

KARDAN N.V.
AMSTERDAM, THE NETHERLANDS

IFRS Financial Statements (non-statutory)

For the year ended December 31, 2016

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NON-STATUTORY FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

A s s e t s

	Note	December 31, 2016	December 31, 2015
		In €000	
Non-current assets			
Tangible fixed assets, net	6	13,689	24,161
Investment property	7	240,461	250,310
Investments in associates	8	12,888	9,540
Investments in joint ventures	9	96,039	95,964
Other financial assets		-	5,485
Loans to bank customers	5	-	83,143
Long-term loans and receivables	10	11,695	23,570
Intangible assets and goodwill, net	11	6,156	6,361
Deferred tax assets	33	2,452	3,065
		383,380	501,599
 Current assets			
Inventories, contract work, buildings and apartments inventory progress	12	119,421	109,818
Current maturities of long-term loans and receivables	10	-	16,749
Loans to bank customers	5	-	55,112
Trade receivables	13	66,447	67,318
Current tax assets		1,345	1,155
Other receivables and prepayments	14	26,773	40,383
Short-term investments	15	10,218	7,787
Cash and cash equivalents	16	57,783	143,920
		281,987	442,242
Assets held for sale	5	-	31,901
Total current assets		281,987	474,143
Total assets		665,367	975,742

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, 2016	December 31, 2015
		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		23,590	24,711
Property revaluation reserve		34,772	36,713
Revaluation reserve, other		6,633	8,144
Accumulated deficit		(259,420)	(229,865)
		37,333	71,461
Non-controlling interests		3,850	4,477
Total equity		41,183	75,938
Non-current liabilities			
Interest-bearing loans and borrowings	19	419	40,550
Banking customers accounts		-	129
Other long-term liabilities	20	4,004	2,544
Financial instruments	21	3,966	2,495
Debentures	22	288,978	356,272
Deferred tax liabilities	33	4,763	13,909
Accrued severance pay, net		1,090	1,415
		303,220	417,314
Current liabilities			
Liability due to work in progress	12	38,889	47,709
Banking customers accounts	5	-	191,933
Trade payables		20,440	20,268
Interest-bearing loans and borrowings	23	126,816	68,448
Current tax liabilities		6,734	3,933
Advances from apartment buyers	12	50,011	34,263
Advance from customers	24	15,814	17,102
Other payables and accrued expenses	24	62,260	98,834
		320,964	482,490
Total current liabilities		320,964	482,490
Total liabilities		624,184	899,804
Total equity and liabilities		665,367	975,742

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

CONSOLIDATED INCOME STATEMENTS

		For the year ended December 31			
		2016	2015	2014	
Note		In €'000			
	Contract revenues	27	129,665	167,861	142,794
	Rental revenues		3,732	1,822	-
	Sale of apartments		761	791	46,866
	Management fees and other revenues		6,645	3,398	4,670
	<i>Total revenues</i>		<u>140,803</u>	<u>173,872</u>	<u>194,330</u>
	Contract costs	27	108,612	141,930	118,425
	Costs of rental revenues		1,493	1,473	-
	Cost of sale of apartments		676	889	44,217
	Other expenses, net	28	5,555	7,078	5,771
	<i>Total expenses</i>		<u>116,336</u>	<u>151,370</u>	<u>168,413</u>
	Gross profit		24,467	22,502	25,917
	Selling and marketing expenses	29	8,127	9,963	8,192
	General and administration expenses	30	20,169	24,202	21,251
	Loss from operations before fair value adjustments, disposal of assets and investment and other income		(3,829)	(11,663)	(3,526)
	Adjustment to fair value of investment properties	7	(2,588)	20,907	8,859
	Gain (loss) on disposal of assets and other income, net	31	(1,100)	3	17,268
	<i>Profit (loss) from fair value adjustments, disposal of assets and investments and other income</i>		<u>(3,688)</u>	<u>20,910</u>	<u>26,127</u>
	Profit (loss) from operations		(7,517)	9,247	22,601
	Financial income	32	1,169	1,518	2,061
	Financial expenses	32	(50,394)	(66,431)	(21,799)
	<i>Total financial expenses, net</i>		<u>(49,225)</u>	<u>(64,913)</u>	<u>(19,738)</u>
	Profit (loss) before share of profit (loss) from investments accounted for using the equity method, net		(56,742)	(55,666)	2,863
	Share of profit of investments accounted for using the equity method, net	8,9	2,869	2,683	6,712
	Profit (loss) before income taxes		<u>(53,873)</u>	<u>(52,983)</u>	<u>9,575</u>
	Income tax expenses (benefit)	33	(1,060)	6,493	12,969
	Loss for the year from continuing operations		(52,813)	(59,476)	(3,394)
	Net profit from discontinued operations	5	21,487	36,518	8,456
	Net profit (loss) for the year		<u>(31,326)</u>	<u>(22,958)</u>	<u>5,062</u>
	Attributable to:				
	Equity holders		(31,330)	(22,915)	5,091
	Non-controlling interest holders		4	(43)	(29)
			<u>(31,326)</u>	<u>(22,958)</u>	<u>5,062</u>
	Earnings (loss) per share attributable to shareholders (in €)	34			
	Basic from continuing operations		(0.43)	(0.51)	(0.03)
	Basic from discontinued operations		0.17	0.31	0.08
			(0.26)	(0.20)	0.05
	Diluted from continuing operations		(0.43)	(0.51)	(0.03)
	Diluted from discontinued operations		0.17	0.31	0.08
			(0.26)	(0.20)	0.05

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

STATEMENTS OF OTHER COMPREHENSIVE INCOME

	For the year ended December 31		
	2016	2015	2014
	In €000		
Net profit (loss) for the year	(31,326)	(22,958)	5,062
Foreign currency translation differences, net of tax	(941)	1,100	28,638
Change in hedge reserve, net of tax (1)	(1,362)	(2,784)	(1,676)
Other comprehensive income (expense) for the year to be reclassified to profit or loss in subsequent periods (2)	(2,303)	(1,684)	26,962
Total comprehensive income (expenses)	(33,629)	(24,642)	32,024
Attributable to:			
Equity holders	(33,816)	(24,931)	32,038
Non-controlling interests holders	187	289	(14)
	(33,629)	(24,642)	32,024

(1) Including reclassification of reserve due to the sale of derivative instruments in the amount of €(2,087) thousand, €(1,413) thousand, and €(1,300) thousand for the years ended December 31, 2016, 2015 and 2014, respectively (see also Note 35). The amounts presented are net of tax amounting to €22 thousand, €477 thousand and €(1,659) thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

(2) Including the impact resulting from associates and joint ventures for the years 2016, 2015 and 2014 amounting to €(579) thousand, €4,721 thousand and €2,166 thousand, respectively.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						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 period	-	-	-	-	-	(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 minority shareholders	-	-	-	-	-	-	-	(379)	(379)
Disposal of a subsidiary	-	-	-	-	-	-	-	92	92
Transaction with non-controlling interest (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 STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the parent							Total	Non-controlling interest	Total equity
	Issued and paid-in capital	Share premium	Foreign currency translation reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Treasury shares	Accumulated deficit (*)			
	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 period	-	-	-	-	-	-	(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 minority shareholders in subsidiaries	-	-	-	-	-	-	-	-	(780)	(780)
Transaction with non-controlling interest (Note 21)	-	-	-	-	-	-	491	491	119	610
Deconsolidation of subsidiary (Note 5B)	-	-	-	-	-	-	-	-	(1,431)	(1,431)
Reclassification according to the Netherlands civil code requirements (*)	-	-	-	15,680	-	-	(15,680)	-	-	-
Balance as of December 31, 2015	25,276	206,482	24,711	36,713	8,144	-	(229,865)	71,461	4,477	75,938

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the parent							Total	Non-controlling interest	Total equity
	Issued and paid-in capital	Share premium	Foreign currency translation reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Treasury shares	Accumulated deficit (*)			
	In €000									
Balance as of January 1, 2014	23,041	208,117	(4,680)	34,300	12,296	(2,786)	(204,193)	66,095	5,655	71,750
Other comprehensive income (expense)	-	-	28,623	-	(1,676)	-	-	26,947	15	26,962
Profit (loss) for the period	-	-	-	-	-	-	5,091	5,091	(29)	5,062
Total comprehensive income (expense)	-	-	28,623	-	(1,676)	-	5,091	32,038	(14)	32,024
Share-based payment (Note 18)	-	-	-	-	191	-	-	191	593	784
Issuance of treasury shares (Note 17)	-	(115)	-	-	(46)	161	-	-	-	-
Transaction with non-controlling interest (Note 18)	-	-	-	-	-	-	(5,926)	(5,926)	(872)	(6,798)
Reclassification according to the Netherlands civil code requirements (*)	-	-	-	(13,267)	-	-	13,267	-	-	-
Balance as of December 31, 2014	<u>23,041</u>	<u>208,002</u>	<u>23,943</u>	<u>21,033</u>	<u>10,765</u>	<u>(2,625)</u>	<u>(191,761)</u>	<u>92,398</u>	<u>5,362</u>	<u>97,760</u>

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

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CONSOLIDATED CASH FLOW STATEMENTS

	For the year ended December 31		
	2016	2015	2014
	In €000		
Cash flow from operating activities			
Profit (Loss) from continuing operations before taxes on income	(53,873)	(52,983)	9,575
Profit from discontinued operations before taxes on income (see Note 5B)	23,108	40,380	11,972
Adjustments to reconcile profit (loss) to net cash (see A below)	(21,179)	16,469	7,202
Net cash provided by (used in) operating activities	(51,944)	3,866	28,749
Cash flow from investing activities			
Acquisition of tangible fixed assets and investment	(7,764)	(33,276)	(45,257)
Investments and granting of loans to companies accounted for using the equity method, net (see Note 8 and 9)	(2,381)	(2,489)	(1,958)
Proceeds from sale of assets and investments	2,813	488	496
Change in loans to bank customers, net	(6,404)	(11,220)	8,200
Change in long-term loans and receivables	(6,517)	(15,612)	(35,105)
Change in short-term investments	(8,925)	(4,322)	(632)
Disposal of an investment accounted for using the equity method (see Note 9)	-	331	74,369
Disposal of a previously consolidated subsidiary (see B below)	103,670	119,086	-
Change in deferred brokerage fees and other assets	-	-	70
Net cash provided by investing activities	74,492	52,986	183

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

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

	For the year ended December 31		
	2016	2015	2014
	In €000		
Cash flows from financing activities			
Issuance of debentures	-	-	2,155
Repayment and of debentures (See Note 22)	(86,458)	(6,725)	(68,538)
Change in loans from bank customers, net	(6,117)	2,593	51,748
Proceeds from long-term loans	14,481	105,004	89,152
Repayment of long-term loans	(1,391)	(162,546)	(48,003)
Change in short-term loans and borrowings	13,582	239	(1,415)
Release (increase) of pledged deposit	-	(2,317)	8,025
Repayment of long term liability	-	-	(8,031)
Change in short-term deposits	-	-	(351)
Debentures settlement payment	-	(750)	-
Costs related to issuance of loans	-	-	(267)
Change in other long term liabilities	(64)	65	75
Dividend to Non-Controlling interest holders of a subsidiary	(379)	(780)	-
Transaction with non-controlling interest holders (see Note 18)	-	(4,006)	(6,791)
Net cash provided by (used in) financing activities	<u>(66,346)</u>	<u>(69,223)</u>	<u>17,759</u>
Increase (decrease) in cash and cash equivalents	<u>(43,798)</u>	<u>(12,371)</u>	<u>46,691</u>
Foreign exchange differences relating to cash and cash equivalents	(1,797)	7,746	5,127
Change in cash of assets held for sale	(40,542)	-	(21,541)
Cash and cash equivalents at the beginning of the year (see Note 16)	<u>143,920</u>	<u>148,545</u>	<u>118,268</u>
Cash and cash equivalents at the end of the year (see Note 16)	<u>57,783</u>	<u>143,920</u>	<u>148,545</u>

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

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

For the year ended December 31

	2016	2015	2014
	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 subsidiary, net (see B below and Note 5B)	(15,861)	(21,969)	-
Share of profit of companies accounted for using the equity method, net (see Note 8 and 9)	(2,869)	(2,683)	(6,712)
Impairment of goodwill and other intangible assets	-	-	5,429
Gain on disposal of assets and investments, net	-	-	(16,739)
Share-based payment	594	1,039	1,302
Depreciation and amortization	3,538	4,755	5,473
Fair value adjustments of investment properties (see Note 7)	2,588	(20,907)	(8,859)
Financial expense and exchange differences, net	54,637	65,004	30,268
Capital loss (gain) from sale property plant and equipment	(451)	26	(19)
Increase in provision for bad debts in the financial services operations	1,914	6,553	7,797
Changes in operating assets and liabilities:			
Change in trade and other receivables	(17,892)	(52,195)	(32,298)
Change in inventories and in contract work in progress, net of advances from customers	(8,305)	27,585	13,683
Change in trade and other payables	(2,422)	11,954	1,566
Increase of concession finance receivables	-	-	(7,358)
Movement in pledged time deposit	-	-	(1,752)
Interest paid	(56,565)	(35,076)	(17,151)
Interest received	22,464	42,509	35,476
Income taxes paid	(2,549)	(9,434)	(3,124)
Other	-	(692)	220
	<u>(21,179)</u>	<u>16,469</u>	<u>7,202</u>

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

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

	For the year ended December 31		
	2016	2015	2014
	In €000		
B. Disposal of a previously consolidated subsidiary			
Working capital (excluding cash and cash equivalents)	(68,489)	13,488	-
Non-current assets (excluding fixed assets and concession assets)	121,864	14,006	-
Fixed assets	11,231	39,165	-
Concession assets	-	86,637	-
Non-controlling interests	-	(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	21,856	(23,684)	-
	<u>103,670</u>	<u>119,086</u>	<u>-</u>
C. Material non cash transaction			
Liability to purchase shares from non-controlling interest holders (see Note 18)	-	-	3,380
Issuance of shares and allocation of treasury shares to the debenture holders (see Note 17)	-	3,340	-
	<u>-</u>	<u>3,340</u>	<u>3,380</u>

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2016

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 (for additional segment information, see Note 26).

