Annual Report

2012

KARDAN N.V.

Profile

Kardan is an emerging markets player, active mainly in China, Central and (South)Eastern Europe. We identify needs and opportunities in promising emerging markets and we initiate, develop and manage our assets and projects in these markets mainly through local business platforms. We focus on the following growth sectors that benefit from rising middle-class demand: real estate and water infrastructure. In addition, we have banking and retail lending activities mainly in Bulgaria and Romania.

€ in millions	2012	2011 *	2010 *
Revenues	383	332	377
Net profit (loss) before income taxes	(126)	(399)	(29)
Net profit (loss)	(138)	(409)	(29)
Net profit (loss) net of non-controlling interest	(32)	(148)	(27)
Total equity	716	740	1,067
Equity net of non-controlling interest	169	203	334
Total consolidated assets	3,283	4,355	5,999
Solvency (total equity/total consolidated assets)	22%	17%	17.8%
Return on average equity net of non-controlling interest	(17.2%)	(55.1%)	(8.6%)
Number of employees	3,056	7,001	10,332

€ per share	2012	2011*	2010*
Basic earnings (loss)	(0.3)	(1.18)	(0.24)
Diluted earnings (loss)	(0.3)	(1.20)	(0.24)
Total consolidated equity	6.4	6.6	9.5
Equity net of non-controlling interest	1.5	1.8	3.4 **
Number of shares (used for calculation of information per share)			
December 31	111,824,638	111,824,638	111,824,638
Weighted average for the year ***	110,419,779	111,390,454	111,824,638
Diluted	110,419,779	111,390,454	111,824,638

* The results of Sovcombank in 2011 and 2010 have been classified as discontinued operations

** Earning(loss) per share were adjusted retrospectively, see Note 37 of the IFRS Consolidated Financial Statements for additional information

*** Excluding treasury shares outstanding as of December 31

2012 Annual Report

KARDAN N.V.

2012 Annual Report

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Kardan's Business Strategy

Background

We believe that emerging markets will grow and develop faster than developed markets.

The worldwide economic landscape is changing as a result of the increasing influence of emerging markets, which is to some extent exacerbated by the European sovereign debt crisis. The International Monetary Fund published its world economic outlook in January 2013, in which it presented its expectation that in the next five years the annual GDP growth of emerging markets and developing economies would be 3.5% to 4% higher than that of developed markets.

The fundamentals of emerging markets show marked differences from those of developed markets.
It is anticipated that middle class purchasing power in emerging markets will have tripled by 2030.
The upcoming middle class economic power is an important factor which the governments of emerging markets specifically need to address. Stability in the emerging markets is an important condition for achieving sustainable growth, and therefore of importance to the worldwide economic and political landscape. Consequently, governments have a vested interest to encourage emerging countries to organize their economies in order to increase wealth and social welfare among the population. Increasingly therefore, governments are keen to stimulate internal demand by increasing purchasing power and controlling consumer confidence. Most notably in China, the government has made 'rebalancing', i.e. stimulating internal demand to become less dependent on export, a focal point of their current Five Year Plan.

In China, industrialization and urbanization trends – large groups of people moving from the countryside to cities – are changing the demographics. The demand for affordable housing – particularly in tier 2 and tier 3 cities – is increasing, as is the need for office buildings and shopping centers.

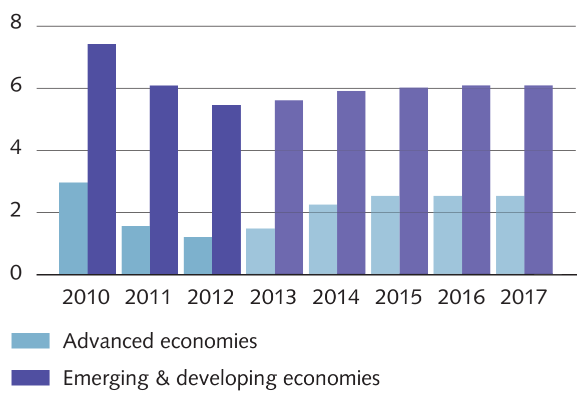
Industrialization and economic development generally have a polluting effect on emerging markets. Currently, governments of these markets increasingly recognize that adequate water infrastructure is a prerequisite for sustainable development.

More generally, governments also realize that a properly working banking and retail lending system are essential.

Strategy

Kardan initiates, develops and manages cash flow generating assets and projects in selected emerging markets in real estate, water infrastructure and retail banking. The Company aims to use its considerable past experience of operating in these areas, through its

GPD (expected) growth (%)



Source: IMF, World Economic Prospects (January 2013) major subsidiaries and associated entities, to become the established leaders in the respective fields on which it is focused, in the course of which to generate continuing and healthy returns for its investors.

Listed in Amsterdam and Tel Aviv, we adhere to strict corporate governance standards, including a stringent risk management approach, which we deem essential particularly when being active in emerging markets only.

We start by identifying promising emerging markets in which there is a growing middle-class to underpin economic growth. After thorough 'on the ground' research we establish local organizations ('platforms') in selected countries, combining international and local know-how and expertise. Platforms are established based on identified demand, economic viability, stability and legal infrastructure.
In China – too large to be assessed as a single country – we preferably select tier 2 and tier 3 areas and cities to focus on, as these locations generally offer higher growth potential. By diversifying our assets, spreading them throughout many regions in our main sectors real estate, water infrastructure and retail banking, we aim to spread our investments and consequently our risks.

When establishing a new platform, Kardan holding usually supplies the start-up capital. Once a certain level of maturity has been reached and value has been created by the platform through the various projects and assets in its portfolio, Kardan holding will be repaid through dividend or by means of cash generated through the sale of assets or projects within the subsidiaries. Occasionally, such as with GTC SA – the leading real estate developer in Central and Eastern Europe – we will exit through an IPO, retaining a (controlling) stake in the company for as long as we deem strategically and financially fruitful.

Local organizations are managed by international as well as local professionals, to maximize identifying and obtaining local opportunities and to minimize risks.

It is our belief that local management receives information on existing local opportunities earlier than non-locals and that they can assess potential risk at an earlier stage. Only if a project is likely to deliver an IRR in excess of 15% after tax, including direct expenses but excluding general overhead, will we consider investing. The funding for these projects is the responsibility of the local management.
Consequently, leverage of Kardan is layered, and needs to be assessed on various levels. It is, however, a key parameter for all managers of the Kardan Group, to control.

In order to maximize our ability to generate the returns that meet our overall strategy, we have recognized that debt reduction is a primary target, as well as a continuing focus on cost reduction and greater efficiency throughout our group of companies.

Foreword of the Chairman

I am delighted to present my first report as Chairman of Kardan.

2012 has been a year of significant change for Kardan N.V. (Kardan/the Company) following the spin-off of the Israeli activities in 2011. We began the year with a more focused company, focusing on real estate and water infrastructure activities in emerging markets, particularly in China and in Central and (South) Eastern Europe (CEE), as well as being active in banking and retail lending in Bulgaria and Romania. As became increasingly clear during the year, the global economic situation – to a large extent impacted by the lasting European sovereign debt crisis – was not going to improve in 2012. In this light, some important decisions were taken at Kardan.

The first was to propose to move from a two tier to a one tier governance structure to align more with international and Israeli practice and to improve decision making in the Company. This resulted in the replacement of the Management Board and Supervisory Board by one Board consisting of non-executive members and one executive member, the Chief Executive Officer (CEO).

At the Annual General Meeting of shareholders in May 2012, Joseph Krant, Hendrik Benjamins, Karnina Rechter, Israel Fink and Jay Pomrenze stepped down as members of the Supervisory Board.
On behalf of the new Board, I wish to thank them all for their commitment and contribution to Kardan over the years and during some particularly difficult periods. Avner Schnur and Max Groen, former members of the Supervisory Board, were appointed to the new Board, as were Albert May and myself as Chairman.
At the same time, Shouky Oren was appointed as CEO and member of the Board. Mr. Oren has worked and lived in Israel and overseas, and has been exposed to and dealt successfully with a number of complex challenges in difficult macro-economic circumstances. His broad experience in finance, combined with extensive managerial skills and leadership, clearly demonstrated during his tenure as Chief Treasurer of the State of Israel, as well as his impressive network within the various international financial communities and capital markets were, among other, reasons for his nomination.

In order to further strengthen the Board with a wider spread of specific expertise plus additional independent oversight, towards the end of 2012 Cor van den Bos and Elly Seinstra were proposed as additional members of the Board. At the same time, Yosef Grunfeld and Eytan Rechter, both founders of the Company, were proposed as additional members of the Board in order to benefit from their extensive insight in and knowledge of the Kardan Group.
Their appointment was confirmed during the Extraordinary General Meeting of Shareholders in February last. The full details on the changes to the Board can be found in the Corporate Governance chapter (page 81).
I am convinced that Kardan now has a Board that is not only strong in terms of the individual talents that

each member contributes but, through the combination of experience that we now possess, we will be able to deal with the challenges we face in a most effective and efficient manner.

A second decision was taken following in-depth discussions with the CEO and his executive management team. We concluded that Kardan's strategy, as set out on page 5 is sound and that the strategic – short to mid-term – priority is clear: to reduce debt and to generate cash through the sale of specific projects or assets. Consequently, two debenture repurchasing plans totaling EUR 100 million were approved and successfully executed. The management teams of all of our operating entities meanwhile are constantly encouraged to seek every opportunity to lower costs and improve operational results. Cost-cutting measures were taken at the holding company level as well. At the same time, (project) development plans have continued to form an important topic in our meetings, as the basis for the future growth of the Company.

In total, the (Supervisory) Board held 13 meetings in 2012 to discuss the change to the one tier board structure as well as the structure, budget, strategic plans and key concerns. The new Board met 5 times (for details, please see page 85) during 2012.

We consider good Corporate Governance as a key prerequisite to be able to successfully execute Kardan's strategy. It provides an ethical and social framework that gives structure to all our activities and markets and thus underpins our risk awareness and our relevant policies. It also enables us to have appropriate and timely insight into the operations of the Group. A detailed description of our Corporate Governance structure and procedures can be found starting on page 81 of this report.

We have also long understood the value of diversity. It is Kardan's strategy to create organizations ('platforms') in countries in which it plans to invest by combining international and local professionals. By doing so we are best informed about local situations and changes, thereby optimizing our opportunities and minimizing our risks. Consequently, throughout the Kardan Group we employ many nationalities, both male and female.

In nominating our new Directors, we have paid attention to expertise, relevant experience, nationality and gender diversity, as we deem it important that the Board should best reflect the international character and value of our company. More can be read on Personnel and Organization as well as on Environmental & Social Governance in the relevant chapters in this report (starting on pages 68 and 77).

Our Board is committed to face, and deal with, the continuing issues that are part and parcel of doing business at this time and in the markets in which we operate, and to ultimately make Kardan a stronger and more valuable company in the interests of all of our stakeholders. We face considerable challenges and we have substantial opportunities to exploit. We are firm in our resolve to overcome the challenges and maximize the potential of those opportunities. I believe that the steps we have taken in the past year are an essential element in achieving that goal.

Without the efforts of all the Kardan employees around the world, each contributing a specific part to the total picture that makes Kardan, the year 2012 would have been that much more difficult. We want to thank all employees, shareholders, clients and other stakeholders for their support and trust.

Peter Sheldon, OBE, JP,
Chairman of the Board

Letter of the Chief Executive Officer

'Deleveraging is our main priority'

The 2011 results of Kardan were reason for the Supervisory Board to decide that change was needed. This was to be twofold: to align our board structure better with international standards and to enable management to take more effective and firm control. First, it was proposed to the Annual General Meeting of shareholders to move from a two tier governance structure, most common in the Netherlands, to a one tier board structure which is more aligned with international practice. Secondly, it was proposed to appoint a Chief Executive Officer, as the only executive member, on the Board. During the Annual General Meeting of shareholders at the end of May 2012, both proposals were approved which meant that as of June 1, I became CEO and a member of the new Board.

Alain Ickovics, the former Chairman of the Management Board of Kardan, was appointed Chairman of the Supervisory Board of GTC SA. In addition, two other former members of the Management Board left the headquarters in Amsterdam and they were not replaced.
Walter van Damme was appointed to CEO of our water infrastructure company Kardan Water in China, and Jan Slootweg departed from Kardan before year-end.
I want to thank them and wish them success in their new ventures and future.

Strategic highlights

As anticipated, 2012 was not easy for Kardan with a global macro-economy not showing signs of recovery, particularly in Central and (South) Eastern Europe. Consequently, we focused strongly on operational results and on improving our financial position throughout the Group.

All the divisions have shown major improvements in their operations by reducing costs and increasing revenues, which has taken us from a loss from operations (before fair value adjustments, disposal of assets and financial expenses) of EUR 59 million in 2011 to a profit from operations of EUR 36 million in 2012.

Dealing with our debt was our second challenge. GTC SA raised EUR 100 million through a rights issue, in which we participated for our full pro-rata share. That, together with sale of assets and with the restructuring of their debt brings GTC SA, even considering the substantial revaluation losses, to a much better and more robust position to face both the difficult markets and to deal with the new developments.

We also saw the necessity to deleverage on our holding level and therefore we initiated repurchasing plans for our outstanding debentures. Already at the end of 2011, the decision had been taken to start

using existing cash reserves of Kardan N.V. and of GTC Real Estate Holding B.V. for this purpose.
As the Debentures' yield went up substantially as of May 2012, we implemented the plan aggressively.
In August 2012, we successfully finalized our repurchasing plans, spending nearly EUR 100 million whilst reducing the corresponding liability by approximately EUR 144 million.
At the beginning of 2013 we came to an understanding with our debenture holders on certain concessions, in order to underpin our commitment regarding our obligations to them.

Deleveraging will continue to be our main priority for 2013. We also aim to improve our Loan to Value (LTV) in the coming years to approximately 40% by reducing our debt on the one hand and by increasing the value of our assets on the other. Moreover, we continue to focus on cost efficiency measures throughout the whole Group.

Real Estate Asia

From the start of our real estate activities in China in 2005 we recognized the – perceptive – risk associated with investing in China. Moreover, we fully took into account that macro-economic developments in China vary tremendously from one city to another.
Consequently we have chosen, very consciously, to focus on certain tier 2 and tier 3 cities, with above (country) average economic growth and prospects.
We also chose to start with the development of residential apartments together with a partner, to spread the risk and to obtain a good local reputation.
As is customary in China buyers prepay their apartments, creating positive working capital for us and the possibility of investing in future growth.
Over the years we have been able to buy land plots and obtain building permits, both for residential projects as well as for retail centers.
However, while residential has served us well to enter the Chinese market, the mixed-use and retail projects are Kardan's growth engines going forward, supported by the current Five Year Plan (2011-2015) of the Chinese Government, which aims to stimulate internal consumption in order to become less dependent on export.

The management of our shopping mall in Chengdu continued to dedicate time and efforts to its tenants, thereby enhancing both the tenants' as well as the mall's brand name. The result was a revenue growth of 3% in 2012, despite the fact that we sold 50% of the mall in the third quarter of 2011.

During 2012 we also made great progress with our largest retail project ever: Europark Dalian, the mixed-use project comprising of a shopping center combined with residential apartments and SOHO (small office home office) totaling a gross buildable area of 327,006 square meters. We started with the sale of SOHO apartments in October 2012 and we are also in negotiation with retailers to sign leases for the shopping mall. The mall, which is developed according to the latest trends in sustainable and environmentally design and which will be operated according to the LEED standard, is planned to be completed by end of 2014.

Kardan Land China will continue to identify new plots of land to develop mixed-use projects in tier 2 and tier 3 cities. In this process the company is collaborating closely with its anchor tenants in order to minimize risks.

Real Estate Europe

As the European sovereign debt crisis re-ignited in the summer months of 2012, consumer confidence throughout the Euro-zone as well as throughout CEE fell to a deep low. Despite all the efforts which GTC SA undertook in its retail centers, shrinking disposable income affected the value of shopping malls, particularly in Bulgaria, Romania and Croatia, as expected rental values were decreased.
Overall, however, GTC SA managed to maintain a stable rental income, also supported by the income from its office buildings.

As mentioned earlier, GTC SA management strengthened the balance sheet of the company and improved its liquidity, ending 2012 with a LTV ratio of 53% whereas this was 60% at the end of last year. We realize that GTC SA will continue to face unfavorable market conditions in the coming years, but we believe that the new shopping centers to be developed in Warsaw and Belgrade, as well as the office building in Bucharest, will contribute to and support sustainable future growth. GTC SA is renowned for developing high-quality assets: in 2012 the company was awarded two LEED Gold certificates, one for the office building Corius and the other for the office Platinium V, both located in Warsaw, Poland.

Water Infrastructure

Tahal, our water infrastructure company, came out of the year 2012 stronger than it had started it.
Tahal Projects reported a significant increase in revenues, mainly attributable to new projects in Africa, and managed to reduce costs resulting in a substantially lower loss than in 2011. Generally, funding for water projects in emerging markets derives from public sources, often supported by international finance institutions. Tahal acknowledges that arranging and managing funding for projects is an important aspect of winning and executing tenders and includes this specialism as a part of its services, supporting the positive development of the backlog of Tahal Projects.

Tahal Assets, which is mainly active in China, also saw revenues increase following expansion of capacity of water treatment facilities and construction activities. Treatment of water is a growth market in China, where the government has identified water treatment as a key focal point in their Five Year Plan. Substantial funds have been allocated to this cause and Public Private Partnerships are permitted and common. There are, therefore, many opportunities for Kardan Water to expand. As Kardan holding currently needs to focus on deleveraging, Kardan Water is constantly in contact with potentially future partners for further development.

Banking and Retail Lending

With the completion of the sale of Russian Sovcombank in May 2012, the banking and retail lending activities of Kardan Financial Services now mainly take place in Bulgaria and Romania where the markets, as mentioned, are difficult. In Bulgaria, our TBI bank was successful in raising deposits as consumers were wary of spending money but not of saving. As TBIF was able to obtain a branch license for TBI Bank in Romania in Q4 of 2012, we can now also raise deposits in Romania, which will be beneficial to the funding of the bank portfolio. During 2012, large efforts were put into improving risk management procedures and processes to get a better grip on non-performing-loans. This has resulted in stabilizing the provisions, a significant improvement in revenue (as provisions are deducted from revenues), as well as in a better quality of the new loan portfolio.
The leasing activities which TBIF conducts mainly in Ukraine through Avis also contributed to the revenue growth. TBIF management was also successful in decreasing the overhead costs at the division level as well as in the operations, and in deleveraging.

Going forward

Kardan reported a loss of EUR 32 million for its shareholders in 2012. We were able to improve the operational results in our subsidiaries, to strengthen the financial position of GTC SA and to generate a financial gain on the repurchases of our debentures. Unfortunately, following the ongoing weak consumer sentiment particularly in CEE, we were again confronted with negative revaluations. There is no doubt that our main priority for 2013 is to bring down the Kardan N.V. and GTC Real Estate Holding B.V. debt by selling assets and through upstream cash from our investee companies while continuing to follow our core strategy. Consequently, funding of our activities will increasingly need to take place at the subsidiary level.

We continue to believe in the resilience and economic potential of emerging markets, although we cannot foresee or influence the timing of their resurgence. Our commitment lies in dealing with the considerable challenges we are presently facing to ultimately make Kardan a stronger and more valuable company again for all our stakeholders.

I want to thank our shareholders and other stakeholders for their continuing trust and support. Without the perseverance, commitment and dedicated efforts of all my colleagues, the challenges we continue to face would be that much more difficult.

Shouky Oren,
Chief Executive Officer

Shareholders' Information

The par value of ordinary shares of Kardan N.V. is EUR 0.20. Kardan N.V.'s ordinary shares have been listed on Euronext Amsterdam since July 10, 2003, under the trading symbol 'KARD'. Kardan is also listed on the Tel Aviv Stock Exchange under the symbol 'KRNV'. The ISIN code of Kardan N.V. is NL000011365.2 and the Dutch security code (fondscode) is 'KARD'.

Distribution of shares

As of December 31, 2012 a total of 111,824,638 ordinary shares have been issued and are outstanding. The following table presents shareholdings of more than 5% and of related parties as of March 31, 2013:

	Number of shares held (ordinary shares of € 0.20 each)	Holding rate		Holding rate in full dilution	
		In capital	In voting	In capital	In voting
Y. Grunfeld (1)(8)	22,214,267	19.87%	20.09%	19.85%	20.06%
A. Schnur (2)(8)	19,818,464	17.73%	17.93%	17.71%	17.90%
E. Rechter (3)(8)	4,098,719	3.67%	3.71%	3.66%	3.70%
A. Ickovics (4)	3,312,974	2.96%	3.00%	2.96%	2.99%
A. Shlank (5)	40,675	0.04%	0.04%	0.04%	0.04%
W. van Damme (6)	–	–	–	0.13%	0.14%
E. Oz-Gabber (7)	3,289	–	–	–	–
Kardan Israel Ltd. (9)	12,300,330	11.00%	11.12%	10.99%	11.11%
GTC Real Estate Holding B.V.	1,192,052	1.07%	–	1.07%	–
S. Oren (10)	100,000	0.09%	0.09%	0.09%	0.09%

(1) The shares are held directly and indirectly through Talromit Financial Holdings (1995) Ltd., a company wholly owned by Mr. Grunfeld.
(2) The shares are held through Raitalon Ltd., a company wholly owned by Mr. Schnur.
(3) The shares are held through Shamait Ltd., a company owned by Mr. Rechter and his wife.
(4) Mr. Ickovics was a member of the Management Board of Kardan, and now acts as the chairman of the Supervisory Board of GTC SA
(5) Mr. Shlank was a member of the Management Board of Kardan.
(6) Mr. Van Damme was a member of the Management Board of Kardan. Mr. Van Damme holds 150,000 options to shares of Kardan, which expired on April 1, 2013
(7) Ms. Oz-Gabber is the CFO of Kardan.
(8) Mr. Grunfeld, Mr. Schnur and Mr. Rechter have a voting agreement which represents approximately 42%.
(9) Mr. Grunfeld, Mr. Schnur and Mr. Rechter have a voting agreement with respect to their respective shareholdings in Kardan Yazamut (2011) Ltd. which represents 42.64%. Kardan Yazamut (2011) Ltd. holds 73.67% of the shares in Kardan Israel Ltd.
(10) Mr. Oren is the CEO of Kardan.

Key financial figures per share

€ per share	2012	2011	2010
Basic earnings (loss)	(0.30)	(1.18)	(0.24)
Diluted earnings (loss)	(0.30)	(1.20)	(0.24)
Total consolidated equity	6.4	6.6	9.5
Equity net of non-controlling interest*	1.5	1.8	3.4

* Excluding treasury shares outstanding as of December 31

Share prices in 2012

	Euronext (EUR)	Tel Aviv (NIS)
Highest share price	1.84	9.03
Lowest share price	0.42	2.03
Year-end	0.78	3.75

Liquidity provider

Petercam SA (Petercam) acts as a liquidity provider for the Kardan N.V. shares listed on Euronext Amsterdam.

Financial calendar

General Meeting of Shareholders – May 30, 2013
Q1 2013 results – May 30, 2013
Q2 2013 results – August 29, 2013
Q3 2013 results – November 28, 2013

Dividend policy

The dividend policy of Kardan N.V. will take into consideration the level of net income, liquidity and the capital position, future financing requirements and financial covenants of the Company, all within the limitations of the law. If circumstances allow, the dividend policy recommends an annual distribution of between 20% and 30% of net income. Dividend pay-out may vary from year to year.

Additional information

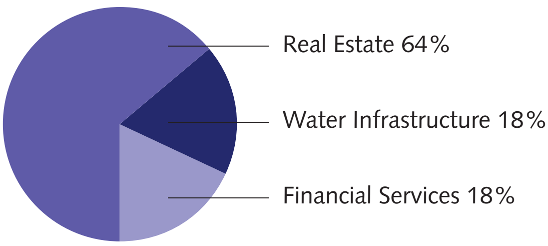
Additional information can be obtained from:
Kardan N.V.
Claude Debussylaan 30
Viñoly Building, 13th floor
1082 MD Amsterdam
The Netherlands
Telephone +31 (0) 20 305 0010

Other publications and information: www.kardan.nl

Developments within the Portfolio of Activities

Following the spin-off of the Israeli activities in 2011, Kardan started the year 2012 with a focused portfolio of activities in Real Estate, Water Infrastructure and Banking and Retail Lending in emerging markets.
It became increasingly clear during the year that the global economic situation, which was influenced to a large extent by the ongoing European sovereign debt crisis, would not improve in 2012. Consequently, deleveraging and cost optimization throughout the Group were set as the main priorities for the year. This is evident from the changes in the portfolios during 2012, which are described in more detail below, per division.

Equity investment and shareholders' loans
as of 31 December 2012



Kardan N.V.

Kardan's focus is to deleverage on holding and intermediary holding company levels. Consequently, in December 2011 and July 2012 the Company announced two repurchase plans of its Debentures, listed on the Tel Aviv Stock Exchange, up to a maximum of EUR 100 million (for both plans combined). During 2011, Kardan, through its subsidiary GTC Real Estate Holding BV (GTC RE), purchased Debentures Series A for a total consideration of approximately EUR 7.1 million (NIS 46.8 million). In 2012, Kardan, through (GTC RE), purchased 431.2 million of Debentures Series A for a total consideration of EUR 77 million, and 120.2 million of Debentures Series B for a total consideration of EUR 15.5 million. The repurchase plans were finalized in August 2012.

Through the repurchases of the two plans (running from December 2011 through August 2012), Kardan reduced the corresponding liability by approximately EUR 144 million. The total profit on these two plans amounted to EUR 44 million, of which EUR 1 million was recognized in the fourth quarter of 2011 and EUR 43 million was recognized in 2012.

Taking into account earlier repurchases made in June through beginning August 2011 Kardan, through its subsidiaries, presently owns 47.5% of Debentures Series A and 12.6% of Debentures Series B.

In March, 2012, Kardan received a letter from the Israeli Securities Authority (ISA) regarding a sampling audit that was conducted by the ISA and included, inter alia, the examination of the values of five real estate assets owned by GTC SA in the financial statement as of December 31, 2009. Reference is made to the Investment Property Note in the 2012 IFRS financial statements of Kardan.

The proposal to change the two tier Board structure to a one tier Board structure was approved by the Annual General Meeting of shareholders (AGM) in May 2012. The move to a one tier model simplifies the corporate governance structure and results in a more efficient and simple decision making process. In addition, the AGM approved the appointment of Mr. Shouky Oren as CEO and member of the Board. Mr. Alain Ickovics, former Chairman of the Management Board of Kardan, remained in the Kardan Group as Chairman of the Management Board of Kardan's real estate subsidiary GTC Real Estate Holding B.V. and as Chairman of the Supervisory Board of GTC SA.

The following members were appointed to the Board during the AGM:
- Mr. A.A. Schnur as non-executive member of the Board
- Mr. M.I. Groen as non-executive member of the Board (Independent)
- Mr. A. May as non-executive member of the Board (Independent)

- Mr. P. Sheldon as non-executive member of the Board (Independent)
- Mr. S. Oren as CEO and executive member of the Board (Independent)

Subsequent to balance sheet date, Kardan announced that the Extraordinary General meeting of Shareholders in February 2013 had approved four nominated new Board members. Mr. C. van den Bos and Mrs. E. Seinstra were appointed as independent non-executive members and Mr. Y. Grunfeld and, Mr. E. Rechter as non-executive members in the Board. In addition, the remuneration proposals for the new Board members were approved as was the revised exercise price of the Chief Executive Officer's option package whilst respecting the other terms of the option package that were submitted for approval in the Annual General Meeting of shareholders in May 2012.

In June, 2012, Maalot, the Israeli subsidiary of Standard & Poor's (S&P), reported that it had changed the rating of the debentures issued by Kardan, from ilBBB+ positive outlook into ilBBB negative outlook on higher leverage and difficult business environment, based on Kardan's increased LTV (loan-to-value ratio) to nearly 60% in June 2012 (July 2011: nearly 50%), mainly due to a sharp devaluation in Kardan's stake in the listed real estate company GTC SA as well as due to impairment in its private holdings, mostly stemming from very difficult business environments in Central and South Eastern European markets. The negative outlook reflected the challenges that S&P believed Kardan will likely face in light of its liquidity profile in 2014.

Furthermore, in July 2012, S&P reported that – following the announcement in July 2012 by the Company to initiate a new repurchase plan of its Debentures to an amount of EUR 50 million – it had changed the rating of Kardan from ilBBB negative outlook into ilCC as well as for the Debentures Series A of the Company. The rating of Debentures Series B was not adjusted by S&P.

In August 2012, following the completion of the repurchase plan by Kardan (as announced in July 2012) S&P downgraded the rating for the Company to 'Selective Default' (SD) and a 'Default' rating for Debenture Series A and on the same day immediately changed the rating for Kardan upwards to ilBBB- negative outlook. The Debentures Series A and Debenture Series B were also rated ilBBB- negative outlook.

In March 2013, S&P reported that – following the press release in which Kardan announced that the negotiations to sell 50% of the mixed-use project Europark Dalian in China had ended (see below under Real Estate) – it had changed the rating of Kardan and its Debentures Series A and Debentures Series B from ilBBB- negative outlook into ilBB negative outlook, due to a worsening liquidity profile. In addition, S&P put the Company and the Debentures on CreditWatch with negative implications until the end of June 2013, when it will again review the ratings.

In March 2013, the holders of Debentures Series A unanimously approved the proposed amendments to the Deed of Trust, and 99.95% of the holders of Debentures Series B approved. For details of the amendments, see Note 40 of the 2012 IFRS financial statements of Kardan.

Real Estate

In April 2012, during the General Meeting of shareholders of GTC SA, in which Kardan N.V. holds a 27.75% stake, Mr. Alain Ickovics (former Chairman of the Management Board of Kardan) was appointed Chairman of the Supervisory Board of GTC SA. Mr. Shouky Oren (current CEO of Kardan N.V.) was also appointed to the Supervisory Board of GTC SA.

GTC SA recommended to raise approximately EUR 100 million through a rights issue to strengthen the capital structure and to improve its cash position in March 2012. This recommendation was approved by the General Meeting of shareholders of GTC SA in

April 2012. In June 2012, GTC SA announced that its rights issue was more than twice over-subscribed and that its share capital was strengthened by PLN 445 million (EUR 100 million, net). Kardan participated in the rights issue through its subsidiary GTC RE to its pro rata share of 27.75%. As all the rights were exercised, GTC RE's share in the capital of GTC SA remained 27.75%.

GTC RE sold its indirectly held (40%) real estate portfolio of 7 assets, mostly offices, in Switzerland to a Swiss Investment Fund for an amount of EUR 61 million in October 2012. The transaction generated nearly EUR 6 million of free cash for GTC RE after repayments of bank loans and expenses. The sale of these assets was in line with the strategy of Kardan to withdraw from the Western European Real Estate market as well as to generate free cash in order to fulfill the obligations to its bond holders.

In October 2012, GTC SA announced that it had signed a preliminary agreement with a private investor (the Agreement) on the sale of its three small-size shopping centers in tier 2 and tier 3 cities in Romania, for an estimated amount of EUR 6 million. As a result of the Agreement, Kardan N.V. recognized a revaluation loss of EUR 4 million (net of minority impact) in the third quarter of 2012. Subsequent to balance sheet date, in January 2013, GTC SA announced that the Agreement was cancelled due to the fact that an agreement on final conditions could not be reached. GTC SA is reviewing its alternatives.

Subsequent to balance sheet date, in February 2013, Kardan announced that its indirect wholly owned subsidiary Kardan Land China Ltd.(KLC) was in negotiations with an international fund to sell a 50% stake in its mixed-use project Europark Dalian (the Transaction), following the signing of a non binding Letter of Intent (LoI) in December, 2012. The LoI included an exclusivity period until February 18, 2013, which had been extended by mutual consent. According to the LoI, the purchase price for the 50% stake of the Project was RMB 710 million (approximately EUR 85 million). In March 2013, KLC was informed by the international fund that it had decided not to pursue the Transaction. KLC is now resuming discussions with other international funds and investors, with which discussions were stopped due to the exclusivity term in the LoI. The ending of the negotiations does not have any impact on the further development of Europark Dalian.

Kardan's 27.75% stake in GTC SA (through GTC RE), stipulates that the Company has effective control over GTC SA as of December 31, 2012, inter alia because the Company has the majority of the Supervisory Board members (5 directors out of 9). Subsequent to the balance sheet date, at the end of February 2013, one of the other shareholders of GTC SA increased its stake in GTC SA to 10.04%, which gave it the right to appoint an additional Supervisory Board member, which it did in March 2013. As of the publication date of the annual results 2012 (March 24, 2013), the total number of Supervisory Board members appointed by GTC RE to the Supervisory Board of GTC SA amounted to 5 out of 10, including the Chairman of the Supervisory Board who has a casting vote in the event of a tie.
In April 2013 another shareholder executed its right to appoint a member in the Supervisory Board of GTC SA.

In accordance with accounting standards, effective control exists when a company has the power, indirectly or directly, to steer the financial and operating policies of an entity. Effective control takes into account the effect of potential voting rights which are exercisable at the reporting date. Consolidation of the financial statements of the entity is from the date control is obtained till the date that effective control ceases. As a result of these developments, the Company concluded that in the first quarter of 2013 its accounting effective control over GTC SA ceased to exist. Accordingly the Company will stop consolidating the financial statements of GTC SA in the first quarter of 2013. The Company believes, however, that it could be argued that the ability to steer the activities of GTC SA still exists as the Chairman of the Supervisory Board and the entire executive management of GTC SA (the management board) was appointed by GTC RE.

Within the financial covenants of GTC RE towards a lending bank, GTC RE is required to keep its ability to steer the activities of GTC SA through the directors it has appointed. At the date of the publication of the 2012 annual results (March 24, 2013), GTC RE maintained its ability to steer the activities of GTC SA, since the entire executive management of GTC SA (the management board) was appointed by GTC RE, as well as the Chairman of the Supervisory Board who has a casting vote in case of a tie. At the time of the publication of the annual report (April 17, 2013), although another shareholder has appointed a member in the Supervisory Board of GTC SA bringing the total number of members to 11, it should be noted that the Company is still the largest shareholder and that the other shareholders which hold over 5% are pension funds which do not tend to engage themselves in executive management. GTC RE is consequently currently investigating whether the appointment of the additional board member has an impact on its ability to steer the activities of GTC SA. For further details see the Subsequent Event Note in the 2012 IFRS financial statements.

In March 2013, GTC SA announced that the Romanian Chamber of Deputies approved an Ordinance (no. 114/2007) which provides that it will no longer be possible to designate lands that are currently classified as green areas for any other use or purpose. For as long as the Ordinance is valid in its current adopted version, GTC SA will not be permitted to develop its land plot in Bucharest that was intended for a shopping mall project (Galleria Bucharest) and is currently classified as green area. The land plot is presented in GTC SA's 2012 Financial Statements with a value of EUR 20.4 million (at cost). GTC SA is examining the legal, accounting and economic implications of such approval of the Ordinance. The adoption of the Ordinance in its current form (i.e. without any amendments) was not possible to predict, as previous reports have suggested that the Ordinance should be approved with amendments in order to allow change of designation of green areas being held in private ownership. See the Subsequent Event Note in the 2012 IFRS financial statements.

Water Infrastructure

In February 2012, the Memorandum of Agreement (MoA), that was signed in May 2007, with respect to a water and agriculture project in Botswana between Tahal Group B.V. (Tahal) and the Government of Botswana was cancelled by Tahal. Tahal reserves all its rights with respect to the MoA.

In March 2012, Tahal Consulting Engineers Ltd. (TCE) and the National Water Company of Ghana signed an agreement for a project (the Project) to design, construct, expand and upgrade the drinking water systems in the Kumawu, Konongo and Kwahu region of Ghana. The Project is the sequel to an existing project also executed by TCE in the same area ('the 3K project'). Estimated revenues for the Project are USD 97.5 million (approximately EUR 73 million). According to the agreement, the Project is anticipated to take three years from commencement. TCE has organized the financing for the Project, which will be the fourth project for TCE in Ghana.

Tahal announced in August 2012 that it had received an extension of deadlines for its Pump Storage Project; an 81% subsidiary of Tahal (Tahal Water Energy Ltd.) was granted a conditional license in 2009 to build an electricity generating facility (the Plant), providing up to 300 Megawatt of electricity to the Israel Electric Company, conditional to achieving certain milestones. The extension of deadlines relates specifically to the arrangement of the funding, which has been extended until June 24, 2013. The funding is expected to be largely provided by external parties in the form of project finance as well as an equity contribution. Since the initial announcement in 2009, it is expected that the total investment to construct the Plant will amount to approximately USD 410 million (approximately EUR 310 million) and that it will take approximately four to five years to complete the construction as of the start. As of December 31, 2012, approximately 2% of the expected total investment has been invested in the project by Tahal.

In December 2012, an indirectly held subsidiary of Tahal Group International, the 100% owned water infrastructure company of Kardan, signed an agreement to sell its rights in a leased real estate asset in Tel Aviv, Israel, to an unrelated third party for NIS 74 million (approximately EUR 15 million) (the Transaction). This was following the termination in December 2012 of the real estate agreement which Tahal entered into in 2010 with Kardan Real Estate, a separately listed subsidiary of the Tel Aviv listed company Kardan Israel, with respect to the sale of Tahal's rights in the leased real estate asset in Tel Aviv. In January 2013, the Transaction was completed. The expected profit for Kardan is approximately EUR 7 million.

Financial Services

TBIF Financial Services B.V. (TBIF) completed the sale of its 50% stake in the Russian Sovcombank to the other shareholder in the Bank (the Transaction) in May 2012, following the agreement which was signed in June 2011. The total consideration for the Transaction amounted to EUR 123 million, the remainder of which (EUR 71 million) was received upon completion of the Transaction. Approximately EUR 38 million of the proceeds was used to repay a loan that Kardan Financial Services (KFS), that holds 100% of TBIF, has from Kardan. Over the years, Kardan invested approximately EUR 100 million in the Bank. This sale, together with the earlier sale of a 16% interest in the Bank in 2010, generated accumulated proceeds of approximately EUR 160 million for Kardan.

In 2010, in parallel to the sale of TBIH, the Group's former insurance and pension segment holding company, KFS acquired an option to purchase the Bulgarian pension fund Doverie. As part of this transaction, KFS undertook a loan in the amount of EUR 10 million from the purchaser. In December 2012, KFS signed an agreement to waive the option and pay down EUR 2.5 million, in favor of the purchaser foregoing the loan. The profit from the settlement of the option and the loan amounted to EUR 2.5 million.

For a more detailed overview of the operations of each of the divisions, see pages 46 to 67.

Financial Developments

General

Kardan N.V. recorded a loss of EUR 32 million in 2012 compared to a loss of EUR 148 million in 2011. The loss is mainly due to fair value adjustments of investment property and impairment of inventory in Central and (South) Eastern Europe as well as due to the results of the banking and retail lending segment, mitigated by the financial income following the repurchase of debentures. The consolidated loss in 2012 amounted to EUR 138 million compared to a loss of EUR 409 million in 2011. The significant difference between the consolidated loss and the loss of Kardan N.V. is mainly due to the stake of non-controlling shareholders in the consolidated loss, predominantly GTC SA: this company recorded a loss of EUR 132 million, out of which EUR 27 million is attributable to Kardan N.V.

In the analysis below the focus is on the consolidated financial statements. At the end of the chapter, information is provided with respect to the equity and funding position of Kardan N.V.

Einat Oz-Gabber, CFO

Condensed Consolidated Income Statement Kardan N.V. by Quarter

The 2012 quarterly results of Kardan N.V. are presented in the table below:

€ in millions	Q1/2012	Q2/2012	Q3/2012	Q4/2012	2012
Total revenues	85	91	115	92	383
Total expenses	79	79	95	94	347
Profit (loss) from operation before fair value adjustments, disposal of assets and financial expenses	6	12	20	(2)	36
Profit (loss) from fair value adjustments and on disposal of assets and investments	5	(12)	(33)	(56)	(96)
Result from operations before finance expenses	**11**	**–**	**(13)**	**(58)**	**(60)**
Financing income (expenses), net	(25)	(18)	18	(31)	(56)
Share of profit of associates accounted for using the equity method	(1)	(4)	(1)	(4)	(10)
Profit (Loss) before income tax	(15)	(22)	4	(93)	(126)
Income tax (expenses)/benefit	2	(8)	(3)	(4)	(13)
Profit (Loss) from continuing operations	**(13)**	**(30)**	**1**	**(97)**	**(139)**
Profit (Loss) from discontinued operations	–	1	–	–	1
Profit (Loss) for the period	(13)	(29)	1	(97)	(138)
Attributable to:					
Non-controlling interest	1	(18)	(19)	(70)	(106)
Equity holders	**(14)**	**(11)**	**20**	**(27)**	**(32)**
Profit (Loss) for the period	(13)	(29)	1	(97)	(138)

The 2012 condensed consolidated income statement split into the different segments of Kardan N.V. is shown in the table below.

Following the overall analysis, the 2012 results of every individual segment is analyzed in more detail.

Condensed Consolidated Income Statement Kardan N.V.

For the full year ended December 31, 2012:

€ in millions	Real Estate		Infrastructure		Banking and Retail lending	Other	Total		
	Asia	Europe	Assets	Projects			2012	2011*	2010*
Total revenues	67	150	38	108	20	–	383	332	377
Total expenses	59	102	31	113	34	8	347	391	337
Profit (loss) from operation before fair value adjustments, disposal of assets and financial expenses	8	48	7	(5)	(14)	(8)	36	(59)	40
Profit (loss) from fair value adjustments and on disposal of assets and investments	13	(105)	–	(1)	(3)	–	(96)	(214)	50
Result from operations before finance expenses	**21**	**(57)**	**7**	**(6)**	**(17)**	**(8)**	**(60)**	**(273)**	**90**
Financing income (expenses), net	–	(65)	(5)	(2)	(3)	19	(56)	(123)	(125)
Share of profit of associates accounted for using the equity method	–	(10)	–	–	–	–	(10)	(3)	6
Profit (Loss) before income tax	21	(132)	2	(8)	(20)	11	(126)	(399)	(29)
Income tax (expenses)/benefit	(7)	(7)	(2)	1	–	2	(13)	(28)	(22)
Profit (Loss) from continuing operations	**14**	**(139)**	**–**	**(7)**	**(20)**	**13**	**(139)**	**(427)**	**(51)**
Profit (Loss) from discontinued operations	–	–	–	–	1	–	1	18	22
Profit (Loss) for the period	14	(139)	–	(7)	(19)	13	(138)	(409)	(29)
Attributable to:									
Non-controlling interest	–	(106)	–	–	–	–	(106)	(261)	(2)
Net result for the segment attributable to equity holders	**14**	**(33)**	**–**	**(7)**	**(19)**	**13**	**(32)**	**(148)**	**(27)**
Profit (Loss) for the period	14	(139)	–	(7)	(19)	13	(138)	(409)	(29)

* The results of Sovcombank in 2011 and 2010 have been classified as discontinued operations. Additional reclassification of comparatives has been done to conform to current period presentation.

Overall 2012 review

Total consolidated **net result from continuing operations** in 2012 arrived at a loss of EUR 139 million, compared to a loss of EUR 427 million in the corresponding period last year, similarly to last year in particular due to losses in Real Estate Europe and in Banking and Retail lending:

The result from continuing operations of *Real Estate Asia* was a profit of EUR 14 million, including a EUR 11 million revaluation profit (net of tax) on the retail center in Europark Dalian and the shopping mall in Chengdu. In 2011, the EUR 24 million profit included a EUR 17 million revaluation profit on the sale of 50% of the shopping mall in Chengdu as well as a gain mainly on the sale of the stake in Chengdu (EUR 12 million). 2012 showed a notable increase in revenues following a significant number of deliveries of apartments as well as an improvement in gross profit. SG&A expenses in 2012 decreased: although sales and marketing expenses increased mainly due to the new mixed-use project Europark Dalian, for which construction started in May and the sale of Small Office Home Office apartments in October, general and administrative expenses decreased compared to those in 2011 which included a one-off expense for a share option plan.

Real Estate Europe recorded a loss from continuing operations of EUR 139 million, of which 27.75% is attributable to Kardan, compared to a loss of EUR 346 million in 2011. Revenues in 2012 decreased y-o-y by 6%, mainly the result of substantially lower revenue from the delivery of apartments and slightly lower property rental and service recharge revenues despite the sale by GTC SA of its 50% stake in Galeria Mokotow in Q3 2011 and the sale of the Platinium office buildings (I-IV) in Q3 2012. As a result of cost optimization measures and lower financing expenses at GTC SA, the direct result (i.e. gross profit from operations, excluding impairments on inventory – recorded under 'Other expenses, net' – and deducting SG&A and finance expenses) in 2012 is positive: EUR 4 million whereas this was a loss of EUR 15 million in 2011. The largest impact, however, on the loss from continuing operations in both years was the negative revaluation result and impairments on real estate assets (2012: EUR 122 million, 2011: EUR 299 million). GTC SA strengthened its financial position in 2012 by raising EUR 100 million through a rights issue, in which Kardan participated for its 27.75% pro-rata share, prolonging EUR 73 million bonds and repayment of other loans and liabilities (including repayment of bonds and related hedges in the amount of EUR 46 million). Consequently, the loan to value ratio of GTC SA improved to 53% at year-end (from 60% year-end 2011).

A EUR 7 million loss from continuing operations was recorded in 2012 for *Water infrastructure* (2011: loss of EUR 12 million).
Following a significant increase in revenues, tight cost control and less financing expenses, Tahal Projects could decrease its loss to EUR 7 million, compared to a loss of EUR 14 million in 2011.
Tahal Assets reported a break even result (2011: EUR 2 million profit), following a decrease in the gross profit mainly resulting from construction and expansion of facilities (particularly in China).

The *Banking and Retail Lending* segment improved its results from a loss from continuing operations of EUR 61 million in 2011 to a loss of EUR 20 million in 2012. Revenues improved significantly following lower provisioning (which is deducted from revenues).
The majority of the provisions in 2012 were taken in the first quarter of the year on mainly legacy portfolio's; the subsequent quarters indicated an improving and stabilizing trend and improvement in the quality of the portfolios.
In addition, cost cutting measures and deleveraging contributed to the improvement in results.
Impairment losses on goodwill were EUR 4 million (2011: EUR 19 million).

Included in *'Other'* are the expenses and finance costs of the holding companies Kardan N.V. and GTC Real

Estate Holding B.V. In 2012 the result was a profit of EUR 13 million (2011: loss of EUR 22 million), primarily due to the result of financing income (EUR 43 million) recognized on the repurchase plans of debentures during the reporting period.

The **profit from discontinued operations** in 2012 is the effect of the closing of the sale of Sovcombank in Russia. In 2011 the result also reflects the Israeli activities, which were spun-off in Q4 2011 as well as the completion of the sale of VAB bank in Ukraine.

The **net result** for equity holders of Kardan N.V. amounted to a loss of EUR 32 million (2011: loss of EUR 148 million and 2010: loss of EUR 27 million).

Highlights per segment

Every segment result for 2012 is analyzed separately below.

Real Estate

Kardan is active in development and management of Real Estate through two segments: 1) Asia, which includes its 100% subsidiary Kardan Land China, and 2) Europe, which includes GTC SA, of which it holds 27.75%, and a relatively small investment in Germany (49% holding in GTC Investments) which it intends to sell in the near future.

Real Estate Asia

Kardan Land China's strategy is to focus on the development of mixed-use projects, i.e. shopping malls in combination with (service) apartments and small office home office apartments (SOHO), in China's tier 2 and tier 3 cities, which have above (country) average growth. The current Five Year Plan of the Chinese government focuses on strengthening the internal market, to become less dependent on export. As purchasing power and internal consumption are stimulated, the urbanization continues and the middle class expands the underlying fundamentals for shopping centers and for low to mid-end residential real estate in tier 2 and tier 3 cities remains.

Results Real Estate Asia

€ in millions	For the year ended December 31	
	2012	2011
Property rental and service recharge revenues	7	6
Delivery of apartments	60	40
Total revenues	67	46
Costs of property rental and service recharge operations	3	2
Cost of delivery of apartments	43	31
Other expenses, net	–	1
Gross profit	21	12
SG&A expenses	13	16
Adjustment to fair value (impairment) of investment properties	13	17
Gain on disposal of assets and other income	–	16
Result from operations before finance expenses	**21**	**29**
Financing income (expenses), net	–	3
Income tax (expenses) / benefit	(7)	(8)
Net profit (loss)	**14**	**24**
Attributable to:		
Equity holders (Kardan N.V.)	**14**	**24**

* Reclassified in line with 2012 presentation

Additional information Real Estate Asia

€ in millions	2012 (31.12)	2011 (31.12)
Balance sheet		
Completed investment property	69	68
Investment Property Under Construction	82	54
Inventory	245	231
Cash & short term investments	44	67
Total Assets	526	514
Loans and Borrowings	54	43
Advance payments from buyers	120	136
Total Equity	258	247
Other *		
Apartments sold in period **	1,194	1,883
Apartments delivered in period	2,272	1,767
Total apartments sold, not yet delivered	4,037	5,115

* reflects number of apartments 100%; Kardan Land China holds 50%;

** 2012: 9% and 2011: 3% of units in reservation (i.e. deposit paid but no signed contract received by Kardan Land China)

Revenues

'Property rental and service recharge revenues', attributable to the 50% owned shopping center in Chengdu, increased by 3% in 2012 vis-a-vis 2011 despite the fact that until September 1, 2011, Kardan Land China owned 100% of the mall. As of that date Kardan Land China is entitled to 50% of the rental income, but still to 100% of the asset management fees. As at December 31, 2012, Galleria Chengdu is fully occupied.

Residential revenue is recognized when apartments are handed over. In 2012, revenue from the delivery of apartments increased by 50% compared to the same period last year on the back of a larger number of deliveries and a higher average price per apartment. From the start of 2012 until end of December 2012, 2,272 apartments were handed over, compared to 1,767 in the full year 2011. These deliveries represent 100%: Kardan Land China has a stake of approximately 50%, consequently the revenue shown represents 50% of the total revenues booked on these deliveries.

In Q4 2012, the effect of the slowdown in the sale of apartments which occurred in 2011 started to show in the decreasing pace of the deliveries of apartments: 455 apartments were handed over (Q3: 704, Q2: 601, Q1: 512).

Gross margin

The gross margin on rental and service recharge revenues in 2012 increased to 61% compared to 57% in 2011, mainly due to one-off items, such as a bonus which was received by Galleria Chengdu on meeting certain operational targets.

The gross margin on delivery of apartments in 2012 was 28% (2011: 19%), largely due to a different mix of, and on average higher priced, apartments.

Sales & Marketing, and General & Administrative expenses (SG&A)

SG&A expenses in 2012 were 16% lower than in 2011 to be explained as follows. G&A expenses in 2011 included a one-off expense of EUR 5 million relating to employee options. Sales & Marketing expenses, however, notably increased following higher commission costs in line with the larger number of deliveries of apartments which were recorded in 2012. And finally, as the mixed-use project Dalian was initiated in the beginning of 2012, additional marketing expenses were incurred in 2012 in comparison to last year.

Adjustment to fair value of investment properties

The positive adjustment to fair value in 2011 relates fully to the shopping mall in Chengdu. In 2012, the valuation profit relates to both Chengdu and to the shopping mall in Europark Dalian.

Gain on disposal of assets and other income

The gain in 2011 reflects the sale of a land plot in Hangzhou (EUR 4 million) and the sale of 50% of the shopping mall in Chengdu (EUR 12 million).

Financing Income/expenses

Net financing income decreased in 2012 compared to 2011. In 2012, this was mainly due to the fact that Kardan Land China repaid an intercompany loan of EUR 25 million. In 2011, a positive translation effect of the RMB compared to the Euro contributed EUR 5 million to the financing income, whereas there was no material translation effect in 2012.

Income tax (expenses) / benefit

Income tax expenses in 2012 mainly included the deferred tax charge on the valuation gain on Europark Dalian. In 2011, the tax expenses related mainly to the sale of the Hangzhou project and the 50% stake in Galleria Chengdu, as well as to positive valuation gains on Galleria Chengdu.

Additional Information

At year end 2012 'Loans and Borrowings' had increased by EUR 11 million when compared to end of 2011, as the result of the loan for Europark Dalian (year-end 2012: EUR 36 million) and mitigated by the repayment of the shareholder loan of EUR 25 million to GTC Real Estate Holding during 2012.

'Advance payments from buyers' at December 31, 2012, was lower than at end of 2011, in line with a high number of deliveries of apartments and a lower number of apartments sold (y-o-y) during the year. Kardan Land China sold 450 residential apartments in the fourth quarter of 2012 (Q3 2012: 423) due to successful marketing efforts and a slightly better buyers' sentiment. In addition, in Q4 2012, 104 SOHO apartments were sold of the large mixed-use project Europark Dalian. This brings the total number of sold apartments in 2012 to 1,194 (2011:1,883), reflecting the effect of the measures – until mid year 2012 approximately – of the Chinese government to cool down the property markets.

Kardan Land China aligns the pace of construction to match the market conditions and to keep the percentage of completed unsold apartments in the inventory low (December 31, 2012: 4%).

Real Estate Europe

Real Estate Europe comprises GTC SA which operates in Central and (South) Eastern Europe, as well as the small entity GTC Investments, in which Kardan holds 49%. As the 27.75% that Kardan holds in GTC SA is a controlling stake as of December 31, 2012, the results of GTC SA are 100% consolidated in the financial statements of Kardan. The results of GTC Investments are not included as of July 2012, as the investment in GTC Investments was classified as held for sale. Consequently, the results of Real Estate Europe for the full year 2012 mainly reflect the results of GTC SA. The results of Real Estate Europe in the fourth quarter of 2012 only reflect GTC SA.

