

# Corporate and Social Responsibility

## 'Being a responsible corporate citizen'

The sustainability of the world is under pressure due to – among other things – a growing need for food, water and energy, an increasing focus on access to natural resources, climate change, human rights and aging and increasing populations. Corporations are experiencing these changes and evolutions in their business operations as both risks and as opportunities. Accordingly, various regulatory bodies are enforcing measures on companies to better disclose how they have incorporated these issues in their corporate governance practices and in their day to day operations.

We consider Corporate and Social Responsibility (CSR) essential for our future operational and financial success and therefore strive for long-term, sustainable, solutions throughout the Kardan Group.

Accordingly, CSR, including environmental and social governance (ESG), has more and more become an integral part of our overall strategy and a core value of the Group as a whole, combining our risk management with corporate social responsibility and with sustainability issues. Our subsidiaries – in real estate, water infrastructure and banking and retail lending – have all incorporated CSR principles and progressively aim to contribute to a more sustainable future. In the (risk) management presentations to their Boards all our subsidiaries address CSR and ESG aspects.

In line with the strategic origins of Kardan, our core operations are located in those emerging markets where we address, and benefit from, the needs of the growing middle classes. As such, we are confronted with the environmental and social challenges, but also opportunities, specific to these markets and activities. Economic development of emerging markets frequently comes at the expense of the environment. As populations grow, there is an increasing need for food, water and energy and this frequently leads to significant pollution. Moreover, urbanization and industrialization have an exacerbating effect on the environment and climate. It is therefore not surprising

that governments are progressively taking measures to protect the environment and combat pollution.

Our water infrastructure activities specifically focus on providing access to potable water and on agricultural projects, such as design and installation of water irrigation systems, to bring sustainable solutions to mainly emerging countries. In our real estate project Europark Dalian, we combine our tangible high-quality real estate assets with 'intangible values' such as the possibility of living and working on the same site with all facilities (shops, public transport, entertainment, leisure center etc.) and situated around an inner garden.

Besides the attention for environmental issues, the world has been rudely awakened by events uncovering dramatic and unethical labor practices in a number of countries. More pressure is put on multinational companies and governments alike to address such social ills. Governments have come into action, by introducing applicable and suitable labor laws for instance, because they understand that economic growth should not happen at the cost of human and environmental well-being. Furthermore, consumers and investors worldwide are demanding that CSR is taken seriously and that social well-being is respected. For corporations this manifests itself in, among others, firmer disclosure requirements and regulations on non-financial information, such as their CSR and ESG policies, which should result in a more comprehensive annual report.

We follow these developments carefully and are dedicated to implementing CSR and ESG standards wherever and whenever possible. To underpin the social governance of the Group, a [Code of Conduct](#) and a [Whistleblower Policy](#) have been implemented to provide the Group's employees with guidelines for behavior and activities, taking into account laws, regulations and ethical standards that govern Kardan's businesses. By means of the Whistleblower Policy, employees have the opportunity to report on incidents in violation of the Code of Conduct to the Group's senior management, upon which an investigation is executed.

Further to predominantly using sustainable, environmentally friendly, solutions in the Group's operations it is also the Group's strategy to attract and incorporate mainly local employees in its various local organizations (platforms). With the development of our organizations and through establishing new project locations, the Group creates positions for mainly local professionals, which we deem important as this ameliorates our insights into customers' requirements and market opportunities.

Throughout the Group, we aim to provide an inspiring working environment for our employees and to enhance long-term relationships with our clients by offering sustainable solutions, thereby creating a socially responsible company for our stakeholders.

The headquarters in Amsterdam also makes efforts to reduce waste and energy use and as such to lead the way by example. Of the 17 people working for the corporate office, some 69% are female and 31% are male, representing a variety of nationalities (50% Dutch, 50% international). On average, corporate staff members have been working at Kardan headquarters for 4.5 years. Combined with an absence rate of 1.6% (in 2015) this can be seen as evidence of a committed workforce.

On a practical level we have introduced a number of guidelines, presented in the table below. Each operating company implements its own CSR and ESG strategy taking into account the effects of its activities on people, planet and profit for the three categories of stakeholders.

