

**PRESS RELEASE**

Amsterdam/Tel Aviv, March 23, 2017

Number of pages: 12

**2016 RESULTS KARDAN N.V.**

Ariel Hasson, CEO of Kardan NV: "2016 has been a transition year for Kardan, in which we met important milestones. The Company was able to complete two important transactions. In the first half of the year we completed the sale of the remaining 25% of KWIG for a net consideration of approximately \$ 27.7 million. In the third quarter we successfully completed the sale of our 100% subsidiary TBIF, the holding company of our banking and retail lending activities, for a total consideration of €82 million.

With these transactions, we generated a substantial cash flow enabling us to early repay the next repayment of debentures. We have completed our 2017 principle repayment obligations already in 2016, ahead of schedule, allowing us time to further optimize assets and maximize proceeds from selling assets which will be used for the next repayment in February 2018,.

We have witnessed considerable operational improvements in both our Real Estate Asia business and our Water Infrastructure business. We see positive developments in Galleria Dalian shopping mall, with an increased opening rate of 67% and a clear increase in footfall. Following the completion of several large projects, Tahal saw lower sales in 2016, however the continued drive for efficiency resulted in a further reduction of overhead costs. Moreover, the win of a 7 year large scale agricultural project in Angola in the third quarter more than doubled the backlog of Tahal, allowing Tahal to continue and strengthen its future profitability.

On the other hand, the high interest expense, both in our real estate division and on the holding level, and the volatility in exchange rates contributed negatively to the net result. Overall this resulted in a € 31.3 million net loss for the full year 2016.

Our focus remains on generating liquidity to meet our repayment obligation, while strengthening the performance of our operating subsidiaries. The early repayments of the debentures have put us in the position to continue to strengthen our assets. We believe that our actions are placing us on track for securing the repayment of our February 2018 obligations. Nevertheless, our ongoing efforts to secure the required funds take further time to materialize. As a consequence, the Company financial statements include an emphasis of matter regarding a going concern. We will continue to do the utmost to divest assets in a manner that will allow us to maximize value and proceeds, in the interest of all of Kardan's stakeholders."

*Highlights Q4 + FY 2016:*Kardan N.V.

- Q4 2016: €22.1 mn net loss to equity holders (Q4 2015: net loss of €18.1 mn)
- 12M 2016: €31.3 mn net loss to equity holders (2015: net loss of €22.9 mn)
- Both Q4 2016 and 12M 2016 were heavily impacted by high financing expenses and foreign exchange effects

Real Estate

- Q4 2016: €4.4 mn net loss, impacted by the negative fair value adjustment (€2.6 mn) of Galleria Dalian (Q4 2015: €4.0 mn loss)
- 12M 2016: €15.2 mn net loss, mainly due to increased financing expenses (2015: €8.9 mn profit, including a €20.9 mn revaluation gain of Galleria Dalian)

### Water Infrastructure

- Q4 2016: € 1.1 mn loss (Q4 2015: € 1.3 mn net profit)
- 12M 2016: € 0.9 mn net profit (2015: € 21.5 mn net profit including € 20.1 mn gain on the sale of KWIG)

### Other

- Heavy financing expenses of €35.7 million on the debentures, including €13.9 million, mainly resulting from the NIS/EURO revaluation
- The sale of TBIF (banking and retail lending activities) was completed in August 2016, generating a profit of € 15.2 million

The quarterly results 2016 of Kardan N.V. are shown in the table below:

## Condensed Consolidated Income Statement Kardan N.V.

### Condensed consolidated income statement 2016 Kardan NV by Quarter

	Q1/2016	Q2/2016	Q3/2016	Q4/2016	2016
	In € millions				
Total revenues	31.6	34.3	30.2	44.7	140.8
Total expenses	33.9	33.2	32.8	44.7	144.6
Profit (loss) from operation before fair value adjustments, disposal of assets and financial expenses	(2.3)	1.1	(2.6)	-	(3.8)
Profit (loss) from fair value adjustment and disposal of assets and investments	-	0.7	(1.7)	(2.7)	(3.7)
<b>Result from operations before finance expenses</b>	<b>(2.3)</b>	<b>1.8</b>	<b>(4.3)</b>	<b>(2.7)</b>	<b>(7.5)</b>
Financing expenses, net	(2.6)	(10.4)	(16.9)	(19.3)	(49.2)
Share of profit (loss) of associates and joint ventures according to equity method	3.3	(3.3)	2.2	0.6	2.8
Loss before income tax	(1.6)	(11.9)	(19.0)	(21.4)	(53.9)
Income tax (expenses)/ benefit	0.8	0.4	0.5	(0.6)	1.1
<b>Loss from continuing operations</b>	<b>(0.8)</b>	<b>(11.5)</b>	<b>(18.5)</b>	<b>(22.0)</b>	<b>(52.8)</b>
Profit from discontinued operations	2.4	3.9	15.2	-	21.5
Profit (Loss) for the period	1.6	(7.6)	(3.3)	(22.0)	(31.3)
Attributable to:					
Non-controlling interests	(0.3)	0.2	-	0.1	-
<b>Net result for equity holders</b>	<b>1.9</b>	<b>(7.8)</b>	<b>(3.3)</b>	<b>(22.1)</b>	<b>(31.3)</b>
Other Comprehensive income (loss)	(9.9)	(1.4)	0.1	8.7	(2.5)
<b>Total Comprehensive income (loss) to equity holders</b>	<b>(8.0)</b>	<b>(9.2)</b>	<b>(3.2)</b>	<b>(13.4)</b>	<b>(33.8)</b>

\*) Given the sale, the results of TBIF are being reported as discontinued operations.

**Condensed consolidated income statement Kardan N.V.**
**For the full year ended December 31, 2016:**

	Real Estate	Water Infrastructure	Other	Total 12M - 2016	Total 12M - 2015	Total 12M- 2014
In € millions						
Total revenues	8.5	129.7	2.6	140.8	173.9	194.4
Total expenses	16.2	122.8	5.6	144.6	185.5	197.9
Profit (loss) from operation before fair value adjustments, disposal of assets and financial expenses	(7.7)	6.9	(3.0)	(3.8)	(11.6)	(3.5)
Profit (loss) from fair value adjustments and disposal of assets and investments	(2.6)	0.5	(1.6)	(3.7)	21.1	26.1
<b>Result from operations before finance expenses</b>	<b>(10.3)</b>	<b>7.4</b>	<b>(4.6)</b>	<b>(7.5)</b>	<b>9.5</b>	<b>22.6</b>
Financing expenses, net	(12.4)	(1.9)	(34.9)	(49.2)	(64.9)	(19.7)
Share of profits (losses) of associates and joint ventures according to equity method	2.4	(1.1)	1.5	2.8	2.7	6.7
Profit (loss) before income tax	(20.3)	4.4	(38.0)	(53.9)	(52.7)	9.6
Income tax (expenses)/ benefit	5.1	(3.4)	(0.6)	1.1	(6.5)	(13.0)
<b>Profit (loss) from continuing operations</b>	<b>(15.2)</b>	<b>1.0</b>	<b>(38.6)</b>	<b>(52.8)</b>	<b>(59.2)</b>	<b>(3.4)</b>
Profit (loss) from discontinued operations	-	(0.1)	21.6	21.5	36.3	8.5
Profit (loss) for the period	(15.2)	0.9	(17.0)	(31.3)	(22.9)	5.1
Attributable to:						
Non-controlling interest	-	-	-	-	-	-
<b>Net result for equity</b>	<b>(15.2)</b>	<b>0.9</b>	<b>(17.0)</b>	<b>(31.3)</b>	<b>(22.9)</b>	<b>5.1</b>
Other comprehensive income/(loss)				(2.5)	(2.0)	26.9
<b>Total Comprehensive Income / (loss) to Kardan equity holders</b>				<b>(33.8)</b>	<b>(24.9)</b>	<b>32.0</b>

\*) Given the sale, the results of TBIF are being reported as discontinued operations as part of 'Other' and 'banking and retail lending' is no longer presented as a reportable segment.

## Overall summarized review of 2016 results

If developments are specifically attributable to Q4 2016, these are mentioned separately in all following analyses.

**Kardan** recognized a consolidated net loss for equity holders of €22.1 million for Q4 2016 (Q4 2015: €18.1 million net loss), bringing the result for the full year 2016 to a consolidated net loss for equity holders of €31.3 million (2015: €22.9 million net loss).

The segment Real Estate Asia showed a gradual improvement in revenues, mainly as a result of rental revenues from Galleria Dalian in China. The loss of €15.2 million in 2016 resulted primarily from significantly increased finance expenses and negative revaluations of inventories and investment property, while the 2015 net profit of €8.9 million included a significant fair value gain on Galleria Dalian.

The Water Infrastructure segment contributed a total profit of €0.9 million in 2016 compared with a profit of €21.5 million in 2015, which included a gain of €20.1 million from the sale of KWIG. Despite lower revenues, the profit from continuing operations before financing expenses and income taxes remained stable in 2016 at €6.4 million, due to strict cost control. The level of marketing activities increased, demonstrated by a large number of new tenders and by obtaining a 7 year large scale agricultural project in Angola which has doubled the backlog in Q4.

'Other' showed a net loss of €17.0 million (2015: net loss of €53.3 million), mainly due to financing costs on the debentures. In 2016 the strengthening of the NIS versus the Euro and the decrease in the Israeli CPI resulted in negative impact of €13.9 million, compared to €36 million in 2015. The financial services activities that were not sold in the TBIF transaction contributed positively to the results, following a positive one-off sale of a portfolio.

The profit from discontinued operations of €21.5 million relate to the contribution of the activities of TBIF (banking and retail lending) in Bulgaria and Romania until these activities were sold in August 2016 and a profit of €15.2 million on the sale of those activities.

Taking into account the direct equity impact of foreign currency translation differences and changes in the hedge reserves combined with the net result, the total comprehensive loss to Kardan NV's shareholders amounted to €33.8 million in 2016 compared to a comprehensive loss of €24.9 million in 2015.

## Equity

<b>Kardan N.V.</b> (company only, in € millions)	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Total Assets	409.7	574.3
Total Equity	37.3	71.5
Equity/Total assets (%)	9%	12%

The shareholder's equity of Kardan N.V. decreased from €71.5 million as of December 31, 2015 to €37.3 million as of December 31, 2016, mainly as a result of the loss of €31.3 million for 2016.