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, 2016 was 1,457 (December 31, 2015 – 2,317) of which 151 are part of the real estate segment, 1,290 are part of the water infrastructure segment and 16 of which form the headquarters of the Company.

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

These non-statutory financial statements were approved by the Board of Directors of the Company on March 22, 2017.

For additional information included in the Barnea 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, 2016 the Company had, on a stand-alone basis and in the consolidated financial statements a working capital deficit of €1.5 million and €9 million, respectively (excluding debentures held by subsidiaries).

In 2016 the Company completed the sale of TBIF, generating a total of €2 million, and the sale of the remaining 25% in KWIG (see Note 5). The Company early repaid in full the principal amount of the debentures that was payable in February 2017 using the proceeds from these transactions. The remaining interest of approximately €4 million was paid in February 2017. The sale of TBIF allows the Company a period of more than one year to sell assets in order to pay its obligations in 2018 and onwards.

Management prepared a two year liquidity analysis as part of its normal course of business which addresses the required liquidity to be able to repay interest and principal of the Company's debentures and all other liabilities in the year 2017 and onwards 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 Company is currently negotiating transactions (sale of assets and refinancing of loans) with a number of prominent parties which, it is confident will generate adequate resources to meet future liabilities in the next 12 months, as well as strengthening its financial position.

The directors are confident that, taking into account their plans to realize the transactions and the progress which has been made in that respect, the Company has the ability to obtain the required resources for repaying its obligations and continue its business operations in the future.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2016

Accordingly, the directors are satisfied that it is appropriate to prepare the non-statutory 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 wholly within the Company's control, and therefore there is uncertainty that such transactions will be completed or will generate sufficient resources to meet its liabilities according to their contractual maturities. According to established guidelines, these conditions indicate the existence of a material uncertainty which casts significant doubt regarding the Company's ability to repay its liabilities when they become due and its ability to continue as a going concern.

The financial statements do not include any adjustments to the carrying amounts and classifications of assets and liabilities that would result if the Company 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, and biological assets measured at fair value less selling costs.

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, especially in connection with real estate and infrastructure construction projects that may last for 2-4 years. Accordingly, assets and liabilities derived from construction works include items that may be realized within the abovementioned operational business cycle.

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, 2016.

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.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

December 31, 2016

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.

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, 2016.

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

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Revaluation of investment properties

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

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

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

Contract revenues and costs

The Group has construction contracts at fixed prices. Revenues from construction contracts are recognized by the percentage of completion of engineering stages. Costs associated with the work performed and for which the respective billings have not yet been received, are estimated based, among others, on the information it has. Actual costs could differ from the above estimates.

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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.

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.

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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.

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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.

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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.

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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 term of the lease or management's estimation of the useful lives (mainly 5 years)

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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.

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

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

Transfers are made to 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. CONTRACT WORK AND BUILDING INVENTORY IN PROGRESS

Costs relating to the construction of the residential properties are stated at the lower of cost and net realizable value 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.

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

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

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

Receivables for contract work is separately calculated for each contract and presented in the statement of financial position at the aggregate amount of costs incurred and recognized profits less recognized losses and progress billings. Progress billings are amounts billed for work performed up to the financial position date, whether settled or not settled. If the amount balance is positive, it is recorded in the statement of financial position as an asset under receivables for contract work. If it is negative, it is recorded in the statement of financial position as a liability for contract work.

Costs of projects based on contract work are recognized at cost that includes identifiable direct costs, joint indirect costs and borrowing costs. Joint indirect costs are allocated between the projects based on various burden keys.

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

I. 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

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time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used.

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

Goodwill

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

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

Investment in associates or Joint ventures

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

K. 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'.

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

Loans and receivables

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

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

Available-for-sale financial assets

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

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 exists and 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.

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

Available-for-sale financial assets

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

N. TREASURY SHARES

Own equity instruments which are reacquired (treasury shares) are recognized at cost and are presented in the statement of financial position as a deduction from shareholders' equity. No gain or loss is recognized in the income statement on the sales, issuance, or cancellation of treasury shares.

Any difference between the carrying amount and the consideration, if reissued, is recognized in share premium. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

O. 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.

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P. FINANCIAL LIABILITIES

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

Financial liabilities at fair value through profit or loss

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

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

Loans and borrowings

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

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

Financial guarantee liabilities

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

Debentures

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

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Q. 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.

R. 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.

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S. 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.

T. 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).

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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).

U. 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.

V. REVENUE RECOGNITION

General

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

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Contract revenues

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

Rental income

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

Sale of apartments

Revenue from the sale of 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.

W. 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.

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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.

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X. 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.

Y. 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, 2016

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.

Z. 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.

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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.

AA. 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.

BB. 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.

CC. 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.

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DD. BIOLOGICAL ASSETS

Biological assets are measured at fair value less costs to sell except for bearer plants, which are used solely to grow produce over several periods and has a remote likelihood of being sold as agricultural produce. These plants are treated as part of IAS 16 as fixed assets.

Gains and losses that arise on measuring biological assets at fair value less costs to sell are recognized in the statement of income in the period in which they arise.

Selling costs include all costs that would be necessary to sell the property.

The agricultural produce transferred to inventory in its fair value less costs to sell at the point of harvest.

EE. 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2018. The Group is still assessing the impact that the adoption of IFRS 9 will have on the classification and measurement of the Group's financial assets, but no material impact on the classification and measurement of the Group's financial liabilities is expected.

IFRS 15 Revenue from Contracts with Customers

The IASB has issued IFRS 15, "Revenue from Contracts with Customers" ('IFRS 15'), which is a new standard for the recognition of revenue. IFRS 15 will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

IFRS 15 is based on the core principle that revenue is recognized when control of a good or service transfers to a customer, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 establishes a single revenue recognition model, according to which an entity recognizes revenue in accordance with that core principle by applying the following five steps:

- 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.

Other provisions include capitalization of certain costs to obtain or fulfil a contract with a customer, consideration of the time value of money in the transaction price, deciding whether performance obligations are satisfied over time or at a point in time and performing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. IFRS 15 also requires enhanced qualitative and quantitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

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In July 2015, the IASB has published an update to IFRS 15 deferring the effective date to annual reporting periods beginning on or after January 1, 2018 ('the Effective Date'). Early adoption is permitted. The Company is expecting to adopt IFRS 15 at the Effective Date, using the modified retrospective method, i.e., recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at the Effective Date, with no adjustments to comparative periods.

With respect to its residential real estate activities, the Company has yet to finalize the evaluation of the potential impacts of applying IFRS 15 on its statement of financial position and the cumulative effect of the initial application on its balance of retained earnings, whereas according to IFRS 15, under certain conditions, revenues from sale of apartments should be recognized along the construction period instead of the current accounting policy the Company of recognizing revenue from sale of apartments upon delivery.

Except for the above mentioned potential impact in the real estate segment, the Company is of the opinion that applying IFRS 15 will not have a material effect on its consolidated 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. As the Company has only a limited number of operational leases the impact of this standard is not expected to be material.

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

GTC SA – Globe Trade Centre S.A.

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.

TASE – The Tel-Aviv Stock Exchange

EI XII- Emerging Investment XII B.V.

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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		
			2016	2015	
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	
Kardan Financial Services B.V.	TBIF Financial Services B.V.	The Netherlands	-	100	See B(2) below
TBIF Financial Services B.V.	TBI Credit IFN SA	Romania	-	99.99	
	TBI Leasing IFN SA	Romania	-	99.99	
	TBI Bank EAD	Bulgaria	-	100	
	TBIF Bulgaria EAD	Bulgaria	-	100	
TBIF Bulgaria EAD	TBI Leasing EAD	Bulgaria	-	100	
GTC Real Estate Holding B.V.	Kardan Land China Limited	Hong Kong	100	100	
	Kardan Land (BJ) Management & Consulting Co. Ltd.	China	100	100	
	GTC (China) Investment Co. Ltd	China	100	100	
	Kardan Land Dalian (HK) Ltd.	Hong Kong	100	100	
Tahal Group International B.V.	Tahal Group B.V.	The Netherlands	100	100	
	Tahal Group Assets B.V.	The Netherlands	100	100	
Tahal Group B.V.	Tahal Consulting Engineers Ltd.	Israel	100	100	
	Water Planning for Israel Ltd.	Israel	99.99	99.99	
	Sitahal 'Hagal' (Talia) Partnership	Israel	100	100	
	Palgey Maim Ltd.	Israel	55.5	55.5	
	Fideco DOO	Serbia	100	100	
	Tahal Angola Ltd.	Angola	70	70	
	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	
	Kardan water International Group Limited (KWIG)	Hong-Kong	-	25	See B(3) below

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
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B. Significant transactions and business combinations

1. GTC Group (Real Estate)

Sale of GTC SA and Claw back liability

On November 22, 2013, GTC RE completed the sale of its investment in GTC SA for a consideration of €160 million.

The share purchase agreement contained a ‘claw-back’ clause which is conditional upon GTC SA achieving two specific business targets, one by March 31, 2015 and one by December 31, 2015. If a target is not met in time, the buyer has the right to receive an amount of €3.15 million per target.

In February 2016, after the Company and GTC RE received demands from Lone Star Real Estate fund (‘the Buyer’), claiming the targets were not met, the parties signed a settlement agreement, according to which GTC RE paid the Buyer an amount of €4 million, in exchange for a final and absolute waiver by the Buyer of all its existing and future claims and demands towards the Company and GTC RE in relation to the Buyer’s demands according to the ‘claw-back’ clause, and of mutual cancellation and deletion of any proceedings taken in this matter. Following the signing of the settlement agreement the amount was paid. The settlement did not have an impact on the Company’s income statement in 2016 as it was fully provided for as at December 31, 2015.

2. KFS Group (Banking and Retail Lending)

A. 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 €32 million to KFS before 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 will be reduced to €5 million after one year (see Note 10). 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.

Since TBIF was considered by management as a distinguishable major geographical and operating line of business, the results of the sold investment in TBIF in all represented periods were classified, in accordance with IFRS 5, to discontinued operations.

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B. Sale of TBIF Bulgaria

In October 2016, KFS signed an agreement to sell its investment in TBIF BG. As a result, KFS recorded a loss in the amount of €1.7 million (see Note 31).

C. Sale of TBI Credit

In October 2014, TBIF signed an agreement to sell its investment in TBI Credit EAD (a fully-owned Bulgarian subsidiary) for a total consideration of approximately €8.9 million, subject to adjustments.

On February 11, 2015 TBIF finalized the sale of TBI Credit EAD. The final consideration amounted to €9.9 million was received by TBIF which recognized a small gain of €1 million upon the completion of the sale which has been recorded in 2015.

3. TGI Group (water infrastructure)

Sale of KWIG

On January 15 2015, TGA signed a share purchase agreement ('the Agreement') with China Gezhouba Group Investments Holding Co Ltd. ('the Purchaser'), to sell all of its holdings in KWIG. KWIG operates 11 wastewater treatment facilities and water supply projects in China and was the main subsidiary in the Group's 'Water Infrastructure - Assets' segment.

The total consideration for the shares amounts to RMB 630 million (paid in USD at a predetermined exchange rate of 6.24 RMB/USD; approximately €90.3 million as at March 4, 2015) (the 'Consideration'). Additionally, as part of the transaction, all outstanding loans provided to KWIG by Group companies, totaling approximately to €42 million, were repaid.

The sale of KWIG took place in two phases: in March 2015 the first phase of the transaction in which 75% of KWIG shares were sold was completed; the Purchaser paid 75% of the consideration and all outstanding loans from Group companies were repaid. On June 30, 2016 TGA completed the second phase of the transaction and sold the remaining 25% of its holding in KWIG for a total consideration of USD 27.7 million (approximately €25 million), including interest as detailed in the agreement.

As a result of the transaction, the Group recorded a net gain of approximately €20.1 million in 2015 mainly due to the release of equity reserves transferred to the statement of income following the sale. In 2016, the Group recorded a net loss of approximately €0.1 million mainly due to exchange rate differences and an update of tax liability in respect of the transaction.

Since KWIG was considered by management as a distinguishable major geographical and operating line of business, the results of the investment in KWIG (including the gain from the sale of the investment) in all represented periods were classified, in accordance with IFRS 5 to discontinued operations.

C. Assets held for sale

Assets held for sale as at December 31, 2015 consisted of €24.8 million related to the sale of KWIG, and of €7.1 million of repossessed assets held for sale in TBIF Group.

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D. Discontinued operations related the sale of TBIF and KWIG

The activities of TBIF and KWIG were classified as discontinued operations in 2016, 2015 and 2014, following the sale transactions as described in B above. These activities were clearly distinguishable, operationally and for financial reporting purposes as TBIF and KWIG represented a separate business and major geographical area of operations.

1) Composition of the income and expenses related to discontinued operations:

	For the year ended December 31, 2016		For the year ended December 31, 2015		For the year ended December 31, 2014	
	TBIF	KWIG	TBIF	KWIG	TBIF	KWIG
	€000'					
Income	20,545	-	42,177	-	36,038	27,463
Expenses	(13,297)	-	(23,785)	-	(24,960)	(19,597)
Profit before tax	7,248	-	18,392	-	11,078	7,866
Income tax expenses, net	796	-	1,973	-	33	3,483
Profit from discontinued operations before revaluation and release of capital reserves	6,452	-	16,419	-	11,045	4,383
Gain (loss) from revaluation of investment (*)	-	(144)	-	6,812	-	(6,972)
Release of capital reserves due to deconsolidation	-	-	-	13,287	-	-
	6,452	(144)	16,419	20,099	11,045	(2,589)
<i>Discontinued operation items related to the sale transactions:</i>						
Capital gain	19,316	-	-	-	-	-
Release of capital reserves due to sale	(4,137)	-	-	-	-	-
Net gain (loss) from discontinued operations	21,631	(144)	16,419	20,099	11,045	(2,589)
Attributable to:						
Equity holders	21,631	(142)	16,419	19,783	11,045	(2,548)
Non-controlling interest holders	-	(2)	-	316	-	(41)
	21,631	(144)	16,419	20,099	11,045	(2,589)

(*) Including tax impact for the year ended December 31, 2016 and 2015 amounting to €825 thousand and €1,889 thousand, respectively.