	People	Planet	Profit
Employees	<ul style="list-style-type: none"> <li>– Equal opportunities</li> <li>– People should realize their potential (training)</li> <li>– Diversity</li> <li>– Health and safety</li> </ul>	<ul style="list-style-type: none"> <li>– Offices near public transport</li> <li>– Waste policies</li> <li>– (Video) conferencing</li> <li>– Travel policies</li> <li>– Energy saving policies</li> </ul>	<ul style="list-style-type: none"> <li>– Job security</li> <li>– Continuity</li> <li>– Career opportunities</li> </ul>
Customers	<ul style="list-style-type: none"> <li>– Long-term relationships</li> <li>– Retention of customers</li> <li>– Partnering</li> <li>– Creating local job opportunities</li> </ul>	<ul style="list-style-type: none"> <li>– LEED standards (real estate)</li> <li>– Sustainability standards in water infrastructure projects</li> <li>– Agricultural &amp; water projects as ESG solutions to water and food security crisis</li> <li>– Responsible lending</li> </ul>	<ul style="list-style-type: none"> <li>– Price/quality ratio</li> <li>– Continuity</li> <li>– Reliability</li> </ul>
Investors	<ul style="list-style-type: none"> <li>– Corporate governance</li> <li>– Reporting &amp; disclosure</li> <li>– Transparency</li> <li>– Accessibility</li> </ul>	<ul style="list-style-type: none"> <li>– CSR</li> <li>– ESG</li> <li>– Minimize print documents</li> </ul>	<ul style="list-style-type: none"> <li>– Consistency in reporting</li> <li>– Reliability and accessibility</li> <li>– Return on Investment</li> </ul>

**FOCUSED ON DELIVERING SUSTAINABLE SOLUTIONS  
AND  
BEING A SOCIALLY RESPONSIBLE CORPORATE CITIZEN**

## Real Estate

The economic landscape in China is changing from fast, investment-fueled growth to a more sustainable model of higher-value consumption-based and service-oriented growth, the 'new normal'.

With respect to the real estate market this translates, among others, into own home buyers and tenants of shopping malls becoming increasingly demanding. Quality of living, environmental and sustainability attributes as well as connectivity to public transport have become important features which real estate developers need to take into consideration in their development programs.

As of its initiation, our real estate company Kardan Land China acknowledges that residential and retail real estate projects should comprise of more than only 'bricks and mortar'. KLC develops its real estate projects with great attention to green surroundings and carries out its activities with future tenants and residents in mind as of the start, underpinned by on-line surveys. As a result, a lot of consideration is given to creating light spaces – preferably with a view – by using glass partitioning and skylight roofs. Being energy-conscious, both during construction and in the buildings themselves, is a core value of KLC. KLC also deems it important to be well respected by the local community because of the contribution our malls and apartments make: both in terms of our social positioning – such as employing local staff, business ethics, values and operating principles – and in terms of the architectural design.

With its large mixed-use Europark Dalian project, KLC specifically focuses on consumers and individuals with high-quality requirements by offering a comprehensive lifestyle concept near Dalian's seashore, comprising a leisure and shopping area combined with small office and luxury apartments situated around a green area and connected to Dalian's new subway line. Working with the best (inter)national architects and consultants, KLC ensures that the buildings in its projects are safe, energy friendly, offer easy access to

handicapped people and incorporate, among others, fitness and leisure centers. Europark Dalian, for instance, is designed and will be operated according to the LEED (Leadership in Energy & Environmental Design) standard.

Europark Dalian won several awards, such as being recognized as China's best mixed-use development (residential and retail), during the prestigious Asia-Pacific Property Awards in 2014, the Mall China City Advancement Award for its contribution to the development of Dalian in general and to the positioning of Dalian as a city of economic and architectural quality in particular, and as the best mixed-use project in Northern China based on its design and unique features.

KLC values the long-term relationship with its tenants, translating into a proactive asset management for its malls and tenants. Using annual on-line surveys the asset management team continuously adapts its business plan to optimally meet the requirements of the tenants. Its dedication and successful approach is evidenced by the various asset management awards granted to KLC and by the fact that it is still the asset manager of Galleria Chengdu, although its remaining 50% stake in the mall was sold at the end of 2014.

