 2016, the average interest rate earned was 0.5%.

8. DEBENTURES

Composition:

	Par value as of December 31, 2017	Balance as of December 31, 2017	Balance as of December 31, 2016	Interest rate %	Maturities principal
		€in thousands			
Issuer:					
The Company – 2007	297,500,001	86,459	87,285	6.325	2017-2018
The Company – 2008	952,834,318	271,529	276,874	6.775	2017-2020
		357,988	364,159		

Maturities:

	December 31, 2017	December 31, 2016
	€in thousand	
First year – current maturities	141,901	-
Second year	115,209	158,350
Third year	100,878	109,709
Fourth year	-	96,100
Total	357,988	364,159

Repayment of debentures:

On July 24, September 2, and November 14, 2016 the Company early repaid the total amount of principal which was due to be repaid in February 2017 for both series A and series B debentures amounting to approximately €6.4 million and accumulated interest of approximately €17.7 million to Debenture Holders series A and series B (net of the relative portion of debentures held by the Company's subsidiaries). The total repayment amounted to approximately €104.1 million (approximately NIS 439 million).

Subsequent to the balance sheet date the Company did not repay Debenture Holders series A and B the February 2018 interest and principal.–For additional information see note 1B to the consolidated financial statements.

9. SHARE PLAN

In 2012 the Company granted to its former CEO 2,282,624 options exercisable to 2,282,624 shares of the Company, comprising approximately 2% of the outstanding share capital of the Company (prior to the shares issued to the debenture holders as part of the Final Settlement agreement (see also Note 22 to the consolidated IFRS financial statements). In 2015 a modification to the option plan was approved by the general meeting of shareholders. According to the modified plan, the exercise price would be €0.2807 or NIS 1.191. The options will vest in two equal tranches, 50% of the options would be exercisable from December 31, 2016 and 50% of the options will be exercisable from June 30, 2018. The modification was accounted for under the requirements of IFRS 2. During 2016, the options expired following the resignation of the CEO.

In September 2013 (the 'Grant Date'), the Board of the Company approved a stock-option plan according to which the Company granted to several employees of the Company a total of 250,000 options exercisable into up to 250,000 ordinary shares of the Company, each having a par value of €0.20 (subject to adjustments). The exercise price of each option is equal to NIS 6.136. The options were exercisable in four annual equal portions, starting June 2012 (the 'Effective Date'), of which the first 25% are exercisable two years following the Effective Date. The total value of the options at date of grant was immaterial. The Company share price on Grant Date was approximately NIS 1.9052. The grant was accounted for assuming equity settlement and the total expenses booked in the period were immaterial and were included as 'General and administration expenses' in the income statement. In 2015, the senior management stock options were modified in line with the above modification of the CEO option plan, as described above.

During 2015, 100,000 new options were granted and 50,000 options expired. During 2016 50,000 expired. Subsequent to the balance sheet date, in January 2017 additional 150,000 options expired. The total additional expense relating to the management stock option plan is less than €0.1 million.

For additional information refer to Note 18B to the consolidated IFRS financial statements.

10. TAXES ON INCOME

The Company has received final tax assessments for all the years up to and including 2014.

Loss for the year amounts to €7.1 million (2016: €31.3 million), including net result from investments of €2.8 million profits (2016: €20.0 million losses), which is not deductible/taxable under the Participation Exemption. The Company assumes that the remaining other expenses and income will not result in tax benefits or tax expenses due to the available tax losses from previous years of the Company.

