

# Corporate Governance Statement

2013



KARDAN N.V.

**This Corporate Governance Statement 2013 forms an integral part of the Annual Report 2013 of Kardan N.V.**

# Corporate Governance Statement 2013

## Kardán N.V.

This statement concerns Kardán's corporate governance statement in accordance with article 2a of the Decree of December 23, 2004 establishing further instructions concerning the content of annual reports (*Besluit van 23 december 2004 tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag*), as amended, (the 'Decree').

The information required to be included in this statement as described in articles 3, 3a and 3b of the Decree is as follows:

1. the extent and manner of implementation of the Dutch Corporate Governance Code;
2. the main characteristics of the risk management and internal control systems connected with Kardán's financial reporting process;
3. the functioning of the General Meeting of Shareholders;
4. the composition and functioning of the Board; and
5. statement in light of Article 10 of the European Takeover Directive.

### 1. The extent and manner of implementation of the Code

Pursuant to the Decree, listed companies are required to comply with the Dutch Corporate Governance Code adopted on December 9, 2003, as amended per January 1, 2009 (the 'Code'), or in case of non-compliance explain the reason thereof.

The full text of the Code can be found on [www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl), as well as the final report 'Corporate governance in motion' of the Corporate Governance Code Monitoring Committee (the 'Committee'), published on October 1, 2013. The Code sets out sound business principles of corporate governance and contains certain normative standards that pertain, among other things, to the relationship between the various corporate bodies of a company. The Code primarily pertains to a two tier

governance system and provides limited guidelines on how to apply the Code to a one tier governance system in *chapter III.8* thereof. The Committee has provided some additional guidelines on how to apply the Code to a one tier governance system.

The Committee's main advice in the above-mentioned report is to apply the same principles that refer to (members of) the supervisory board to non-executive directors of a board, irrespective of other responsibilities that these non-executive directors may have. The Committee acknowledges that it is possible that a company cannot apply a principle of the Code that relates to supervisory board members directly to non-executive board members. If this is the case, a company should explain why it cannot apply such principle and relate it to the company-specific situation. The mere fact that a company has a one tier governance system does not constitute a satisfactory explanation.

The Board attributes great value to clear and transparent reporting, which it believes benefits all of its stakeholders, and fully endorses the main principle of the Code, namely that compliance with the Code is more a matter of tailored governance than checking boxes. The Board takes a pragmatic approach in applying the Code to its one tier governance system and will consequently explain where and why Kardán deviates from the Code. When it is deemed necessary, the Board will explain how certain principles and provisions of the Code are applied to Kardán's one tier governance system.

### Deviations from the Code

*Management board, chapter II:* For the explanation of the Code in view of the one tier governance system, this chapter is applied as to pertain to either the Board as a whole or the CEO only, as applicable and indicated per provision.

*Provision II.1.1 – term of appointment:* the CEO has been appointed for a period of five years by the AGM 2012. Given the fact that the activities and the

business model of Kardan are by nature long term and given the global macro-economic challenges at the time of the CEO's nomination to the AGM 2012, it was deemed in the best interest of Kardan and its stakeholders to propose to the AGM 2012 to include in the Articles the provision that CEOs are appointed for a maximum period of five years. The intention of this proposal was to establish a stable, long-term commitment of management. Although this term constitutes a deviation from the Code, Kardan is of the opinion that it contributes to the (long-term) best interests of Kardan and its stakeholders and as such adheres to the broader sense and interpretation of the Code.

*Provision II.1.2 – matters subject to approval:*

The Board is of the opinion that Kardan complies with this provision since the subject matters of this provision fall outside the scope of the delegated daily management by the Board to the CEO. As such, the subject matters of this provision are subject to the approval of the whole Board, as formalized in the Board Regulations. With respect to item (d) (approval of corporate social responsibility issues) it is noted that the Board fully supports the fact that emphasis is laid on creating long-term, sustainable solutions throughout the Kardan Group (see the chapter on Environmental and Social Governance (ESG) on page 95 of the [Annual Report 2013](#)) as part of Kardan's business. When required, the CEO will seek the approval of the Board with respect to ESG concerns regarding the operational and financial objectives of Kardan and the strategy designed to achieve these objectives. On matters that fall within the managing authority of the CEO, such as operational and/or investor relations matters, the CEO may decide on an ESG approach without the Board's prior approval.

*Provisions relating to principle II.2 – remuneration:*

For the explanation of the Code in view of the one tier governance system, this principle II.2 is applied to the remuneration of the CEO, being the only executive Board Member. It is noted that, in deviation of the

Code, a proposal for said remuneration is drafted by the non-executive Board Members, to be approved by the General Meeting of Shareholders.