KLC realizes that success is to a large extent dependent on the dedication, professionalism and commitment of its employees. Hence, a lot of effort is put into recruiting the best people and offering them appropriate and attractive remuneration packages, training and internal promotion opportunities. In 2015, some 6% of total staff was promoted to more senior positions compared to 5% in 2014. As KLC recognizes that retaining people is important, many social events are organized during the year, ranging from in-house parties to sport and cultural events in the outdoors. KLC's dedication to providing an inspiring working environment for its employees – comprising a 60%-40% ratio (female/male) of various nationalities and backgrounds – resulted in a low (approximately 1.5%, down from 2% in 2014) absence ratio during

2015. Due to the sale of Galleria Chengdu at the end of 2014 and the opening of Galleria Dalian and the continued development of the Europark Dalian project in 2015, a significant turnover of employees took place during 2015 (some 55 staff leaving and some 98 new staff entering the organization). However, on a like-for-like basis, the average tenure of employees is generally gradually increasing.

## Water Infrastructure

The United Nations predicts that if nothing is done, water demand could outstrip water supply by up to 40% by 2030 (compared to 2015). Rapid population growth, industrialization, economic development and urbanization are major factors leading to a greater need for (access to) usable water. In addition, climate change – also largely an effect of industrialization – exacerbates the challenges with respect to water issues. Access to safe drinking water and sanitation is a human right and it is an essential resource in the production of most types of goods and services including food, energy and manufacturing. Although there is worldwide recognition for the challenges and risks that water scarcity brings, solutions are hampered – particularly in emerging countries – by funding, infrastructure issues, water management and by possible cross-border coordination issues. The required investment funds for water projects are frequently not provided for in national or community budgets. Equally, pay-back of the investment is challenging as proper metering and billing for water (both for domestic use and in agriculture) is generally lacking.

Our subsidiary Tahal is specialized in developing comprehensive and innovative solutions for water resources management, wastewater treatment, integrated agricultural development and dealing with solid waste. Contributing to an improved environment and providing sustainable solutions are core attributes of Tahal's mission to address the critical challenge of providing access to water and food to people in need. Tahal takes a holistic view of a potential project and the development potential of the relating region in

which the project is to take place and subsequently provides end-to-end solutions, encompassing all project stages, thereby ensuring an optimal result.

In most cases, significant water and agricultural related projects are put for tender by governments or municipalities which – as mentioned – often do not have sufficient funding in place for such projects. Finding appropriate funding solutions is therefore part of Tahal's tender offers. In addition, before embarking on a project, Tahal carries out in-depth research and ground work, including environmental impact assessments and appraising the relevant local regulatory and ethical behavior. Besides this being an in-house prerequisite of Tahal, a sound evaluation on how the company will prevent and mitigate environmental risks occurring during a project is a pre-condition for leading commercial banks to consider funding (water) infrastructure projects.

Once an agreement for a project has been signed, Tahal combines its engineering, environmental, technological, training, financial and marketing expertise to deliver a complete, sustainable and customer-oriented high-quality result. Whether it regards a tailor-made solution to provide access to quality water for a variety of applications, treat wastewater to profitable reuse, develop agricultural projects that enhance food security or create energy from solid waste, Tahal strives to contribute to sustainable solutions, not only for the environment but for the relevant local population too. There are many examples of how Tahal has created job opportunities for local professionals during a project, but also of how these projects – once finished – have led to more permanent positions. Many projects – such as the agricultural Quiminha project in Angola – generally inherently bring about employment. On occasion, therefore, Tahal also facilitates training as part of the project to ensure proper usage after transfer. In doing so, Tahal demonstrates clearly how it intertwines its economic with its environmental and social and ethical objectives.

As a result of the custom to tender for licenses, Tahal obtains significant and material feedback and information as to specific customers' requirements and expectations. This information is used by Tahal to enhance its value propositions, both for existing and for new project tenders. Not only does Tahal engage on a regular basis with its clients, it also inherently interacts with its subcontractors and with the ultimate users of the project continuously to ensure optimal delivery of the project. Client satisfaction is high, evidenced by many clients returning to Tahal for new projects. Tahal deems it of great importance to retain – and continuously improve on – its high quality standards, which is reflected in its price setting and therefore also sets the selection standard with respect to deciding on which project opportunities it will submit a tender proposal.

With so many projects in so many places around the world taking place concurrently, it is clearly a challenge to create and maintain a corporate culture and corporate values. Tahal puts a lot of effort in being transparent in its objectives and in what it expects of its employees as well as in being a good and reliable employer in all aspects. The initiation of Tahal Academy, an in-house training platform, underpins this dedication to professional development. Currently, some 100 employees have taken part in the Academy courses. In addition, an employee satisfaction survey was done in 2015. Over 75% of all Tahal employees took part in the survey of which the result indicated a strong commitment of staff to management and company objectives.