## Covenants

As at December 31, 2016, the Company and its subsidiaries met all their covenants.

## Financial position

For additional information regarding the Company's financial position, see Note 1 to the financial statements.

**Highlights per segment:**

The result from operations before finance expenses of each segment is presented in note 26 of the 2016 consolidated IFRS financial statements called "Segment result". In this press release, additional details are provided for information purposes.

**REAL ESTATE**

Kardan is active in development and management of Real Estate through the segment Real Estate, which comprises its 100% subsidiary Kardan Land China Ltd. ('KLC') operating in China.

**Results Real Estate Asia**

	For the year ended December 31,		For the three months ended December 31,	
	In € millions			
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Delivery of units	0.8	0.8	0.2	0.3
Rental income	3.7	1.8	0.9	0.8
Management fee and other revenues	4.0	4.1	1.0	1.4
<b>Total revenues</b>	<b>8.5</b>	<b>6.7</b>	<b>2.1</b>	<b>2.5</b>
Cost of delivery of units	0.7	0.9	0.1	0.4
Cost of rental income	1.5	1.5	0.2	0.6
Other expenses and management & service recharge expenses, net	5.1	3.2	1.4	1.2
<b>Gross profit</b>	<b>1.2</b>	<b>1.1</b>	<b>0.4</b>	<b>0.3</b>
SG&A expenses	8.9	11.4	2.2	2.8
Adjustment to fair value (impairment) of investment property	(2.6)	20.9	(2.2)	(0.7)
Gain on disposal of assets and other income	-	0.4	-	-
Equity earnings	2.4	2.6	1.0	2.4
<b>Result from operations before finance expenses</b>	<b>(7.9)</b>	<b>13.6</b>	<b>(3.0)</b>	<b>(0.8)</b>
Financing expenses, net	(12.4)	(1.6)	(1.6)	(3.1)
Income tax (expenses) / benefit	5.1	(3.1)	0.2	(0.1)
<b>Net profit (loss) to Equity holders</b>	<b>(15.2)</b>	<b>8.9</b>	<b>(4.4)</b>	<b>(4.0)</b>

<b>Residential projects Kardan Land China</b>				
Units sold in the period				
	<b>2016</b>	<b>2015</b>	<b>Q4/16</b>	<b>Q4/15</b>
<b>Joint Venture projects*</b>				
Olympic Garden	593	563	156	146
Suzy	10	64	3	8
Palm Garden	88	70	20	17
City Dream	618	423	64	132
	<b>1,309</b>	<b>1,120</b>	<b>243</b>	<b>303</b>
<b>100% owned</b>				
Dalian	14	269	12	2
<b>Total</b>	<b>1,323</b>	<b>1,389</b>	<b>255</b>	<b>305</b>

\* 100% number presented; KLC holds approx. 50%

#### Additional information Kardan Land China

<b>Balance sheet</b>	For the year ended December 31,	
	<b>2016</b>	<b>2015</b>
	In € millions	
Share of investment in JVs	69.2	69.6
Investment Property	240.5	250.3
Inventory	101.5	99.7
Cash & short term investments	33.5	43.0
<b>Total Assets</b>	<b>518.2</b>	<b>523.2</b>
Loans and Borrowings	111.2	100.7
Advance payments from buyers	50.0	34.3
<b>Total Equity</b>	<b>302.5</b>	<b>324.5</b>

<b>Operational Information Residential</b>	<b>2016</b>	<b>2015</b>	<b>Q4/16</b>	<b>Q4/15</b>
Revenue Residential - JV (in € millions)	57.5	69.6	11.4	30.4
Gross profit residential - JV (in € millions)	15.7	16.0	6.1	8.1
Apartments sold in period (a)	1,323	1,389	255	305
Apartments delivered in period (b)	1,417	2,012	210	779
Total apartments sold, not yet delivered (c)	2,114	2,208	2,114	2,208

(a) All residential apartments, incl. Dalian (100%).

(b) Includes 4 apartments delivered in the Dalian project in 2016 (2015 – 2 apartments).

(c) Includes approximately €23.8 mn gross profit (Kardan Land China share) as of December 31, 2016.

#### Result analysis for the full year 2016

*If developments are specifically attributable to Q4 2016, these are mentioned separately in all following analysis.*

The Real Estate Asia segment, fully comprising Kardan Land China, contributed a loss of €15.2 million in 2016 compared with a net profit of €8.9 million in 2015. The 2015 net profit included a fair value gain of €20.9 which was recognized upon completion of Galleria Dalian in Q2 2015, while 2016 net loss includes a negative revaluation of €2.6 related to Galleria Dalian.

In 2016 the total revenues increased to €8.5 million compared with €6.7 million in 2015, reflecting the growing rental revenues of Galleria Dalian shopping mall, which opened in August 2015. Therefore 2015 only included €1.8 million of rental income from Galleria Dalian, versus €3.7 million in 2016.

Delivery of units relates to the revenue resulting from the handover of apartments of the Europark Dalian project, which remained stable at €0.8 million in 2016.

Management fee and other revenues predominantly relates to the asset management activities of Galleria Chengdu and Galleria Dalian and the residential joint venture projects. These revenues remained stable at €4.0 million. Due to start-up costs related to the opening of the Dalian shopping mall in August 2015, the results of the asset management activities were negative compared with a positive result in 2015.

A decrease was recognized in SG&A expenses mainly due to decrease in staff costs and marketing expenses associated with residential activities.

The above resulted in a decrease of the loss from operations before fair value adjustments, disposal of assets and financial expenses of €10.3 million in 2015 to €7.7 million for the full year 2016.

'Equity earnings', comprises the result of the residential activities from joint venture projects, which contributed a profit of €2.4 million in 2016 compared with a profit of €2.6 million in 2015. The gross margin on the residential apartments was increased to 27% compared to 23% in 2015 as a result of enhanced cost control and budgetary planning. The impact of the higher gross margin in 2016 was offset by inventory impairments taken by the joint ventures in 2016.

'Financing expenses, net', amounted €12.4 million, compared with €1.6 million in 2015. The financing expenses mainly include interest expenses related to the Europark Dalian project loan. A small negative impact of €0.4 million was due to the devaluation of the RMB versus the Euro, compared with the substantial appreciation of the RMB during 2015 which contributed a gain of €7.2 million.

Income tax (expenses) / benefit in 2016 include a deferred tax benefit which was created on tax losses. In 2015 this mainly included deferred tax expenses related to the fair value gain of Galleria Dalian.

#### Additional Information

Investment property fully relates to Galleria Dalian shopping mall, of which the value decreased by 4% (from December 31, 2015) due to the depreciation of the RMB versus the Euro and a decrease in its valuation. 2016 was the first full year in operation for Galleria Dalian. All operational indicators show a gradually increasing trend. The opening rate of shops grew from 43% at 31 December 2015 to 67% at 31 December 2016. The food market, which opening is planned for April 2017, will add an additional 6% and is expected to increase footfall. Also marketing events contributed to a significant increase in footfall. These positive indicators translated into increased tenant proceeds.

The rate of unsold completed units in inventory (including the inventory of joint venture projects) increased to 17% compared with 10% on December 31, 2015 while the number of unsold apartments inventory decreased significantly to 477 (vs 1,327 end of last year).

'Loans and borrowings', which predominantly relate to the use of a construction loan for Europark Dalian, increased to €111.2 million as at December 31, 2016 compared to year end 2015 (€100.7 million), mainly as the result of an additional withdrawal of RMB 100 million in February 2016. KLC works diligently on its refinancing requirements and is in constructive negotiations with its financing partners to extend the €111.2 million loan, which is due in November 2017. The management of KLC is confident regarding its ability to reach agreement on this refinancing.

The decrease in equity in the reporting period by 7% (y-o-y) is attributable to foreign currency effect and the loss for the year.

## WATER INFRASTRUCTURE

Tahal Group International B.V. ('TGI'), Kardan's water infrastructure company, focuses on executing water related projects worldwide through its subsidiary Tahal, which is active in Africa, Central and Eastern Europe, India and in other regions and countries, such as Israel.

### Results Water Infrastructure

TGI's former subsidiary KWIG, which focuses on developing water assets (e.g. wastewater, water treatment and water supply plants) in China was sold at the beginning of 2015 and the first phase of the sale (75%) was completed in March 2015. The second phase (25%) was completed in June 2016. Results related to sale of KWIG are presented as discontinued operations.

	For the year ended December 31,		For the three months ended December 31,	
	In € millions			
	2016	2015	2016	2015
Contract revenues	129.7	167.9	42.4	38.1
Contract cost	108.6	142.9	35.6	33.2
<i>Gross profit</i>	21.1	25.0	6.8	4.9
<i>In %</i>	16.2%	14.9%	16.0%	12.9%
SG&A expenses	14.2	17.4	3.5	5.0
Equity earnings / (losses)	(1.1)	(1.5)	(0.8)	-
Gain on disposal of assets and other income	0.5	0.3	(0.5)	0.2
<b>Result from operations before financing expenses</b>	<b>6.3</b>	<b>6.4</b>	<b>2.0</b>	<b>0.1</b>
Financing income (expenses), net	(1.9)	(2.1)	(2.4)	0.1
Income tax expenses	(3.4)	(2.9)	(0.7)	-
<b>Profit (loss) from continuing operations</b>	<b>1.0</b>	<b>1.4</b>	<b>(1.1)</b>	<b>0.2</b>
Net profit (loss) from discontinued operations	(0.1)	20.1	-	1.1
Net profit (loss)	0.9	21.5	(1.1)	1.3
Attributable to:				
<b>Equity holders (Kardan N.V.)</b>	<b>0.9</b>	<b>21.5</b>	<b>(1.1)</b>	<b>1.3</b>

<b>Additional Information Water Infrastructure*</b>	<b>2016 (31.12)</b>	<b>2015 (31.12)</b>
<i>Balance sheet (in € millions)</i>		
Cash & short term investments	19.2	24.0
Total Assets	159.7	171.2
Net debt / (cash)	(3.1)	(21.9)
Equity	43.8	64.8
Equity / Assets	27.4%	37.9%
<i>Other (in USD million)</i>		
Backlog	606	311



### Result analysis for the full year 2016

The Water Infrastructure segment contributed a total profit of €0.9 million for the full year 2016 compared with a profit of €21.5 million in FY 2015. The full year results 2015 included a gain of €20.1 million on the sale of KWIG. The Water Infrastructure segment contributed a profit from continuing operations of €1.0 million compared with a profit of €1.4 million in FY 2015. In Q4 2016, Tahal won a 7 year large scale agricultural project in Angola, together with its partner. The project added \$370 million to the backlog at Q4 2016.