*Provision II.2.4 – options:* The AGM 2012 approved the granting of an option package to the CEO (which was only accepted by the CEO pursuant to the EGM 2013). The option package stipulates that the options have a vesting schedule over a period of five years as of February 20, 2012 (the 'Effective Date'). It is noted that the CEO can exercise 25% of the options after two years from the Effective Date, which is in deviation of the Code, which prescribes that options may not be exercised within three years from the date of grant. However, given the fact that half of the options can be exercised only after the three-year period, the nature of the option schedule is such that the CEO will only benefit after Kardan has achieved a good long-term performance. The provision also prescribes that the number of options to be granted is linked to achieving pre-defined targets, which is not the case with respect to the options granted to the CEO. However, the nature of the option schedule is such that the CEO will only benefit if Kardan achieves a good long-term performance. The deviations from the Code were the result of the negotiation process with the CEO.

*Provision II.2.6 and II.2.7 – exercise price option and the amendment thereof:* The option package of the CEO as approved by the AGM 2012 contained a set exercise price, which was based on a verifiable average of the share price of Kardan at the closing of the Tel-Aviv Stock Exchange on the five days prior to February 20, 2012 (the day that the supervisory board proposed the nomination of the CEO to the General Meeting of Shareholders). This is in deviation of the Code, which prescribes that the exercise price is related to the average share price on the five days prior to the day of grant. In the period between February 20, 2012 and the AGM 2012, the share price of Kardan experienced a steep decrease in value.

The (non-executive) Board Members reconsidered the exercise price of the option package and deemed it fair to propose a revision of the option package to the EGM 2013, in deviation of the Code. The revised exercise price was calculated by applying the ratio of the initial exercise price compared to the share price on February 20, 2012 to the share price on the day before the AGM 2012. The Board was of the opinion that the decrease in share price which occurred prior to the appointment of the CEO was beyond his control and that in order to provide a genuine incentive to create future value, which the Board considers to be in the best interest of Kardan and its stakeholders, the CEO should be rewarded, incentivized and bear responsibility as from his appointment by the AGM 2012 onwards, i.e. as of May 31, 2012. The revised option exercise price was still well above the market price of Kardan's shares at both the date of the approval of the new terms by the Board, as well as at the date of the EGM 2013 when the revised option package was adopted.

*Supervisory board, Chapter III:* For the explanation of the Code in view of the one tier governance system, this chapter is applied to the non-executive Board Members.

*Provision III.1.7 – Board meeting without the executive director being present:* The CEO was present at all the Board meetings in 2013. Given the challenges Kardan faced throughout 2013, the Board considered it in the best interest of the Company to focus fully on the business in light of the CEO's presence. In early 2014, the Board discussed the outcome of the self-assessment that was carried out at the end of 2013; the CEO was not present during this Board meeting. It is noted that the functioning of the Board as a whole and that of the Executive Management was evaluated and discussed by the RAS-Committee in 2013 and that the main findings and conclusions were shared with Board.

*Provision III.2 – Independence:* The Board comprises a majority of independent non-executive Board

Members. In deviation of the Code, three non-executive Board Members are non-independent, being Mr. Grunfeld, Mr. Rechter and Mr. Schnur.

The Board is of the opinion that, given the fact that they are the founders of Kardan and as a consequence have extensive knowledge of the sectors in which Kardan operates, their contribution to the Board is of considerable value and thus justifies the deviation from the Code.

*Provision III.3.3 and III.4.1.a – Introduction:* Kardan does not consider it necessary to make a standard introduction program mandatory for each newly appointed non-executive Board Member. The Board fully underwrites the principle that new non-executive Board Members should be properly introduced to Kardan and its businesses, but takes the view that – also considering the different backgrounds of various newly appointed Board Members – such introduction need not necessarily be contained in a fixed, standard, program. If a newly appointed non-executive Board Member or the Chairman considers it necessary or desirable, he or she may follow an introduction program that covers general financial and legal matters, financial reporting within the Kardan Group and/or any specific aspects that are unique to Kardan and its business activities and to the collective and individual responsibilities of non-executive Board Members. The non-executive Board Members that were appointed in the EGM 2013 have not followed such a program, but have each been supplied with all relevant materials related to their responsibilities as non-executive directors as well as detailed background information on Kardan's activities, amongst others by presentations given by the managers of the various business segments and minutes of recent Board meetings.

*Provision III.3.5 – Limitation on terms of appointment:* Kardan has no set limitation on the number of terms that non-executive Board Members can serve. Given the extensive knowledge that some non-executive Board Members have of Kardan and its businesses,

Kardan considers it in its best interest and that of its stakeholders not to limit the number of terms that non-executive Board Members may serve. It is noted that the General Meeting of Shareholders will at all times be the designated body to appoint and reappoint non-executive Board Members.