Up to 2017, Kardan N.V. has estimated tax losses of €13.4 million that are available for carry forward (according to the filed 2016 tax return, net of tax losses evaporated in 2016 and 2017). The carry back of losses is restricted to one year, whereas the carry forward of losses is limited to nine years. Special provisions apply for compensation of tax losses incurred in years during which a company's activities consists (almost) exclusively of holding activities and the direct or indirect financing of related parties. Such tax losses can only be offset against future taxable profits of years during which the company's activities also consists (almost) exclusively of holding and finance activities. Furthermore compensation of losses is disallowed if the balance of the related-party receivables and the related-party payables of a company with holding and financing losses, during the year in which a profit was realized, exceeds that balance in the financial year the losses were incurred, unless it can be demonstrated that the increase of the balance of related-party receivables and related-party payables has increased for business reasons and was not predominantly aimed at the compensation of the holding and financing losses. According to the final tax assessment for the fiscal year 2014, Kardan N.V. has tax losses available for carry forward as per December 31, 2014 which are not considered holding and financing losses and can therefore be compensated with future taxable profits, taking into account the statutory carry forward period.

Deferred tax assets have been recognized only with respect to potential tax liability in relation with the Company's former hedge transactions. Deferred taxes amounted to €16 thousand as of December 31, 2017 (as of December 31, 2016 amounted to €1,311 thousand). As of December 31, 2017 no deferred tax assets are presented in the balance sheet. For more information regarding to taxes on income refer to Note 33 to the Consolidated Financial Statements.

11. OTHER PAYABLES

	December 31, 2017	December 31, 2016
	€in thousand	
Accrued expenses (mainly accrued interest on debentures)	21,581	3,170
Others	1,438	1,792
	<u>23,019</u>	<u>4,962</u>

12. GENERAL AND ADMINISTRATION EXPENSES

	December 31, 2017	December 31, 2016
	€in thousand	
Payroll and related expenses	1,161	1,834
Share-based payment	1	(146)
Management fees	371	473
Office maintenance	436	340
Professional fees	1,174	1,014
Depreciation and amortization	27	28
Other	(119)	(164)
	<u>3,051</u>	<u>3,379</u>

13. FINANCIAL INCOME (EXPENSES), NET

	For the year ended December 31	
	2017	2016
	€in thousands	
Income:		
Income from bank deposits	-	6
Exchange differences	12,084	4,054
Total financing income	<u>12,084</u>	<u>4,060</u>
Expenses:		
Interest on debentures	26,396	30,818
Exchange differences	-	18,586
Revaluation of warrant	-	236
Loss from early repayment of debentures	-	1,019
Other	1,769	827
Total financing expenses	<u>28,165</u>	<u>51,486</u>
Total financing expenses	<u>16,081</u>	<u>47,426</u>

14. AUDIT FEES

The tables below summarize the fees invoiced to the Company's by its auditors, PricewaterhouseCoopers Accountants N.V. in 2017 and in 2016, respectively:

<u>2017</u>	PwC
	€in thousand
Audit services – Kardan N.V.	451
Audit services – subsidiaries	617
Total statutory audit fees	<u>1,068</u>
Other services relevant to taxation	49
Total	<u>1,117</u>

2016

	<u>PwC</u>	<u>Others</u>	<u>Total</u>
	<u>€in thousand</u>		
Audit services – Kardan N.V.	455	-	455
Audit services – subsidiaries	647	17	664
Total statutory audit fees	1,102	17	1,119
Other services relevant to taxation	29	-	29
Total	<u>1,131</u>	<u>17</u>	<u>1,148</u>

15. REMUNERATION OF MANAGEMENT AND BOARD OF DIRECTORS

The Company's management and Board received remuneration in 2017 and 2016 as described in Note 36 to the consolidated IFRS financial statements.

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

For commitments, contingent liabilities, guarantees, and subsequent events please refer to notes 25 and 36, respectively of the consolidated IFRS financial statements.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

For disclosures required by IFRS 7 regarding financial instruments and risk management, refer to Note 35 to the consolidated 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 2017

Our opinion

In our opinion Kardan N.V.'s non-statutory financial statements gives a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS).