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

	For the year ended		For the year ended		For the year ended	
	December 31, 2016		December 31, 2015		December 31, 2014	
	TBIF		TBIF	KWIG	TBIF	KWIG
	€in thousands					
Adjustments arising from translating financial statements of foreign operations	4,135	(86)	13,287		40	9,474
Attributable to:						
Equity holders	4,135	(86)	13,078		40	9,325
Non-controlling interest holders	-	-	209		-	149
	4,135	(86)	13,287		40	9,474

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

	For the period of January 1 2016 till August 11, 2016		For the year ended December 31, 2016		For the year ended December 31, 2015		Year ended December 31, 2014	
	TBIF		KWIG		TBIF	KWIG	TBIF	KWIG
	€in thousands							
Net cash provided by (used in) operating activities	(3,672)		-		(11,666)		26,680	3,594
Net cash provided by (used in) investing activities	38,714		21,856		(1,679)	91,960	(5,293)	(493)
Net cash used in financing activities	(138)		-		(764)		(1,526)	(6,839)

(*) In 2016 the group paid tax in the amount of €3 million relating to the sale of KWIG.

E. Collaterals

As of December 31, 2016, the shares the Company (indirectly) owns in GTC RE, KLC, KFS, TGI, and EI XII were pledged or will be pledged in favor of the trustees of the Company's debenture holders.

F. Dividend

The following dividend amounts were received in the reporting period:

	2016	2015
	€in thousands	
Subsidiaries	167,740	56,302

The amounts above relate to transfers from TGI and KFS following the sales of KWIG and of TBIF, respectively, (see B above), and from EI XII.

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6. TANGIBLE FIXED ASSETS

	Freehold Land, buildings and assets under construction	Production equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	€in thousands					
Cost:						
Balance as of January 1, 2015	38,371	28,175	10,849	11,330	2,473	91,198
Additions	158	1,017	3,237	596	250	5,258
Reclassified from Inventory	2,121	-	-	-	-	2,121
Disposals	(91)	(98)	(1,251)	(77)	(83)	(1,600)
Exchange rate differences	19	1,448	99	441	209	2,216
Discontinued operation	(30,423)	(5,807)	(302)	(4,975)	(105)	(41,612)
Balance as of December 31, 2015	<u>10,155</u>	<u>24,735</u>	<u>12,632</u>	<u>7,315</u>	<u>2,744</u>	<u>57,581</u>
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	<u>7,813</u>	<u>20,360</u>	<u>1,589</u>	<u>7,448</u>	<u>2,826</u>	<u>40,036</u>
Accumulated depreciation:						
Balance as of January 1, 2015	3,102	18,092	4,599	4,225	755	30,773
Depreciation for the year	308	1,033	1,795	858	372	4,366
Disposals	(16)	(69)	(794)	(40)	(70)	(989)
Exchange rate differences	12	1,368	41	247	49	1,717
Discontinued operation	(1,304)	(191)	(302)	(545)	(105)	(2,447)
Balance as of December 31, 2015	<u>2,102</u>	<u>20,233</u>	<u>5,339</u>	<u>4,745</u>	<u>1,001</u>	<u>33,420</u>
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	<u>1,264</u>	<u>18,161</u>	<u>949</u>	<u>4,596</u>	<u>1,377</u>	<u>26,347</u>
Net book value						
December 31, 2015	<u>8,053</u>	<u>4,502</u>	<u>7,293</u>	<u>2,570</u>	<u>1,743</u>	<u>24,161</u>
Net book value						
December 31, 2016	<u>6,549</u>	<u>2,199</u>	<u>640</u>	<u>2,852</u>	<u>1,449</u>	<u>13,689</u>

7. INVESTMENT PROPERTY

A. General

As of December 31, 2016 and 2015 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>2016</u>	<u>2015</u>
	€in thousands	
Opening balance	250,310	181,072
Additional capitalized subsequent expenditure	-	37,102
Additional capitalized borrowing costs	-	4,785
Fair value adjustments	(2,588)	20,907
Foreign currency translation differences	(7,261)	6,444
Closing balance	<u>240,461</u>	<u>250,310</u>

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

C. Fair value adjustments comprise:

	For the year ended December 31,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	€in thousands		
Valuation gains from newly completed investments properties	-	20,262	-
Valuation loss from investments properties completed in prior years	(2,588)	-	-
Adjustment to fair value of investment property under construction	-	645	8,859
Total fair value adjustments, impairments, reversal for the year	<u>(2,588)</u>	<u>20,907</u>	<u>8,859</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 Capitalisation 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, 2016 and 2015, DCF Approach and Direct Comparison Method have been adopted to assess the fair value of the investment property.

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<u>DCF method</u>		
Estimated rental value per sqm per month (in €)	23	23
Discount rate	10.5%	10.5%
Rental growth	5%-15%	5%-15%
Terminal cap rate	5.5%	5.5%
Occupancy rate	77%-96%	89%-96%

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):

	<u>December 31, 2016</u>
	€in thousands
<u>Investment property</u>	
Change of 25 BP in discount rate and terminal yield	5,474
Change of 5% in estimated rental income	5,337
Change in general vacancy by 1%	1,369

8. INVESTMENTS IN ASSOCIATES

A. Main associates include:

Holding company	Name of associate	% of ownership and control by the direct holding company as of		Country
		<u>December 31, 2016</u>	December 31, 2015	
Sterna B.V.	MVV Water Utility Pvt Ltd.	26.0	26.0	India
Water Planning for Israel Ltd.	Star Pumped Storage Ltd.	40.5	40.5	Israel

B. Composition (*):

	<u>December 31, 2016</u>	December 31, 2015
	€in thousands	
Total of equity investments	201	134
Loans	<u>12,687</u>	<u>9,406</u>
Total investment	<u>12,888</u>	<u>9,540</u>

(*) mostly related to the investment in Star Pumped Storage Ltd.

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

	<u>2016</u>	<u>2015</u>
	<u>€in thousands</u>	
Balance as of January 1	9,540	7,379
Change in loans, net	2,793	1,312
Share of loss of investments accounted for using the equity method, net	(971)	(658)
Foreign currency translation differences	416	785
Interest income from loan to associate company	<u>1,110</u>	<u>722</u>
Balance as of December 31	<u><u>12,888</u></u>	<u><u>9,540</u></u>

D. Loans:

The investment in associated companies includes loans as follows:

	<u>Interest rate (p.a)</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
		<u>€in thousands</u>	
In NIS	8.85% linked to the Israeli CPI	<u>12,687</u>	<u>9,406</u>

The loans are expected to be repaid according to the liquidity position of the associates.

9. INVESTMENTS IN JOINT VENTURES

A. Main Joint Ventures:

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

Holding company	Name of joint venture	% of ownership by the direct holding company as of December 31,		Country	Nature of activities
		2016	2015		
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 management and construction establishments for producing drinking water
Task Water B.V.	Akfen SU Kanalizasyon	50.0	50.0	Turkey	Water projects
Sitahal 'Hagal' (Talia) Partnership	Energy Hagal- Talia Partnership	50.0	50.0	Israel	Electricity (biogas)
Tahal Consulting Engineers Ltd.	Tahal South Africa (PTY) Ltd.	-	37.5	South Africa	Water projects
Tahal Consulting Engineers Ltd.	Lahat Joint Venture	50.0	50.0	Israel	Water desalination
GTC Real estate Holding B.V.	GTC Investments B.V.	48.75	48.75	Netherlands	Holding
Kardan Financial Services B.V.	TBIF-Dan Leasing Ltd.	66.0	66.0	Cyprus	Holding

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

	December 31, 2016	December 31, 2015
	In €000	
Total of equity investments	57,442	53,469
Goodwill	7,697	8,208
Deemed cost on real estate projects (*)	384	1,180
Loans and other long-term balances	39,753	40,682
	<u>105,276</u>	<u>103,539</u>
Less impairments	(9,237)	(7,575)
Total investment in joint ventures	<u><u>96,039</u></u>	<u><u>95,964</u></u>

(*) 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, 2016	December 31, 2015
		In €000	
In EUR	-	7,017	7,017
In EUR	3 months Euribor + 3.5%	3,438	3,330
In EUR	6 months Euribor + 3.5%	2,521	2,528
In EUR	6 months Euribor + 3.125%	-	1,156
In EUR	12.5%	1,960	1,796
In USD	-	24,134	24,202
In USD	6 months libor + 3.5%	658	636
In HKD	-	25	17
		<u>39,753</u>	<u>40,682</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

	For the year ended		
	2016	2015	2014
	In €000		
Profit/(loss) from continuing operations	3,840	(1,496)	4,363
Other comprehensive income	(995)	3,347	13,101
Total comprehensive income	<u><u>2,845</u></u>	<u><u>1,851</u></u>	<u><u>17,464</u></u>

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

Shaanxi GTC Lucky Hope Real Estate Development Ltd.

Summary of financial data from the statement of financial position:

	December 31, 2016	December 31, 2015
	In €000	
Current assets (not including cash and cash equivalent)	108,084	120,234
Cash and cash equivalent	12,347	5,352
Non-current assets	14,298	20,248
Current liabilities	(83,485)	(95,700)
Current financial liabilities	(4,538)	(6,810)
Total equity attributed to the owners	46,706	43,324
% held in the joint venture	50	50
Total investment in joint ventures	23,353	21,662

Summary of financial data from the income statement:

	For the year ended		
	2016	2015	2014
	In €000		
Revenues from operations	35,040	71,316	28,488
Cost of operations	(21,573)	(49,574)	(15,316)
Selling and marketing, other income (expenses), and administrative expenses	(5,262)	(8,542)	(4,802)
Interest income	25	26	82
Profit before tax	8,230	13,226	8,452
Income tax expenses	(3,614)	(3,310)	(2,114)
Profit for the year attributed to equity holders	4,616	9,916	6,338
% held of the joint venture	50	50	50
	2,308	4,958	3,169
Realizing of deemed cost on projects	-	(121)	(195)
Group's share of profit for the year	2,308	4,837	2,974
Total other comprehensive income (expenses) attributed to equity holders	(1,232)	1,360	3,446
% held of the joint venture	50	50	50
Group share of the total other comprehensive income (expenses)	(616)	680	1,723

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

	December 31,			
	2016		2015	
	In €000			
	Goodwill included in the investment	Impairments to the investment	Goodwill included in the investment	Impairments to the investment
TASK SU kanalizasyon SU	1,059	-	1,059	-
Shenyang Taiyling Real Estate Development Ltd.	140	(140)	140	(140)
GTC Lucky Hope Dadong Ltd.	-	(2,599)	-	-
TBIF-Dan leasing Ltd.	6,498	(6,498)	7,007	(7,435)
	<u>7,697</u>	<u>(9,237)</u>	<u>8,206</u>	<u>(7,575)</u>

G. Additional information

Kardan Land China

1. Capital commitments:

As of December 31 2016, KLC's share in the contractual commitments of joint ventures amount to €6,565 thousand (December 31, 2015: €2,977 thousand).

2. Guarantees:

As of December 31, 2016, the joint ventures of KLC and its subsidiaries provided guarantees of €74.4 million (December 31, 2015: €86.2 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of properties of the joint ventures of Kardan Land China and its subsidiaries properties, which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiration date of the guarantees, the joint ventures of Kardan Land China and its subsidiaries are responsible for repaying the outstanding mortgage principals and interest to the banks.

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

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10. LONG-TERM LOANS AND RECEIVABLES

A. Composition:

	December 31, 2016	December 31, 2015
	€in thousands	
In EUR (*)	-	43,464
In other currencies (*)	-	30,180
	-	73,644
Less – current maturities(*)	-	(16,749)
	-	56,895
Provision for doubtful debts (*)	-	(39,720)
Pledged deposit (See Note 5B(2))	5,000	-
Fit-out prepaid expenses	4,166	4,679
Other	2,529	1,716
	<u>11,695</u>	<u>23,570</u>

(*) Related to the former ‘banking and retail lending’ segment - see Note 5B(2) regarding the sale of TBIF.

11. INTANGIBLE ASSETS AND GOODWILL

A. Movement:

	Goodwill	Service concessions	Other intangibles	Total
	€in thousands			
Balance as of January 1, 2015	8,043	8,688	909	17,640
Additions	-	-	382	382
Change due to disposal of subsidiaries	-	-	(128)	(128)
Discontinued operation (1)	(2,880)	(8,688)	-	(11,568)
Amortization	-	-	(308)	(308)
Foreign currency exchange differences	194	-	149	343
Balance as of December 31, 2015	5,357	-	1,004	6,361
Additions	462	-	265	727
Amortization	-	-	(248)	(248)
Foreign currency exchange differences	62	-	(2)	60
Discontinued operation (2)	-	-	(744)	(744)
Balance as of December 31, 2016	<u>5,881</u>	<u>-</u>	<u>275</u>	<u>6,156</u>

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

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

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

	December 31, 2016	December 31, 2015
	€thousands	
<u>Water infrastructure segment:</u>		
Tahal Consulting Engineers Ltd. (TCE)	3,508	3,508
TMNG	1,436	1,390
Palgey Maim	475	459
Z. Weinstein	462	-
	<u>5,881</u>	<u>5,357</u>

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Goodwill acquired in a business combination is allocated, at the acquisition date, to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination. Relevant cash-generating units within the reportable segments could be individual subsidiaries, activities in a certain country, or total operating segments before aggregation.

The recoverable amount of the goodwill has been determined based on the values used for valuations of each cash-generating unit, according to methods and assumptions applicable to such cash-generating unit. The Company annually assesses impairment, or more frequently if deemed required.

C. Impairment of goodwill

The entire goodwill balance relates to the water infrastructure segment.

The recoverable amount has been determined based on a value in use calculation. The method used for calculating the value in use is the Discounted Cash Flow ('DCF') method. This approach is based on the estimation of future returns on an investment in terms of cash flows, and the calculation of the present value of the expected cash flows by discounting them according to the required rate of pre-tax Weighted Average Cost of capital (WACC). The period used in the DCF method is 5 years, which is based on the nature of the operations of the cash-generating units.

For the years 2016 and 2015 no impairment of goodwill was recorded.