*Provision III.6.4 – Conflict of interest:* Transactions between Kardan and legal or natural persons holding at least 10% of the shares in Kardan's capital: Kardan takes the view that suitable protection in this respect is provided for given the provisions on conflicts of interest included in its Articles and the Board Regulations, in combination with the provisions on transactions with Holders of Control (as defined in the Articles and as further described in the 'Related Party Transactions' section on page 104 of the [Annual Report 2013](#)).

*Provision IV.3.1 – Meetings with analysts etcetera:* As Kardan frequently engages in meetings with its investors, it does not announce all meetings with analysts, presentations to analysts and presentations to investors in advance on Kardan's website or by means of press releases, nor does the Company make provisions for all shareholders to follow these meetings and presentations in real time. Presentations with respect to the quarterly financial results are publicly announced and posted on Kardan's website before the investor conference call regarding the respective quarterly results takes place. In the event that Kardan will give a special presentation, this presentation will be posted on Kardan's corporate site in accordance with the applicable rules and regulations.

*Provision IV.3.4 – Analyst meetings, presentations to investors and direct discussions with investors:* Kardan cannot guarantee in advance that discussions with investors will not take place during a closed period before the publication of regular financial information. Kardan deems it important to be in regular contact with its investor base, and contact with potential new investors may be deemed necessary at any given time when opportunities arise. Kardan will,

in such cases, adhere to only discussing information with respect to Kardan that is already publicly available and that can be found on the corporate website and/or in publicly available media/platforms.

## 2. Main characteristics of the risk management and internal control systems connected with Kardan's financial reporting process

Kardan believes that taking risks is an integral part of doing business and can create opportunities which in turn can lead to positive results. Therefore, Kardan deems it essential to embed risk management and internal control in its day-to-day operations as a joint responsibility for all employees throughout the Kardan Group. It is the Company's view that effective risk management can only be achieved if all Kardan staff have the appropriate mindset required for conducting responsible business, i.e. that there is a proper 'risk culture' throughout the organization. Management leads the way by setting the right example through their behavior and decisions. In addition, Kardan continuously reinforces and cultivates its 'risk culture', among other things, by means of guidelines and communication.

A reliable, consistent and continuous management information system is essential for the Executive Management teams throughout the Group to make informed analyses and decisions. The executive management stays informed by means of monthly management reports submitted by the subsidiaries. In addition, the governance structures in place within the Kardan Group create regular opportunities for the Executive Management to discuss the businesses as well as the risks and opportunities during the management/supervisory board meetings. Moreover, certain structural control measures, such as thresholds for approval of important decisions and, on occasion, internal audits which are executed on issues selected by the relevant audit committee ensure a profound approach to decisions and measures.

Kardan's (main) subsidiaries provide Kardan with a representation letter on a yearly basis.

Kardan believes its risk management framework constitutes a link between strategy, policy-making and execution.

The Company's risk management approach is underpinned by a framework that – by means of high-quality information flows – provides the Board and the Executive Management with a clear view of its business environment and its position therein to provide reasonable assurance that the Group's objectives will be achieved. The implemented risk management framework has been developed based on the guidance of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and consequentially certain recurring and ongoing processes have been implemented, which are mentioned below.

The Board holds two annual strategy meetings. During the preparatory meeting the Board discusses, and if deemed appropriate, modifies Kardan's corporate strategy and related objectives. After this meeting the Executive Management discusses the objectives with the managers of the subsidiaries in order for them to include these targets in their budgets and strategic plans. The Board and the Executive Management put a lot of emphasis on the need for the subsidiaries to identify business risk factors and controls in their budgets and plans. After approval of the business plans of the subsidiaries, the Executive Management prepares the final strategic plan for the Board, which includes the main risks and the related control measures that have been determined during a risk assessment session. This session is conducted by the Executive Management in close cooperation with risk management professionals. If deemed necessary, then some of the risk categories and controls which were identified during the assessment are integrated in ongoing management information systems. Minutes of all meetings are made and shared with the Board of Kardan and with the internal auditors. The internal

audit, which is carried out by a third-party organization and is done independently of management's own risk assessment, plays an important role in monitoring the risk management framework.

Kardan complies with Israel's Securities Law regulations relating to the effectiveness of internal control over financial reporting and disclosure ('Israeli SOX'). During the year under review, until the date of this report, all steps were taken to be able to provide a declaration regarding the effectiveness of the internal control as referred to previously. Based upon the work performed, the CEO and the CFO of Kardan N.V. have made a statement in the Israeli Annual Report that the control over financial reporting and disclosure is effective ('the Control Statement'). The Group's auditors have confirmed the correctness of the Control Statement in a separate opinion, which can be found on page 94 of the [Annual Report 2013](#).