Revenue for the full year decreased from €167.9 million in 2015 to €129.7 million. This was mainly due to completion of two large projects. Revenue in the fourth quarter 2016 however showed an increase compared to Q4 2015, mainly due to significant progress achieved in a number of new projects.

As a result of projects mixture, the gross margin improved and stands at 16.2% in FY 2016 (FY 2015: 14.9%).

In 2016 SG&A expenses decreased mainly as a result of improved operational efficiency, which was especially notable in the fourth quarter of 2016.

For the full year, the gain on disposal of assets and other income amounts to €0.5 million. This relates mainly to the sale of an asset in Bulgaria in Q2 2016, off-set by a provision for doubtful debts taken in Q4.

Financing expenses amounted to €1.9 million for the full year 2016 (2015: €2.1 million). This is due to the devaluation of the Euro, which resulted in financing expenses of €2.4 million in the fourth quarter 2016. In 2015 financing expenses were impacted by a one-off charge of €3 million following the early repayment of a loan during Q1 2015.

The small net loss from discontinued operations primarily relates to the weakening of the USD versus the Euro (as the consideration from the sale of the remaining 25% of KWIG was denominated in USD) and also due to additional tax expenses which are attributed to the sale.

## Other

	For the year ended December 31,		For the three months ended December 31,	
	2016	2015	2016	2015
	In € millions			
<u>Corporate expenses:</u>				
General and administrative expenses	(3.7)	(5.1)	(1.1)	(1.3)
Financing expense, net	(35.7)	(60.1)	(15.3)	(14.7)
Other expenses	-	(0.8)	-	(0.8)
Equity losses	-	(0.1)	-	-
Income tax expenses	(0.6)	(0.5)	(0.1)	(0.2)
	(40.0)	(66.6)	(16.5)	(17.0)
<u>Continuing operations of the former 'banking and retail lending' segment:</u>				
Loss on disposal of assets and other income	(1.6)	(0.5)	-	(0.9)
Equity earnings	1.5	1.7	0.4	0.1
Other income (expenses), net	1.5	(4.1)	(0.5)	(0.1)
	1.4	(2.9)	(0.1)	(0.9)
Loss from continuing operations	(38.6)	(69.5)	(16.6)	(17.9)
Profit from discontinuing operations	21.6	16.2	-	2.5
<b>Net loss</b>	<b>(17.0)</b>	<b>(53.3)</b>	<b>(16.6)</b>	<b>(15.4)</b>
Attributable to:				
Equity holders (Kardan NV)	<b>(17.0)</b>	<b>(53.3)</b>	<b>(16.6)</b>	<b>(15.4)</b>

As a result of completing the sale of TBIF, its results and the profit from the sale were reclassified as discontinued operations and are now presented under 'Other'.

Results under 'Profit (loss) from continuing operations' relate to the corporate holding and finance expenses of Kardan N.V. and its direct subsidiary GTC Real Estate Holding B.V. (GTC RE), as well as the results of the assets which were part of the banking and retail lending segment, but were not sold as part of the sale of TBIF. As of December 31, 2016 this primarily relates to Avis Ukraine which results are reported under 'Equity earnings (losses)'.

### Corporate expenses

Efficiency measures, the forfeiture of options and a reduction in expenses related to the debt settlement have substantially decreased the 'General and administrative expenses' in 2016 compared with 2015.

'Financing expenses, net' decreased significantly in 2016 compared with 2015, mainly attributable to foreign exchange differences. The Company's debentures are denominated in NIS, which revaluated significantly versus the Euro, and are linked to the CPI. In 2016 a net expense of € 13.9 million (Q4 2016: € 11.1 million) was recognized from the strengthening of the NIS and the decrease in the Israeli CPI against the Euro while in 2015 a net expense of € 36 million was recognized.

It is noted that the Company's equity is mostly exposed to the Chinese RMB on its assets side and to NIS on its liabilities side. Changes in the NIS exchange rate mostly impact the income statement while changes in RMB mostly impact the equity directly.

Continuing operations of the former 'banking and retail lending' segment realized a profit of € 1.4 million (2015: loss of € 2.9 million), mainly as a result of the sale of a portfolio in Q2 2016. In Q3 2016 the Company recognized a loss of € 1.7 million due to a revaluation of the remaining mortgage activity in light of its disposal in Q4 2016, and AVIS Ukraine continued contributing positively.

#### Discontinued operations

Results under `Profit (loss) from discontinuing operations` relate to the contribution of the activities of TBIF (banking and retail lending) in Bulgaria and Romania, that were sold in August 2016 and the profit of € 15.2 million from the sale of these activities recognized in Q3.

#### **OUTLOOK 2017**

In 2017, Kardan's focus remains on generating liquidity, amongst others, through asset transactions required to meet its repayment obligation in February 2018, while strengthening the performance of the operating subsidiaries. Kardan's Executive management in parallel continues to work with its business segments to improve their results and their value to Kardan.

Given that Kardan is exposed to the currency movements of the NIS and the RMB versus the Euro – as its liabilities are in NIS, its assets are predominantly in RMB and it reports in Euro - the Company's results are dependent to a large extent on these currency movements and therefore the Company cannot give guidance on its results.

A cash flow forecast for the coming two years can be found in the Directors' Report on page 12, and the accompanying Assumptions and Notes to the Cash Flow forecast.

## DISCLAIMER

This press release contains forward-looking statements and information, for example concerning the financial condition, results of operations, businesses and potential exposure to market risks of Kardan N.V. and its group companies (jointly "Kardan Group"). All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements (including "forward looking statements" as defined in the Israeli Securities Law). Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "objectives", "outlook", "probably", "project", "will", "seek", "target", "risks", "goals", "should" and similar terms and phrases. A variety of factors, many of which are beyond Kardan Group's control, affect our operations, performance, business strategy and results and could cause the actual results, performance or achievements of Kardan Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. For Kardan Group, particular uncertainties arise, amongst others but not limited to and not in any order of importance, (i) from dependence on external financing with the risk that insufficient access to capital threatens its capacity to grow, execute its business model, and generate future financial returns (ii) from concentration of its business in Central Eastern Europe and China as a result of which Kardan Group is strongly exposed to these particular markets (iii) from risks related to the financial markets as a result of Kardan N.V.'s listings on Euronext Amsterdam and the Tel Aviv Stock Exchange and (iv) from it being a decentralized organization with a large number of separate entities spread over different geographic areas in emerging markets, so that Kardan Group is exposed to the risk of fraudulent activities or illegal acts perpetrated by managers, employees, customers, suppliers or third parties which expose the organization to fines, sanctions and loss of customers, profits and reputation etc. and may adversely impact Kardan Group's ability to achieve its objectives and (v) from any of the risk factors specified in Kardan N.V.'s Annual Report and in the related "Periodic Report" (published by Kardan N.V. in Israel) published in April, and which is also available at the Kardan website. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Kardan N.V. does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.

## About Kardan

Kardan identifies and develops assets in promising emerging markets, mainly in Asia (predominantly China), Africa and selected CEE and CIS countries. Its activities are mainly focused on two sectors that benefit from the rising middle class: Real Estate and Water Infrastructure. Company headquarters are in the Netherlands. Kardan aims at holding controlling interests in its investments and is actively involved in the definition and implementation of their strategy through its local business platforms. Total assets as of December 31, 2016 amounted to €665 mn; revenues totaled €141 mn in 2016. Kardan is listed on Euronext Amsterdam and the Tel Aviv Stock Exchange.

**The Directors' Report including the non-statutory consolidated financial statements, drawn up in line with the Dutch and Israeli regulations, are presented in a separate document and form an integral part of this release.**

### For further information please contact:

Floor van Maaren / Eva Lindner

+31 (0)6 2959 7746 / +31 (0) 6 3422 2831

Investor@kardan.nl

www.kardan.nl

*"This press release contains regulated information (gereguleerde informatie) as defined in the Dutch Act on Financial Supervision (Wet op het financieel toezicht)"*

## **Directors' Report and Financial Statements Kardan N.V. Full Year 2016**

**Amsterdam/Tel Aviv, March 23, 2017**

**Number of pages: 26**

The Additional Information and the Financial Statements of Kardan N.V., Full Year 2016, are drawn up in accordance with the Dutch and Israeli regulations and together with the separately presented press release on the Q4 and Full Year 2016 results of Kardan ('Kardan'/ 'the Company') form an integral part of the regulatory requirements and presentation.