What we have audited

We have audited the accompanying non-statutory financial statements 2017 of Kardan N.V., Amsterdam ('the Company'). The non-statutory financial statements include the non-statutory consolidated financial statements of Kardan N.V. and its subsidiaries (together: '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 2017;
- the following statements for 2017: the consolidated and company-only income statement, the consolidated and company-only statement of other comprehensive income, the consolidated and company-only statements of changes in equity and the consolidated and company-only statement of cash flows; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the 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 is negotiating a new debt settlement with its debenture holders. It also indicates that in February 2018 the Company has not repaid the principal and interest payments which were due in February 2018. Hence, the Company is in default according to the Deeds of Trust as of February 2018.

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

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section ‘Our responsibilities for the audit of the 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 projects, Tahal Group International B.V. (TGI). The Group comprises of several components and therefore, we considered our Group audit scope and approach as set out in ‘The scope of our Group audit section’. During our audit the going concern assessment, as described in the paragraph ‘Material uncertainty related to going concern’, was a prominent issue that lead us to allocate time and resources on. In addition, we paid specific attention to the areas of focus driven by the operations of the Company, as set out below.

We designed our audit by determining materiality and assessing the risks of material misstatement in the non-statutory financial statements. In particular, we looked at where the board of directors made important judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In Note 3 to the non-statutory financial statements, the Company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. The valuation of the investment property at fair value is subject to significant estimation uncertainty due to the underlying assumptions. We therefore considered this to be a key audit matter. We furthermore addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the board of directors that may represent a risk of material misstatement due to fraud. As the Company operates in multiple jurisdictions and is, due to its geographical footprint and decentralised structure, subject to the risk of (local) management override of controls and fraud, we therefore considered this to be a key audit matter. For further information refer to the ‘Key audit matters’ section of this report.

Besides the above mentioned key audit matters, other areas of focus in our audit were the impairment losses on inventory, the classification of TGI as asset held for sale, valuation of trade receivables, the valuation of investments in joint ventures, the valuation of the debentures and the accounting for foreign exchange rate differences.

We ensured that the audit teams both at Group and at component levels included the appropriate skills and competences, which are needed for the audit of an international Group active in real estate and water infrastructure projects. We have included real estate valuation experts and tax specialists in our team.

The outlines of our audit approach were as follows:

Materiality



- Overall materiality: € 6.1 million.

Audit scope

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

Key audit matters

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

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section ‘Our responsibilities for the audit of the non-statutory financial statements’.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€6.1 million (2016: €7.7 million).
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Basis for determining materiality	We used our professional judgment to determine overall materiality. As a basis for our judgment we used 1% of the average of total assets as at 1 January 2017 and as at 31 December 2017. We used the average as the Company is focusing on selling its assets in order to repay the debentures and hence the total assets of the Company has decreased in 2017.
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Rationale for benchmark applied	We have 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 are focussed on the asset value of the Company as the Company is focussed on repaying its debentures. Cash should be generated by selling the assets, whilst continuing to focus also on further improving the results of the subsidiaries and therefore, their value. On this basis, we believe that the average of total assets as at 1 January 2017 and as at 31 December 2017 is an important metric for the financial performance of the Company.
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Component materiality	To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €2.6 million and €3.2 million. Certain components were audited with a local statutory audit materiality that was also less than our overall group materiality.
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We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the audit committee that we would report to them misstatements identified during our audit above €305,000 (2016: €386,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

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

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

These two components were subject to audits of their complete financial information, as those components are individually significant to the Group. The joint venture in the Ukraine (short-term car rental operation), has been subject to specific risk-focused audit procedures performed by the Group audit team (mainly the lease classification), in addition to the local statutory audit, performed by the respective component auditor.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

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

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

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

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

1. we have issued detailed audit instructions to the component auditors prescribing the scope of work to be performed, our risk assessment, the key audit areas, materiality to be applied and the reporting requirements to the Group engagement team;
2. the reports of the component auditors were assessed by the Group engagement team and observations were discussed with the component auditors and with Group management; and
3. the Group engagement team has met the component teams and management of local operations and performed reviews of selected working papers. In the current year the Group audit team visited China (Kardan Land China Ltd.) given the importance of the judgements involved in the valuation of the investment property (refer to key audit matters section). With respect to TGI, we have met local management in Amsterdam and we have reviewed the audit files of the component auditor in Amsterdam. We have also visited the Ukraine, where a short-term car rental operation is run (part of Kardan Financial Services B.V.) and where we have met with the component auditor and reviewed selected working papers of the component auditor. We have also met local management in the Ukraine.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance

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

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

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

Due to the nature of the company's business, we recognise that key audit matters, which we reported in our independent auditor's report on the statutory financial statements 2016, may be long-standing and therefore, may not change significantly year over year. As compared to prior year, there have been no changes in our key audit matters, except for removal of the key audit matter regarding the revenue recognition of the water infrastructure projects, as TGI has been accounted for as Asset Held for Sale since the first quarter of 2017.

Key audit matter**How our audit addressed the matter**

Valuation of investment property

Note 3 and Note 8 in the non-statutory financial statements

The investment property of the Company's subsidiary Kardan Land China Ltd., represents a significant part of the total assets (33%) of the Group and is valued at fair value for an amount of € 221 million at year-end 2017 (2016: € 240 million). The valuation of property is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income for the property.

The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in valuation assumptions, when aggregated, could result in material misstatement, is why we have given specific audit focus and attention to this area.

Management is determining the fair value of its investment property on a semi annual basis and has used an external appraisal firm to support the valuation as at 30 June 2017 and as at 31 December 2017. The Group changed from appraisal firm in 2017. The appraisal firm has been engaged by the Group and performed their work in accordance with RICS (Royal Institution of Chartered Surveyors) Valuation – Professional Standards, as set out by the RICS. The appraisal firm used by the Group is a well know firm, with experience in the Chinese market, in which the Group operates.

The appraisal firm calculates the investment property by using the average of the Discounted Cashflow Approach (DCF) and the Direct Comparison Approach. For the Direct Comparison Approach the appraisal firm has used historical transaction comparables. In determining the property's valuation from a DCF perspective, the appraisal firm takes into account property specific current information such as the current tenancy agreements and

External valuation

We have read the valuation report for the property and discussed the outcome with the appraisal firm. We confirmed that the valuation approach was in accordance with professional valuation standards and suitable for us in determining the carrying value of the Investment Property as at 31 December 2017.

It was evident from our discussions with management and the appraisal firm and our review of the valuation report that close attention has been paid to the property's individual characteristics and its overall quality, geographic location and desirability as a whole. There was no evidence of management bias or influence on the appraisal firm.

We have assessed the appraisal firm's qualifications and expertise and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We also considered other engagements which might exist between the Group and the appraisal firm. We found no evidence to suggest that the objectivity of the appraisal firm was compromised.

We carried out procedures, on a sample basis, to test whether specific information supplied to the appraisal firm by the Group reflected the underlying property record held by the Group. As group auditor we have visited the property ourselves. No issues were identified.

Assumptions

We challenged the most important assumptions and estimates made by management and the external appraiser in the valuation methodology. In challenging this approach, we considered the comparability of the data used. We also engaged our own in-house valuation

Key audit matter

rental income earned. They then apply assumptions in relation to future cash flows from assets (such as lettings, tenant' profiles and future revenue streams, capital values of fixtures and fittings, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. Future revenue streams, inter alia, comprise contracted rent (passing rent) and estimated rental income after the contract period. In estimating the estimated rental income, the potential impact of vacancy and future lease incentives to be granted to secure new contracts is taken into consideration. These analysis result in a range of valuation outcomes, which the appraisal firm derive a point estimate for the DCF method.

The Group has adopted the assessed value determined by the appraisal firm.

How our audit addressed the matter

specialists to critique and challenge the work performed and assumptions used by the appraisal firm. In particular we compared projected future cash flows from assets and capital values of fixtures and fittings to actual budgeted data as prepared by the Group and we challenged these data based upon actual current data of revenue streams and capital values of the property. We compared discount rates with market comparable data for discount rates. We challenged the historical transaction comparables by verifying that the properties used are comparable with the property of the Group.