The assumptions regarding the recoverable amount evaluation can be presented as follows:

	<u>WACC</u>	<u>Annual</u>	<u>Gross profit</u>	<u>Operating income</u>
2016	12.5%	2%	14%-20%	5.9%-12.0%
2015	13.0%	3%	14%	5.9%

D. Amortization and impairment expenses:

Amortization expenses of intangible assets are included in the following line items in the income statement:

- Contract costs;
- Net profit (loss) from discontinued operations;

12. INVENTORIES, CONTRACT WORK , BUILDINGS AND APARTMENTS INVENTORY IN PROGRESS

A. Composition:

	December 31, 2016	December 31, 2015
	<u>€in thousands</u>	
Buildings and apartments inventory (1)	103,035	101,286
Contract work in progress (2)	11,946	5,125
Merchandise inventory (3)	4,440	3,407
	<u>119,421</u>	<u>109,818</u>

(1) Building and apartments inventory:

- a. As of December 31, 2016 and 2015 inventory in the amount of €54,513 thousand and €6,117 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.

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c. Composition of cost of buildings and apartments inventory:

	December 31, 2016	December 31, 2015
	<u>€in thousands</u>	
Current:		
Completed	21,723	23,060
Under construction	81,312	78,226
	<u>103,035</u>	<u>101,286</u>

d. Buildings and apartments inventory is stated in gross figures. Advances from apartment buyers are presented under current liabilities and amount to €50,011 thousand as of December 31, 2016 (December 31, 2015: €34,263 thousand).

e. During the past year the Group entered into 6 sale contracts of apartments (in 2015 - 266 contracts), for which the total consideration is estimated at €1.1 million (RMB 8.1 million) (in 2015 - €68.6 million). As of December 31, 2016, the aggregated number of signed contracts of existing projects for which revenues were not recognized amounts to 265 contracts (in 2015 - 263) for which the aggregated consideration is estimated at approximately €66.3 million (RMB 484.5 million) (in 2015 - €68 million).

(2) Contract work in progress:

Contract work in progress relates to infrastructure projects.

The composition of contract work in progress:

	December 31, 2016	December 31, 2015
	<u>€in thousands</u>	
Contract costs incurred	584,375	761,078
Less – invoices on account of progress	(611,318)	(803,662)
	<u>(26,943)</u>	<u>(42,584)</u>
Presented in statement of financial position:		
Current assets – contract work in progress costs	11,946	5,125
Current liabilities – Liabilities due to work in progress	(38,889)	(47,709)
	<u>(26,943)</u>	<u>(42,584)</u>

The above data refers to work done by TGI which provides engineering and design service primarily in the fields of water, sewage and agriculture that provide construction services. The results of TGI are presented as part of the water infrastructure segments.

(3) Merchandise inventory mainly relates to inventory of the subsidiary Mast Foods S.A. (Greece).

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

	December 31, 2016			
	Residential construction		Infrastructure works	
	For the year 2016	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	761	72,402	113,826	552,139
Cost recognized	676	64,515	82,574	430,618

	December 31, 2015			
	Residential construction		Infrastructure works	
	For the year 2015	Cumulative up to the end of the reporting period	For the year 2015	Cumulative up to the end of the reporting period
	€in thousands			
Revenues recognized	791	71,641	29,253	152,281
Cost recognized	889	63,839	25,679	157,857

13. TRADE RECEIVABLES

A. Composition:

	December 31, 2016	December 31, 2015
	€in thousands	
Trade receivables	71,837	71,232
Less provision for doubtful debt	(5,390)	(3,914)
	<u>66,447</u>	<u>67,318</u>

As of December 31, 2016 an amount of €1,550 thousand (December 31, 2015: €62,455 thousand) derives from the water infrastructure segment.

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

B. As of December 31 the aging analysis of trade receivables is as follows:

	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							
2016	46,655	5,709	1,362	2,527	1,342	2,611	6,241	66,447
2015	23,880	3,289	12,436	9,452	2,934	7,222	8,105	67,318

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C. Movement in the provision for doubtful debts:

	<u>2016</u>	<u>2015</u>
	<u>€in thousands</u>	
Opening balance	3,914	2,681
Addition during the year	1,831	1,094
Collection during the year	(185)	(92)
Foreign currency translation	6	231
Disposal of a subsidiary	(176)	-
	<u>5,390</u>	<u>3,914</u>

14. OTHER RECEIVABLES AND PREPAYMENTS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	<u>€in thousands</u>	
Central bank in Bulgaria (1)	-	16,118
Accrued income	4,624	4,621
VAT receivable	2,786	1,196
Receivables from joint ventures in China	928	2,799
Prepaid expenses	4,868	5,586
Advances to suppliers	4,734	1,383
Deposit receivable	7,357	5,755
Other	1,476	2,925
	<u>26,773</u>	<u>40,383</u>

(1) In 2015 the balance is due to TBI Bank which was required to maintain, in the form of non-interest earning cash deposits, certain cash reserves with the local central bank (obligatory reserve). There are no restrictions on the withdrawal of funds from the central bank provided that the minimum reserve requirements are met. If the minimum average reserve requirements are not met, the banks could be subject to certain penalties. The bank is obligated to maintain the minimal cumulative average reserve calculated on a daily basis over a monthly period. In 2016 TBI Bank was sold as part of the sale of TBIF – for additional information see Note 5B.

15. SHORT-TERM INVESTMENTS

	<u>December 31, 2016</u>		<u>December 31, 2015</u>
	<u>Average interest rate</u>	<u>€ in thousands</u>	<u>€ in thousands</u>
Bank deposits in Euro	0%-1%	1,131	130
Bank deposits in NIS	0%-0.5%	8	107
Restricted bank deposits (*)	0%-3%	2,524	5,975
Government bonds	4.75%-6.75%	-	542
Bank deposits in RMB	1.8%-3.4%	6,555	1,033
		<u>10,218</u>	<u>7,787</u>

(*) In 2016 mostly in RMB; in 2015 mainly RMB and Euro.

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16. CASH AND CASH EQUIVALENTS

	December 31, 2016	December 31, 2015
	<u>€in thousands</u>	
Cash at bank and in hand	50,759	72,900
Short-term deposits *)	7,024	71,020
	<u>57,783</u>	<u>143,920</u>

*) As of December 31, 2016 the range of the annual interest rate earned on short-term deposits was 0.5%-1.5% (December 31, 2015 - up to 1.5% p.a).

17. ISSUED AND PAID-IN CAPITAL

A. Composition:

	December 31, 2016		December 31, 2015	
	<u>Authorized</u>	<u>Issued and paid-in</u>	<u>Authorized</u>	<u>Issued and paid-in</u>
	Number of shares		Number of shares	
Ordinary shares with nominal value of €0.20 each	225,000,000	123,022,256	225,000,000	123,022,256

B. Movement in issued and paid-in shares:

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

	<u>Number of shares</u>	<u>par value in €</u>
Balance as of January 1, 2015	111,848,583	22,369,716
Issuance of shares to the debenture holders in 2015	<u>11,173,673</u>	<u>2,234,735</u>
Balance as of December 31, 2015 and 2016	<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, 2014	1,240,590	248,119
Treasury shares granted to a former officer	<u>(73,005)</u>	<u>(13,871)</u>
Balance as of December 31, 2014	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 and 2016	<u>-</u>	<u>-</u>

D. Changes in share capital and treasury shares

During 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.

E. Dividend:

In 2016 and 2015, the Company did not distribute dividends.

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F. Restrictions on distribution:

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 revaluation, cash flow hedges, foreign currency differences from investment in foreign operations, and equity gains from associates and joint ventures.

It is further noted that according to the debentures Amended Deeds of Trust there are limitations of distribution of dividend: Dividend will not be distributed before 75% of the outstanding debentures 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, 2016	December 31, 2015	December 31, 2014
	€in thousands		
Expense arising from equity-settled share-based payment transactions of the Company and the subsidiaries	254	1,080	776
Expense arising from cash-settled share-based payment transactions of a subsidiary	339	(41)	526
	<u>593</u>	<u>1,039</u>	<u>1,302</u>

The expenses are presented as part of 'Payroll and related expenses' within the General and administrative expenses (see Note 30).

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.

- a. The Company granted to its former CEO options exercisable to shares of the Company representing 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). The options were granted in 2012, and 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 would be exercisable from June 30, 2018. The modification was accounted for under the requirements of IFRS 2.

The total benefit of the modified grant is valued at approximately €0.2 million and was calculated using the Black & Scholes model, based on the following assumptions:

Number of options	2,282,624
Expected volatility (%)	63.2%-67.8%
Risk-free interest rate (%)	-0.06%-0.77%
Expected term of options (years)	3.8
Dividend yield (%)	0%

During 2016, all the options expired following the resignation of the CEO.

- b. In September 2013 (the 'Grant Date'), the Board of the Company approved a stock-option plan according to which the Company granted to several employees of the Company a total of 250,000 options exercisable into up to 250,000 ordinary shares of the Company, each having a par value of €0.20 (subject to adjustments). The exercise price of each option is equal to NIS 6.136. The options 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 in 'General and administration expenses' in the income statement.

The total additional expense relating to the management stock option plan is less than €0.1 million.

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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:

	2016		2015	
	No.	WAEP NIS	No.	WAEP NIS
Outstanding on January 1	2,582,624	1.191	2,532,135	6.136
Granted during the year	-	-	100,489	1.191
Expired during the year	(2,332,624)	1.191	(50,000)	1.191
Outstanding on December 31	<u>250,000</u>	1.191	<u>2,582,624</u>	1.191
Exercisable on December 31	<u>125,000</u>	1.191	<u>-</u>	-

Subsequent to the balance sheet date, additional 150,000 options will expire 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) Kardan Land China

Under the Employee Share Option Plan (ESOP), share options of the Company are granted to eligible employees of the Company. The exercise price of the share options is calculated based on total capital injected plus interest under Libor/Euribor + 3%. The share options vest according to the following schedule: 50%, 25% and 25% of the share options shall be vested in the Option Holder on the third, fourth and fifth anniversary of the date of commencement of services to the Group, respectively. The contractual term of each option granted is seven years.

The options are fully cancelled as at December 31, 2016 and the liability under the Agreement has been settled in full and no options outstanding under the Agreement. For year ended December 31, 2016, KLC has recognized €4 thousand of share-based payment expenses in the statement of profit or loss (2015: €41 thousand income).

(3) KFS

In March 2012, the CEO of TBIF was granted an incentive plan. The incentive plan includes:

- Options at a range of 2%-4% in four operations of TBIF. The exercise price for these options was determined to be the base value at the time of grant plus interest. The options vest in four equal portions on 30 June 2012, 2013, 2014 and 2015. This option plan is treated under IFRS 2.
- A phantom option scheme relating to TBI Bank, treated under IAS 19.
- A bonus scheme relating to the loans granted to VAB Bank and VAB Leasing.

During 2016 KFS recognized an expense of €245 thousands related to this option plan.

(4) TGI

- In March 2015, 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.
- In August 2014, the supervisory board of TGI decided to grant five executive managers options to purchase 1.9 % of TGI's share capital. The total value of the grant is approximately USD 1 million (€0.7 million) and was calculated by the company using the Black & Scholes model.
- In March 2013, TGI granted three senior employees stock options totaling to 2.2% of TGI's issued and paid-in capital (580 options). TGI accounted for these options as equity settled (except for the CEO options – see note 21). Based on B&S model, the total fair value of the options is €0.6 million which will be recognized in the income statements during the remaining vesting period of 4 years.

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- d. During 2011, the supervisory board and the general meeting of shareholders of TGI formally approved TGI to grant to the CEO of TGI 797 options, constituting approximately 3% of the shares of TGI at that time, post-issuance. 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 amounted to €4,317 per option. The options can be exercised until December 31, 2017.

The total value of the options at date of grant was estimated at €1.9 million. This fair value was determined by an independent external valuator. The expected life of the options is based on historical data.

TGI accounts for all the options granted, as described above, in accordance with IFRS 2, assuming equity payments will be affected.

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

	2015	2014	2013	2011
Number of options granted	560	499	580	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	\$5,978	\$6,044	€3,495	€1,350
Weighted average share value	\$6,131	\$6,360	€4,868	\$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:

	2016	2015	2016	2015
	No.	No.	WAEP	WAEP
			EUR	
Outstanding on January 1	2,041	1,481	1,787	1,884
Granted for the year	-	560	-	1,532
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>1,650</u>	<u>1,339</u>	<u>1,764</u>	<u>1,693</u>

It should be noted that during 2015 and 2016, following dividend distribution, all exercise prices in the above mentioned option plans were adjusted to reflect such change in TGI's equity.

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19. NON-CURRENT INTEREST-BEARING LOANS AND BORROWINGS

A. Composition:

	December 31, 2016		December 31, 2015	
	Weighted interest rate as of %	€in thousands	Weighted interest rate as of %	€in thousands
Banks:				
In EUR	3.2-5.8	95	6.4	5,589
In NIS	3.7-6.7	222	4-7	197
Others – in EUR	3.2-5.8	147	4.59	1,016
Others - In RMB (*)	12.5	111,232	12.5	100,667
Linked to other currencies	3.7-6.7	178	4-7	236
		111,874		107,705
Less:				
- Current maturities		(111,455)		(4,577)
- Long-term interest-bearing loans related to current inventory (**)		-		(62,578)
		<u>419</u>		<u>40,550</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 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 was 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. The parties are negotiating the extension of the loan, and management of the Project Company is confident the loan will be extended. As of December 31, 2016 the loan balance is presented as current liability as such extension has not been signed yet.

For additional information regarding collaterals and covenants, see Note 25A.

(**) The amount presented as of December 31, 2015 relates to a long term loan that as of December 31, 2016 presented entirely as current maturity.

B. Maturities:

	December 31, 2016	December 31, 2015
	€in thousands	
First year – current maturities	111,455	67,155
Second year	272	40,002
Third year	-	225
Fourth year	-	219
Fifth year	-	54
Thereafter	147	50
	<u>111,874</u>	<u>107,705</u>

20. OTHER LONG-TERM LIABILITIES

	December 31, 2016	December 31, 2015
	€in thousands	
Site coverage and rehabilitation provision (*)	2,669	2,544
Deferred revenues in China	833	-
Other	502	-
	<u>4,004</u>	<u>2,544</u>

(*) The movement in the year is due to foreign currency exchange differences.