### **FINANCIAL REPORTS FOR THE FULL YEAR ENDED DECEMBER 31, 2016**

---

The Financial Reports contain the following sections:

#### **PART 1**

- Main events in the period and subsequent to balance sheet date
- Book Value of investments of Kardan as of December 31, 2016
- Financial position of Kardan Group as of December 31, 2016
- Market Risks Management

#### **PART 2**

1. Financial analysis of consolidated balance sheet and cash flow statement
2. Fair Value disclosure
3. Issuance of debentures
4. Sensitivity analysis of the fair value of financial instruments
5. Linkage balance sheet
6. Directors with accounting and financial expertise
7. Critical accounting estimations
8. Internal audit at Kardan NV
9. Donations policy
10. Classification of minor transactions
11. Audit fees

#### **PART 3           NON-STATUTORY IFRS FINANCIAL STATEMENTS INCLUDING INDEPENDENT AUDITOR'S REVIEW REPORT**

**(PUBLISHED ON THE WEBSITE OF KARDAN N.V. (WWW.KARDAN.NL))**

#### **PART 4           ADDITIONAL INFORMATION PURSUANT TO ISRAELI LAW**

## PART 1

---

### 1.1. Main events in 2016 and subsequent to balance sheet date

#### KARDAN

- In March 2016, Mr. Shouky Oren had informed the Board of Directors of Kardan N.V. of his intention to leave the Company, after four years as CEO and member of the Board of Directors. The Board has appointed Mr. Ariel Hasson, CEO of Kardan Financial Services, as the new CEO of Kardan N.V. to replace Mr. Oren who relinquished his duties on April 15, 2016. Mr. Hasson was nominated as an Executive Board Member at the Company's Annual General Meeting that took place on May 26, 2016.
- On August 4, 2016, S&P has ratified the rating (iilB with outlook Negative) of Kardan and its Debentures Series A and series B following the completion of the sale of KWIG at the end of June 2016 and the expected sale – at that date - of TBIF.
- On July 24, 2016, the Company made an early repayment of accrued interest and principal of debentures series A and series B amounting to EUR 26 million, using the proceeds from the sale of the 25% of KWIG and existing funds.  
On September 2, 2016, the Company made an early repayment of accrued interest and principal of debentures series A and series B amounting to EUR 62 million, using the net proceeds from the sale of TBIF and existing cash balances.  
On November 14, 2016 the Company made an early repayment of accrued interest and principal of debentures series A and series B amounting to EUR 15 million, using the net proceeds from the adjustment amount from the sale of TBIF and existing cash balances.
- On December 12, 2016 the Company approved in a special general meeting the appointment of Mr. Max Groen as a non-executive independent director of the Company and his Compensation.

#### REAL ESTATE

- In January 2016, Kardan received EUR 13.2 million (the 'Dalian Deposit'), following the release of the pledges which were registered to secure the previous Dalian project loan.
- In February 2016, the Company, GTC RE and Lone Star Real Estate III (the 'Buyer') signed a settlement agreement, according to which GTC RE would pay the Buyer an amount of EUR 4 million (the 'Settlement Amount') 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 mechanism, and of mutual cancellation and deletion of all proceedings taken in this matter. The settlement did not have any impact on the Company's income statement in 2016.
- In February 2016, Kardan Land Dalian Ltd. withdrew an additional amount of RMB 100 million (EUR 14 million) from its RMB 1 billion credit facility from Ping An Trust, which was announced by the Company on October 27 and November 30, 2015.

## WATER INFRASTRUCTURE

- In June 2016, the Company announced that Tahal Group Assets B.V. ('Tahal Assets') completed the sale of the remaining 25% of the shares in the Chinese water infrastructure company Kardan Water International Group Ltd. ('KWIG') to China Gezhouba Group Investment Holding Co. Ltd. ('CGGC Investment') (the 'Transaction'). The total consideration for the 25% stake amounts to USD 27.7 million (including interest). In addition, Tahal Assets has paid the taxes due on the sale of the 75% of KWIG shares. Therefore, according to the trust agreement that was signed, the amount of the tax deposit will be reduced to USD 1.7 million (from USD 10 million as previously announced), to cover the taxes due by Tahal Assets on the second phase of the transaction. This amount will be transferred from the funds already reserved by Tahal Assets from the proceeds of the first phase of the sale of KWIG. As a result no additional tax deposit is required from the consideration of the second phase of the Transaction. The net consideration (less cost of sale) for this second phase of the Transaction were used by Tahal Assets for dividend distribution to its shareholders. Kardan used the received funds for partial early repayment of its debentures, in accordance with the provisions of the Amended Deeds of Trust dated July 2, 2015. Refer to section 1.2 for additional information.
- In April 2016, Star Pumped Storage Ltd., in which Kardan's subsidiary Tahal Consulting Engineers Ltd. ('TCE' - A subsidiary held 98.43% by Kardan N.V.) holds a 40.5% stake, has signed a principle construction agreement ('the Agreement') with a joint consortium, comprising Sinohydro Corporation (a subsidiary of Power China, one of the leading energy companies in China) and Alstom Hydro France ('AHF', which was acquired by GE).  
The Agreement encompasses a full EPC (engineering, construction and procurement) turn-key assignment for the Project, representing a total amount of NIS 1.7 billion (approximately EUR 394 million). In addition, an operating and maintenance agreement was signed with AHF in the amount of NIS 16 million (approximately EUR 4 million) per year, for a period of up to 18 years, including possibilities to end earlier as stipulated in the agreement. The terms of the two agreements are subject to the approvals of the banks financing the Project, Bank Leumi Le Israel Ltd. and Bank Hapoalim Le Israel Ltd. In addition, the completion of both agreements is subject to completion of the financial closing for the entire project.
- In January 2017 the Company announced that Tahal is negotiating the sale of 49% of its 40.5% stake in Star Pumped Storage Ltd. (i.e. 19.8% of the rights in the Project) in consideration for approximately NIS 40-50 million (€10-12 million). The sale is subject to various conditions which will be stipulated in the sale agreement, and are being discussed between the parties. It is noted that as of the date of approval of these financial statements, the parties negotiate the sale of the remaining of Tahal's stake in Star Pumped Storage Ltd.
- In October 2016, an indirect held subsidiary of Tahal Group B.V. signed together with its 50% partner (ZRB Consulting Finance & Development Limited ('ZRB')), an agreement with Gesterra – Gestao de Terras Araveis S.A., a company owned by the government of Angola regarding the operation and management of a large scale agricultural project in the Quiminha area in Angola (the 'Agreement' and the 'Project', respectively).  
The Quiminha Project is a communal agricultural project, located 70km east of the capital Luanda over an area of 5,000 ha. In an earlier phase, Tahal was assigned by the government of Angola to provide a full range of services to make the land suitable for agricultural use and to build the infrastructure for full communal and commercial services for the farmers and inhabitants. After successfully handing-over this project in mid-2016, Tahal has now been assigned with its partner for the operation and management of the site. According to the Agreement, Tahal and ZRB will operate and manage this agricultural project which includes 300 private farms, thousands of acres of crops, grains, vegetables and fruits in open areas and in green houses and chicken coops. The Project furthermore comprises water infrastructure and water treatment, irrigation, and various facilities in relation to crops, live-stock and the distribution of products. The extent of crops expected in the Project will reach approximately 60,000 tons of agricultural products per year to be sold in the domestic market. Under the Agreement, Tahal and ZRB undertook the responsibility to supply all equipment necessary for the operation of the Project, employing managerial and professional teams to operate the Project, and to pay a franchise fee to the government of Angola which has rights in the Project. The Agreement is for a period of 7 years, with an extension option for an additional 5 years.

Tahal and ZRB will be entitled, in equal shares, to the entire proceeds arising from the sale of the agricultural products, estimated at an average of USD 52 million annually for the duration of the Agreement. Accordingly, the gross proceeds to Tahal and ZRB during the initial period is estimated at USD 370 million. The Project commenced immediately and Tahal recognized the initial (immaterial) revenues in the fourth quarter of 2016. In parallel, the parties have signed a memorandum of understanding with an International Fund with respect to financing the majority of the required equity for the Project, which will be nonrecourse to the parties. Signing a binding agreement is expected in the coming period. The expected revenues from the Project of USD 370 million is in addition to the existing backlog of Tahal Group, at that date, of more than USD 300 million. All the projects included in the backlog are for immediate execution, and do not require financing, financial closing and/or regulatory approvals.

#### Others

- On August 11, 2016, Kardan Financial Services B.V. ('KFS'), the Company's wholly owned subsidiary, completed the sale of its 100% holding in the subsidiary TBIF, comprising the banking and retail lending activities of the Kardan Group. The total consideration of the Transaction comprises two parts, a sum of circa EUR 69 million which was paid at the time of closing, plus an adjustment to take into account the reviewed result of the sold assets since January 1, 2016. The adjustment, amounting to EUR 13 million, was paid in October 2016. Following the completion of the transaction, the Company recognized a gain of EUR 15 million. Prior to the completion of the transaction TBIF had transferred to KFS all assets that are not part of TBIF's banking and retail lending activities. These assets, including Avis Ukraine, are not part of the Transaction. KFS undertakes 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, KFS has deposited an amount of EUR 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 EUR 5 million after one year. In addition, Kardan will guarantee KFS's obligation in this respect. The buyer, 4finance Holding S.A., is one of Europe's largest and fastest growing online and mobile consumer lending groups with operations in 14 countries.
- In October 2016, KFS signed an agreement to sell its 100% holding in the subsidiary TBIF Bulgaria. As a result, the Company recorded an impairment of EUR 1.7 million in the third quarter of 2016.



## 1.2. Book value of investments Kardan N.V.

The following table summarizes the book value of the companies held directly by Kardan as of December 31, 2016 and, 2015 (amounts in EUR million):

Holding Company	Name of subsidiary	Share in subsidiary	Consolidated equity	Share holders consolidated equity	Adjustments of Kardan NV	Book Value in Kardan NV	Share holders Loans	Total Investment in books 31.12.16	Total Investment in books 31.12.15
Kardan NV	GTC RE Holding	100%	275.4	275.4	1.0	276.4	(14.5)	261.9	301.4
	KFS	100%	36.6	36.6	-	36.6	-	36.6	84.5
	TGI	98.43%	44.1	43.7	(3.5)	40.2	-	40.2	60.4
	Emerging Investments XII,	100%	53.5	53.5	-	53.5	-	53.5	130.5

Holding Company	Name of subsidiary	Share in subsidiary	Consolidated equity	Share holders consolidated equity	Adjustments of GTC RE	Book Value in GTC RE	Shareholders Loans	Total Investment in books 31.12.16	Total Investment in books 31.12.15
GTC RE Holding	Kardan Land China	100%	302.5	302.5	1.9	304.4	(50.2)	254.2	290.1

Holding Company	Name of subsidiary	Share in subsidiary	Consolidated equity	Share holders consolidated equity	Adjustments of TGI	Book Value	Loans granted by TGI	Total Investment in books 31.12.16	Total Investment in books 31.12.15
TGI	Tahal Group Assets B.V.	100%	8.7	8.7	-	8.7	(3.3)	5.4	24.8
	Tahal Group B.V.	100%	40.2	40.2	-	40.2	0.3	40.5	41.4

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

(\*\*) For further information regarding dividends amount, shareholders loans and management fees that were paid during 2016, please refer to section 13 of Part 4 of the Barnea report.

(\*\*\*) GTC RE holds NIS 26,666,667 par value debentures (Series A) of the Company having a liability value of € 7.9 million.