### 3. Functioning of the General Meeting of Shareholders: Shareholders and Shareholders' Rights

#### General Meeting

The (Annual) General Meeting of Shareholders is the forum in which the Board accounts for the manner in which it has performed its duties. A presentation is given on business developments by the CEO over the preceding year and shareholders are given the opportunity to raise questions on the business and current matters. Kardan considers it to be in its interest that the majority of shareholders take part in the decision-making process in the General Meeting of Shareholders as much as possible.

Each shareholder has the right to attend General Meetings of Shareholders, which are held in the Netherlands, either in person or represented by proxy, to address the meeting and to exercise voting rights, subject to the provisions of the Articles and Dutch law. A shareholder has the aforementioned rights if he/she is registered as a shareholder on the applicable record

date as set by the Board and announced in the convocation notice. To the extent practically feasible, investors located in Israel may participate in General Meetings of Shareholders by means of a conference call or a video conference.

General Meetings of Shareholders are held at least once a year in order to, among other things, discuss the report of the Board, to adopt the statutory financial statements, to appoint the external auditor, to adopt any proposal concerning dividends, to, if applicable, appoint and reappoint board members, to amend the Articles and to consider any other matters proposed by the Board or the shareholders in accordance with the Articles and Dutch law. Pursuant to both Dutch law and the Articles, the General Meeting of Shareholders discusses and passes, under a separate agenda item, resolutions discharging board members from their responsibilities for the performance of their respective duties in the preceding financial year. This discharge only pertains to matters known to Kardan and the shareholders at the time the resolution is adopted. The external auditor will attend and be entitled to address the General Meeting of Shareholders.

Other General Meetings of Shareholders may be held as often as the Board deems necessary. In addition, one or more shareholders holding at least 10% of Kardan's issued share capital can request the Board, in writing, to hold a General Meeting of Shareholders, specifying in detail the items to be discussed. If the Board fails to convene and hold a meeting, the requesting shareholder(s) may call the meeting, observing Dutch law and the Articles.

### Voting

Each share carries one vote. Kardan has only one class of shares, being ordinary shares with a nominal value of EUR 0.20 each. Dutch law requires Kardan to set the record date for the exercise of the voting rights and the rights relating to General Meetings of

Shareholders on the twenty-eighth day prior to the day of the General Meeting of Shareholders. Unless provided otherwise by Dutch law or the Articles, there are no quorum requirements. At present, Kardan does not facilitate electronic voting.

As a general rule, resolutions are adopted by an absolute majority of the votes cast. Dutch law and the Articles can stipulate that certain resolutions are adopted by a qualified or special majority of the votes cast. An example hereof is the approval of Related Party Transactions as described on page 104 of the [Annual Report 2013](#).

Furthermore, the Articles and Dutch law require that certain important resolutions made by the Board are subject to the prior approval of the General Meeting of Shareholders, for example the entering into Extraordinary Transactions, as defined in the Articles.

### Proposed resolutions

One or more shareholders representing at least 1% of Kardan's issued share capital has/have the right to request the Board to place items on the agenda of a General Meeting of Shareholders provided such request is duly motivated and explained or accompanied by a draft resolution. The Board shall then add the item to the meeting's agenda, provided that the request is received by the Board in writing no later than on the sixtieth day before the day of the General Meeting of Shareholders.

Notice of a General Meeting of Shareholders shall be given no later than on the forty-second day prior to the day of the General Meeting of Shareholders.

### Changes to rights

Rights of shareholders may change pursuant to an amendment of the Articles, a statutory merger or demerger or dissolution of the Company. A resolution of the General Meeting of Shareholders is required to effect these changes.

## 4. Board composition and functioning

### Board and CEO

As of the AGM 2012, Kardan has been managed by a one tier Board, which currently comprises one executive Board Member, being the CEO, and eight non-executive Board Members. The Board reports to the General Meeting of Shareholders of Kardan.

The Board Members have a shared responsibility for Kardan's general course of affairs and are collectively responsible for: a) Kardan's strategy and objectives; b) Kardan's financial status; c) Kardan's organizational structure; d) the publication of prospectuses or shelf prospectuses by Kardan; e) the financial and periodic reports issued by Kardan; f) the fairness and reasonableness of the highest remunerated employees within the Kardan Group; and g) issuance of debenture series and/or other securities.