Results Real Estate Europe

€ in millions	For the year ended December 31 2012	2011
Property rental and service recharge revenues	131	136
Delivery of apartments	19	25
Total revenues	150	161
Costs of property rental and service recharge operations	39	38
Cost of delivery of apartments	19	23
Operational Gross Profit	92	100
Other expenses, net	21	77
Gross profit	71	23
SG&A expenses	23	29
Adjustment to fair value (impairment) of investment properties	(101)	(222)
Gain on disposal of assets and other income	(4)	1
Impairment losses on goodwill	–	(11)
Result from operations before financing expenses	**(57)**	**(238)**
Financing income (expenses), net	(65)	(86)
Equity in net earnings of associated companies	(10)	(4)
Income tax (expenses) / benefit	(7)	(18)
Profit (loss) from continuing operations	**(139)**	**(346)**
Net profit (loss) from discontinued operations	–	–
Net profit (loss)	**(139)**	**(346)**
Attributable to:		
Non-controlling interest holders	(106)	(262)
Equity holders (Kardan N.V.)	**(33)**	**(84)**

Additional information GTC SA

€ in millions	2012 (31.12)	2011 (31.12)
Balance sheet		
Inventory & residential land bank	155	182
Investment property	1,614	1,704
Assets held for sale	42	134
Cash & short term investments	254	179
Total Assets	2,153	2,310
Total bank debts and financial liabilities	1,205	1,395
Total Equity	741	724
Other		
Loan to Value*	53%	60%
Completed commercial space (sqm)**	576,221	579,856
Value completed commercial space (EUR million)**		
Average occupancy	91%	87%
Average yield completed assets	8.3%	8.1%

* LTV = Loans net of cash and deposits / Investment Property, inventory and assets held for sale
** Excludes Czech Republic and Ukraine, excludes assets held for sale

Revenues
In 2012, 'Property rental and service recharge revenues' decreased by 3% compared to the same period last year, mainly due to the sale in Q3 2011 of 50% of the GTC SA retail center Galeria Mokotow and to the sale of Platinium Business Park (I-IV) in Q4 2012. The opening of new offices and retail centers in Poland and Bulgaria as well as new leases partially mitigated the effect of the sale of mentioned two assets. On a like-for-like basis, rental and service revenue at GTC SA increased in 2012 by 3% compared to 2011. Average occupancy of completed properties at GTC SA has improved from 87% as at year-end 2011 to 91% at December 31, 2012.

Residential revenues (recognized on deliveries of apartments), declined in 2012 by 22%. The residential market in CEE/SEE remains weak as consumer sentiment is low and mortgage availability is scarce.

Operational Gross profit
The operational gross profit margin in 2012 (62%) was at the same level as in 2011.

The gross profit margin in 2012 of GTC SA on property rental and service recharge revenues decreased y-o-y to 70% (2011: 72%), due to the sale of Galeria Mokotow and Platinium Business Park, as mentioned above, which could not as yet be balanced out by the gross profit margins of the newly opened and younger assets.

'Other expenses, net' relates to an impairment of inventory, reflecting the weak market.
When compared to 2011, impairment of inventory was substantially less in 2012 (2011: EUR 77 million; 2012: EUR 21 million). Whereas in the first three quarters of the year only small impairments were recognized, in Q4 2012 EUR 16 million impairment was recognized mainly with respect to Romania due to

a delay in the projected start date and a decrease of the future expected sales prices relating to the continued weak economies and mortgage scarcity.

Sales & Marketing, and General & Administrative expenses (SG&A)

The quarterly decreasing trend of SG&A expenses in 2012 is mainly to be explained by less sales and marketing activities following completion of leasing activities in newly completed assets and improved occupancy. Also on a like-for-like basis (i.e. excluding a one-off cost in 2011 which related to the sale of Galeria Mokotow and excluding the value of the share based payments in both years) the administrative expenses decreased significantly during 2012 compared to 2011.

Adjustment to fair value of investment properties and other income (loss)

Although substantially lower than in 2011 (EUR 222 million), a total amount of EUR 101 million of negative adjustment to fair value of investment properties at GTC SA had to be recognized in 2012, of which the majority (EUR 62 million) in the fourth quarter. Devaluations took place particularly in Bulgaria, Romania and Croatia and mainly with respect to retail centers following a decrease in the expected rental values on the back of the lagging economies. In Poland, valuation gains were recognized mainly on Platinium Business Park.

In addition, following the reclassification of GTC Investments to 'Assets Held for Sale' as of July 1, 2012, EUR 4 million impairment loss was recognized in Q3 2012 as other expenses.

Financing Income /expense

Net financing expenses in 2012 decreased by 25% in comparison to 2011 particularly on the back of a decrease in the average debt balance of GTC SA, following the sale of Galeria Mokotow and of Platinium Business Park (I-IV) (Platinium generating free cash of approximately EUR 44 million) and repayment of other loans and liabilities (including repayment of bonds and related hedges in the amount of EUR 46 million). In addition, it should be noted that in 2011, a hedge related amount of EUR 8 million related to the sale of Galeria Mokotow was reclassified to the income statement. The average interest rate (including hedges) on GTC SA's loans remained stable during 2012 at 5% p.a.

Equity in net earnings of associated companies

The negative contribution in2012 mainly includes the negative revaluation results which were recorded in the Czech Republic and Ukraine by associated companies of GTC SA.

Direct result

The direct result (i.e. gross profit from operations, excluding impairments on inventory – recorded under 'Other expenses, net' – and deducting SG&A and finance expenses) in 2012 is positive: EUR 4 million, largely due to substantially lower net financing expenses as well as a reduction in SG&A expenses following cost optimization measures at GTC SA. In 2011 the direct result was negative: a loss of EUR 15 million.

Income tax

The income tax expense is largely the result of a change in deferred taxes at GTC SA. In 2011, GTC SA in Poland recognized a tax income largely relating to the sale of retail center Galeria Mokotow in Warsaw.

Net profit / (loss) attributable to Equity holders

The contribution to the equity holders of Kardan from the Real Estate Europe segment in 2012 was a loss of EUR 33 million (2011: loss of EUR 84 million).

Additional Information GTC SA

Total Equity of GTC SA increased to EUR 741 million (December 31, 2012) from EUR 724 million as of year-end 2011, mainly resulting from the rights issue amounting to EUR 100 million (net), which was placed successfully in Q2 of 2012, combined with the recorded results (EUR 132 million loss) and other equity movements.

Following the capital raised through the rights issue and repayment of bond and loans, the loan to assets value ratio arrived at 53% as at December 31, 2012 (December 31, 2011: 60%). GTC SA also successfully extended the maturity of EUR 73 million bonds until 2017 – 2018. The short term loans (including derivatives) amount to EUR 253 million (September 30, 2012: EUR 359 million). As at December 31, 2012, EUR 99 million relates to bonds (including hedges) to be redeemed by May 2013. After balance sheet date, EUR 10 million has been repaid on the completion of the sale of Platinium V, which took place at end of February 2013 and which generated approximately EUR 16 million of free cash.

GTC S.A. is listed on the Warsaw Stock Exchange. For full details on the GTC S.A. 2012 results, reference is also made to the company website: www.gtc.com.pl.

Water Infrastructure

Tahal Group International (TGI), the fully owned water infrastructure company of Kardan, focuses on developing water assets (e.g. wastewater and water treatment plants) and on executing water related projects worldwide. Tahal Assets is mainly active in China but also in Turkey, whilst Tahal Projects is mostly involved in projects in Africa, Central and Eastern Europe, Latin America as well as in Israel.

Results Water Infrastructure Assets (Tahal Assets)

€ in millions	For the year ended December 31* 2012	2011
Contract revenues	38	29
Contract cost	23	18
Other expenses, net	–	1
Gross profit	15	10
SG&A expenses	8	5
Gain (loss) on disposal of assets and other income	–	2
Result from operations before financing expenses	**7**	**7**
Financing income (expenses) net	(5)	(5)
Income tax (expenses) / benefit	(2)	(2)
Profit (loss) from continuing operations	**–**	**–**
Net profit (loss) from discontinued operations	–	2
Net profit (loss)	**–**	**2**
Attributable to:		
Non-controlling interest holders	–	(1)
Equity holders (Kardan N.V.)	**–**	**3**

* Finance expenses of Tahal Group International have been allocated to Tahal Assets

Additional Information Tahal Assets

€ in millions	2012 (31.12)	2011 (31.12)
Cash & short term investments	5	17
Total Assets	170	171
Net Debt (excl. shareholder loans)**	57	45
Equity*	95	91
Equity*/ Assets	56%	53%

* Group equity including shareholder loan
** Bank loans net of cash and cash equivalents

Revenues

The revenue of Tahal Assets is mainly generated by Kardan Water in China. Tahal Assets recorded 30% higher revenue in 2012 than in the corresponding period last year. The increase can largely be attributed to revenue which is recognized during construction of plants in China as well as to capacity expansion following the acquisition in 2011 of a new wastewater treatment plant in Xuanhua with a capacity of 120,000 m^3/day.

Gross Profit

The gross profit margin increased slightly to 38% in 2012 from 36% in 2011.

Sales & Marketing, and General & Administrative expenses (SG&A)

SG&A expenses increased during 2012 following a one-off expense relating to the change in management in China as well as following the growth of the Chinese operations.

Financing income (expenses) net

Net financing costs in 2012 includes the valuation of the warrant and call option related to a USD 25 million loan (signed in 2010) which was provided by private equity investor FIMI. This was offset by slightly increased expenses related to new loans received by Kardan Water in China to invest in new facilities and upgrade current ones.

Net profit/(loss) from discontinued operations

The discontinued operations in 2011 mainly concern Milgam, an Israeli company that was sold as part of the spin-off of Kardan Yazamut (the Israeli activities) which was affected in October 2011.

Results Water Infrastructure Projects (Tahal Projects)

€ in millions	For the year ended December 31* 2012	2011**
Contract revenues	108	85
Contract cost	100	81
Other expenses, net	–	3
Gross profit	8	1
SG&A expenses	13	14
Gain (loss) on disposal of assets and other income	(1)	1
Result from operations before financing expenses	**(6)**	**(12)**
Financing income (expenses), net	(2)	(3)
Income tax (expenses) / benefits	1	1
Net profit (loss)	**(7)**	**(14)**
Attributable to:		
Equityholders (Kardan N.V.)	**(7)**	**(14)**

* General and Administrative expenses of Tahal Group International have been allocated to Tahal Projects
** Reclassification of comparatives has been done to conform to current period presentation.

Additional Information Tahal Projects

€ in millions	2012 (31.12)	2011 (31.12)
Balance sheet		
Cash & short term investments	23	29
Total Assets	142	118
Net debt (excl. shareholder loans)**	(18)	(22)
Equity*	33	34
Equity* / Assets	23%	29%
Other		
Backlog	312	316

* Group equity including shareholder loan
** Bank loans net of cash and cash equivalents

Revenues
Revenues in 2012 increased significantly by 27% y-o-y. The growth is mainly attributable to new projects in Africa, which started in 2012. In addition, there was a slight positive impact following the strengthening of the US dollar vis-a-vis the euro: the majority of the projects are in denominated in US dollars.

Only when the first down payment of a new project has been received does Tahal Projects recognize the full value of the project into its backlog.
Revenue starts to be recognized on these projects according to the relevant agreements, which is generally after the first invoice has been sent or the first agreed upon phase of the project has been completed.

Gross profit
The gross profit margin in 2012 is 8% and includes a one-off provision (EUR 2 million) regarding an older project. Reorganization costs of EUR 2.5 million were recognized in 2011 (reported under 'Other expenses, net').

Sales & Marketing, and General & Administrative expenses (SG&A)
In 2011, Tahal initiated a reorganization, among other things, to bring down SG&A costs:
in 2012, these expenses decreased by more than 10% y-o-y.

Gain (loss) on disposal of assets and other income
In 2011, this included the participation in an Israeli desalination company that was sold in H2 2011.

Financing income /(expenses) net
These expenses decreased, reflecting successful hedging, as well as less use of credit facilities following receipt of outstanding debts and advance payments on projects.

Additional information Tahal Projects
The new business in 2012 amounted to USD 147 million (EUR 114 million), leading to a backlog position of USD 411 million (EUR 312 million) as at year-end 2012. The main contract was the 3K project with the National Water Company of Ghana to design, construct, expand and upgrade the drinking water systems in the Kumawu, Konongo and Kwahu region of Ghana. The estimated revenues for this project are USD 97.5 million (approximately EUR 73 million); the project will take approximately three years from commencement.
Furthermore, contracts were signed for 2 projects in Russia and Ukraine with an average revenue value of USD 28 million (approximately EUR 21 million) and an average duration of 2 years.

Banking and Retail Lending

Kardan operates in the financial services sector through its 100% holding in Kardan Financial Services (KFS), which owns 100% of TBIF (banking and retail lending), mainly in Bulgaria and Romania. In addition, KFS is active in Ukraine with leasing activities through its 66% holding in Avis Ukraine. In July 2011, TBIF completed the acquisition of the Bulgarian bank TBI Bank, to upgrade its operation in Bulgaria into a full banking operation focused on retail and SME banking to be funded by deposit taking. In May, 2012, TBIF completed the sale of its 50% in the Russian Sovcombank to its co-shareholder in the bank.

Results Banking and Retail Lending

€ in millions	For the year ended December 31 2012	2011*
Banking and retail lending activities	13	5
Other revenues	7	6
Total revenues	20	11
Costs of banking and lending activities	30	35
Other expenses, net	3	6
Gross profit	(13)	(30)
SG&A expenses	1	3
Gain on disposal of assets and other income	1	2
Impairment losses on goodwill	4	19
Result from operations before financing expenses	**(17)**	**(50)**
Financing income (expenses), net	(3)	(12)
Income tax (expenses) / benefits	–	1
Profit (loss) from continuing operations	**(20)**	**(61)**
Net profit (loss) from discontinued operations	1	8
Net profit (loss)	**(19)**	**(53)**
Attributable to:		
Non-controlling interest holders	–	–
Equity holders (Kardan N.V.)	**(19)**	**(53)**

* The results of Sovcombank in 2011 have been classified as discontinued operations.

Additional information KFS Banking and Retail Lending

€ in millions	2012 (31.12)	2011* (31.12)
Balance sheet		
Net loan portfolio	141	158
Cash	33	28
Total Assets	244	979
Deposits	67	11
Total Equity	45	63
Other		
Provisions	34%	32%

* Amounts for 2011 exclude Sovcombank, which has since been sold.

General
In the first half of 2011, Kardan signed the agreement to sell its remaining 50% in the Russian Sovcombank for a fixed transaction price. The transaction was completed in May 2012. Consequently, both the 2011 as well as the 2012 results of Sovcombank are presented as discontinued operations.

It should also be noted that the results of TBI Bank are not included in H1 2011 results, as TBI Bank was acquired in Q3 of 2011. The results of TBI Bank are fully consolidated in the 2012 results.

Revenues
During 2012, quarterly reported revenues showed an increasing trend, as a result of less provisioning during the year (approximately EUR 5 million less than in 2011), which are deducted from revenues.
In addition, 'other revenues' which relates largely to the revenue from rental and leasing activities at Avis in the Ukraine improved by 9% y-o-y.

Gross profit
The improvement in revenues led to a better 2012 'Gross Profit' amounting to a loss of EUR 13 million (2011: a loss of EUR 30 million). In addition, costs of banking and lending activities combined with other expenses decreased by 18% following, among other, decrease in operational expenses, mainly in Romania, reflecting optimization of the cost structure which was adjusted in line with lower portfolio levels.

Sales & Marketing, and General & Administrative expenses (SG&A)
These expenses comprise of employee and other expenses such as amortization of intangible assets of KFS, the holding company of the banking & retail lending activities. The decrease in 2012 compared to the same period last year is the result of efficiency measures taken in 2012. In 2011 some one-off severance costs were incurred resulting from the sale of activities. SG&A expenses of the operating companies of KFS are allocated in costs of banking.

Impairment losses on goodwill
In 2011 impairment losses on goodwill were attributable mostly to the consumer finance and leasing operations in Bulgaria and in Romania.
In 2012, the amounts relate to the Romanian operations, to reflect the development of the macro-economic situation and the effect this has on the value in use of these operations to TBIF.

Financing income (expenses), net
In 2012, significantly less financing expenses were recognized following steps taken to deleverage the operations as well as a net income in 2012 relating to the settlement of an option, for which its revaluation in 2011 resulted in net expenses.

Net profit (loss) from discontinued operations
The amounts relate to operations sold: Sovcombank (2012 and 2011), as well as to VAB bank (2011 only).

Additional Information
At December 31, 2012, the total portfolio of KFS showed a 10% decrease in comparison to December 31, 2011, mainly due to write-offs of fully provided legacy portfolios in the first half of 2012 which were not yet fully compensated by new loan generation.

In Bulgaria, where TBI Bank is active in deposit taking, the strong growth in deposits throughout the year continues. At December 31, 2012, deposits amounted to EUR 67 million, more than 6 times the amount as at December 31, 2011. The growth derives mostly from retail clients.

'Other'

€ in millions	For the year ended December 31	
	2012	2011
General and administration expenses	(8)	(8)
Financing income (expenses), net	19	(20)
Income tax (expenses) / benefit	2	(2)
Profit (loss) from continuing operations	**13**	**(30)**
Net profit (loss) from discontinued operations	–	8
Net profit (loss)	**13**	**(22)**
Attributable to:		
Non-controlling interest holders	–	(2)
Equity holders (Kardan N.V.)	**13**	**(20)**

General
The results under 'Profit (loss) from continuing operations' relate to the holding and finance expenses of Kardan N.V. and its direct subsidiary GTC Real Estate Holding BV (GTC RE).

General and Administrative expenses
These expenses decreased in 2012 by 10% in comparison to 2011, following a decrease in management at Kardan holding, no bonus payments and a reduction in other professional service costs.

Financing income (expenses), net
The financing expenses in 2012 were substantially positively impacted by a profit of EUR 43 million related to the repurchase of debentures issued by Kardan N.V.

Income tax
In 2012, a tax benefit of EUR 2 million was recognized, split evenly over a tax benefit on hedge instruments and a reduction on the tax provision relating to a past sale of Kardan N.V. debentures by a subsidiary.
In 2011, income tax expenses amounted to EUR 2 million. These amounts relate to deferred tax on hedge instruments. The same amount is recorded to shareholders' equity.

Net profit (loss) from discontinued operations and non controlling interest holders
In 2011 the amounts are attributable to Kardan Israel Ltd., the subsidiary that was spun-off in Q4 2011.

Additional Information
In December 2011 and in July 2012, Kardan announced to repurchase its Debentures, listed on the Tel Aviv Stock Exchange, through its subsidiary GTC RE, for a combined total amount of at maximum EUR 100 million.

Mainly during 2012, Kardan, through GTC RE, repurchased 431.2 million Debentures Series A of Kardan for a total amount of approximately EUR 77 million and 120.2 million Debentures Series B for a total amount of EUR 15.5 million.

Through the repurchases of the two plans, Kardan has reduced the corresponding liability by approximately EUR 144 million. The total profit on these two plans amounted to EUR 44 million, of which EUR 9 million was recognized in Q2 of 2012 as financial income and EUR 33 million in the third quarter. A profit of EUR 2 million was recognized in earlier periods.

As of December 31, 2012, Kardan, through its subsidiaries, held 47.5% of Debentures Series A and 12.6% of Debentures Series B.

These purchases were funded by the proceeds from the sale of cross currency swaps and own cash sources. The sale of these swaps was needed due to the change of the profile of the assets of Kardan N.V. from a predominantly Euro related company into a company with increased exposure to the Chinese RMB.

Financial position of the holding companies of the Kardan Group

The net debt position of Kardan N.V., GTC RE BV, Emerging Investments XII BV, KFS BV and TBIF BV as of December 31, 2012 decreased to EUR 425 million from EUR 477 million as of December 31, 2011, mainly as a result of the sale of Sovcombank, and the impact of the repurchase of the debentures.

The following table summarizes the net debt of Kardan N.V. and if applicable of its directly held subsidiaries (company only) as of December 31, 2012:

€ in millions** Company	Net Debt	December 31, 2012
Kardan NV/GTC RE/Emerging Investments XII ***	**Liabilities**	
	Debentures *	(443)
	Loans from banks	(107)
	Assets	
	Loan to KFS	59
	Loan to TGI	10
	Cash and short term investments	53
	Net debt	(428)
KFS/TBIF	**Liabilities**	
	Loans from Emerging Investments XII	(59)
	Assets	
	Cash and short term investments	2
	Loans to others	7
	Loans to subsidiaries	53
	Net asset	**3**
TGI	**Liabilities**	
	Loans from Emerging Investments XII (and related warrants)	(19)
	Loan from Kardan NV	(10)
	Assets	
	Loan to related party	10
	Net debt	**(19)**

* Approximately 11% of the debentures are presented in EUR in accordance with a currency hedging transaction.

** Net debt includes interest bearing loans and borrowings, debentures, less cash and cash equivalents and interest bearing receivables

*** Emerging Investments XII is a wholly owned subsidiary of Kardan N.V. During Q4 2012, Kardan assigned all the loans provided to its subsidiaries to Emerging Investments XII. In addition, the majority of the repurchased Debentures are held by Emerging Investments XII.

Consolidated Balance Sheet

Total assets
Total consolidated assets decreased by EUR 1.1 billion to EUR 3.3 billion as at December 31, 2012 from EUR 4.4 billion at year-end 2011.
Of the reduction, an amount of EUR 0.7 billion is due to the sale of Russian Sovcombank which was completed in May 2012. Other important movements are: deleveraging with EUR 0.3 billion and fair value adjustments and impairment losses on investment properties of EUR 0.1 billion.

Consolidated equity
The consolidated equity decreased to EUR 716 million from EUR 740 million as at year-end 2011, mainly the result of the loss in the period mitigated by the rights issue of GTC SA and shares purchased in consolidated subsidiaries.

Interest bearing liabilities
Kardan N.V. has a decentralized funding structure. This implies that Kardan, its direct subsidiaries (all being (in) direct holding companies of the operational entities), and the operational entities are mostly responsible for the funding of their own activities. In the chapters describing the divisions a description can be found of the funding positions of the main subsidiaries.

Company only balance sheet as of December 31 of Kardan N.V.

Kardan N.V. – balance sheet (company only)

€ in millions	2012	2011
Total Assets	644	864
Total Equity	169	203
Equity/Total assets (%)	26%	23%

Total assets
Kardan N.V.'s total assets decreased by EUR 220 million, which is mainly the result of deleveraging and the loss in the period.

Shareholder's equity
Shareholder's equity of Kardan N.V. decreased from EUR 203 million as of December 31, 2011 to EUR 169 million as of December 31, 2012, mainly due to the result in the period.

Interest bearing liabilities
Net of derivatives, Kardan N.V. owes EUR 531 million to bond holders and banks (December 31, 2011: EUR 567 million). The cash position of the Company increased by EUR 23 million to EUR 51 million, as of December 31, 2012.

The table below presents the maturity of the liabilities of Kardan N.V. and its subsidiary GTC RE:

Company Only – Kardan N.V. & GTC RE

Principle only as at December 31, 2012

€ in millions	2013	2014	2015	2016	2017	2018	2019	2020	Total
Debentures – Series A *	36**	36	36	35	–	–	–	–	143
Debentures – Series B	–	40	40	40	40	40	40	41	281
Loans from Banks	6	6	15	15	15	26	12	12	107
Total	**42**	**82**	**91**	**90**	**55**	**66**	**52**	**53**	**531**

* Net of swaps
** Repaid in February 2013

Kardan N.V. has extended guarantees to the benefit of third parties for the liabilities of companies in the Kardan Group stemming from various loans.
The balance of the guarantees amounts to, as at December 31, 2012 and around the date of the statement, approximately EUR 18 million (of which EUR 6 million relates to GTC RE and EUR 12 million to Tahal Group International and its subsidiaries) and approximately EUR 67 million, respectively.
Kardan N.V. extended a performance guarantee regarding the financing of a Tahal Group project in Angola (Quiminha), and secured Tahal Group's liabilities in case of non performance by the Tahal Group. At balance sheet date, a net amount of EUR 7 million remains outstanding on the advance payment made by the client.

In its cash-flow, the Company presents a negative cash-flow from operating activities. Additionally, the Auditors' Report in the Financial Statements as of December 31, 2012, includes an emphasis of matter paragraph, which states that the realization of some of the Company's plans and continued compliance with the loan covenants are uncertain and depend on factors that are not wholly within the Company's control. See Note 1 of the 2012 IFRS financial statements.

The Company plans to service the liabilities maturing in the years 2013 and 2014 according to the following cash-flow projection:

Forecast cash flow

€ in millions	January 1, 2013 – December 31, 2013	January 1, 2014 – December 31, 2014
Cash and cash equivalents at the beginning of the period	**52**	**96**
Company only resources		
From operating activities		
General and administration expenses	(6)	(6)
From investing activities		
Sales of assets	85	120
Resources from investee companies		
From operating activities in investments – Loan repayment	30	18
From operating activities in investments – Management fees	1	1
Total resources	**162**	**229**
Expected Uses		
From financing activities		
Repayment of a loan	6	4
Interest payment of loans	5	4
Interest payment – Series A	6	5
Interest payment of debentures – Series A	5	5
Interest payment of debentures – Series B	14	14
Principle payment of debentures – Series A	35	39
Principle payment of debentures – Series B	–	40
Total Uses	**66**	**106**
Cash and cash equivalents at the end of the period	**96**	**123**

Assumptions and Notes to the cash flow forecast:

1. The cash-flow projection has been jointly drawn for Kardan N.V. company-only and its wholly owned subsidiaries GTC Real Estate Holding BV company-only and Emerging Investments XII BV because the treasury of these companies is centralized. With respect to limitations regarding the transfer of funds between Kardan N.V. and GTC RE please refer to the below.
2. The forecasted General and Administration expenses are based on estimates of the Company according to its past experience.
3. Sale of assets in 2013 includes a sale of a hedge instrument. The Company holds a hedge instrument which is presented in the Company's financial statements in the amount of EUR 13 million, one quarter of the hedge was realized in February 2013. The Company, based on its past experience, estimates that the probability of the sale is high and is not aware of any restrictions with respect to the sale. The Company estimated an inflow of EUR 9 million from the sale and from a release of a pledged deposit to the sale in the amount EUR 0.6 million. Sale of the remaining hedge instrument also includes the sale of shares in subsidiaries and other group companies and of real estate assets.
   Possible scenario's could be as follows:
   a) Sale of real estate projects in China and distribution of (part) of the proceeds as dividend;
   b) Sale of shares of unpledged subsidiaries, or pledging of shares for receiving a loan;
   c) Sale of shares of pledged subsidiaries and redeeming the underlying loan, whereby the potential surplus amount will be paid to Kardan N.V.
4. The balance of the shareholder's loan to KFS amounted to EUR 58 million as of the balance sheet date. This loan was assigned to Emerging Investments XII BV, which in its turn distributed the proceeds as dividend. Subsequent to the balance sheet date, in January and February 2013, the Company received an amount of EUR 11 million from subsidiaries and joint ventures.
5. The amount of management fees from subsidiaries is based on existing agreements between the Company and its subsidiaries as of the balance sheet date.
6. The Interest calculations are based on CPI, exchange rates and interest rates which are applicable as of December 31, 2012. The principal and interest payments for the debentures include the amount net of the interest which relates to the debentures held by GTC RE and Emerging Investments XII BV (100% held subsidiaries of the Company) but not net of the debentures which are held by TCE (a subsidiary of TGI).
7. With respect to the payments relating to debentures it should be noted that the debentures of the Company which are presented in the financial statements of GTC RE were transferred to a lending bank to be used as a security under a REPO arrangement.
   According to the agreement between the Company and the lending bank, the Company did not pay interest and principle amounts pertaining to these debentures.
8. The cash-flows do not include any additional investments 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.
9. Limitations on transferring funds: transfer of funds between Kardan N.V. and GTC RE is done through repayment of shareholder's loan, which balance amounts to EUR 54 million as of December 31, 2012. In addition, GTC RE has free distributable reserves according to Dutch law amounting to EUR 154 million as of December 31, 2012. In accordance with the contractual obligations of the Company and of GTC RE, all the shares of KFS and 25% of the shares of GTC SA (out of the 27.75% stake held by GTC RE) are pledged in favor of a bank, as such, all cash dividends relating to the pledged 25% due to GTC RE in relation to its share

holdings in GTC SA, will be used to pay back the loan or as additional collateral, as required. The market value of the shares of GTC SA which are held by GTC RE on the Warsaw Stock Exchange amounts to EUR 215 million, as of December 31, 2012. The Company and GTC RE own shares in other subsidiaries (as specified in section 'value of investments' in this report) which are not pledged. The Company and GTC RE have several financial covenants, and, accordingly, it is impossible to transfer in a way that will result in breach of these financial covenants (for additional information see Note 8 in the 2012 IFRS financial statements).

10. Restrictions on transfer of funds: money transfer from Emerging Investments XII to the Company is done by dividend payment to Emerging Investments XII. Retained earnings according to the Dutch law are in the amount of EUR 170 million as of December 31, 2012. Emerging Investments XII BV does not have a material cash balance.
11. Repayment of material liabilities subsequent to the balance sheet date: In February 2013, the Company paid a total of EUR 55 million for the principal and interest for Debentures Series A and interest for Debentures Series B. The primary sources used by the Company were the cash balances as of January 1, 2012 and repayment of loans from subsidiaries in the amount of EUR 11 million.
12. 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.

Covenants

As at reporting date, December 31, 2012, the Company and its intermediate holding companies meet the majority of their covenants.

On the operating subsidiary level a few loans exist for which not all the financial covenants were met as at December 31, 2012.

For additional information on covenants, see Note 27 in the 2012 Financial Statements.

Dividend 2012

The dividend policy of Kardan N.V. will take into consideration the level of net income, liquidity and the capital position, future financing requirements and financial covenants of the Company, all within the limitations of the law. If circumstances allow, the dividend policy recommends an annual distribution of between 20% and 30% of net income. Dividend pay-out may vary from year to year. Due to the loss for the year under review, and taking into account the financial position of Kardan N.V. as well as the concession granted to the Debenture holders that no dividend will be distributed until the February 2015 repayment (principal and interest) has taken place and in any event that no dividend will be distributed before the publication of the annual accounts of 2013, the Board has decided not to distribute any dividend from the reserves for the financial year 2012.

Outlook 2013

Kardan N.V.

Management attention in 2013 will continue to be focused on the cash-flow and bringing down the debt position of Kardan N.V. and of its intermediate holding companies mainly by selling assets. In addition, attention is on consistent improvement of operations. Reference is made to the cash-flow forecast as presented earlier.

The outlook 2013 for the divisions and segments are published in the next chapters, the Board Reports with respect to the three divisions (pages 46 to 67).

Real Estate Division

General

Kardan operates in the real estate segment in China as Kardan Land China and in Central and (South) Eastern Europe as Globe Trade Centre S.A. (GTC SA).
The shares of the operating companies are held by an intermediate holding company, GTC Real Estate Holding B.V. (GTC RE).

GTC RE currently has activities in two regions: China and Central and (South) Eastern Europe (CEE), organized in two segments: Real Estate Asia (Kardan Land China Ltd.) and Real Estate Europe (mainly GTC SA). In addition, GTC RE conducts limited activities in Germany through its 49% stake in GTC Investments, which is held for sale.

In China, GTC RE is active through its 100% subsidiary Kardan Land China Ltd. At the time of its incorporation in 2005, Kardan Land China initially only focused on residential real estate development, in tier 2 and tier 3 cities, which it undertook together with a partner in order to spread the risk and to obtain a good and local reputation. Currently, Kardan Land China is primarily focusing on mixed-use projects which combine service apartments with shopping centers and SOHO apartments (Small Office Home Office). In November 2010, the first stand-alone shopping center was opened in Chengdu. In May 2012, the largest ever (mixed-use) project for Kardan, Europark Dalian, was initiated, which comprises a shopping center, two SOHO buildings, two luxury apartment buildings, a service apartment/office building and parking spaces, totaling a gross buildable area of 327,006 sqm located at the East Port Area, Dalian, China.
Kardan Land China envisages continuing to develop mixed-use projects in close co-ordination with leading retailers, in tier 2 and tier 3 cities, which generally show an above (country) average growth rate in GDP.

In all of the purely residential projects, Kardan Land China co-operates with a local partner, generally on a 50/50 basis. The same holds for the shopping centre in Chengdu. The mixed-use project in Dalian is fully owned by Kardan Land China.

GTC RE is active in CEE/SEE through its nearly 28% holding in GTC SA, one of the leading real estate developers in the region. GTC SA is listed on the Warsaw Stock Exchange and is included in major indices, such as the WIG20, MSCI and GPR250.

GTC SA mainly focuses on the development and management of office buildings and shopping centers. GTC SA also develops and sells residential projects. Its strategy is to initiate large-scale projects in prime locations.

GTC SA has been active in the region since 1994, has vast experience in CEE and is present in ten countries: Poland, Romania, Hungary, Bulgaria, Croatia, Serbia, Slovakia, the Czech Republic, Russia, and Ukraine. As at year end 2012, 41% of GTC SA's asset value was located in Poland.

Markets

China

The fourth quarter of 2012 showed a year-end growth spurt for China; GDP grew by 7.9% y-o-y, an increase after seven straight quarters of slow down. This was largely supported by a strong December month: industrial output in the month increased y-o-y by 10.3%, retail sales which grew by 15.2% y-o-y and exports showed a surprising 14.1% increase y-o-y. Full year 2012 GDP growth arrived at 7.8%, ahead of the targeted 7.5% by the Chinese government but still making 2012 the weakest year of economic expansion since 1999. Shifting the focus of the Chinese economy to internal consumption and away from the investment and export model is the main aim of the Chinese government. However, the global economic slowdown has impacted foreign demand for Chinese products, whilst the increasing purchasing power of the Chinese population cannot yet mitigate the effect of generally

Mr. Ping Bangzhou, General Manager Anna Star, standing next to Mr. M.K. Chin, General Manager of Galleria Chengdu:

'We have been tenants of the Galleria as of its opening. Thanks to the continuous marketing support of the Galleria our brand has been enhanced resulting in double digit sales growth! The Galleria has already become the landmark in the South District of Chengdu, providing an outstanding leisure and shopping experience.'

Galleria Chengdu, China

diminishing export. Consequently, the focus of the new leaders, who have recently taken office, is to keep employment high, inflation low and to increase spending on infrastructure.

Real estate investment, which accounted for 13.8% of China's GDP in 2012, rose by 16.2% y-o-y in 2012 and remains a key component of overall fixed asset investment, one of the cornerstones of Beijing's growth strategy.

Kardan Land China (KLC) mainly focuses on mixed-use projects, (retail combined with residential), and is active in the sale of residential apartments for own use in tier 2 and tier 3 cities. As purchasing power and internal consumption are stimulated, the urbanization continues and the middle class expands, the underlying fundamentals for shopping centers and for low to mid-end residential real estate in tier 2 and tier 3 cities remains.

The construction of the large mixed-use project in Dalian, which was started in Q2 of 2012, is progressing according to plan. At the end of October, 2012, the sale of the SOHO apartments commenced and up to December 31, 2012, 104 such apartments were sold. Europark Dalian combines a shopping center with SOHO as well as residential apartments. The project is expected to be completed at the end of 2014.

KLC also manages a large shopping center in Chengdu, which it initiated and developed and of which it now owns 50%. The cities Dalian and Chengdu reported over 9% and over 12% y-o-y 2012 GDP growth respectively, underpinning the strategy of KLC to develop malls in places where GDP growth is above country average.

Central and Eastern Europe

The economic development in Central and (South) Eastern Europe during 2012 was affected by the European sovereign debt crisis through weaker exports and reduced capital inflows. In May and June

Mr. Jackie Liu, Regional Manager Shirtstop next to
Mr. M.K. Chin, General Manager of Galleria Chengdu:

'Despite the economy, 2012 was a greatly successful year for us. This could not have been achieved without the cooperation and support of the management of Galleria Chengdu. The high level marketing activities that they undertake is a constant support to all tenants. We are looking forward to a bright future for Shirt Stop and for the Galleria in 2013.'

Galleria Chengdu, China

2012 the Euro crisis re-ignited, leaving consumer confidence very subdued and in some of the CEE countries even diminished the purchasing behavior to the bare minimum. This has had its effect on real estate markets particularly in South Eastern European countries and on some assets situated in secondary locations. Mortgage availability deteriorated in many of the CEE countries, negatively affecting the residential market. GTC SA has consequently implemented a strategic re-orientation, which includes focusing on its large scale shopping centers, selling selected assets to generate free cash and improving its operating results.

Although Poland continued to show a positive GDP growth in 2012 y-o-y (2.0%), a slowdown in GDP growth was noticeable during the year, resulting from among other a lower domestic demand and less gross value added in industry and construction. Among Polish cities, Warsaw still features one of the lowest retail saturation levels, which, when combined with high purchasing power values displayed by its residents, suggests room for new retail projects. GTC SA plans to develop two shopping centers in the rapidly growing residential clusters Wilanów and Bialoleka in Warsaw, with a combined Net Rentable Area (NRA) of 136,500 sqm, which are expected to be completed in 2015. Gross demand for office space (i.e. including renewals) was 6% higher (y-o-y) than the record breaking 2011. Most of the transactions took place in Q4 of 2012, including the completion of the sale of four offices of Platinium Business Park in Warsaw by GTC SA.

In Romania, household consumption appeared to have revived in Q2 of 2012 but the economy retracted again as of the third quarter leading to a near break-even GDP development for the full year 2012. Consumer price inflation was 4.95% in 2012, due to surging food prices (following the poor harvest), higher energy prices and administered price increases. Besides by the lagging consumer confidence, the real estate market was also impacted by the political instability in the country in the third quarter of 2012. The parliament which was chosen in December last year has expressed its intention to honor the country's commitments to its international creditors and to maintain its pro-EU and pro-US policy, thereby attempting to improve the reliability externally and to boost consumer sentiment internally.

Bulgaria's 2012 GDP growth arrived at 0.6% (y-o-y), mainly due to weak export resulting from low demand from its key trading partners. At the end of the year, however, there were slight signs that households are starting to spend more due to, among other, reduced household debts and lower inflation. It must be noted though that the level of purchasing power is still low. Retail centers, particularly in secondary locations, are still suffering from lack of footfall and buying behavior.

Development of Group companies

GTC RE

General

GTC RE is the holding company of the real estate division, consisting of Real Estate Asia and Real Estate Europe. Consequently, its main activity is the management of the investments in the shares of Kardan Land China and of GTC SA, as well as the financing of these investments.

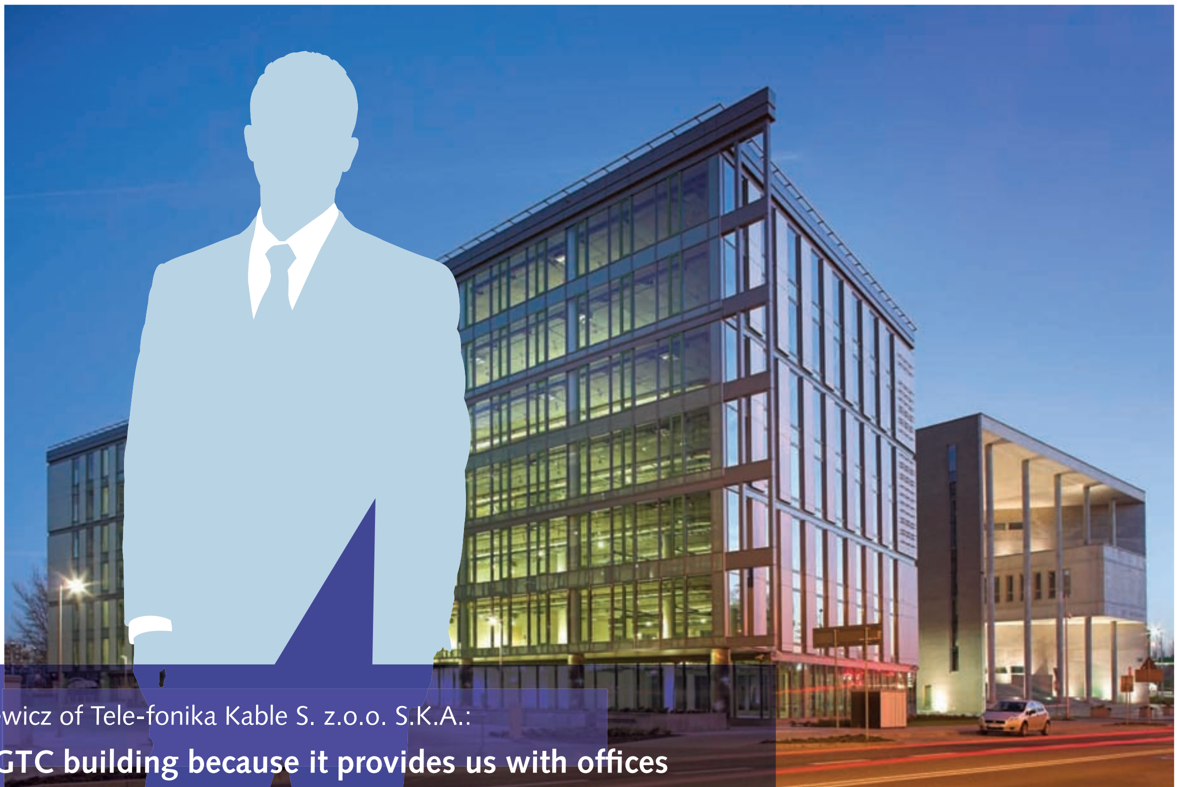
Portfolio

In March 2012, GTC SA recommended to raise approximately EUR 100 million through a rights issue, to strengthen the capital structure and to improve GTC SA's cash position, which was approved by the General Meeting of shareholders of GTC SA in April 2012. In June 2012, GTC SA announced that its rights issue was oversubscribed more than twice and that its share capital was strengthened by PLN 445 million (EUR 100 million, net). Kardan participated in the rights issue through its fully owned subsidiary GTC RE to its pro-rata share of 27.75%. At reporting date, all the rights had been exercised; GTC RE's share in the capital of GTC SA remains 27.75%.

In October, 2012, GTC RE sold its indirectly held (40%) real estate portfolio of 7 assets, mostly offices in Switzerland, to a Swiss Investment Fund for an amount of EUR 61 million. The transaction generated EUR 6 million of free cash for GTC RE after repayments of bank loans and expenses. The sale of these assets was in line with the strategy of Kardan to withdraw from the Western European Real Estate market as well as to generate free cash in order to fulfill the obligations to its bond holders.

The investment in GTC Investment was classified as held for sale as of July 2012. Currently, GTC RE still holds 85% of Blitz Portfolio GMBH through its 49% stake in GTC Investments. Blitz Portfolio owns assets in Germany, which GTC RE aims to sell shortly.
For further details see Note 27 of the 2012 IFRS financial statements.

Kardan holds (through its subsidiary GTC Real Estate holding BV (GTC RE)) 27.75% in GTC SA and consequently has appointed 5 members in the Supervisory Board of GTC SA, including the Chairman



Aleksy Pachwicewicz of Tele-fonika Kable S. z.o.o. S.K.A.:

'We chose a GTC building because it provides us with offices in a perfect location and it is designed according to the latest standards using modern technologies. The management of the building looks after the building, its facilities and its surrounding well. We consider it important to be located in impressive offices as this reflects on the brand name of our company too!'

Francuska Office Building, Katowice, Poland

of the Supervisory Board who has the casting vote. As at December 31, 2012, other shareholders combined had appointed 3 members, and there was one independent member in the Supervisory Board.

Subsequent to balance sheet date, a change in the composition of the Supervisory Board of GTC SA took place when another shareholder of GTC SA increased its stake and appointed an additional member in March 2013. Consequently, this led to the fact that Kardan concluded that in the first quarter of 2013 its accounting effective control over GTC SA ceased to exist. Accordingly the Company will stop consolidating the financial statements of GTC SA in the first quarter of 2013.

In April 2013, another shareholder executed its right and appointed a member in the Supervisory Board of GTC SA, bringing the total number of members to 11 (of which GTC RE holds 5, one is independent and 5 were appointed by other shareholders). GTC RE is currently investigating whether the appointment of the additional board member has an impact on its ability to steer the activities of GTC SA. It should further be noted that the Company is still the largest shareholder and that the other shareholders which hold over 5% are pension funds which do not tend to engage themselves in executive management.

For more details see the relevant paragraph in the chapter Development in the Portfolio of activities (page 15) as well as the Subsequent Event Note in the Financial Statements.

Funding

For further information about the financial position and covenants, reference is made to the chapter 'Financial Developments'.

Real Estate Asia (Kardan Land China)

Portfolio

Kardan Land China, active in the residential real estate market as well as in the retail market with six projects in five cities, noted a slowdown in the sale of apartments due to the various measures taken by the Chinese government to cool down the speculative property market and to fight inflation, particularly in the first half of 2012. The number of sale contracts for apartments started to pick up in the second half of the year and was supported by the sale of SOHO units of the Europark Dalian project for which the sale activities started at the end of October. Ultimately, Kardan Land China sold 1,194 apartments in 2012 compared to 1,883 apartments in 2011. These figures relate to 100% of the projects; the share of Kardan Land China is approximately 50%. The revenues of these contract sales will be recognized in the income statement upon delivery of the apartments, which will lag by roughly more than two years post sale.

The various residential development projects in China (under construction and in the planning and design phases) comprise over 30,000 apartments.
As of December 31, 2012, approximately 14,100 units have been sold. These figures relate to 100% of the projects. Kardan Land China aligns the pace of construction to match the market conditions and demand and to keep the percentage of completed unsold apartments in the inventory low (December 31, 2012: 4%).

In May 2012, Kardan Land China started with the development of the large mixed-use project Europark Dalian, which is comprised of a shopping center, SOHO apartments and luxury apartments as well as parking spaces, located at the East Port Area, Dalian, China. The project is planned to be completed by the end of 2014.

As of December 31, 2012, the number of employees in China is 378 compared to 341 at year-end 2011, of which 32 people worked at the headquarters of Kardan China both in 2012 and in 2011.

For the 2012 financial developments and results of Real Estate Asia, see the previous chapter, 'Financial Developments'.

Competition

The real estate market in China is a decentralized market, where hundreds of large real estate companies operate, led by local companies that specialize in the construction of residential housing (e.g. Vanke, SOHO, Gemdale and Forte). In the fields of commercial real estate and luxury residential housing in tier 1 and tier 2 cities, both local companies (e.g. Wanda, COFCO and Land CR) are active, followed by companies from Hong Kong and Singapore (e.g. CapitaLand, CR Land, and Swire). In addition, there are numerous local companies which operate primarily in the provinces of China. Following the accelerated development of the commercial real estate market in tier 1 cities, many local developers are expanding their operations to tier 2 and tier 3 cities.

As of 2005, Kardan Land China has been developing residential projects in secondary tier cities.
The company has an organizational infrastructure and has numerous connections with service suppliers and government agencies, which helps the company to expand its operations in the cities in which it operates as well as in new regions. Competition varies in each project and depends, among others, on other projects built in the immediate vicinity.

GTC RE cannot estimate the share of Kardan Land China in the Chinese real estate market.

Funding

The Chinese projects are funded through shareholder equity, supplier credit, advance payments from apartment buyers, and the pledge of land to secure loans from banks. In addition, payment for the land is made, in certain cases, in installments so that occasionally it is possible to finance some of these payments through revenues from sale of apartments. The total book value of Kardan Land China in the financial statements of GTC RE amounted to EUR 255 million as of December 31, 2012 (December 31, 2011: EUR 269 million). The decrease can mainly be attributed to the repayment of shareholder's loans and the result of the reporting period.

In August 2012, Kardan Land China entered into a construction loan agreement of RMB 500 million (approximately EUR 60 million) with a construction bank for the development of Europark Dalian.
As at December 31, 2012, EUR 36 million had been drawn under the agreement, with an effective interest rate of 8.3%.

Real Estate Europe (mainly GTC SA)

General

As a result of the ongoing European sovereign debt crisis, the macro-economy of South Eastern European countries in particular continued to deteriorate, leading to diminished expected rental values, mainly with respect to shopping centers in Bulgaria, Romania, and Croatia. Although the average occupancy of malls and offices in these countries slightly increased in 2012 (as can be seen in the table below), the uncertainty with respect to real estate markets led to considerable negative revaluations and impairments.

Taking the continuing challenges in certain of its markets into consideration, GTC SA has put on hold a significant number of projects and is focusing on the development of three shopping malls (two in Warsaw and one in Belgrade) and one office building in Bucharest.
The two retail projects in Warsaw (Wilanów and Bialoleka) together have a NRA of 136,500 sqm, to be developed in two phases. Galeria Ada, the shopping mall in Belgrade has a total NRA of

32,000 sqm, with the potential to add another 13,000 sqm later. Ana Tower, the office building in Bucharest, will have an NRA of 32,000 sqm. All these projects are planned to be completed by the end of 2015, maintaining the standards of developing high-quality and sustainable assets.

In April 2012, during the General Meeting of shareholders of GTC SA, Mr. Alain Ickovics was appointed Chairman of the Supervisory Board of GTC SA . Mr. Shouky Oren (current CEO of Kardan N.V.), was also appointed to the Supervisory Board of GTC SA.

Total Equity of GTC SA increased to EUR 741 million (December 31, 2012) from EUR 724 million as of year-end 2011, mainly resulting from the rights issue amounting to EUR 100 million (net), which was placed successfully in Q2 of 2012, combined with the recorded results (EUR 132 million loss) and other equity movements.

Following the capital raised through the rights issue and repayment of bonds and loans, the loan to assets value ratio arrived at 53% as at December 31, 2012 (December 31, 2011: 60%). GTC SA also successfully extended the maturity of EUR 73 million bonds until 2017 – 2018.

Portfolio

In the CEE/SEE and CIS (Commonwealth of Independent States) countries, GTC SA's portfolio of income generating properties (office and retail, excluding the assets in the Czech Republic and the office building Platinium V) comprises of 29 assets with a consolidated NRA of 595,321 m^2 (GTC SA share 576,221 m^2).

A total of approximately 48,000 m^2 of NRA was completed and added to the existing portfolio of yielding properties in 2012, while some 56,000 m^2 of net rentable area was deducted due to the sale of Platinium Business Park. The sale of Platinium I – IV was completed in October 2012, generating approximately EUR 44 million of free cash, the sale of the fifth building in the Platinium Business Park was completed in February 2013 (approximately EUR 16 million of free cash). The new completions include the fifth building in Platinium Business Park in Warsaw and a shopping mall, Galeria Burgas, in Bulgaria.

GTC SA aims to sell assets in order to generate in total EUR 120 million of free cash by year-end 2014.

The portfolio of GTC SA as of December 31, 2012 can be detailed as follows:

	Poland *	Hungary	Serbia	Croatia	Romania **	Bulgaria	Slovakia	Subtotal	Czech ***	Total
Office properties										
Number of assets	12	5	3	–	1	–	1	22	2	24
GTC consolidated share of NLA, m²	143,578	91,464	53,3359	–	47,700	–	13,452	349,529	10,733	360,262
Total, NLA, m²	143,578	91,464	53,3359	–	47,700	–	13,452	349,529	34,072	383,601
Book value, € m	300	173	117	–	169	–	15	774	20	794
Average rent, €/m²	16	13	17	–	20	–	9	16	13	16
Average occupancy	87%	95%	89%	–	95%	–	47%	89%	43%	88%
Retail properties										
Number of assets	2	–	–	2	1	2	–	7	1	8
GTC consolidated share of NLA, m²	68,540	–	–	64,000	32,500	61,642	–	226,683	16,038	242,720
Total, NLA, m²	87,650	–	–	64,000	32,500	61,642	–	245,792	50,914	296,706
Book value, € m	244	–	–	173	31	87	–	535	42	577
Average rent, €/m²	21	–	–	16	4	7	–	14	16	14
Average occupancy	96%	–	–	95%	97%	89%	–	93%	95%	93%
Total										
Number of assets	14	5	3	2	2	2	1	29	3	32
GTC consolidated share of NLA, m²	213,012	91,464	53,3359	64,000	80,200	61,642	13,452	576,221	26,771	602,982
Total, NLA, m²	232,108	91,464	53,3359	64,000	80,200	61,642	13,452	595,321	84,986	680,307
Book value, € m	544	173	117	173	200	87	15	1,308	62	1,370
Average rent, €/m²	18	13	17	16	13	7	9	15	16	15
Average occupancy	89%	95%	89%	95%	96%	89%	47%	91%	80%	90%

* excluding assets held for sale (Platinum Business Park V)
** excluding assets held for sale
*** pro-rata to GTC Holding

The consolidated net operating income from GTC SA's yielding properties for the years ended on December 31, 2012 and December 31, 2011 can be detailed as follows:

Country (€ in millions)	Offices 2012	Retail 2012	Total 2012	Offices 2011	Retail 2011	Total 2011
Poland	21.6	20.0	41.6	27.0	19.7	46.7
Other countries *	33.2	5.5	38.7	31.4	7.1	38.5
Total	54.8	25.5	80.3	58.4	26.8	85.2

* Does not include Czech Republic

In addition to the completed investment properties, GTC SA has a pipeline of office and retail space in different stages of development. The total value of GTC SA commercial and office space which is planned for construction but not yet in the development process amounted to EUR 305 million as of December 31, 2012; the value of total investment property amounted to EUR 1,614 million (2011: EUR 1,704 million).

The value of the residential projects in GTC SA's portfolio accounted for 9%. Out of the total value of EUR 155 million of residential inventory and land bank, the inventory accounted for 35% and the remaining 65% relates to the land bank. Given the macro-economic situation, GTC SA does not currently develop residential projects, but rather focuses on the marketing and sale of the constructed apartments in the inventory, particularly in Poland and Romania. The inventory includes apartments ready for sale in Poland, Hungary, Romania, the Czech Republic, and Slovakia.