The assumptions used fell within an acceptable range and the comparables used were acceptable.

Overall valuation estimates

Because of the subjectivity involved in determining the valuation of the property and the existence of alternative assumptions and valuation methods, we determined a range of values that were considered reasonable to evaluate the independent property valuation used by management.

The valuation adopted by the Group fell within an acceptable range.

We assessed and corroborated the adequacy and appropriateness of the disclosure, including the sensitivity disclosures, made in the non-statutory 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, on management's governance structure.

We performed audit procedures at group and component level designed to identify the risk of management override of controls. These procedures included, amongst others, an assessment of the 'tone-at-the-top' and the compliance with the Group's policies, laws and regulations, both at Group level and component level. We have discussed the risk of fraud with the Audit Committee and the board of directors and we have read minutes of the Board of Directors. We have applied professional scepticism and assessed key internal controls, such as approval of any project including the pricing and the follow up on whistle blower allegations and integrity incidents (including the risk of bribery) and business ethics. We have used questionnaires at component level with respect to fraud and bribery to assess the risk of management override of controls and we have performed audit procedures on revenue recognition principles, cost cut-off procedures and year-end estimates of accruals

We tested a risk based selection of manual journal entries and we included unpredictability, such as visiting different components and performing certain audit procedures on

non-significant accounts) as part of our audit. We made specific enquiries at different levels in the organisation on fraud risk.

With respect to the procedures performed above, we did not note any significant findings.

Emphasis of Matter – Basis of Preparation

We draw attention to Note 1A of the non-statutory 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, 2018, following Israeli Stock Exchange regulatory filing requirements, the Company has prepared this non-statutory financial statements.

The non-statutory financial statements do not include specific Dutch legal requirements. These 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 2018. These 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 annual meeting held on 28 May 2015. The appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 3 years.

Responsibilities for the non-statutory financial statements and the audit

Responsibilities of the board of directors 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;
- 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.

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.

Amsterdam, 28 March 2018

PricewaterhouseCoopers Accountants N.V.

A.H. Zoon RA

Appendix to our auditor's report on the non-statutory financial statements 2017 of Kardan N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the 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 Company's non-statutory financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the 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.

From the matters communicated with the audit committee we determine those matters that were of

most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.



Appendix to our auditor's report on the non-statutory financial statements 2017 of Kardan N.V.

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- 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 Company's non-statutory financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the 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.

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

KARDAN N.V.

Financial data included in

Consolidated financial statements related to the company

For the year ended December 31, 2017

ADDITIONAL FINANCIAL INFORMATION ACCORDING TO RULE 9C

Herewith financial data and separate financial information related to the company-only derived from the consolidated financial statements of the Company as of December 31, 2017 which is published as part of the annual report (herewith – Consolidated Financial Statements), presented according to Rule 9c to the Israeli Securities and Exchange Regulations (Periodic and Immediate Reports), 1970. The main accounting policies that were used for this financial information are described in the notes to the Consolidated Financial Statements. The notes to this financial information are those not included in the notes to the Consolidated Financial Statements.

	Additional information	December 31, 2017	December 31, 2016
In €000			
A s s e t s			
Non-current assets			
Tangible fixed assets		128	95
Financial fixed assets			
Investments in consolidated subsidiaries		372,256	406,692
Loans to consolidated subsidiaries		24	23
		<u>372,280</u>	<u>406,715</u>
Current assets			
Cash and cash equivalents	2	5,979	1,754
Short-term investments	3	169	131
Other receivables	4	1,406	1,005
		<u>7,554</u>	<u>2,890</u>
Total assets		<u><u>379,962</u></u>	<u><u>409,700</u></u>
E q u i t y a n d l i a b i l i t i e s			
Equity attributable to equity shareholders			
Share capital		25,276	25,276
Share premium		206,482	206,482
Property revaluation reserve		31,637	34,772
Other reserves		5,586	6,633
Foreign currency translation reserve		37	23,590
Accumulated deficit		<u>(273,386)</u>	<u>(259,420)</u>
		<u>(4,368)</u>	<u>37,333</u>
Long-term liabilities			
Debentures		216,087	364,159
Option liability		3,323	3,246
		<u>219,410</u>	<u>367,405</u>
Current liabilities			
Current maturities of debentures		141,901	-
Other payables		23,019	4,962
		<u>164,920</u>	<u>4,962</u>
Total equity and liabilities		<u><u>379,962</u></u>	<u><u>409,700</u></u>