The responsibility for the day-to-day management is assigned to the CEO based on a power of attorney provided by the Board. The CEO is authorized to represent Kardan, jointly with a member of the Executive Management (CFO or VP Business Development), but needs the Board's prior approval with respect to material transactions such as, but not limited to: acquiring or alienating assets with a value exceeding EUR 10,000,000 or providing guarantees to parties outside the Kardan Group for an amount exceeding EUR 10,000,000. These restrictions are included in the Articles and in the Board Regulations. The CEO will ensure that he provides the Board Members with all information required to carry out their duties in a timely and well-founded manner.

In any case, certain duties remain the exclusive domain of the non-executive Board Members, such as supervising the CEO and nominating (executive) Board Members for appointment by the General Meeting of Shareholders.

Although management and supervisory duties are allocated between executive and non-executive Board Members, the principle of collective responsibility applies to the entire Board, executive and non-executive Board Members alike.

The Board supervises the performance of the CEO's duties by assessing, for example: a) the achievement of Kardan's objectives; b) the implementation of corporate strategy; c) the risks inherent in the business activities and the design and effectiveness of the internal risk management and control systems; d) the financial reporting process; e) compliance with legislation and regulations; f) close involvement in the case of a takeover bid; and g) the company/ shareholder relationship.

The Board acts in accordance with the Articles and Board Regulations, both published on Kardan's website. The Board is supported by the Company Secretary who ensures that the correct procedures are followed and that the Board acts in accordance with its statutory obligations and its obligations under the Articles and the Code.

### Chairman

The Chairman of the Board is an independent, non-executive Board Member. The Chairman sets the agenda, chairs the Board meetings and monitors the proper composition and functioning of the Board, the Audit Committee and the Remuneration, Appointment and Selection Committee. Furthermore, the Chairman is responsible for ensuring that the members of the Board receive, in a timely manner, all information which is required for the proper performance of their duties. He also oversees the decision-making process itself and actively monitors any potential conflict of interest when matters are discussed and decisions need to be taken by the Board. In the absence of the Chairman, the Vice-Chairman shall replace him.

## Appointment and composition of the Board

The Board has the right to make binding nominations for Board candidates that are subsequently appointed by the General Meeting of Shareholders. Each non-executive Board Member is appointed for a period of four years, but may be reappointed for a new term of office. The Board itself determines its size, provided that the Board must comprise at least three members and a maximum of fifteen. Each Board Member must be capable of assessing the broad outline of Kardan's overall policy and must have the specific expertise required for the fulfillment of the duties assigned to the role designated to him/her in the Board profile. In addition, a Board Member must have sufficient time to allocate to the duties required from him/her.

The Board can request its members to retire early in the event of inadequate performance or a structural incompatibility of interests. It is considered desirable for the Board to represent, to the extent possible, a wide range of expertise so that it has relevant knowledge of, and experience in, business management, financial administration, legal and accounting for listed companies. Although the composition of the Board is currently not in accordance with the statutory requirements on gender diversity, the Board recognizes the importance of a gender balanced composition and takes this into account when selecting potential Board nominees. However, as gender is only part of diversity, the Board will continue to select members on the basis of their background, knowledge and experience.

The Board Members comply with the rules under Dutch corporate law pertaining to the limitation of the number of board positions in Dutch large companies. Pursuant to Kardan's insider trading policy, the Board Members cannot trade in Kardan's securities during closed periods prior to the publication of annual or periodic results.

## Biographies

An overview of the Board Members and their biographies, as of the date of this report, is presented below.

All non-executive Board Members are appointed for a period of four years ending no later than at the end of the General Meeting of Shareholders held in the fourth year after the year of their appointment. The executive Board Member (CEO) is appointed for a period of five years.

### **Peter Sheldon (1941) – Chairman**

Chairman of the Board, non-executive Board Member, member of the Audit Committee and member of the RAS-Committee.

*Nationality:* British

Mr. Sheldon started his career as a chartered accountant in London, the United Kingdom, in 1958 and since 1971, when he left professional practice, has built a very successful international career in senior, executive and non-executive positions in a wide range of international listed and private companies, including Hambros Bank plc. Mr. Sheldon currently also serves as non-executive chairman of BATM Advanced Communications Ltd., an Israeli technology company listed on the London and Tel-Aviv Stock Exchanges. As a result of his varied professional and commercial career, Mr. Sheldon has acquired total familiarity with the capital markets, their institutions and all aspects of corporate governance.

### **Cor van den Bos (1952) – Vice-Chairman**

Vice-Chairman of the Board, non-executive Board Member and Chairman of the Audit Committee

*Nationality:* Dutch

Mr. Van den Bos has a master's degree in business economics and in auditing/accountancy from the University of Rotterdam. He started his extensive career at AEGON, a Dutch insurance company, where he ultimately served on the executive board, being responsible for, among other things, general insurance

business lines, ICT, and investments and finance.