Competition

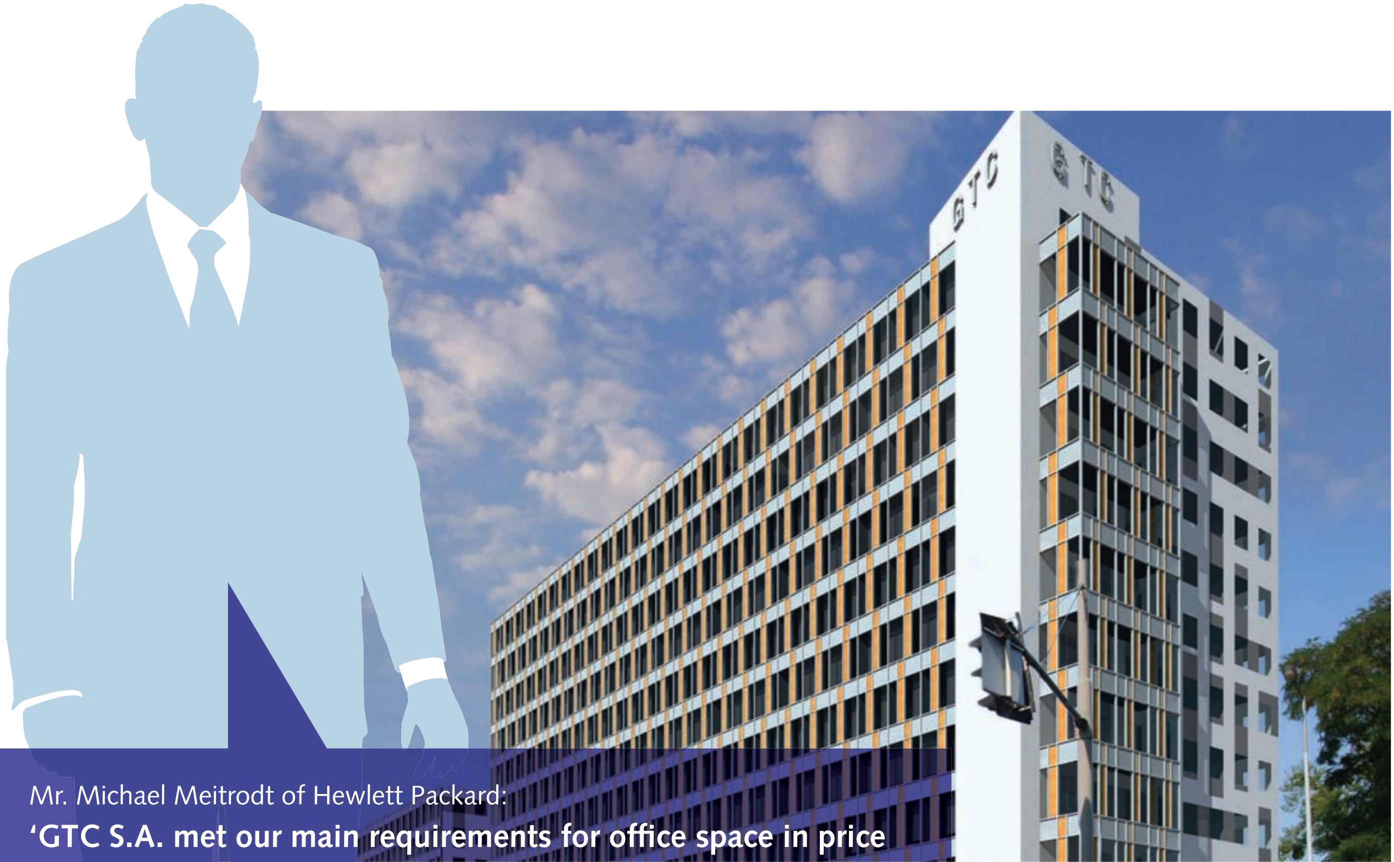
Following the global economic crisis, there has been a significant decrease in the number of companies and developers competing in the field of yielding properties, as well as a significant decrease in the number of projects competing in each city in which GTC SA operates. Whereas in the years preceding the global economic crisis competition focused on the search for land for development and on achieving a reasonable construction cost, as of the reporting date, the competition is primarily focused on securing bank financing under terms that make development feasible and on signing pre-let agreements with tenants that could generate bank financing.

The construction of shopping centers at sites adjacent to areas where GTC SA operates, or plans to operate, that will have a retail mix similar to that of GTC SA's own shopping centers could decrease revenues from rent from the GTC SA shopping centers and also result in lower occupancy.

GTC SA deals with the competition, among others, by maintaining high standards of construction, meeting the deadlines of projects it undertakes, and offering high-quality service after the completion of the project. International corporations, which in the past entered into agreements with GTC SA in certain countries, sometimes continue to co-operate with GTC SA in other countries because of the advantages offered by GTC SA. Moreover, the reputation gained by GTC SA allows it to market its projects to larger lessees and anchor tenants. GTC SA considers itself to be a leader in the field of yielding properties in CEE. Nevertheless, the economic crisis in Europe proves that GTC SA is not immune to competition, and in some cases the group is forced to adjust lease agreements, especially in commercial real estate, in order to withstand tough competition.

Funding

In its financing agreements with banks, GTC SA typically undertakes to meet certain financial covenants prescribed in those agreements. The main criteria are: maintaining a certain ratio between the loan and the value of the project; a certain ratio between the net rental income from the financed project and the amounts of various expenses, such as interest and commission; maintaining certain ratios between the net rental income from the financed project and the principal interest under the loan that the company is required to pay during one quarter. In terms of its debentures, GTC SA has ensured, inter alia, that its aggregate loans will not exceed 70% of the total assets.



Mr. Michael Meitrodt of Hewlett Packard:

'GTC S.A. met our main requirements for office space in price / quality ratio and also, very important to us, the building has flexible solutions to expand our floor space if need be. The manager of the building takes his tenants concerns seriously and shows the right sense of urgency. We have found this in the Karkonoska Office Center in Wroclaw.'

Karkonoska Office Center, Wroclaw, Poland

As of December 31, 2012, as securities for the bank loans of GTC SA, the banks have a mortgage over the assets together with the assignment of associated receivables and insurance rights.

As a result, among others, the rights issue of EUR 100 million, the sale of assets which generated free cash of EUR 44 million in 2012 (and sale of Platinium V which has generated an additional EUR 16 million in the first quarter of 2013), the leverage of the company decreased to a 53% loan to value ratio (2011: 60% LTV). Mainly as the result of the prolongation of EUR 73 million of bonds to 2017 / 2018, the early repayment of bonds amounting to EUR 21 million and following repayments made during 2012, close to 50% of the total debt will mature in 2017 or later.

As at December 31, 2012, the loans redeemable within one year amount to EUR 194 million, of which EUR 99 million relates to the repayment of a bond. However, it should be noted that EUR 10 million was to be paid on the completion of the sale of Platinum V, which was effected in February 2013.
The management of GTC SA expects to be able to meet its obligations, given the current cash position, and the intended sale of assets to generate EUR 120 million of free cash by year-end 2014, and the fact that many projects have been put on hold with the exception of the three shopping malls and one office building mentioned earlier. With respect to the bonds (including hedges), EUR 99 million matures in 2013, EUR 98 million in 2014 and EUR 73 million thereafter.

Outlook 2013

Real Estate Asia

Kardan Land China expects to deliver approximately 2,000 apartments during 2013, similar to the number delivered in 2012. The sale of residential apartments is dependent on the economy in China, which appears to be stabilizing, as well as on measures which the Chinese government may take to control the real estate market, in particular speculation in this market. As purchasing power is continuing to increase in China, Kardan Land China anticipates growth in revenue from the Chengdu retail center.
With respect to the large project Europark Dalian, Kardan Land China anticipates to continue to sell apartments and to sign lease agreements with retailers. Completion of the mall is planned for the end of 2014. The focus of Kardan Land China will continue to be on developing mixed-use projects.

Real Estate Europe

GTC SA management aims to continue to decrease the leverage of GTC SA (LTV: 53% as at December 31, 2012), mainly through the sale of assets which should generate free cash of in total EUR 120 million by the end of 2014 and will be utilized to repay its liabilities (including bonds and project loans). In addition, despite unfavorable market conditions, GTC SA will continue to focus on active asset management and further improvement in operating margin and reducing general expenses.

Taking into account the current activities and the outlook for 2013, it is not expected that the total number of employees in our real estate operations will change considerably compared to the number as of December 31, 2012 (552).

Board Report

Water Infrastructure Division

General

Kardan is active in the water infrastructure business through Tahal Group International B.V. (TGI), and operates as a leading international engineering company, specializing in water-related infrastructure projects and water-related asset ownership. During the more than 60 years of its existence, TGI has participated in the planning, development, design, construction, and management of thousands of projects in approximately 50 countries across four continents. Its advanced technical resources include a staff of approximately 1,200 employees, including engineers and scientists in a wide variety of disciplines.

Tahal Group B.V. (Tahal Projects) engages in two basic types of projects: engineering, procurement, and construction projects (EPC), and design projects. EPC projects include planning, procurement, management, and construction, as well as financing arrangements, and are usually in the field of water supply, desalination, wastewater treatment, and agriculture. Design projects include planning, design, project management, and construction supervision in a wide variety of fields such as water supply, waste and wastewater treatment, desalination, water resource planning, solid waste management, and agricultural planning. Tahal Projects is mainly active in Africa, Central and Eastern Europe, Latin America and Israel.

'Ensuring comprehensive water solutions is a key element for realizing China's further sustainable growth. Kardan Water is a long-term partner for its clients in providing such comprehensive solutions, focusing on water treatment, water supply and water reclamation. Clients regularly visit the plants to be fully involved in the process.'

Kardan Water, China

The total number of projects is approximately 1,500 out of which 10 are EPC projects.

Tahal Group Assets B.V. (Tahal Assets) invests in water-related assets such as wastewater treatment plants, water re-use facilities, municipal water systems, desalination plants and hydropower plants.
Tahal Assets is mainly operational in China (via Kardan Water) as well as in Turkey. Clients of Tahal Assets are generally governments and municipalities as well as industrial zones with whom long-term concession agreements (up to 30 years) are negotiated, either as BOT (Build Operate Transfer) or BOO (Build Operate Own) agreements.

Markets

The necessity for clean water, as a pre-requisite for economic and social development, is recognized throughout the world. In many emerging markets, access to (treated) water is a focal point, as is addressing the pollution resulting from industrialization.

In China, for instance, more than half of the water is polluted, over 300 million people use contaminated water supplies and a third of China's waterways are below the Government's own safety standards. Among 32 of China's big cities, 30 face water shortage. Moreover, the urban population percentage is expected to increase from 45.7% in 2010 to 75% in 2050 or earlier, putting a heavy burden on water accessibility. The Chinese Government acknowledges the country's environmental deficit as an ongoing challenge and has identified it as one of its focal points in their Five Year Plan. They have therefore embraced a Public Private Partnership ('PPP') policy, making it possible for (non)Chinese companies, such as Tahal Assets, to initiate and execute infrastructure projects.

For Tahal Projects, availability of funding for the execution of projects is crucial. In recent times, funding generally needs to be arranged through banks and international financial institutions – such as the European Bank for Reconstruction and Development. This has increasingly become the situation as governments tend to allocate less funds to infrastructure projects because of the overall savings they need to enforce, due to the macro-economic situation. In order to deal with this problem, Tahal Projects includes the organization of funding as part of their tender offers.

Water management is also a key focal area in African countries for instance, where water is imperative for food security and thus for the stability in these countries.

Development of Group companies

Portfolio

Tahal Projects
In February 2012, the Memorandum of Agreement (MoA), which was signed in May 2007, with respect to a water and agriculture project in Botswana between Tahal Group BV and the Government of Botswana was cancelled by Tahal. Tahal reserves all its rights with respect to the MoA.

In March 2012, an agreement was signed with the National Water Company of Ghana for a project to design, construct, expand, and upgrade the drinking water systems in the Kumawu, Konongo and Kwahu regions of Ghana. The project is the sequel to an existing project also executed by Tahal Projects in the same area ('the 3K project'). Estimated revenues for the project are USD 97.5 million (approximately EUR 73 million).
The project is anticipated to take three years from commencement. Tahal Projects has organized the financing for the project. The project is the fourth assignment for Tahal Projects in Ghana.

In August, 2012, Tahal announced that it had received an extension of deadlines for its Pump Storage Project; an 81% subsidiary of Tahal (Tahal Water Energy Ltd.) was granted a conditional license in 2009 to build an

Deputy Governor of Luanda, Eng.Antonio Gomes de Resende:

'The scope of the Quiminha project is very extensive, there is no doubt it will have a vast impact on the economy and all aspects of employment in the capital of Angola, Luanda and its region.'

Quiminha project, Angola

electricity generating facility (the Plant) providing up to 300 Megawatt of electricity to the Israel Electric Company, conditional to achieving certain milestones. The extension of deadlines related specifically to the arrangement of the funding, which has been extended until June 24, 2013. The funding is expected to be largely provided by external parties in the form of project finance as well as an equity contribution. Since the initial announcement in 2009, it is expected that the total investment to construct the Plant will amount to approximately USD 410 million (approximately EUR 310 million) and that it will take approximately four to five years to complete the construction as of the start. As of December 31, 2012, approximately 2% of the expected total investment has been invested in the project by Tahal.

In December 2012, an indirectly held subsidiary of TGI, signed an Agreement to sell its rights in a leased real estate asset in Tel Aviv, Israel, to an unrelated third party for NIS 74 million (approximately EUR 15 million). This was following the termination in December 2012 of the real estate agreement which Tahal entered into in 2010 with Kardan Real Estate, a separately listed subsidiary of the Tel Aviv listed company Kardan Israel, with respect to the sale of Tahal's rights in the leased real estate asset in Tel Aviv. In January 2013, the sale was completed. The expected profit for Kardan is approximately EUR 7 million.

Tahal Assets

Tahal Assets is developing and investing in assets such as water supply systems and wastewater treatment plants, mainly in China (via Kardan Water) as well as in

Turkey. During the development phase, no cash will be generated. After completion of a development, water is delivered to municipalities and industrial areas on a long-term concession basis (typically for 20 to 30 years).

Kardan Water signed two agreements in 2011 for wastewater treatment in Zibo city (Zichuan and Boshan) extending the total capacity of operations in China with 55,000 m^3/day. During 2012, the construction of Zichuan as well as phase two of the construction of Boshan was completed. In addition, the Jinnan plant was upgraded.

The water re-use facility in Xuanhua showed an increase in utilization in 2012, as did the wastewater treatment plant in Dingzhou. The water supply and wastewater treatment plant in Dazhou, which comprises the only BOO contract of Kardan Water, is to a large extent dependent on the increase of the number of companies in the industrial zone in which the facility is located. Kardan Water expects to be able to increase the utilization of this plant in 2013. The other facilities that Kardan Water operates showed a stable, high utilization during 2012.

No new license contracts were signed during the year.

For financial information on Tahal Group International, see the chapter 'Financial Developments', starting on page 20.

Overview Assets Kardan Water China

		Maximum Capacity ('000 m3/day)			
			Expected – based on expansions		
	Number of plants/uses	2012	2013	2014	2015
Tianjin	5	230	270	310	315
Dazhou	2	110	110	110	170
Dingzhou	1	20	20	20	40
Xuanhua	2	240	240	240	240
Zichuan	1	30	30	30	30
Total	**11**	**630**	**670**	**710**	**770**

Competition

Tahal Group International competes with many international engineering companies and international companies who deliver comprehensive projects in areas of water infrastructure and water treatment, as well as companies with stakes in infrastructure companies.

Considering the diversity and variety of the business segments in which the TGI companies operate, the competition is almost unlimited and cannot be characterized. This diversity can be expressed in all of the following: (a) diversity in the business segments (projects and asset investment); (b) difference in the nature of the project (planning, supervision, performance, or a combination of the above) or the asset (from the acquisition of existing and operating assets to planning, constructing, and operating new assets); (c) difference in the project's or asset's type of activity (water-sewage, treating water and sewage, burying waste, gas and agriculture, operating and maintaining municipal water systems, and more); (d) difference in the degree of complexity and the financial scale of the projects and assets; and (e) difference in geographical location and scope.

TGI corporations cannot estimate the number of their competitors and/or their position in the market or their own position among their competitors.

The water market is characterized by the entry of new players. In light of substantial investments in the field of the global water market, as well as its noticeable growth, many players from construction, engineering, investments and commercial sectors are also developing capabilities and competing for tenders in the water infrastructure market.
Moreover, the ongoing European sovereign debt crisis causes engineering and infrastructure companies of some countries (such as of Spain and Portugal) to turn to emerging markets, particularly to Africa and Latin America, thereby increasing the competition in these markets. TGI corporations deal with their competitors by maximizing their efficiency; using advanced and innovative technologies; active marketing through the location and initiation of projects and investments; joining partners in different countries; and access to financing sources and programs, which enable them to offer their customers financial solutions.

Funding

TGI finances its operations through loans from banks and other financial institutions, shareholder loans which it receives from its parent company, Kardan N.V. as well as through excess positive cash flow generated by Tahal Projects. Most of the shareholder loans are drawn to finance the assets' operations.

TGI is examining possibilities of diversifying its financing sources, including through raising capital from private institutions as detailed below.

In July 2010, Kardan N.V. capitalized EUR 41 million of the shareholder loan it had provided to TGI into share capital of TGI. As of December 31, 2012, and as of the date of the publication of the 2012 annual results, the balance of loans which Kardan N.V. provided to TGI stood at approximately EUR 56 million and EUR 46 million, respectively. The said loans are for periods of three years and they bear an annual interest rate of Euro LIBOR +3%.

In July 2010, TGI signed an agreement with FIMI, an Israeli private equity fund, pursuant to which FIMI would provide TGI with a loan of up to USD 50 million (approximately EUR 37 million), to be drawn before July 2012 and repaid after 5 years from the date the agreement was signed (July 2010). According to the agreement, FIMI would receive warrants in an amount of up to USD 50 million (approximately EUR 37 million) to purchase an equity stake in TGI based on a pre-money company valuation for TGI which would be the lower of (a) USD 250 million plus interest or (b) 25% discount on the company valuation at an exit event (such as an IPO). The warrants expire at the earlier of the lapse of five years from closing or upon an exit event. Kardan has the option to buy back up to 60% of the warrants at an internal rate of return for FIMI of 17.5% (provided that a pro-rata portion of the loan shall be repaid at that time) (Call Option). The Call Option can be exercised in the six months period commencing two and a half years from closing, or earlier in certain events. In July 2010, FIMI provided USD 25 million to TGI under the loan agreement.

In June 2011, TGI signed an amendment to the loan agreement which included an extension of one year for the drawdown period for the remaining loan in an aggregate amount of USD 25 million and an extension of one year for the repayment date of the aggregated total loan as well as that the exercise period reflected in the corresponding warrant agreement was extended by one year. In June 2012, TGI signed an additional amendment to the loan agreement with FIMI, in which the annual interest on the loan was raised to 6M Libor + 5%,starting as of July 1, 2012, and it was stipulated that the right of TGI to draw the additional USD 25 million loan is now subject to the approval of FIMI. The principal of the loan (USD 50 million) will be repaid in two installments with 30% of the principal to be repaid in October 2015 and the balance to be repaid in August 2017.

As of the report date, TGI had not yet exercised its right to secure the remaining loan of USD 25 million.

Following the redemption of certain loans, the total amount of consolidated debt from third parties according to the 2012 consolidated financial statements of TGI amounts to EUR 57 million (December 31, 2011: EUR 70 million). Total cash and cash equivalents amounts to EUR 27 million compared to EUR 43 million as of December 31, 2011.

Outlook 2013

Water infrastructure Assets
Tahal Assets expects to increase the capacity of its plants in China to 670,000 m^3/day by the end of 2013 (end of 2012: 630,000 m^3/day), which will have a positive impact on its revenues.

Water Infrastructure Projects
In the Project segment the spectrum of activities is more focused on EPC projects in frontier countries, as well as on design and engineering activities in Israel. Revenues and profitability are expected to increase from existing and recently signed projects (y-o-y). The backlog (in USD) is expected to increase by approximately 10% (y-o-y) by the end of 2013.

In addition, Tahal expects to continue to make progress with its large Pump Storage project in Israel to build an electricity generating plant, the funding of which is expected to be largely provided by external parties in the form of project finance as well as an equity contribution.

As at December 31, 2012, Tahal Projects employed 711 employees (year-end 2011: 812), which was mainly the result of a reduction of staff in branches in Romania, Russia and Serbia following the reorganization that was initiated in 2011.
Tahal Assets employed 459 people as at December 31, 2012, compared to 410 as at year-end 2011.
The increase in number of staff can largely be explained by the increase in activities in China. Tahal does not expect that the total number of employees will materially change during 2013.

Financial Services Division

General

Kardan N.V. operates in the financial services sector through its 100% (December 31, 2011: 100%) holdings in Kardan Financial Services B.V. (KFS) and TBIF Financial Services B.V. (TBIF). KFS's strategy is to strengthen the existing investments in Bulgaria and Romania primarily through organic growth.

TBIF offers its clients a wide range of traditional banking services. This includes current account products, credit facilities and loans to private and business clients (generally small amounts for short periods of time), salary accounts, various term deposits, documentary credit and foreign trade financing solutions as well as lease products (financial and operational). In 2012, TBIF also started to offer its clients, through TBI Credit, clearing services for credit card transactions, whereby it focuses on clearing services for online purchases. For this purpose, TBI Credit has implemented high quality technological systems that also provide the required management information. In addition, TBI Credit has expanded the permits that it holds from the Visa and MasterCard companies and from the Central Bank of Bulgaria.

TBIF uses a network of branches that are nationally deployed, stall presence in retail stores, the services of a call center and online banking services.

After the sale of Sovcombank in May 2012, KFS is only active in Bulgaria and Romania, as well as in Ukraine with its operational lease franchise, Avis Ukraine. There is no intention to extend the activities to other countries.

Markets

Bulgaria and Romania

The economic development in Bulgaria and Romania during 2012 was affected by the European sovereign debt crisis, leaving consumer confidence very subdued. This has impacted the lending activities in both countries, particularly in the SME sector, whereas credits to individuals slowly improved during the year.

In Bulgaria, in light of the economic situation, households tended to prefer putting their money on deposit rather than towards borrowing money. At the end of 2012, there were slight signs that households were starting to spend a little more due to, among other things, reduced household debts and lower inflation. The unemployment rate has, however, risen to above 12% and spending levels remain low.

In Romania, the political instability in the third quarter of 2012 did no good for consumer confidence. Although the employment rate recovered slightly during the year, both retail clients as well as small and medium sized corporate clients were cautious in taking on new loans or credits. The parliament which was chosen in December last year has expressed its intention to honor the country's commitments to its international creditors and to maintain its pro-EU and pro-US policy, thereby attempting to improve the reliability externally and to boost consumer sentiment internally.

Development of Group companies

General

KFS is the holding company of the financial division. Due to its nature, the only activity is the management of the investments in the shares of its subsidiaries, which consists of wholly owned TBIF.

Banking and Retail Lending (TBIF Group)

In May 2012, TBIF closed the sale of its 50% stake in Russian Sovcombank to the bank's co-owner, for which an agreement had been signed in June 2011. The total consideration for the transaction amounted to approximately EUR 123 million. An initial payment of approximately EUR 40 million had been received in 2011. A remaining amount of EUR 71 million was received upon closing of the transaction.

Nearly EUR 38 million of the proceeds was used to repay a loan that KFS, of which TBIF is a 100% subsidiary, had from Kardan. Over the years, Kardan invested approximately EUR 100 million in the Sovcombank. This sale, together with the earlier sale of a 16% interest in the bank in 2010, generated accumulated proceeds of approximately EUR 160 million for Kardan N.V.

In the fourth quarter of 2012, TBI Bank, the Bulgarian bank subsidiary of TBIF, obtained a branch license in Romania. TBI Bank is the former Bulgarian bank NLB Banka Sofia AD which was acquired by TBIF in July 2011, for a consideration of EUR 15 million, to upgrade its operations in Bulgaria as well as in Romania to a full banking operation, in order also to be able to raise deposits and thus allow for sources to support growth.

In 2010, in parallel to the sale of TBIH, the Group's former insurance and pension segment holding company, KFS acquired an option to purchase the Bulgarian pension fund Doverie. As part of this transaction, KFS undertook a loan from the purchaser. In December 2012, KFS signed an agreement to waive the option and pay down 25% of the loan, in favor of the purchaser foregoing the loan.
The profit from the settlement of the option and the loan amounted to EUR 2.5 million.

Funding

The operations of TBIF and its subsidiaries are financed by means of shareholder loans extended by KFS, loans from banks as well as through deposits raised by TBI Bank.

The net cash of KFS/TBIF as of December 31, 2012 is EUR 3 million (December 31, 2011: net cash of EUR 2 million). In the table below, the composition of the net cash is presented.

KFS/TBIF € in millions	
Liabilities	
Loans from Shareholders	59
Assets	
Cash and short term investments	2
Loans to others	7
Loans to subsidiaries	53
Net cash	3

Following the completion of the sale of Sovcombank in May 2012, KFS repaid the lending bank the entire outstanding loan balance of EUR 28 million.

Competition

Competitors in the banking segment in Central and Eastern Europe are still mainly European (international) banks, which compete either through local branches or through acquired banking operations. In Bulgaria and Romania, 74% and 82% respectively of total bank assets are internationally owned. However, whereas the advantage of these international competitors in many cases used to be their ability to provide their local subsidiaries with financial resources, often cheaper than local financial resources, this is no longer evident due to the European sovereign debt crisis. Increasingly, international banks are either downsizing their local subsidiaries in CEE or even withdrawing all together, leaving the opportunity to increase market share for the local banks.

The ability to enter the CEE markets for newcomers under a new banking platform remains limited, however, since most of the countries minimize the allotment of new bank licenses.

The competition in the banking and lending business focuses on attracting more, and a diverse group of, clients (individual and business). Differentiation in product offering as well as the expediency in which clients are served is crucial and requires a thorough understanding of the client's needs. TBIF Group's relative advantages in the retail credit segment are its capability to supply fast and simple credit, based on receipt on credit authorization possibilities at the selling points.

Main financial developments

For an analysis with respect to the results and financial developments of KFS, see chapter 'Financial Developments' (page 20 to 45).

Outlook 2013

TBIF will continue to operationally merge its consumer finance and leasing activities in Bulgaria and Romania into TBI Bank, allowing the Bank to increase loan origination by raising deposits and to enjoy synergetic effects of business consolidation. TBIF plans to open at least 5 branches of TBI Bank in Romania; 3 will be new branches and 2 are conversions of existing TBI points of sale to bank branches. The consumer and leasing markets in Bulgaria and Romania are expected to remain difficult. TBI Bank Romania expects to be able to raise deposits during 2013.

'Expedient and fitting service, delivered in a confidential and personal manner, makes the difference in banking. The people at TBI Bank fit this profile. Knowing that you will be given the best advice is of essence.'

TBI Bank, Bulgaria

The total number of personnel, employed by the Financial Services division (KFS and TBIF) as of December 31, 2012 was 1,318 (December 31, 2011: 5,284). The decrease is primarily due to the sale of Sovcombank as well as to cost efficiency and organizational measures at Avis Ukraine and in the Bulgarian operations following the integration of the banking and the non-banking activities under TBI Bank. As of March 24, 2013 (the publication date of the 2012 results) headcount amounted to 1,200.

It is noted that the headcount in Romania increased, mainly in sales, as part of the reorganization of the companies to operate under the banking platform as of 2013. The decrease in the number of employees during the first quarter of 2013 mainly originates in Bulgaria and reflects the continued moves to consolidate the activities in the country as stated above.

Personnel and Organization

Kardan N.V.'s headquarters is located in Amsterdam, the Netherlands. Apart from general activities related to its ongoing operations as a listed company, the headquarters deals with locating and initiating business opportunities, and supervising Kardan N.V.'s operations abroad. The headquarters' employees therefore mainly provide services to companies within the Kardan Group.

In relation to the listing of Kardan's shares and debentures on the Tel Aviv Stock Exchange, Kardan also draws on specialists of the listed company Kardan Israel, particularly with respect to the Israeli capital markets, Israeli financial institutions, and related legal services.

Kardan considers its employees as conditional to its success. Thus the Company is committed to attracting and retaining highly competent personnel throughout its organization.

Kardan N.V. has a lean management structure, a decentralized organization and an entrepreneurial approach.

The holding company Kardan N.V. is not only responsible for strategic development, but it also contributes its business experience as well as its local and international networks to its subsidiaries throughout the Group. Each subsidiary is headed by an experienced manager with an appropriate background.

	Number of employees as of December 31, 2012				
	Kardan	GTC	KFS	Tahal	Total
Europe (mainly CEE & CIS)	16	174	1,318	321	1,829
China	–	378	–	349	727
Israel	–	–	–	286	286
Other	–	–	–	214	214
Total	**16**	**552**	**1,318**	**1,170**	**3,056**

In Kardan N.V.'s view, combining international and local know-how and expertise in the local organizations is essential to initiate and develop assets in emerging markets. This ensures that Kardan has timely access to appropriate opportunities, while also understanding and managing local risks. Kardan's personnel policy and its operational structure are therefore decentralized.

At year-end 2012, the number of people employed by Kardan N.V. and its consolidated companies totaled 3,056. As of December 31, 2011 the number of employees was 7,001. The reduction of the number of employees derives mainly from the sale of the 50% stake in the Russian Sovcombank, but is also the result of reorganizations and efficiency measures throughout the Group.

As at December 31, 2012, 16 people worked at the headquarters of Kardan in a ratio of 70% female and 30% male staff members. As at year-end 2011 Kardan headquarters employed 18 people.

Real Estate

Kardan N.V. is active in real estate in Asia and in Central and Eastern Europe through GTC Real Estate Holding B.V. (GTC RE), which comprises the Real Estate Asia and Real Estate Europe segments.

Real Estate Asia comprises Kardan Land China, with headquarters in Hong-Kong and Beijing.
Kardan Land China has a full staff, all of whom deal with the management and operation of the real estate assets and projects in China, as well as the location and development of new projects. As of December 31, 2012, Kardan Land China employed 378 people (341 as of December 31, 2011), of which 32 people worked at the Kardan China headquarters both in 2012 as in 2011. The increase in the number of staff is due to the growth of activities. Kardan Land China has a near balanced ratio of male and female staff at the headquarters.

Real Estate Europe consists mainly of GTC SA, the real estate company in Central and Eastern Europe in which Kardan holds a 27.75% stake. The companies performing GTC SA's activities in Poland, Romania, Hungary, the Czech Republic, Serbia, Croatia, Slovakia, Bulgaria, Ukraine and Russia each have their own local management, with either local or regional headquarters to coordinate the business operations and to deal with the initiation of new projects, as well as the marketing and management of existing properties.

As of December 31, 2012, GTC RE employed 174 people in Europe (189 as of December 31, 2011).

GTC SA employs 46 people at its headquarters in Warsaw, Poland, of which 33% is male and 67% is female.

Water Infrastructure

Tahal Group International B.V.'s (TGI) organization is based on operations divided into two business segments: Tahal Projects and Tahal Assets.
Each business segment is led by its own management, this in addition to the management and headquarters of TGI itself.

As of December 31, 2012, Tahal Projects employed 711 people and Tahal Assets employed 459 people, bringing the total number of employees of TGI to 1,170 employees, (December 31, 2011: 1,224).
The decrease is mainly the result of a reduction of staff in branches in Romania, Russia and Serbia following the reorganization which was started in 2011, whereas there was an increase in the number of staff at Kardan Water in China following the growth of activities.
As of December 31, 2012, Tahal headquarters in Tel Aviv employed 58 people, of which 26 women.

Financial Services

As of December 31, 2012, the Financial Services division (KFS) employed 1,318 people, substantially less than last year (5,284) following the sale of Russian Sovcombank and the organization efficiency measures taken throughout 2012. The ratio male / female staff in Bulgaria was approximately 20% / 80%, whereas in Romania this was approximately 37% / 63%.

KFS and TBIF Group headquarters, located in Amsterdam, the Netherlands, are made up of employees who engage purely in management duties. All of the other KFS Group employees are employed locally in the various countries of operation.

Risk Management

Risk as an integral part of Kardan's business model

We focus on emerging markets, where we initiate, acquire and develop cash generating assets and projects. The consequence of our strategy is that we are exposed to a relatively high degree of business and geopolitical risks inherent to these markets.
Emerging markets are by nature less developed and potentially volatile in various aspects and therefore often exposed to risks arising from unforeseen changes such as geopolitical, regulatory, legal, and economic changes. In all the markets in which we are active, we act as locally as possible by entering into local partnerships and using local management, together with international management, to ensure adequate knowledge and understanding of our business environments. In addition, we thoroughly analyze all business opportunities and try to avoid and mitigate risks that are not intrinsic to our business model and core competencies.

We closely follow changing global economic developments and carefully review and monitor their impact on our financing position, valuation of assets, and liquidity position. This is done on a quarterly basis at least. We regularly discuss the latest developments and expectations in the respective markets with the management bodies of the subsidiaries, as well as their financial resilience.

Kardan's approach to risk management

As a diversified holding company it is a challenge to fully oversee and manage all the risks related to our businesses. We oversee, analyze and understand the risks related to our businesses to the greatest extent possible, taking into account that some level of uncertainty is inherent. In order to mitigate this, we deem it very important to have reliable and adequate flows of relevant information as a basis for informed analyses and discussions and subsequently as decision making tools. This forms one of the main drivers of our risk management approach.

Moreover, we are of the opinion that a company's organizational culture is a crucial prerequisite for effective risk management. Having a proper 'risk culture' throughout the organization, i.e. all involved in our businesses should have the basic mindset required for conducting responsible business, is high on our agenda. We therefore also put great emphasis on setting the right 'tone at the top': management leads the way by setting the right example through their behavior and decisions. Consequently, we continuously reinforce and cultivate our 'risk culture', among other things, by means of education and communication.

Furthermore, we believe it would be a misconception to regard risk management and internal control solely as mandatory matters that should be complied with or that can be dealt with by a single risk manager or a risk management department. As we believe that risk is an integral part of doing business and that it creates opportunities for businesses, which in turn can lead to positive results, it is critical to embed the management of these risks in our day-to-day operations.
Although proper coordination of risk management and internal control activities is necessary, the responsibility for adequate risk management and internal control is ultimately a joint responsibility for all employees of all companies that are part of Kardan as a group.

To validate the proper implementation of risk management within our subsidiaries we use, for example, the various governance structures in place. Through Kardan's position as a shareholder in our subsidiaries, as well as through the various board positions held by Kardan Executive management members in its subsidiaries, we monitor the status of risk management throughout our group of companies. Certain structural control measures are in place, such as thresholds for approval of important decisions and, on occasion, internal audits are executed on issues selected by the relevant audit committee. In addition to monitoring through governance structures, we stay informed by means of the ongoing management reporting submitted by the subsidiaries on a monthly basis. Kardan's (main) subsidiaries provide Kardan with a representation letter on a yearly basis. The statement made in this letter is closely connected to the statement as made under 'Management review' below.

Kardan N.V.'s risk management framework and processes

Within Kardan's corporate governance structure, its risk management framework constitutes the link between strategy and policy-making, and the actions of the organization. An effective risk management framework provides reasonable assurance that the Group's objectives will be achieved: The general concept of our risk management approach is to create and maintain a risk management framework that provides a clear view of our business environment as well as our position therein and to ensure high-quality information flows. This is in order to enable management at all levels to make sound analyses, leading to informed decisions on opportunities and risks that present themselves during the course of business.

Already some years ago, we implemented a risk management framework aligned with the Enterprise Risk Management – Integrated Framework published by the committee of sponsoring organizations (COSO) of the Treadway Commission. In line with this framework, we implemented certain recurring and ongoing processes.

- The Board holds one annual strategy meeting that is prepared by the Executive management. During this meeting, the Board discusses and – if deemed appropriate – modifies Kardan's corporate strategy and related objectives.
- Following this meeting, the Executive management discusses the objectives with the management of the subsidiaries, who are then requested to prepare their plans to achieve the strategic objectives and to present these plans to their Boards. Management of the subsidiaries is also asked to address the major risks that may jeopardize the execution of their strategy, and to present the measures they have taken to control these risks. If the plans of the subsidiaries deviate from the set objectives, Kardan Executive management will use their position on the Boards of the subsidiary to understand the deviations and to decide on further steps to be taken. After approval of the plans by the Boards of the subsidiaries, Kardan's Executive management prepares the final strategic plan for the Kardan Board, including the main risks and control measures. As part of this process, Kardan's Executive management also holds a risk assessment session to oversee the subsidiaries' risks and the specific risks on the Kardan (Group) level. This session is conducted in close coordination with risk management professionals. The general purpose of this session is to discuss and assess the risks related to Kardan's strategy and activities, in order to get a good common understanding of such risks within Executive management that can provide a basis for future decision-making and specific measures to be taken. Although the main risks inherent to Kardan's strategy are also explicitly addressed and discussed, the voting perspective strongly reflects the management's views towards the residual risks. The focus is placed on risks that are thought to be actively manageable and where further internal control measures could be taken.
- After the risk assessment session, the Executive management evaluates the main results of the risk assessment workshop, focusing on the main risks identified and the views and responses towards these main risks. The risks identified, as well as their related controls, are among other things also monitored by using certain specific risk and control indicators embedded in Kardan's ongoing management (reporting) systems and regular formal and informal contact with staff throughout the Kardan and its group companies. Within Kardan's governance structure, internal management reporting systems form an important information source for management's analysis and decision-making processes and therefore the management of risks.
- The outcomes of the various meetings are processed into a report that is shared with the Board of Kardan and with the internal auditors.

- In the second quarter of the calendar year, the management of each subsidiary is requested to report to what extent the newly defined control measures have been implemented.

Kardan complies with Israel's Securities Law regulations relating to the effectiveness of internal control over financial reporting and disclosure ('Israeli SOX'). During the year under review, until the date of this report, all steps have been taken to be able to provide a declaration regarding the effectiveness of the internal control as referred to previously.

Based upon the work performed, the Chief Executive Officer and the Chief Financial Officer of Kardan N.V. have made a statement in the Israeli Annual Report saying that the control over financial reporting and disclosure is effective. The Group's auditors have confirmed the correctness of that statement in a separate opinion.

In addition to the internal ongoing risk management processes as described above, Kardan's internal audit function plays an important role in monitoring its risk management framework. Independent of management's own risk assessment, the internal audit, carried out by a third-party organization, identifies certain risks related to Kardan's internal controls.

The recommendations given by Kardan's internal – as well as its external – auditors help Kardan define its responses to, for example, the risks identified by adopting enhanced policies and procedures.

Main risk categories related to Kardan's strategy

The section below describes the main risk categories (in alphabetical order) associated with Kardan's strategy, as well as their related controls. Reference is also made to the financial risks, as described in the 2012 Statutory Financial Statements. In addition, there may be other significant risks that Kardan has not yet identified or that were assessed as not having a significant potential impact on the business, but which could materialize at a later stage.

Please note that in Kardan's view, the risk categories listed below should be seen as general guidance for considering the main risks related to its businesses and strategy. Kardan deems all risk categories, as discussed during its annual risk assessments, to be relevant for its business performance and hence conscientiously monitors all of them.

Budget & Planning

Budgeting and planning are crucial to all companies. The reliability of budgets is obviously dependent upon the quality of management and their planning and control ability. However, the accuracy and reliability can also be significantly impacted by the sector in which a company is active. Kardan, with its real estate, water infrastructure and financial services activities in emerging markets, faces a number of elements in its budgeting, such as periodic valuation of assets, particularly property assets, which in turn are affected by macro-economic developments and consumer sentiment, creating uncertainties that are almost impossible to manage or foresee. The budgets and strategic plans of all the subsidiaries of Kardan are presented to the Board of Kardan. Monthly highlights, per subsidiary, ensure a proper understanding of the development within the operations. At the end of each quarter, a new estimate is made, adapting if necessary to operational, market and economic realities and insights.

Capital availability

In line with the financial strategy of Kardan, subsidiaries are responsible to a great extent for their own funding. As the current level of debt at the Kardan N.V. (holding company) level and on the level of its intermediate holdings is still substantial, and consequently the 'in house banker's function' of Kardan is currently limited, capital availability – both in

terms of equity as well as debt – is crucial both for Kardan N.V. as well as for its subsidiaries.
As a consequence, Kardan is exposed to the risk that insufficient access to capital may threaten its capacity to execute its business model, grow and generate future financial returns.

Kardan intends to bring down debt at the Kardan N.V. (holding company) level as well as at the level of its intermediary holding company levels further – and to grow the direct financing of its activities at the subsidiary level. Reducing debt at the Kardan N.V. level will reduce the exposure to risks related to debt-servicing capacities.

Kardan N.V. and each of its subsidiaries intensively manage their capital structure and liquidity position. Cash-flow forecasts are made on a regular basis and discussed within the subsidiaries and with Kardan's Executive management. On the basis of these discussions, decisions can be made with respect to raising capital and its form (equity, mezzanine, debt), repayment or restructuring of loans, investment or divestment of assets, and dividend policy.

Concentration

Kardan conducts numerous operations, mainly concentrated in China and in Central and Eastern Europe, as a result of which the Group is specifically exposed to these regions and markets, their economic developments and, in some instances, the measure to which government policy affects the operations of local subsidiaries. However, the Group has diversified its business activities across different sectors in different emerging markets, providing, to a certain extent, risk mitigation.

Kardan diverts managerial and financial resources to its investments in China as well as to its investments in Central and Eastern Europe and is carefully looking to further expand its activities in Asia when opportune. Consequently, Kardan closely monitors risks related to the specific markets and segments it operates in and might further expand into, and discusses these risks at length in the Board before taking such decisions.

Financial markets

As a listed company strongly dependent on external financing and with a high exposure to emerging markets, Kardan runs the risk that fluctuations in, for example, currencies, prices, rates and indices affect the value of its financial assets and stock prices, impacting its ability to raise capital, as well as the cost of capital. Although Kardan is not able to estimate the impact of this, developments in the financial markets could adversely affect Kardan's results, its equity base, the value of its assets, its ability to comply with the covenants agreed upon with lenders, and its ability to raise financing, as well as the terms of such financing. To manage these risks, Kardan intensively monitors the financial positions within its businesses and hedges these risks if and when deemed necessary.

As stated above under 'Capital availability', Kardan intends to further decrease the debt position at the Kardan N.V. (holding company) level as well as at the level of its intermediary holding company levels – and further enhance the direct financing of its activities at a subsidiary level. Reducing leverage at a Kardan N.V. level will reduce Kardan N.V.'s exposure to risks related to debt-servicing capacities, e.g. by being less dependent on financing and refinancing possibilities in adverse financial markets.

Fraud & illegal acts

Being a decentralized organization with a large number of separate entities spread over different geographic areas in emerging markets, Kardan runs the risk that fraudulent activities or illegal acts perpetrated by managers, employees, customers, suppliers or third parties may expose the organization to fines, sanctions, and loss of customers, profits and reputation, etc., and may adversely impact the organization's ability to achieve its objectives.

Kardan has implemented a Code of Conduct, guiding its employees on ethical behavior with the aim of preventing fraud and illegal acts. In addition, Kardan has implemented policies and procedures which are embedded as much as possible in the daily operations, providing checks and balances for its activities.
As Kardan needs to comply with many regulations, several entity level controls were implemented (also as part of the Israeli SOX referred to above) in order to prevent and detect fraud and illegal acts. On top of this, Kardan is subject to internal and externalaudits on an ongoing basis.

Human resources & Incentive Schemes

As a key element of Kardan's strategy is to have local organizations led by local and international management, recruiting and retaining highly skilled personnel is seen as a critical success factor. In this respect, Kardan depends on a relatively small group of skilled managers, experienced in the markets in which it operates. Particularly in the emerging markets, the availability of local personnel qualified to manage local businesses in accordance with standards applied in developed countries is limited and under continuous pressure from strong competition.

Kardan endeavors to ensure the long-term commitment of key personnel by, for example, having incentive schemes in place that are aligned with the long-term development of their assets. Moreover, these incentive schemes are increasingly structured in such a way that management goals are aligned with shareholder goals. Performance reviews of management of the subsidiaries need to be discussed annually in the Board of Kardan. To avoid dependency on a limited number of key personnel, Kardan is taking measures that include the creation of a diversified pool of people available for key positions, the rotation of personnel, and the improvement in succession planning.

Investor relations

Investor confidence depends on the ability of Kardan to deliver positive results and on clear, transparent and reliable information provided to the investor communities. Kardan N.V. is still relatively unknown in the capital markets outside of Israel. This may limit Kardan's ability to successfully operate in these markets, which could adversely affect Kardan's strategy to further grow its businesses.

Kardan continues to develop its investor relation efforts, both in terms of equity IR as well as debt IR, to increase the brand awareness of Kardan and to strengthen its reputation and reliability in order to establish a broader, more global, investor base.

Legal & regulatory

Kardan operates in many diversely regulated markets and market segments and is consequently exposed to the risk that changing laws and regulations may threaten its capacity to consummate important transactions, enforce contractual agreements or implement specific strategies and activities. With the assistance of its internal and legal counsels, Kardan is continuously monitoring the regulatory environments it operates in, aiming to both anticipate and respond to changing regulations and the related consequences on it businesses. Moreover, the governance structure of Kardan, as well as the compliance policies and procedures, provides a structured framework within which all of the group companies operate.

Project Management

Project management is inherent to the business of Kardan. Both in real estate activities, as well as in water infrastructure projects, delays in projects can occur, following unexpected internal and/or external developments or events. Kardan is involved in many projects, of varying sizes, simultaneously, which is to some extent a risk mitigating factor. Attention is increasingly paid to specific project management training, both operationally as well as in terms of financial planning. Project progress and development and their impact on the results of Kardan is discussed consistently and regularly within the various boards of the subsidiaries, as well as in the Board of Kardan.

Sovereign/political

Kardan may be considered to be an Israeli affiliated company. The geopolitical situation of Israel can therefore have an impact on the results of Kardan. Moreover, being operational in emerging markets, Kardan can be confronted with less stable, unpredictable, political situations. Such instabilities might adversely affect Kardan's operations and their results. Kardan closely monitors the political situation of the countries it is operating in and adjusts its position where desirable and possible. In this respect, Kardan aims to select the right local partners to enhance the understanding of the local political environments and the resulting consequences on its businesses. In addition, Kardan emphasizes the fact that the company is a Dutch legal entity with a listing on the Amsterdam Stock Exchange as well as on the Tel Aviv Stock Exchange, in order to retain access to the international capital markets.

Management review

Based on its review of the risk management and internal control systems, and cognizant of their inherent limitations as described, the Board has concluded that there is reasonable assurance that:

- It understands to which extent Kardan's strategic and operational targets are being realized.
- Kardan's internal and external financial reports are reliable.
- Applicable laws and regulations are being complied with.

Kardan's risk management and internal control systems, as described above, have been regularly discussed with the Audit Committee, the Board, and the external auditor.

It is important to note that effective risk management, with embedded internal control, no matter how well designed and implemented, provides the Executive management and the Board with only reasonable assurance regarding achievement of the entity's objectives. The achievement of objectives is affected by limitations inherent in all management processes. These include the inherent risk that human judgment in decision-making can be erroneous and that breakdowns can occur as a result of human failure, such as a simple error. Additionally, controls can be circumvented by the collusion of two or more people, and management has the ability to override the enterprise risk management process, including risk response decisions and control activities. Another limiting factor is the need to consider the relative costs and benefits of risk responses. Therefore, in this context 'reasonable assurance' refers to the degree of certainty that would be satisfactory for a prudent manager in the management of his business and affairs in the given circumstances. Any assessment of effectiveness in future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with Kardan's standing policies, procedures, and instructions may deteriorate.

Environmental and Social Governance (ESG)

Kardan considers Environmental and Social Governance (ESG) behavior conditional for the future success of the operations of the Group. The activities of Kardan – real estate, water infrastructure and banking and retail lending – all inherently demand and incorporate ESG requirements, as highlighted further on. We take the view that ESG is not a topic on its own, but rather, that it is increasingly an integral part of our overall strategy and a core value of the Group as a whole, combining sustainability issues with risk management and with corporate social responsibility. Kardan aims to contribute to sustainable growth throughout all its businesses.

Initiating and developing assets and projects focused on segments that serve the middle-class's needs in emerging markets, Kardan is confronted with the social and environmental challenges specific to these markets and segments. In many emerging markets, economic development comes at the expense of the environment. The increasing need for energy, food and water has caused significant pollution, which has led governments of these markets to start addressing the side effects of economic growth by identifying sustainability as a key priority and by making funds available to combat pollution and to initiate and support sustainable projects.
We follow these developments carefully and are dedicated to implementing ESG standards wherever and whenever possible.

As we believe that ESG should be a core value of the Group, a Code of Conduct and a Whistleblower Policy are 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.

Real Estate

Sustainability has become imperative when doing business in real estate markets as tenants increasingly demand buildings to adhere to sustainability standards before renting property. We aim to meet these standards by delivering high-quality assets that meet the trends in sustainable and environmentally friendly design, and that address the needs of our tenants.
In addition, we deem it important to be a 'good corporate citizen' and to leave behind a positive impression. As we initiate, develop and hold real estate property (for the medium to longer term), we take heed to be a well-respected company, both explicitly – i.e. the asset itself and its sustainability characteristics – as well as implicitly – the social governance aspects, such as employing local staff, business ethics, values and operating principles.

Kardan Land China differentiates itself in China by providing services that adhere to the highest international standards. In particular,
Kardan Land China works with the best of breed international consultants to ensure safe buildings, which fit well in the landscape. The latest trends in sustainable and environmentally-friendly design are applied when developing new assets. Europark Dalian, the significant mixed-use project, is designed and will be operated according to the LEED (Leadership in Energy & Environmental Design) standard.
Moreover, Kardan Land China considers its employees as its most important asset: engaged employees are innovative, committed, dedicated and productive.
By recruiting the best people and appropriately and handsomely rewarding its staff, as well as by paying attention to their training and development, the company promotes the well-being and growth of its multinational workforce.

Our real estate holding in Central and (South) Eastern Europe, GTC SA, is firmly committed to corporate social responsibility. Serving the long-term interests of all stakeholders, socially and environmentally, is an integral part of its strategy, as has been laid down in internal and external guidelines as well as in its corporate governance. The company complies with OECD (Organization for Economic Cooperation and Development) guidelines, such as cooperation with local communities, creation of new jobs, and development and implementation of best practice in corporate governance. Before starting the development of a project, GTC SA analyzes the environmental situation, energy consumption, the ability to recycle waste, and other issues that need to be considered when undertaking socially responsible investments.

As of 2010, GTC SA's office and retail projects have been built in compliance with standards defined by the US Green Building Council®, enabling them to meet the requirements for prestigious LEED certification. The certification process involves assessing factors such as the rational use of natural resources, building location, energy efficiency, water conservation, limiting CO_2 emissions, the quality of the microclimate inside the building, and the selection of construction and finishing materials. Certification is awarded only to selected projects that meet the highest standards set by the US Green Building Council® (USGBC).

In 2012, GTC SA received three LEED Gold certificates. The first award was for Corius, the third office building on Okęcie Business Park, Warsaw. Corius offers 9,225 square meters of class-A office space on seven storeys, as well as 205 parking spaces in an underground garage and additional parking space for guests, taxis and couriers on the ground level. Factors that underpinned the award were location of the facility, reduction of water and other materials, both during the construction as well as in the exploitation of the building, energy performance, effectiveness of waste segregation and quality of the internal environment. Pro-ecological solutions such as automatic light switches and efficient heating and air conditioning systems, water saving toilets, and a modern building management system, among other things, were used. Also, a covered parking space for bicycles was developed, including the indispensible infrastructure – changing rooms and showers for employees that use this mode of transportation. Thanks to the efforts of GTC SA, a bus stop was created next to the complex, which makes access to public transit much easier.

The second LEED Gold certificate was awarded for Platinium V, an office building in one of the most popular business parks in Warsaw. The building comprises approximately 11,000 square meters of modern office space, enabling each floor (of 1,024 square meters) to be efficiently arranged into separate offices or open space. A number of USGBC requirements were fulfilled both during the design and the construction phase. The result is a tenant-friendly building that was developed with full respect for the environment. Platinium V was constructed from materials that increase energy efficiency and enable maximum effectiveness of heating and air conditioning systems. A modern building management system was implemented for proper energy management, water and electricity alike. USGBC also valued the location of the facility, easy access to public transport, effectiveness of waste segregation and quality of the internal environment.

The third LEED Gold certificate was awarded for Galleria Burgas, a shopping mall located in Burgas, Bulgaria. The mall provides approximately 37,000 square meters of modern retail space and it is the first modern project of this type in the south-eastern part of Bulgaria. This is the first project and the first shopping mall in Bulgaria to receive a certificate from the US Green Building Council®.

Water Infrastructure

The need for access to treated water is continually increasing due to population growth, social mobility and industrial expansion. In addition, climate change and pollution are negatively impacting the world's rapidly diminishing fresh water supply. A lack of sufficient and clean water can, and will, negatively impact matters such as agricultural development (food and food security), a country's healthcare, industrial development and ultimately a nation's economic growth.

'Water' demonstrates clearly how environmental, social and economic goals are interlocked.

The development of water supply systems in rural areas in frontier and developing countries and markets is not only essential for food security, but also creates job opportunities, generates income and improves the general health of people. In other words, water is crucial to the development of countries and their citizens' general well-being.

Tahal has played a worldwide role in developing access to water, treating wastewater and solid waste, enhancing agricultural production, and producing energy from solid waste for over 60 years. It is fully committed to continue to provide such solutions in an environmentally sound and socially responsible manner and to take a comprehensive approach to environmental issues. As a company engaged in water quality and environmental issues, it performs studies on sources and characteristics of pollution entering rivers, lakes, oceans and other surface water bodies, as well as on groundwater aquifers. Tahal has constructed mathematical models and formulated groundwater recharge programs with a view to preventing aquifer pollution by seawater and other sources, and has also conducted studies to minimize industrial contamination of surface water sources.

Over the years, Tahal has planned, designed and supervised construction of wastewater re-use schemes worldwide, involving collection of wastewater from domestic and industrial sources, treatment to the desired quality, and re-use of the effluents in industry and agriculture.

In China for instance, Tahal's subsidiary Kardan Water has, since its initiation in 2007, concluded 11 long-term concession agreements to develop and operate wastewater and water treatment plants. While on the one hand Kardan Water attempts to increase its capacity of wastewater treatment, on the other hand it is actively exploring methods to further reduce energy consumption in the operation process of its water and wastewater treatment. Furthermore, Kardan Water is looking for further opportunities in the field of water re-use, a segment that is directed towards ensuring more efficient use of scarce water resources.

In October 2012, Kardan Water was awarded the '2012 China Best Service Enterprise in Water Business' during a 'Star of Water' award ceremony at the 7th China (International) Water Business Summit. 'Star of Water' was jointly organized by the Chinese Hydraulic Engineering Society, China Environment Service Industry Association and the Organizing Committee of China Water Expo. In 2011, Kardan Water was also awarded the prize of '2011 China Best Water Enterprise'.