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21. FINANCIAL INSTRUMENT: OPTIONS AND WARRANTS

	December 31, 2016	December 31, 2015
	€in thousands	
Liability to FIMI (1)	2,745	2,495
PUT option liability (2)	976	-
Share-base payment liability (3)	245	-
	3,966	2,495

(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 following conditions:

- If an exit event occurs during the period from the date of signing of the Amended Agreement until July 31, 2021 (the 'Exercise Period') at a TGI company value of up to USD 173 million, FIMI will receive an amount USD 3 million (the 'Basic Amount') the Basic Amount is subject to adjustments in the event of investments in TGI or distribution of dividends by TGI, excluding distribution of dividends of up to a maximum of USD 27 million following the sale transaction of KWIG.
- If an exit event occurs at a TGI company value which is higher than USD 173 million, FIMI will receive an amount of USD 3 million plus 8% of the difference between the value of the underlying transaction and the Basic Amount and up to a maximum amount of USD 7.5 million.
- If no exit event occurred during the Exercise period FIMI will receive an amount of USD 0.5 million.

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.

(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. The value of the liability as of December 31, 2016 amounts to €0.9 million.

(3) The share base payment liability relating to phantom options as described in Note 18C.

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22. DEBENTURES

A. Composition:

	Par value (net) as of December 31, 2016	Balance as of December 31, 2016	Balance as of December 31, 2015	Nominal Interest rate	Effective interest rate	Currency and linkage	Maturities principal
Issuer:	€in thousands			%	%		
The Company – 2007	160,993,886	47,232	85,760	6.325	7.05%	(1)	2017-2018
The Company – 2008	832,452,875	241,746	270,512	6.775	7.64%	(1)	2017-2020
		288,978	356,272				
		288,978	356,272				

(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) 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:

- 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.
- b. 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:

- a. 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).
- 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.

Most of the aforesaid pledges were established and registered as of December 31, 2016.

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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%.

Additional provisions

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

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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 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.

(3) 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 the Company paid the interest deferred to August 2015 in the amount of approximately €18.7 million to Debenture Holders series A and series B. The total repayment amounted to approximately €25.4 million.

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

As at December 31, 2016, 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).

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

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Maturities:

	December 31, 2016	December 31, 2015
	€in thousands	
Second year	109,281	101,296
Third year	95,790	95,520
Fourth year	83,907	84,998
Fifth year	-	74,458
Total	288,978	356,272

23. INTEREST-BEARING LOANS AND BORROWINGS

	Weighted annual interest rate	December 31, 2016	Weighted annual interest rate	December 31, 2015
	%	€in thousands	%	€in thousands
Short-term credit from				
In EUR	3.2-5.8	2,623	-	-
In USD	3.7	11,590	-	-
Other	4.5	1,148	6.5	1,295
		<u>15,361</u>		<u>1,295</u>
Long-term interest-bearing loans related to current inventory (*)		-		62,578
Current maturities:				
Loans (see Note 19)		111,455		4,575
		<u>126,816</u>		<u>68,448</u>

(*) The amount presented as of December 31, 2015 relates to a long term loan that as of December 31 2016 presented entirely as current maturity.

Collateral – see Note 25.

24. OTHER PAYABLES AND ACCRUED EXPENSES

	December 31, 2016	December 31, 2015
	€in thousands	
Financial:		
Accrued expenses	38,859	63,725
Payroll and related expenses	5,325	7,521
Payable to joint ventures in China accounted using the equity method	11,574	11,920
Claw back liability	-	4,000
Liability regarding share-based payment	-	117
Derivatives	-	36
Other	5,264	8,803
Non-Financial:		
Advances from customers	15,814	17,102
VAT payable	7	332
Unearned revenues	-	949
Other	1,231	1,431
	<u>78,074</u>	<u>115,936</u>

25. LIENS, CONTINGENT LIABILITIES AND COMMITMENTS

A. Financial covenants, Liens and collaterals:

1. Financial Covenants

For the year 2016 and as of December 31, 2016 all Group companies met their financial covenants, which are described below:

- (a) The Company committed to maintain certain financial covenants within the framework of the Deeds of Trust, as described in Note 22 above.
- (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 (an indirectly fully owned subsidiary of TGI).
- (c) KLC Group committed towards a financial institution which granted a construction loan amounting to up to RMB 1 billion, to meet an initial loan-to-value ratio of not more than 50%.

2. Pledges

- (a) Within the framework of the Amended 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, EI 12, TGI and KFS, certain bank accounts, and the Company's debentures held by the subsidiaries GTC RE and EI 12. Additional pledges, as described in Note 22, are in process of being established.
- (b) As of December 31, 2016 long-term loans amounting to €109.5 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, 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, which amount will be reduced to €5 million after one year.

3. Guarantees:

- (a) As of December 31, 2016 and 2015, TGI provided bank guarantees in an aggregated amount of approximately €43.3 million and €27.1 million, respectively, in favor of customers in respect of advances received from them for projects and for performing works.
- (b) A subsidiary of TGI, TCE, is a guarantor by an irrevocable guarantee for the fulfillment of its subsidiary's obligations by means of placing the subsidiary's real estate properties as securities, or in any means as it will be agreed from time to time.
- (c) As at December 31, 2016, Kardan Land China provided guarantees of €9,150 thousand (December 31, 2015 - €6,761 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.

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- (d) The Company provided a performance guarantee in favor of the Dutch Government (via Atradius Dutch State Business NV), 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 NV 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 NV'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 NV's Performance Guarantee with respect to the project entered into force, the balance of which is €98.8 million as of December 31, 2016 (December 31, 2015 €93 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, except as described below.
- (b) From time to time, Kardan Land China is involved in discussions with customers relating to the fulfillment of certain contractual obligations. To the extent there are gaps between the current performance of KLC and the relevant terms in the underlying agreements, these gaps may expose KLC to risks which may result in future cash out flows. As of the date of issuance of these financial statements, none such discussions resulted in legal claims being lodged or asserted and management of KLC concluded that the exposure to such risks is, in most cases, remote, and when the exposure is assessed to be between remote and probable, it is not practicable to estimate the related amount. Consequently, no provision is included in the accounts in respect of any such risks.

5. Commitments:

- (a) With respect to commitments towards the debenture holders of the Company as outlined in the Amended Deeds of Trust, refer to Note 22.
- (b) As of December 31, 2016 Kardan Land China Group had commitments of €3.1 million (December 31, 2015: €7 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 the 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 Tahal and ZRB; (2) Tahal 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.
- (d) On October 13, 2016 TGI signed together with its partner, ZRB, a project agreement regarding the operation and management of a large scale agricultural project in the Quiminha area in Angola. The agreement was signed for a period of 7 years, with an extension option for an additional 5 years. The expected revenues from the Project are USD 370 million which will be recognized by Tahal Group throughout the 7 year period. The parties commenced the Project immediately and first revenues were recognized in the fourth quarter of 2016 and had an immaterial effect on the Group's results.
- (e) 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.

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Future minimum rentals receivable under non-cancellable operating leases as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
	€in thousands	
First year	3,309	3,090
Second to fifth year	12,075	13,281
After the fifth Year	11,130	11,139
	<u>26,514</u>	<u>27,510</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 €0.9 million (2015 - €0.6 million).
- (b) TGI Group companies have entered into operating lease agreements with respect of office buildings rental. Future minimum rentals payables under non-cancellable operating leases as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
	€in thousands	
First year	2,410	2,366
Second to fifth year	8,080	6,356
After the fifth Year	5,240	500
	<u>15,730</u>	<u>9,222</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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
	€in thousands	
First year	1,550	1,334
Second to fifth year	4,424	5,334
After the fifth Year	-	556
	<u>5,974</u>	<u>7,224</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, 2016 amounts to €0.4 million (December 31, 2015 - €0.8 million).

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26. OPERATING SEGMENTS

A. General:

The Group's operating businesses are organized and managed separately. Each segment represents a strategic business unit that offers different products and serves different markets. The segmentation was determined by the Company's CODM – the CEO. The Group's operating businesses included the operations of consolidated subsidiaries, joint ventures and associates. Each group company is assessed based on its sector of operations, asset base, country and contribution to the Company and to the Group.

Following the sale of TBIF in 2016 and KWIG in 2015 (for additional information see Note 5B), the Company's CODM re-examined the operating segments. In the past, the results of TBIF and the results of KWIG were the Company's main activities included in 'Banking and Retail lending' and 'Infrastructure - Assets' segments, respectively. Following the sales of these subsidiaries, the Group is substantially no longer active in the 'Banking and Retail lending' and 'Infrastructure-Assets' segments. The results of TBIF and KWIG have been presented as discontinued operation and thus no longer form a reportable operating segment. The comparative information has been amended accordingly.

The CODM examines the various segment performance in terms of various line of activity (real estate and water infrastructure) on the basis of the segment revenues, other income including adjustment to fair value of investment property, capital gains, impairments of goodwill and equity earnings as well as on the basis of the segment results which are based on the total revenues net of cost of sale, selling and marketing expenses and general and administration expenses.

Real Estate

The real estate activities are incorporated under GTC RE and currently include real estate in China. In its real estate operations, the Group is primarily engaged in development and sale of residential property and development and lease of commercial properties.

Water Infrastructure

The water infrastructure activities are incorporated under TGI Group.

Through its affiliates, TGI Group undertakes engineering, consulting and planning projects in Latin America, Eastern Europe, Africa, China, Israel and in other countries, mainly relating to the environment, water, sewage, drainage, irrigation, energy and agriculture.

The Group's operating segments are fully independent. 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.

B. Segments results

For the year ended December 31, 2016:

	Real Estate Asia	Water Infrastructure	Other	Total
	In €000			
Revenue	8,536	129,695	2,572	140,803
Other expense (*)	(81)	(647)	(91)	(819)
Total Income	8,455	129,048	2,481	139,984
Segment result	(7,815)	6,268	655	(892)
Unallocated expenses				(3,756)
Loss from operations and share in profit of investment accounted using the equity method before finance expenses, net				(4,648)
Finance expenses, net				(49,225)
Loss before income tax				(53,873)
Income tax benefit				1,060
Loss from continuing operations				(52,813)
Profit from discontinued operations				21,487
Loss for the period				(31,326)

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For the year ended December 31, 2015:

	Real Estate Asia	Water Infrastructure	Other	Total
	In €000			
Revenue	6,726	167,861	(715)	173,872
Other income (expense) (*)	23,954	(1,241)	880	23,593
Total Income	30,680	166,620	165	197,465
Segment result	13,648	6,378	(3,014)	17,012
Unallocated expenses				(5,082)
Gain from operations and share in profit of investment accounted using the equity method before finance expenses, net				11,930
Finance expenses, net				(64,913)
Profit before income tax				(52,983)
Income tax expenses				(6,493)
Profit from continuing operations				(59,476)
Profit from discontinued operations				36,518
Loss for the period				(22,958)

For the year ended December 31, 2014:

	Real Estate Asia	Water Infrastructure	Other	Total
	In €000			
Revenue	51,957	142,794	(409)	194,342
Other income (expense) (*)	32,861	(690)	668	32,839
Total Income	84,818	142,104	259	227,181
Segment result	28,390	8,987	(1,988)	35,389
Unallocated expenses				(6,075)
Gain from operations and share in profit of investment accounted using the equity method before finance expenses, net				29,314
Finance expenses, net				(19,739)
Loss before income tax				9,575
Income tax expenses				(12,969)
Loss from continuing operations				(3,394)
Profit from discontinued operations				8,456
Loss for the period				5,062

(*) Other income/expense includes fair value adjustments of investment property, equity earnings, gains from disposal of assets and investments and other adjustments.

C. Segments assets

	December 31	
	2016	2015
	€in thousands	
Real Estate – Asia	469,982	488,944
Banking and Retail Lending (*)	-	294,382
Water infrastructure	155,536	143,504
Others	-	40
	625,518	926,870
Discontinued operation	-	24,760
Unallocated assets (**)	39,849	24,112
	665,367	975,742

(*) Following the sale of TBIF in August 2016 the Company does not present this segment (see A above).

(**) Most unallocated assets relate to cash balances at the level of the holding companies and as of December 31, 2016 also include assets of the former ‘Banking and Retail Lending’ segment.

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D. Segments liabilities

	December 31	
	2016	2015
	€in thousands	
Real estate – Asia	215,754	198,651
Banking and Retail Lending (*)	-	210,815
Water infrastructure	111,671	102,156
	327,425	511,622
Unallocated liabilities (**)	296,759	388,182
	<u>624,184</u>	<u>899,804</u>

(*) Following the sale of TBIF in August 2016 the Company does not present this segment (see A above).

(**) 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,		
	2016	2015	2014
	€in thousands		
China	8,536	6,726	51,953
Bulgaria and Romania	2,572	566	19,280
Israel	47,595	39,235	21,410
Other	82,100	127,345	101,687
	<u>140,803</u>	<u>173,872</u>	<u>194,330</u>

The Company doesn't have any income generating activity in the Netherlands.