Mr. Van den Bos consecutively served as a member of the executive boards of Athlon Groep N.V., a Dutch listed leasing company and SNS Reaal N.V., a bank and insurance company, which became listed during his tenure.

#### **Max Groen (1946)**

Non-executive Board Member and member of the Audit Committee

*Nationality:* Dutch

Mr. Groen holds a master's degree in economics and accounting from the University of Amsterdam, the Netherlands, and has a postgraduate degree in accountancy. Mr. Groen worked as an auditor for over 30 years, ultimately as partner of KPMG Business Advisory Services/KPMG Accountants in Amsterdam. Prior to being appointed as a non-executive Board Member of Kardan, Mr. Groen served as a member of the Kardan's supervisory board from July 2005 until May 2012, when Kardan adopted a one tier governance system. Mr. Groen has served as the Chairman of Kardan's Audit Committee since July 2005. Mr. Groen is currently a board member of the Netherlands Synagogue Community and a member of the Appeals Committee of the Netherlands Foundation Collective Maror Funds.

#### **Yosef Grunfeld (1942)**

Non-executive Board Member

*Nationality:* Israeli

As one of the founders of the Kardan Group, Mr. Grunfeld has a long-term involvement in the Kardan Group and currently holds board positions in, for example, Kardan Israel Ltd., Kardan Yazamut (2011) Ltd. (neither part of the Kardan Group) and Universal Motors Israel Ltd. He currently holds 19.22% of the issued share capital and voting rights of Kardan.

Additionally, Mr. Grunfeld has a voting agreement with Mr. Schnur and Mr. Rechter, which represents a combined total of approximately 40.60 % of the voting rights (excluding their voting rights on account

of their respective indirect shareholdings in Kardan Israel Ltd., which holds 11% of the issued share capital of Kardan). Given the above, Mr. Grunfeld is considered a non-independent, non-executive Board Member within the meaning of the Code.

#### **Albert May (1955)**

Non-executive Board Member, chairman of the RAS-Committee and member of the Audit Committee  
*Nationality:* Belgian

Mr. May holds a master's degree in applied economics from the University of Brussels, Belgium, and started his career in the banking industry. Mr. May has extensive experience in corporate and investment banking and covered Central and Eastern Europe (CEE) and the Middle East and Africa (MEA) in various senior positions for the past 15 years. In his last position at CitiGroup (until January 2012), he was Vice-Chairman of Banking for the CEE region and before that Head of Corporate and Investment Banking for the same region. Until May 2008, he was the Chief Operating Officer for the CEEMEA region for Citi. Between 1997 and 2003, Mr. May lived in Poland and was responsible for corporate finance and investment banking activities at CitiBank Handlowy Warsaw (BHW). Prior to that, he worked in Senior Banking positions in Brussels, Luxembourg, Paris, New York and London. He is the founder and a director of EastWest Capital Ltd. and a co-founder and Chairman of EastWest Partners, an investment bank boutique specialised in advisory work for "entrepreneurs" active in CEE, Europe and/or Africa.

#### **Shouky Oren (1959) – CEO**

Chief Executive Officer and executive Board Member  
*Nationality:* Israeli

Mr. Oren holds a BA in economics and an MBA from the Hebrew University of Jerusalem, Israel. He started his career with the Ministry of Finance of Israel. Over the years, Mr. Oren has held various senior positions in the banking industry, ultimately as CEO of Bank Leumi in Switzerland. In 2007, he was appointed as Accountant General of the state of Israel, in charge of

all government finance affairs. This included all public-private partnership projects, domestic and foreign debt, government guarantees to the private sector, as well responsibility for using and applying all financial tools to mitigate the financial crisis that started in 2008. He gained broad experience in, and knowledge of, the international and Israeli capital markets.

**Eytan Rechter (1949)**

Non-executive Board Member

*Nationality:* Israeli

As one of the founders of the Kardan Group, Mr. Rechter has a long-term involvement in the Kardan Group and currently holds board positions in various companies including Kardan Israel Ltd., Kardan Technologies Ltd., Kardan Vehicles Ltd. and Kardan Yazamut (2011) Ltd. (none of which are part of the Kardan Group).

Mr. Rechter currently holds 3.66% of the issued share capital and voting rights of Kardan. Additionally, Mr. Rechter has a voting agreement with Mr. Grunfeld and Mr. Schnur, which represents a combined total of 40.60% of the voting rights (excluding their voting rights on account of their respective indirect shareholdings in Kardan Israel Ltd., which holds 11% of the issued share capital of Kardan). Furthermore, Mr. Rechter holds 109,827 Debentures Series B as issued by Kardan. Given the above, Mr. Rechter is considered a non-independent, non-executive Board Member within the meaning of the Code.