(\*\*\*\*) Emerging Investment XII B.V. holds the following Kardan N.V Debentures as of December 31, 2016:

	Nominal Value	Liability Value including accrued interest in € mn
Series A	109,839,448	32.7
Series B	120,381,450	35.8

### 1.3. Financial Position of holding companies of the Kardan Group as of December 31, 2016

- **Net debt**

The following table summarizes the net debt of Kardan N.V. (company only) and if applicable of its directly held subsidiaries as of December 31, 2016:

Company	Net Debt * (in EUR million)	
<b>Kardan NV / GTC RE / Emerging Investments XII</b>	<b>Liabilities:</b>	
	Debentures**	(295.9)
	FIMI liability	(2.3)
	<b>Assets:</b>	
Cash and short term investments	1.9	
	<b>Net debt</b>	<b>(296.3)</b>
<b>KFS</b>	<b>Assets:</b>	
	Cash and short term investments	18.3
	Loans to subsidiaries and other receivables	<u>6.6</u>
	<b>Net cash</b>	<b>24.9</b>
<b>TGI</b>	<b>Liabilities</b>	
	Long-term liability	(0.5)
	<b>Assets:</b>	
	Cash and short term investments	1.3
	<b>Net cash</b>	<b>0.8</b>

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

(\*\*) The balance is presented net of debentures held by subsidiaries, see section 1.2 above.

#### 1.4. Market Risks Management

The CEO of the Company, Mr. Ariel Hasson, and the CFO, Ms. Einat Oz-Gabber, are responsible for Kardan's overall Risk Management. Each operating segment is managed by a managing director or by a board of directors which are responsible for risk management. In addition, each operating company has a senior manager who is responsible for risk management. Those responsible for risk management are operation in accordance with the risk management policy determined by the board of directors. For information regarding the background of those in charge of risk management in the Company, reference is made to section 26 in part 4 to this report, and to the corporate site of Kardan, [www.kardan.nl](http://www.kardan.nl)

##### **Market risks to which the Company is exposed**

###### Liquidity risk

The Company finances its activities by, among other, long and short term credit from banking and non-banking institutions. The Group's activities depends on its ability to continue raising capital to develop its business and meet its obligations. Capital structure and liquidity situation are run differently from segment to segment depending on the nature of operations. At the same time, Kardan is managing its investments and activities with attention to the liquidity and therefore monitors future cash flows and liquidity and the Group companies on an ongoing basis (see cash flow forecast later in the report).

###### Currency Risk

Since Kardan Group is active in different countries, it is exposed to fluctuations in exchange rates of various currencies such as Euro, USD, RMB and NIS. The majority of Kardan N.V.'s assets are denominated in Chinese currency while most of its financial liabilities are denominated in Israeli Shekel., This causes exposure to both equity and results. In 2016 changes in exchange rates significantly impacted the financial statements of Kardan N.V., mainly in light of the strengthening of the Israeli Shekel against the Euro. It is noted that during the first quarter of 2017, until the date of signing this report, the Israeli Shekel has strengthen by approximately 4% compared to the Euro, which could have a significant negative effect of the Company's results.

###### Credit Risk

The Group is exposed to credit risk relating to trade and other receivable, cash and cash equivalents, deposits and other financial assets (including loans granted).

###### Interest Risk

The Group's exposure to interest rate risk arises mainly from loans.

##### **Market Risks Management Policy**

Kardan's business strategy is to focus on emerging markets. Emerging markets are inherently more volatile and therefore often exposed to risks arising from unforeseen changes such as geopolitical, political, regulatory and economic. In cases where there is a conflict between the economic market risk and accounting exposures the Company prefers managing the economic risks over the accounting exposures.

Developments and shocks in global markets and particularly in the operating markets may affect the liquidity of Kardan N.V., its equity value, the value of its assets, its ability to realize its assets, the state of its business (including the demand for its assets), its ability to distribute dividends and its ability to raise finance for its ongoing activities and long-term activities, as well as the terms of such financing.

Kardan NV's management conducts regular discussions in which the overall liquidity risk management principles are determined. Management also focuses on maintaining cash balances, examination of a variety of funding sources and maintaining available properties to facilitate their financing activities. Financing policy relates to, among other things, a change in the structure of loans or their recruitment, setting budgets for investments and dividend distribution policy.

To minimize these risks, the Group companies examine periodically the need to hedge risk and contracting in hedging transactions if needed, but the company did not set any quantitative exposure thresholds as each case is examined on its merits. In addition, the Company has not determined an investment policy with entities whose main activities are derivative transactions and short sales (including hedge funds).

### **Supervision over Market Risks Management Policy**

Contacts between the CEO, the members of the Executive Management and local management of Kardan's subsidiaries are frequent and intensive, to discuss the latest development and expectations in the respective markets as well as the (financial) resilience of the group.

The Board of Directors discusses usually twice a year all the risks the Company is exposed to, including market risks. At the beginning of each year, in tandem with the budget discussion, the Board discusses all relevant risks and decides on the ten most significant risks for the Company, including market risks. During the year, the Board receives updates on the management of these significant risks.

---

### **Disclaimer**

This report contains forward looking information as defined in the Israeli Securities Act, based on macro-economic data relevant to each geographical region in which Kardan N.V. is active, the management's experience and the condition of the local and global market. The aforesaid may not materialize completely or part thereof, or materialize in a different manner, including materially different from what is expected as a result of changes in the state of the market, new regulations, continuation and/or worsening of the global economic crisis or incorrect assessments by management.

**PART 2**
**2.1. Financial analysis**

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

	Year ended December 31, 2016	Year ended December 31, 2015	Notes
<b>Total balance sheet</b>	665,367	975,742	<p>The decrease in total balance sheet as of December 31, 2016 compared to December 31, 2015 is mainly due:</p> <ul style="list-style-type: none"> <li>the sale of TBIF during 2016</li> <li>the sale of the remaining 25% of KWIG.</li> </ul>
<b>Current assets</b>	281,987	474,143	
<b>Non-current assets</b>	383,380	501,599	
<b>Current liabilities</b>	320,964	482,490	<p>The decrease in current liabilities compared to December 31, 2015, is mainly due to the sale of TBIF; this decrease was offset by the reclassification of a long term n to short term (current maturity).</p>
<b>Debentures</b>	288,978	356,272	<p>The decrease compared to December 31, 2015 is due to early repayment of 2017 principle and interest during the year 2016 (instead of February 2017).</p>
<b>Long term Interest-bearing loans and borrowings</b>	419	40,550	<p>The decrease in long term interest bearing loans and borrowings compared to December 31, 2015 is mainly due to reclassification of a long term loan to short term (current maturity). It is noted that the loan, amounting to €111 million (€101 million at the end of 2015), was partially classified (€62 million) in 2015 as short term loan as it is allocated to current inventory.</p>
<b>Equity attributable to equity holders of the parent</b>	37,333	71,461	<p>The decrease in equity compared to December 31, 2015, is mainly due to the loss in the period.</p>

**2.1.2 Cash Flow and source of funding (in EUR thousands)**

	FY 2016	FY 2015	FY 2014	Notes
<b>Net cash provided by (used in) operating activities</b>	(51,944)	3,866	28,749	The Company net cash from operating activities is materially impacted by interest payments and foreign currency exchange differences.
<b>Net cash provided by investing activities</b>	74,492	52,986	183	<p>In 2016 €103.7 million were provided from the sale of TBIF and the remaining 25% of KWIG, In addition €2.8 million were provided from the sale of assets, mostly assets in Foodyard in Bulgaria offset by €7.7 million that were used to invest in property plan and equipment.</p> <p>In 2015, €119 million were provided from proceeds from the sale of a subsidiary, €33.3 million were used for the acquisition of tangible fixed assets and investment properties.</p> <p>In 2014, €45.3 million were used for the acquisition of tangible fixed assets and investment properties, €35.1 million were used to provide long-term loans, and €74.4 million were provided from the sale of GTC SA, which was accounted for using the equity method</p>
<b>Net cash provided by (used in) financing activities</b>	(66,346)	(69,223)	17,759	<p>In 2016 €86.5 million were used for early repayment of debentures, offset by €28 million provided from receipt of long term and short term loans</p> <p>In 2015, €162.5 million were used for repayment of loans, and €105 million were provided from receipt of long term loans.</p> <p>In 2014, €68.5 million were used for repayment of debentures, and €89.2 million were provided from long term loans, offset by €48 million used for repayment of loans.</p>

For details regarding financing sources of the Company, refer to section 2.1.3 hereafter.

### 2.1.3 Cash flow Forecast

The audit report of the external auditors in the Company's financial statements as of December 31, 2016, includes a mandatory emphasis of matter regarding the ability of the Company to continue as going concern (see also Note 1 to the financial statements). In addition, the Company has a negative working capital on a consolidated and stand-alone basis, and recorded a loss for the period. These are "warning signs" as defined in Regulation 10 (b) (14) of the Israeli Securities Authority regulations.

Therefore, the Company provides a cash-flow forecast for a period of two years as of December 31, 2016.

Forecast cash flow	January 1, 2017 - December 31, 2017	January 1, 2018 – December 31, 2018
	<b>in € millions</b>	
<b>Cash and cash equivalents at the beginning of the period</b>	<b>2.0</b>	<b>120.3</b>
<b><u>Company only resources</u></b>		
<b><u>From operating activities</u></b>		
General and administration expenses	(3.8)	(3.8)
<b><u>From investing activities</u></b>		
Sale of assets	126.3	115.0
<b><u>Resources from investee companies</u></b>		
From operating activities in investments – Management fees	0.2	0.2
<b>Total Resources</b>	<b>124.7</b>	<b>231.7</b>
<b><u>Expected Uses</u></b>		
<b><u>From financing activities</u></b>		
Interest payment of debentures – Series A	0.8	3.0
Interest payment of debentures – Series B	3.6	16.7
Principal payment of debentures – Series A	-	47.6
Principal payment of debentures – Series B	-	49.1
<b>Total Uses</b>	<b>4.4</b>	<b>116.4</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>120.3</b>	<b>115.3</b>

#### Assumptions and Notes to the cash flow forecast:

- The cash-flow projection has been jointly prepared for Kardan NV (company-only) and its wholly owned subsidiaries GTC Real Estate Holding BV and Emerging Investments XII BV as the treasury of these companies is centralized. With respect to limitations regarding the transfer of funds between Kardan NV and GTC RE please see below under point 10.
- The projected cash flow was prepared based on the Amended Deeds of Trust effective July 3, 2015 ('the Deeds of Trust').
- The forecasted General and administration expenses are based on estimates of the Company according to its past experience.
- Following the sale of TBIF in 2016 and the completion of the sale of the remaining 25% in KWIG, the Company early repaid the full debentures principal that was due in February 2017. The remaining payment of interest was made in February 2017 according to the dates stipulated in the Deeds of Trust, from the Company's sources.
- With respect to sale of assets in 2017 and 2018 - the completion of the transaction to sell TBIF provided the Company a period of over a year to sell assets in order to repay its liabilities in 2018 and onwards. The Company is conducting processes, directly or through its subsidiaries, to sell any of its assets. These assets may include the subsidiaries Kardan Land China and/or Tahal Group International B.V. and/or part of their assets.