Besides focusing on environmentally friendly and sustainable solutions to the water challenge in China, Kardan Water also deems it important to contribute to the local communities in which it is active, such as donations for specific education and welfare programs. In addition, the company attracts the majority of its staff locally in all the cities in which Kardan Water is active.

Tahal Projects develops water solutions and creates jobs in Africa, for instance, where it is working on a number of major projects – one in Angola and four in Ghana – which involve the development and construction of water supply, sewage and drainage systems as well as the irrigation of farmland.
After completion of the technical part of the projects, Tahal Projects will at times also provide training programs to ensure proper use of the project.

Responsible behavior and environmental impact assessments have become an integral part of construction projects. This affects Tahal's own design and planning activities, where prevention and mitigation of environmental risks are an essential element of the project. This, in turn, meets the new requirements set by leading commercial banks, regarding social and environmental impact assessments, in order to obtain financing. Consequently, Tahal has implemented strict tender processes, aligning these with its own ESG policies.

Since 1996, Tahal has been accredited by the Israeli Standard Institute for its Quality Assurance System, which is in compliance with the requirements of Israeli Standard ISO 9001:2008. Moreover, the Tahal office in Tel Aviv and Haifa, Israel, has been accredited by the Israeli Standard Institute for its environmental and occupational health & safety management system in compliance with Israeli Standards ISO 14001:2004 OHSAS 18001:2007, and was awarded the SII GOLD MARK (2011).

Financial Services

Kardan's banking and retail lending activities, under the brand name TBI, target the growing middle-class, mainly in Bulgaria and Romania, by providing loans, consumer credit and leasing services to individuals and small businesses to accommodate their basic financial needs and to invest in their businesses. Hence, as a financial services company, TBI enables economic and social change that influences many people's lives.

TBI operates locally, by offering its services through local offices and points of sale. By providing financial services to individuals and small and medium sized enterprises, in order to support these clients in growing their businesses, TBI aims to contribute to the sustainable economic and social development in the countries of its operations. The manner in which a bank's clients behave has been impacted, however, by a succession of major global political and economic events, which is also the case for the TBI customers. The notions of 'value for money', convenience, speed and service are now more important than ever.
Whilst strictly adhering to the banking rules and regulations, TBI has established customer retention as one of its key strategic priorities. The bank finances all sectors of the economy in an ethically responsible manner, paying considerable attention to the indirect impact that its actions may have on society.
TBI therefore believes that it is vital to employ staff of the highest ethical standards. The human resource policy reflects this high standard, addressing equal opportunities, training, non-discrimination and other aspects which enhance TBIF Group as a respected and good employer.

Corporate Governance

Biographies

An overview of the members of the Board, together with their biographies, as of the date of this report is presented below. All non-executive members of the Board are appointed for a period of four years ending no later than at the end of the Annual General Meeting of Shareholders (AGM) held in the fourth year after the year of their appointment. The executive member of the Board (CEO) is appointed for a period of five years.

Peter Sheldon (1941) – Chairman
Chairman of the Board, non-executive Board Member, member of the Audit Committee and member of the Remuneration, Appointment and Selection Committee.
Nationality: British
Mr. Sheldon started his career as a chartered accountant in London, the United Kingdom, in 1958 and has since 1971, when he left professional practice, built a very successful international career in senior, executive and non-executive positions in a wide range of international listed and private companies.
Mr. Sheldon currently also serves as non-executive chairman of BATM Advanced Communications Ltd., an Israeli technology company listed on the London and Tel Aviv Stock Exchanges. As a result of his varied professional and commercial career, Mr. Sheldon has acquired total familiarity with the capital markets, their institutions and all aspects of corporate governance.

Cor van den Bos (1952) – Vice Chairman
Vice-Chairman of the Board, non-executive Board Member and member of the Audit Committee
Nationality: Dutch
Mr. Van den Bos has a master's degree in Business Economics and in Auditing/Accountancy from the University of Rotterdam. He started his extensive career at AEGON, a Dutch insurance company, where he ultimately served on the executive board, being responsible for, among other things, General Insurance Business Lines, ICT, Investments and Finance. Mr. Van den Bos consecutively served as a member of the executive boards of Athlon Groep N.V., a Dutch listed leasing company and SNS Reaal N.V., a bank and insurance company, which became listed during his tenure.

Max Groen (1946)
Non-executive Board Member and Chairman of the Audit Committee
Nationality: Dutch
Mr. Groen holds a master's degree in Economics and Accounting from the University of Amsterdam, the Netherlands, and has a postgraduate degree in Accountancy. Mr. Groen worked as an auditor for over 30 years, ultimately as partner of KPMG Business Advisory Services/KPMG Accountants, Amsterdam. Prior to being appointed as a non-executive member of the Board of Kardan N.V., Mr. Groen served as a Supervisory Board member of Kardan N.V. as of July 2005 until May 2012, when Kardan N.V. adopted a one tier governance system. Mr. Groen serves as the Chairman of the Audit Committee of Kardan N.V. since July 2005. Mr. Groen is currently a board member of the Netherlands Synagogue Community and a member of the Appeals Committee of the Netherlands Foundation Collective Maror Funds.

Yosef Grunfeld (1942)
Non-executive Board Member
Nationality: Israeli
As one of the founders of the Kardan Group, Mr. Grunfeld has a long-term involvement in the Kardan Group and currently holds board positions in, for example, Kardan Israel Ltd., Kardan Yazamut (2011) Ltd. (not part of the Kardan Group) and Universal Motors Israel Ltd. He currently holds 19.87% of the issued share capital of Kardan N.V., which represents 20.09% of the voting rights. Additionally, Mr. Grunfeld has a voting agreement with Mr. Schnur and Mr. Rechter, which represents a combined total of approximately 42% of the voting rights (excluding their voting rights on account of their respective indirect shareholdings in Kardan Israel Ltd., which holds 11% of the issued share capital of Kardan N.V.). Given the above, Mr. Grunfeld is considered a non-independent, non-executive Board

Member within the meaning of the Dutch Corporate Governance Code.

Albert May (1955)
Non-executive Board Member, Chairman of the Remuneration, Appointment and Selection Committee and member of the Audit Committee
Nationality: Belgian
Mr. May holds a master's degree in Applied Economics of the University of Brussels, Belgium, and started his career in the banking industry. Mr. May has extensive experience in Corporate and Investment Banking and covered the Central, Eastern Europe (CEE) and Middle East and Africa Region (CEEMEA) region in various senior positions for the past 15 years. In his last position at CitiGroup (until January 2012), he was Vice Chairman of Banking for the CEE region and before that Head of Corporate and Investment Banking for the same region. Until May 2008, he was the Chief Operating Officer for the CEEMEA region for Citi. Between 1997 and 2003, Mr. May lived in Poland and was responsible for the Corporate Finance and Investment Banking activity of CitiBank Handlowy Warsaw (BHW). He is the founder and a Director of EastWest Capital Ltd. and is presently conducting advisory assignments for clients in Europe and Eastern Europe.

Shouky Oren (1959) – CEO
Chief Executive Officer and executive Board Member
Nationality: Israeli
Mr. Oren holds a BA in Economics as well as an MBA from the Hebrew University in Jerusalem, Israel. He started his career with the Ministry of Finance of Israel. Over the years, Mr. Oren has held various senior positions in the banking industry, ultimately as CEO of Bank Leumi in Switzerland. In 2007, he was appointed as Accountant General of the state of Israel, in charge of all Government finance affairs. This included all Public Private Partnership projects, domestic and foreign debt, government guaranties to the private sector, as well responsibility for using and applying all financial tools to mitigate the financial crises that started in 2008. He gained broad experience in, and knowledge of, the international and Israeli capital markets.

Eytan Rechter (1949)
Non-executive Board Member
Nationality: Israeli
As one of the founders of the Kardan Group, Mr. Rechter has a long-term involvement in the Kardan Group and currently holds board positions in various companies including Kardan Israel Ltd., Kardan Technologies Ltd., Kardan Vehicles Ltd. and Kardan Yazamut (2011) Ltd. (not part of the Kardan Group).
Mr. Rechter currently holds 3.67% of the issued share capital of Kardan N.V., which represents 3.71% of the voting rights. Additionally, Mr. Rechter has a voting agreement with Mr. Grunfeld and Mr. Schnur, which represents a combined total of approximately 42% of the voting rights (excluding their voting rights on account of their respective indirect shareholdings in Kardan Israel Ltd., which holds 11% of the issued share capital of Kardan N.V.). Furthermore, Mr. Rechter holds 109,827 Debentures Series B as issued by Kardan N.V. Given the above, Mr. Rechter is considered a non-independent, non-executive Board Member within the meaning of the Dutch Corporate Governance Code.

Avner Schnur (1948)
Non-executive Board Member
Nationality: Israeli and Belgian
As of 1986, Mr. Schnur has served as President of Astra Diamonds Manufacturers Ltd. He also served as a director in various other Israeli companies that are either subsidiaries of, or associated with, the Kardan Group and presently serves as board member of Kardan Yazamut (2011) Ltd. (not part of the Kardan Group). Mr. Schnur has been a member of the Supervisory Board of Kardan N.V. as of July 2009 until May 31, 2012, when Kardan N.V. adopted a one tier governance system. Mr. Schnur has extensive knowledge of the Kardan Group and currently holds 17.73% of the issued share capital of Kardan N.V., which represents 17.93% of the voting rights.

Additionally, Mr. Schnur has a voting agreement with Mr. Grunfeld and Mr. Rechter which represents a combined total of approximately 42% of the voting rights (excluding their voting rights on account of their respective indirect shareholdings in Kardan Israel Ltd. which holds 11% of the issued share capital of Kardan N.V.). Given the above, Mr. Schnur is considered a non-independent, non-executive Board Member within the meaning of the Dutch Corporate Governance Code.

Elly Seinstra (1951)
Non-executive Board Member and member of the Remuneration, Appointment and Selection Committee
Nationality: Dutch
Mrs. Seinstra holds a master's degree in Dutch law and is specialized in regulatory matters, contract law, banking law and corporate law and has broad experience with international regulated companies in legal management positions, such as MeesPierson N.V., Fortis Bank N.V., Shell International B.V. and TNT N.V. As of mid 2007, Mrs. Seinstra is active as a legal consultant to a broad variety of companies in the Netherlands.

Reappointment Scheme

Name	Date of first appointment	End of current term
Mr. P. Sheldon (Chairman)	May 31, 2012	AGM 2016
Mr. C. van den Bos (Vice Chairman)	February 6, 2013	AGM 2017
Mr. M. Groen	May 31, 2012	AGM 2016
Mr. Y. Grunfeld	February 6, 2013	AGM 2017
Mr. A. May	May 31, 2012	AGM 2016
Mr. S. Oren (CEO)	May 31, 2012	AGM 2017
Mr. E. Rechter	February 6, 2013	AGM 2017
Mr. A.A. Schnur	May 31, 2012	AGM 2016
Mrs. E. Seinstra	February 6, 2013	AGM 2017

Corporate Governance

Introduction

Until May 31, 2012, Kardan N.V. had a two tier governance structure with a Management Board, consisting of executive directors, and a Supervisory Board, consisting of non-executive directors.
Kardan N.V.'s overall management was entrusted to the Management Board, which meant, for example, that the Management Board was responsible for the development and implementation of Kardan N.V.'s objectives, strategy, risk management, financial performance, policies and corporate social responsibility issues. Under Dutch law, the members of the Management Board held their duties and responsibilities collectively, meaning that each individual Managing Director could, in principle, be held accountable for the execution of the Management Board's tasks as a whole.
The Management Board was accountable to the Supervisory Board and to the General Meeting of Shareholders. The Supervisory Board acted separately from, and independently of, the Management Board. It supervised the management of the Management Board and Kardan general affairs and its business, and it assisted the Management Board by providing advice. The supervision of the Management Board by the Supervisory Board included:
(i) achievement of Kardan N.V.'s objectives,
(ii) corporate strategy and the risks inherent in the business activities, (iii) the design and effectiveness of the risk management and internal control systems,
(iv) the financial reporting process, (v) compliance with primary and secondary regulations, (vi) the company-shareholder relationship and (vii), in as far as deemed necessary by the Management Board, corporate social responsibility issues. During the period from January 1, 2012 to May 31, 2012, the Supervisory Board discussed various recurring items such as the three-year strategy, annual budget, business developments and quarterly and annual financial statements and related reporting process. In the first 5 months of 2012, the Supervisory Board had eight meetings, some

of them via teleconference, and spent considerable time on the selection of a new CEO and the proposal to amend the governance structure to a one tier board, including the selection and nomination of new Board members. None of the members of the Supervisory Board was absent from these meetings.

Board

One Tier Board

At the AGM on May 31, 2012, the shareholders approved to change the two tier board structure to a one tier board structure. The one tier board model entails a single board, consisting of executive and non-executive board members. There were several reasons why this proposal was made to the shareholders, including Kardan's close link to the Israeli capital market and related securities regulations and the alignment with international practice as the one tier structure is the prevailing corporate governance structure worldwide. The one tier Board consists of nine members, of which eight members are non-executives and one member is the executive (CEO). Their responsibilities are explained further below.

Board and CEO Responsibilities

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

The responsibility for day-to-day management is assigned to the CEO of Kardan N.V. based on a power of attorney provided by the Board. The CEO is allowed to represent Kardan N.V., jointly with the Chief Financial Officer (CFO), but needs prior approval of the Board with respect to material transactions such as, but not limited to: acquiring or alienating assets or providing guarantees to parties outside the Kardan Group with a value exceeding EUR 20,000,000. These restrictions are included in Kardan N.V.'s Articles of Association and in the Board Regulations. The CEO will ensure that he provides the members of the Board all information required to carry out their duties in a timely manner.

Certain duties remain in any case the exclusive domain of the non-executive Board Members, such as supervising the CEO and nominating (executive) Board members for appointment by the General Meeting of shareholders. Although management and supervisory duties are allocated among executive and non-executive board members, the principle of collective responsibility applies to the entire Board, executive and non-executive board members alike.

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

The Board acts in accordance with Kardan N.V.'s Articles of Association and its Board Regulations, both published on Kardan N.V.'s website.

Chairman

The Chairman of the Board is an independent, non-executive Board Member. The Chairman sets the agenda, chairs the Board meetings and monitors the proper composition and functioning of the Board, the Audit Committee and the Remuneration, Appointment and Selection Committee. Furthermore, the Chairman is responsible for ensuring that the members of the Board receive, in a timely manner, all information which is required for the proper performance of their duties. He also oversees the decision making process itself and actively monitors any potential conflict of interest when matters are discussed and decisions need to be taken by the Board. In March 2013, after the substantial increase of the Board per the Extraordinary General Meeting of Shareholders (EGM) of February 6, 2013, Mr. Van den Bos was appointed as Vice-Chairman.

Appointment and composition of the Board

The following members of the Board were appointed in the AGM 2012 upon the nomination of the Supervisory Board at the time: Mr. Sheldon, Mr. Groen, Mr. May, Mr. Schnur and Mr. Oren. Mr. Groen and Mr. Schnur were already members of the Supervisory Board of Kardan N.V. and were appointed as non-executive members of the Board. Mr. May and Mr. Sheldon were also appointed as non-executives, whilst Mr. Oren was appointed as CEO and executive Board Member. In the EGM on February 6, 2013, Mrs. Seinstra, Mr. Van den Bos, Mr. Rechter and Mr. Grunfeld were appointed at the proposal of the Board and after due preparation by the Remuneration, Appointment and Selection Committee.

The Board has the right to make binding nominations for candidates for the Board that are subsequently appointed by the General Meeting of Shareholders. Each member of the Board is appointed for a period of four years, but may be reappointed following the expiry of his/her term of office. In deviation of the Code, there is no maximum to the tenures. The Board itself determines the number of members, but there must always be at least three members and a maximum of fifteen. At present, there are nine Board Members, one of whom is the executive Board Member. The profiles of the Board members and re-appointment scheme can be found on page 83 of this annual report. Each member of the Board must be capable of assessing the broad outline of Kardan N.V.'s overall policy and must have the specific expertise required for the fulfillment of the duties assigned to the role designated to him/her in the Board profile. In addition, a Board Member must have sufficient time to allocate to the duties required from him/her. The Board can request its members to retire early in the event of inadequate performance or a structural incompatibility of interests. It is considered desirable for the Board to represent, to the extent possible, a wide range of expertise so that it has relevant knowledge of and experience in business management, financial administration and accounting for listed companies and other large legal entities. Although the composition of the Board is currently not in accordance with the statutory requirements on gender diversity, the Board recognizes the importance of a gender balanced composition and takes this into account when selecting potential Board nominees. However, as gender is only part of diversity, the Board will continue to select members on the basis of their background, knowledge and experience.

Board Meetings

The Board meets at least every quarter, either at Kardan N.V.'s head office in Amsterdam or by conference call. The non-executive Board Members meet at least once a year, without the CEO being present. As of May 31, 2012 until year-end, the Board met five times (including one meeting per conference call). None of the members of the Board was absent. Resolutions of the Board are adopted by an absolute majority of the votes cast. Every Board Member has one vote, except in the event of a conflict of interest, in which case the respective Board Member cannot vote nor participate in the discussions. The Chairman of the Board does not have a casting vote. Board resolutions can also be adopted without holding a formal meeting, provided that the proposal is submitted to all Board Members and all vote in favor.

In 2012, since its installment, the Board has dedicated considerable time to become acquainted with the

various segments of Kardan N.V.'s business as well as with Kardan N.V. strategy and objectives.
As such, the business managers of the financial services and of the real estate Europe segments were asked to give detailed presentations to the Board; these business presentations will remain a recurring item during Board meetings. The Board extensively discussed the strategy as was determined at the beginning of 2012 with the Supervisory Board.
As a recurring item, the CEO provided business updates to the other members of the Board during Board meetings (and provided periodic updates via email), which addressed major developments and events. The Board spent considerable time discussing Kardan N.V.'s forecast and actual results and its cash flow forecast and the (approval of the) periodic financial statements. Furthermore, the Board deliberated, at the proposal of the Remuneration, Appointment and Selection Committee, on a revised option plan for Mr. Oren and the nomination of four candidates to be appointed as non-executive members of the Board. When deemed required, the Board consulted outside experts for advice. For the activities of the Supervisory Board until May 31, 2012, please refer to page 83 of this annual report.

Board evaluation

In January 2012, the Supervisory Board met without the Management Board being present and discussed its own performance and effectiveness. The evaluation process consisted of a confidential questionnaire and discussion. In December 2012, the Board assessed its own functioning since May 31, 2012, which was deemed to be satisfactory. It was agreed that an extensive review will be conducted in 2013 when the new members of the Board have had time to settle in.

Indemnification of members of the Board

Kardan N.V.'s Articles of Association provide for indemnification of the members of the Board.
No indemnification will be granted in case of willful misconduct or gross negligence as established in a Dutch court ruling or in case the losses are refunded by an insurer. Kardan N.V. has appropriate third-party directors and officers insurance in place for its Board Members and senior officers.

Internal regulations and conflicts of interest of members of the Board.

Kardan N.V. considers it important that employees are able to report in an adequate and safe manner any suspicions they may have of irregularities of a general, operational or financial nature. Since proper procedural provisions play an important part in reporting such concerns, a Whistleblower Policy, has been put in place and is posted on Kardan N.V.'s website.
In addition, Kardan N.V. has adopted a Code of Conduct, designated to provide its employees with guidelines for their behavior and activities to comply with laws, regulations and ethical standards that govern Kardan N.V.'s business, which can also be found on Kardan N.V.'s website.

Kardan N.V.'s Articles of Association include extensive provisions on conflicts of interest between Kardan N.V. and Holders of Control (as defined in the Articles of Association), which are also applicable if these Holders of Control hold a position on the Board (for a further description of these provisions, see the section entitled 'Related Party Transactions' in this chapter).
In addition, Kardan N.V. endorses the principles and provisions of the Code that address conflicts of interest between Kardan N.V. and one or more members of the Board. To this effect, provisions have been included in the Board Regulations covering best practice provisions III.6.1 through III.6.3 of the Code. In 2012, Mr. Groen and Mr. Schnur did not participate in the decision making process of the (former) Supervisory Board with respect to the proposal to nominate them as non-executive Board Members.
Furthermore, Mr. Schnur reported a conflict of interest with respect to the nomination of Mr. Rechter and Mr. Grunfeld as non-executive members of the Board. As such, Mr. Schnur did not participate in the decision making process.

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

Remuneration and shareholdings of members of the Board

On May 20, 2009, the General Meeting of Shareholders adopted the Remuneration Policy pursuant to which the members of the Management Board and Supervisory Board were remunerated until May 31, 2012. In the AGM 2012, a remuneration policy for the Board was approved by the shareholders. Non-executive members of the Board receive fixed remuneration and for the executive Board Member a specific remuneration package was adopted.
The General Meeting of Shareholders determines the remuneration of each Board Member.

The remuneration of the non-executive members of the Board does not currently depend on the performance of Kardan N.V.'s shares, and rights to shares are currently not granted to the non-executive members of the Board as remuneration. Kardan N.V. has not granted personal loans, guarantees or the like to members of the Board, all of which is prohibited by the Board Regulations unless in the normal course of business and the Board has granted approval. Detailed information on the remuneration of the members of the Board can be found in the Remuneration Report on page 97 of this annual report.

There are three non-executive members of the Board who hold shares in the capital of Kardan N.V.:
Mr. Schnur currently holds 19,818,466 shares,
Mr. Grunfeld currently holds 22,214,267 shares, and
Mr. Rechter currently holds 4,098,719 shares through Shamait Ltd., a company in which he holds 97.5% of the shares. Mr. Grunfeld and Mr. Rechter are directors and shareholders of Kardan Israel Ltd., which holds approximately 11% of the shares in Kardan N.V.

Mr. Oren holds 100,000 shares in the capital of Kardan N.V. In addition, as part of his remuneration package, he has been granted an option to purchase ordinary shares in the share capital of Kardan N.V. constituting 2% of the issued share capital.

Board Committees

The Board has appointed from its non-executive members an Audit Committee and a Remuneration, Appointment and Selection Committee without in any way derogating from its primary responsibilities.
The respective Chairmen of these committees report periodically to the entire Board on their activities.
Both committees are subject to specific regulations which form part of the Board Regulations.

Audit Committee

Mr. Groen (Chairman), Mr. Sheldon, Mr. May and Mr. Van den Bos are at present members of the Audit Committee. The Audit Committee's tasks are:
a) to review on an annual basis the accounting policies, practices and going concern assumption of Kardan N.V. and to discuss compliance with accounting standards, regulatory and legal requirements;
b) to review the adequacy of co-ordination between the internal and external auditors and to discuss annually with the auditors (internal and external) the scope of the audit, the cost effectiveness of their work, their independence and any non-auditing work for Kardan N.V.; c) to review the state and effectiveness of the financial reporting and internal control systems used throughout Kardan N.V. (including effectiveness of business risk assessment); d) to review and discuss the Auditor's Report on Kardan N.V.'s accounts, review the results of the internal and external audit, the contents of the (consolidated) management letters and responses from management; e) to review and discuss the financing of Kardan N.V., the policy of

Kardan N.V. on tax planning and the applications of information and communication technology (ICT); f) to discuss major judgmental areas and significant legal action commenced against or by the business; g) to assume the responsibilities of a balance sheet committee as defined under Israeli regulations; h) to review the annual and periodic financial statements of Kardan N.V. prior to the Board and recommend to the Board whether to approve them or not; and i) to review any other matter within the terms of reference as the Audit Committee deems appropriate.

The Audit Committee acts as the principal contact for the external auditor, should the auditor discover irregularities in the content of the financial reports. The Audit Committee is authorized to request advice from outside experts if deemed necessary. If possible, there should be at least one financial expert on the Audit Committee. The Chairman of the Board cannot chair the Audit Committee.

In 2012, the Audit Committee met 6 times, either in a physical meeting or via teleconference. It extensively discussed the periodic and annual financial statements in the presence of Kardan N.V.'s CEO, CFO and external auditor. Accounting issues, when present, and main assumptions, judgments and valuations were discussed, and the external auditor reported its findings. Considerable attention was paid to Kardan N.V.'s cash flow forecast and going-concern statement in this respect. On two occasions, internal audits (concerning, for example, compliance with reporting requirements and contract sign off procedures) were discussed and in later meetings updates were given on the follow-up on internal audit findings. The Audit Committee performed its annual review of the external auditor and came to the conclusion that he has demonstrated thorough knowledge of Kardan N.V. and the Kardan Group and that overall he is functioning properly. As such, a rotation was not deemed necessary and an extensive review will take place in 2013. It is noted that in 2012, the external auditor only provided audit related services. In addition, the Audit Committee discussed compliance and integrity updates, both from the Dutch and Israeli perspective, and has taken into consideration an internal enforcement plan in line with Israeli securities law. During the course of 2012, the Chairman had frequent meetings with Kardan N.V.'s financial executives.

Remuneration, Appointment and Selection Committee

Mr. May (Chairman), Mr. Sheldon and Mrs. Seinstra are at present members of the Remuneration, Appointment and Selection Committee.

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

In 2012, the Committee met 4 times, either in a physical meeting or via teleconference. At the beginning of the year, it focused on selecting a candidate for the CEO position and conducted various interviews. It also proposed new members for the newly established one tier Board to the Supervisory Board, which in its turn proposed them to the General Meeting of Shareholders. In the second part of the year, the new members of the Committee devoted their time to finding appropriate candidates to take up positions as non-executive Board Members, taking into account the Board's profile. It also investigated and proposed to the Board an alternative option proposal for Mr. Oren which was adopted by the shareholders in the EGM on February 6, 2013. Further information on the remuneration can be found in the Remuneration Report on pages 97 to 100 of this annual report.

Related Party Transactions

Articles 7, 8 and 9 of the Articles of Association of Kardan N.V. contain rules on the corporate resolution process in the case of dealings between Kardan N.V. and one or more Holders of Control, as defined in the Articles of Association (Special Approval Procedure). Holders of Control are deemed to be any Person (as defined in the Articles of Association) who holds 25% or more of the voting rights in the General Meeting of Shareholders, if there is no other Person holding more than 50% of the voting rights. Certain transactions, as described in Kardan N.V.'s Articles of Association, between Kardan N.V. and a Holder of Control require special approval, as follows: (i) Board approval with an absolute majority of votes, including the affirmative vote of the majority of the Independent Board Members (as defined in Kardan N.V.'s Articles of Association) and (ii) approval of the General Meeting of Shareholders with an absolute majority of votes, provided that either (a) such a majority includes the affirmative votes of at least half of all the votes of the shareholders who are present at the meeting and who do not have a Personal Interest (as defined in Kardan N.V.'s Articles of Association), or (b) the opposition votes of those shareholders who are present at the meeting and who do not have a Personal Interest, do not constitute more than two percent of the total number of votes that can be cast in a General Meeting of Shareholders. This procedure was not required in 2012, nor was any other Related Party Transaction disclosed to Kardan N.V.

Shareholders and Shareholders' Rights

General Meeting

The General Meeting of Shareholders is the forum in which the Board accounts for the manner in which it has performed its duties. A presentation is given on business developments by the CEO over the preceding year and shareholders are given the opportunity to raise questions on the business and current matters. Kardan N.V. considers it to be in its interest that the majority of shareholders take part as much as possible in the decision-making process in the General Meeting of Shareholders. Each shareholder has the right to attend General Meetings of Shareholders, either in person or represented by proxy, to address the General Meeting of Shareholders and to exercise voting rights, subject to the provisions of the Articles of Association of Kardan N.V. and Dutch law. To the extent practically feasible, investors in Israel may participate in General Meetings of Shareholders by means of a conference call or a video conference.

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

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

Voting

Each share carries one vote. Kardan N.V. has only one class of shares, being ordinary shares with a nominal value of EUR 0.20 each. Dutch law requires Kardan N.V. to set the record date for the exercise of the voting rights and the rights relating to General Meetings of Shareholders on the 28th day prior to the day of the General Meeting of Shareholders. Unless provided otherwise by Dutch law or Kardan N.V.'s Articles of Association, there are no quorum requirements. Kardan N.V. does not facilitate electronic voting at present.

As a general rule, resolutions are adopted by an absolute majority of the votes cast. Dutch law and Kardan N.V.'s articles of association can stipulate a qualified majority. An example is the approval of Related Party Transactions described on page 89 of this annual report.

Further, the Articles of Association and Dutch law require that certain important resolutions made by the Board are subject to the prior approval of the General Meeting of Shareholders. Examples of this include the amendment of the articles of association, the approval of Extraordinary Transactions, as defined in the Articles of Association, and the transfer of the business to a third party.

Proposed resolutions

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

Relations with Shareholders

Kardan N.V. acknowledges the importance of being transparent and explanatory towards its shareholders and other investors. As such, the CEO frequently engages in (one-on-one) meetings with investors and shareholders and has, during 2012, had extensive discussions with Kardan N.V.'s debenture holders. The shareholders are given the opportunity to ask questions at the AGM and in addition, Kardan N.V. has addressed their questions during the course of the year. All is done in accordance with Kardan N.V.'s policy on bilateral contacts, as published on Kardan N.V.'s website.

Compliance

Introduction

Kardan N.V., being a Dutch company listed in the Netherlands and Israel, is subject to several corporate governance requirements in the Netherlands and Israel. This chapter sets out the compliance of Kardan N.V. with the various corporate governance requirements.

The Netherlands

Corporate Governance Code

Kardan N.V. is subject to the Dutch Corporate Governance Code adopted on December 9, 2003, as amended per January 1, 2009 (the Code). Pursuant to the Dutch governmental Decree of December 23, 2004 establishing further instructions concerning the content of the annual report (*Besluit van 23 december 2004 tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag;* the 'Decree'), listed companies are required to comply with the Code, or in case of non-compliance, explain the reason thereof. The full text of the Code can be found on www.commissiecorporategovernance.nl, as well as the latest report 'Compliance with the Code' from the Corporate Governance Code Monitoring Committee (Committee), dated December 13, 2012.

The Code sets out sound business principles of corporate governance and contains certain normative standards that pertain among other things to the relationship between the various corporate bodies of a company. The Code primarily pertains to a two tier governance system and provides limited guidelines as how to apply the Code to a one tier governance system in *chapter III.8* thereof.

Kardan N.V. adopted a one tier governance structure at the Annual General Meeting of Shareholders of 2012 (AGM 2012) (as further explained on page 84 of this annual report) and has as such one Board in place, consisting of eight non-executive Board Members and one executive Board Member to whom the daily management of Kardan N.V. is delegated.

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

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

Deviations from the Code

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

Provision II.1.1 – term of appointment: the CEO has been appointed for a period of five years by the AGM 2012. Given the fact that the activities and the business model of Kardan N.V. are by nature long term and given the global macro-economic challenges at the time of the nomination of the CEO to the AGM 2012, the Supervisory Board deemed it in the best interest of Kardan N.V. and its stakeholders to propose to the AGM 2012 to appoint the CEO for a period of five years. This was in order to establish a long-term commitment and stable management for the longer term. This term constitutes a deviation from the Code, but Kardan N.V. is of the opinion that it contributes to the (long-term) best interests of Kardan N.V. and its stakeholders and as such adheres to the broader sense and interpretation of the Code.

Provision II.1.2 – matters subject to approval: The Board of Kardan N.V. is of the opinion that Kardan N.V. complies with this provision since the subject matters of the provision fall outside the scope of the delegation of daily management by the Board to the CEO. As such, the subject matters of this provision are subject to the approval of the whole Board, as formalized in the Board Regulations.
With respect to item d (approval of corporate social responsibility issues), it is noted that, as part of Kardan N.V.'s business, emphasis is laid on creating long-term, sustainable solutions throughout the Kardan Group (see the chapter on Environmental and Social Governance (ESG) on page 77 of this annual report), which has the Board's full support. When required, the CEO will seek the approval of the Board with respect to ESG concerns regarding the operational and financial objectives of Kardan N.V. and the strategy designed to achieve these objectives. On matters that fall within the managing authority of the CEO, such as operational and/or investor relations matters, the CEO may decide on an ESG approach without the Board's prior approval.

Provisions relating to principle II.2 – remuneration: For the explanation of the Code in view of the one tier governance system, this chapter is applied to the remuneration of the CEO as executive member of the Board. It is noted that, in deviation of the Code, a proposal for said remuneration is drafted by the non-executive members of the Board, to be approved by the General Meeting of Shareholders, as Kardan N.V. deems it very important to have the support of its shareholders in relation to the remuneration of the CEO.

Provision II.2.4 – options: The AGM 2012 approved the granting of an option package to the CEO (which was only accepted by the CEO pursuant to the EGM 2013). The option package stipulates that the options become gradually exercisable over a period of four years, starting two years as of February 20, 2012 (the Effective Date). It is noted that the CEO can exercise 25% of the options after two years from the Effective Date, which is in deviation of the Code which prescribes that options may not be exercised within three years from the date of grant. The deviation was the result of the negotiation process with the CEO. However, given the fact that half of the options can be exercised only after and including the three-year period, the nature of the option schedule is such that the CEO will only benefit in case of good long-term performance by Kardan N.V.

The provision also prescribes that the number of options to be granted is linked to the achievement of pre-defined targets, which is not the case with respect to the options granted to the CEO. This deviation of the Code was the result of the negotiation process with the CEO. However, the nature of the option schedule is such that the CEO, Mr. Oren, will only benefit in case of good long-term performance by Kardan N.V.

Provision II.2.6 and II.2.7 – exercise price option and the amendment thereof: The option package of the CEO as approved by the AGM 2012 contained a set exercise price, which was based on a verifiable average of the share price of Kardan N.V. at the closing of the Tel-Aviv Stock Exchange on the five days prior to February 20, 2012 (the day that the supervisory board at the time proposed the nomination of the CEO to the general meeting of shareholders). This is in deviation of the Code, which prescribes that this price is related to the average share price on the five days prior to the day of grant. In the period between February 20, 2012 and the AGM 2012, the share price of Kardan N.V. experienced a steep decrease in value. The (non-executive members of) the Board reconsidered the exercise price of the option package and deemed it fair to propose a revision of the option package to the extraordinary general meeting of shareholders, held on February 6, 2013 ('EGM 2013'), in deviation of the Code. The revised exercise price was calculated by applying the ratio of the initial exercise price compared to the share price on February 20, 2012 to the share price on the day before the AGM 2012. The Board deemed the decrease in share price which occurred prior to the appointment of the CEO was beyond his control and that in order to provide a genuine incentive to create future value, which the Board deems to be in the best interest of Kardan N.V. and its stakeholders, the CEO should be rewarded, incentivized and bear responsibility as from his appointment by the AGM 2012 onwards, i.e. as of May 31, 2012. The revised option exercise price was still well above the market price of Kardan N.V.'s shares at both the date of the approval of the new terms by the Board of Kardan N.V., as well as at the date of the EGM 2013 when the revised option package was adopted.

Provision II.2.8 – severance fee: The CEO is entitled to a severance fee equal to six months' fixed remuneration. Should the CEO, however, have been dismissed within the first six months after his appointment, the severance fee could have exceeded the equivalent of one year's fixed remuneration as the CEO would have been entitled to both the fixed remuneration for the remainder of the first full year of his appointment and the severance fee. This deviation from the Code was a result of the negotiation process. At the time of publication of this annual report, the first six months of the tenure of the CEO have passed and consequently, the currently applicable severance fee complies with the Code.

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

Provision III.2 – Independence: The Board of Kardan N.V. comprises of a majority of independent non-executive Board Members. In deviation of the Code, three non-executive members of the Board are non-independent, i.e. Mr. Grunfeld, Mr. Rechter and Mr. Schnur. The Board deems that, given the fact that they are the founders of Kardan N.V. and their consequential extensive knowledge of the sectors in which Kardan N.V. operates, their contribution to the Board is of considerable value, thus justifying the deviation from the Code.

Provision III.3.3 and III.4.1.a – Introduction: Kardan N.V. does not consider it necessary to make a standard introduction program mandatory for each newly appointed non-executive Board Member. The Board fully underwrites the principle that new non-executive Board Members should be properly introduced to Kardan N.V. and its businesses, but takes the view that – also considering the different backgrounds of various newly appointed Board members – such introduction need not necessarily be contained in a fixed, standard, program. If a newly appointed non-executive Board Member or the Chairman considers it necessary or desirable, he or she may follow an introduction program that covers general financial and legal matters, financial reporting within the Kardan Group, any specific aspects that are unique to Kardan N.V. and its business activities, and the collective and individual responsibilities of non-executive Board Members. The non-executive Board Members appointed in the AGM 2012 and EGM 2013 have not followed such a program, but have each been supplied with all relevant materials relating to their responsibilities as non-executive directors as well as detailed background information on Kardan N.V.'s activities and minutes of recent Board meetings.

Provision III.3.5 – Limitation on terms of appointment: Kardan N.V. has no set limitation on the number of terms that non-executive members of the Board can be appointed. Given the extensive knowledge some non-executive Board members have of Kardan N.V. and its businesses, Kardan N.V. considers it in the best interest of Kardan N.V. and its stakeholders not to limit the number of terms that non-executive members may serve. It is noted that the General Meeting of Shareholders will at all times be the designated body to appoint and re-appoint non-executive Board members.

Principle III.4 – Chairman of the Board: For the explanation of the Code in view of the one tier governance system, this principle is explained as to pertain to the Chairman of the Board, who is an independent, non-executive Board Member.

Provision III.4.1.f and III.4.4 – Vice-Chairman of the Board: During the major restructuring of the Board in 2012, no vice-chairman was appointed. In March 2013, after the substantial increase of the Board per the EGM 2013, Mr. Van den Bos was appointed as vice-chairman.

Provision III.6.4 – Conflict of interest:
Transactions between Kardan N.V. and legal or natural persons holding at least 10% of the shares in Kardan N.V.'s capital: In light of the provisions on conflicts of interest as provided for in its Articles of Association and the Board Regulations, in combination with the provisions on transactions with Holders of Control (as defined in the Articles of Association and as further described in the 'Related Party Transactions' section on page 89 of this annual report), Kardan N.V. takes the view that suitable protection in this respect is provided for.

Provision IV.3.1 – Meetings with analysts et cetera: Meetings with analysts, presentations to analysts and presentations to investors are required to be announced in advance on Kardan N.V.'s website and by means of press releases, and provisions are to be made for all shareholders to follow these meetings and presentations in real time. Presentations with respect to the quarterly financial results are publicly announced and posted on the corporate site before the investor conference call on the respective quarterly results takes place. In the event that Kardan N.V. will give a special presentation, this presentation will be posted on the corporate site of Kardan N.V. in accordance with the applicable rules and regulations.

Provision IV.3.4 – Analyst meetings, presentations to investors and direct discussions with investors:
Kardan N.V. has adopted a policy on bilateral contacts in accordance with best practice provision IV.3.13, which has been published on Kardan N.V.'s website. Kardan N.V.'s contacts with investors will at all times be conducted with due regard to the applicable rules and regulations, in particular those concerning selective disclosure, price-sensitive information and equal treatment of shareholders. However, Kardan N.V. does not fully comply with best practice provision IV.3.4 as it cannot guarantee in advance that discussions with investors will not take place during a closed period before the publication of regular financial information. Kardan N.V. deems it important to be in regular contact with its investors' base, and contact with potential new investors may be deemed necessary at any given time when opportunities arise. Kardan N.V. will, in such cases, adhere strictly to only discussing information with respect to Kardan N.V. that is already publicly available and can be found on the corporate website and / or in publicly available media / platforms.

Changes in Corporate Governance

Each important change to Kardan N.V.'s Corporate Governance structure and any alterations in the compliance with the Code will be submitted to the General Meeting of Shareholders for discussion as a separate agenda item. At the AGM 2012, 'Corporate Governance' was a separate agenda item under which the shareholders were invited to discuss Kardan N.V.'s chosen approach towards the implementation of the Code. The shareholders did not comment on this subject.

Corporate Governance Statement

Further details on the extent and manner of implementation of the Code and the information to be included in the Corporate Governance Statement can be found (i) in the Governance chapter regarding the functioning of the General Meeting of Shareholders and the composition and functioning of the Board, and in the Risk Management chapter (page 71 of this annual report) regarding the main characteristics of the risk management and internal control systems connected with Kardan N.V.'s financial reporting process and (ii) in Kardan N.V.'s Articles of Association and the Board Regulations (including profile and regulations of the Audit Committee and the Remuneration, Appointment and Selection Committee) which have all been posted on Kardan N.V.'s website (www.kardan.nl).

European Union

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

a. An overview of Kardan N.V.'s capital structure is included on pages 188 and 189 of this annual report.
b. Shares in the capital of Kardan N.V. are freely transferable.
c. Substantial shareholdings within Kardan N.V. are included on page 13 of this annual report.
d. There are no special control rights attached to Kardan N.V.'s shares.
e. Pursuant to the Stock Option Plan 2006, one grant of 150,000 options remains in force, lapsing in April 2013. Grants under the 2010 Share Plan were executed following the approval of the AGM 2012. At present, the 2010 Share Plan is not in operation.
The CEO has been granted options to purchase shares in Kardan N.V., which is further described on page 98 of this annual report.
f. There are no limitations to voting rights on the shares of Kardan N.V.'s capital.
g. Kardan N.V. is not aware of any agreements that might result in a limitation of the transferability of the voting rights on shares in Kardan N.V.'s capital.
h. The provisions regarding the appointment and dismissal of members of the Board, and the provisions regarding amendments of the Articles of Association are described in Kardan N.V.'s Articles of Association, which are available on Kardan N.V.'s website.
i. The General Meeting of Shareholders may authorize the Board (i) to purchase shares in its own capital, and (ii) to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares. Further information can be found in Kardan N.V.'s Articles of Association and the minutes of the relevant General Meetings of Shareholders of Kardan N.V. with respect to authorizations that have been granted to the Board.
Authorization for Kardan N.V.'s purchase of its own shares was granted for a period of eighteen months at the AGM 2012. At the same AGM 2012, the authorization to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares was granted for a period of five years, taking into account the limits provided by law and the Articles of Association and provided that

no more than 10% of the issued share capital can be issued annually.

j. There are no important agreements to which Kardan N.V. is a party and which will come into force, be amended or be terminated under the condition of a change of control over Kardan N.V. as a result of a public offer.

k. There are no agreements between Kardan N.V. and members of the Board or other employees that entitle them to any compensation rights upon termination of their employment as a result of the completion of a public offer on Kardan N.V.'s shares.

Israel

Kardan N.V. is listed on the Tel Aviv Stock Exchange and as such is required to comply with the Israeli Securities Law and listing standards of the Tel Aviv Stock Exchange (TASE), as available on www.tase.co.il/TASEEng. Any report required in Israel is conducted through the Electronic Disclosure System (MAGNA). Through the MAGNA system, the reports are sent to the Israeli Securities Authority and the TASE and can be reviewed by any investor online. Reporting requirements in Israel include (but are not limited to) the following:

(i) as part of the reporting obligations according to Israeli Regulations, any Interested Party[1] and any Senior Office Holder[2] of Kardan N.V. are required to report to Kardan N.V. about any change in their holdings in Kardan N.V.'s shares and Kardan N.V. has to report about this through the MAGNA system.

(ii) Kardan N.V. has to make public material events which are not in the ordinary course of business or which can materially affect Kardan N.V. or which can be considered as price-sensitive information.

(iii) Kardan N.V. has to publish an Immediate Report about convening a general meeting and to publish an Immediate Report about the resolutions adopted in the general meeting;

(iv) Kardan N.V. is required to publish its periodic reports, which include quarterly and annual financial statements and additional information; and

(v) Kardan N.V. is required to publish reports with respect to any change in its issued share capital including, inter alia, distribution of dividends (in cash or in kind), issuance of any new securities (including shares, options, debentures etc.), conversion of any securities, the lapse of options on shares, purchase plans (buy back) and creation of treasury shares.

Given the fact that Kardan N.V. is not incorporated under Israeli law, it is not subject to Israeli corporate law. However, when deemed appropriate, Kardan N.V. has adopted certain principles from Israeli corporate law such as, but not limited to, the Special Approval Procedure for Extraordinary Transactions which are stipulated in the Kardan N.V.'s Articles of Association.

[1] An '**Interested Party**' in the corporation is defined for the purposes of the reporting obligations as follows: (a) someone who holds 5% or more of the issued share capital of the corporation or of the voting power in the corporation; (b) someone who is entitled to appoint one or more of the directors of the corporation or its general manager; (c) someone who serves as a director of the corporation or as its general manager; (d) a corporation in which a person as mentioned is sub-sections (a)-(c) above holds twenty-five percent or more of its issued share capital, or its voting power, or is entitled to appoint twenty-five percent or more of its directors; (e) a subsidiary of the corporation, excluding a nominee company.

[2] A '**Senior Office Holder**' is defined for the purposes of the reporting obligations as follows: (a) a director, general manager, chief business manager, deputy general manager, vice-general manager, any person filling any of these positions in a company even if he holds a different title, and any other manager directly subordinate to the general manager; (b) the chairman of the board of directors, a substitute director, a person appointed under section 236 of the Companies Law acting as a director on behalf of a corporation, a comptroller, an internal auditor, an independent authorized signatory; (c) any person filling any of these positions even if he holds a different title; (d) a senior office holder in a corporation under the control of the corporation, who has a material effect on the corporation; (e) any individual employed by the corporation in another role who holds 5% or more of the par value of the issued share capital or the voting power.

Remuneration Report

As explained on page 88 of this annual report, the Remuneration, Appointment and Selection Committee (the RAS-Committee) makes proposals to the Board (and previously the Supervisory Board) regarding the fixed and variable remuneration (as applicable) of the individual members of the Board (and previously the Management Board and Supervisory Board). However, the final determination of the remuneration amount and composition of the remuneration of the members of the Board (and formerly the Management Board and Supervisory Board) lies, in accordance with Kardan N.V.'s Articles of Association, with Kardan N.V.'s General Meeting of Shareholders.

As an implication of the changed governance structure of Kardan N.V., as described on pages 83 and 84 of this Annual Report, this remuneration report consists of three different types of remuneration:

(i) remuneration of the non-executive Board Members of Kardan N.V. as of June 1, 2012; and
(ii) remuneration of the CEO (executive Board Member) of Kardan N.V. as of June 1, 2012.
(iii) remuneration of members of the former Management Board and Supervisory Board until May 31, 2012;

In the Annual General Meeting of Shareholders (AGM) on May 31, 2012, a remuneration policy was adopted for the non-executive Board members (Policy) and a remuneration package for the CEO (Package) was approved, as explained in more detail below. It is noted that pension arrangements are not provided for by Kardan N.V.

Remuneration policy of the non-executive Board Members

The AGM 2012 adopted the Policy, which stipulates that each non-executive Board Member receives a fixed remuneration of EUR 26,000 per year.
The Chairman of the Board receives an additional fee of EUR 9,000 per year; the Chairman of the Audit Committee receives an additional fee of EUR 6,000 per year; and members of any committee of the Board, not being a Chairman, receive an additional fee of EUR 4,000 per year. This implies an additional fee of EUR 6,000 for the Chairman of the RAS-Committee. The remuneration for non-executive Board Members consists of fixed remuneration only. A breakdown of the total remuneration as paid in 2012 approved by the AGM 2012 is presented in the table below (pro-rated for their tenure in 2012).

Non-executive Board Member		Annual remuneration in €	Remuneration in 2012 in €
Mr. P. Sheldon	(Chairman of the Board; member of the Audit Committee and of the RAS-Committee)	43,000	25,083
Mr. M. Groen	(Chairman of the Audit Committee)	32,000	18,667
Mr. A. May	(Chairman of the RAS-Committee and member of the Audit Committee)	36,000	21,000
Mr. A. Schnur		26,000	15,167

The Board will not propose to the AGM on May 30, 2013, to amend the Policy in 2013.

Remuneration of the CEO

The Package of the CEO was proposed to and adopted by the AGM 2012. Insofar as the Package deviates from the Code, this is explained on pages 92 and 93 of this Annual Report.

The Package is valid for a period of 5 years and entails a fixed remuneration and variable short-term and long-term remuneration, as described below. Prior to proposing the Package to the AGM 2012, the RAS-Committee and the Supervisory Board at the time assessed the full Package, including the variable remuneration, taking into account various Company specific aspects, including the challenges ahead, and developments in the market.

Fixed remuneration
The CEO is entitled to receive from Kardan N.V. an annual fee of EUR 437,000 and customary social benefits, car, cellular telephone, etc. The fee is allocated between services provided by the CEO to Kardan N.V. in the Netherlands and services provided by him to group companies abroad.

Variable remuneration – short term
The Board may propose to the AGM to grant the CEO an annual bonus for each calendar year, based on his achievements during the relevant year and taking into account his total Package. The proposal is at the discretion of the Board and is not directly linked to measurable targets. The Board deems it in the best interest of Kardan N.V. not to set specified targets, as both the markets in which Kardan N.V. operates and the share price of Kardan N.V. have proven to be volatile. As such, specific targets would not necessarily do justice to the achievements of the CEO. It is noted that the AGM is ultimately the corporate body to approve a bonus. In the event that the CEO leaves Kardan N.V. at the initiative of Kardan N.V., he is entitled to a severance fee equal to 6 months' fixed remuneration.

For the year 2012, the non-executive members of the Board have decided not to propose a bonus for the CEO to the AGM to be held on May 30, 2013.

Variable Remuneration – long term
At the AGM 2012, the shareholders approved to grant the CEO an option to purchase ordinary shares in the share capital of Kardan N.V. constituting 2% of the outstanding share capital (Option).

As was pointed out by the Chairman of the Board at the AGM 2012, the exercise price of the Option was considered to be too high as it was already significantly higher than the share price on the day of granting. The RAS-Committee, after due deliberation, suggested that the Board proposed a new exercise price for the options to the Extraordinary General Meeting of shareholders (EGM) of 2013. The suggested exercise price was calculated by using a similar calculation method as was used for the determination of the initial exercise price, but based on the date of his appointment by the AGM 2012 instead of the date of proposing the appointment of Mr. Oren to the AGM 2012. The Board deemed the decrease in share price which occurred prior to the appointment of the CEO to have been outside of his control and that in order to provide a genuine incentive to create future value, which the Board deemed to be in the best interest of Kardan N.V., the CEO should be rewarded, incentivized and bear responsibility as from his appointment by the AGM 2012 onwards. The Board henceforth recommended the new exercise price to the EGM 2013, which adopted the proposal, upon which the CEO accepted the grant of the Option. It is noted that, in deviation of the Code, the Option is not linked to pre-defined, measurable targets. However, the nature of the Option schedule is such that the CEO will only benefit from the Option in case of good long-term performance of Kardan N.V.

The Option vests over a period of 5 years from February 20, 2012 (the Effective Date), being the date he was nominated as CEO, as follows:

1/4 after 2 years from the Effective Date;
1/4 after 3 years from the Effective Date;
1/4 after 4 years from the Effective Date;
1/4 after 5 years from the Effective Date;

The following conditions apply:

- Upon termination of the engagement as described above, during the first year as of the Effective Date, the Option shall expire, without any further right to compensation.
- Upon termination of the engagement during the second year as of the Effective Date, the CEO will be entitled to exercise a relative part of the first portion he is entitled to exercise at the end of the second year.
- Upon termination of the engagement as of the Effective Date, after the end of the second year, the CEO will be entitled to exercise all the vested portions and the relative part of the next portion, up to the termination date.
- In the event of termination for cause as of the Effective Date, the entire unexercised portions (whether vested or not) shall expire, without any further right to compensation.
- The only condition is that Mr. Oren is the CEO at the time of vesting. It is noted that Mr. Oren can exercise 25% of the Option after two years from the Effective Date. The Code prescribes that options may not be exercised within three years from the date of grant. Given the fact that half of the options can be exercised only after the three-year period, the nature of the option schedule is such that Mr. Oren will only benefit in the case of good long-term performance of Kardan N.V.

A breakdown of the total costs of the remuneration paid to the CEO in 2012 is presented in the following table and is calculated pro-rata to his annual fee of EUR 437,000:

Element	Remuneration in 2012
Base Fee	375,000 [1]
Allowances and benefits	company car, social benefits, cell phone
Annual Bonus	nil
Options (grant day: February 6, 2013)	nil
Pension	nil

1 The base fee includes salary paid to the CEO in the period as of February 20, 2012, until May 31, 2012. As from May 31, 2012, until December 31, 2012, the base fee amounted to EUR 255.000.

Remuneration of the former Management Board 2012

The AGM 2012 approved the remuneration for the first five months of 2012 of the members of the (former) Management Board. Further, pursuant to the Kardan N.V. 2010 Share Plan and as part of the long-term variable remuneration of the (former) members of the management board, long-term targets for the period from January 1, 2009 to December 31, 2011 were set. Taking into account the achieved targets, the Supervisory Board, based on a proposal of the RAS-Committee, proposed the grant of shares (against nominal value) in Kardan N.V. as described below, as was approved by the AGM 2012.

Member	Fixed remuneration in €			Short-term variable remuneration in €	Long-term variable remuneration
	Fixed Total Kardan Group 5-month period *	Fixed Kardan N.V. only 5-month period	Car	Bonus	Nr. of shares granted (lockup period ending 2 years after grant)
Mr. A. Ickovics	113,563	82,048	5,000	nil	35,344
Mr. W. van Damme	90,767	90,767	5,500	nil	nil [1]
Mrs. E. Oz-Gabber	75,811	75,811	7,500	nil	24,656
Mr. J. Slootweg	102,980	102,980	6,750	nil	27,832
Mr. A. Shlank	nil	nil	nil	nil	31,927

1 Mr. Van Damme waived his rights to the shares.

Remuneration of the former Supervisory Board 2012

The following remuneration was paid to the members of the (former) Supervisory Board in the period from January 1, 2012 to May 31, 2012:

Member	Remuneration in €
Mr. J. Krant (Chairman)	16,250
Mr. H. Benjamins	11,354
Mr. I. Fink	9,687
Mr. M. Groen	11,354
Mr. J. Pomrenze	11,354
Mrs. K. Rechter	9,987
Mr. A. Schnur	9,687

Declaration by the Board

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

(i) The Consolidated Financial Statements for the 2012 financial year give a fair view of the assets, liabilities, financial position and losses of Kardan N.V. and of the companies included in the consolidation.

(ii) The 2012 annual report gives a fair view of Kardan N.V.'s condition on the balance sheet date, the development of Kardan N.V. and its affiliated companies (subsidiaries, joint ventures, and associated companies) during the 2012 financial year, and all material risks to which Kardan N.V. and its affiliated companies are exposed.