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

	December 31, 2016	December 31, 2015
	€in thousands	
China	243,035	253,293
Bulgaria and Romania	-	11,737
Israel	11,441	10,321
Other	5,830	5,486

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

The Company doesn't have 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		
	2016	2015	2014
	€in thousands		
Customer A - water infrastructure	23,052	34,780	21,688
Customer B - water infrastructure	21,320	7,763	-
	<u>44,372</u>	<u>42,543</u>	<u>21,688</u>

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27. CONTRACT REVENUES

A. Contract revenues:

	For the year ended December 31		
	2016	2015	2014
		€in thousands	
Revenue from construction projects	98,517	135,235	106,009
Revenue from planning projects	25,770	27,987	29,860
Other	5,378	4,639	6,925
	129,665	167,861	142,794

B. Cost of contract revenues:

	For the year ended December 31		
	2016	2015	2014
		€in thousands	
Payroll and related expenses	20,065	23,621	29,648
Subcontracted work (including equipment)	61,718	94,697	58,371
Changes in inventory of finished goods	3,370	2,092	3,496
Depreciation expenses	1,632	1,428	1,746
Materials	10,878	9,035	9,062
Other expenses	10,949	11,057	16,102
	108,612	141,930	118,425

28. OTHER EXPENSES, NET

	For the year ended December 31		
	2016	2015	2014
		€in thousands	
Cost of asset management services	4,128	2,616	2,600
Other expenses, net	1,427	4,462	3,171
	5,555	7,078	5,771

29. SELLING AND MARKETING EXPENSES

	For the year ended December 31		
	2016	2015	2014
		€in thousands	
Payroll and related expenses	3,428	3,898	3,307
Commissions	31	317	195
Marketing and advertising	2,020	2,152	1,160
Other	2,648	3,596	3,530
	8,127	9,963	8,192

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30. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31		
	2016	2015	2014
	€in thousands		
Payroll and related expenses (*)	11,211	13,941	10,643
Share-based payment (see Note 18)	593	1,039	805
Management fees	1,200	681	2,171
Office maintenance	2,374	2,367	1,906
Professional fees	2,652	2,970	2,988
Depreciation and amortization	177	462	238
Other	1,962	2,742	2,500
	<u>20,169</u>	<u>24,202</u>	<u>21,251</u>

(*) Payroll and related expenses are as follows:

	For the year ended December 31		
	2016	2015	2014
	€in thousands		
Wages and salaries	9,364	12,451	9,574
Unemployment contributions	309	348	598
Other social expenses	1,538	1,142	471
	<u>11,211</u>	<u>13,941</u>	<u>10,643</u>

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

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

	For the year ended December 31		
	2016	2015	2014
	€in thousands		
Gain (loss) on disposal of investment in companies (1)	(1,734)	-	16,768
Gain (loss) from sale of fixed assets	460	(423)	-
Other	174	426	498
	<u>(1,100)</u>	<u>3</u>	<u>17,268</u>

(1) In 2016, relates to revaluation of the remaining mortgage activity in light of its disposal (see Note 5B). In 2014, mainly relates to gain from the disposal of an investment.

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32. FINANCIAL INCOME AND EXPENSES

	For the year ended December 31		
	2016	2015	2014
	€in thousands		
Income:			
Income from bank deposits	321	1,147	432
Revaluation of warrant	-	-	329
Income from interest bearing loans to associates	686	202	-
Exchange differences, net	-	-	874
Other	162	169	426
Total financing income	<u>1,169</u>	<u>1,518</u>	<u>2,061</u>
Expenses:			
Interest on long-term loans and borrowings	13,182	13,497	2,949
Interest on debentures	19,990	24,126	17,290
Exchange differences, net	16,016	25,193	-
Devaluation of warrant	236	-	-
Other	970	3,615	1,560
Total financing expenses	<u>50,394</u>	<u>66,431</u>	<u>21,799</u>

33. TAXES ON INCOME

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

For 2016 and 2015, 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 tax return of the Company that the deduction of interest expenses should not be limited pursuant to Section 13L CITA.

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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.

New 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 2016 to the Dutch Tax Authorities, it has the obligation to prepare a Master file and Local file before filing of the 2016 corporate income tax return. The Company is currently in the process of preparing a Master file and Local file.

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

Country	Tax rate	
	2016	2015
Bulgaria	10%	10%
China	25%	25%
Hong-Kong	16.5%	16.5%
Israel	25%	26.5%
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,		
	2016	2015	2014
	€in thousands		
Current taxes	3,522	2,368	6,131
Tax expenses related to previous years	135	610	1,537
Deferred taxes (see also E below)	(4,717)	3,515	5,301
	(1,060)	6,493	12,969

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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,		
	2016	2015	2014
	€in thousands		
Accounting profit (loss)	(53,873)	(52,983)	9,575
Tax expense (tax benefit) computed at the statutory tax rate 25%	(13,468)	(13,246)	2,394
Increase (decrease) in tax expense (tax benefit) due to:			
Carry forwards tax losses for which no deferred tax assets were recognized	9,600	15,403	6,591
Adjustment in respect to tax of previous years	135	610	1,537
Share of results of investments accounted using the equity method	(717)	(666)	(1,678)
Non-deductible expenses and others, net	2,347	883	1,096
Impact of different tax rates	842	3,685	1,637
Other	201	(176)	1,392 (*)
	<u>(1,060)</u>	<u>6,493</u>	<u>12,969</u>

(*) Relates mainly to land tax in China.

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E. Composition of deferred taxes

	Consolidated statement of financial position		Recorded in the income statement		
	December 31, 2016	December 31, 2015	Movement for the year ended December 31, 2016 (*), 2015 (*), 2014		
	€in thousands		€in thousands		
Deferred income tax assets (deferred tax liabilities) with respect to:					
Investment properties	(12,124)	(13,156)	(646)	5,227	2,215
Financial instruments	-	(3,178)	-	(74)	5,613
Temporary differences in reserves and allowances	-	195	-	40	440
Carry forwards losses available for offset against future taxable income	8,723	4,555	(3,807)	926	127
Differences in measurement basis	1,417	(2,279)	785	(185)	(132)
Timing differences of projects	(965)	2,390	(1,039)	(310)	-
Non-current assets eliminated for rendering of service among group companies	-	-	-	-	99
Other	638	629	(10)	(2,143)	(273)
	<u>(2,311)</u>	<u>(10,844)</u>	<u>(4,717)</u>	<u>3,481</u>	<u>8,089</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,	
	2016	2015
	€in thousands	
Net deferred income tax asset	2,452	3,065
Net deferred income tax liability	(4,763)	(13,909)
	<u>(2,311)</u>	<u>(10,844)</u>

F. Losses carry-forwards and final tax assessments

Under the 2010 Dutch Tax legislation the carry back of losses is restricted to one year and furthermore the carry forward of losses is restricted to nine years. The accumulated unused tax losses as at December 31, 2016 of Kardan NV company-only amount to €273.9 million (according to the filed 2015 tax return, net of tax losses evaporated in 2016). The tax losses expire as follows: €4.9 million – in 2017, €7.5 million in 2018, €5.5 million in 2019, €9.1 million in 2020, €1.1 million in 2022, €4.1 million in 2023 and €1.7 million in 2024.

The Company received final tax assessments up to and including the year 2013. The Company does not expect the year 2016 to result with a tax liability. The Company has not recorded any deferred tax assets for these losses.

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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>2016</u>	<u>2015</u>	<u>2014</u>
	€in thousands		
Net profit (loss) attributable to ordinary equity holders of the parent (€in thousands)	(52,813)	(22,915)	5,091
Effect of dilution of earnings of group companies	<u>(10)</u>	<u>(231)</u>	<u>(98)</u>
	<u>(52,823)</u>	<u>(23,146)</u>	<u>4,993</u>
Weighted average number of ordinary shares for basic earnings per share (in thousands)	123,022	116,429	110,754
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>116,429</u>	<u>110,754</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, 2016, 2015 and 2014.

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 €21,487 thousand, €36,518 thousand and €8,456 thousand for the years 2016, 2015 and 2014, 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) Market risk;
- 3) Price risk;
- 4) Political risk;
- 5) Credit risks;
- 6) Interest rate risk including sensitivity analysis;
- 7) Liquidity risk including maturity profile of financial assets, liabilities and guarantees;
- 8) Foreign currency risk including sensitivity analysis;
- 9) Fair value disclosures.

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. On occasions, the Group employs derivative financial instruments, principally interest rate swap transactions, to hedge certain exposures to risks.

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.

Management is closely monitoring the financial position of the Group. Reference is made to Note 1 for additional information.

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. Each Group company considers its equity to be its capital.

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.

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For additional information regarding the capital risk management with respect to the Company's liquidity position and uncertainties, see Note 1.

Risk management structuring

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

(i) Corporate level

The Executive Management of Kardan N.V. (CEO, CFO) 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 in each of the countries and each of the business segments. The risk is spread among the different activities of the Kardan Group. The diversification of the businesses (commercial and residential real estate, infrastructure projects) as well as collateral management are useful risk mitigation tools as well. In addition, management may change its targets and focus in order to mitigate specific (excessive) risk.

(iv) Excessive risk concentration

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, China, etc.); industry diversification (real estate and water infrastructure); product diversification (f.e. residential and commercial real estate).

2) **Market risk**

Achieving the Group's objectives in emerging markets depends on, among other things, the pace of economic development of these markets and in particular the pace of development of the real estate sector and water infrastructure sectors. Diminishing development rates of these markets and sectors may have an adverse impact on the business objectives of the Group.

The Group conducts operations in China where it is active in commercial and residential real estate and in the Ukraine where it is active in car leasing business. The Company closely monitors the economic developments in and the countries of operations and directs management and financial resources to and from these regions based on its revised 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. A change in trends in countries where the Group operates may have an adverse impact on its operations.

The management of the Company believes that the following factors 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.

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3) Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

Kardan's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investments in each country.

Kardan N.V. does not have a material exposure to financial instruments which are impacted by market prices, therefore it has no significant price risk, and accordingly there is no significant exposure to equity price risk.

4) Political risk

The Group has significant business activities predominantly in China, Africa and Central and Eastern Europe. Political and economic changes in these regions can have consequences for the Group's activities, as well as an impact on the results and financial positions of the Group. By closely monitoring these businesses, management intends to limit the risks of those changes.

5) Credit risk

Credit risk is a risk that the Group may incur a loss because its customers or counterparties fail to meet their contractual obligations. 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, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. To manage this risk, the Group companies periodically and regularly assess the financial viability of their customers.

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, 2016 and 2015, cash and cash equivalent amounted to €57,783 thousand and €143,920 thousand, respectively, and deposits in banks amounted to €10,218 thousand and €7,245 thousand, respectively (see Note 15 and 16). All deposits are deposited with highly rated financial institutions primarily in the countries of operation.

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.

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6) Interest-rate risk

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.

7) Liquidity risk

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

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

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2016 and 2015. The liabilities are based on contractual undiscounted cash flow. The tables include repayments of principal amounts as well as interest due. The amount of interest due was estimated based on contractual terms of the financial liabilities.

For additional information regarding the liquidity risk management with respect to the Company's liquidity position and uncertainties, see Note 1 and 25, respectively.

7.1 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

7.2 Liquidity table 2015:

	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
	EUR in thousands				
Liabilities					
Trade payables	20,121	152	-	-	20,273
Other payables and accrued expenses	28,403	45,024	-	-	73,427
Banking customers accounts	53,142	140,118	17	113	193,390
Interest-bearing loans and borrowings	2,917	13,877	113,344	383	130,521
Other debentures	23,669	-	109,963	318,017	451,649
Other long term liabilities	-	-	-	5,230	5,230
Total liabilities	128,252	199,171	223,324	323,743	874,490

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8) Foreign currency risk

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

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

As of December 31, 2016:

8.1	In US	In NIS	In RMB	In Rub	In other	Non-	Total
	In euros	dollars	(Israel)	(China)	(Russia)	monetary	
Assets							
	€in thousands						
Property and equipment	-	-	-	-	-	-	13,689
Investment properties	-	-	-	-	-	-	240,461
Goodwill	-	-	-	-	-	-	6,156
Investments in companies accounted for using the equity method	14,936	24,792	-	-	-	12,712	56,487
Long-term receivables	5,000	-	2,530	-	-	-	4,165
Deferred tax assets	-	-	-	-	-	-	2,452
Inventory	-	-	-	-	-	-	119,421
Accounts receivable	7,329	10,497	40,452	4,897	-	3,272	-
Other receivables	20	1,467	4,993	5,686	1,731	895	13,326
Short-term investments	1,507	-	243	8,468	-	-	-
Cash and cash equivalents	20,062	4,535	6,961	19,424	2,666	4,135	-
	48,854	41,291	55,179	38,475	4,397	21,014	456,157
							665,367
Liabilities							
Deferred tax liability	-	-	-	-	-	-	4,763
Interest-bearing loans and borrowing	2,865	11,590	1,486	111,232	62	-	-
Warrants and options	-	3,966	-	-	-	-	-
Debentures	-	-	288,978	-	-	-	-
Other long-term liabilities	169	-	4,092	-	-	-	833
Other payables and accrued expenses	1,712	171	11,630	43,804	-	3,559	17,198
Trade payables	5,198	2,108	6,330	3,985	-	2,819	-
Advances from apartment buyers	-	-	-	-	-	-	88,900
Income tax payable	-	-	-	-	-	-	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

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As of December 31, 2015:

8.2	In US In euros	In NIS dollars	In RMB (Israel)	In RMB (China)	In Rub (Russia)	In other currencies	Non- monetary	Total
Assets								
	€in thousands							
Property and equipment	-	-	-	-	-	-	24,161	24,161
Investment properties	-	-	-	-	-	-	250,310	250,310
Goodwill	-	-	-	-	-	-	6,361	6,361
Investments in associates	15,826	24,837	-	-	-	9,424	55,417	105,504
Long-term receivables	26,305	174	1,125	-	-	12,715	-	40,319
Loans to bank customers	90,813	-	-	-	-	47,442	-	138,255
Deferred tax assets	-	-	-	-	-	-	3,065	3,065
Inventory	-	-	-	-	-	-	109,818	109,818
Accounts receivable	9,906	17,703	27,741	4,434	-	7,534	-	67,318
Other receivables	579	1,023	5,795	5,274	38	21,713	7,116	41,538
Short term investments	3,260	-	1,071	2,914	-	542	-	7,787
Cash and cash equivalents	62,748	12,997	26,558	34,362	1,230	6,025	-	143,920
Other financial assets	-	-	-	-	-	5,485	-	5,485
Assets classified as held for sale	-	24,760	-	-	-	-	7,141	31,901
	209,437	81,494	62,290	46,984	1,268	110,880	463,389	975,742
Liabilities								
Deferred tax liability	-	-	-	-	-	-	13,909	13,909
Interest-bearing loans and borrowing	7,901	-	430	100,667	-	-	-	108,998
Warrants and options	-	2,495	-	-	-	-	-	2,495
Debentures	-	-	356,272	-	-	-	-	356,272
Other long-term liabilities	120	-	3,839	-	-	-	-	3,959
Other payables and accrued expenses	9,435	7,446	28,151	46,743	1,063	4,436	18,662	115,936
Trade payables	2,885	2,877	5,152	4,655	109	4,590	-	20,268
Advances from apartment buyers	-	-	-	-	-	-	81,972	81,972
Income tax payable	-	-	-	-	-	-	3,933	3,933
Banking customers accounts	150,127	5,754	-	-	-	36,181	-	192,062
	170,468	18,572	393,844	152,065	1,172	45,207	118,476	899,804
Differences between assets and liabilities	41,760	65,799	(326,402)	(103,196)	205	70,263	327,509	75,938