6. In this cash flow forecast, cash provided from the sale of assets in 2017 and 2018 will be used to repay principal and interest of the debentures which are due in February 2018 and 2019, respectively, in accordance with the Deeds of Trust. Should the Company obtain funds prior to the expected repayment dates, the Company will make early repayments, as required in the Deeds of Trust.
7. The amount of Management fees from investee companies is based on existing agreements between the Company and its subsidiaries as of the balance sheet date.
8. The Interest calculations are based on Israeli CPI, exchange rates and interest rates which are applicable as of December 31, 2016. The principal and interest payments of the debentures are presented net of the part which relates to the debentures held by the subsidiaries GTC RE and Emerging Investment XII B.V. A change of 5% in the Euro/NIS rate will lead to a change of approximately €6 million in the amount of principal and interest payment.
9. The cash flow forecast does not include any additional investments which the Company will make once those will be approved by the appropriate bodies in the Company. As of the authorization of these financial statements, the Company did not approve any new investments. In addition, according to the Deeds of Trust there are certain limitations on new investments.
10. Limitations on transferring funds:

Transfer of funds between Kardan NV, GTC RE, Emerging Investments XII, TGI and KFS is mostly done through intercompany loans or distribution of dividend or capital reserves as permitted by Dutch law. Breakdown of distributable reserves according to Dutch law and intercompany loans balances is as follows:

<b>Subsidiary</b>	<b>Distributable reserves (EUR million) as of 31.12.16</b>	<b>Intercompany loan (EUR million) as of 31.12.16</b>
TGI	34.6	-
GTC RE	186.9	(14.5)
KFS	33.8	-
Emerging	53.5	-

11. This estimate is forward looking information as defined in the Israeli Securities Act, based on management assumptions and expectations. The aforesaid may not materialize completely or part thereof, or materialize in a different manner, including materially different from what is expected as a result of changes in the state of the market, difficulties in raising credit, decrease in value of investments and change in cash amounts expected to be received from affiliated companies.



**Comparison table and explanations for material deviations:**

Cash flow Forecast	January 1, 2016 - December 31, 2016 (projected)	January 1, 2016 - December 31, 2016 (actual)	Comments
<b>Sources</b>	<b>in EUR millions</b>		
<b>From investing activities</b>			
Sale of assets	122.0	113.3	1
<b>Uses</b>			
<b>For Finance activities</b>			
Interest payment on account of debentures	23.7	41.1	2
Principle payment on account of debentures	-	86.3	2
<b>Cash and cash equivalents at the end of the period</b>	<b>113.3</b>	<b>1.9</b>	

- (1) During 2016, the Company sold assets in accordance with its plans and the proceeds exceeded the cash flow forecast for the year 2016. However the actual cash flow does not include amounts deriving from the sale of assets which are not agreed assets as defined in the which are in KFS account as of December 31, 2016 (in the amount of €12.3 million).
- (2) The cash flow forecast presented in the financial statements as of December 31, 2015 did not assume early repayments arising from the sale of agreed assets as defined in the Deed of Trust. During 2016, the Company completed the sale of several agreed assets and made an early repayment of interest and principal as required in the Deeds of Trust. Accordingly, the Company early repaid in 2016 the principal and interest intended to be paid in February 2017 in the projected cash flow presented in the 2015 financial statements, in addition to interest payment of € 23.7 million that was intended to be paid in 2016. Therefore, the cash balance at the end of the period is lower compared to the balance presented in the said cash flow forecast.

**2.2 Fair Value Disclosure**
**Galleria Dalian shopping mall – China, Dalian**

The valuation is considered to be material and therefore is attached to financial statements as of December 31, 2016.

Identification of the property subject of the valuation	Shopping mall in Dalian, China, having net leasable area of 64,834 sqm.
Date of the valuation	31.12.2016
External valuer	DTZ/ C&W
Value of the property in the financial statements prior to the valuation	€ 250.3 million
Value of the property according to the valuation	€240.5 million
Key parameters used in the valuation	<ul style="list-style-type: none"> <li>• Discount rate – 10.5%</li> <li>• Terminal capitalization rate – 5.5%</li> <li>• Rent per sqm – 167 RMB</li> <li>• Price per sqm for comparison approach – 17,200 RMB</li> </ul>
Valuation Method	Direct Comparison Approach and DCF

## 2.3 Issuance of debentures

The following are details regarding the marketable debentures of Kardan N.V. as of December 31, 2016:

	Debenture series A	Debenture series B
<b>Date of issuance</b>	20.2.2007, 13.8.2007, 16.2.2008	16.2.2008
<b>Par value of issued debentures</b>	€ 294.3 million (NIS 1,190,000,000)	€ 329.9 million (NIS 1,333,967,977)
<b>Linkage basis</b>	Principal and interest linked to Israeli CPI (CPI of January 2007)	Principal and interest linked to Israeli CPI (CPI of December 2006)
<b>Par value of debentures as of December 31, 2016</b>	€ 73.6 million (NIS 297,500,000 par value)	€ 235.6 million (NIS 952,834,318 par value)
<b>Debentures held by subsidiaries</b>	NIS 136,506,115 par value	NIS 120,381,386 par value
<b>Interest rate (per annum)</b>	6.325%	6.775%
<b>Principal repayment</b>	Two installments one in February 2017 and the second in February 2018.	Four installments from February 2017 to February 2020.
<b>Interest payment dates</b>	3 annual installments on 25 February in the years 2016 - 2018	5 annual installments on 1 February in the years 2016 - 2020
<b>Total debt up to the date of the balance sheet (including interest and Israeli CPI linkage)</b>	€ 47.6 million (net of debentures held by subsidiaries)	€ 243.9 million (net of debentures held by subsidiaries)
<b>Market capitalization as of December 31, 2016</b>	€ 41.2 million (net of debentures held by subsidiaries)	€ 171.8 million (net of debentures held by subsidiaries)
<b>The trustee</b>	Aurora Fidelity Trust Company Ltd.	Hermatic Trust (1975) Ltd
<b>Rated by</b>	S&P Maalot	S&P Maalot
<b>Rating at the time of issuance</b>	AA - (February 2007)	AA - (February 2007)
<b>Updated rating</b>	B (August 2016)	B (August 2016)
<b>Right of early repayment</b>	In accordance with the amended deeds of trust, the Company is eligible to announce on a partial or full early repayment throughout the entire term of the debentures. Such early repayment will be carried out without any compensation and in accordance to the full liability value of the debentures.	

<b>Pledged Assets as of December 31, 2016</b>	<p>According to the Deeds of Trust, the Company established and registered primary, exclusive pledges with no limitations of amounts over all of the Group's interests in GTC RE, KFS, TGI, EMERGING (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. The Company has to establish such pledge on its rights in KLC.</p> <p>A primary exclusive pledge with no limitation of amounts over all the rights of EMERGING for the repayments of loans it has granted to any of the corporations in Kardan Group.</p> <p>A primary exclusive pledges with no limitations of amounts over the bank accounts of the Company.</p> <p>Pledge on all the Company's debentures held by the Group.</p> <p>Additional negative pledges.</p>
<b>Guarantee to secure the obligations of Kardan NV</b>	<p>A limited guarantee in the amount of EUR 100 million by Kardan Land China.</p>

The Debentures (Series A and B) are considered material to the Company, according to the definition in the Israeli Securities Regulations. During and at the end of 2016 the Company met the terms of the Deeds of Trust. The detailed presented above are in accordance with the Dead of Trust of July 3, 2015. For additional information regarding the terms of the debentures and the related restrictions apply to the Company, see section 13.1.4 and 13.1.5 of the corporate description chapter in the 2016 periodical report. For information relating to early repayment of debentures see section 1.1 above - events in the period and subsequent to the balance sheet date.

#### **General meetings of the Debenture Holders**

- On June 23, 2016, the general meeting of the debenture holders (series A and series B) of the Company approved that the Company and KFS will engage in a transaction to sell all of KFS's holding in TBIF, and also approved that as part of the completion of this sale transaction, the pledge on TBIF shares in favor of the trustee will be removed, subject to a written approval from the Company. In the meetings additional matters relating to the said sale transaction were approved.
- On October 6, 2016, the general meeting of the debenture holders (series A and series B) of the Company did not approve the Company's request to provide a guarantee to its subsidiary Emerging Investments XII B.V.
- On November 16, 2016 at the general meeting of the debenture holders, the Company's representatives presented the Company's position regarding its request to provide a guarantee to its subsidiary Emerging Investment XII B.V., while emphasizing that this guarantee does not include a guarantee towards the tax authorities. This guarantee, if will be provided, will allow the Company to save costs associated with preparation of the financial statements of this subsidiary. In addition, Mr. Ariel Hasson, the CEO of the Company provided an overview of the Company's business and financial position.