Amsterdam, April 17, 2013

Board of Directors

P. Sheldon (Chairman)

S. Oren (CEO)

C. van den Bos (Vice Chairman)

M. Groen

Y. Grunfeld

A. May

E. Rechter

A. Schnur

E. Seinstra

Statutory Financial Statements

for the year ended December 31, 2012 by Kardan N.V., Amsterdam, The Netherlands

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Consolidated Statement of Financial Position

€ in millions	Note	December 31, 2012	December 31, 2011 *
Assets			
Non-current assets			
Tangible fixed assets	6	82	103
Investment properties	7	1,748	1,885
Investments in associates	8	42	54
Other financial assets		–	6
Loans to bank customers	9	25	189
Long-term loans and receivables	10	139	160
Derivatives	38	–	57
Intangible assets and goodwill	11	50	89
Long-term landbank inventory	12	99	111
Deferred income tax assets	36	20	20
		2,205	**2,674**
Current assets			
Inventories, contract work and buildings inventory in progress	12	339	364
Derivatives	38	13	1
Current maturities of long-term loans and receivables	10	48	115
Loans to bank customers	9	41	241
Trade receivables	13	59	37
Income tax receivables		6	9
Other receivables and prepayments	14	105	109
Short-term investments	15	29	262
Cash and cash equivalents	16	383	404
		1,023	**1,542**
Assets held for sale	5	55	139
Total current assets		**1,078**	**1,681**
Total assets		**3,283**	**4,355**

* Reclassified – see Note 2E

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

€ in millions	Note	December 31, 2012	December 31, 2011 *
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued and paid-in capital	17	23	23
Share premium		208	208
Foreign currency translation reserve		–	7
Property revaluation reserve		54	52
Revaluation reserve, other		12	5
Non-controlling interest holders transactions reserve		21	19
Treasury shares		(3)	(3)
Retained earnings (accumulated deficit)		(146)	(108)
		169	**203**
Non-controlling interests		**547**	**537**
Total equity		**716**	**740**
Non-current liabilities			
Interest-bearing loans and borrowings	19	957	969
Banking customers accounts	20	–	270
Derivatives	38	35	81
Other long-term liabilities	21	22	24
Options and Warrants	22	5	16
Debentures	23	544	811
Deferred income tax liabilities	36	141	149
Accrued severance pay, net		2	2
		1,706	**2,322**
Current liabilities			
Advances from customers in respect of contracts	12	17	13
Banking customers accounts	20	68	250
Trade payables	24	39	49
Current maturities of debentures	23	138	24
Interest-bearing loans and borrowings	25	176	542
Income tax payables		5	5
Advances from apartment buyers	12	124	144
Derivatives	38	32	22
Other payables and accrued expenses	26	235	244
		834	**1,293**
Liabilities associated with assets held for sale	5	27	–
Total current liabilities		**861**	**1,293**
Total liabilities		**2,567**	**3,615**
Total equity and liabilities		**3,283**	**4,355**

* Reclassified – see Note 2E

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

Consolidated Income Statement

€ in millions	Note	For the year ended December 31, 2012	2011 *	2010 **
Sale of apartments		79	65	83
Contract revenues		146	114	138
Retail lending activities	29	13	5	18
Property rental and service recharge revenues		138	142	131
Other revenue		7	6	7
Total revenues		**383**	**332**	**377**
Cost of apartments sold		62	54	75
Contract costs		123	99	110
Costs of banking and retail lending activities	30	30	35	35
Costs of property rental and service recharge operations		42	40	32
Other expenses, net	31	24	88	13
Total expenses		**281**	**316**	**265**
Gross margin		**102**	**16**	**112**
Selling and marketing expenses	32	**15**	18	18
General and administration expenses	33	51	57	54
Profit from operations before fair value adjustments, disposal of assets and financial expenses		**36**	**(59)**	**40**
Adjustment to fair value (impairment) of investment properties	7	(88)	(205)	71
Impairment losses on goodwill	11	(4)	(30)	(28)
Gain (loss) on disposal of assets and other income	34	(4)	21	7
Profit (loss) from fair value adjustments and on disposal of assets and investments		**(96)**	**(214)**	**50**
Profit (loss) from operations before finance expenses and income taxes		**(60)**	**(273)**	**90**

* Reclassified – see Note 2E
** Earnings (loss) per share were adjusted retrospectively, refer to Note 38 for additional information

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

Consolidated Income Statement (continued)

€ in millions	Note	For the year ended December 31, 2012	2011 *	2010 *
Other financial income	35	72	21	19
Other financial expenses	35	(129)	(141)	(143)
Adjustment to fair value of other financial instruments		1	(3)	(1)
Total financial expenses, net		**(56)**	**(123)**	**(125)**
Profit (loss) from operations		**(116)**	**(396)**	**(35)**
Share of profit of associates accounted for using the equity method	8	**(10)**	(3)	6
Profit (loss) before income taxes		**(126)**	**(399)**	**(29)**
Income tax expenses	36	13	28	22
Loss for the year from continuing operations		(139)	(427)	(51)
Net profit from discontinued operations	5	1	18	22
Net profit (loss) for the year		**(138)**	**(409)**	**(29)**
Attributable to:				
Equity holders		(32)	(148)	(27)
Non-controlling interest holders		(106)	(261)	(2)
		(138)	**(409)**	**(29)**
Earnings (loss) per share attributable to shareholders **	37			
Basic from continuing operations		(0.30)	(1.34)	(0.44)
Basic from discontinued operations		–	0.16	0.20
		(0.30)	**(1.18)**	**(0.24)**
Diluted from continuing operations		(0.30)	(1.36)	(0.44)
Diluted from discontinued operations		–	0.16	0.20
		(0.30)	**(1.20)**	**(0.24)**

* Reclassified – see Note 2E
** Earnings (loss) per share were adjusted retrospectively, refer to Note 38 for additional information

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

Consolidated Statement of Comprehensive Income (expense)

€ in millions	For the year ended December 31,		
	2012	2011	2010
Net loss for the year	**(138)**	**(409)**	**(29)**
Foreign currency translation differences [1]	(5)	(9)	73
Change in hedge reserve, net of tax [2]	11	3	11
Unrealized revaluations, net of tax [3]	–	(1)	1
Other comprehensive income (expense) for the year [4]	6	(7)	85
Total comprehensive income (expenses)	**(132)**	**(416)**	**56**
Attributable to:			
Equity holders	(36)	(150)	48
Non-controlling interests holders	(96)	(266)	8
	(132)	**(416)**	**56**

1 Foreign currency translation differences for the year ended December 31, 2011 include release of amounts related to business combinations and to the distribution of Kardan Yazamut as dividend in Kind, for additional information refer to Note 5.
2 Including reclassification of reserve of €3 million for the year ended December 31, 2012 (see also Note 38). The amounts presented are net of tax amounting to €1 million, €2 million and €3 million for the year ended December 31, 2012, 2011 and 2010 respectively.
3 The tax effect amounted to less than €1 million in all presented periods.
4 Including impact resulted from associates of less than €1 million for all the reported periods.

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

Consolidated Statement of Changes in Equity

€ in millions	Attributable to equity holders of the parent										
	Issued and paid-in capital	Share premium	Property revaluation reserve *	Revaluation reserve, other *	Foreign currency translation reserve *	Non-controlling interest holders transactions reserve	Treasury shares	Accu-mulate deficit	Total	Non-controlling interest	Total equity
Balance as of January 1, 2012	**23**	**208**	**52**	**5**	**7**	**19**	**(3)**	**(108)**	**203**	**537**	**740**
Other comprehensive income (loss)	–	–	–	3	(7)	–	–	–	(4)	10	6
Net result for the year	–	–	–	–	–	–	–	(32)	(32)	(106)	(138)
Total comprehensive income/loss	**–**	**–**	**–**	**3**	**(7)**	**–**	**–**	**(32)**	**(36)**	**(96)**	**(132)**
Share-based payment	–	–	–	–	–	–	–	–	–	3	3
Issuance of shares to non-controlling interest holders (Note 5C)	–	–	–	–	–	–	–	–	–	72	72
Shares purchased in consolidated and newly consolidated subsidiaries (Note 7)	–	–	–	–	–	1	–	–	1	33	34
Expired option plans for shares in a subsidiary	–	–	–	–	–	1	–	–	1	(2)	(1)
Reclassification according to the Netherlands civil code requirements* and Chinese law**	–	–	2	4	–	–	–	(6)	–	–	–
Balance as of December 31, 2012	**23**	**208**	**54**	**12**	**–**	**21**	**(3)**	**(146)**	**169**	**547**	**716**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution. The main part of the revaluation reserve originates from the Group jointly controlled Chinese entities which are restricted for distribution.

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

Consolidated Statement of Changes in Equity (continued)

€ in millions	Attributable to equity holders of the parent										
	Issued and paid-in capital	Share premium	Property revaluation reserve *	Other reserves *	Foreign currency translation reserve *	Non-controlling interest holders transactions reserve	Treasury shares	Accu-mulate deficit	Total	Non-controlling interest	Total equity
Balance as of January 1, 2011	**23**	**235**	**114**	**–**	**9**	**(1)**	**(27)**	**(19)**	**334**	**733**	**1,067**
Other comprehensive income (expenses)	–	–	–	(1)	(1)	–	–	–	(2)	(5)	(7)
Loss for the year	–	–	–	–	–	–	–	(148)	(148)	(261)	(409)
Total comprehensive loss for the year	**–**	**–**	**–**	**(1)**	**(1)**	**–**	**–**	**(148)**	**(150)**	**(266)**	**(416)**
Share-based payment	–	–	–	–	–	–	–	–	–	8	8
Issuance of shares to non-controlling shareholders	–	–	–	6	(1)	22	–	–	27	166	193
Shares purchased in subsidiaries and first time consolidation of subsidiary (Note 5C)	–	–	–	–	–	(2)	–	–	(2)	6	4
Purchase of treasury shares	–	–	–	–	–	–	(3)	–	(3)	–	(3)
Deconsolidation of proportionally consolidated entities	–	–	–	–	–	–	–	–	–	(35)	(35)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(4)	(4)
Distribution of a subsidiary as dividend in kind (Note 5C)	–	(27)	–	–	–	–	27	(3)	(3)	(71)	(74)
Reclassification according to the Netherlands civilcode requirements*	–	–	(62)	–	–	–	–	62	–	–	–
Balance as of December 31, 2011	**23**	**208**	**52**	**5**	**7**	**19**	**(3)**	**(108)**	**203**	**537**	**740**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution. The main part of the revaluation reserve originates from the Group jointly controlled Chinese entities which are restricted for distribution.

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

Consolidated Statement of Changes in Equity (continued)

€ in millions	Attributable to equity holders of the parent										
	Issued and paid-in capital	Share premium	Property revaluation reserve *	Revaluation reserve, other *	Foreign currency translation reserve *	Non-controlling interest holders transactions reserve	Treasury shares	Retained earnings (accumulated deficit)	Total	Non-controlling interest	Total equity
Balance as of January 1, 2010	**23**	**235**	**93**	**(14)**	**(52)**	**–**	**(21)**	**29**	**293**	**695**	**988**
Other comprehensive income (loss)	–	–	–	14	61	–	–	–	75	10	85
Net result for the year	–	–	–	–	–	–	–	(27)	(27)	(2)	(29)
Total comprehensive income/loss	**–**	**–**	**–**	**14**	**61**	**–**	**–**	**(27)**	**48**	**8**	**56**
Share-based payment	–	–	–	–	–	–	–	–	–	10	10
Issuance of shares to non-controlling interest holders	–	–	–	–	–	1	–	–	1	22	23
Share purchased in consolidated and newly consolidated subsidiaries	–	–	–	–	–	–	–	–	–	29	29
Deconsolidation of a subsidiary (Note 5C)	–	–	–	–	–	–	–	–	–	(31)	(31)
Deconsolidation of proportionally consolidated group companies (Note 5C)	–	–	–	–	–	–	–	–	–	(2)	(2)
Other transactions with non-controlling shareholders (Note 5C)	–	–	–	–	–	(2)	–	–	(2)	4	2
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(2)	(2)
Purchase of treasury shares	–	–	–	–	–	–	(6)	–	(6)	–	(6)
Reclassification according to the Netherlands civil code requirements*	–	–	21	–	–	–	–	(21)	–	–	–
Balance as of December 31, 2010	**23**	**235**	**114**	**–**	**9**	**(1)**	**(27)**	**(19)**	**334**	**733**	**1,067**

* In accordance with the Netherlands civil code, part of the equity is restricted for distribution. The main part of the revaluation reserve originates from the Group jointly controlled Chinese entities which are restricted for distribution.

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

Consolidated Cash Flow Statement

For the year ended December 31

€ in millions	2012	2011	2010
Cash flow from operating activities			
Loss from continuing operations before taxes on income	(126)	(399)	(29)
Profit from discontinued operations before taxes on income	1	31	22
Adjustments required to present cash flow from operating activities (see A below)	79	417	5
Net cash provided by (used in) operating activities	**(46)**	**49**	**(2)**
Cash flow from investing activities			
Acquisition of tangible fixed assets and investments properties	(88)	(264)	(196)
Collection (granting) loans from (to) associated companies and joint ventures, net	5	(1)	5
Investments in associated companies and joint ventures	9	11	(14)
Proceeds from sale of assets and investments (Note 7)	146	4	237
Granting of long-term loans	–	(1)	(1)
Change in loans to bank customers	(41)	(175)	(124)
Change in long-term loans and receivables	50	33	36
Change in short-term investments	2	(50)	12
Acquisition of newly consolidated subsidiaries, net of cash acquired (see appendix B below) (see Note 5C)	–	(13)	(3)
Deconsolidation of a joint venture (see appendix C below) (see Note 5C)	33	160	–
Disposal of formerly consolidated subsidiaries, net of cash disposed (see appendix D below)	–	26	69
Change from proportionate consolidation to full consolidation (see appendix E below) (see Note 5C)	(14)	10	28
Change from proportional consolidation to equity method (see Note 5C)	–	–	(30)
Change from full consolidation to proportionate consolidation (see appendix F below)	–	46	–
VAT and tax received (paid) on disposal of investment properties	23	(39)	(5)
Change in deferred brokerage fees	(1)	(1)	(1)
Change in other assets	–	(23)	(29)
Net cash provided by (used in) investing activities	**124**	**(277)**	**(16)**

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2012	2011	2010
Cash flows from financing activities			
Dividend paid to non-controlling interest holders	–	(4)	(2)
Decrease in cash due to distribution of a subsidiary as dividend in kind (refer to Note 5C)	–	(19)	–
Proceeds from issuance and sale of shares in subsidiaries to non-controlling interest holders (refer to Note 5C)	72	189	23
Issuance of debentures	1	83	70
Repayment and repurchase of debentures (refer to Note 23)	(101)	(71)	(83)
Change in loans from bank customers	58	132	275
Proceeds from long-term loans	210	333	464
Repayment of long-term loans	(438)	(525)	(448)
Change in short-term loans and borrowings, net	54	(12)	(184)
Cost related to issuance of debt and shares	(1)	(4)	(5)
Proceeds from sale of hedge instruments	52	45	29
Purchase of treasury shares	–	(3)	(6)
Transaction with non controlling interest holders	(4)	(15)	(13)
Net cash (used in) provided by financing activities	**(97)**	**129**	**120**
Foreign exchange differences relating to cash and cash equivalents	1	5	18
Increase (decrease) in cash and cash equivalents	(18)	(94)	120
Decrease of cash of assets held for sale (refer to Note 5C)	(3)	–	(96)
Cash and cash equivalents at the beginning of the year	404	498	474
Cash and cash equivalents at the end of the year	**383**	**404**	**498**

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2012	2011	2010
A. Adjustments to reconcile net profit (loss) to net cash			
Charges / (credits) to profit / loss not affecting operating cash flows:			
Share of profit (loss) of associated companies accounted for using the equity method	10	(3)	(13)
Dividend from associated companies	–	7	9
Gain on issuance and sale of shares in associated companies and subsidiaries to third parties, net	–	–	(9)
Impairment of goodwill	4	68	28
Loss (gain) on disposal of assets and investments, net	–	(6)	(85)
Share-based payment	7	4	14
Depreciation and amortization	11	77	66
Fair value adjustments of investment properties	104	273	(73)
Financial expense (income) and exchange differences, net	112	91	94
Change in fair value of options and share appreciation rights	1	(4)	11
Decrease (increase) in fair value of securities held for trading and hedge instruments, net	(13)	8	3
Increase in provision for bad debts in the financial services segment	14	47	118
Gain from early repayment of loans and debentures	(43)	(3)	(9)
Impairment of assets	4	2	3
Changes in operating assets and liabilities			
Purchase of rental vehicles	–	(125)	(121)
Proceeds from sale of rental vehicles	–	75	65
Change in insurance provisions and deferred acquisition costs, net	–	–	5
Change in trade and other receivables	(96)	(94)	(272)
Change in inventories and in contract work in progress, net of advances from customers	(22)	(58)	(59)
Change in trade and other payables	50	110	260
Interest paid	(136)	(184)	(286)
Interest received	77	147	279
Income taxes paid	(5)	(15)	(23)
	79	**417**	**5**

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2012	2011	2010
B. Acquisition of newly consolidated subsidiaries, excluding cash acquired			
Working capital	–	8	1
Non-current assets	–	(58)	(5)
Goodwill on acquisition	–	(10)	(1)
Long-term liabilities	–	33	1
Total purchase price	–	(27)	(4)
Less – cash in subsidiaries acquired	–	14	–
Payable on account of investment	–	–	1
	–	**(13)**	**(3)**
C. Disposal of a joint venture net of cash disposed (refer to Note 5C)			
Working capital	121	34	–
Non-current assets	457	238	–
Goodwill	16	2	–
Gain on disposal of investment	1	4	–
Change in capital reserves	1	(2)	–
Long-term liabilities	(525)	(108)	–
Total consideration	71	168	–
Less – Cash of Joint venture which ceased to be consolidated	(38)	(8)	–
	33	**160**	**–**

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2012	2011	2010
D. Disposal of formerly consolidated subsidiaries, net of cash disposed			
Working capital	–	(7)	157
Non-current assets	–	(30)	253
Intangible assets on acquisition	–	13	–
Goodwill	–	–	(40)
Rental vehicles	–	395	–
Non-controlling interests	–	(30)	(31)
Long-term liabilities	–	(323)	(307)
Gain on disposal of investment	–	8	59
Total consideration	–	26	91
Cash of subsidiary which ceased to be consolidated	–	–	(22)
	–	**26**	**69**
E. Change from proportional consolidation to full consolidation			
Working capital	1	(3)	(1)
Investment property	(15)	55	(33)
Other non-current assets	–	(185)	(242)
Goodwill on acquisition	–	(4)	(11)
Gain on disposal of investment	–	(3)	6
Non-controlling interests	–	11	9
Long-term liabilities	–	139	265
Total purchase price	(14)	10	(7)
Less – cash in subsidiaries acquired	–	–	35
	(14)	**10**	**28**

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2012	2011	2010
F. Change from full consolidation to proportional consolidation			
Working capital	–	(2)	–
Investment property	–	60	–
Goodwill on acquisition	–	(3)	–
Gain on disposal of Joint venture	–	12	–
Long-term liabilities	–	(21)	–
Total purchase price	–	46	–
Foreign currency translation on cash	–	1	–
Less – cash of disposed Joint venture	–	(1)	–
	–	**46**	**–**

With respect to cash flows of discontinued operations, refer to Note 5C.

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

Notes to the Consolidated IFRS Financial Statements
December 31, 2012

1 General

A Introduction

Kardan N.V. (Kardan or the Company) having its legal seat in Amsterdam, The Netherlands, was incorporated on May 2, 2003, and acts as an active investment company which is engaged in the development of real estate in Asia and Europe, infrastructure projects, infrastructure assets, banking and retail lending, and others through its subsidiaries, joint ventures and associated companies. During 2010, the Company sold its insurance and pension segment. During 2011, the Company distributed its rental of vehicles and sale of vehicles segment and parts of the other segment as dividend in kind to its shareholders (refer to Note 5 for additional information).

The Company, its subsidiaries, joint ventures and associates are referred to as 'the Group'.

The total number of employees in the Company and its subsidiaries was 2,787 as of December 31, 2012 of which 444 are part of the real estate sector (442 are located abroad), 1,170 are part of the infrastructure sector (1,169 are located abroad) 1,157 are part of the banking and retail landing sector (all 1,157 are located abroad) and 16 which are part of the headquarter. (December 31, 2011 – 7,001).

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

These financial statements were approved by the Board of Directors of the Company on March 24, 2013.

1 Going concern

In 2012 the Company incurred losses in the amount of €32 million, which contributed to a decline of shareholders' equity to €169 million. In addition, the Company had negative cash flows from operations of €37 million in 2012.

The Company's consolidated financial statements as of December 31, 2012 have been prepared on the assumption the Company will continue as a going concern. This is based, among others, on the current cash balances and its available assets as well as considering cash from future operations and transactions. In February 2013, the Company repaid the first installment and interest of Debentures Series A, and interest of Debentures Series B, totalling €58 million (including interest). After the repayment the cash balance of the Company (stand alone) amounts to €5 million.

In February 2014 the first installments of the Company's Debentures Series B mature and the second installment of Series A in the total amount of €98 million (including interest) have to be repaid. These repayments are likely to be funded through existing cash balances, cash generated from the repayment of certain shareholder's loans by some of the Company's subsidiaries, cash generated through sale of certain assets, raising loans (against assets free from collaterals) or equity transactions. The Company prepared a two year liquidity analysis as part of its normal course of business which addresses the required liquidity to be able to repay the debentures in February 2014 and all its other liabilities and to finance its operating activities. However, these plans can only be achieved within the limitations of an agreement reached subsequent to the balance sheet date with Debentures holders, as disclosed in Note 40.

As described in Note 27, the Company has to meet certain covenants, amongst others, relating to minimum equity threshold of €160 million and commitment to continue steering the activities of GTC SA through its directors. As of December 31, 2012 the shareholders' equity amounts to €169 million and the Company has the ability to steer the activities of GTC SA through its directors.

The realization of some of the Company's plans and continued compliance with the loan covenants are uncertain and depend on factors that are not wholly within the Company's control, however the Company believes that it will be able to repay its liabilities as they mature in the foreseeable future.

2. On March 15, 2012, the Company received a letter from the Israeli Securities Authority (hereafter – the ISA), regarding sampling audit that was conducted on five real estate assets owned by a consolidated subsidiary, in the financial statements as of December 31, 2009. The Company sent response letters to the ISA, and is currently in discussions with ISA, for additional information see Note 7.

For additional information included in the Barnea report as required by the Israeli Securities Authority regulations, reference is made to the website of the Company (www.kardan.nl).

2 Basis of preparation

A Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments; cash settled share-based payment liabilities and other financial assets and liabilities that have been measured at fair value.

The consolidated financial statements are presented in Euros and all values are rounded to the nearest million (€ in millions) except when otherwise indicated.

The Company has elected to present the comprehensive income in two statements – the income statement and the statement of comprehensive income. The income statement is presented according to the function of expense method.

B Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).
As the IAS 39 carve out and the IAS 12 amendment have no impact, these financial statements also comply with IFRS as issued by the IASB.

C Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control. The Group adopted the Effective Control approach. Under such approach effective control is present when the Group has the power, directly and indirectly, to govern the financial and operational policies of an entity so as to obtain benefits from its activities.

Determination of effective control

Existence of control or de facto control over investee companies is determined by management by examining its power to direct the activities of the investee company. An investee company for which the Company has less than half of the voting rights has the power to direct the activities of another entity if:

(a) The reporting entity has more voting rights than any other party;
(b) The reporting entity's voting rights are sufficient to give the reporting entity the ability to determine the entity's strategic operating and financing policies through the appointment of senior management of the Company (CEP, Chairman of the Board).
(c) The remaining voting rights are widely spread among the public.
(d) The lack of one shareholder which holds a significant part of the shares.

(e) The relative participation of the Group in the general shareholder's meeting is high, allowing it to appoint the majority of the Board of Directors.
(f) The non controlling shareholders have no participating rights, but only standard protective rights.

In determining control, the effects of potential voting rights existing as of the balance sheet date are taken into account – also refer to Note 5C and 40.

Subsidiaries continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

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

If the Group loses control over a subsidiary, it:

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

D Changes in accounting policies and disclosures

IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized. In addition, the amendment requires disclosures about continuing involvement in derecognized assets. The amendment is effective as of January 1, 2012. The amendment did not lead to additional disclosures.

Amendment to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment is effective for annual periods beginning on or after January 1, 2012 and had no effect on the Group's financial position, performance or its disclosures.

E Reclassifications

The comparative information in the statement of financial position relating to investment property, long term loan and receivables, trade and other payables and receivables as of December 31, 2011 were reclassified to conform to current period's presentation. The reclassification was not material in relation to the total assets and liabilities.

In addition, the comparative information in the income statement and cash flow statement for the year ended December 31, 2011 and 2010 were reclassified to conform to current period's presentation.
The classification was not material.

3 Significant accounting judgments, estimates and assumptions

A Judgments, estimates and assumptions

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

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

Revaluation of investment properties and of investment properties under construction
Investment property includes investment property under construction and completed investment property. Completed investment property comprises real estate (land or buildings or both) held by the Company or leased under a finance lease in order to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services or for administrative purposes or in the ordinary course of business.

Completed investment properties are measured at fair value as at the balance sheet date. Any changes in the fair value are included in the income statement. Change in fair value is usually determined by independent real estate valuation experts in accordance with recognized valuation techniques. These techniques include among others: the Income Approach to value (which includes the Discounted Cash Flow Method and the Yield method), the Residual Method and the Sales Comparison Method. These methods include estimated future cash flows from assets and estimates of discount rates applicable to those assets. In some cases the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the company's assets (Sales Comparison Method).

In cases where the fair value of investment property under construction can be reliably measured, management considers factors such as zoning and construction permits, the percentage complete and the percentage pre-let.

In cases where a fair value cannot be reliably determined, such properties are presented at the lower of cost or recoverable amount. The fair value of investment properties under construction is determined using either the Discounted Cash Flow Method or the Residual Method, except if such values cannot be reliably determined. The Group has adopted the following internal guidelines, which depending on the geographical area in which the Company operates, to assess whether the substantial risks are eliminated (and therefore the fair value can be reliably measured):

- Agreement with general contractor is signed;
- Building permit is signed;
- Rental vacancy rate to tenants (Pre-lease).

Management can decide to fair value investment property under construction even if all internal guideline criteria have not yet been met, but management is of the opinion that fair value can be determine reliably.
Fair value of investment properties is based on independent appraisal values. Independent appraisal values are however on their turn subject to judgments, estimates and assumptions and do not take into account estimation uncertainty, if any, about key assumptions concerning the future as property valuations are based on market conditions in effect as at balance sheet date.

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

Refer to Note 7 for sensitivity analysis of profit (loss) before tax due to changes in the certain key parameters.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable risk-adjusted discount rate in order to calculate the present values of those cash flows. Generally, the Group uses the Weighted Average Cost of Capital of the applicable cash-generating units. The carrying amount of goodwill as of December 31, 2012 was €27 million (2011 – €53 million), of which €6 million is allocated to real estate activities (2011 – €5 million), €8 million (2011 – €34 million) is allocated to financial services activities, and €13 million (2011 – €14 million) is allocated to the infrastructure activities. With respect to the real estate segments, where goodwill was paid (prior to January 1, 2010) in compensation for future project development profit, the goodwill is reduced commensurate with the amount of development profits subsequently realized. Such goodwill is either capitalized as part of investment properties under construction, or as the case may be, separately classified as goodwill.

Service concession arrangements

The Group measures the total investment of the concession agreements based on the investments during construction and the operational period, taking into account an estimated gross margin. The estimated gross margin has been initially determined during the acquisition of the project and will be evaluated continuously during the period of the project. The carrying amount of the service concession intangible assets and financial receivable arrangements as of December 31, 2012 amounted to a total of €11 million and €89 million respectively (2011 – €11 million and €78 million respectively).

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of the deferred tax assets as of December 31, 2012 was €20 million (2011 – €20 million).

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input for these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives (see Note 38).

Fair value of equity based instruments
Fair value of equity instruments, primarily put options granted to non-controlling shareholders, share options and conversion components of convertible debentures, have been valued, in most cases, by independent external appraisers, using applicable valuation models, or based on the value of the respective companies as assigned in transactions with third parties.
The valuations are necessarily and inevitably based on certain assumptions, and hence they are subject to estimation uncertainty. The assumptions and models used are disclosed in Note 18.

Impairment losses on loans and advances
The Group reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors including assessments of delinquencies and default risks, and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures, in connection with those loan classes which, although not specifically identified as requiring a specific allowance, are considered to have a greater risk of default than when originally granted. These take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows. See also Note 9.

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

The carrying amount of inventory as of December 31, 2012 was €438 million (December 31, 2011 €475 million (see Note 12 for additional information with regards to impairments in the reporting period).

Future interest payable
Under IFRS 7 an entity has to provide a maturity table of financial liabilities including future interest due. In cases where interest is variable, future interest is estimated based on currently known variables (see Note 38).

Provision for legal claims
In estimating the chances of lawsuits filed against the Group and its investee companies, the Group relies on the opinion of its legal councils. These estimates are

based on the legal advisers' best professional judgment, considering the stage which proceedings are in, and the legal experience gained on the various issues. Since the results of the claims will be determined in the courts, these results may differ from these estimates.

4 Summary of significant accounting policies

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

A Business combinations and goodwill

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

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

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

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

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

B Interest in joint ventures

The Group has an interest in joint ventures, which are jointly controlled entities, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognizes its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint ventures are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Company's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealized gains and losses on such transactions between the Group and its joint ventures. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

Upon loss of joint control, the Group measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

C Investment in associates

The Group's investment in its associates is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

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

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

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

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

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

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

D Foreign currency translation

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

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

Following are the representative exchange rates of the USD, NIS and RMB in relation to the EUR and the changes in the Israeli Consumer Price Index (CPI) in points:

	USD	NIS	RMB	CPI
December 31, 2012	0.74	0.20	8.3268	130.7
December 31, 2011	0.77	0.20	8.2253	128.6
December 31, 2010	0.75	0.21	8.7351	125.4
December 31, 2009	0.69	0.18	9.7705	122.6
Change in 2012	(3.9%)	–	1.23%	1.6%
Change in 2011	3.0%	(4.1%)	(5.8%)	2.6%
Change in 2010	8.0%	14.9%	(10.6%)	2.3%

E Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Discontinued operations is defined as a component of an entity that either has been disposed of or is classified as held for sale and:

a. represents a major separate line of business or geographical area of operations.

b. is a part of a single cooperated plan to dispose of a separate major line of business or geographical area of operations or
c. is a subsidiary acquired with a view to resale.

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

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

Investment property held for sale
Investment property is transferred to 'Assets held for sale' when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such property and its sale must be highly probable.
For the sale to be highly probable:

- The Board must be committed to a plan to sell the property, and an active program to locate a buyer and complete the plan must have been initiated.
- The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as completed sale within one year from the date of classification.

On reclassification, investment property that is measured at fair value continues to be so measured.

F Tangible fixed assets

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

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

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

Office furniture and equipment	3-16 years (mainly 10 years)
Property, plant and equipment	10-20 years (mainly 10 years)
Motor vehicles	2-7 years (mainly 5 years)
Buildings (not including land)	25-50 years (mainly 50 years)
Leasehold improvement	over the term of the lease (mainly 5 years)

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Any item of tangible fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

G Investment properties

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

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

Both completed investment properties and investment properties under construction, where management deemed that fair value can be reliably measured (see Note 3A), are externally valued (in most cases) based on open market values. Completed properties are either valued on the basis of the income approach (which includes DCF and the Yield methods), on basis of the Residual approach or on the basis of sales comparison approach. Investment property under construction that cannot be reliably measured is valued at cost or lower recoverable amount. For a description of these valuation techniques and assumptions, see Note 3A.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

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

Lease origination costs / deferred brokerage fees

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

H Contract work and building inventory in progress

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

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

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

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

The carrying amounts are tested for impairment as of each reporting date. Impairment is assessed to have occurred if the estimated future selling price of the residential units falls below the estimated cost per unit. Impairment is subsequently calculated on a discounted cash flow basis.

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units, which are not refundable, are expensed in full when payable.

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

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

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

I Service concession arrangements

Service concession arrangements which contractually oblige the Group, acting as operator, to provide the services to the public on behalf of the public sector entity are accounted for in accordance with the accounting policies mentioned below. Service concession arrangements which do not meet that criteria are dealt with by other accounting policies adopted by the Group.

Financial assets

A financial asset is recognized to the extent that the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.

The financial asset is measured on initial recognition at its fair value, and interest is calculated on the balance using the effective interest rate method. Revenue is recognized when the contract work is performed using the percentage of completion method. This means that the financial asset will be recognized from the beginning of contract activity.

Intangible assets

The Group recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.

The Group recognizes the intangible asset at deemed cost, i.e. the fair value of consideration transferred to acquire the asset, which is the fair value of the consideration received or receivable for the construction services delivered. During the construction phase of the arrangement the Group's asset (representing its accumulating right to be paid for providing construction services) is classified as an intangible asset (license to charge users of the infrastructure). The Group estimates the fair value of its consideration received to be equal to the forecast construction costs plus applicable margin and additionally capitalizes the borrowing costs during the construction phase of the arrangement.

The intangible asset is subsequently amortized on a systematic basis over its useful life, whereby the Group adopts the straight-line method.

Mixed assets

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset it accounts separately for each component of the consideration. The consideration received or receivable for both components is recognized initially at the fair value of the consideration received or receivable. The nature of the consideration given by the grantor to the Group is determined by reference to the contract terms and, when applicable to relevant contract law.

Revenue recognition

Both under intangible and financial asset models the Group accounts for revenue and costs relating to construction or upgrade services in accordance with the stage of completion method provided that the outcome can be measured reliably. The Group accounts for revenue and costs relating to operation services in accordance with the criteria it has adopted for revenue recognition, i.e. when the outcome of a transaction involving the rendering of services can be estimated reliably, and revenue associated with the transaction is recognized by reference to the stage of completion of the transaction at the financial position date. If the Group performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

Impairment

The Group assesses potential impairments of the concession assets at each reporting date.

J Other intangible assets

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

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

K Impairment of non-financial assets

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

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

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

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

L Financial assets

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

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

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

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

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement held-to-maturity investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process. Under the requirements of IFRS the Group will not be able to classify any financial instruments in the held-to-maturity portfolio until the end of 2012 due to the sale of held to maturity securities.

Loans and receivables

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

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

Available-for-sale financial assets

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

M Cash and cash equivalents

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

N Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

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

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

Assets carried at cost

If there is objective evidence that an impairment loss on assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Assets carried at cost relate to an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument.

Available-for-sale financial assets

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

O Treasury shares

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

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

P Borrowing costs

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

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

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

Q Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

Convertible debentures
Convertible debentures which contain both a liability and a conversion element are separated into two components on initial issuance, and each is accounted for separately. The portion of the proceeds allocated to the liability component is determined based on the present value of the debentures' cash outflows using a market rate for an equivalent non-convertible bond.

The remainder of the proceeds is allocated to the conversion component. Issue costs are apportioned between the liability and the conversion components of the convertible debentures, based on the respective carrying amounts of the liability and conversion components on the issuance date.

The conversion component is accounted for in equity if the convertible debentures are denominated in the entity's functional currency. If the convertible debentures are denominated in foreign currency, the conversion component is allocated to other financial liabilities.

After initial recognition, the liability component is subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount on settlement.

After initial recognition, the conversion component, if recorded as a financial liability, is measured according to IAS 39 and is presented at fair value. Gains or losses are recognized in the income statement. If the conversion component is recognized in equity, it is not premeasured subsequently.

Debentures
Debentures are initially recognized at fair value net of costs associated with the issuance of the debentures. After initial recognition, the debentures are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the consideration, and using the effective interest method.

The proceeds received in consideration for the issuance of debentures and detachable warrants are allocated between the debentures and warrants based on their relative fair value.

R Offsetting of financial instruments

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

S Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognized when:

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

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

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

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

Financial liabilities

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

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

T Provisions

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

U Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions'). Some employees are granted share appreciation rights, which can only be settled in cash ('cash-settled transactions'). In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date. This is then capitalized or expensed as appropriate.

Equity-settled transactions
The cost of equity-settled transactions with employees for awards granted after 7 November 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 18.

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

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

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 37).

Cash-settled transactions
The cost of cash-settled transactions is measured initially at fair value at the grant date using mostly the binomial model, further details of which are given in Note 18. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense (see Note 18 and 22).

V Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to

use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

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

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

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

Group as a lessor

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

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

W Revenue recognition

General

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

Contract revenues

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

Rental income

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

Sale of apartments

Revenue from the sale of houses and apartments is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. The risks and rewards are considered as transferred to the buyer when the houses or apartments have been substantially constructed, accepted by the customer and the vast majority of the amount resulting from the sale agreement was paid by the buyer. Revenue from the sale of apartments is recognized within the Company's real estate segments. Revenues from sale of apartments are presented in the income statements as 'Sale of goods'.

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

Sale of goods
Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Sale of goods in these consolidated financial statements include revenues from the sale of apartments (see hereinunder) and from sale of consumer goods.

Interest and dividend income
Revenue is recognized as the interest accrues (taking into account the effective yield on the asset). Dividend income is recognized when the Group's right to receive payments is established.

X Taxes

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

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

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary difference, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be used except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit

will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognized outside the income statement is recognized outside the income statement. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority and expected to settle net or simultaneously.

At each balance sheet date, the Group companies re-assess unrecognized deferred tax assets and the carrying amount of deferred tax assets. The companies recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Conversely, the companies reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilized.

Y Fair value of financial instruments

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

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

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

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

Z. Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

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

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

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

Fair value hedges

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

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

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

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

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

Cash flow hedges

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

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

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

AA Put option granted to non controlling shareholders

The Group recognizes a financial liability under such contract at its fair value. The non controlling interest reported in the financial statements is subsequently reclassified as a financial liability. Any changes in the fair value of that financial liability in subsequent periods are taken to the income statement or to equity if the put option can be classified as an IFRS 3-like transaction (business combination).

BB Earnings per share

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

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

CC Pensions and other post-employment benefits

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

Defined contribution plans

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

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

DD Period of operational business cycle

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

EE Future changes in accounting policies

Standards issued but not yet effective:

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The amendment is not expected to have a material impact on the Group's financial position or performance

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements under IFRS. The amendment becomes effective for annual periods beginning on or after January 1, 2014.

The Company intends to early adopt the new standard as of January 1, 2013. The Company is assessing the impact if any of the new standard on its disclosures.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed 'IAS 28 Investments in Associates and Joint Ventures', and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2014. The Company intends to early adopt the new standard as of January 1, 2013. The Company is assessing the impact if any of the new standard on its disclosures.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs' work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. In subsequent phases, the IASB will address impairment of financial assets and hedge accounting. The completion of this project is expected in 2013. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. The standard is effective for financial years beginning on or after January 1, 2015.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation -Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The amendment is not expected to have a material impact on the Group's financial position or performance.

This standard becomes effective for annual periods beginning on or after January 1, 2014. The Company intends to early adopt the new standard as of January 1, 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The application of this new standard will impact the financial position of the Group. This is due to the cessation of proportionate consolidating the joint venture in several joint ventures to equity accounting for this investment. This standard becomes effective for annual periods beginning on or after January 1, 2014.

The company intends to early adopt the new standard a of January 1, 2013. The company is in a process of assessing the impact of the early adoption of IFRS 11. The company has preliminary assessed that proportionate consolidation should be terminated, the potential impact of this termination is stated below:

2012

Consolidated statement of financial position

€ in millions	December 31, 2012 as reported	Potential impact of the amendment	December 31, 2012 as will be presented
Non-current assets	2,205	(68)	2,137
Current assets	1,078	(231)	847
Non-current liabilities	(1,706)	95	(1,611)
Current liabilities	(861)	187	(674)

Consolidated income statement

€ in millions	For the year ended December 31, 2012 as reported	Potential impact of the amendment	For the year ended December 31, 2012 as will be presented
Total revenues	383	(80)	303
Gross margin	102	(29)	73
General and administration expenses	66	(5)	61
Total finance expenses	56	(4)	52
Profit (loss) before income taxes	126	(5)	121
Income tax expenses (benefit)	13	(6)	7
Profit (loss) for the year from continuing operations	(139)	1	(138)

2011

Consolidated statement of financial position

€ in millions	December 31, 2011 as reported	Potential impact of the amendment	December 31, 2011 as will be presented
Non-current assets	2,674	(353)	2,321
Current assets	1,681	(728)	953
Non-current liabilities	(2,322)	466	(1,856)
Current liabilities	(1,293)	527	(766)

Consolidated income statement

€ in millions	For the year ended December 31, 2011 as reported	Potential impact of the amendment	For the year ended December 31, 2011 as will be presented
Total revenues	332	(73)	259
Gross margin	16	(29)	(13)
General and administration expenses	75	(4)	71
Total finance expenses	123	(16)	107
Loss before income taxes	399	(23)	376
Income tax expenses (benefit)	28	25	53
Profit (loss) for the year from continuing operations	(18)	–	(18)

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.
This standard becomes effective for annual periods beginning on or after January 1, 2014. The Company intends to early adopt the new standard as of January 1, 2013. The Company is assessing the impact if any of the new standard on its disclosures.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The impact this standard is not expected to have a material impact on the financial position and performance of the Group. This standard becomes effective for annual periods beginning on or after January 1, 2014. The Company intends to early adopt the new standard as of January 1, 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off'. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after January 1, 2014.

IFRS 7 Disclosures-Offsetting Financial Assets and Financial Liabilities-Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements).
The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after January 1, 2013.

Improvements to IFRSs
In May 2012, the IASB issued the 2009-2011 cycle improvements to its standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording.

IAS 32 Financial instruments: Presentation: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12.

IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
The amendment changes the grouping of items presented in other comprehensive income. Items that could be reclassified ('or recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment will affect presentation only and will have no impact on the Group's financial position or performance. The amendment becomes effective for financial years beginning on or after 1 July 2012.

FF Definitions

The following definitions are used throughout these financial statements:

Kardan or the Company – Kardan N.V.
The Group or Kardan Group – Kardan N.V. and its subsidiaries, joint ventures and associates
GTC Holding – GTC Real Estate Holding B.V.
GTC Group – GTC Holding and its subsidiaries, joint ventures and associates
GTC SA – Globe Trade Centre S.A.
GTC SA Group – GTC SA and its subsidiaries, joint ventures and associates
KFS – Kardan Financial Services B.V.
KFS Group – KFS and its subsidiaries, joint ventures and associates
TBIF – TBIF Financial Services B.V.
TBIF Group – TBIF and its subsidiaries, joint ventures and associates
Kardan Yazamut – Kardan Yazamut (2011) Ltd.
Kardan Yazamut Group – Kardan Yazamut and its subsidiaries, joint ventures and associates
Kardan Israel or KIL – Kardan Israel Ltd.
KIL Group – KIL and its subsidiaries, joint ventures and associates
TGI – Tahal Group International B.V.
TGI Group – TGI and its subsidiaries, joint ventures and associates
TGA – Tahal Group Assets
Kardan Land China or KLC – Kardan Land China Ltd.
TASE – The Tel-Aviv Stock Exchange

5 Business combinations and investment in subsidiaries and joint ventures

A Principal directly held subsidiaries

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

Name of subsidiary	Country of incorporation	% equity interest and voting rights as of December 31		
		2012	2011	
Kardan Financial Services B.V.	Netherlands	100	100	Subsidiary
GTC Real Estate Holding B.V.	Netherlands	100	100	Subsidiary
Tahal Group International B.V.	Netherlands	100	100	Subsidiary
Emerging Investments XII B.V.	Netherlands	100	–	Subsidiary

Additional information regarding directly held subsidiaries:

€ in millions	Investment in shares	Credit facilities provided by the Company to its subsidiaries		Total investment in the subsidiary *
		Loans	Collaterals	
2012				
Kardan Financial Services B.V.	48	–	–	48
GTC Real Estate Holding B.V.	314	–	6	314
Tahal Group International B.V.	46	–	12	46
Emerging Investments XII B.V. **	170	–***	–	170
	578	–	18	578
2011				
Kardan Financial Services B.V.	69	93	44	162
GTC Real Estate Holding B.V.	360	150	–	510
Tahal Group International B.V.	54	44	23	98
	483	287	67	770

No Goodwill is included in any of the investments.

* The total investment in a subsidiary includes investment in shares and loans granted by Kardan N.V.

** On October 1, 2012, the Company assigned to Emerging Investment XII B.V. (its wholly owned subsidiary) all of the shareholder's loans it granted to TGI, KFS and GTC Holding.

*** As of December 31, 2012 the Company has an outstanding loan balance with its subsidiary Emerging Investment XII B.V. in the amount of €159 million (including interest) which was granted for sole purpose of purchasing the Company's debentures series A and B. The Company has a legal right and intention to settle the loan and the payment of the debentures on a net basis, therefore as of December 31, 2012, the company off-set the loan balance against its liability.

B Principal indirectly held subsidiaries (fully consolidated into the Group) and joint ventures

The consolidated financial statements include the financial statements of the Company, its subsidiaries and its joint ventures. Following is a list of the Company's principal indirectly held subsidiaries (consolidated into the Group) and joint ventures (proportionally consolidated into the Group). The classification as a 'Subsidiary' or a 'Joint venture' relates to the direct entity which holds the investee company and relates to the effective control or joint control status as of December 31, 2012:

Holding company	Name of subsidiary or joint venture	Country of incorporation	% equity interest by the direct holding as of December 31		
			2012	2011	
Kardan Financial Services B.V.	TBIF Financial Services B.V. [1]	The Netherlands	100	92.2	Subsidiary
TBIF Financial Services B.V.	TBI Credit IFN SA	Romania	99.99	99.99	Subsidiary
	TBI Leasing IFN SA	Romania	99.99	99.99	Subsidiary
	TBI Bank EAD	Bulgaria	100	100	Subsidiary
	Sovcombank [3]	Russia	–	50	Joint venture
	TBIF – Dan Leasing Ltd.	Ukraine	100	100	Subsidiary
TBIF – Dan Leasing Ltd.	VIP Rent Foreign Enterprise	Cyprus	66	66	Subsidiary
TBIF Bulgaria EAD and subsidiaries	TBI Leasing EAD	Bulgaria	100	100	Subsidiary
	TBI Credit EAD	Bulgaria	100	100	Subsidiary
GTC Real Estate Holding B.V.	Globe Trade Centre S.A. [2]	Poland	27.75	27.75	Subsidiary
	Kardan Land China Limited	Hong Kong	100	100	Subsidiary
	GTC Investment B.V.	The Netherlands	48.75	48.75	Joint venture [3]
Globe Trade Centre SA	GTC Hungary Real Estate Development Company Ltd.	Hungary	100	100	Subsidiary
	GTC Real Estate Investments Romania B.V.	The Netherlands	100	100	Subsidiary
	GTC Real Estate Investments Serbia B.V.	The Netherlands	100	100	Subsidiary
	GTC Real Estate Investments Croatia B.V.	The Netherlands	100	100	Subsidiary
	GTC Real Estate Investments Slovakia B.V.	The Netherlands	100	100	Subsidiary
	GTC Real Estate Investments Bulgaria B.V.	The Netherlands	100	100	Subsidiary

Holding company	Name of subsidiary or joint venture	Country of incorporation	% equity interest by the direct holding as of December 31 2012	2011	
Kardan Land China Limited	Shenyang Taiyling Real Estate Development Ltd.	China	50	50	Joint venture
	Shenyang GTC Palm Garden Development Co. Ltd.	China	50	50	Joint venture
	Shanxi GTC Lucky Hope Real Estate Development Ltd.	China	50	50	Joint venture
	Shenyang GTC Lucky Hope Suzy Real Estate Development Ltd.	China	50	50	Joint venture
	Kardan Land Chengdu Limited	China	50	50	Joint Venture
	Kardan Land Dalian Ltd.	China	100	100	Subsidiary
GTC Investment B.V.	Blitz Portfolio GmbH	Germany	85	85	Subsidiary
Tahal Group International B.V.	Tahal Group B.V.	The Netherlands	100	100	Subsidiary
	Tahal Group Assets B.V.	The Netherlands	100	100	Subsidiary
Tahal Group B.V.	Tahal Consulting Engineers Ltd.	Israel	100	100	Subsidiary
	Sitahal ‘Hagal’ (Talia) Partnership	Israel	100	100	Subsidiary
	Palgey Maim Ltd.	Israel	55.5	55.5	Subsidiary
	Eko-Wark Sp. ZOO	Poland	100	100	Subsidiary
	Fideco DOO	Serbia	100	100	Subsidiary
	Tahal Angola Ltd.	Angola	70	70	Subsidiary
Tahal Group Assets B.V.	Kardan Water International Group Limited	Hong Kong/ Cayman Islands	100	100	Subsidiary
	Perilla Water Group Ltd.	China	100	100	Subsidiary
	Tri-River Water Group Ltd.	China	100	100	Subsidiary
	Dazhou Tianhe Water Supply and Drainage Co., Ltd.	China	100	100	Subsidiary
	TASK Water B.V.	The Netherlands	100	100	Subsidiary
	TASK SU Kanalizasyon SU	Turkey	50	50	Joint venture
	Agri Products N.V.	The Netherlands	51	51	Subsidiary
	KWIG Dingzhou Development Ltd.	Hong Kong	100	100	Subsidiary
	Zhangjiakou Kardan Water Development Co., Ltd.	China	100	100	Subsidiary

1 Due to existing put options for non controlling interest holders, TBIF was effectively 100% consolidated by KFS in 2011 – Refer to Note 22.
2 Despite the fact that as of December 31, 2012 the Company holds less than 50% of the shares of GTC SA. For additional information refer to Note 5C and 40 (subsequent events).
3 Following management intention to exercise its holding in GTC Investments B.V. (a proportionately consolidated subsidiary of the Company), the investment in GTC Investments B.V. is presented as ‘Assets held for sale’. According to IFRS 5 requirements, the Company measured its investment in GTC Investments B.V. as the lower of fair value (less costs to sell) and book value. As a result, GTC Holding recognized an impairment of €4.3 million that was included in ‘Gain (Loss) on disposal of assets and other income’.

C Significant transactions and business combinations

Kardan N.V.

There were no significant transactions or business combinations in 2012.

2011

1. **Spin-off of the Company's main Israeli activities**

   In September 2011 the Extraordinary Shareholders' Meeting of Kardan approved a transaction according to which Kardan would spin-off its 73.7% holding in Kardan Israel Ltd. and its indirect 97% holdings in Milgam Municipal Services Ltd. ('Milgam', a subsidiary Kardan Municipal Services Ltd.- 'KMS', formerly named Tahal Assets Israel Ltd.).

   The Company restructured most of its holdings in Israel and transferred the Company's shares in Kardan Israel and in KMS to its newly incorporated Israeli, 100% owned subsidiary, Kardan Yazamut (2011) Ltd. Kardan Yazamut financed the purchase of these shares using external financing in the amount of €39.6 million. Kardan N.V. used the proceeds from the sale to deleverage. In October 2011, after receipt of all the required approvals, the shares of Kardan Yazamut were distributed as dividend in kind to the Company's shareholders and Kardan Yazamut shares were listed for trade on TASE.

   In the past, the results of Kardan Israel were included in 4 operating segments: 'Rental and leasing of vehicles', 'Sale of vehicles', 'Real estate' and 'Others'. The results of KMS were included in the 'Infrastructure – Assets' segment. Following the transaction, the Company is substantially no longer active in the 'Rental and leasing of vehicles' and 'Sale of vehicles' and 'Others' operating segments.

   As a result of presenting the related assets and liabilities as 'Held for distribution' in Q3 2011, the Company re-measured the assets and liabilities of Kardan Yazamut (excluding treasury shares held by Kardan Israel) at the lower of its carrying amount and fair value less costs to distribute. The re-measurement did not result in an impairment loss.

   The fair value of Kardan Yazamut used for the impairment test took into account market indicators and share prices as these were published in TASE.

   For accounting purposes, the carrying value and the fair value of Kardan Yazamut (net of treasury shares and non controlling interest) was nil, therefore, the book value of dividend distributed was nil. Even though IFRIC 17 ('Distribution of non cash assets to owners') does not apply to the aforesaid transaction (subsequent to the distribution of Kardan Yazamut, the controlling shareholders of the Company have direct control over Kardan Yazamut), due to the fair value being equal to the carrying value of Kardan Yazamut, as of October, 2011, there was no difference between determining the value of the dividend payable at fair value or by using the carrying value. In October 2011, dividend withholding tax of €2.9 million which was booked directly to equity and was paid subsequent to the distribution.

   In October 2011, as a result of the distribution, the Company reclassified to the income statement foreign currency translation reserve and hedge reserve, net of tax, amounting to €13 million and € (5) million, respectively.

   In addition, as a result of the distribution, 11% of the Company's shares which were held by Kardan Israel as treasury shares were re-issued and the Company retrospectively reduced its earnings (losses) per share by a ratio of 11% as the distribution such of shares is considered an issue of bonus shares.

   In total, after the distribution of Kardan Yazamut's shares, the transaction resulted in a negative impact on the Company's equity of approximately €3 million.

Discontinued operations related to the Spin-off:
The activities of Kardan Yazamut were clearly distinguishable, operationally and for financial reporting purposes. Kardan Yazamut represents several separate businesses and a major geographical area of operations and is part of a single co-ordinated plan to split these operations.