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

8.3	Sensitivity to change in EUR/USD Effect on profit and loss €in thousands			
	+10%	+5%	-5%	-10%
2016	3,021	1,511	(1,511)	(3,021)
2015	5,475	2,738	(2,738)	(5,475)
8.4	Sensitivity to change in EUR\ NIS Effect on profit and loss €in thousands			
	+20%	+10%	-10%	-20%
2016	(59,157)	(29,579)	29,579	59,157
2015	(74,156)	(37,078)	37,078	74,156
8.5	Sensitivity to change in RMB/EUR Effect on profit and loss €in thousands			
	+20%	+10%	-10%	-20%
2016	1,026	513	(513)	(1,026)
2015	3,350	1,675	(1,675)	(3,350)

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8.6	Sensitivity to change in Israeli CPI			
	Effect on profit and loss			
	€in thousands			
	+3%	+2%	-2%	-3%
2016	(8,876)	(5,917)	5,917	8,876
2015	(10,674)	(7,611)	7,611	10,674

9) Fair value disclosure:

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

9.1 Fair value schedule	Methods of determining fair value	Carrying amount		Fair value		Comment
		2016	2015	2016	2015	
		€in thousands				
Assets						
Short-term investment		10,218	7,245	10,218	7,245	A
Long-term loans and receivables		11,695	40,319	11,695	46,150	E
Loans to associates and joint ventures		52,440	49,251	52,440	49,251	C
Liabilities						
Debentures	(1)	291,509	379,767	213,056	250,542	B
Interest-bearing loans and borrowings		127,235	108,996	127,235	108,996	C
Other long-term liabilities	(3)	3,171	2,544	3,171	2,544	D
Financial instruments - warrants and options	(3)	3,966	2,495	3,966	2,495	D

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

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

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

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

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

Comments regarding determining the fair value:

- 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 €2,531 thousand for 2016 and €23,495 thousand in 2015.
- 3) As of December 31, 2016 and 2015 most of the loans bear a fixed interest rate, and management estimates that this rate is approximately the same as the one at yearend. Refer to Note 8, 9, 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 10 for additional information.
- 6) The carrying value of cash and cash equivalents and other financial instruments such as trade and other receivables, trade and other payables, which were not included in the table above, is assumed to approximate their fair value due to their short-term nature.

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

9.2 Fair value levels schedule:

	December 31, 2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	€in thousands			

Financial assets:

Held for trading securities and other	238	-	-	238
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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

9.2 Fair value levels schedule:

	December 31, 2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	€in thousands			

Financial assets:

Held for trading securities and other	7,086	9	46	7,141
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Financial liabilities at fair value through profit or loss:

Warrant and call option	-	-	(2,495)	(2,495)
Claw-back liability	-	-	(4,000)	(4,000)

During 2016 and 2015 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

9.3 Level 3 reconciliation:

	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)

	As of January 1, 2015	Fair value gain (loss) recorded in P&L	Gains recorded in other comprehensive income	Additions	Transfers	As of December 31, 2015	Total gains (losses) for the period included in P&L
	€in thousands						
Securities	45	1	-	-	-	46	1
Total assets	45	1	-	-	-	46	1
Warrants and call options	(428)	64	-	(2,559)	428	(2,495)	64
Put option	(1,014)	(133)	-	-	1,147	-	(133)
Claw-back	(3,150)	(850)	-	-	-	(4,000)	(850)
Total liabilities	(4,592)	(919)	-	(2,559)	1,575	(6,495)	(919)

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9.4 IAS 39 classification of financial assets and liabilities:

	December 31,	
	2016	2015
	€in thousands	
Financial assets:		
Cash, loans and receivables	209,210	506,867
Derivatives that are designated as hedging instruments	-	5,485
	<u>209,210</u>	<u>512,352</u>
Financial liabilities:		
Financial liabilities presented at amortized cost	497,529	770,520
Financial liability through P&L	3,171	6,544
Put option	976	-
Phantom options	245	-
FIMI liability	2,745	2,495
	<u>504,666</u>	<u>779,559</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:

A. Balances:

As of December 31, 2016:

	Note	Associates	Joint ventures
		€in thousands	
Trade receivables	13	-	794
Other receivables and prepayments	14	-	928
Loans and long-term assets (including current maturities)	8,9	12,687	12,159
Other payables and accrued expenses	24	-	11,574

As of December 31, 2015:

	Note	Associates	Joint ventures
		€in thousands	
Trade receivables	13	-	1,997
Other receivables and prepayments	14	-	2,660
Loans and long-term assets (including current maturities)	8,9	9,406	13,828
Other payables and accrued expenses	24	-	11,920

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2016

B. Transactions

For the year ended December 31, 2016:

	Note	Associates	Joint ventures	Fellow subsidiaries
			€in thousands	
Management fee, net		-	960	-
Finance income	32	686	137	162

For the year ended December 31, 2015:

	Note	Associates	Joint ventures	Fellow subsidiaries
			€in thousands	
Management fee, net		-	1,477	-
Finance income	32	202	264	168
Other		-	-	1,276

For the year ended December 31, 2014:

	Note	Associates	Joint ventures	Fellow subsidiaries
			€in thousands	
Management fee, net		-	2,122	-
General and administrative expenses	30	-	-	1,676
Finance income	32	-	287	-

- 1) Management fees for the years 2016, 2015 and 2014 relate mostly to management fees from joint ventures received by Kardan Land China. Finance income from associates and joint ventures are from loans granted the associates and joint ventures.
- 2) In May 2015 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 March 1, 2015, the scope of services will be reduced and accordingly, the corresponding service fees would be reduced to a total of approximately €12 thousand per year, linked to Israeli CPI. This agreement is effective for three years.
- 3) 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. With respect of the aforesaid services provided in 2016, the Company paid to Kardan Israel a total of €30 thousand (2015 - €19 thousand).

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2016

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,		
2016	2015	2014
In €'000		
263	269	249

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
2016 (*)	1,324	152	359	1,835
2015	1,335	120	170	1,625
2014	1,551	112	181	1,844

(*) 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 2014, 2015 and 2016.

3. Options granted by the Company as of December 31, 2016 (*):

	No. of options
Total options granted to two Executive management	200,000

(*) 100,000 options are to be cancelled in 2017 following termination of employment. For additional information see also Note 18B.

37. SUBSEQUENT EVENTS

A subsidiary of TGI is currently in advanced negotiations with an Israeli fund for selling 19.84% of Star Pumped Storage Ltd. in consideration of approximately NIS 40-50 million. The sale is subject to various conditions, including the approval of financing institutions and regulatory approvals which will be stipulated in the sale agreement and are being discussed between the parties.

As of the date of the approval of these financial statements, the parties are also in negotiations for selling the remaining 20.66% of Star Pumped Storage Ltd., held by TGI.

KARDAN N.V.
AMSTERDAM, THE NETHERLANDS

COMPANY-ONLY NON-STATUTORY FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

COMPANY-ONLY NON-STATUTORY BALANCE SHEET

December 31, 2016

After appropriation of net result

	Note	December 31, 2016	December 31, 2015
€in thousand			
A s s e t s			
Non-current assets			
Tangible fixed assets		95	114
Investments in subsidiaries	5	406,692	550,493
Loans to subsidiaries		23	22
		<u>406,810</u>	<u>550,629</u>
Current assets			
Cash and cash equivalents	6	1,754	22,867
Short-term investments	7	131	137
Other receivables	4	1,005	687
		<u>2,890</u>	<u>23,691</u>
Total assets		<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
Share premium		206,482	206,482
Property revaluation reserve		34,772	36,713
Foreign currency translation reserve		23,590	24,711
Other reserve		6,633	8,144
Retained earnings (accumulated deficit)		(259,420)	(229,865)
		<u>37,333</u>	<u>71,461</u>
Non-current liabilities			
Debentures	9	364,159	468,407
Options and other long-term liabilities	10	3,246	2,035
		<u>367,405</u>	<u>470,442</u>
Current liabilities			
Other payables	12	4,962	32,417
		<u>4,962</u>	<u>32,417</u>
Total equity and liabilities		<u>409,700</u>	<u>574,320</u>

See accompanying notes.

COMPANY-ONLY NON-STATUTORY INCOME STATEMENT
Year ended December 31, 2016

	<u>Note</u>	<u>2016</u>	<u>2015</u>
		<u>€in thousand</u>	
General and administration expenses	13	<u>(3,379)</u>	<u>(4,585)</u>
Loss from operations		<u>(3,379)</u>	<u>(4,585)</u>
Financial expenses ,net	14	<u>(47,426)</u>	<u>(63,680)</u>
Loss before share of profit from investments accounted for using the equity method		<u>(50,805)</u>	<u>(68,265)</u>
Share of profit of investments accounted for using the equity method, net	5	<u>20,049</u>	<u>45,827</u>
Loss before income taxes		<u>(30,756)</u>	<u>(22,438)</u>
Income tax expenses	11	<u>574</u>	<u>477</u>
Loss for the year		<u><u>(31,330)</u></u>	<u><u>(22,915)</u></u>

See accompanying notes.

COMPANY-ONLY NON-STATUTORY CASH FLOW STATEMENT

	For the year ended December 31,		
	2016	2015	2014
	In €000		
Cash flow from operating activities of the Company			
Profit (loss) for the year	(31,330)	(22,915)	5,091
Adjustments to reconcile profit (loss) to net cash of the Company			
Financial expense	49,020	64,013	23,561
Dividend received	113,284	53,742	78,557
Share-based payment	(146)	163	191
Equity earnings	(20,049)	(45,827)	(31,079)
Changes in working capital of the Company			
Change in receivables	(873)	(138)	(730)
Change in payables	548	(1,154)	1,474
Cash amounts paid and received during the year			
Interest paid	(41,120)	(18,676)	(2,997)
Interest received	8	20	10
Net cash provided by operating activities of the Company	69,342	29,228	74,078
Cash flow from investing activities of the Company			
Short term investments, net	6	659	57
Net cash provided by investing activities of the Company	6	659	57
Cash flow from financing activities			
Investment in shares of a subsidiary	(4,003)	(150)	(21,966)
Debentures settlement payment	-	(750)	-
Repayment of long term debt	(86,458)	(6,725)	(67,788)
Net cash used in financing activities of the Company	(90,461)	(7,625)	(89,754)
Increase / (decrease) in cash and cash equivalents of the Company	(21,113)	22,262	(15,619)
Cash and cash equivalents at beginning of the year	22,867	605	16,224
Cash and cash equivalents of the Company at end of the year	1,754	22,867	605

NOTES TO THE COMPANY-ONLY NON-STATUTORY FINANCIAL STATEMENTS

December 31, 2016

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's non-statutory financial statements are prepared based on the accounting principles of recognition, measurement and determination of profit, as applied in the non-statutory consolidated financial statements. These principles also include the classification and presentation of financial instruments, being equity instruments or financial liabilities.

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 prepared its non-statutory consolidated financial statements in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union.

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, 2016	December 31, 2015
	€in thousand	
Intercompany debtors	896	468
Prepaid expenses	109	208
Other	-	11
	<u>1,005</u>	<u>687</u>

5. FINANCIAL FIXED ASSETS

Investments in consolidated subsidiaries

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

	2016	2015
	€in thousand	
Balance as of January 1	550,493	456,880
Investment in a subsidiary (a)	4,003	103,892
Change in treasury shares (held by a subsidiary)	-	290
Change in capital reserves (b)	(454)	(94)
Dividend distributed	(167,740)	(56,302)
Share in profit of investments for the year	20,049	45,827
Balance as of December 31	<u>406,351</u>	<u>550,493</u>

(a) In 2015 the Company capitalized a shareholder's loan to Emerging Investments XII B.V. in the amount of €103.6 million.

(b) 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	2016		2015	
	Owner ship	Total Value	Owner ship	Total value
	%	€in thousand	%	€in thousand
GTC Real Estate Holding B.V.	100	276,412	100	307,599
Kardan Financial Services B.V.	100	36,610	100	51,986
Tahal Group International B.V.	98.43	39,856	98.43	60,442
Emerging Investments XII B.V.	100	53,473	100	130,490
Other	100	-	100	(24)
Total investments in significant consolidated subsidiaries (*)		<u>406,351</u>		<u>550,493</u>

6. CASH AND CASH EQUIVALENTS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	<u>€in thousand</u>	
EURO	1,496	3,942
NIS	257	18,603
USD	<u>1</u>	<u>322</u>
	<u>1,754</u>	<u>22,867</u>

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 2016 and 2015.

7. SHORT-TERM INVESTMENTS

	<u>December 31, 2016</u>	<u>2015</u>
	<u>€in thousand</u>	
Deposits	131	130
Trust account	<u>-</u>	<u>7</u>
	<u>131</u>	<u>137</u>

In 2016 and 2015, the average interest rate earned was 0.5%.

8. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY.

	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>

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

	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, 2015	23,041	208,002	21,033	10,765	23,943	(194,386)	92,398
Other comprehensive income (expense)	-	-	-	(2,784)	768	-	(2,016)
Profit (loss) for the period	-	-	-	-	-	(22,915)	(22,915)
Share-based payment	-	-	-	163	-	-	163
Issuance of treasury shares	2,235	(1,520)	-	-	-	2,625	3,340
Transactions with non- controlling interest	-	-	-	-	-	491	491
Reclassification according to the Netherlands civil code requirements law (*)	-	-	15,680	-	-	(15,680)	-
Balance as of December 31, 2015	<u>25,276</u>	<u>206,482</u>	<u>36,713</u>	<u>8,144</u>	<u>24,711</u>	<u>(229,865)</u>	<u>71,461</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, 2016 and 2015, amounts of €32,778 and €29,909 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.