**Avner Schnur (1948)**

Non-executive Board Member

*Nationality:* Israeli and Belgian

Mr. Schnur has served as President of Astra Diamonds Manufacturers Ltd. since 1986. He also served as a director in various other Israeli companies that are either subsidiaries of, or associated with, the Kardan Group and presently serves as board member of Kardan Yazamut (2011) Ltd. (not part of the Kardan Group). Mr. Schnur has been a member of the supervisory board of Kardan as of July 2009 until May 31, 2012, when Kardan adopted a one tier

governance system. Mr. Schnur has extensive knowledge of the Kardan Group and currently holds 17.72% of the issued share capital and voting rights of Kardan. Additionally, Mr. Schnur has a voting agreement with Mr. Grunfeld and Mr. Rechter which represents a combined total of 40.60% of the voting rights (excluding their voting rights on account of their respective indirect shareholdings in Kardan Israel Ltd. which holds 11% of the issued share capital of Kardan). Given the above, Mr. Schnur is considered a non-independent, non-executive Board Member within the meaning of the Code.

**Elly Seinstra (1951)**

Non-executive Board Member and member of the RAS-Committee

*Nationality:* Dutch

Mrs. Seinstra holds a master's degree in Dutch law and is specialized in regulatory matters, contract law, banking law and corporate law, and has broad experience with international regulated companies in legal management positions, such as MeesPierson N.V., Fortis Bank N.V., Shell International B.V. and TNT N.V. Mrs. Seinstra has been active as a legal consultant to a broad variety of companies in the Netherlands since mid-2007.

## Reappointment Scheme

| Name                                  | Committee               | Date of Birth | Nationality | Status                           | Date of first appointment | End of current term |
|---------------------------------------|-------------------------|---------------|-------------|----------------------------------|---------------------------|---------------------|
| Mr. P. Sheldon<br>(Chairman)          | Audit<br>RAS            | 1941          | British     | Non-executive<br>Independent     | May 31, 2012              | AGM 2016            |
| Mr. C. van den Bos<br>(Vice-Chairman) | Audit (Chairman)        | 1952          | Dutch       | Non-executive<br>Independent     | February 6, 2013          | AGM 2017            |
| Mr. M. Groen                          | Audit                   | 1946          | Dutch       | Non-executive<br>Independent     | May 31, 2012              | AGM 2016            |
| Mr. Y. Grunfeld                       |                         | 1942          | Israeli     | Non-executive<br>Non-independent | February 6, 2013          | AGM 2017            |
| Mr. A. May                            | RAS (Chairman)<br>Audit | 1955          | Belgian     | Non-executive<br>Independent     | May 31, 2012              | AGM 2016            |
| Mr. S. Oren<br>(CEO)                  |                         | 1959          | Israeli     | Executive                        | May 31, 2012              | AGM 2017            |
| Mr. E. Rechter                        |                         | 1949          | Israeli     | Non-executive<br>Non-independent | February 6, 2013          | AGM 2017            |
| Mr. A.A. Schnur                       |                         | 1948          | Israeli     | Non-executive<br>Non-independent | May 31, 2012              | AGM 2016            |
| Mrs. E. Seinstra                      | RAS                     | 1951          | Dutch       | Non-executive<br>Independent     | February 6, 2013          | AGM 2017            |

## Board meetings

The Board meets at least every quarter, either at the Company's head office in Amsterdam or by conference call. Each Board Member has one vote and a resolution is adopted if a simple majority of the Board Members votes in favor. However, the Board strives to resolve matters with full consensus. The Chairman does not have a casting vote.

## Internal regulations and conflicts of interest of Board Members

Kardan's Articles include extensive provisions on conflicts of interest between Kardan and Holders of Control (as defined in the Articles), which are also applicable if these Holders of Control hold a position on the Board (for a further description of these provisions, see the section 'Related Party Transactions'

in the chapter 'Governance and Compliance' in the Annual Report 2013).

In addition, Kardan endorses the principles and provisions of the Code that address conflicts of interest between Kardan and one or more Board Members. To this effect, provisions have been included in the Board Regulations covering best practice provisions III.6.1 through III.6.3 of the Code.

## Board Committees

The Board has established an Audit Committee and a Remuneration, Appointment and Selection Committee (the RAS-Committee), comprising only non-executive independent Board Members, without in any way derogating from their primary responsibilities. The respective chairmen of these committees report periodically to the entire Board on their activities.

Both committees are subject to specific regulations which form part of the Board Regulations.