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

€ in millions	For the year ended December 31,		
	2012	2011	2010
Total income	–	286	277
Total expenses	–	(273)	(269)
Profit (loss) before tax	–	13	8
Income tax expenses	–	(2)	(1)
Net profit (loss) from discontinued operations	–	11	7
Attributable to:			
Equity holders	–	10	6
Non-controlling interest holders	–	1	1
	–	**11**	**7**

2 Composition of the net cash flows related to discontinued operations:

€ in millions	For the year ended December 31,		
	2012	2011	2010
Net cash flow from operating activities	–	15	(21)
Net cash flow from investing activities	–	(61)	(19)
Net cash flow from financing activities	–	40	37
Net cash flows from discontinued operations	**–**	**(6)**	**(3)**

3 Composition of other comprehensive income items related to discontinued operations:

€ in millions	For the year ended December 31,		
	2012	2011	2010
Gain/(loss) on hedge transactions	–	6	–
Foreign currency translation differences	–	(15)	8
	–	**(9)**	**8**

Assets and liabilities which were distributed as a result of the split

The below table represents the assets and liabilities of Kardan Yazamut, distributed as described above:

€ in millions	October, 2011
Assets	
Tangible fixed assets	18
Investment properties	20
Investment in associates	121
Long-term loans and receivables	13
Intangible assets and goodwill	22
Inventories, contract work and buildings inventory in progress	165
Trade receivables	31
Other receivables and prepayments	18
Short-term investments	66
Cash and cash equivalents	19
Total assets	**493**
Liabilities	
Convertible debentures	15
Other debentures	60
Deferred income tax liabilities	7
Accrued severance pay, net	2
Trade payables	16
Interest-bearing loans and borrowings	221
Advances from apartment buyers	61
Other payables and accrued expenses	40
Total liabilities	**422**
Non-controlling interests	**71**

Kardan Israel and Tahal Assets Israel were distributed as part of the Spin-off of the Company's main Israeli activities, the main events described below relate to the prior period to the Spin-off which was completed in October 2011.

Events in Kardan Israel (distributed as part of Kardan Yazamut)

2011

1. **Avis Israel**
   During 2011 Kardan Israel sold its investment in Emed Real Estate and Investments Development Ltd. ('Emed') and purchased from Emed shares in Avis Israel. Following the acquisition, Kardan Israel obtained control over Avis Israel by holding, directly and indirectly, 68.28% of its shares.

GTC

2012

1. **Issuance of rights in GTC SA**
   In June 2012 GTC SA completed a rights issue of 100 million shares for an amount of approximately €100 million, net (after deduction of issuance expenses of €4 million). The Company participated in the rights issue through its fully owned subsidiary GTC Real Estate Holding B.V. (GTC Holding) at its pro rata share of 27.75%. As all the rights have been exercised, GTC Holding's share in the capital of GTC SA remained 27.75%.

2011

1. **Sale and purchase of Shares in GTC SA**
   In January 2011 GTC Holding sold 35.1 million shares of GTC SA (which is included in the Company's Real Estate – Europe segment), constituting 16% of GTC SA's share capital. The shares were sold at a price of PLN 21.50 per share. Gross proceeds amounted to approximately €195 million (PLN 754,650,000); net proceeds amounted to approximately €187 million.

   Following the transaction, GTC Holding held 59,529,180 shares in GTC SA, representing an interest of 27.14%.

As a result of retaining control over GTC SA the transaction was accounted in accordance to IAS 27R as an equity transaction. As such, the difference between the consideration received and the increase in the balance of non controlling interest which increased the Company's equity in the amount of €22 million was considering the partial disposal of goodwill and reattribution of amounts which were previously recognized as other comprehensive income, attributed to non-controlling interest-holders transactions reserve.

Subsequent to the sale, in September 2011, GTC Holding purchased 1,353,635 shares for a consideration of €3.8 million and increased its interest in GTC SA by 0.61% to 27.75%. The increase in holding was also accounted as an equity transaction and resulted in a positive equity impact of €2.3 million.

Even though that GTC Holding decreased its holding to 27.75%, it retained the power to govern the financial and operating policies of GTC SA under its statute as it has the ability to appoint the majority of the supervisory board members. That fact, in combination with the wide spread of the other shareholders of GTC SA, as well as the historical voting patterns at the general meeting, resulted in retaining effective control over GTC SA. Accordingly, GTC Holding continued consolidating the financial statements of GTC SA.

2. **Sale of HIFC project in China**
   In April 2011, Kardan Land China (which is included in the Company's Real Estate Asia segment) sold all its interests in the joint venture company - Hangzhou International Financial Center Co. Ltd. (HIFC) to a Chinese real estate and investment company, (Rich Holding Group Co. Ltd.) for a consideration of €29 million. The transaction resulted in a gain for the Company of approximately €5 million recognized in 'Gain (loss) on disposal of assets and other income'.

3. **Sale of 50% of Galleria Chengdu**
   In August, 2011, Kardan Land China, sold 50% of its shares in Kardan Land Chengdu Ltd., a subsidiary which owns the Galleria Chengdu shopping center to MGP Spicy (BVI) Limited, for additional information see Note 7.

KFS (Banking and Retail Lending)

2012

1. **Sale of 50% Sovcombank**
   In June 2011 TBIF signed an agreement with Sovco Capital Partners B.V. (TBIF's partner in Sovcombank) to sell the shares in Sovcombank owned by TBIF (a total of 50% of the share capital of the bank) in total consideration of €123 million.

   In the beginning of 2012, after receiving the approval from the Central Bank of Russia with regards to the closing of the transaction, TBIF had stopped applying proportionate consolidation to the investment in Sovcombank as of January 1, 2012.

   The transaction was finalized in May 2012. The total consideration received for the sale in 2011 and 2012 amounted to €105 million (€33 million were received in 2011) and an amount of €18 million was received as dividend (€7 million were received in 2011).

   Due to the closing of the transaction, foreign currency translation reserve in the amount of €1 million was classified to the income statement in 'Net profit (loss) for the period from discontinued operations' as well as interest rate differences on the proceed which amounted to €2 million, were included in the income statement as part of 'Net profit (loss) for the period from discontinued operations'.

In accordance with the requirements of IFRS 5, and as management considered Sovcombank's operations as a major geographical area, past results of the bank were included in 'Net profit for the period from discontinued operations' in the consolidated income statement.

The amounts of assets and liabilities, related to the investment in Sovcombank as of that date, which were disposed of as a result of the sale were as follows:

€ in millions	May, 2012
Assets	
Tangible fixed assets	25
Investment properties	1
Long-term loans and receivables	10
Intangible assets and goodwill	34
Loan to bank customers	404
Other receivables and prepayments	18
Income tax receivables	2
Short-term investments	172
Cash and cash equivalents	38
Total assets	**704**
Liabilities	
Deferred income tax liabilities	4
Interest-bearing loans and borrowings	62
Banking customers accounts	510
Other payables and accrued expenses	59
Total liabilities	**635**
	69

Composition of the income and expenses related to discontinued operations of Sovcombank and VAB Bank:

€ in millions	For the year ended December 31,		
	2012	2011	2010
Total income	–	102 *	81
Total expenses	–	89 *	(149)
Profit/(loss) before tax	–	13	(68)
Income tax expenses	–	11	4
Net profit/(loss) from discontinuing operations before capital gains	–	2	(64)
Capital gain from sale	1	5	79
Net profit from discontinued operations	**1**	**7**	**15**

* The sale of VAB Bank was completed in January 2011; as such the total income and expenses from these activities in 2011 were immaterial and includes mostly Sovcombank total inome and expenses (for additional information refer to Note 5 to the 2011 Annual financial statements).

Composition of the net cash flows related to discontinued operations:

€ in millions	For the year ended December 31,		
	2012	2011	2010
Net cash flow from operating activities	–	13	(55)
Net cash flow from investing activities	–	(18)	148
Net cash flow from financing activities	–	(8)	44
Net cash flows from discontinued operations	**–**	**(13)**	**137**

Composition of other comprehensive income items related to discontinued operations:

€ in millions	For the year ended December 31,		
	2012	2011	2010
Foreign currency translation differences	–	(3)	4

2011

1. **Acquisition of NLB Banka Sofia**
   In July 2011 TBIF (the holding company of the banking and retail lending segment) finalized the purchase of NLB Banka Sofia AD (NLB Bank). TBIF purchased 100% of the shares of the NLB Bank for a consideration of €15 million. The excess of purchase price over the carrying value of the acquired net assets, amounting to €5 million, was allocated primarily to the acquired banking license. Subsequent to the purchase the name of the bank was changed to TBI bank.

TGI

2010-2012

1. **FIMI Transaction**
   In July 2010, TGI (the holding company of the Company's infrastructure segments) signed an agreement (the Agreement) with FIMI, an Israeli private equity fund, pursuant to which FIMI undertakes to provide TGI a loan of up to USD 50 million (approximately €38 million). In exchange, FIMI will receive warrants in an amount of up to USD 50 million to purchase an equity stake in TGI.

   In July 2010, FIMI provided a loan (the Loan) to TGI in the amount of USD 25 million (€19 million) and provided an additional commitment in the same amount which will be available one year after the closing. The Loan is to be repaid after four years and bears an interest of 6 month Libor plus 3% per annum. On each interest payment date, the Loan may be prepaid in whole or in part without premium or penalty. Upon closing of the Loan Agreement, the Company converted 50% of its shareholders loans to TGI in to equity at the total amount of €82 million.

On the basis of the Agreement, TGI issued warrants to FIMI, which entitle FIMI to purchase shares in TGI in the amount of the Loan outstanding. The exercise price of the warrants is based on TGI valuation equal to the lower of:

a. USD 250 million increased by 5% annually (subject to certain adjustments, as detailed in the Agreement) or;

b. In case of an exit event such as an IPO, merger or loss of control at a 25% discount from the valuation of TGI at such exit event date.

The warrants are exercisable after the below mentioned call option has expired or upon an exit event. If TGI would obtain part or whole of the additional commitment, it would issue additional warrants to FIMI for the amount of this additional loan.

The warrants expire at the earlier of the lapse of four years after closing or upon an exit event, if they are not exercised at such an exit event. The Company has the option to buy back up to 60% of the warrants at an IRR of 17.5% (provided that a pro-rata portion of the Loan shall be repaid at that time) (the Call Option). The Call Option can be exercised by the Company in the six months period commencing two and a half years from closing, or earlier in certain events. The Company and FIMI have also signed a shareholders' agreement providing for certain customary rights and obligations.

At initial recognition, the Company and TGI have classified the warrants as a derivative liability and determined the fair values of the warrants (€6.2 million) and the Call Option (€2.1 million), based on an external valuation, the residual of the consideration was allocated to the loan element. The external valuation was based on the 'Binomial model'. The valuation was done with respect to the exercise price and by using parameters of TGI value as of the balance sheet date, effective contractual period of the options, annual interest rate and expected volatility of shares. Subsequent fair value movements of the warrants and the Call Option will be recognized in the income statement as 'financial income (expense)'. The Loan is subsequently measured at amortized cost with an effective interest rate being 10.6%.

In June 2011, TGI signed an amendment to the loan agreement with FIMI. The amendment includes: (i) the drawdown period for the additional loan in an aggregate amount of USD 25 million is extended with one year; (ii) the repayment date of the aggregated total loan is extended with one year; (iii) the exercise period reflected in the corresponding warrant agreement is extended with one year. As a result, the warrants and the Call option held by the Company were revalued; the change in terms did not result in a material change to the value of the options or the loan.

In June 2012 TGI signed an additional amendment to the Loan Agreement with FIMI. The amendment includes:

a. The annual interest on the Loan will be raised from 6M Libor +3% to 6M Libor + 5%, starting July 1, 2012;

b. The right of TGI to withdraw the additional USD 25 million loan is now subject to approval of FIMI;

c. The Loan principle will be repaid in two payments – 30% in October 2015 and the remaining 7 years from the initial closing date (August 2017);

d. The warrant exercise period will be extended to seven years original closing date of the transaction (August 2017).

The amendment of the Loan was assessed to be a modification (no extinguishment) and was accounted for as such.

As a result of the amendment, the warrant granted to FIMI to purchase TGI shares and the Call option of the Company was revalued. The fair value adjustment for 2012 amounts to an expense of €1.7 million, the adjustment to fair value has been accounted for as financial expenses in the income statements.

D The following shares are used as collateral by the Group companies:

As described in Note 27, Group companies have pledged shares as collateral for certain loan agreements. The main shares pledged are as follows:

1. 25% of the shares of GTC SA.
2. 100% of the shares of KFS.
3. GTC SA pledged shares of its subsidiaries for several construction loans.

E Investments in joint ventures

Following are main statement of financial position and profit and loss items of companies and joint ventures accounted for under the proportionate consolidation method as presented in these consolidated financial statements:

Group share in the companies' statement of financial position according to holding percentage:

€ in millions	December 31, 2012	December 31, 2011
Current assets	177	719
Non-current assets	202	537
Current liabilities	(187)	(559)
Long-term liabilities	(94)	(513)
Assets, net *	**98**	**184**

Group share in the operating results of the joint ventures according to holding percentage:

€ in millions	December 31, 2012	December 31, 2011 *	December 31, 2010 *
Revenues	88	135	94
Expenses	(76)	(65)	(74)
Net profit	12	70	20

* Due to the sale of the remaining 50% in Sovcombank (which was one of the group's material joint ventures) in 2012, its results were reclassified to 'Net profit for the year from discontinued operations'

Refer to Note 5B for a list of material joint ventures.

For additional information regarding commitments and contingent liabilities related to the joint ventures refer to Note 27.

F The Group's investments in subsidiaries whose shares are publicly traded

€ in millions	December 31, 2012	December 31, 2011
GTC SA *		
Carrying value	204	199
Market value	215 **	128

* Traded on the Warsaw Stock Exchange.
** Market Value of GTC SA on March 20, 2013 was €175 million

G The Company has received the following dividend amounts in the reporting period

€ in millions	2012	2011
From subsidiaries	21	15
From joint ventures	–	7
From associated companies	–	9

For Liens, Contingent Liabilities and commitments of investees refer to Note 27.

H Assets Held for Sale

Assets held for sale and Liabilities associated with assets held for sale in 2012 comprised of Platinium V, three shopping centers located in Romania, the investment in GTC Investments B.V. (a joint venture subsidiary of GTC Holding) and repossessed finance lease assets and acquired collateral assets (in 2011 the balance comprised mostly of Platinium Business Park 1-4).

6 Tangible fixed assets

€ in millions	Freehold Land, buildings and assets under construction	Property, plant and equipment	Motor vehicles	Office furniture and equipment	Leasehold improve-ments	Total
Cost						
Balance as of January 1, 2011	57	42	20	37	10	166
Additions [1]	37	30	7	11	3	88
Disposals [2]	(45)	(19)	(9)	(30)	(8)	(111)
Reclassification	2	(1)	–	2	(1)	2
Impairment	–	(2)	–	–	–	(2)
Exchange differences	2	(1)	–	–	–	1
Balance as of December 31, 2011	**53**	**49**	**18**	**20**	**4**	**144**
Additions [1]	6	1	11	3	1	22
Transfers from investment properties	3	–	–	–	–	3
Disposals [2]	(7)	(23)	(11)	(3)	(3)	(47)
Exchange differences	(3)	–	–	–	–	(3)
Balance as of December 31, 2012	**52**	**27**	**18**	**20**	**2**	**119**
Accumulated depreciation:						
Balance as of January 1, 2011	2	18	11	20	4	55
Depreciation for the year [1]	–	4	3	6	2	15
Eliminated on disposals [2]	–	(3)	(5)	(14)	(4)	(26)
Reclassification	–	(1)	(1)	–	–	(2)
Exchange differences	–	(1)	–	–	–	(1)
Balance as of December 31, 2011	**2**	**17**	**8**	**12**	**2**	**41**
Depreciation for the year [1]	1	2	3	2	–	8
Eliminated on disposals [2]	–	(5)	(4)	(2)	–	(11)
Reclassification	–	–	–	–	–	–
Exchange differences	(1)	–	–	–	–	(1)
Balance as of December 31, 2012	**2**	**14**	**7**	**12**	**2**	**37**
Net book value						
December 31, 2011	51	32	10	8	2	103
Net book value						
December 31, 2012	**50**	**13**	**11**	**8**	**–**	**82**

Freehold land and buildings are related to owner-occupied property.

1 Includes additions resulting from newly consolidated subsidiaries: December 31, 2012 cost nil; accumulated depreciation nil (December 31, 2011 – €7 million and – €4 million, respectively).

2 Includes disposals resulting from deconsolidation of subsidiaries: December 31, 2012 cost €33 million; accumulated depreciation €8 million, (December 31, 2011 – €20 million and – €10 million, respectively).

7 Investment properties

A General

Investment properties owned by the Group include office and commercial space and comprise both completed properties, investment properties under construction and land plots for future development. The activities are conducted in the following geographical areas, the Asia region and Europe.

B The movements in investment properties for the years ended December 31, 2012 and 2011 are as follows:

€ in millions	2012	2011
Opening balance	1,885	2,344
Acquisition of newly consolidated subsidiaries and increase in interest in a joint venture [1]	14	33
Additions capitalized subsequent expenditure	66	200
Valuation gains	34	80
Valuation losses and impairment adjustments	(127)	(274)
Disposals [2]	(4)	(385)
Transfer to Property, plant and equipment	–	1
Transfer (to) from inventory	(1)	2
Foreign currency translation differences	(2)	18
	1,865	**2,019**
Transfer (to) from assets held for sale [3]	(117)	(134)
Closing balance	**1,748**	**1,885**

1 The 2012 movement relates to the purchase of the 50% remaining interest in a joint venture see Note 5C. The 2011 movement relates to the (a) 2.5% increase in shareholding in GTC Investments (b) purchase of shares in a subsidiary and (c) Purchase of shares in a joint venture company in Romania.

2 In 2012 mainly relates to sale of a land plot in Romania. In 2011 relates to the sale of Galleria Mokotow and 50% Galleria Chengdu (HK) see also section I below.

3 Assets classified as held for sale during 2012 includes investments properties included as part of the investments in the joint venture company GTC Investments B.V. and investment properties in Romania and Poland. 2011 relates to the sale of Platinium Business Park.

As a result of revaluation of investment properties under construction and completion of construction of investment properties, the goodwill allocated to these properties was deducted from the adjustment to fair value. In 2012, the goodwill deduction amounted to nil (2011: €8 million). Accordingly, the consolidated income statement shows net fair value adjustments of €88 million (2011: €205 million devaluation).

Investment properties which are financed by external debt are in most cases pledged as securities for the according long-term loans in favor of the lending banks.

Fair value adjustments comprise:

€ in millions	For the year ended December 31,		
	2012	2011	2010
Valuation gains from newly completed investments properties	6	15	32
Valuation losses from newly completed investments properties	(10)	(63)	(7)
Valuation gains from investments properties completed in prior years	11	60	69
Valuation loss from investments properties completed in prior years	(96)	(120)	(34)
Adjustment to fair value of investment property under construction, net of goodwill released	15	(3)	11
Impairment of investment properties under construction measured at cost	(18)	(89)	–
Fair value of properties held for sale	4	–	–
Impairment of receivables and accruals	–	(5)	–
Total fair value adjustments for the year	**(88)**	**(205)**	**71**

During the fourth quarter of 2012, the fair value adjustments and impairments amounted to a loss of €52 million mainly as a result of valuations losses recorded in Romania, Bulgaria and Croatia. These impairments were mainly the result of decline in ERV expectations and due to a delay in the projected start date and a decrease of the future expected sales prices relating to the continued weak economies and mortgage scarcity.

Presented in the table below are fair value adjustments/impairments separated to Asia and Europe:

€ in millions	For the year ended December 31,		
	2012	2011	2010
Adjustment to fair value/Impairments in Asia (Kardan Land China)	12	16	75
Adjustment to fair value/Impairments in Europe (GTC SA and GTC Investments)	(100)	(221)	(4)
Total fair value adjustments for the year	**(88)**	**(205)**	**71**

C Investment properties can be split up as follows:

€ in millions	December 31, 2012	December 31, 2011
Completed investment properties (F)	1,377	1,477
Investment properties under construction carried at fair value [1]	82	64
Investment properties under construction carried at cost [1] (F)	289	344
	1,748	**1,885**

1 Real estate under construction carried at cost includes borrowing costs incurred in connection with the construction of the projects. During 2012 borrowing costs capitalized as real estate under construction amounted to €1 million, (2011: €2 million). During 2012 and 2011 interest was capitalized to real estate under construction carried at cost at an average rate of 5% p.a. (2011: 5% p.a.). in accordance with the incurred interest expenses in project under development.

Presented in the table below the Group investment properties in Asia and Europe:

€ in millions	December 31, 2012	December 31, 2011
Investments properties in Europe (GTC SA and GTC Investments (Only in 2011)) *	1,597	1,764
Investments properties in Asia (Kardan Land China)	151	121
	1,748	**1,885**

* As of July 1 2012, GTC Investments B.V is presented as assets-held-for-sale.

D During 2012 the following projects were completed and classified as completed investment properties:

Completion date	Property name	Fair value adjustment during 2012 (€ in millions)	Fair value adjustment during 2011 (€ in millions)
Second quarter 2012	Galleria Burgas Shopping center, Burgas Bulgaria	(10)	–
Third quarter 2012	Platinium V office building, Warsaw Poland	10	–

E Significant assumptions:

Significant assumptions used in the valuations are presented below on the basis of weighted averages.

	Asia		Europe	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Completed investment properties				
Average rental rate per sqm per month (in €) *	25	19	14.9	15.9
Yield	9.5%	9.5%	8.3%	8.1%
ERV per sqm per month (in €) *	24.8	21	15.5	16.2
Current vacancy	–	2.5%	9%	13%
Long-term vacancy	2%	5%	0%-5%	0%-5%
Vacancy duration assumed in valuations (months)	**	**	13	24
Assets under construction (only assets at fair value)				
Yield	8.5%	n/a	n/a	8.7%
Average % completed ***	21%	n/a	n/a	53%

* Apart from basic rent, includes income from parking, add on factors and other income.
** As of December 31, 2012 and 2011 assumed void period of 0.5-1 months.
*** During 2012, the Company revalued an investment property under construction in China in the amount of €10 million

In the valuation reports of the properties, the valuers assumed a potential impact due to future lease incentives to be granted in order to secure new lease contracts, in the amount of up to 8 months rental income and fit out contribution ranging from €35 to €100 per sqm. All these estimates are based on average conditions applicable in the various local markets in which the Group operates.

F Revaluations and impairment tests in CEE

In some of the real estate markets in which the Company is active management has observed low levels of liquidity and transactions, resulting in a lack of clarity as to pricing levels and the market drivers.

Prices and values are going through a period of heightened volatility whilst the market absorbs the various issues over a time and reaches its conclusions. This has resulted in a continual reappraisal of CEE commercial property prices. As a result there is less certainty with regard to market values that change rapidly in the current market environment.

Management has assessed the value of its properties portfolio and landbank in the view of the current macroeconomic environment and expectation for future improvements. The assessment was supported and confirmed by external valuers.

The substantial impairment of investment property results mainly due to lower expectation regarding future rent payment in commercials centers due to purchasing power as describe above.

G Impairment of investment properties under construction at cost

For most of the assets presented at cost, an impairment test was performed by external valuers. The impairment test was conducted on the basis of the Residual value or Comparison methods. In Residual method, an average yield of 7.75%-10% was applied, and a theoretical third-party developers' profit of 12%-24% was deducted.

H Sensitivity analysis:

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

€ in millions	Asia		Europe	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Completed investment property				
Change of 25 bp in yield	1	1	40	42
Change of 5% in estimated rental income	1	1	58	68
Investment property under construction				
Change of 25 bp in yield	2	n/a	n/a	2
Change of 5% in estimated rental income	4	n/a	n/a	5

In order to estimate the impact of the yield change on the profit, the Company has considered the ratio between the yield change and average yield in the portfolio. This ratio was then multiplied by the total value of investment property.

In addition to the parameters mentioned above, in some cases, in view of the decline in consumers' purchasing power, the timetable for stabilization of certain completed and cash generating assets had to be re-assessed, and consequently expectations for stabilized income were deferred.

I. Significant transactions involving investment properties

2012

1. **Shopping centers in National Commercial Centers BV (NCC) subsidiaries**
   On 31 October 2012, GTC Romania (a wholly owned subsidiary of GTC SA) entered into agreement to sell three shopping centres located in Romania.

The transaction was subject to buyer's due diligence and customary approvals.

As a result of this transaction, GTC SA recognized a revaluation loss of €19 million in 2012. Subsequent to the balance sheet date, in January 2013, the buyer and NCC decided to cancel the above mentioned pre sale agreement. As of December 31, 2012 the Company presents the three assets as held-for-sale. The Company is continuing its efforts to sell the shopping center.

2. **Sale Of Platinium Business park**
   On October 31, 2012 GTC SA signed final sale agreements regarding the sale of Platinium Business Park project (i.e. buildings I through IV). The total price amounted to €138.8 million. On the same day, GTC SA fully repaid the loans and other related liabilities related to those assets. As of December 31, 2012, Platinium V is presented within assets held-for-sale. The Head of Terms for the sale was signed in October 2011 for an amount of €134.1 million, following which Platinum Business Park was reclassified to 'assets held for sale', and the related loans and hedge instruments were classified as current liabilities. In February 2013 the building was sold.

3. **Sale of Swiss Portfolio**
   In September 2012 Durango Switzerland B.V. (hereafter Durango), a subsidiary owned 80% by GTC Investments, signed agreements for the sale of the Swiss portfolio to an investor (the Swiss portfolio includes six office buildings in different cities throughout Switzerland), in consideration of approximately €61 million. The net proceeds amounted to €6 million and the gain from the transaction was immaterial.

   During September till November 2012 Durango completed the sale of the office buildings.

2011

4. **Sale of Galleria Mokotow**
   In August, 2011 GTC SA (which is included in the Company's Real Estate Europe segment) sold all its shares in the company holding the shopping center Galleria Mokotów (Rodamco CH1), to the co-owner of the Galleria Mokotow Shopping Center in Warsaw for a total consideration of €139 million. An expense in amount of €3.5 million, which relates to this transaction, is included within general and administration expenses.

5. **Sale of 50% of Galleria Chengdu**
   In August, 2011, Kardan Land China, sold 50% of its shares in Kardan Land Chengdu Ltd., a subsidiary which owns the Galleria Chengdu shopping center to MGP Spicy (BVI) Limited, for a consideration of €46 million.

   Kardan Land China recognized a gain on disposal of a subsidiary in the amount of €12 million, this amount included in 'Gain (loss) on disposal of assets and other income', out of which €5 million relates to revaluation of its remaining interest to fair value. The final purchase price allocation was completed during 2012 and the excess value of €5 million was allocated to goodwill audit which mainly relates to the difference between the deferred tax liabilities recognized in accordance with IAS 12 the fair value of such deferred tax liabilities. The sale resulted in reclassification of foreign currency translation differences previously recognized in other comprehensive income to the income statement in the amount of €3 million.

J. ISA Letter

On March 15, 2012, the Company received a letter from the Israeli Securities Authority (hereafter – the ISA), following earlier discussions and correspondences between the ISA and the Company regarding a sampling audit that was conducted by the ISA on the Company's audited financial statements as of December 31, 2009, and included, inter alia, an examination of the values in the financial statements of five real estate assets owned by a consolidated subsidiary. According to the said letter, the purpose of the sampling was to examine the accounting treatment of investment properties that are presented in the financial statements of the Company at fair value and also of investment properties that are presented in the financial statements at cost for which impairment test was performed.

As a result of the findings of the examination of the fair value and/or the recoverable amounts of the five assets that were examined, the ISA is of the opinion that the Company should correct the values of the assets that were examined in order to fairly present their fair value, as required by the provisions of International Financial Reporting Standards. In addition, the Company is required to examine the validity of the findings of the ISA in relation to carrying values of its investment properties that were not included in the sample, and to send to the ISA its response, inter alia with respect to the claimed facts or new arguments, to the conclusions raised in ISA letter in relation to the five assets that were examined, and in relation to the other investment properties of the Group and their implications on the need to amend the Company's financial statements as of December 31, 2009.

It should be noted that the valuations the Company performs with respect to the majority of its investment properties are performed at least twice a year by external independent appraisers in leading appraiser firms. In addition it should be noted that the financial statements of the consolidated subsidiary are audited by Ernst & Young.

The Company sent response letters to the ISA, and is currently in discussions with ISA. Following the discussions with the ISA, the Company is still of the opinion that there are no material deficiencies in these valuations, neither at December 31, 2009 nor at subsequent dates.

Regarding the change in the law which relates to one of the assets addressed in the letter, see Note 40D.

8 Investments in associates

A Composition

The Company has (indirect) shareholdings in the following associates:

Holding company	Name of associate	% of ownership and control by the direct holding company as of		
		December 31, 2012	December 31, 2011	Country
Globe Trade Centre S.A.	Lighthouse Holdings Ltd. S.A	35.0	35.0	Luxembourg
	Vokovice BCP Holding S.A.	35.0	35.0	Luxembourg
	Holesovice Residential Holding S.A.	35.0	35.0	Luxembourg
	CID Holding S.A.	35.0	35.0	Luxembourg
GTC Real Estate Investments Ukraine B.V.	Europort Investment (Cyprus)[1] LTD	49.99	49.99	Cyprus

B The Composition of the Investment in associates is as follow:

€ in millions	December 31, 2012	December 31, 2011
Total of equity investments	–	7
Loans and other long-term balances	42	47
Total investment in associates	**42**	**54**

C Movement in the equity investments in associates is as follows

€ in millions	2012	2011
Balance as of January 1	54	157
Additions (disposals), net *	–	(89)
Change in loans, net	(3)	(6)
Equity earnings (losses) **	(10)	3
Dividend distributed	–	(7)
Foreign currency translation differences	1	(4)
Balance as of December 31	**42**	**54**

* For additional information refer to Note 5C.

** Equity earnings for the years 2012 and 2011 in the amount of nil and €6 million respectively, are included in the income statement as part of the 'Net profit (loss) from discontinued operations'.

D Loans:

The investment in associated companies includes loans as follows

€ in millions	Interest rate (p.a.)	December 31, 2012	December 31, 2011
In EUR	3M Euribor +4.3%	25	31
In USD	6 months Libor +4.875% and 10%	17	16
		42	**47**

For most loans repayment dates have not been determined yet.

E Below is a summary of financial data from the statement of financial positions of the Group's associated companies:

€ in millions	December 31, 2012	December 31, 2011
Current assets	11	19
Non-current assets	120	134
Current liabilities	(73)	(78)
Non-current liabilities	(53)	(60)
Non-controlling interest	(5)	(8)
Assets, net	**–**	**7**

Share of the Group in the results of associated companies proportionate to the holding rate for the year:

€ in millions	For the year ended December 31,		
	2012	2011	2010
Revenues	**15**	**15**	**29**
Net profit (losses)	**(10)**	**(3)**	**6**

9 Loans to bank customers

A Composition

€ in millions	December 31, 2012	December 31, 2011
Loans and advances to individuals	34	289
Mortgage loans	1	6
Other loans and advances to banks	6	1
	41	296
Corporate loans	29	161
Total loans and advances gross	70	457
Less – allowance for impairment losses [1]	(4)	(27)
	66	**430**

1 Movements in allowance for impairment losses are:

€ in millions	2012	2011
Balance as of January 1	27	15
First time consolidation	–	10
Deconsolidation	(16)	–
Allowance for the period	(1)	20
Recognized written-off uncollectible debts	(6)	(18)
Foreign currency exchange differences	–	–
Balance as of December 31	**4**	**27**

B Maturities

€ in millions	December 31, 2012	December 31, 2011
Presented as current assets	41	241
Presented as non-current assets	25	189
	66	**430**

The decrease in 2012 is mainly due to the sale of Sovcombank – for additional information see Note 5C.

During 2012, TBIF repossessed assets with a carrying value of €7.5 million (€10.5 million in 2011). TBIF is in the process of selling the repossessed assets

10 Long-term loans and receivables

A Composition

€ in millions	December 31, 2012	December 31, 2011
In USD [1]	9	10
In EUR [2]	92	148
In other currencies [3]	49	69
	150	227
Less – current maturities	(48)	(115)
	102	112
Service concessions [4]	73	63
Receivables from related parties, joint ventures and NCI [5]	21	43
Provision for doubtful debts [6]	(62)	(58)
Other	5	–
	139	160

1 As of December 31, 2012 and 2011, the balance includes €7 million relating to leasing activities.
2 As of December 31, 2012 the balance includes: an amount of €69 million (2011: €111 million) from Consumer finance.
3 The balance includes mainly consumer finance denominated primarily in Romanian Lei.
4 The concession agreements are based on guaranteed volumes and tariffs, which in accordance with IFRIC 12 are accounted for as concession financial receivables.
According to the relevant concession agreements, the Group has an unconditional right to receive cash as the grantor contractually guarantees to pay at specified amounts or the shortfall between the actual and the guaranteed water volume. The interest on the finance receivables amounts to an average of approximately 7.5%. Short term portion of concession agreements in the amount of €16 million (in 2011 €14 million) is presented in other receivable (see Note 14).
5 Primarily includes loans to partners in joint ventures. In 2011 and 2012, the loans are mostly denominated in EUR and bear a variable interest rate of Euribor + a margin of 3% p.a. (in 2011 €5.5 million bears fixed interest of 3.05% p.a. interest).
6 Provision for doubtful debts primarily includes provision for impairment losses relating to consumer credit and finance leases. The provision increased mainly due to the impact of the European debt crisis on the Banking and retail lending in Bulgaria and Romania.

B Long-term loans and receivables are further specified as follows:

€ in millions	December 31, 2012	December 31, 2011
Financial leases	33	57
Consumer credits and mortgage	42	86
	75	**143**
Current	23	61
Non Current	52	82
	75	**143**

€ in millions	December 31, 2012	December 31, 2011
Not more than one year	30	50
Later than one year and not later than five years	21	31
Later than five years	1	1
Gross receivables from financial leases	52	82
Less – gross earnings allocated to future periods	8	10
Less – allowance for impairment losses	11	15
Net investment in financial leases	**33**	**57**
Not more than one year	16	30
Later than one year and not later than five years	16	26
Later than five years	1	1
	33	**57**

Financial leases include mainly agreements with corporate and private customers for vehicles and production equipment.

C Movement in the provision for doubtful debts:

€ in millions	December 31, 2012	December 31, 2011
Balance as per January 1	58	38
Deconsolidation of a subsidiary	(1)	(5)
Allowance for the period	15	42
Recognized written off uncollectible debts	(10)	(17)
Balance as of December 31	**62**	**58**

11 Intangible Assets and Goodwill

At December 31, Kardan N.V.'s market value amounts to €87 million and is below its carrying amount of €169 million. This fact has been taken into account in the valuations of Kardan's assets and the impairment tests. Besides the valuation adjustments and impairments recognized, this did not lead to additional fair value adjustments and impairments.

A Movement in goodwill, service concession and other intangible assets is as follows:

€ in millions	Goodwill	Service concessions [3]	Other intangibles [5]	Total
Balance as of January 1, 2011	142	11	26	179
Additions [1]	12	–	21	33
Change due to disposal of subsidiaries [3]	(33)	–	(6)	(39)
Reclassification of intangible assets [2]	–	–	(11)	(11)
Impairment and amortization [5]	(68)	–	(5)	(73)
Balance as of December 31, 2011	**53**	**11**	**25**	**89**
Change due to disposal of subsidiaries and joined ventures [3]	(22)	–	(11)	(33)
Reclassification of intangible assets	–	–	–	–
Impairment and amortization [5]	(4)	–	(2)	(6)
Balance as of December 31, 2012	**27**	**11**	**12**	**50**
As of December 31, 2011				
Total cost	154	11	47	212
Accumulated amortization and impairment losses	(101)	–	(22)	(123)
	53	**11**	**25**	**89**
As of December 31, 2012				
Total cost	53	11	25	89
Accumulated amortization and impairment losses	(26)	–	(13)	(39)
	27	**11**	**12**	**50**

1 The additions in 2011 relate primarily to the sale of Chengdu in the amount of €5 million (mainly relates to deferred tax liability), acquisition of Metropoli-Net (€4 million) and to the acquisition of AVIS – for additional information refer to Note 5C.
2 In 2011, an amount of €11 million relates to finalization of PPA of Sovcombank.
3 The change in 2012 relates to the sale of Sovcombank – for additional information see Note 5C; In 2011 the change relates mostly to the distribution of Kardan Yazamut in the amount of €11 million. Refer to Note 5C for additional information.
4 Other intangible assets include mostly excess cost allocated to banking license and loan benefits.
5 Refer to impairment of goodwill section, further in this note.

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

€ in millions	December 31, 2012	December 31, 2011
Kardan Land China	6	5
Romania and Bulgaria - Consumer credit and leasing	4	7
Ukraine – Leasing	4	4
Russia - Banking	–	23
Tahal Consulting Engineers Ltd (TCE)	3	3
KWIG	3	3
Dahzou Tianhe Water Supply	1	1
Tianjin Huanke Water Development Co., Ltd	4	4
TASK Turkey	1	1
Other subsidiaries and effect of translation differences	1	2
	27	**53**

Goodwill acquired through business combinations has been allocated to the relevant cash-generating units, and is primarily allocated to anticipated future benefits arising from synergies. Relevant cash generating units within the reportable segments could be individual subsidiaries, activities in a certain country, or total operating segments before aggregation.

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

C Impairment of goodwill

KFS

Impairment charges recognized

During 2012, KFS recognised impairments charge of €4 million (2011 – €57 million). In 2012 impairments mostly related to the operations in Romania. In 2011 impairments related to all operations except to the Romanian operations.

The reduction in recoverable amounts is based on estimated values in use. For 2012 and for 2011 for Romanian and Ukrainian operations values in use were based on DCF valuations as detailed below. In 2011, the reduction in recoverable amounts for the Russian banking activities was in line with price agreed upon in the sale transaction of TBIF's stake in bank, thus reflecting fair values less cost to sell. In 2011, value in use for Bulgarian non-banking operations was determined based on the equity of the companies.

Basis of the recoverable amount for December 31, 2012

For each significant CGU, the value is calculated by discounting management's cash flow projections, for a period of 5 years. The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective of KFS's business strategy.

Discount rates and long term growth rates

The discount rate used to discount the cash flows derived from the Capital Asset Pricing Model (CAPM). The CAPM depends on inputs reflecting a number of financial and economic variables including the risk-free rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated. The rates used as of December 31, 2012:

Country	Discount rate for forecast period	Discount rate for residual	Portfolio growth rate
Ukraine	15.5%	14.5%	4%
Romania	13.5%	13.5%	3%
Bulgaria	12.5%	12.5%	3%

Management's judgement in estimating the cash flows of a CGU:
The cash flow projections for each CGU are based on long term plans prepared by the management. These account for local market conditions and management's judgment of local future trends. The key assumptions in addition to the discount rates and the long-term growth rate for each significant CGU are: the level of impairment charges; the timing and scope of the growth of the portfolios and the returns that will be achieved on the portfolio; operational efficiencies. These key assumptions have been determined based on 2013 budgets and management's best estimates regarding return to portfolio growth in forecast years. Also, the assumptions are based on the companies' current cost structures, portfolio qualities and financing needs.

Sensitivity analysis:
A sensitivity analysis regarding the effect using a different discount rate for the long term was carried out for all operations. Increasing the discount rate in the long term by 1% (equivalent to decrease of the assumption for long term growth rate by 1%) would have resulted for 2012 in an additional impairment charge of €0.2 million for Bulgarian operations and in an additional impairment charge of €1.6 million for Romanian operations. For 2011 this would have resulted in an additional impairment charge of €0.5 million for Ukrainian operations and in additional impairment charges of €3.2 million for Romanian operations and in an additional impairment charges of €1.5 million for Ukrainian operations.

A sensitivity analysis regarding the effect of decreasing the portfolio growth rate by 20% in the forecast years was carried out for all operations. This would have resulted for 2012 in an additional impairment charge of €1.1 million for Ukrainian operations, €2.1 million for Bulgarian operations and €2.3 million for Romanian operations. This would have resulted for 2011 in an additional impairment charge of €4.7 million for Ukrainian operations and Romanian operations.

Useful lives:
Goodwill and bank licences have an indefinite useful life. Other intangibles assets (core deposits and customer relationships) have a useful life of ten years.

TGI

The recoverable amount of goodwill has been determined based on the values used for valuations of each segment, according to methods and assumptions applicable for such segment.

The recoverable amount has been determined based on a value in use calculation. The method used for calculating the value in use is the Discounted Cash Flow (DCF) method. The period used in the DCF method is 5 years, which is based on the nature of the operations of the cash-generating units.

The assumptions regarding the fair value evaluation can be presented as follows:

	WACC	Annual growth rate	Gross profit margin	Operating income margin
Projects segment:				
2012	12%	5%	12.5%	4.5%
2011	12%	2%	17.5%	5.4%
Assets segment: (mainly KWIG and Tianjin)				
Chinese assets				
2012	12%	[1]	[2]	10%-20% [3]
2011	8%	[1]	[2]	10%-20% [3]
Other assets				
2012	8%-11%	[1]	[2]	10%-15% [3]
2011	8%-11%	[1]	[2]	10%-15% [3]

1 The majority of the asset companies have revenues which are based on contractual fixed incomes, as part of the concession agreements.
2 For the asset segments, only the operating income margin is used for value in use.
3 The operating income margin differs between the individual plants in China.

GTC

Goodwill in the GTC Group relates only to Kardan Land China. In the GTC Group, goodwill acquired through business combinations has been allocated to the relevant cash-generating units and represents the portfolio premium paid on acquisition. As of December 31, 2012, the goodwill is attributed to the Residual balance of deferred tax liability, in excess of the fair value, initially provided on acquisition.

D Service concession agreements:

The service concession agreements can be presented as follows:

€ in millions	Remaining construction period	Remaining operational period	Carrying value December 31, 2012	Carrying value December 31, 2011
Tianjin Tanggu Huanke Xinhe Sewage treatment	–	20 years	9	10
Gulluk project - Turkey	–	30 years	2	1
Total			**11**	**11**

The carrying value of each of the identified projects are based on the net present value of expenses made adjusted for an estimated gross margin, taking into account the construction and operating period.

The construction period consist of upgrading activities to the plants. As per December 31, 2012 all significant upgrading activities have finished, and all plants are operational.

The movement during the year for each project is as follows:

€ in millions	Carrying value December 31, 2011	Reclassification [1]	Amortization	Upgrading investments	Exchange differences	Carrying value December 31, 2012
Tianjin Tanggu Huanke Xinhe Sewage treatment	10	–	(1)	–	–	9
Gulluk project - Turkey	1	–	1	–	–	2
Total	**11**	**–**	**–**	**–**	**–**	**11**

E Amortization and impairment expenses:

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

– Cost of apartments sold;
– Contract costs;
– Costs of banking and retail lending activities;
– Selling and marketing expenses;
– General and administration expenses;
– Finance expenses;
– Net profit (loss) from discontinued operations;
– Impairment of goodwill.

12 Inventories, Contract Work and Buildings Inventory in Progress

A Composition

€ in millions	December 31, 2012	December 31, 2011
Building inventory in progress [1]	427	442
Contract work in progress [2]	7	20
Merchandise inventories and repossessed assets [3]	4	13
	438	475

1 Building inventory in progress:

(a) Residential projects financed by external debt are in most cases pledged as security in favor of the lending banks. The balance as of December 31, 2012, includes capitalized financing expenses amounting to €1 million (2011 the same).

(b) Composition of cost of buildings in progress.

€ in millions	December 31, 2012	December 31, 2011
Current:		
Completed	63	80
Under construction	208	239
In design stage	57	12
	328	331
Non-current:		
Land and inventory in design stage *	99	111
	427	**442**

* Land and buildings in progress in design stage amounting to €99 million (2011 €111 million) are presented as long-term inventory as starting date of the respective projects have not been determined yet.

(c) Buildings inventory is stated in gross figures. Customer advances are presented under other liabilities and amount to €124 million as of December 31, 2012 (December 31, 2011: €144 million).

(d) Cost of buildings in progress are presented as inventories. Revenues from sale of inventory are accounted for under the completed contract method.

In 2012 and 2011 all impairment losses relates to inventory and landbank in the CEE region. External valuers have conducted an analysis of net realizable value for each of the residential projects. The analysis of net realizable value was conducted by mainly using the Comparison method. These impairment tests indicated an impairment of approximately €16 million, mainly due to a delay in the projected commencement date and a decrease of the future expected sales' prices.

Presented in the table below the Group's cost of buildings in progress and residential land bank separated to China and the CEE region:

€ in millions	December 31, 2012	December 31, 2011
Cost of buildings in progress and residential land bank in the CEE region (GTC SA)	168	197
Cost of buildings in progress in China (Kardan Land China)	253	240
Other long term inventory *	6	5
	427	**442**

* Long term inventory includes an office building that was sold subsequent to the balance sheet date – for additional information refer to Note 40A.

The Company is in a process of modifying the buildings rights from residential to offices for projects presented with a book value of €14 million that on initial recognition were classified by the Company as inventory (residential land bank). The Company will reclassify the mentioned projects from inventory to investment property only following the commencement of an operating lease to a third party.

2 Contract work in progress:

Contract work in progress relates to infrastructure projects, which are not considered service concession arrangements. Details are as follows:

€ in millions	December 31, 2012	December 31, 2011
Contract costs incurred	266	330
	266	330
Less - Invoiced amounts	(275)	(323)
	(9)	7
Presented in statement of financial position:		
Current assets – contract work in progress costs	8	20
Current liabilities – advance payments from customers	(17)	(13)
	(9)	7

The above data referred to work done by subsidiary that provides engineering and design service primarily in water, sewage and agricultural and by a subsidiary that provide construction services.

3 In 2012 merchandise inventory mainly relates to the fruit inventory located in Mast Foods. The merchandise inventory is net of a provision for unsalable inventory. In 2011 merchandise inventory primarily relates to repossessed assets in TBIF (€10.5 million).

B Additional information concerning long term construction works:

December 31, 2012 € in millions	Residential construction		Infrastructure works	
	For the year ended	Cumulative up to the end of the reporting period	For the year ended	Cumulative up to the end of the reporting period
Revenues recognized	79	370	87	235
Cost recognized	62	302	65	197

December 31, 2011 € in millions	Residential construction		Infrastructure works	
	For the year ended	Cumulative up to the end of the reporting period	For the year ended	Cumulative up to the end of the reporting period
Revenues recognized	65	291	72	322
Cost recognized	54	240	66	268

C The Company estimate that approximately €70 million out of the building inventory will be realized in the next twelve months.

13 Trade Receivables

A Composition

€ in millions	December 31, 2012	December 31, 2011
Trade receivables [1]	59	37
	59	37

1 Net of provision for doubtful debts amounting to €5 million mostly due to tenant defaults in GTC Holding (2011 €5 million). The movement in the provision during the year was insignificant.

€52 million of the balance is comprised of trade receivables from the infrastructure segment.

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

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

€ in millions	Neither past due nor impaired	Past due but not provided					Provision for doubtful accounts	Total
		< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	> 120 days		
2012	34	6	2	4	1	17	(5)	59
2011	19	3	3	3	3	11	(5)	37

14 Other Receivables and Prepayments

€ in millions	December 31, 2012	December 31, 2011
Financial		
Central banks in Bulgaria and Russia [1]	6	7
Loan to partner in a joint venture	31	23
Accrued Income	8	6
Concession current financial assets	16	14
Other	13	12
Non-Financial		
Prepaid expenses	6	19
Advances to suppliers	3	5
Advance for land	7	5
VAT receivable	6	16
Other	9	2
	105	**109**

1 TBI Bank and Sovcombank are required to maintain, in the form of non-interest earning cash deposits, certain cash reserves with the local central banks (obligatory reserve), which are computed as a percentage of certain liabilities of the bank less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the central banks provided that the minimum reserve requirements are met. If the minimum average reserve requirements are not met, the banks could be subject to certain penalties. The balance in 2012 includes TBI Bank only as Sovcombank was sold in May 2012. The banks were obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The banks met the obligatory reserve requirements for the whole 2012 and 2011.

15 Short-Term Investments

	Average interest rate	December 31, 2012	Average interest rate	December 31, 2011
	%	€ in millions	%	€ in millions
Bank deposits in other currencies	0.5%-3%	1	0.5%-2%	3
Restricted bank deposits [1]	0.5%-3%	28	0.5%-2%	85
Securities held for trading [2]		–	9.7%	174
		29		**262**

1 The majority of the balance as of December 31, 2012 and 2011, is comprised of deposits pledged in connection with purchase of land and loans. The majority of the balance is in Euro.
2 Debt securities as of December 31, 2011 consist mostly of a bond portfolio held by Sovcombank.

16 Cash and Cash Equivalents

€ in millions	December 31, 2012	December 31, 2011
Cash at bank and in hand	82	123
Short-term deposits *	301	281
	383	**404**

* As of December 31, 2012 the average annual interest rate earned on short term deposits was 0.5%-3% (December 31, 2011 0.5-2%).

17 Issued and Paid-In Capital

A Composition

Number of shares	December 31, 2012		December 31, 2011	
	Authorized	Issued and paid-in	Authorized	Issued and paid-in
Ordinary shares with nominal value of €0.20 each	225,000,000	111,824,638	225,000,000	111,824,638

B Movement in issued and paid-in shares

	Number of shares	Par value in €
Balance as of January 1, 2011	111,824,638	22,364,927
Balance as of December 31, 2011	111,824,638	22,364,927
Balance as of December 31, 2012	**111,824,638**	**22,364,927**

C Changes in share capital

During 2012 and 2011, there were no changes in the issued and paid-in capital of the Company.

D Movement in treasury shares

	Number of shares	Par value in €
Balance as of January 1, 2011	12,300,330	2,460,066
Treasury shares repurchased	1,661,268	332,254
Treasury shares granted to an officer	(392,846)	(78,569)
Treasury shares issued as part of the spin-off	(12,300,330)	(2,460,066)
Balance as of December 31, 2011	**1,268,422**	**253,685**
Balance as of December 31, 2012	**1,268,422**	**253,685**

	December 31, 2012	December 31, 2011
Rate of treasury shares from the issued and paid in share capital	1%	1%

During 2011 the following share buy-backs took place:

In January 2011, the Company repurchased 20,000 shares which are held by the Company's liquidity provider.

In July and August 2011 the Company purchased 421,384 of its shares on the TASE and on Euronext Amsterdam at an average price of €3.1 per share for a total amount of €1.3 million. In August 2011, 392,846 shares were transferred to a former officer of one of Kardan's subsidiaries, in exchange for his shares in the subsidiary. As a result €3 million were booked in the Company equity as part of the non-controlling interest holder's transaction reserve.

In 2011, GTC Holding, purchased 1,219,884 shares of the Company on TASE and Euronext at an average share price of €2.20 per share for a total of €2.7 million. Following the purchase, GTC Holding has a 1.1% stake in the Company. These shares are presented in the Company's shareholders' equity as treasury shares.

E Dividend

In 2012 there were no distributions of dividends. Subsequent to balance sheet date, in March 2013, the Company signed an agreement with the debentures holders in which the Company commit not to distribute any dividends till February 2015 and in any event not before the publication of the annual accounts 2013 (for additional information see Note 40).

During 2011, the general meeting of shareholders approved to distribute the shares of Kardan Yazamut as dividend in kind to the Company's shareholders (see Note 5C).

F Reclassification according to Dutch civil code regulation and the Chinese law

In accordance to the Dutch civil code, part of the retained earnings is restricted for distribution following the regulation to maintain revaluation reserve in respect of real estate unrealized fair value and other adjustments. In addition, a portion of the Group's profit from jointly controlled entities that are established in China are restricted for distribution.

18 Share-Based Payments

A The expense recognized during the year is shown in the following table:

€ in millions	For the year ended December 31		
	2012	2011	2010
Expense arising from equity-settled share-based payment transactions of subsidiaries	3	8	10
Expense arising from cash-settled share-based payment transactions of the Company and subsidiaries	4	(4)	4
	7	**4**	**14**

The expenses are presented as part of 'Payroll and related expenses' within the General and administrative expenses.

B Option plans

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

(1) Kardan N.V.

a In February 2012 (the Effective Date) the Supervisory Board recommended to the Annual General Meeting of the Shareholders (the AGM) that assembled on May 2012, to approve the grant of stock options to the Company's CEO (the Option Plan). According to the Option Plan, the CEO will be entitled to options representing a maximum of 2% of the outstanding share capital of the Company. The exercise price which was initially determined was the average closing price of the Company's shares on the Tel-Aviv Stock Exchange, during 5 days prior to the Effective Date which was NIS 8.272 (the Exercise Price). The options are exercisable in four annual equal portions of which the first 25% is exercisable two years following the Effective Date. In May 2012, the AGM approved the Option Plan but shortly prior to the AGM, it was agreed to re-examine the Exercise Price.

Subsequent to balance sheet date, on February 6, 2013 the Extraordinary General Meeting approved an adjusted exercise price of NIS 6.136. The grant was accounted for assuming equity settlement and the total expenses booked in the period were immaterial and were included as 'General and administration expenses' in the income statement.

b In October 2006, the Management Board, the Supervisory Board and the General Meeting of Shareholders of the Company approved a stock-option plan according to which the Company will grant to members of the Management Board, employees of the Company and employees of the Kardan Group, without consideration, 1,099,327 options (of which 716,927 options were granted to members of the Management Board) exercisable into up to 1,099,327 ordinary shares of the Company each having a par value of €0.20 (subject to adjustments). The exercise price of each option equaled to €8.7 (NIS 46.57) after certain adjustments. The options were exercisable for a period of five years from the date of grant. One third of the options could have been exercised one year following the date of grant, one third two years following the date of grant, and one third – three years from the date of grant. The total value of the options at date of grant was estimated at €4 million. In 2011, the options related to the above grant expired.

c In June 2008 the Annual General Meeting of shareholders of the Company approved the grant of additional 325,000 options under the same plan to two members of the Management Board as follows:

1 150,000 options exercisable for into up to 150,000 ordinary shares in the capital of the Company at an exercise price of €6.615 per option, reflecting a price of 90% of the closing price of the Company's share on Euronext as of the date of grant, being April 1, 2008. To date, none of the options were exercised and expire on April 1, 2013.