The outcome of the survey is evidenced by an on average long, and growing, tenure of staff. Although Tahal has been going through several reorganizations in the past years, the head office staff was with the company for 9.4 years on average in 2015 (2014: 8.7 years). For the project companies the average tenure remained stable during 2015 at around 3 to 5 years (depending on country and project). Less internal promotions took place than during 2014, also mainly attributable to the reorganization efforts.

Tahal organized several social events for its staff to nurture corporate cohesion. Moreover, as a responsible and social corporate citizen, Tahal employees were involved in several community activities to assist and empower children in Or Yehuda, the town in which the Israeli office is located. Besides actively helping children with after-school programs, various donations were made ranging from computers to toys, games and clothing. Similar activities, albeit on a smaller scale, also took place in several project locations. For Tahal staff, health and safety training programs were implemented, to assure a safe working environment in its worldwide offices and project sites.

The Tahal head office in Israel has an approximate balance between male and female staff, whilst the project companies still have more males (5:1) than females, albeit that this has improved when compared to 2014 (9:1). The diversity in terms of nationality and background, particularly in the project companies, is high.

For further details on this topic reference is made to the chapter Personnel and Organization.

Being environmentally aware and responsible is a corporate value of Tahal. Most of the communication with subsidiaries and customers is therefore conducted by means of conference calls in order to reduce unnecessary travel and a number of other energy saving measures (e.g. car-pooling, shared printer use, double-sided printing as default, recyclable paper, specific waste separation policies etc.) has been implemented at Tahal. To boost energy saving, light bulbs in public areas were replaced by energy efficient LED lighting, hot water saving devices were installed, air conditioning systems are automatically switched off at 19.00 hrs each day and require active start up in specific spaces and the company's relatively small car fleet is gradually being replaced by one with more economical fuel use and improved gas emissions.

Tahal's quality assurance system is certified in compliance with ISO 9001:2008, and its environmental and occupational health & safety

management systems are certified in compliance with ISO 14001:2004 and OHSAS 18001:2007.

## Financial Services

We are active in banking and retail lending predominantly in Bulgaria and Romania where we operate under the brand name TBI. Our clients are mainly individuals and small and medium-sized enterprises ('SME's). By offering small loans, consumer credit and leasing services to accommodate our clients' basic financial needs and to support their businesses, we are instrumental in enabling their economic and social development.

TBI offers its services through local offices and points of sale, close to its clients. Additionally, TBI has expanded its digital services as customers increasingly require convenience, speed and reliability when dealing with their banks.

Customer satisfaction and consequently customer retention is one of TBI's key strategic priorities, next to growing its market share. In Bulgaria customer retention has remained stable at around 70%, up from around 60% in 2013, whilst in the newer Romanian branch the retention rate doubled to 30% in 2015. On the base of the frequent face-to-face customer contact, TBI adapts and innovates its product portfolio and – where necessary – sharpens its internal procedures. As a result, a substantial number of products were improved and some new ones were launched (in total 15) in Bulgaria during 2015 (2014: 3), whereas this proved not to be necessary in Romania. The existing and new/improved products are generally marketed in specific campaigns, focused on specified target groups.

TBI finances its clients in an ethically responsible manner, complying with banking rules and regulations and paying considerable attention to the indirect impact that its actions may have on society. To manage risks optimally, TBI has implemented transparent internal policies and procedures.

Employing and retaining staff of the highest ethical standards is also deemed essential. TBI's human resource policy therefore incorporates equal opportunities, training, non-discrimination and internal promotion possibilities, among others, which enhance TBIF Group as a respected and good employer. Once employed, the staff is offered a working environment with a people-friendly atmosphere that is also conscientious about energy saving and recycling.

During 2015 TBIF Group had more female staff than male staff (Bulgaria: 80% females, Romania: 71% females), similar to the situation in previous years, representing various age groups and backgrounds. Nearly all employees are local nationals and residents. In Bulgaria, some 12% of staff was promoted internally (2014: 8%). Given that the Romanian TBI branch went through a significant reorganization as of 2013, the number of internal promotions in Romania during 2015 was near non-existent. Absence rate of staff remained below 1% in both Romania and in Bulgaria.