### Audit Committee

The Audit Committee comprises of Mr. Van den Bos (Chairman), Mr. Groen, Mr. Sheldon and Mr. May. Its tasks are:

a) to review on an annual basis the accounting policies, practices and going concern assumption of Kardan and to discuss compliance with accounting standards, regulatory and legal requirements; b) to review the adequacy of coordination between the internal and external auditors and to discuss annually with the auditors (internal and external) the scope of the audit, the cost effectiveness of their work and their independence; c) to review the state and effectiveness of the financial reporting and internal control systems used throughout Kardan (including effectiveness of business risk assessment); d) to review and discuss the Auditor's Report on Kardan's accounts, review the results of the internal and external audit, the contents of the (consolidated) management letters and responses from management; e) to review and discuss the financing of Kardan, the policy of Kardan on tax planning and the applications of information and communication technology (ICT); f) to discuss major judgmental areas and significant legal action commenced against or by the business; g) to assume the responsibilities of a balance sheet committee as defined under Israeli regulations; h) to review the annual and periodic financial statements of Kardan before the Board and recommend to the Board whether to approve them or not; and i) to review any other matter within the terms of reference as the Audit Committee deems appropriate.

The Audit Committee acts as the principal contact for the external auditor, should the auditor discover irregularities in the content of the financial statements. The Audit Committee is authorized to request advice from outside experts if deemed necessary.

If possible, there should be at least one financial expert on the Audit Committee. The Chairman of the Board is not permitted to chair the Audit Committee.

### RAS-Committee

The RAS-Committee comprises of Mr. May (Chairman), Mr. Sheldon and Mrs. Seinstra.

The tasks of this committee include, among other things, (i) preparing a remuneration policy for the Board, to be adopted by the General Meeting of Shareholders, (ii) preparing a remuneration policy for the Executive Management, to be adopted by the Board, (iii) preparing a proposal concerning the individual remuneration of the CEO and non-executive Board Members, to be adopted by the General Meeting of Shareholders, (iv) preparing the Board's remuneration report for inclusion in Kardan's annual report, (v) preparing the selection criteria and appointment procedures for Board Members, (vi) periodically evaluating the scope and composition of the Board and (vii) periodically evaluating the functioning of individual Board Members and the members of executive management; (viii) proposing (re)election of the CEO and non-executive Board Members to the Board, to be adopted by the General Meeting of Shareholders; and ix) supervising the policy of the CEO in relation to the selection and appointment of the executive management.

## 5. Statement in light of Article 10 of the European Takeover Directive

In accordance with Article 10 of the European Takeover Directive, companies with securities that are admitted to trading on a regulated market are obliged to disclose certain information in their annual report. Kardan must therefore disclose the following information and/or make the following statements:

- a. An overview of Kardan's capital structure is included on pages 199 and 200 of the Annual Report 2013.

- b. Shares in the capital of Kardan are freely transferable.
- c. Substantial shareholdings within Kardan are included on page 15 of the [Annual Report 2013](#).
- d. There are no special control rights attached to Kardan's shares.
- e. The CEO has been granted options to purchase shares in Kardan, which is further described on page 107 of the [Annual Report 2013](#).
- f. There are no limitations to voting rights on the shares of Kardan's capital.
- g. Kardan is not aware of any agreements that might result in a limitation of the transferability of the voting rights on shares in Kardan's capital.
- h. The provisions regarding the appointment and dismissal of Board Members, and the provisions regarding amendments of the Articles are described in Kardan's Articles, which are available on Kardan's website.
- i. The General Meeting of Shareholders may authorize the Board (i) to purchase shares in its own capital, and (ii) to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares. Further information can be found in Kardan's Articles and in the minutes of the relevant General Meetings of Shareholders of Kardan with respect to authorizations that have been granted to the Board.
- Authorization for Kardan's purchase of its own shares was granted for a period of eighteen months at the AGM 2013.
- At the AGM 2012, the authorization to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares was granted for a period of five years, taking into account the limits provided by law and the Articles and provided that no more than 10% of the issued share capital can be issued annually.
- j. There are no important agreements to which Kardan is a party and which will come into force, be amended or be terminated under the condition of a change of control over Kardan as a result of a public offer.
- k. There are no agreements between Kardan and Board Members or other employees that entitle them to any compensation rights upon termination of their employment as a result of the completion of a public offer on Kardan's shares.

Amsterdam, April 16, 2014

Board of Directors

P. Sheldon (Chairman)

S. Oren (CEO)

C. van den Bos (Vice-Chairman)

M. Groen

Y. Grunfeld

A. May

E. Rechter

A. Schnur

E. Seinstra

## Organogram Kardan N.V. (April 2014)