2 175,000 options exercisable into up to 175,000 ordinary shares in the capital of the Company at an exercise price per option of €9.22 reflecting 90% of the closing price of Kardan's share on Euronext on the date of grant. Subsequent to balance sheet date, in January 2013, the options were cancelled due to the termination of the participant's employment – refer also to Note 39.

d In May 2010, the AGM of the Company adopted a Share Plan which is meant as an incentive plan for certain (limited) qualified key (management) employees of the Company. According to the Share Plan, a maximum of 2% of the issued share capital of the Company (as outstanding on January 1, 2009) will be granted to the qualified employees for the 3 years period ending on January 1, 2012. Such selected participants will receive a Notice of Grant which will specify the Date of Grant. The participants being members of the Management Board should achieve certain predefined targets over a performance measurement period of 3 years. After attainment of the targets, new non-listed shares of the Company (the Unreleased Shares) will be issued against payment of the nominal value of the shares. The Unreleased Shares will be held in custody by the Company for two years, and will be released for trade at the later of (i) the expiration of the Performance Measurement Period, or (ii) at the moment the Participant has accumulated (at least) five consecutive years of service with the Company since January 1, 2009. The participants being members of the Management Board can elect to receive up to 50% of this incentive by way of a cash payment, subject to the approval of the Supervisory Board of the Company. For members of the Management Board, the definition of targets to be achieved, as well as the parameters of the maximum incentive to be received, takes place in accordance with the general principles of the Remuneration Policy (that was adopted by the Annual General Meeting of shareholders in May 2009) as well as the principles as applied by the Remuneration, Appointment and Selection Committee and the Supervisory Board. For other key employees, not being member of the Management Board, the targets will be set by the Management Board and may take the form of general performance targets.

In March 2012, the Annual General Meeting of the Company approved a grant of 119,759 shares of the Company (the Unreleased Shares) under the 2010 share plan to executives and employees of the Company.

The grant was accounted for assuming equity settlement and the total expenses booked in the period were immaterial and were included as 'General and administration expenses' in the income statement.

e The fair value of the majority of the options grants was calculated by an independent external valuator using the adjusted Black & Scholes model under the following assumptions:

Number of options	150,000	175,000
Exercise price (in €)	6.615	9.215
Risk free interest rate	3.68%	4.26%
Expected term of the options (in years)	5	6
Standard deviation	40.5%	40.4%
Valuation	External	External

Movement in the year

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

	2012		2011	
	No.	WAEP €	No.	WAEP €
Outstanding at January 1	325,000	8	1,125,715	8.3
Expired during the year	–		(800,715)	8.4
Outstanding on December 31	325,000	8	325,000	8
Exercisable on December 31	325,000		266,667	

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

(2) GTC Holding and its subsidiaries

a GTC SA

Phantom shares

GTC SA has granted certain key management personnel Phantom Shares.

The Phantom Shares grant the entitled persons a right for a settlement from GTC SA in the amount equal to the difference between the average closing price of GTC SA's shares on the Warsaw Stock Exchange during the 30-day period prior to the date of delivery to GTC SA of the exercise notice, and settlement price ('strike') amount per share (adjustable for dividend).

Movement in number of phantom shares for the years ended December 31, 2012 and 2011 was as following:

	2012		2011	
	No.	WAEP PLN	No.	WAEP PLN
Outstanding at January 1	7,862,000	10	10,802,000	22
Granted during the year	2,921,908	10	300,000	22
Exercised during the year	–	–	–	–
Forfeited during the year	(2,376,798)	10	(2,992,000)	22
Expired during the year	–	–	(248,000)	22
Outstanding on December 31	8,407,110	10	7,862,000	22
Exercisable on December 31	4,003,786		3,919,878	

As at December 31, 2012, phantom shares issued were as follows:

Grant Date *	Lst.Ex.Date	Total units
17/03/2009	31/12/2014	450,000
05/01/2009	31/12/2015	1,104,000
15/08/2010	31/12/2015	120,357
09/11/2010	31/12/2015	240,712
29/11/2010	31/12/2015	4,325,618
13/07/2011	31/12/2016	361,068
16/04/2012	29/02/2016	1,805,355
	Total	8,407,110

* Original grant date was 2007; however in 2012 the exercise date of the options were prolonged and the exercise price was updated.

The Phantom Shares (as presented in above mentioned table) have been provided for assuming cash settlement will be effected, as GTC SA assesses that is more likely to be settled in equity.

The Binomial model was used considering the following parameters, volatility of 43.19%, risk free interest rate of 3.4%, 0% dividend yield, expected term of 3 years to calculate the value of options as of the granting date. As of the granting date, the average fair value of shares options amount to €0.9 per option.

b Kardan Land China

Employee Share Option Plan
During 2010, Kardan Land China adopted the Employee Share Option Plan (ESOP).
According to the ESOP, share options of Kardan Land China are granted to eligible employees of Kardan Land China. The exercise price of the share options is calculated based on total capital injected plus interest under Libor/Euribor +3%. The share options vest according to the following schedule: 50%, 25% and 25% of the share options shall be vested on the third, fourth and fifth anniversary of the date of commencement of services of the relevant option holder to Kardan Land China, respectively.

The fair value of the share options is estimated at the grant date using the Black&Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.
The contractual term of each option granted is seven years. There are no cash settlement alternatives. Kardan Land China does not have a past practice of cash settlement for these share options.

Senior Executive Plan
Under the Senior Executive Plan (SEP), which was adopted in 2011, 2,637 share options of Kardan Land China were granted to a senior executive of Kardan Land China. The exercise price of the share options shall be an amount equal to the per-share equity investments provided to Kardan Land China by its shareholders as of each exercisable date. The options vested immediately upon grant. Options which are not exercised by the end of the exercise period shall expire.

The fair value of the options granted is estimated at the date of grant using the Black&Scholes pricing model, taking into accounts the terms and conditions upon which the options were granted.
The contractual life of each option granted is seven years.
Simultaneously, a Put option agreement was signed between a senior executive and Kardan N.V. allowing Kardan N.V. to pay the senior executive cash or shares of Kardan N.V. upon exercise of the options. The exercise of options (to cash or Company shares) is subject to the Kardan N.V.'s discretion.

Movements in the year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2012		2011	
	No.	WAEP €	No.	WAEP €
Outstanding at January 1	4,105	4,056.94	1,468	4,394.48
Granted during the year	–	–	2,637	3,868.09
Outstanding at December 31	4,105	4,056.94	4,105	4,056.34
Exercisable at December 31	3,969		3,915	

The weighted average remaining contractual life for the share options outstanding as of December 31, 2012 is 5.25 years (2011: 6.25 years).
The weighted average fair value of options granted in 2011 per option was €1,858.74

The range of the exercise prices per option for options outstanding at the end of the year was €3,868.09 to €4,394.48 (2011: €3,868.09 to €4,394.48).

The following tables list the inputs to the models used for the two plans for the years ended December 31, 2012 and December 2011:

	2011 SEP	2010 ESOP
Dividend yield (%)	0	0
Expected volatility (%)	60.5	61.2
Risk-free interest rate (%)	1.85	2.02
Expected life of share options (years)	3.79	5.59
Weighted average share price (€)	3,956.76	4,885.03
Model used	Black&Scholes	Black&Scholes

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

Subsequent to the balance sheet date, an agreement was signed with a manager of Kardan Land China according to which 1,000 options in Kardan Land China that were granted to him in the past would be cancelled in consideration for cash.

(3) KFS and its subsidiaries

In 2011 consolidated companies in the financial services sector incurred expenses in the amount of €0.5 million, arising from options granted to senior managers in those companies.

In March 2012, all the prior existing SBP plans which were awarded to the CEO of TBIF were modified and a new incentive plan was approved. The new plan includes: (a) options for a range of 2%-4% in 4 operations of TBIF. The exercise price for these options was determined to be the base value at the time of grant plus interest. The options vest in 4 equal portions on 30 June 2012, 2013, 2014 and 2015. This option plan is treated under IFRS 2; (b) a Phantom option scheme relating to TBI Bank, treated under IAS 19; and (c) a bonus scheme relating to the loans granted to VAB Bank and VAB Leasing.

(4) Tahal Group International and subsidiaries

a. TGI

2009 Plan

In 2009, the management board, the supervisory board and the general meeting of shareholders of TGI approved a stock option plan, according to which TGI has granted key management members of TGI 1,253 options exercisable up to 1,253 shares of TGI. The exercise price of the options has a range of €869 to €1,717 per option. The options could be exercised until December 31, 2012 and has different vesting periods for each of the option holders. During 2012 the TGI extended the outstanding options of a manager holding 97 options by one year. On December 19, 2012 the Chairman of the Supervisory Board of TGI announced that he intends to exercise his options in return for 578 shares. TGI extended the options until the cash settlement will take place.

Upon exercise of the options the supervisory board of TGI will determine whether to allocate the full number of shares deriving from exercise of the options or the number of shares reflecting only the benefit component inherent in the options, as calculated at the exercise date, or alternatively, the supervisory board of TGI may elect to pay that benefit in cash.

The total value of the options at date of grant was estimated at €1.2 million. This fair value was determined by an independent external valuator, based on an internal valuation report. The expected life of the options is based on historical data.

TGI accounts for the options granted assuming equity payment will be effected.

Movements in the year

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

	2012		2011	
	No.	WAEP €	No.	WAEP €
Outstanding at January 1	1,472	2,641	1,253	1,190
Granted during the year	–	–	797	4,085
Exercised during the year *	–	–	(578)	2,276
Outstanding on December 31	1,472	2,641	1,472	2,641
Exercisable on December 31	610		610	

* for additional information, refer to Note 17

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

Expected volatility (%)	50.52%
Risk-free interest rate (%)	2.68%
Expected term of options (years)	3
Weighted average share price (€)	1.758,24
Model used	Black&Scholes

During 2011, 578 options of this stock option plan were exercised for a total consideration of €1,316 thousand. Reference is made to Note 17.

2011 Plan

During 2011, the supervisory board and the general meeting of shareholders of TGI formally approved a new stock option plan according to which TGI will grant to one management member of TGI 797 options, constituting approximately 3% of the shares of TGI, post-issuance. The newly issued stock option plan is divided into two agreements which have comparable option terms

except from the vesting periods. Each option plan has been valuated separately.
The exercise price of the options amounts to €4,317 per option. The options can be exercised until December 31, 2017.

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

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

Expected volatility (%)	44,96%
Risk-free interest rate (%)	2.04 %
Expected term of options (years)	6.4
Stock price (€)	4,999
Model used	Hull-White

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

b Kardan Water International Group Ltd.

2010 Plan
During 2010, Kardan Water International Group Ltd. (KWIG) formally approved a stock option plan to eligible employees of KWIG.

Pursuant to the plan 1,600 share options of KWIG were granted to the eligible employees, which constitute 3.4% of the total issued share capital. Under this plan, the eligible employees have the right to acquire 50% of the granted option shares on the 3rd anniversary of the date of commencement of services, 25% on the 4th anniversary, and 25% on the 5th anniversary. The options will expire at the 5th anniversary for the first 50% of the vested options and at the 7th anniversary for the remaining 50%.

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

2011 Plan
In 2011, pursuant to the 2011 Employee Stock Option Plan (the 'Plan'), 985 new share options were granted to a director of KWIG equalling 2% of shares of KWIG following such issuance.
The option shares are fully vested upon grant.

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

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

	2012		2011	
	No.	WAEP €	No.	WAEP €
Outstanding at January 1	2,155	990	1,600	1,061
Forfeited during the year	(455)	1,061	(180)	1,061
Granted during the year	–	–	985	907
Expired during the year	(160)	1,061	(250)	1,061
Outstanding on December 31	1,540	961	2,155	990
Exercisable on December 31	1,540		1,831	

The following tables list the inputs to the Binomial model used for the Plan:

	SEP	ESOP
Dividend yield (%)	0	0
Expected volatility (%)	42.82	39.44
Risk-free interest rate (%)	2.94	1.23
Expected life of share options (years)	3.50	4.88
Weighted average share price (€)	1,291	1,112
Model used	Binomial	Binomial

The weighted average remaining contractual life for the share options outstanding as at December 31, 2012 is 3.85 years (2011: 4.14 years).

19 Non-Current Interest Bearing Loans and Borrowings

A Composition

	December 31, 2012		December 31, 2011	
	Weighted interest rate as of %	€ in millions	Weighted interest rate as of %	€ in millions
Banks				
In EUR	1.1-5.07	925	1.6-5.9	1,148
In USD	1.12-5.07	40	1.6-3.8	49
In NIS	6.75-8	8	7.25	3
Linked to other currencies	5.34-11.2	78	1.4-10.32	84
Others – in EUR	5.54-7.36	79	3.05-4.02	135
Others – in USD	6.59	3	4.9	12
		1,133		**1,431**
Less				
– Deferred debt issuance costs		7		10
– Current maturities		151		449
– Long-term interest bearing loans related to current cost of building under construction		18		3
		957		**969**

B Maturities

€ in millions	December 31, 2012	December 31, 2011 *
First year – current maturities	151	449
Second year	81	127
Third year	76	78
Fourth year	71	89
Fifth year	93	99
Thereafter	661	589
	1,133	**1,431**

For details regarding covenants, refer to Note 27.

* In 2012 and 2011, an amount of €28 million and €228 million respectively was classified as short term due to breach of covenants, refer to Note 29.

20 Banking Customers Accounts

A Composition

€ in millions	December 31, 2012	December 31, 2011
Deposits from corporate clients	26	89
Deposits from individual clients	42	431
	68	**520**

B Maturities

€ in millions	December 31, 2012	December 31, 2011
First year – current maturities	68	250
Second year	–	78
Third year	–	192
	68	**520**

The decrease in 2012 is mainly due to the sale of Sovcombank – for additional information see Note 5C.

Under normal circumstances, banking customers accounts which can be redeemed on demand are considered covered by the banks' financial assets – also refer to Note 38.

21 Other Long-Term Liabilities

€ in millions	December 31, 2012	December 31, 2011
Deposits from tenants	5	5
Deferred purchase price for shares in a subsidiary	6	6
Long-term provisions	2	6
Provision for share based payment	6	1
Long-term advances from buyers	2	1
Other	1	5
Total other long-term liabilities	**22**	**24**

22 Options and warrants

€ in millions	December 31, 2012	December 31, 2011
Warrants and call options granted to third parties [1]	5	7
Put options granted to non-controlling shareholders- KFS Group [2]	–	9
	5	**16**

1 In March 2009, the Company has reached an agreement with Israel Discount Bank (IDB) to buy back the 11% stake IDB holds in KFS.
Within the framework of the agreement, the Company has granted IDB an option to repurchase a 5% stake in KFS during the subsequent six years, at a price changing gradually, reflecting a valuation of KFS of €386 million plus an annual interest of 5% from the third year.

The balance includes the fair value of warrants granted to FIMI (which can be exercisable to TGI shares) in the amount of €3 million (December 31, 2011: €5.5 million). The amount is offset with the fair value of a Call Option in the amount of €0.5 million (December 31, 2011: €1.3 million). Refer to Note 5C for additional information regarding the FIMI transaction.

2 The balance of €9 million as of December 31, 2011 relates to a put option granted to Cavebrook, a non controlling shareholder in TBIF. In January 2012 KFS acquired the 7.8% stake in TBIF held by Cavebrook, and the abovementioned option was cancelled.

The fair value of the put option was determined based on external valuation reports used by the Group, among others uses, for goodwill impairment testing. The transaction had no impact on the Company's results.

23 Debentures

A Composition

	Par value (net) as of December 31, 2012 € in millions	Balance as of December 31, 2012 € in millions	Balance as of December 31, 2011 € in millions	Interest rate %	Currency and linkage	Maturities principal
Issuer						
The Company – 2007 [4]	127	151	251	4.45	[1]	2013-2016
The Company – 2008 [4]	237	275	298	4.9	[1]	2014-2020
GTC SA – 2007 and 2008 [3]	963	238	263	6M wibor +4%	PLN [2]	2012-2018
Other subsidiaries	–	19	25	6M Euribor +3.25 and 6.5%	In or linked to €	2008-2015
		683	837			
Less – current maturities		138	24			
Less – Debentures issuance expenses		1	2			
		544	**811**			

1 The Company's debentures are traded on the TASE. The debentures are denominated in NIS linked to the Israeli CPI. Following the issuance of the debentures, the Company has entered into several swap transactions which converted the cash received in NIS into Euro. For the sale of the swaps in 2012, refer to Note 38 and for additional information refer to Note 40.

2 Following the issuance of the debentures, GTC SA has entered into swap transactions which converted the cash received in PLN into Euro. Refer to Note 40 for additional information regarding swap transactions.

3 In October 2012, GTC SA offered selected institutional investors, who were the debentures holders of the debentures that were to mature in 2013 and 2014, to prolong the maturity of some existing debentures for redemption purposes. As a result, in Q4 2012 GTC SA issued unsecured bonds, which replaced the existing bonds, in the total nominal value of PLN 294.2 million (approximately €71 million). The bonds will be redeemed in 3 semi-annual tranches starting from 30 April 2017. The interest on the Bonds payable semi-annually is based on the 6M WIBOR and a 4% p.a. margin. In connection with the above, GTC SA also bought for redemption purposes, PLN 106.6 million (approximately €26 million) for approximately 98% of its nominal value. GTC SA treated the transaction as an extinguishment of loan and as a result an amount of €7 million was recognized in the income statement.

4 Repurchase of Kardan N.V. Debentures
In 2012 GTC Holding purchased NIS 431,237,185 par value Debentures Series A issued by the Company in 2007 at an average price of NIS 0.88 per debenture, for a consideration of €77.3 million (approximately NIS 377 million) and NIS 120,222,513 par value Debentures Series B at an average price of NIS 0.63, for a consideration of €15.5 million (approximately NIS 76 million). The Company accounted for these purchases as an early repayment of debentures. The repurchase resulted in a gain of €43 million which was included as 'Other finance income' in the income statement.

As of the balance sheet date, the Company holds through its subsidiaries NIS 564,871,048 par value Debentures Series A (which represent 47.5% of the par value of Debentures Series A) and NIS 168,534,012 par value Debentures Series B (which represent 12.6% of the par value of Debentures Series B).

Maturities:

€ in millions	December 31, 2012	December 31, 2011
First year – current maturities	138	24
Second year	162	158
Third year	77	271
Fourth year	77	109
Fifth year	63	105
Sixth year onwards	166	170
Total	**683**	**837**

24 Trade Payables

€ in millions	December 31, 2012	December 31, 2011
Trade payables	39	49
	39	**49**

Trade payables are non-interest bearing and are generally aged between current and 60 days overdue.

25 Interest-bearing loans and borrowings

	Weighted average annual interest rate	December 31, 2012	Weighted average annual interest rate	December 31, 2011
	%	€ in millions	%	€ in millions
Short-term credit from banks				
In EUR *	4.5	–	4.11	33
In USD	4.5	6	4.12	5
In other currencies **	–	–	4.82	49
Short-term credit from others		1		3
		7		**90**
Long-term interest-bearing loans related to current cost of buildings in progress		–		–
Current maturities of long-term liabilities:				
Loans (see Note 19) *		169		452
Debentures (see Note 23)		138		24
		314		**566**

Collaterals – see Note 27

* In 2011, the balance include long term loans that were reclassified to short term due to breach of covenants – refer to Note 27.

** The balance as of December 31, 2011 includes Sovcombank balance which was sold in 2012, for additional information see Note 5C.

26 Other Payables and Accrued Expenses

€ in millions	December 31, 2012	December 31, 2011
Financial:		
Accrued expenses	74	87
Promissory Notes [1]	–	20
Other	11	10
Non Financial:		
Payroll and related expenses	7	9
Advances from customers	56	41
Unearned revenues	5	2
VAT payable	36	3
Related companies	36	34
Advance from sale of Sovcombank	–	33
Other	10	5
	235	**244**

1 Promissory notes included notes issued by Sovcombank. They were used as a source of short-term funding for the bank and bore interest similar to deposits with comparable maturity. In 2012, the remaining 50% stake in Sovcombank was sold – for additional information see Note 5C.

27 Liens, Contingent Liabilities and Commitments

A Liens and collaterals:

Financial Covenants during 2012

As of December 31, 2012 the Group meets all of its financial covenants except for as described below. During 2012, the Company and its subsidiaries were in breach of several loan covenants, these breaches were remediated during 2012:

1 Following a breach of covenants as of December 31, 2011 relating to the maintaining a minimum equity level, in March 2012, the Company received a signed letter from the lending bank describing principal agreements between the Company and the bank relating to a change in required financial covenants with respect to two loans in the amount of €15 million each. According to the principal agreement, the financial covenants were amended so that the Company was required amongst other to maintain a minimum shareholders' equity of €160 million and a ratio of equity to total stand-alone balance sheet of the Company of 21%.

In addition it was agreed to early repay an amount of €35 million from the total outstanding loans of the Group. In April 2012, the Group repaid the €35 million as agreed.

In August 2012, the Company, GTC Holding and the lending bank signed a new loan agreement which includes, amongst others the following main terms:

a. Assignment of the Company's loans amounting to €25 million to GTC Holding;
b. Commitment to continue steering the activities of GTC SA through its directors and to hold at least 25% of GTC SA shares;
c. Maintaining adjusted equity to stand-alone balance sheet ratio of GTC Holdings at a level of 40%; and 20% with respect to consolidated balance sheet of GTC Holdings and total adjusted equity;
d. Maintaining equity to stand-alone balance sheet ratio of the Company at a level of 21%; and 12% with respect to consolidated balance sheet and total equity;
e. Tangible shareholders' equity of the Company will not be less than €160 million;
f. Tangible adjusted shareholders' equity of GTC Holdings will not be less than €240 million;
g. Total adjusted tangible equity of GTC Holding will not be less than €500 million;
h. Value of the pledged shares of GTC SA is over €50 million;
i. The Company's shares should remain traded on TASE.
j. GTC SA shares should remain traded on the Warsaw Stock Exchange.
k. The Company's debentures will be rated by a rating agency.

It was also agreed that the semi-annual interest rate related to the loan in GTC Holding, will be increased by 1.5% to a semi-annual interest rate of Libor +3.3% p.a. and the Company also pledged to the bank all its shares in KFS.

As of December 31, 2012, GTC Holding meets all its financial covenants.

The Company and GTC Holding are closely monitoring the financial covenants relating to equity and to GTC SA, which could be impacted by external developments on the financial and real estate markets, exchange rates, and other risks as described in Note 38. With respect to GTC SA, please refer to Note 40 (subsequent events).

2 GTC SA
During 2012 GTC SA's subsidiary was in Breach of covenants relating to a loan in the amount of €28 million. The covenants relating to project completion of the financed project were not met and therefore was reclassified as short term. In July 2012 the subsidiary received a waiver from the bank postponing the project completion date until March 2013. As of balance sheet date, the loan is classified as current liability.

3 GTC Investments B.V.
A bank loan granted to Blitz Portfolio GMBH (a Subsidiary of GTC Investments) and its subsidiaries amounting to €86 million was due on January 18, 2013. Blitz and the Bank signed a standstill agreement for the period up to February 28, 2013 and are currently in negotiation to extend the standstill agreement. The mortgage loan is non-recourse, as such the liabilities related to the Blitz portfolio and its financing are limited for the Company. As of December 31, 2012 the Company presents its investment in GTC Investments as held-for-sale.

4 TGA
Following the letter received from the lending bank in March 2012 as described above, in April 2012, TGA early repaid €5 million from its outstanding loan.

As of December 31 2012, the TGA meets covenants.

5 KFS
Following the completion of Sovcombank sale (for additional information see Note 5C), in May 2012, KFS repaid the lending bank the entire outstanding loan balance of €28 million.

B Guarantees

Following are the guarantees provided by the Company and its Group companies as of December 31:

€ in millions	2012		2011	
	Limited in amount	Not limited in amount *	Limited in amount	Not limited in amount *
With respect to:				
- Subsidiaries	520	–	314	–
- Associated companies	–	–	–	–
	520	**–**	**314**	**–**

* The amount of the guaranteed liabilities as of December 31

As of December 31, 2012 and 2011, GTC SA provided guarantees to third parties in order to secure cost overrun and loans of its subsidiaries. The guarantees granted amounted to €260 million and €221 million, respectively.

As of December 31, 2012 and 2011 TGI provided bank guarantees in an aggregated amount of approximately €37 million and €26 million, respectively, in favor of customers in respect of advances received from them for projects and for performance and tender guarantees.

As at December 31 2012, Kardan Land China provided guarantees of €51 million (2011: €64 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Kardan Land China Group's properties, which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiry of the guarantees, the Kardan Land China Group is responsible for repaying the outstanding mortgage principals to the banks.

Kardan Land China guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant. The management of Kardan Land China consider that in the case of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalties and therefore no provision has been made in the financial statements for the guarantees.

C Legal claims and contingencies:

1 Subsidiaries have liabilities with respect of warranty for the quality of the services and the engineering work which they perform. In order to cover these obligations, the subsidiaries are insured with professional liability insurance up to the amount of €13 million for each claim. Management of the subsidiaries believes – based, among others, on estimates of the insurance companies and on prior experience – that the provisions included in the financial statements with respect to the claims filed against them in excess of the existing insurance coverage and with respect to the deductible portion of the insurance are sufficient.

2 In 2006 two Serbian subsidiaries of GTC SA (the Subsidiaries) have engaged a general contractor for constructing two of its projects, Avenue 19 and GTC Square, both located in Belgrade. Following issuance of take over certificate and completion of works for the two projects, the general contractor filed a claim for additional costs and which the Subsidiaries rejected and counterclaimed damages for delay and general damages from the contractor.

   Further on, the general contractor initiated arbitration proceedings before the commercial court against the Subsidiaries claiming additional payment of €15.8 million for both projects. The above Subsidiaries refused this payment and filed a counterclaim of €18.6 millions in respect of amounts overpaid, contractual penalties and additional damages for delay of the construction. The independent supervisory engineer that has been appointed in accordance with the original agreement between the parties supports the position taken by the Subsidiaries. As the independent supervisory engineer is supporting the Subsidiaries claim and based on the assumption that the supervisory engineer is best placed to assess the positions of the parties, the Subsidies and their legal advisers believe that the Subsidiaries are more likely to prevail in arbitration proceedings.

3 Two Romanian subsidiaries of GTC SA in the Group filed a VAT reimbursement claim for the period up to September 30, 2009, in the amount of approximately €14 million. The VAT authorities in Romania rejected an amount of €8.2 million. Based on the fiscal code, both companies filed an appeal against the VAT authorities' decision claiming to full reimbursement of the VAT receivables. In December 2010, the VAT authorities sent a letter to both companies stating that they canceled the initial decision and will re-audit the related invoices during 2011.

   During July 2011 the appeal of both subsidiaries was accepted. Accordingly during 2011 the entire VAT receivable was reimbursed.

D Commitments:

1 Subsequent to balance sheet date, in March 2013, the Company signed an agreement with her debentures holders which include certain concessions regarding pledge of some of the Company assets, assignment of proceeds from sale of assets and limitation on dividend distribution till February 2015 – for additional information see Note 40.

2 To meet the financial needs of customers, TBIF and its subsidiaries enter into various irrevocable commitments and contingent liabilities. Even though these commitments may not be recognized on the statement of financial position, they contain credit risk and are therefore part of the overall risk of the TBIF Group. The total outstanding commitments include financial guarantees, letters of credit and undrawn commitments to lend and amount to €9 million as of December 31, 2012 (December 31, 2011 – €46 million).

   Letters of credit, guarantees (including standby letters of credit) commit the TBIF Group to make payments on behalf of customers in the event of a specific act. Guarantees and standby letters of credit carry the same credit risk as loans.

   Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

   However, the management expects the actual credit losses to be less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The TBIF Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3 As of December 31, 2012, the Group had commitments contracted in relation to future building construction, amounting to €61 million. These commitments are expected to be financed from available cash and current financing facilities, other external financing or future installments under already contracted sale agreements and yet to be contracted sale agreements.

4 The Group owns concession agreements to provide water supply and waste water treatment services in China and Turkey. The agreements have a contract period between 15 – 32 years. Depending on the nature of the agreement, the plant facility developed under the concession agreement will be owned by the Group (BOO contracts) or transferred to the client (BOT projects). Until the day of this report there are no breaches relating to these concession agreements.

5 GTC SA undertakes to support its subsidiaries. The allocation of resources shall be made on the basis of the financing and capital requirements of the subsidiaries taking into account the subsidiaries particular working capital needs.

6 As December 31 2012, Kardan Land China Group had contractual commitments of €22 million (2011: €28 million) principally relating to the completion of the construction projects of the Kardan Land China Group.

E Operating lease commitments

1 Operating lease commitments – Group as lessor
The Group has entered into various operational lease contracts with tenants related to properties in Poland, Romania, Croatia, Serbia, Hungary and China. The aggregate amount of contracted future rental income as of December 31, 2012 and 2011 amounts to approximately €377 million and €553 million, respectively, and is due according to the table below:

€ in millions	2012	2011
First year	101	112
Second to fifth year	268	284
After the fifth year	8	157
	377	**553**

Part of the above projected rental income relates to income from turnovers. For the years ended December 31, 2012 and 2011, the part of total rental income, that derived from a percentage of tenants' turnover (turnover rent) is approximately €4 million and €3 million, respectively.

28 Segment information

A General

The Group's operating businesses are organized and managed separately. Each segment represents a strategic business unit that offers different products and serves different markets. The segmentation was determined by the Company's CODM – the CEO (in May 2012 the one Tier Board was established and CODM was replaced from the Management Board to the CEO). The Group's operating businesses included the operations of consolidated subsidiaries, joint ventures and associates. Each group company is assessed based on its sector of operations, asset base, country and contribution to the company and to the Group.

Following the split of Kardan Yazamut in 2011 (for additional information refer to Note 5c) the Company's CODM re-examined its operating segments. In the past, the results of Kardan Israel were included in 4 operating segments: 'Rental and leasing of vehicles', 'Sale of vehicles', 'Real estate' and 'Others'. The results of Milgam were included in the 'Infrastructure – Assets' segment. Following the split, the Company is substantially no longer active in the 'Rental and leasing of vehicles' and 'Sale of vehicles' and 'Others' operating segments and their results are presented as discontinued operations. Due to the increase in its relative importance, subsequent to the split and the sale of VAB Bank and Sovcombank, the CODM has decided also to split between 'Real Estate Asia' and 'Real Estate Europe'.

Financial Services

As a result of the transactions described in Note 5C (sale Sovcombank), the financial services activities currently include one segment – Banking and Retail Lending. During 2010 the Company sold its insurance and pension segment. As a result, the Company no longer considers it as a segment, and comparative information has been adjusted.

Real Estate

The Real estate activities are incorporated under GTC Holding and include the following two segments: Real estate in Europe and Real estate in Asia. In the past, the operations of the real estate segment were presented as one segment. Due to the increase in the relative importance of the real estate operations in Asia and in line with the information analyzed by the CODM and in order to provide the readers of the financial statements with additional relevant information the real estate operations were split into 2 segments. In the real estate operations the Group is involved in the construction of office buildings, shopping centers and in residential projects.

Infrastructure

The Infrastructure activities are incorporated under TGI, and include the following two segments: Infrastructure Projects and Infrastructure Assets.

Through TGI, the Company develops and invests in infrastructure assets and provides engineering, consulting and design services. The Company undertakes projects in Latin America, Eastern Europe, Africa, China, and Israel and in other countries, mainly relating to the environment, water, sewage, drainage, irrigation, energy and agriculture.

The Group's segments are operating segments and are fully independent from each other. Apart from invoicing management fees or recharge of expenses, there is no material segment to segment invoicing. Allocated segment asset and liabilities are those directly linked to the segment activities in the operating companies. In most cases assets and liabilities of the holding companies are considered unallocated.

B Segments results

For the year ended December 31, 2012:

€ in millions	Real Estate		Banking and retail lending	Infrastructure		Total
	Asia	Europe		Projects	Assets	
Revenue	67	150	20	108	38	383
Other income/expense *	13	(115)	(3)	(1)	–	(106)
Total Income	80	35	17	107	38	277
Segment result	21	(67)	(17)	(6)	7	(62)
Unallocated expenses						(8)
Loss from operations and share in profit of associates companies before finance expenses, net						70
Finance expenses, net						56
Loss before income tax						126
Income tax expenses						13
Loss from continuing operations						139
Profit from discontinued operations						1
Loss for the year						**138**

* Other income/expense includes fair value adjustments of investment properties, goodwill impairment, equity earnings, gains from disposal of assets and investments and other adjustments.

For the year ended December 31, 2011:

€ in millions	Real Estate		Banking and retail lending	Infrastructure		Total
	Asia	Europe		Projects	Assets	
Revenue	46	161	11	85	29	332
Other income/expense *	33	(235)	(18)	1	2	(217)
Total Income	79	(74)	(7)	86	31	115
Segment result	29	(242)	(50)	(12)	7	(268)
Unallocated expenses						(8)
Loss from operations and share in profit of associates companies before finance expenses, net						276
Finance expenses, net						123
Loss before income tax						399
Income tax expenses						28
Loss from continuing operations						427
Profit from discontinued operations						18
Loss for the year						**409**

* Other income/expense includes fair value adjustments of investment properties, goodwill impairment, equity earnings, gains from disposal of assets and investments and other adjustments.

For the year ended December 31, 2010:

€ in millions	Real Estate		Banking and retail lending	Infrastructure		Total
	Asia	Europe		Projects	Assets	
Revenue	39	175	25	112	26	377
Other income/expense *	29	48	(25)	2	2	56
Total Income	68	223	–	114	28	433
Segment result	19	117	(40)	8	4	108
Unallocated expenses						12
Gain from operations and share in profit of associates companies before finance expenses, net						96
Finance expenses, net						125
Loss before income tax						29
Income tax benefit						22
Loss from continuing operations						51
Profit from discontinued operations						22
Loss for the year						**29**

* Other income/expense includes fair value adjustments of investment properties, goodwill impairment, equity earnings, gains from disposal of assets and investments and other adjustments.

C Segments assets

€ in millions	December 31, 2012	December 31, 2011
Real estate – Asia	519	387
Real estate – Europe	2,144	2,065
Banking and Retail lending	249	988
Infrastructure – Assets	156	164
Infrastructure – Projects	77	116
	3,145	**3,720**
Unallocated assets	138	635
	3,283	**4,355**

D Segments liabilities

€ in millions	December 31, 2012	December 31, 2011
Real estate – Asia	266	201
Real estate – Europe	1,384	285
Banking and Retail lending	140	777
Infrastructure – Assets	74	10
Infrastructure – Projects	91	74
	1,955	**1,347**
Unallocated liabilities *	612	2,268
	2,567	**3,615**

* Most unallocated liabilities relate to the holding companies.

E Information about geographical areas:

1 Revenues by geographical markets (according to location of customers):

€ in millions	For the year ended December 31,		
	2012	2011	2010
Poland	80	90	98
Hungary	17	19	20
China	94	67	51
Israel	26	26	33
Other	166	130	175
	383	**332**	**377**

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

€ in millions	December 31,	
	2012	2011
Poland	661	658
Hungary	241	241
China	293	225
Israel	64	20

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

29 Revenues from Retail Lending Activities

€ in millions	For the year ended December 31,		
	2012	2011	2010
Revenues of lending and fiduciary activities			
Interest income	27	29	43
Finance costs	(8)	(9)	(19)
	19	20	24
Commission and service fees	8	11	13
Finance advisory and fiduciary fees	–	–	1
Impairment of loans granted	(14)	(26)	(20)
	13	5	18

In May 2012 the Group completed the sale of the remaining 50% holding in Sovcombank. As a result past results of the bank for the years 2010 and 2011 were included in 'Net profit for the year from discontinued operations' in the consolidated income statement (for additional information refer to Note 5C).

30 Cost of Retail Lending Activities

€ in millions	For the year ended December 31,		
	2012	2011	2010
Staff costs	15	14	16
Other operating expenses	15	21	19
	30	**35**	**35**

In May 2012 the Group completed the sale of the remaining 50% holding in Sovcombank. As a result past results of the bank for the years 2010 and 2011 were included in 'Net profit for the year from discontinued operations' in the consolidated income statement (for additional information refer to Note 5C).

31 Other Expenses, net

€ in millions	For the year ended December 31,		
	2012	2011	2010
Impairment of properties and inventory [1]	16	75	3
Loss on disposal of investment	–	2	–
Unrecoverable VAT expenses	–	1	–
Other expenses, net	8	10	10
	24	**88**	**13**

1 In 2012 and 2011 all impairment losses relate to inventory and landbank in the CEE region, for additional information refer to Note 12.

32 Selling and Marketing Expenses

€ in millions	For the year ended December 31,		
	2012	2011	2010
Payroll and related expenses	4	5	7
Commissions	2	2	3
Marketing and advertising	6	7	6
Other	3	4	4
	15	**18**	**20**

33 General and Administrative Expenses

€ in millions	For the year ended December 31,		
	2012	2011	2010
Payroll and related expenses	22	29	17
Share-based payment (see Note 18)	7	2	13
Management fees	4	2	3
Office maintenance	3	2	1
Professional fees	8	10	10
Depreciation and amortization	1	1	2
Other	6	11	8
	51	**57**	**54**

1 Payroll and related expenses are as follows:

€ in millions	For the year ended December 31,		
	2012	2011	2010
Wages and salaries	20	28	15
Unemployment contributions	–	–	1
Other social expenses	2	1	1
	22	**29**	**17**

Labor costs are included in the income statement under various expense categories.

34 Gain on Disposal of Assets and Other Income

€ in millions	For the year ended December 31,		
	2012	2011	2010
Gain on disposal of investment in companies *	–	16	1
Impairments of investments held for sale	(4)	–	–
Other	–	5	6
	(4)	**21**	**7**

* Refer to Note 5C with regards to capital gains which were recognized due to disposal of assets.

35 Other Financial Income and Expenses

€ in millions	For the year ended December 31,		
	2012	2011	2010
Income			
Income from bank deposits	5	6	4
Interest income with respect to long-term loans and receivables	3	1	1
Exchange differences	13	5	11
Gain from early repurchase of debentures (refer to Note 23)	43	3	–
Other	8	6	3
Total financing income	**72**	**21**	**19**
Expenses			
Interest on long-term loans and borrowings	76	82	83
Interest on debentures and convertible debentures	24	23	25
Exchange differences	18	16	21
Short-term loans and borrowings	–	1	1
Other	11	19	13
Total financing expenses	**129**	**141**	**143**

36 Taxes on Income

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

For 2011 and 2012, the standard Dutch corporate income tax rate amounts to 25%. A tax rate of 20% applies to the first €200,000 of taxable income.

Dutch Participation Exemption

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

As of January 1, 2010, the Dutch Participation Exemption applies to all shareholdings of 5% or more of the nominal paid-up capital of the subsidiary, unless the participation is a ‘Portfolio Participation’. This non-portfolio requirement or ‘Motive Test’ is based on old legislation (pre-2007) and long-standing Dutch case law. In general, the Motive Test is met if the shares in the subsidiary are not held only for a return that may be expected from normal (passive) asset management. For instance, a participation is not held as portfolio investment if the business conducted by the participation is in line with the business of the Dutch company. According to parliamentary history, the participation exemption may also apply if the Dutch company, as a holding company, performs an essential role (for instance as regards management, financial and/or policy-making functions) with respect to the business activities of the group companies to which it belongs, either as a top holding or as an intermediate holding company. A holding company is, for instance, considered to perform an essential role within its group of companies if the holding company establishes a link between the business activities of the parent companies and its (indirect) subsidiaries.

In a limited number of specific situations, the participation is deemed to be held as a portfolio investment, which is generally determined based on the function and assets of the subsidiary. However, even if the Motive Test is not met, the Dutch holding company may still benefit from the participation exemption if the 'Subject to Tax Test' or the 'Asset Test' is met.

A participation meets the Subject to Tax Test, if it is subject to a profit tax that results in a reasonable levy of profit tax in accordance with Dutch tax standards. Based on the parliamentary history, in principle, the local tax system needs to be compared to the Dutch tax system. The main criteria that are taken into account for this assessment are the local tax base and the local statutory corporate income tax rate. In general, a statutory profit tax rate of at least 10% qualifies as a reasonable levy if no significant deviations exist between the local tax system and the Dutch tax system. According to parliamentary history, differences in the taxable basis caused by different rules on depreciation, investment facilities or utilization of tax losses should, in principle, not result in the Subject to Tax Test not being satisfied. Listed examples of regimes that would differ significantly from Dutch standards include regimes which provide for tax holidays, cost plus regimes where the basis is too limited, tax-deductible dividends, notional deductions or exemptions that substantially erode the taxable basis, the absence of anti-abuse rules for interest deductions or overly generous participation exemption regimes. Group relief facilities which differ from the Dutch fiscal unity regime are, in principle, allowed. However, the Subject to Tax Test is not satisfied, for instance, if the tax rate of a participation is too low, due to importation of losses from a group company which is subject to a system that is not comparable to the Dutch system.

The Asset Test requires that generally less than 50% of the assets of the participation are, directly or indirectly (deemed to be) Low-Taxed Free Portfolio Investments. Free Portfolio Investments are assets that are not used in the course of business of the company like ordinary portfolio investments (such as excess liquidities, deposits, loans, bonds and securities), group receivables and assets made available to group companies. Whether or not an asset is considered to be a free portfolio investment is of a very factual nature and should be judged on a case-by-case basis. Low Taxed Free Portfolio investments are those free portfolio investments that are not effectively subject to corporate income tax at a rate of at least 10%, calculated on a taxable basis which is reasonable according to Dutch principles.

An Aggregated Asset Test applies in case the participation holds interests in other entities. For the purpose of performing the Aggregated Asset Test, a so-called aggregated balance sheet should be drawn up. Assets of all underlying participations of the direct participation should be included in this aggregated balance sheet at fair values (pro rata parte according to the percentage of shares), unless it concerns participations of less than 5% of the paid-up share capital. If at least 70% of the assets of a participation are other assets (non free portfolio investments), then all of the participations assets will be considered 'acceptable' for the purposes of the Aggregated Asset Test.

As of 2010, real estate assets have explicitly ruled out as free portfolio investments, unless the real estate asset is held by a company which qualifies as a Fiscal Investments Institution (FBI) or Exempt Investment Institution (VBI). Accordingly, the Participation Exemption applies to real estate companies under the condition that either the Tax Test or Asset Test is met.

Instead of the Participation Exemption, a Tax Credit system applies if the participation is held as a portfolio investment (Motive Test) and neither the

Tax Test nor the Asset Test is met. Under this system, the income is grossed up and taxed at the standard Dutch corporate income tax rate, and a credit is allowed for underlying taxes. For income derived from a portfolio participation that qualifies under the EU Parent-Subsidiary Directive, the Dutch holding company can alternatively choose to credit the actual underlying tax.

Portfolio participations in which a minimum 25% shareholding is held and of which 90% or more of the assets, directly or indirectly, consist of free portfolio investments, should be marked to market by the Dutch holding company on an annual basis. Annual revaluation of free portfolio investments at fair market value is subject to tax in the year of revaluation.

New interest deduction limitation rule regarding Participation Debt as per 2013

As per 1 January 2013, the Company might be subject to a new interest limitation rule aimed on the limitation of the deduction of 'Excessive Interest' expenses allocated to 'Participation Debt' from the Dutch taxable profit has been introduced (section 13L CITA). Based on this new rule, which has replaced the thin capitalization rules (article 10D CITA), both intercompany and third party interest relating to debt that is deemed to be used to finance participations on which the participation exemption applies (Participation Debt) is not deductible.

Participating Debt is considered present if the cost price of a taxpayer's participations exceeds the taxpayer's equity for tax purposes. Hence, all equity present is deemed to be used to finance the subsidiaries, thus mitigating the potential impact of the section 13L CITA.

Excessive Interest is defined as the amount of interest and costs paid with respect to both internal and external debt, multiplied by its average amount of participation debt, divided by its average amount of total debt. Excessive Interest is not deductible to the extent it exceeds the threshold of €750,000.

Debt is defined as loans arising from a loan agreement to which (deemed) interest deduction is taken into account. Debt to which certain other Dutch interest limitation provisions apply (e.g. article 10A CITA) is effectively excluded when calculating the excessive interest expenses.

It is noted that, subject to certain conditions, the impact of 13L CITA can be limited to the extent the cost price of the participations can be attributed to an expansion of operational activities of the taxpayer or its related parties (with an optional grandfathering rule for acquisitions, expansions and capital contributions before January 1, 2006) and in case of certain active group financing activities.

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

Tax rate	2012	2011
Bulgaria	10%	10%
China	25%	25%
Croatia	20%	20%
Hong-Kong	16.5%	16.5%
Hungary	10-19%	10-19%
Israel	25%	24%
Poland	19%	19%
Romania	16%	16%
Russia	15.5-20%	15.5-20%
Serbia	10%	10%
Slovakia	19%	19%
The Netherlands	20-25.5%	20-25%
Turkey	20%	20%
Ukraine	21%	23%

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

€ in millions	For the year ended December 31,		
	2012	2011	2010
Current taxes	17	31	10
Deferred taxes	(4)	(3)	12
	13	**28**	**22**

D The reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:

€ in millions	For the year ended December 31,		
	2012	2011	2010
Accounting profit (loss)	(125)	(399)	(29)
Tax expense (tax benefit) computed at the weighted average taxable rate	(32)	(100)	9
Increase (decrease) in tax expense (tax benefit) due to:			
Unrecognized tax losses	23	62	8
Taxes related to prior year	1	–	2
Equity in net earnings of associated companies and gain on issuance of shares to third parties which are not taxable	2	–	(1)
Tax effect of unrealized foreign currency gain/losses related to investment property	(10)	3	1
Tax exempted results and expenses not deductible for tax purposes	5	21	–
Non deductible expenses (income) and others	7	(7)	11
Changes in tax rates	17	49	(8)
	13	28	**22**

* The average weighted taxable rate differs from year to year due to different mix of revenues, costs and profits or losses generated in the various countries of operations, each subject to a different tax rate, as indicated in B above.

E Composition of deferred taxes

€ in millions	Consolidated statement of financial position		Recorded in the income statement		
	December 31, 2012	December 31, 2011	Movement for the year ended December 31,		
			2012	2011	2010
Deferred income tax assets (deferred tax liabilities) with respect to:					
Investment properties	(116)	(128)	8	10	(17)
Asset held as available for sale	(1)	–	–	–	–
Tangible fixed assets	–	–	–	1	(1)
Long term inventory	–	–	–	–	1
Contract work in progress	–	–	–	–	–
Temporary differences relating to investments in companies	–	–	–	–	(3)
Financial assets	–	(1)	(1)	2	(1)
Temporary differences in reserves and allowances	–	(3)	–	(4)	–
Carry forwards losses available for offset against future taxable income	16	12	(1)	(2)	–
Basis differences in non- current assets	3	4	(1)	(2)	2
Financial liabilities	(26)	(16)	(1)	(8)	2
Other	3	3	–	–	5
	(121)	**(129)**	**4**	**(3)**	**(12)**

F Loss carry-forwards and final tax assessments

The Group has tax losses of €413 million that are available for carry forward between five years and indefinitely.

Deferred tax assets have not been recognized in respect of tax losses carry forward amounting to €400 million as they may not be used to offset taxable profits elsewhere in the Group and the losses are of subsidiaries that have generated losses for extended periods.

The Company has received final tax assessments for the years 2003 till 2009.

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

€ in millions	December 31, 2012	December 31, 2011
Net deferred income tax asset	20	20
Net deferred income tax liability	(141)	(149)
	(121)	**(129)**

H Tax regulations in Eastern Europe

Restrictive tax regulations exist in Eastern European countries regarding value-added tax, company tax and national insurance (social security) payments. Since these regulations were enacted in recent years, they often include internal contradictions that cause problems in their interpretation. Differences in interpretation of the tax regulations between various tax-related entities and tax authorities, and the taxpayers cause numerous disputes. Arrangements regarding taxation and other areas of activity (such as foreign currency transactions) may be subject to supervision by the tax authorities and by other authorities that are empowered to levy material penalties including interest on the penalties. In these circumstances, business activity in Eastern European countries includes more serious tax risks than in countries with a more stable tax base. Eastern European countries do not have a formal procedure for determining the amount of the final tax. Tax arrangements may be audited at any time during a number of years. A risk exists that the tax authorities' interpretation of the tax legislation will be different from the interpretation of the subsidiaries in Eastern Europe, a fact that may affect the tax liability of those companies.

Regulations regarding VAT, corporate income tax and social security contributions are subject to frequent changes. These frequent changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies. Tax settlements and other areas of activity (e.g. customs or issues related to foreign currency) may be subject to inspection by administrative bodies authorized to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in the Group's countries than in countries that have a more established taxation system.

37 Earnings per Share

Basic earnings per share is calculated by dividing the net result for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, less the weighted average number of treasury shares.
Diluted earnings per share amounts are calculated by dividing the net result attributable to ordinary equity holders of the parent, after adjusting for interests on convertible shares of the Company and Group companies, by the weighted average number of ordinary shares outstanding during (less the weighted average number of treasury shares) the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, adjusted for the effects of dilutive options and dilutive convertible debentures of the Company and of Group companies.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2012	2011	2010
Net profit (loss) attributable to ordinary equity holders of the parent (€ in millions)	(32)	(148)	(27)
Effect of dilution of earnings of group companies	–	(2)	–
Effect of dilution of convertibles and options of the Company	–	–	–
	(32)	**(150)**	**(27)**
Weighted average number of ordinary shares for basic earnings per share (in millions)	110	111	101
Effect of dilution:			
Shares options	–	–	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**110**	**111**	**101**

Certain warrants, employee options and convertibles issued by the Group were excluded from the calculation of diluted earnings per share as they did not result in a dilutive effect ('out of the money') as of December 31, 2012, 2011 and 2010.

To calculate earnings per share amounts for discontinued operations, the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above.
The profit used is €1 million, €16 million and €15 million for the years 2012, 2011 and 2010, respectively.

In addition, as a result of the distribution of the Israeli activities in October 2011 as described in Note 5C, 11% of the Company's shares which were held by Kardan Israel as treasury shares, were re-issued and the Company retrospectively reduced its earnings (losses) per share by a ratio of 11% as the distribution such of shares is considered issue of bonus shares.

38 Financial Instruments and Risk Management

A Introduction

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

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

Section C covers additional information on financial instruments in the financial services sector; Banking and addresses the following:

Banking:
1 Capital adequacy
2 Liquidity
3 Credit risk
4 Indicators of liquidity risk

B The Kardan Group

1 Risk management

Financial risk management

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

Operations of the Group expose it to various financial risks, e.g., market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group employs derivative financial instruments, principally interest rate swap transactions, to hedge certain exposures to risks.

At this time there is instability in the global financial markets which has affected other global markets. These economic trends could possibly have consequences for the future results of the Group, its equity base, the value of its assets, its ability to comply with the covenants agreed upon with lenders, its ability to raise financing, as well as the terms of such financing and collection risks.

Management is closely monitoring the financial position of the Group.

The Group operates primarily in emerging markets. It is vulnerable to the dangers which exist in developing countries, mostly of political nature, and involving local economies. The Group is exposed to fluctuations of supply and demand in the real estate markets in which it operates.

The various Boards of Directors (as applicable) of the various Group companies provide overall risk-management principles, and also the specific policy on certain exposure to risks, e.g., exchange rate risk, interest rate risk, credit risk and use of derivative financial instruments.

Capital risk management

The primary objective of the Group's capital management aims to ensure capital preservation and maintain healthy capital ratios in order to support its business maximize shareholder value and monitor the status of bank covenants. The Group considers its equity to be its capital.

In addition, capital management objectives ensure that relevant group companies, mainly in the financial segment, comply with externally imposed capital requirements (e.g. banks). The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group decides on leverage policy, repayment of loans, investment or divestment of assets, dividend policy and the need, if any, to issue new shares or debentures.

For additional information regarding the capital risk management with respect to the Company's liquidity position and uncertainties, refer to Note 1 and Note 27, respectively.

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

(i) Corporate level
The Board of Kardan N.V. has the responsibility to monitor the overall risk process. The Board is responsible for the overall risk-management approach and for approving the risk strategies and principles. The Executive Management of Kardan N.V. works closely with risk managers within the Group, and together theyhave developed functional lines of responsibility and has the overall responsibility for the development of the risk strategy and implementation of principles, frameworks, policies and limits.

(ii) Group companies
Some of the Kardan Group companies have appointed risk managers at corporate levels as well as at country levels or subsidiary levels (e.g. in TBIF). When a country has a risk manager, the risk manager is in charge of all risk-related issues in that country. The country risk manager is guided from a professional point of view by the chief risk manager of the relevant subsidiary.

(iii) Risk mitigation
Kardan uses the analysis of the structure of its portfolios in order to mitigate excessive risk in each of the countries and each of the business segments. The risk is spread among the different activities of the Kardan Group. The diversification of the businesses (commercial and residential real estate, banking and lending, infrastructure projects and asset ownership) as well as collateral management are useful risk mitigation tools as well. In addition, management may change its targets and focus in order to mitigate specific (excessive) risk.

(iv) Excessive risk concentration
Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. Concentrations indicate the relative sensitivity of Kardan's performance to development affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, Kardan's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (CEE, CIS, China etc.); industry diversification (financial services, real estate, water infrastructure); product diversification (i.e. residential and commercial real estate, lending, banking, etc.).

2 Market risk
The Group operates in various sectors, primarily in emerging markets. The Group is exposed to inherent risks in developing countries, mainly political and other risks which include local economic and legal issues.

Success of the Group in the emerging markets depends on the continued development of these markets, continued development of real-estate business, development of financial services and water infrastructure. Decreased development rates of these markets may have an adverse impact on the business of the Group. It should also be noted that due to high volatility of developing countries, the complex nature of operations, lack of consistent data and agreed upon definitions providing one set of official information is complex.

The Group conducts considerable operations in Central-Eastern Europe, mainly in the real estate and financial services sectors, and in China, where the Group operates in the real estate and water infrastructure sectors. The Company closely monitors the economic developments in Central-Eastern Europe following the continuous financial crisis, and directs management and financial resources this region, based on its revised strategy as it believes that the economic growth experienced by this region in recent years and in expectation that the trend of decreasing general and economical differences between Eastern to Western Europe will continue. China is considered to be the largest emerging economy in the world, which has been gradually shifting over the last 25 years from a central government controlled economy to an open market economy, that opens up to international markets. A change in these trends in countries where the Group operates may have an adverse impact on its operations.

Throughout 2010, 2011 and 2012, significant market turmoil was still experienced in the credit markets, a general banking liquidity crisis followed and European debt crisis followed. Management is carefully reviewing and monitoring the impact of the crisis on its financing position, valuation of assets, and liquidity position.

The home mortgage market in the countries of operation is not yet sufficiently developed and suffered from the European debt crisis as well as from government restrictions in China. Difficulty in obtaining loans on easy terms for purchasing apartments may affect the demand for home units in the projects undertaken by the Group.

The Management of the Company believes that the following factors contribute significantly to its operating success and handling of the above-mentioned risks.