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,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		In €000	
Net result from investments for the year	2,785	20,049	45,827
General and administrative expenses, net	<u>3,459</u>	<u>3,379</u>	<u>4,585</u>
Profit (loss) from operations before financing expenses	(674)	16,670	41,242
Finance income	12,084	4,060	23
Finance expenses	<u>(28,165)</u>	<u>(51,486)</u>	<u>(63,703)</u>
Financing expenses, net	(16,755)	(47,426)	(63,680)
Income tax expense	<u>346</u>	<u>574</u>	<u>477</u>
Net loss for the year	<u>(17,101)</u>	<u>(31,330)</u>	<u>(22,915)</u>

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,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<u>In €000</u>		
Net loss for the year	<u>(17,101)</u>	<u>(31,330)</u>	<u>(22,915)</u>
Foreign currency translation differences	(23,553)	(1,121)	768
Change in hedge reserve, net	<u>(1,051)</u>	<u>(1,365)</u>	<u>(2,784)</u>
Other comprehensive expense for the year to be reclassified to profit or loss in subsequent periods	<u>(24,604)</u>	<u>(2,486)</u>	<u>(2,016)</u>
Total comprehensive expense	<u><u>(41,705)</u></u>	<u><u>(33,816)</u></u>	<u><u>(24,931)</u></u>

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,		
	2017	2016	2015
	<u>In €000</u>		
Cash flow from operating activities of the Company			
Loss for the year	(17,101)	(31,330)	(22,915)
Adjustments to reconcile profit (loss) to net cash of the Company			
Financial expense	16,317	49,020	64,013
Dividend received	18,170	113,284	53,742
Share-based payment	4	(146)	163
Equity losses (earnings)	(2,785)	(20,049)	(45,827)
Fair value adjustments of derivative financial instrument	240	-	-
Changes in working capital of the Company			
Change in receivables	(89)	(873)	(138)
Change in payables	(352)	548	(1,154)
Cash amounts paid and received during the year			
Interest paid	(4,457)	(41,120)	(18,676)
Interest received	-	8	20
Net cash provided by operating activities of the Company	9,947	69,342	29,228
Cash flow from investing activities of the Company			
Short term investments, net	(38)	6	659
Investments in subsidiary	(5,684)	-	-
Net cash provided by (used in) investing activities of the Company	(5,722)	6	659
Cash flow from financing activities			
Investment in shares of a subsidiary	-	(4,003)	(150)
Debentures settlement payment	-	-	(750)
Repayment of long term debt	-	(86,458)	(6,725)
Net cash used in financing activities of the Company	-	(90,461)	(7,625)
Increase / (decrease) in cash and cash equivalents of the Company	4,225	(21,113)	22,262
Cash and cash equivalents at beginning of the period	1,754	22,867	605
Cash and cash equivalents of the Company at end of the period	5,979	1,754	22,867

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

As at December 31, 2017 the Company had, on a stand-alone basis and on a consolidated basis, a working capital deficit of €107 million and €4 million, respectively (excluding debentures held by subsidiaries). The (consolidated) loss of the Company for the year 2017 amounted to €7 million. In addition, the Company generated positive cash flows from operating activities of €10 million on a stand-alone basis, and negative cash flows from operating activities of €50 million on a consolidated basis in 2017.