## 2.4 Sensitivity analysis of the fair value of financial instruments

### Financial Instruments' Fair Value Sensitivity Analysis as at December 31, 2016 According to Changes in Market Factors

	Sensitivity Analysis to Changes in Euro \ US Dollar exchange rate						
	Profit or (loss) from change in Euro millions			Fair Value In Euro millions	Profit or (loss) from change in Euro millions		
	Increase in exchange rate				Decrease in exchange rate		
	<u>20%</u>	<u>10%</u>	<u>5%</u>	<u>-5%</u>	<u>-10%</u>	<u>-20%</u>	
<b><u>Other financial instruments</u></b>							
Cash and cash equivalents	0.9	0.4	0.2	4.5	(0.2)	(0.4)	(0.9)
Accounts receivables	2.1	1.0	0.5	10.4	(0.5)	(1.0)	(2.1)
Other receivables	0.3	0.1	0.1	1.4	(0.1)	(0.1)	(0.3)
Investments in joint venture companies	4.9	2.5	1.2	24.8	(1.2)	(2.5)	(4.9)
Warrants and options	(0.8)	(0.4)	(0.2)	(3.9)	0.2	0.4	0.8
Trade payables	(0.4)	(0.2)	(0.1)	(2.2)	0.1	0.2	0.4
Long-term loans from Banks and others (including current maturities)	(2.3)	(1.1)	(0.6)	(11.5)	0.6	1.1	2.3
<b>Total</b>	<b>4.7</b>	<b>2.3</b>	<b>1.1</b>	<b>23.5</b>	<b>(1.1)</b>	<b>(2.3)</b>	<b>(4.7)</b>

	Sensitivity Analysis to Changes in NIS/USD exchange rate						
	Loss from change in Euro millions			Fair Value In Euro millions	Profit from change in Euro millions		
	Increase in exchange rate				Decrease in exchange rate		
	<u>20%</u>	<u>10%</u>	<u>5%</u>	<u>-5%</u>	<u>-10%</u>	<u>-20%</u>	
<b><u>Derivatives that are not designated as hedging instruments</u></b>							
NIS/USD Derivatives	(1.3)	(0.6)	(0.3)	(0.0)	0.3	0.6	1.3
<b>Total</b>	<b>(1.3)</b>	<b>(0.6)</b>	<b>(0.3)</b>	<b>(0.0)</b>	<b>0.3</b>	<b>0.6</b>	<b>1.3</b>

**Sensitivity Analysis to Changes in Euro \ NIS exchange rate**

	Profit or (loss) from change in Euro millions			Fair Value In Euro millions	Profit or (loss) from change in Euro millions		
	Increase in exchange rate				Decrease in exchange rate		
	<u>20%</u>	<u>10%</u>	<u>5%</u>		<u>-5%</u>	<u>-10%</u>	<u>-20%</u>
<b><u>Other financial instruments</u></b>							
Cash and cash equivalents	1.4	0.7	0.3	6.9	(0.3)	(0.7)	(1.4)
Short term investments	0.0	0.0	0.0	0.2	(0.0)	(0.0)	(0.0)
Accounts receivable (Trade receivables)	8.0	4.0	2.0	40.4	(2.0)	(4.0)	(8.0)
Long term loans and receivables (Including current maturities)	0.5	0.3	0.1	2.5	(0.1)	(0.3)	(0.5)
Other receivables	1.0	0.5	0.3	4.8	(0.3)	(0.5)	(1.0)
Other payables and accrued expenses	(2.3)	(1.1)	(0.6)	(11.5)	0.6	1.1	2.3
Trade payables	(1.2)	(0.6)	(0.3)	(6.3)	0.3	0.6	1.2
Non-Convertible debentures linked to the Israeli CPI (Including current maturities)	(42.6)	(21.3)	(10.6)	(213.1)	10.6	21.3	42.6
Short-term loans from Banks and others (including current maturities)	(0.3)	(0.1)	(0.1)	(1.4)	0.1	0.1	0.3
Other long term liabilities	(0.8)	(0.4)	(0.2)	(4.0)	0.2	0.4	0.8
<b>Total</b>	<b>(36.3)</b>	<b>(18.0)</b>	<b>(9.1)</b>	<b>(181.5)</b>	<b>9.1</b>	<b>18.0</b>	<b>36.3</b>

**Sensitivity Analysis to Changes in Euro \ RMB exchange rate**

	Profit or (loss) from change in Euro millions			Fair Value In Euro millions	Profit or (loss) from change in Euro millions		
	Increase in exchange rate				Decrease in exchange rate		
	<u>20%</u>	<u>10%</u>	<u>5%</u>		<u>-5%</u>	<u>-10%</u>	<u>-20%</u>
<b><u>Other financial instruments</u></b>							
Cash and cash equivalents	3.9	1.9	1.0	19.4	(1.0)	(1.9)	(3.9)
Short term investments	1.7	0.8	0.4	8.5	(0.4)	(0.8)	(1.7)
Accounts receivable (Trade receivables)	1.0	0.5	0.2	4.9	(0.2)	(0.5)	(1.0)
Other receivables	1.1	0.6	0.3	5.7	(0.3)	(0.6)	(1.1)
Trade payables	(0.8)	(0.4)	(0.2)	(4.0)	0.2	0.4	0.8
Other payables and accrued expenses	(8.8)	(4.4)	(2.2)	(43.8)	2.2	4.4	8.8
Long-term loans from Banks and others (including current maturities)	(22.2)	(11.1)	(5.5)	(111.2)	5.5	11.1	22.2
<b>Total</b>	<b>(24.1)</b>	<b>(12.1)</b>	<b>(6.0)</b>	<b>(120.5)</b>	<b>6.0</b>	<b>12.1</b>	<b>24.1</b>

**Sensitivity Analysis to Changes in RMB interest rate**

	Profit from change in Euro millions			Fair Value In Euro millions	Loss from change in Euro millions		
	Increase in exchange rate				Decrease in exchange rate		
	100%	10%	5%		-5%	-10%	-100%
	<b>Other financial instruments</b>						
Long-term loans from Banks and others (including current maturities)	10.5	1.2	0.6	(111.2)	(0.6)	(1.2)	(13.1)
<b>Total</b>	<b>10.5</b>	<b>1.2</b>	<b>0.6</b>	<b>(111.2)</b>	<b>(0.6)</b>	<b>(1.2)</b>	<b>(13.1)</b>

**Sensitivity Analysis to Changes in NIS interest rate**

	Profit or (loss) from change in Euro millions			Fair Value In Euro millions	Profit or (loss) from change in Euro millions		
	Increase in interest rate				Decrease in interest rate		
	100%	10%	5%		-5%	-10%	-100%
	<b>Derivatives that are not designated as hedging instruments</b>						
USD/NIS Derivatives	0.0	0.0	0.0	(0.0)	(0.0)	(0.0)	(0.0)
<b>Other financial instruments</b>							
Loans and receivables (including current maturities)	(0.2)	(0.0)	(0.0)	1.6	0.0	0.0	0.3
Non-convertible debentures linked to the Israeli CPI (Including current maturities)	62.8	8.4	4.3	(213.1)	(4.5)	(9.1)	(139.6)
<b>Total</b>	<b>62.6</b>	<b>8.4</b>	<b>4.3</b>	<b>(211.5)</b>	<b>(4.5)</b>	<b>(9.1)</b>	<b>(139.3)</b>

**Sensitivity Analysis to Changes in CPI**

	Loss from change in Euro millions		Fair Value In Euro millions	Profit from change in Euro millions	
	Increase in CPI			Decrease in CPI	
	2%	1%		-1%	-2%
	<b>Other financial instruments</b>				
Non-convertible debentures (Including current maturities)	(4.3)	(2.1)	(213.1)	2.1	4.3
<b>Total</b>	<b>(4.3)</b>	<b>(2.1)</b>	<b>(213.1)</b>	<b>2.1</b>	<b>4.3</b>

The fair value of the financial instruments was determined as follows:

1. The fair value of each account balance includes the total fair value of all the financial instruments which are materially sensitive to the relevant market factor.
2. The fair value of traded financial instruments was determined based on the securities quote as of December 31, 2016.
3. The loan's fair value was estimated based on the future cash flow discounted by an annual interest rate equal to the interest rate at which the company received or could receive for a similar period, as of the balance sheet date.
4. The fair value of the long term loans includes their current maturities.
5. The sensitivity analysis of long-term loans that bear a variable interest was calculated only on the interest's permanent component.
6. The fair value sensitivity analysis of loans with no payoff date was based on the company's payoff forecast; given no forecast the fair value was determined based on its book value as of December 31, 2016.
7. The balances of cash and cash equivalents, short-term investments, accounts receivables, short-term borrowing, trade payables and accounts payable are presented based on their carrying amounts.
8. The sensitivity analysis for the Israeli customer price index was made using a 1%-2% range, based on company's assessments of possible fluctuation in this index.
9. The sensitivity to fluctuations in the interest rates was assessed assuming an extreme scenario of 100% for all interest rate, according to company's assessments.

## 2.5 Linkage balance sheet

For information regarding linkage balance sheets of the Company, see Note 35 to the financial statements.

## 2.6 Directors with accounting and financial expertise

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

However, in accordance with Kardan's articles of association, there are decisions that the Board has to take by a special approval process which requires, among other things, the consent of the independent directors who attend the Board meetings, as defined in Company's Articles of Association and the Corporate Governance Code (as defined in section 15.3 of part 1 of this report).

In addition, in accordance with the Dutch Corporate Governance Code, Kardan N.V. has adopted the duty whereby at least one of the independent serving non-executive members of the Board, has financial and accounting expertise.

The directors with accounting and finance expertise currently serving on the Board are: Peter Sheldon, Cor van den Bos, Ariel Hasson, Eytan Rechter, Bouke Marsman and Max Groen.

All members of the executive management have accounting and finance experience.

For further information regarding education and experience, refer to Part 4 of the report.

### Independent Directors

According to the Corporate Governance Code, the majority of the board members must be independent. As of December 31, 2016 and the date of this report, five of the nine board members are independent.

For further information regarding the Corporate Governance Code refer to section 15 of part 1 of this report.

## 2.7 Critical accounting estimations

For information regarding significant accounting judgements and estimates refer to note 3 of the consolidated financial statements.

## 2.8 Internal Audit at Kardan NV

Kardan NV is incorporated pursuant to the laws of the Netherlands and is not subject to the Israeli Companies Law. Therefore, the duty to appoint an internal auditor by virtue of the Companies Law 1999 does not apply to it. However, according to the Corporate Governance Code recommends to appoint such a body, and the Company chose to adopt the Code's recommendation in this respect and appointed an internal auditor.