9. DEBENTURES

Composition:

	Par value as of December 31, 2016	Balance as of December 31, 2016	Balance as of December 31, 2015	Interest rate %	Maturities principal
		€in thousands			
Issuer:					
The Company – 2007	297,500,001	87,285	158,490	6.325	2017-2018
The Company – 2008	952,834,318	276,874	309,917	6.775	2017-2020
		<u>364,159</u>	<u>468,407</u>		

Maturities:

	December 31, 2016	December 31, 2015
	€in thousand	
First year – current maturities	-	-
Second year	158,350	146,977
Third year	109,709	138,745
Fourth year	96,100	97,379
Fifth year	-	85,305
Total	<u>364,159</u>	<u>468,406</u>

Repayment of debentures:

On July 24, September 2, and November 14, 2016 the Company early repaid principal amounting to approximately €6.4 million to Debenture Holders series A and series B, 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 to Debenture Holders series A and Series B and paid the interest deferred to August 2015 in the amount of approximately €18.7 million to Debenture Holders series A and series B and. The total repayment amounted to approximately €25.4 million.

10. 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.

11. TAXES ON INCOME

The Company has received final tax assessments for the years 2003 to 2013.

Loss for the year amounts to €31.3 million (2015: €2.9 million), including net result from investments of €20.0 million profits (2015: €45.8 million losses), which is not deductible/taxable under the Participation Exemption described above. The Company assumes that the remaining other expenses and income will not result in tax benefits or tax expenses due to the available tax losses from previous years of the Company.

Up to and including 2016, Kardan N.V. has estimated tax losses of €73.9 million that are available for carry forward (according to the filed 2015 tax return, net of tax losses evaporated in 2016). 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 2013, Kardan N.V. has tax losses available for carry forward as per December 31, 2013 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 €1,311 thousand as of December 31, 2016 (as of December 31, 2015 amounted to 1,331 thousand). As of December 31, 2016 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.

12. OTHER PAYABLES

	December 31, 2016	December 31, 2015
	€in thousand	
Accrued expenses (mainly accrued interest on debentures)	3,170	30,574
Others	1,792	1,843
	<u>4,962</u>	<u>32,417</u>

13. GENERAL AND ADMINISTRATION EXPENSES

	December 31, 2016	December 31, 2015
	€in thousand	
Payroll and related expenses	1,834	2,343
Share-based payment	(146)	162
Management fees	473	523
Office maintenance	340	334
Professional fees	1,014	731
Depreciation and amortization	28	29
Other	(164)	463
	<u>3,379</u>	<u>4,585</u>

14. FINANCIAL INCOME (EXPENSES), NET

	For the year ended December 31	
	2016	2015
	€in thousands	
Income:		
Income from bank deposits	6	23
Exchange differences	3,194	8,945
Total financing income	<u>4,060</u>	<u>8,968</u>
Expenses:		
Interest on debentures	30,818	27,332
Exchange differences	18,585	42,557
Revaluation of warrant	236	2,035
Loss from early repayment of debentures	1,019	-
Other	827	724
Total financing expenses	<u>51,486</u>	<u>72,648</u>
Total financing expenses	<u>47,426</u>	<u>63,680</u>

15. AUDIT FEES

The tables below summarize the fees invoiced to the Company's by its auditors, PricewaterhouseCoopers Accountants N.V. and Ernst & Young in 2016 and in 2015, respectively:

<u>2016</u>	PwC	Others	Total
		€in thousand	
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	1,131	17	1,148

<u>2015</u>	PwC	Ernst & Young	Others	Total
			€in thousand	
Audit services – Kardan N.V.	355	134	-	489
Audit services – subsidiaries	632	509	51.4	1,192.4
Total statutory audit fees	987	642.9	51.4	1,681.3
Other services relevant to taxation	59	167	-	226
Other non-audit services	-	-	-	-
Total non-audit services	59	167	-	226
Total	1,046	809.9	51.4	1,907.3

16. REMUNERATION OF MANAGEMENT AND BOARD OF DIRECTORS

The Company's management and Board received remuneration in 2016 and 2015 as described in Note 36 to the consolidated IFRS financial statements.

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

For commitments, contingent liabilities, guarantees, and subsequent events please refer to notes 25 and 37, respectively of the consolidated IFRS financial statements.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

For disclosures required by IFRS 7 regarding financial instruments and risk management, refer to Note 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 2016

Our opinion

In our opinion:

- the accompanying consolidated non-statutory financial statements give a true and fair view of the financial position of Kardan N.V. as at 31 December 2016 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS);
- the accompanying company non-statutory financial statements give a true and fair view of the financial position of Kardan N.V. as at 31 December 2016 and of its result for the year then ended in accordance with the accounting principles as disclosed in the notes to the company non-statutory financial statements.

What we have audited

We have audited the accompanying non-statutory financial statements 2016 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 financial statements.

The non-statutory consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the following statements for 2016: the consolidated income statement and the consolidated statements of other comprehensive income and changes in equity and the cash flow statement; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The non-statutory company financial statements comprise:

- the company-only statement of financial position as at 31 December 2016;
- the company-only income statement for the year then ended;
- the company-only statement of changes in equity for 2016;
- the notes, comprising a summary of the accounting policies and other explanatory information.



The financial reporting framework that has been applied in the preparation of the non-statutory consolidated financial statements is EU-IFRS and the financial reporting framework that has been applied in the preparation of the non-statutory company financial statements is disclosed in the notes to the non-statutory company financial statements.

Material uncertainty related to going concern

We draw attention to the financial position and going concern paragraph in note 1B on page 14 of the financial statements, which indicates that the Company is currently negotiating transactions (sale of assets and refinancing of loans) with a number of prominent parties which it is confident will generate adequate resources to meet future liabilities in the next 12 months. The realization of the Company's plans depends on factors that are not wholly within the Company's control. These conditions indicate the existence of a material uncertainty which casts 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 are independent of Kardan N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in

the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

Responsibilities of the board of directors

The board of directors is responsible for:

- the preparation and fair presentation of the non-statutory consolidated financial statements in accordance with EU-IFRS and the preparation and fair presentation of the non-statutory company financial statements in accordance with the accounting policies as disclosed in the notes to the company non-statutory financial statements;
- 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 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.

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

Amsterdam, 22 March 2017

PricewaterhouseCoopers Accountants N.V.

Original has been signed by E. Hartkamp RA



Appendix to our auditor's report on the non-statutory financial statements 2016 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 others 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 consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the non-statutory financial statements as a whole.

Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the board of directors 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.

KARDAN N.V.

Financial data included in

Consolidated financial statements related to the company

For the year ended December 31, 2016

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, 2016 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, 2016	December 31, 2015
In €000			
A s s e t s			
Non-current assets			
Tangible fixed assets		95	114
Financial fixed assets			
Investments in consolidated subsidiaries		406,692	550,493
Loans to consolidated subsidiaries		23	22
		<u>406,810</u>	<u>550,629</u>
Current assets			
Cash and cash equivalents	2	1,754	22,867
Short-term investments	3	131	137
Other receivables	4	1,005	687
		<u>2,890</u>	<u>23,691</u>
Total assets		<u><u>409,700</u></u>	<u><u>574,320</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		34,772	36,713
Other reserves		6,633	8,144
Foreign currency translation reserve		23,590	24,711
Accumulated deficit		(259,420)	(229,865)
		<u>37,333</u>	<u>71,461</u>
Long-term liabilities			
Debentures		364,159	468,407
Option liability		3,246	2,035
		<u>367,405</u>	<u>470,442</u>
Current liabilities			
Other payables		4,962	32,417
Total equity and liabilities		<u><u>409,700</u></u>	<u><u>574,320</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>2016</u>	<u>2015</u>	<u>2014</u>
		In €000	
Net result from investments for the year	20,049	45,827	31,079
General and administrative expenses, net	3,379	4,585	5,508
Profit from operations before financing expenses	16,670	41,242	25,571
Finance income	4,060	23	286
Finance expenses	<u>(51,486)</u>	<u>(63,703)</u>	<u>(20,432)</u>
Financing expenses, net	<u>(47,426)</u>	<u>(63,680)</u>	<u>(20,146)</u>
Income tax expense	<u>574</u>	<u>477</u>	<u>334</u>
Net profit (loss) for the year	<u>(31,330)</u>	<u>(22,915)</u>	<u>5,091</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>2016</u>	<u>2015</u>	<u>2014</u>
	<u>In €000</u>		
Net profit (loss) for the year	<u>(31,330)</u>	<u>(22,915)</u>	<u>5,091</u>
Foreign currency translation differences	(1,121)	768	30,701
Change in hedge reserve, net	<u>(1,365)</u>	<u>(2,784)</u>	<u>(3,754)</u>
Other comprehensive income (expense) for the year to be reclassified to profit or loss in subsequent periods	<u>(2,486)</u>	<u>(2,016)</u>	<u>26,947</u>
Total comprehensive income (expense)	<u><u>(33,816)</u></u>	<u><u>(24,931)</u></u>	<u><u>32,038</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,		
	2016	2015	2014
	<u>In €000</u>		
Cash flow from operating activities of the Company			
Profit (loss) for the year	(31,330)	(22,915)	5,091
Adjustments to reconcile profit (loss) to net cash of the Company			
Financial expense	49,020	64,013	23,561
Dividend received	113,284	53,742	78,557
Share-based payment	(146)	163	191
Equity losses (earnings)	(20,049)	(45,827)	(31,079)
Changes in working capital of the Company			
Change in receivables	(873)	(138)	(730)
Change in payables	548	(1,154)	1,474
Cash amounts paid and received during the year			
Interest paid	(41,120)	(18,676)	(2,997)
Interest received	8	20	10
Net cash provided by operating activities of the Company	69,342	29,228	74,078
Cash flow from investing activities of the Company			
Short term investments, net	6	659	57
Net cash provided by (used in) investing activities of the Company	6	659	57
Cash flow from financing activities			
Investment in shares of a subsidiary	(4,003)	(150)	(21,966)
Debentures settlement payment	-	(750)	-
Repayment of long term debt	(86,458)	(6,725)	(67,788)
Net cash used in financing activities of the Company	(90,461)	(7,625)	(89,754)
Increase / (decrease) in cash and cash equivalents of the Company	(21,113)	22,262	(15,619)
Cash and cash equivalents at beginning of the period	22,867	605	16,224
Cash and cash equivalents of the Company at end of the period	1,754	22,867	605

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, 2016 the Company had, on a stand-alone basis and in the consolidated financial statements a working capital deficit of €1.5 million and €9 million, respectively (excluding debentures held by subsidiaries).

In 2016 the Company completed the sale of TBIF, generating a total of €2 million, and the sale of the remaining 25% in KWIG (see Note 5 to the consolidated financial statements). The Company early repaid in full the principal amount of the debentures that was payable in February 2017 using the proceeds from these transactions. The remaining interest of approximately €4 million was paid in February 2017. The sale of TBIF allows the Company a period of more than one year to sell assets in order to pay its obligations in 2018 and onwards.

Management prepared a two year liquidity analysis as part of its normal course of business which addresses the required liquidity to be able to repay interest and principal of the Company's debentures and all other liabilities in the year 2017 and onwards 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 Company is currently negotiating transactions (sale of assets and refinancing of loans) with a number of prominent parties which, it is confident will generate adequate resources to meet future liabilities in the next 12 months, as well as strengthening its financial position.

The directors are confident that, taking into account their plans to realize the transactions and the progress which has been made in that respect, the Company has the ability to obtain the required resources for repaying its obligations and continue its business operations in the future. Accordingly, the directors are satisfied that it is appropriate to prepare the non-statutory 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 wholly within the Company's control, and therefore there is uncertainty that such transactions will be completed or will generate sufficient resources to meet its liabilities according to their contractual maturities. According to established guidelines, these conditions indicate the existence of a material uncertainty which casts significant doubt regarding the Company's ability to repay its liabilities when they become due and its ability to continue as a going concern.

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

2. CASH AND CASH EQUIVALENTS

	December 31, 2016	December 31, 2015
	In €000	
EURO	1,496	3,942
NIS	257	18,603
USD	1	322
	<u>1,754</u>	<u>22,867</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 2016 and 2015.

3. SHORT TERM INVESTMENTS

	December 31, 2016	December 31, 2015
	In €000	
Pledged deposit	131	130
Deposit in a trust account	-	7
	<u>131</u>	<u>137</u>

The average interest earned in 2016 and 2015 was 0.5%.

4. OTHER RECEIVABLES

	December 31, 2016	December 31, 2015
	In €000	
Intercompany debtors	896	468
Prepaid expenses	109	208
Other	-	11
	<u>1,005</u>	<u>687</u>

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

	December 31, 2016	December 31, 2015
	In €000	
Financial assets:		
Loans to subsidiaries	23	22
Receivables	1,005	687
Short term investments	131	137
Cash and cash equivalents	1,754	22,867
	<u>2,913</u>	<u>23,713</u>

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

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	1,028	-	-	1,028
	<u>2,913</u>	<u>-</u>	<u>-</u>	<u>2,913</u>

Financial assets as of December 31, 2015

	Up to 1 year	1-2 years	2-3 years	Total
	In €000			
Cash and short term Investments	23,005	-	-	23,005
Loans and receivables	687	-	-	687
	<u>23,692</u>	<u>-</u>	<u>-</u>	<u>23,692</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 liabilities	-	-	-	-	3,246	-	3,246
Total	<u>5,694</u>	<u>168,816</u>	<u>127,758</u>	<u>120,135</u>	<u>3,246</u>	<u>-</u>	<u>425,649</u>

Financial liabilities as of December 31, 2015

	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 (*)	30,811	159,368	161,234	122,020	114,739	-	588,172
Option liability	-	-	-	-	-	2,035	2,035
Total	30,811	159,368	161,234	122,020	114,739	2,035	590,207

(*) 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, 2016	December 31, 2015
€thousands		
Debentures held by subsidiaries	75,820	119,214
The largest amount of loans and current debts during the year	23	22

B. Transactions with investee companies.

	December 31, 2016	December 31, 2015	December 31, 2014
€thousands			
Management fees	702	687	522
Guarantee fees	-	-	22
General and administrative expenses	210	254	467

9. ADDITIONAL INFORMATION:

a. Modification of option plan

In August 2015, the General Meeting of Shareholders of the Company approved a modification to the option plan of the Company's CEO, which replaced his existing option plan. During 2016, the options expired following the resignation of the CEO.

For additional information reference is made to Note 18 of the Consolidated Financial Statements.

Board of Directors

P. Sheldon

A. Schnur

J. Grunfeld

E. Rechter

E. Seinstra

C. van den Bos

B. Marsman

M. Groen

A. Hasson