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

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

As a result of the lengthy process to sell TGI, in November 2017 the Company approached the Debenture Holders requesting them to conduct negotiations in relation to rescheduling the payments to the Debenture Holders. On January 11, 2018 the Company announced that following updated information received that day, it will not be able to complete a transaction for the sale of its holdings in TGI in a manner that would enable the Company to meet the upcoming payments to the debenture holders in February 2018. As of the date of the approval of these financial statements, the Company continues to negotiate with several parties regarding the sale of its holdings in TGI. In parallel it approached the Debenture Holders in order to negotiate a new debt settlement under the given circumstances.

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

The directors expect that, taking into account the current status of the discussions with the Debenture Holders and taking into account their plans to realize the transactions and the progress which has been made in that respect, as mentioned-above, the Company has the ability

to obtain the required resources for repaying its obligations and continue its business operations in the future. Management believes that a controlled sale of assets is in the best interest of all stakeholders. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

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

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

2. CASH AND CASH EQUIVALENTS

	December 31, 2017	December 31, 2016
	In €000	
EURO	5,558	1,496
NIS	419	257
USD	2	1
	<u>5,979</u>	<u>1,754</u>

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 2017 and 2016.

3. SHORT TERM INVESTMENTS

	December 31, 2017	December 31, 2016
	In €000	
	<u>169</u>	<u>131</u>
	<u>169</u>	<u>131</u>

The average interest earned in 2017 and 2016 was 0.5%.

4. OTHER RECEIVABLES

	December 31, 2017	December 31, 2016
	In €000	
Intercompany debtors	1,228	896
Prepaid expenses	178	109
	<u>1,406</u>	<u>1,005</u>

5. DETAILS OF MATERIAL FINANCIAL ASSETS IN ACCORDANCE WITH IAS 39

	December 31, 2017	December 31, 2016
	In €000	
Financial assets:		
Loans to subsidiaries	24	23
Receivables	1,406	1,005
Short term investments	169	131
Cash and cash equivalents	<u>5,979</u>	<u>1,754</u>
	<u>7,578</u>	<u>2,913</u>

6. EXPECTED REALIZATION PERIODS OF MATERIAL FINANCIAL ASSETS AND LIABILITIES GROUPED IN ACCORDANCE WITH IAS 39 CLASSIFICATIONS:

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	<u>1,430</u>	<u>-</u>	<u>-</u>	<u>1,430</u>
	<u>7,578</u>	<u>-</u>	<u>-</u>	<u>7,578</u>

Financial assets as of December 31, 2016

	Up to 1 year	1-2 years	2-3 years	Total
	In €000			
Cash and short term Investments	1,885	-	-	1,885
Loans and receivables	<u>1,028</u>	<u>-</u>	<u>-</u>	<u>1,028</u>
	<u>2,913</u>	<u>-</u>	<u>-</u>	<u>2,913</u>

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	<u>164,887</u>	<u>124,784</u>	<u>117,338</u>	<u>-</u>	<u>3,323</u>	<u>-</u>	<u>410,332</u>

Financial liabilities as of December 31, 2016

	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 (*)	5,694	168,816	127,758	120,135	-	-	422,403
Option liability	-	-	-	-	3,246	-	3,246
Total	5,694	168,816	127,758	120,135	3,246	-	425,649

(*) 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 33 to the Consolidated Financial Statements.

8. LOANS, MUTUAL BALANCES, COMMITMENTS AND TRANSACTIONS WITH INVESTEE COMPANIES

A. Balances with investee companies

	December 31, 2017	December 31, 2016
€thousands		
Debentures held by subsidiaries	78,085	75,820
The largest amount of loans and current debts during the year	24	23

B. Transactions with investee companies.

	December 31, 2017	December 31, 2016	December 31, 2015
€thousands			
Management fees	582	702	687
General and administrative expenses	109	210	254

Board of Directors

P. Sheldon

J. Grunfeld

E. Rechter

C. van den Bos

A. Hasson

C. Tall