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

- The internal auditor, CPA Yossi Ginosar, was appointed in April 2006. The Internal Auditor is the managing partner of the internal control sector at Fahn Kane control Management firm Grant Thornton Israel and has many years of experience in similar roles in large and stock listed companies and corporations.
- The Internal Auditor provides outsourced services and does not fulfil a role in the corporation other than its role as Internal Auditor, does not hold the audited corporate securities or securities of a body affiliated with it, and did not have material business ties or other material ties with the audited corporation or with a body affiliated with it.
- The auditing standards pursuant to which the Auditor acts, are the common practice and international internal audit standards published from time to time by the American Audit Office IIA. Kardan NV's former Management Board received the Internal Auditor's statement that it satisfied the foregoing professional standards.
- The organizational body in charge of internal audit is the CFO.
- To the best knowledge of the Company, the Internal Auditor meets the conditions set forth in Section 146 (b) of Companies Law 1999 – and Sections 3 (a) and 8 of the Internal Audit Law 1992.
- The considerations in determining the audit plan are: (a) the business activities of the Company and their scope; (b) the risks exposure; (c) findings of previous audits. The Auditor's work plan is determined by an independent issues review that is executed by the Auditor at the request of management. The annual audit issues and its recommendations are determined based on the various issue ratings in risks surveys and importance thereof while considering the Auditor and Corporation Management's recommendations. Kardan N.V.'s Management decides on the Auditor's work plan while cooperating with and involving the Audit Committee and the External Auditor.
- The audit plan does not apply on Kardan's subsidiaries. However, TGI and KLC have their internal auditors which are responsible for the internal audit in those companies and their subsidiaries.
- As a result of the decrease in the Company's activities, it was decided not to perform internal audits in Kardan in 2016. However, internal audits were performed in TGI and KLC. In addition, the board of directors is examining rotating the position of the internal auditor of the Company, or the appointment of another body that will perform 'ad-hoc' internal audits at the request of management or of the Audit Committee.

## **2.9 Donations policy**

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

## **2.10 Classification of minor transactions**

For more information about the classification of minor transactions refer to part D to this report.



## 2.11 Audit Fees

Accountant's fees of Kardan NV and its material subsidiaries, which including audit services, audit-related services and tax services for the years 2016 and 2015 was as follows:

<b>2016</b>										
<b>Company name</b>	<b>Accountancy firm</b>		<b>Audit and other related services (EUR thousands)</b>	<b>Number of hours spent</b>		<b>Tax services (EUR thousands)</b>	<b>Number of hours spent</b>		<b>Other services (EUR thousands)</b>	<b>Number of hours spent</b>
Kardan NV	PWC		455	4,550		4	97		-	-
Subsidiaries	PWC		647	11,050		25	284		-	-
	Others		17	1,126		-	-		-	-

<b>2015</b>										
<b>Company name</b>	<b>Accountancy firm</b>		<b>Audit and other related services (EUR thousands)</b>	<b>Number of hours spent</b>		<b>Tax services (EUR thousands)</b>	<b>Number of hours spent</b>		<b>Other services (EUR thousands)</b>	<b>Number of hours spent</b>
Kardan NV	PWC		355	5,823		59	483		-	-
	EY		134	1,614		167	849		-	-
Subsidiaries	PWC		632	12,627		-	-		-	-
	EY		509	9,007		-	-		-	-
	Others		-	-		-	-		51	205

## **Chapter E - Annual Report on Effectiveness of Internal Control over Financial Reporting and Disclosure**

- a. Annual report on effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 9b(a) of Securities Law Regulations (Periodic and Immediate Reports), 1970 ("the regulations")
- b. Certification by CEO pursuant to Regulation 9b(d)(1) of the regulations
- c. Certification by CFO pursuant to Regulation 9b(d)(2) of the regulations

**Annual report on effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 9b(a) of the regulations:**

The Management, supervised by the Board of Kardan NV ("the corporation") is responsible to set and maintain proper internal control over financial reporting and disclosure by the corporation.

For this matter, Management consists of:

1. A. Hasson, member of the Board (CEO).
2. E. Oz-Gabber, member of Management Board (CFO).

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

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

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

The Management, supervised by the Board, shall review and assess the internal control over financial reporting and disclosure at the corporation and the effectiveness thereof, of the internal control over financial reporting and the disclosure made by the Management Board, supervised by the Supervisory Board included: (1) Entity-level controls, including control over the editing and closing process of the financial reporting and general information systems controls (2) controls over investment properties valuation (3) controls over interest-bearing loans and debentures (4) controls over contract revenues process (5) controls over contract costs process (6) investments accounted for using the equity method.

Based on this assessment, the Board and the Management of the corporation have reached the conclusion that internal control over financial reporting and disclosure at the corporation as of December 31, 2016, the date of these financial statements, is effective.

Certification by CEO pursuant to Regulation 9b(d)(1) of the regulations:

I, A. Hasson, certify that:

1. I have reviewed the periodic report of Kardan NV ("the corporation") for 2016 ("the report").
2. To the best of my knowledge, the report is free of any misrepresentation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.
3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.
4. I have disclosed to the corporation's Independent Auditor, Board and Audit Committee and the Financial Statement Review Committee of the corporation, based on my most current assessment of the internal control over financial reporting and disclosure:
  - a. All significant faults and material weaknesses in specification of operation of internal control over financial reporting and disclosure which may reasonably impact the corporation's capacity to collect, process, summarize or report financial information in a manner which may cast doubt over the reliability of financial reporting and preparation of financial statements pursuant to statutory provisions; and –
  - b. Any fraud, whether or not material, involving the Chief Executive Officer or any of the direct reports there of, or involving any other employees having a significant capacity in internal control over financial reporting and disclosure;
5. I, on my own or with others at the corporation:
  - a. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under our supervision, designed to ensure that material information with regard to the corporation, including subsidiaries thereof, as defined in Securities Regulations (Annual financial statements), 2010, is brought to my attention by others at the corporation and its subsidiaries, specifically during preparation of the report; and –
  - b. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to reasonably ensure the reliability of financial reporting and preparation of the financial statements pursuant to statutory provisions, including pursuant to generally-accepted accounting principles;
  - c. Have assessed the effectiveness of internal control over financial reporting and disclosure, and have presented in this report the conclusions drawn by the Board and Management Board with regard to effectiveness of said internal control as of the report date.

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

March 22, 2017

---

A. Hasson - CEO

Certification by CFO pursuant to Regulation 9b(d)(2) of the regulations:

I, E.Oz-Gabber, certify that:

1. I have reviewed the financial statements and other financial information which is included in the report of Kardan NV ("the corporation") for 2016 ("the report").
2. To the best of my knowledge, the report is free of any misrepresentation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.
3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.
4. I have disclosed to the corporation's Independent Auditor, Board and Audit Committee and the Financial Statement Review Committee of the corporation, based on my most current assessment of the internal control over financial reporting and disclosure:
  - a. All significant faults and material weaknesses in specification of operation of internal control over financial reporting and disclosure as long as it relates to the financial statements and other financial information in the report, which may reasonably impact the corporation's capacity to collect, process, summarize or report financial information in a manner which may cast doubt over the reliability of financial reporting and preparation of financial statements pursuant to statutory provisions; and –
  - b. Any fraud, whether or not material, involving the Chief Executive Officer or any of the direct reports thereof, or involving any other employees having a significant capacity in internal control over financial reporting and disclosure;
5. I, on my own or with others at the corporation:
  - a. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under our supervision, designed to ensure that material information with regard to the corporation, including subsidiaries thereof, as defined in Securities Regulations (Annual financial statements), 2010, as long as it relates to the financial statements and other financial information in the report, is brought to my attention by others at the corporation and subsidiaries, specifically during preparation of the report; and –
  - b. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under our supervision, designed to reasonably ensure the reliability of financial reporting and preparation of the financial statements pursuant to statutory provisions, including pursuant to generally-accepted accounting principles;
  - c. Have assessed the effectiveness of internal control over financial reporting and disclosure, as it relates to the financial statements and other financial information included in the reports on the periodic report: the conclusions of my assessment were presented to the Board and the Management and integrated in this report

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

March 22, 2017

---

E.Oz-Gabber, CFO

### *Declaration*

*In accordance with Article 5:25d of the Financial Supervision Act (Wet op het financieel toezicht) the Board declares, to the best of its knowledge, that:*

*The consolidated semi-non-statutory financial statements as at December 31, 2015, give a true and fair view of the assets, liabilities, financial position and the result of Kardan N.V. and of the group companies included in the consolidation;*

*March 22, 2017*

*P. Sheldon (Chairman of the Board)*

*A. Hasson (CEO and Member of the Board)*

### DISCLAIMER

This press release contains forward-looking statements and information, for example concerning the financial condition, results of operations, businesses and potential exposure to market risks of Kardan N.V. and its group companies (jointly "Kardan Group"). All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements (including "forward looking statements" as defined in the Israeli Securities Law). Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "objectives", "outlook", "probably", "project", "will", "seek", "target", "risks", "goals", "should" and similar terms and phrases. A variety of factors, many of which are beyond Kardan Group's control, affect our operations, performance, business strategy and results and could cause the actual results, performance or achievements of Kardan Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. For Kardan Group, particular uncertainties arise, amongst others but not limited to and not in any order of importance, (i) from dependence on external financing with the risk that insufficient access to capital threatens its capacity to grow, execute its business model, and generate future financial returns (ii) from concentration of its business in Central Eastern Europe and China as a result of which Kardan Group is strongly exposed to these particular markets (iii) from risks related to the financial markets as a result of Kardan N.V.'s listings on NYSE Euronext Amsterdam and the Tel Aviv Stock Exchange and (iv) from it being a decentralized organization with a large number of separate entities spread over different geographic areas in emerging markets, so that Kardan Group is exposed to the risk of fraudulent activities or illegal acts perpetrated by managers, employees, customers, suppliers or third parties which expose the organization to fines, sanctions and loss of customers, profits and reputation etc. and may adversely impact Kardan Group's ability to achieve its objectives and (v) from any of the risk factors specified in Kardan N.V.'s Annual Report and in the related "Periodic Report" (published by Kardan N.V. in Israel) published in April and which is also available at the Kardan website. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Kardan N.V. does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.