1 Skilled and experience management team and a constant local presence in the countries of operation.
2 Close working relations with international financing institutions.
3 Focus on selection of major projects which are developed in stages, according to demand.
4 Strict due diligence before embarking on a project, and adherence to project completion dates committed to.

3 Price risk

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

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

Because of the Group's operations in different countries, it has no significant price risk, and accordingly there is no significant exposure to equity price risk.

4 Political risk

The Group has significant business in China, Africa, Central and Eastern Europe and CIS. These markets have a different risk profile than the Western European area. Political and economic changes in these regions can have consequences for the Group's activities there, as well as an impact on the results and financial positions of the Group. By closely monitoring these businesses Management intends to limit the risks of those changes.

5 Credit risks

Credit risk is a risk the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk is also applicable for derivatives, financial guarantees and loan commitments. The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, deposits, and other financial assets (including granted loans, derivative assets), financial guarantees and loan commitments. It is the policy of the Group to trade generally with recognized third parties with good credit ratings.

The Group companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from provision of credit, with respect to specific debts whose collection is doubtful. As a result, the Group's exposure to bad debts outside the financial services segment is not considered significant (refer to Note 13).

Credit risks, or the risk of counter-parties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. To manage this risk the Group companies periodically assess the financial viability of customers.

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

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

With respect to trade receivables, the maximum exposure equals to the amount on the face of the statement of financial position (refer to Note 13).

As of December 31, 2012 and 2011, cash and cash equivalent amounted to €383 million and €404 million, respectively, and restricted deposits in banks amounted to €29 million and €88 million, respectively (refer to Note 15 and 16). All deposits are deposited with high rated financial institutions primarily in the countries of operation.

Securities and other credit risk mitigators
The Group employs credit risk mitigators in order to decrease its credit risk, which exists primarily in its financial segment. As of December 31, 2012, credit and loans given by the Company and its subsidiaries to its banking and retail lending customers in the amount of €66 million, is mitigated using pledge of certain assets such as vehicles, real estate and equipment.

Maximum exposure to credit risk
The sum of all financial assets presented in table 10.4 below shows the maximum exposure to credit risk for the components of the Group. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

6 Interest-rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations and loans granted. The Group's policy is to manage its interest cost using a combination of debt with fixed and variable interest rates. Interest-rate risk management aims to limit the impact of fluctuations in interest rates on the results and reduce total interest expenses as much as possible. To manage this mix in a cost-efficient manner, from time to time, the Group enters into interest-rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. Interest-rate derivatives are used to align the loan portfolio with the intended risk profile. In order to manage the risk profile, the relevant Management discusses

instruments to be used. Hedge accounting is only applied if detailed requirements are met.

The possible exposure on financial assets such as loans to bank customers is considered immaterial.

The tables below present the sensitivity of the consolidated OCI and profit and loss of the Group to changes in certain interest rates. Further a detailed analysis performed by the Company.

1 The tables below present the sensitivity of the OCI and the profit and loss (before tax) due to change in EURIBOR and Israeli NIS interest:

The fair values of the derivatives are determined by taking into account the EURIBOR and Israeli NIS interest anticipated future curves.

6.1

€ in millions	2012 Effect on OCI			
	+50%	+25%	-25%	-50%
EURIBOR	1	1	(1)	(1)
	+20%	+10%	-10%	-20%
Israeli NIS interest	–	–	–	–

6.2

€ in millions	2011 Effect on OCI			
	+50%	+25%	-25%	-50%
EURIBOR	10	5	(5)	(11)
	+20%	+10%	-10%	-20%
Israeli NIS interest	(4)	(2)	2	4

2 The tables below present the sensitivity of the consolidated profit (loss) of the Group before tax due to change in interests rates, not including derivatives. The sensitivity analysis regarding derivatives is presented in the tables above. Further a detailed analysis performed by the Company.

6.3

€ in millions	Sensitivity to change in EURIBOR Effect on profit and loss			
	+50%	+25%	-25%	-50%
2012	–	–	–	–
	+50%	+25%	-25%	-50%
2011	(1)	–	–	1

6.4

€ in millions	Sensitivity to change in Russian interest Effect on profit and loss			
	+50%	+25%	-25%	-50%
2012	–	–	–	–
	+50%	+25%	-25%	-50%
2011	18	9	(9)	(18)

7 Derivatives

Details of Group companies' hedge transactions are presented as follows:

7.1 Breakdown of the Group's derivatives:

Party	Loan /Debenture hedged	Commence	Expiration date	Hedged amount € in millions	Interest rate on bank loan (swapped)
Discount Bank	Debentures *	Aug-07	Jan-16	59.90	4.45% + CPI
Ben-leumi Bank	Debentures *	March-07	Jan-16	36.0	4.45% + CPI
Discount Bank	Debentures *	March-07	Jan-16	37.0	4.45% + CPI
Discount Bank (1)	Debentures *	Dec-07	Jan-20	35.3	4.9%+CPI
Discount Bank (1)	Debentures *	Sep-08	Jan-20	81.6	4.9%+CPI
Bank PEKAO S.A	Bonds	Apr-07	Apr-12	18.3	Floating PLN
Bank PEKAO S.A	Bonds	Apr-07	Apr-14	85.1	Floating PLN
Bank PEKAO S.A	Bonds	May-08	May-13	80.1	Floating PLN
Bank PEKAO S.A	Galleria Jurajska shopping center	Feb-10	Feb-15	105.9	Floating
Bank PEKAO S.A	Galleria Kazimierz shopping center	Feb-09	Jan-14	42	Floating
ING Bank	Platinium 1 + 2 office building	Jan-09		39.5	Floating
ING Bank	Nothus + Zephirus office building	Jan-09	Dec-15	33.2	Floating
BPH bank	Globis Wroclaw office building	March-09	March-15	26.7	Floating
Erste Group Bank AG	City gate office buildings	Nov-11	Dec-16	96.9	Floating
Other					
Total					
Assets					
Liabilities					

Interest /currency to be paid by the company	Installments	Accounting treatment as of December 31, 2012	Accounting treatment as of December 31, 2011	Fair value as of December 31, 2012 € in millions	Fair value as of December 31, 2011 € in millions
5.64%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	12.9	22.4
5.43%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	–	11.2
5.43%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	–	8.3
6.44%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	–	9.2
7.06%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	–	4.7
Fixed Euro 5.745%	Semiannual installments	Cash flow hedge accounting	Cash flow hedge accounting	–	(3.5)
Fixed Euro 5.745%	Semiannual installments	Cash flow hedge accounting	Cash flow hedge accounting	(23.6)	(39.1)
Fixed Euro 6.63%	Semiannual installments	Cash flow hedge accounting	Cash flow hedge accounting	(19)	(28.5)
Fixed 2.50%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(5.8)	(5.3)
Fixed 3.11%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(1.4)	(2.3)
Fixed 4.83%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	–	(5.6)
Fixed 4.74%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(4.4)	(4.7)
Fixed 4.81%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(2.8)	(3.3)
Fixed 1.95%	Quarterly installments	Hedge accounting	Hedge accounting	(5.5)	(1.9)
				(4.4)	(6.6)
				(54)	**(45)**
				13	58
				(67)	(103)

Due to the sale of cross currency swap financial instruments by the Company during 2012, the foreign currency risk exposure increased due to the debentures of the Company, which are denominated in Israeli NIS and linked to CPI.

In 2012 the ineffective portion which was recognized in the income statements amounts to €6 million (2011: €8 million).

7.2 The movement in the fair value of derivatives for the years ended December 31, 2012 and 2011 was as follows:

€ in millions	2012	2011
Derivatives Cycle:		
Fair value at the beginning of the year	(45)	51
Charged directly to OCI	12	3
Charged to income statement	23	(54)
Sale and disposal of hedge instruments	(44)	(45)
Fair value at the end of the year	**(54)**	**(45)**

8 Liquidity risk
Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
To limit this risk, the Group finances its operations through diversified, short-term and long-term credit obtained from the public, institutional investors and from financial institutions. The Group raises financing according to needs and market conditions at that time. The tables below summarize the maturity profile of the Group's financial assets and liabilities as at December 31, 2011 and 2010. The liabilities are based on contractual undiscounted cash flow, and the maturity of financial assets is based on expected contractual cash flow in conformity with the way they are managed by the Group. The tables include repayments of principal amounts as well as interest due. Interest due was estimated based on actual amortization schedules of the financial liabilities.
For additional information regarding the liquidity risk management with respect to the Company's liquidity position and uncertainties, refer to Note 1 and Note 27, respectively.

8.1 Liquidity table 2012:

€ in millions	December 31, 2012							
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Assets								
Cash and cash equivalents	383	–	–	–	–	–	–	383
Deposits in bank	–	29	–	–	–	–	–	29
Trade receivables	33	26	–	–	–	–	–	59
Balances with central banks	6	–	–	–	–	–	–	6
Consumer credit and mortgage loans	21	13	10	6	3	2	7	62
Banking loans granted	8	36	14	6	3	2	6	75
Finance leases	10	10	10	6	3	1	1	41
Loans and receivables (including maturities)	21	66	22	53	15	14	41	232
	482	**180**	**56**	**71**	**24**	**19**	**55**	**887**

€ in millions	December 31, 2012							
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Liabilities								
Trade payables	34	5	–	–	–	–	–	39
Other payables and accrued expenses	19	98	–	–	–	–	–	117
Income tax payable	–	5	–	–	–	–	–	5
Banking customers accounts	25	51	–	–	–	–	–	76
Interest-bearing loans and borrowings	115	163	127	111	103	202	649	1,470
Other debentures	58	132	205	96	92	102	158	843
Other financial liabilities	–	–	3	8	10	5	–	26
	251	**454**	**335**	**215**	**205**	**309**	**807**	**2,576**

8.2 Liquidity table 2011:

€ in millions	December 31, 2011 0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Assets								
Cash and cash equivalents	407	–	–	–	–	–	–	407
Deposits in bank	1	85	1	–	–	–	–	87
Trade receivables	18	19	–	–	–	–	–	37
Balances with central banks	7	–	–	–	–	–	–	7
Marketable debt securities	171	–	–	–	–	–	–	171
Consumer credit and mortgage loans	55	31	15	6	4	3	9	123
Banking loans granted	92	169	112	62	27	6	3	471
Finance leases	20	20	17	9	4	1	1	72
Long-term loans and receivables (including maturities)	13	8	18	18	15	47	60	179
Other receivables	9	74	–	–	–	–	–	83
Other financial assets	–	–	–	–	6	–	–	6
	793	**406**	**163**	**95**	**56**	**57**	**73**	**1,643**

€ in millions	December 31, 2011 0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Liabilities								
Short-term credit	50	–	–	–	–	–	–	50
Trade payables	17	62	–	–	–	–	–	79
Other payables and accrued expenses	13	87	5	3	1	–	–	109
Income tax payable	–	4	–	–	–	–	–	4
Banking customers accounts	173	82	90	238	–	–	–	583
Interest-bearing loans and borrowings	261	347	196	155	146	172	700	1,977
Other debentures	27	41	187	286	117	107	185	950
Other financial liabilities **	–	21	11	–	–	9	–	41
Other	–	–	1	–	–	–	–	1
	541	**644**	**490**	**682**	**264**	**288**	**885**	**3,794**

** Includes put options and conversion component of convertible debentures which were all presented on the face of the statement of financial position as non-current liabilities.

The maturity table does not include any non financial assets. However, the Group's most significant commitments relate to completed real estate projects and under construction. Besides financial assets held by the Group, cash inflows from operations (for example from water infrastructure service concession agreements and real estate rental agreements) will be available to meet these cash outflows.

Contingent liabilities and commitments:

8.3 Breakdown of current commitments and contingent liabilities as of December 31, 2012:

€ in millions	December 31, 2012							
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Other undrawn commitment to lend	6	3	–	–	–	–	–	9
	6	**3**	**–**	**–**	**–**	**–**	**–**	**9**

Breakdown of current commitments and contingent liabilities as of December 31, 2011:

€ in millions	December 31, 2011							
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Financial guarantees *	28	21	11	3	2	1	1	67
Other undrawn commitment to lend	16	10	5	1	–	–	–	32
	44	**31**	**16**	**4**	**2**	**1**	**1**	**99**

* In addition to the guarantees presented in the table above, GTC SA provided guarantees to third parties in connection with loans and cost overruns of its subsidiaries. As of December 31, 2012 and 2011, these guarantees amounted to €263 million and €221 million respectively. As the guarantees are combined (financial and performance) it is impractical to assign them to a specific time bucket.

a Expected realization periods of material financial assets, grouped in accordance to IAS 39 classification:

8.4 IAS 39 classification

€ in millions	December 31, 2012						
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Derivatives that are designated as hedging instruments	13	–	–	–	–	–	13
Cash, Loans and receivables	663	54	70	24	20	55	886
	676	**54**	**70**	**24**	**20**	**55**	**899**

€ in millions	December 31, 2011						
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Financial Assets at fair value through profit or loss:							
Debentures	173	–	–	–	–	–	173
Other	6	–	–	–	–	–	6
Derivatives that are designated as hedging instruments	(1)	9	13	13	13	10	57
Cash, Loans and receivables	995	99	55	27	6	4	1,186
	1,173	**108**	**68**	**40**	**19**	**14**	**1,422**

9 Foreign currency risk

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

Group companies conduct currency translation transactions at times to hedge the exposure to the foreign currency risk. Additional details of hedging transactions are presented in the derivatives tables clarify that instruments are for hedging interest rate risk as well as foreign exchange rate.

a Currency exposure – statement of financial position

As of December 31, 2012:

9.1

€ in millions	In €	in USD
Assets		
Property and equipment	–	–
Investment properties	–	–
Goodwill and other intangible assets	–	–
Investments in associates	27	17
Long-term receivables	75	12
Loans to bank customers	66	–
Derivatives	–	–
Deferred tax assets	2	–
Inventory	–	–
Cost of building in progress	4	–
Account receivable	10	23
Other receivables	29	11
Short term investments	23	1
Cash and cash equivalents	219	5
Assets classified as held for sale	3	–
	458	**69**
Liabilities		
Deferred tax liability	–	–
Interest bearing loans and borrowing	1,004	43
Derivatives	–	–
Warrants and options	3	2
Debentures	19	–
Other long-term liabilities	11	–
Other payables and accrued expenses	33	10
Trade payables	9	2
Advances from apartment buyers	–	–
Income Tax payable	3	–
Banking customers accounts	67	1
Liabilities directly associated with the assets classified as held for sale	28	–
	1,177	**58**
Differences between assets and liabilities	**(719)**	**11**

in NIS (Israeli)	in PLN (Polish)	in RMB (Chinese)	in other currencies *	at fair value	non monetary	Total
–	–	36	–	–	46	82
–	–	–	–	–	1,748	1,748
–	–	9	–	–	41	50
–	–	–	–	–	(2)	42
2	–	66	32	–	–	187
–	–	–	–	–	–	66
–	–	–	–	13	–	13
–	1	–	–	–	17	20
–	–	–	–	–	99	99
–	–	1	–	–	334	339
12	2	3	5	4	–	59
7	4	27	6	1	26	111
1	–	2	2	–	–	29
54	53	40	11	1	–	383
–	–	–	1	–	51	55
76	**60**	**184**	**57**	**19**	**2,360**	**3,283**
–	–	–	–	–	141	141
8	–	76	2	–	–	1,133
–	–	–	–	67	–	67
–	–	–	–	–	–	5
425	238	–	–	–	–	682
2	6	–	3	–	–	22
32	37	55	8	6	56	237
4	9	10	5	–	–	39
–	–	–	–	–	141	141
–	–	2	–	–	–	5
–	–	–	–	–	–	68
–	–	–	–	–	(1)	27
471	**290**	**143**	**18**	**73**	**337**	**2,567**
(395)	**(230)**	**41**	**39**	**(54)**	**2,023**	**716**

As of December 31, 2011:

9.2

€ in millions	in €	in USD
Assets		
Property and equipment	–	–
Investment properties	–	–
Goodwill	–	–
Other financial assets	–	–
Investments in associates	30	16
Long-term receivables	162	21
Loans to bank customers	19	48
Derivatives	–	–
Deferred tax assets	–	–
Inventory	–	–
Cost of building in progress	3	18
Accounts receivable	5	3
Other receivables	16	10
Restricted bank deposits	79	12
Cash and cash equivalents	180	25
Assets classified as held for sale	1	–
	495	**153**
Liabilities		
Deferred tax liability	–	–
Interest bearing loans and borrowing	1,308	79
Derivatives	–	–
Warrants and options	3	4
Debentures	289	–
Other non-current liabilities	–	–
Other long-term liabilities	13	–
Other payables and accrued expenses	63	16
Trade payables	12	4
Advances from apartment buyers	–	–
Income Tax payable	2	–
Banking customers accounts	40	41
	1,730	**144**
Differences between assets and liabilities	**(1,235)**	**9**

in NIS (Israeli)	in PLN (Polish)	in RMB (Chinese)	in Rub (Russia)	in other currencies *	at fair value	non monetary	Total
–	–	–	–	–	–	103	103
–	–	–	–	–	–	1,885	1,885
–	–	–	–	–	–	94	94
–	–	–	–	–	6	–	6
–	–	–	–	1	–	7	54
1	–	59	10	30	–	12	295
–	–	–	355	–	–	–	422
–	–	–	–	–	58	–	58
–	–	–	–	–	–	19	19
–	–	–	–	–	–	118	118
–	–	–	–	–	–	331	352
15	3	2	1	8	–	–	37
2	8	31	10	11	–	18	106
–	–	3	161	1	4	–	260
47	34	66	42	13	–	–	407
–	–	–	–	–	–	138	139
65	**45**	**161**	**579**	**64**	**68**	**2,725**	**4,355**
–	–	–	–	–	–	149	149
3	1	42	51	27	–	–	1,511
–	–	–	–	–	103	–	103
–	–	–	–	–	5	4	16
546	–	–	–	–	–	–	835
2	–	–	–	–	–	–	2
5	–	–	–	–	–	5	23
6	3	31	25	32	–	38	214
4	12	38	–	9	–	–	79
–	–	–	–	–	–	157	157
–	–	2	–	1	–	–	5
–	–	–	439	–	–	–	520
566	**16**	**113**	**515**	**69**	**108**	**353**	**3,614**
(501)	**29**	**48**	**64**	**(5)**	**(40)**	**2,372**	**741**

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

9.3

€ in millions	Sensitivity to change in EUR\PLN			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2012	1	–	–	(1)
2011	3	1	(1)	(3)

9.4

€ in millions	Sensitivity to change in EUR\RUB			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2012	–	–	–	–
2011	4	2	(2)	(4)

9.5

€ in millions	Sensitivity to change in EUR\RON			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2012	3	2	(2)	(3)
2011	–	–	–	–

9.6

€ in millions	Sensitivity to change in EUR\NIS			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2012	36	18	(18)	(36)
2011	31	15	(15)	(31)

9.7

€ in millions	Sensitivity to change in EUR\RMB			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2012	3	2	(2)	(3)
2011	12	6	(6)	(12)

9.8

€ in millions	Sensitivity to change in Israeli CPI			
	Effect on profit and loss			
	+3%	+2%	-2%	-3%
2012	(12)	(8)	8	12
2011	(8)	(5)	5	8

10 Fair value disclosure:

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

10.1 Fair value schedule

€ in millions	Methods of determining fair value	Carrying amount		Fair value		
		2012	2011	2012	2011	Comment
Assets						
Cash and cash equivalents		383	404	383	404	A
Short-term investment		29	88	29	88	A
Held for trading financial assets	(1)	–	174	–	174	A
Loans to bank customers		66	430	66	435	F
Long-term loans and receivables		187	275	189	281	G
Loans to associates		44	47	44	47	
Liabilities						
Banking customers accounts		(68)	(520)	(68)	(522)	H
Debentures		(702)	(859)	(526)	(753)	B
Interest-bearing loans and borrowings		(1,133)	(1,431)	(1,131)	(1,431)	C
Long-term liabilities and derivatives	(3)	(67)	(103)	(67)	(103)	E
Warrants and options	(3)	(5)	(16)	(5)	(16)	D

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

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2 – Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3 – Techniques which use inputs which have a significant effect on the recorded fair value that that is not based on observable market data.

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

Comments regarding determining the fair value:

A The carrying amount of cash and cash equivalents and short-term investments, which only include bank deposits, approximates their fair values, due to the nature of such financial assets refer to Note 15, 16.

B Market values have been used to determine the fair value of listed debentures issued by the Group. Please refer to Note 23.

C As of December 31, 2012 and 2011, the majority of the Group loans bear floating interest rates (of which the majority is hedged). Therefore, the fair value of the loans which is related to the floating component of the interest equals to the market rate. Refer to Note 19 for carrying amount reconciliation of long term interest bearing loans and borrowings and refer to Note 25 for reconciliation of short term credit from banks and others.

D Warrants, options and certain long-term receivables were valued by independent external valuators. The valuations were based on Discounted Cash Flows or Residual methods. Please refer to Note 22.

E This amount includes derivatives and long term liabilities; please refer to the face of the statement of financial position for reconciliation.

F Please refer to Note 9.

G Accounted for as receivables. In 2012, the carrying amount includes the long term loans and receivables in the amount of €139 million with the related current maturities in the amount of €48 million, totaling to €187 million. In 2011, the carrying amount includes the long term loans and receivables in the amount of €160 million with the related current maturities in the amount of €115 million, totaling to €275 million. Refers to Note 10.

H This amount includes both short term and long term banking customers account, refer to Note 20.

B Financial assets and liabilities measured at fair value

10.2 Fair value levels schedule:

December 31, 2012 € in millions	Level 1	Level 2	Level 3	Total
Financial assets				
Derivatives that are designated as hedging instruments	–	–	13	13
Financial Liabilities at fair value through profit or loss:				
Derivatives that are designated as hedging instruments	–	–	66	66
Derivatives that are not designated as hedging instruments	–	–	1	1
Warrants and options	–	–	6	6

December 31, 2011 € in millions	Level 1	Level 2	Level 3	Total
Financial assets				
Debentures	145	26	–	171
Derivatives that are designated as hedging instruments	–	–	58	58
Call options	–	–	–	–
Available for sale financial assets:				
Shares	–	–	6	6
Financial Liabilities at fair value through profit or loss:				
Derivatives that are designated as hedging instruments	–	–	101	101
Derivatives that are not designated as hedging instruments	–	–	2	2
Put Options	–	–	8	8
Warrants and call options	–	–	5	5

During 2011 and 2012 there have been no transfers between financial instruments valuated in level 1 to level 2 or between level 2 to level 1.

C Level 3 financial assets and liabilities reconciliation

10.3 Level 3 reconciliation:

€ in millions	As of January 1, 2012	Additions	Fair Value gain (loss) recorded in P&L	Fair value gain in OCI	Settlements	As of December 31, 2012	Total gains (losses) for the period included in P&L
Derivative assets	58	–	9	–	(52)	15	9
Shares	28	–	–	–	(28)	–	–
Call options	6	–	1	–	(7)	–	1
Total assets	**92**	**–**	**10**	**–**	**(87)**	**15**	**10**
Liabilities related to Put options	(8)	–	–	–	8	–	–
Derivative liabilities	(107)	–	14	12	8	(73)	14
Warrants and call options	(5)	–	(1)	–	–	(6)	(1)
Total liabilities	**(120)**	**–**	**13**	12	**16**	**(79)**	**13**

10.3 Level 3 reconciliation:

€ in millions	As of January 1, 2011	Additions	Fair Value gain (loss) recorded in P&L	Fair value gain in OCI	Settlements	As of December 31, 2011	Total gains (losses) for the period included in P&L
Debentures	4	–	–	–	(4)	–	–
Derivative assets	121	–	(12)	(6)	(45)	58	(12)
Shares	94	3	(3)	–	(66)	28	(3)
Call options	10	–	(4)	–	–	6	(4)
Total assets	**229**	**3**	**(19)**	**(6)**	**(115)**	**92**	**(19)**
Liabilities related to Put options	(17)	–	9	–	–	(8)	9
Derivative liabilities	(70)	–	(38)	3	(2)	(107)	(38)
Warrants and call options	(4)	–	(1)	–	–	(5)	(1)
Other liabilities	(1)	–	1	–	–	–	1
Total liabilities	**(92)**	**–**	**(29)**	**3**	(2)	**(120)**	**(29)**

10.4 IAS 39 classification of financial assets and liabilities:

€ in millions	December 31, 2012	December 31, 2011
Financial assets:		
Financial assets at fair value through profit or loss:		
Held for trading	–	173
Designated at fair value through P&L	–	6
Cash, Loans and receivables	855	1,186
Derivatives that are designated as hedging instruments	13	57
	868	**1,422**
Financial Liabilities:		
Financial liabilities presented at amortized cost	2,139	2,946
Derivatives that are not designated as hedging instruments	1	2
Derivatives that are designated as hedging instruments	66	101
Put option	5	16
	2,211	**3,065**

C Financial instruments and risk management in financial services sector

The Group's financial services sector (TBIF) maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital of the banks in TBIF is monitored using, among other, measures, rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Bulgarian National Bank (and also National Bank of Russia with respect to Sovcombank that was sold in May 2012).

During the past year (for Sovcombank – till the date of the sale), the banks in TBIF have complied in full with all their externally imposed capital requirements.

Capital management

TBIF considers its equity to be its capital. The primary objectives of TBIF's capital management are to ensure that TBIF complies with externally imposed capital requirements and that TBIF maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

TBIF manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, TBIF may adjust the amount of dividend payment to shareholders, return capital to shareholders, issue shares or debentures, adjust the leverage policy, invest in or dispose of assets. No changes were made in the objectives, policies and processes from the previous years.

Regulatory capital requirements
Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision, as implemented by the Bulgarian National Bank (and the National Bank of Russia) for supervisory purposes. The minimum Tier 1 ratio is 4% and the minimum total capital ratio is 8% of all risk-weighted assets including off-balance sheet items and market risk associated with trading portfolios.

Regulatory capital Bulgaria (TBI Bank)

€ in millions	2012	2011
Tier 1 capital	8	8
Tier 2 capital	–	–
Total capital	**8**	**8**
Risk-weighted assets	**55**	**32**
Tier 1 capital ratio	15.28%	26.3%
Total capital ratio	15.28%	26.3%

Regulatory capital Russia (Sovcombank)

€ in millions	2012	2011
Tier 1 capital	–	84
Tier 2 capital	–	62
Total capital	**–**	**146**
Risk-weighted assets	**–**	**1,250**
Tier 1 capital ratio	–	6.7%
Total capital ratio	–	11.7%

The numbers in the table relate to 100% of the capital of Sovcombank, regardless of TBIF's shareholdings in the bank. Sovcombank was sold in May 2012.

Risk mitigation
TBIF uses the analysis of the structure of its portfolios in order to mitigate excessive risk in each of the countries. The risk is spread among the corporate and retail financial services. Furthermore, this structure is also controlled on a product level and according to portfolio limits. The diversification of the businesses (banking, consumer finance, leasing) as well as collateral management are useful risk mitigation tools as well.

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activity in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to development affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, TBIF's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (Ukraine, Romania and Bulgaria); industry concentration (banking, leasing, consumer finance and mortgage); product concentration (ie. overdrafts, credit cards, mortgages) and product feature (secured, unsecured).

2 Credit risk

Credit risk is the risk that TBIF will incur a loss because of the inability of its customers to discharge their contractual obligations. TBIF manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits.

TBIF has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows TBIF to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(i) Credit related commitments risks

TBIF makes available to its customers guarantees which may require that TBIF makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose TBIF to similar risks to loans and these are mitigated by the same control processes and policies.

(ii) Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

€ in millions	2012	2011
Cash and cash equivalents (excluding cash on hand)	31	47
Deposits in banks	–	1
Balances with central banks	6	7
Marketable debt securities	–	171
Consumer credit and mortgage loans	42	86
Banking loans granted	66	430
Finance leases	33	56
Other loans and long-term receivables	11	16
Other receivables	6	8
	195	822
Financial guarantees	1	14
Undrawn commitments to lend	8	32
	9	46
Total credit risk exposure	**204**	**868**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

(iii) Risk concentrations of the maximum exposure to credit risk

The tables below show the maximum exposure to credit risk for the components of the statement of financial position and the off-balance sheet commitments and contingencies, broken down according to TBIF's main lines of business and geographical regions, before the effect of mitigation through the use of collateral agreements.

Risk concentration of the maximum exposure to credit risk as of December 31, 2012 (€ in millions):

€ in millions	Banking	Consumer; mortgage	Leasing	Others	Total
Ukraine	–	–	11	–	11
Romania	–	40	17	–	57
Bulgaria	95	20	10	1	126
Others	–	–	–	10	10
	95	**60**	**38**	**11**	**204**

Risk concentration of the maximum exposure to credit risk as of December 31, 2011 (€ in millions):

€ in millions	Banking	Consumer; mortgage	Leasing	Others	Total
Ukraine	–	–	11	–	11
Russia	630	–	10	–	640
Romania	–	46	27	–	73
Bulgaria	42	58	17	1	118
Others	–	–	–	25	25
	672	**104**	**65**	**26**	**867**

(iv) Collateral and other credit enhancements
The amount and type of collateral (cash deposits, property, movable assets, etc) required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The fair value of the collateral obtained as of December 31, 2012 by type of asset is as follows:
- €15 millions for mortgage loans;
- €30 millions for bank loans granted;
- €63 millions for finance leases

TBIF obtains guarantees from parent companies for loans to their subsidiaries, but the benefits are not included in the above table.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

No collateral can be sold or re-pledged in the absence of default by the owner of the collateral.

Repossessed collateral
During 2012 TBIF repossessed assets with carrying value of €7.5 million (2011 – €10.5 million) which TBIF is in the process of selling. The carrying value is deemed to approximate the fair value of the repossessed assets.

(v) Credit quality per class of financial assets
The credit quality of financial assets is managed by TBIF's subsidiaries using internal credit ratings. The system of internal credit ratings is applicable to each company in TBIF. High grade is given to assets where the counterparty is a central bank or has a formal high grade rating given by Fitch, Moody's or S&P, e.g. a long-term Fitch rating of A- to AAA. Low grade is given to assets which would be past due or impaired but were renegotiated to avoid that. Standard grade is given to all remaining assets. The tables below show the credit quality by class of assets, based on these internal credit rating systems.

Credit quality per class of financial assets as of December 31, 2012:

€ in millions	Neither past due nor impaired				
	High grade	Standard grade	Low grade	Past due/ impaired	Total
Cash in banks	21	10	–	–	31
Deposits in banks	–	1	–	–	1
Balances with central banks	7	–	–	–	7
Consumer credit and mortgage	–	28	–	61	89
Banking loans granted	–	35	2	34	71
Finance leases	–	18	2	24	44
Other loans and receivables	–	4	3	7	14
Other receivables	–	5	–	–	5
	28	**101**	**7**	**126**	**262**

Credit quality per class of financial assets as of December 31, 2011:

€ in millions	Neither past due nor impaired				
	High grade	Standard grade	Low grade	Past due/ impaired	Total
Cash in banks	7	40	–	–	47
Deposits in banks	–	1	–	–	1
Balances with central banks	7	–	–	–	7
Consumer credit and mortgage	–	64	–	65	129
Banking loans granted	–	394	–	63	457
Finance leases	–	41	–	30	71
Other loans and receivables	–	13	–	4	17
Held-for-trading assets	11	160	–	–	171
Other receivables	–	8	–	–	8
	25	**721**	**–**	**162**	**908**

(vi) Aging analysis of past due but not impaired loans and receivables

Aging analysis of past due but not impaired loans and receivables as of December 31, 2012:

€ in millions	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Consumer credits and mortgage	4	1	1	54	60
Banking loans granted	5	1	1	1	8
Finance leases	5	2	–	2	9
Other loans and receivables	–	2	–	2	4
	14	**6**	**2**	**59**	**81**

Aging analysis of past due but not impaired loans and receivables as of December 31, 2011:

€ in millions	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Consumer credits and mortgage	5	2	1	50	58
Banking loans granted	9	3	3	12	26
Finance leases	5	1	1	5	12
	19	**6**	**5**	**67**	**97**

(vii) Carrying amount per class of financial assets whose terms have been renegotiated, that would otherwise be past due or impaired

€ in millions	2012	2011
Banking loans granted	2	–
Finance leases	2	3
Long-term loans and receivables	3	–
Total credit risk exposure	**7**	**3**

(viii) Impairment assessment
The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. TBIF addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances
TBIF determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

The following table presents the amounts of individually impaired assets:

€ in millions	2012	2011
Consumer credit and mortgage loans	1	7
Banking loans granted	26	36
Finance leases	16	18
Long-term loans and receivables	3	–
	46	**61**

Collectively assessed allowances
Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with TBIF's overall policy. Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

3 Liquidity risk and funding management

Liquidity risk is the risk that TBIF will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To limit this risk, management has arranged diversified sources in additional to deposit bases (only in the banking subsidiaries), manages assets with liquidity in mind and monitors future cash flow and liquidity on a daily basis. This incorporates assessments of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

TBIF's subsidiaries maintain a portfolio of marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. Some of TBIF subsidiaries have certain committed lines of credit that are available to meet liquidity needs. In addition, all banks in TBIF maintain statutory deposits with the central banks in their countries of incorporation in compliance with the requirements of the local legislation.

TBIF uses maturity tables in managing its liquidity risk by performing maturity gap analysis, including estimations of deposit roll forwards for the banks in TBIF. TBIF focuses on maintaining a diversified mix of assets that allows for secured funding. The tables below show an analysis of assets and liabilities according to their expected maturities, including future interest payments, as well as the expected expiry by maturity of TBIF's contingent liabilities and commitments. The expected maturity of liabilities agrees with their contractual maturity.

Maturity analysis of TBIF's assets and liabilities as of December 31, 2012:

€ in millions	0-3 months	4-12 months	1-3 years	3-5 years	Thereafter	Total
Consumer credits and mortgages	21	13	16	5	7	62
Bank loans granted	8	36	20	4	6	74
Finance leases	10	10	16	4	1	41
Other long-term receivables	6	1	4	–	1	12
Trade and other receivables	4	2	–	–	–	6
Balances with central banks	6	–	–	–	–	6
Cash and cash equivalents	33	–	–	–	–	33
	88	**62**	**56**	**13**	**15**	**234**
Bank customer accounts	25	51	–	–	–	76
Loans from banks and others	7	16	18	3	19	63
Non-convertible debentures	2	16	–	–	–	18
Other liabilities	5	–	–	–	–	5
	39	**83**	**18**	**3**	**19**	**162**
Liquidity gap	**49**	**(21)**	**38**	**10**	**(4)**	**72**

Maturity analysis of TBIF's assets and liabilities as of December 31, 2011:

€ in millions	0-3 months	4-12 months	1-3 years	3-5 years	Thereafter	Total
Consumer credits and mortgages	55	31	22	6	9	123
Bank loans granted	93	169	174	33	3	472
Finance leases	20	20	26	5	1	72
Other long-term receivables	–	7	6	4	–	17
Short-term investments	171	–	–	–	–	171
Trade and other receivables	8	–	–	–	–	8
Balances with central banks	7	–	–	–	–	7
Bank deposits	–	1	–	–	–	1
Cash and cash equivalents	80	–	–	–	–	80
	434	**228**	**228**	**48**	**13**	**951**
Bank customer accounts	173	84	328	–	–	585
Loans to banks and others	72	39	43	7	105	266
Non-convertible debentures	1	4	21	5	–	31
Other liabilities	15	7	8	1	–	31
	261	**134**	**400**	**13**	**105**	**913**
Liquidity gap	**173**	**94**	**(172)**	**35**	**(92)**	**38**

TBIF estimates that the contractual maturity of non-trading financial assets and liabilities matches their expected maturity, due to the following:

- TBIF expects that its financial liabilities will be settled on the earliest date on which Group entities can be required to pay;
- There is no active market for the majority of financial assets (except for held for trading assets) held by TBIF and they are not readily saleable;
- TBIF does not have very diverse funding sources.

Maturity analysis of TBIF's contingent liabilities and commitments as of December 31, 2012:

€ in millions	0-3 months	4-12 months	1-3 years	3-5 years	Total
Financial guarantees	–	1	–	–	1
Undrawn commitments to lend	6	2	–	–	8
Total	**6**	**3**	**–**	**–**	**9**

Maturity analysis of TBIF's contingent liabilities and commitments as of December 31, 2011:

€ in millions	0-3 months	4-12 months	1-3 years	3-5 years	Total
Financial guarantees	6	5	3	–	14
Undrawn commitments to lend	16	10	5	1	32
Total	**22**	**15**	**8**	**1**	**46**

TBIF expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

39 Related Parties Disclosures

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

A Balances

€ in millions	December 31, 2012	December 31, 2011
Assets		
Long-term loans and receivables granted to associates:		
Associates in GTC Holding Group	44	47
	44	**47**

Long-term loans and receivables include loans granted to associates. For details regarding these loans refer to Note 8.

B Transactions

€ in millions	For the year ended December 31,		
	2012	2011	2010
Management fees from associated companies	–	1	2
Financing income from associated companies, net	2	6	3

Management fees from associated companies in 2012 primarily relates to management fees paid by the associates of GTC SA. Management fees from associated companies in 2011 and 2010 primarily relates to management fees paid by the associates of Kardan Israel and GTC SA. Financing income relates to interest on the loans granted to associates as described above.

In September 2011, the Company has extended the services agreement, with its former subsidiary, Kardan Israel. The Company will pay for services rendered an amount of approximately €156 thousand per quarter, linked to the Israeli CPI as of June 2011. The agreement will be valid for a period of three years starting October 2011.

In February 2010, Tahal entered into a lease agreement with Kardan Real Estate (a related party) for renting a number of offices in the Kardan Building in Tel-Aviv, for a period of 60 months (with an option for additional 60 months).

In February 2010, Tahal entered into a combination agreement with Kardan Real Estate for the sale of their building in Tel-Aviv. According to the combination agreement, Tahal would sell Kardan Real Estate all it's rights in the building and in return, Kardan Real Estate would pay Tahal 50% of the proceeds received from the sale apartments (which would be built by Kardan Real Estate). In December 2012, Kardan Real Estate notified Tahal on the cancellation of combination agreement.

C Remuneration to related parties:

Starting May 31, 2012 a one Tier board structure was established in the Company. Below please find the breakdown of the compensation of the Board Members of the one Tier structure from May 31, 2012 and the members of the Supervisory Board and Management Board, prior to the establishment of the one Tier Board.

Compensation of management board and supervisory board of the Company:

1 Fees to Supervisory Board until May 31, 2012

€ in '000	Short-term employee benefits	
	January till May 2012	2011
J. Krant	16	39
I. Fink	10	23
J. Pomrenze	11	27
M.I. Groen *	11	27
A. Schnur *	10	23
K. Rechter	10	23
H. Benjamins	11	27
	79	**189**

* see also Table 2 below for fees from June till December

2 Fees to Board of Directors from June 1, 2012 till December 31, 2012

€ in '000	Short-term employee benefits
	June till December 2012
M.I. Groen	19
A. Schnur	15
A. May	21
P. Sheldon	25
	80

3 Fees to Management Board till May 31, 2012:

€ in '000	Short-term employee benefits	Post employement pension and medical benefits	Share based payment transaction	Total
2012				
E. Oz-Gabber *	83	–	2	85
W. van Damme	96	–	–	96
A. Ickovics	118	–	8	126
A. Shlank	–	–	8	8
J. Slootweg *	109	–	15	124
	406	**–**	**33**	**439**

* see also Table 4 below for fees from June till December 2012.

4 Fees to Executive Management from June 1 till December 31, 2012:

€ in '000	Short-term employee benefits	Post employement pension and medical benefits	Share based payment transaction	Total
2012				
Shouky Oren *	375	–	229	604
E. Oz-Gabber	117	–	4	121
J. Slootweg [1]	154	222 **	22	398
	646	**222**	**255**	**1,123**

* Mr. Oren is the CEO of the Company and a member of the Board of Directors. The amounts stated in the table are from the start of his employment in February 2012.

** An additional amount of €36 thousand was paid by the company on account of Levy tax.

€ in '000	Short-term employee benefits	Post employement pension and medical benefits	Share based payment transaction	Total
2011				
A. Shlank [2]	57	–	–	57
E. Oz-Gabber	218	16	–	234
W. van Damme	248	19	14	281
A. Ickovics	339	–	–	339
J. Slootweg	284	21	114	419
	1,146	**56**	**128**	**1,330**

1 Amounts paid directly by the Company and by Group companies.
2 Resigned from the Management Board in January 2011.

Fees and salaries to shareholders employed by the Group:

€ in '000	Short-term employee benefits	
	2012	2011
Y. Grunveld *	–	316
A. Rechter *	–	398
	–	**714**

* The amounts in 2011 represent the salary and fees paid by Kardan Israel until the split of Kardan Yazamut in October 2011.

Grant of options and unreleased shares by the Company *:

	No. of options	No. of unreleased shares
W. van Damme	150,000	–
J. Slootweg [1]	175,000	27,832
A. Ickovics	–	35,344
A. Shlank	–	31,927
E. Oz-Gabber	–	24,656
	325,000	**119,759**

* The unreleased shares are to be held in custody by the Company till the end of the vesting period on January 1, 2014. As of December 31, 2012, the shares have not been allocated yet.

1 Subsequent to balance sheet date all the options were cancelled, for additional information see also Note 18, in addition, the shares granted to Mr. Slootweg are fully released.

40 Subsequent events

A On January 17, 2013, a subsidiary of the Company, TCE, completed the sale of its rights in a leased real estate asset in Tel Aviv, Israel to an unrelated third party for a consideration of €15 million. The full consideration has been received in cash. The expected net profit on the transaction amounts to €7 million, which will be presented as other income in the income statement in the first quarter 2013.

B Subsequent to the balance sheet date, in March 2013, the Company signed an agreement with the trustees of Debentures Series A and B holders. The agreements included among other the following:

(1) Restriction to pledge 51% of the Company's shares in Kardan Land China (a fully owned subsidiary of the Company) till the repayment of the Debenture in February 2014 (principal and interest) and a restriction on pledging 49% of Kardan Land China shares till the repayment of the Debenture in February 2015 (principal and interest).

(2) The Company committed to give an early notice before pledging part of Kardan Land China shares (which may be pledged subject to the restriction in section 1 above) and/or the pledge of the Company shares in Tahal Group International BV. The notification is required till the repayment of the debentures (principal and interest) in February 2015. The Company shares in Kardan Land China and Tahal Group International will be referred to as the 'Target assets'.

(3) 80% of the credit received against the pledge of the target assets will be used to repay the Debentures payment in February 2014. From the repayment in February 2014 and till the repayment in February 2015 the Company commited that 60% of the credit received against the pledge of the target assets will be

used to reduce the debentures debt, provided that: (a) only half of the above mentioned 60% credit will be used to reduce the debt trough a repurchase of the Company debentures;
(b) From funds that are used to repurchase the debentures, the amount used to purchase one of the debentures series will not exceed 80% of the total purchase.

(4) 50% of the proceeds received from the sale of the target assets or any part of them, will be used to repay the debentures payment in February 2014. The commitment will not apply to amounts that are less than €15 million.

(5) The Company is allowed, at any time, to early repay the next debenture payment, provided that the amount of each early repayment will not be less than €10 million.

(6) The Company committed not to distribute dividends until the maturity date of the debenture payment (principal and interest) in February 2015 and in any case not before the Company publish the financial statements for the year ended 2013.

(7) Restriction on the sale of the Company debentures held by the Company subsidiaries.

C As disclosed in Note 5C, GTC Holding has effective control over GTC SA as per December 31, 2012. Subsequent to balance sheet date in February 2013, one of the shareholders of GTC SA increased its stake to 10.04%, and further to this change, in March 2013, the shareholder appointed an additional supervisory board member in GTC SA. As of the date of publication of the 2012 results (March 24, 2013), GTC Holding has 5 supervisory directors in GTC SA out of 10, including the Chairman of the Supervisory Board who has a casting vote.

As a result of these developments, the Company concluded that in the first quarter of 2013 its accounting effective control over GTC SA ceased to exist and accordingly it will stop consolidating the financial statements of GTC SA in the first quarter of 2013. It should be noted that there was an additional shareholder who was entitled to appoint a supervisory board member, but this shareholder had not used its right yet.
In April 2013, this shareholder executed his right and appointed a member in the Supervisory Board of GTC SA, bringing the total number of members to 11, of which GTC RE has 5 members, 5 were appointed by other shareholders and one is an independent director.

Within the financial covenants of GTC Holding towards a lending bank with respect to a €100 million loan, GTC Holding is required to keep its ability to steer the activities of GTC SA through the directors it has appointed.
GTC Holding is currently investigating whether the appointment of the additional Supervisory Board member has an impact on its ability to steer the activities of GTC SA.
For further information see Note 27.

Although the Company has effective control over GTC SA as of December 31, 2012, presented below is additional information with respect to GTC SA, to demonstrate the impact of deconsolidation should such loss of accounting effective control have occurred as of the balance sheet date (which was not the case). It should be emphasized that this is presented only for the convenience of the readers of the financial statements and does not imply that such loss of control has occurred as of December 31, 2012.

	Main items from the consolidated statement of financial position		
	December 31, 2012 as reported	GTC SA consolidated balance items as of December 31, 2012	December 31, 2012 without the balance sheet items of GTC SA
Non-current assets	2,205	(1,565) *	640
Current assets	1,078	(379)	699
Non-current liabilities	1,706	(1,084)	622
Current liabilities	861	(328)	533
NCI	547	(532)	15

* Excludes the fair value of GTC SA as of the date of loss of control which will be added as an associated company.

Also refer to Note 28 – segment information for additional information regarding the results of GTC SA which represents the major part of the 'Real Estate Europe' segment as of December 31, 2012.

The Company's income statement would be affected as follows:

1 Recognition of the difference between the fair value of retained interest in GTS SA and its carrying amount;
2 Reclassification of foreign currency translation results and hedge reserves from OCI to the income statement;
3 Recognition, if applicable, of any positive difference between the fair value of the underlying assets and liabilities and the fair value of the retained interest in GTC SA as part of the initial application of the equity method.

Refer to Note 5F for additional information regarding GTC SA carrying value and market value on December 31, 2012. The Effects of both item 1 and 3 significantly depend, among other, on the fair value of GTC SA at the date of loss of control.

GTC SA reports according to the IFRS as adopted by the European Union. There are no material differences between GTC SA's accounting policy and the Group's.

D Subsequent to the balance sheet date, in March 2013, the Romanian Chamber of Deputies has approved an Ordinance no. 114/2007 ('the Ordinance'), which provides that it will not be possible to designate for other use any lands that are currently classified as green areas. This Ordinance is pending upon promulgation by the Romanian President and publishing in the Official Journal. For as long as the Ordinance is valid in its current adopted version it does not allow GTC SA to develop land plot in Bucharest, that was intended for shopping mall project (Galleria Bucharest) and is currently classified as green area. The plot is presented in the Company's financial statements in the amount of €20.4 million (at cost), of which the Company's share is €5.6 million. Whilst the Management of GTC SA is examining the legal, accounting and economic implications of such approval, the Company cannot rule out that the new law would result in significant devaluation of the property below the carrying value as of 31 December 2012. The adoption of the Ordinance in its current form (i.e. without any amendments) was not possible to predict as previous reports have suggested that the Ordinance should be approved with amendments in order to allow change of designation of green areas being held in private ownership.

Company-only Dutch GAAP Financial Statements

Statement of Financial Position

December 31, 2012 – Before Appropriation of Net Result

€ in millions	Note	December 31, 2012	December 31, 2011
Assets			
Non-current assets			
Intangible fixed assets	3	7	8
Derivatives	4	–	57
Investments in subsidiaries	5A	571	474
Loans to subsidiaries	5C	–	288
		578	**827**
Current assets			
Cash and cash equivalents	6	51	28
Short-term investments	7	1	6
Derivatives	4	13	–
Other receivables		1	3
		66	**37**
Total assets		**644**	**864**
Equity and liabilities			
Equity	8		
Share capital		23	23
Share premium		208	208
Property revaluation reserve		54	52
Revaluation reserve, other		12	5
Foreign currency translation reserve		–	7
Non-controlling interest holders transaction reserve		21	19
Retained earnings (accumulated deficit)		(117)	37
Result for the period		(32)	(148)
		169	**203**
Long-term liabilities			
Debentures	9	408	593
Options and other long-term liabilities	11	3	9
		411	**602**
Current liabilities			
Current portion of banks loans and debentures	9, 10	44	30
Other Payables	13	20	29
		64	**59**
Total equity and liabilities		**644**	**864**

See accompanying Notes.

Company-only Dutch GAAP Income Statement

Year ended December 31, 2012

€ in millions	Note	2012	2011
Net result from investments for the year	5D	(70)	(124)
Result on purchase of debentures	14	41	–
Other income (expense), net	14	(3)	(24)
Net loss		**(32)**	**(148)**

See accompanying Notes.

Notes to the company-only Dutch GAAP Financial Statements

December 31, 2012

1 General

The description of the Company's activity and the Group structure, as included in the Notes to the consolidated IFRS financial statements, also apply to the Company-only Dutch GAAP statutory financial statements, unless otherwise stated.

2 Significant Accounting Policies

The Company-only Dutch GAAP statutory financial statements are drawn up in accordance with accounting policies generally accepted in The Netherlands (Dutch GAAP).

In accordance with the provisions of article 362-8 of Book 2 of the Netherlands Civil Code the accounting policies used are the same as those used in the Notes to the consolidated financial statements, prepared under IFRS as endorsed by the European Union. In accordance with Article 402 of part 9, Book 2, of the Netherlands Civil Code, the company-only Dutch GAAP income statement is presented on a condensed basis, as its income statement is already included in the consolidated IFRS income statement. Investments in subsidiaries are stated at net asset value, determined applying the IFRS accounting policies as described in the consolidated financial statements.

3 Intangible Fixed Assets

a Intangible fixed assets include other intangibles created in various transactions. Movement is as follows:

b 2012

€ in millions	Other intangibles	Total
Balance as of January 1	8	8
Amortization	(1)	(1)
Balance as of December 31	**7**	**7**

€ in millions	2011 Total	Other intangibles	2012 Total
At January 1			
Cost	118	–	118
Less accumulated amortization and impairment losses	(110)	(1)	(111)
At December 31	**8**	**(1)**	**7**

2011

€ in millions	Goodwill	Other intangibles	Total
Balance as of January 1	8	10	18
Goodwill impairment losses [1]	(8)	–	(8)
Amortization	–	(2)	(2)
Balance as of December 31	**–**	**8**	**8**

1 The impairment related to decrease of value of subsidiaries in the Europe real estate segment.

€ in millions	2010 Total	Goodwill	Other intangibles	2011 Total
At January 1				
Cost	118	–	–	118
Less accumulated amortization and impairment losses	(100)	(8)	(2)	(110)
At December 31	**18**	**(8)**	**(2)**	**8**

c The total goodwill amounts to nil for the years ended December 31, 2011 and 2012.

d The other intangible assets amounted to €7 million and €8 million as of December 31, 2012 and 2011, respectively, and relates to the banking and retail lending segment. The intangibles are amortized through the period of their useful life till 2020.

4 Derivatives

The derivatives all relate to swap transactions on the Company's debentures. Further details of these derivatives are described in Note 38 to the consolidated IFRS financial statements.

€ in millions	2012	2011
Opening balance as of January 1	56	119
Revaluation of derivatives	9	(17)
Sale of derivatives	(52)	(45)
	13	**57**

During 2012, the Company sold five hedge instrument's (Cross currency Swaps). The proceeds from the sale amounted to €52 millions and were mainly used to finance the repurchase of the Company's debentures (See Note 23 to the Consolidated IFRS financial statements). As a result from the sale, the related hedge reserve in equity amounts to €5 million will be released over the remaining term of the debentures. The amounts released during 2012 amounted to €1 million.

5 Financial Fixed Assets

A Investments in consolidated subsidiaries

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

€ in millions	2012	2011
Balance as of January 1	474	583
Investment in a subsidiary [1]	188	–
Disposal of subsidiary, net [3]	–	(25)
Purchase of treasury shares (by a subsidiary)	–	(3)
Change in capital reserves [2]	–	33
Dividend distributed	(21)	–
Share in profit/(loss) of investments for the year	(70)	(114)
Balance as of December 31	**571**	**474**

1 In 2012, the Company assigned to Emerging Investment XII B.V. (a wholly owned subsidiary of the Company) its loans with Tahal Group International, Kardan Financial Services and GTC Real Estate Holding B.V. as a capital contribution – for additional information see section C below.
2 Primarily relates to foreign currency exchange differences arising on translation of foreign operations.
3 Refer to Note 5 to the consolidated financial statements for information related to the Spin-off of Kardan Yazamut.

2 The impact of the treasury shares is as follows:

€ in millions	2012	2011
Gross investment in subsidiaries, as of January 1	574	477
Treasury shares	(3)	(3)
Net investment in subsidiaries, as of December 31 *	**571**	**474**

* Under Dutch GAAP, the goodwill is presented separately from the investment.

3 Further specification of the investments in subsidiaries is as follows:

	2012		2011	
	Ownership %	Total value € in millions	Ownership %	Total value € in millions
Names of significant subsidiaries				
GTC Real Estate Holding B.V.	100	314	100	360
Kardan Financial Services B.V.	100	41	100	60
Tahal Group International B.V.	100	46	100	54
Emerging Investments XII B.V.	100	170	100	–
Total investments in significant consolidated subsidiaries *		**571**		**474**

* Refer to Note 5 to the consolidated financial statements for a complete list of all significant subsidiaries, jointly ventures in the Group.

B Additional information

2011 Events

a Spin-off of the Company's main Israeli activities

In September 2011 the Extraordinary Shareholders' Meeting of Kardan approved a transaction according to which Kardan would spin-off its 73.7% holdings in Kardan Israel Ltd. ('Kardan Israel') and its indirect 97% holdings in Milgam Municipal Services Ltd. ('Milgam', a subsidiary Kardan Municipal Services Ltd.- 'KMS', formerly named Tahal Assets Israel Ltd.).

The Company restructured some of its holdings in Israel and transferred the Company's shares in Kardan Israel and in KMS to its newly incorporated Israeli 100% owned subsidiary, Kardan Yazamut (2011) Ltd. (Kardan Yazamut). Kardan Yazamut financed the purchase of these shares through external financing in the amount of €39.6 million. Kardan used the proceeds to deleverage.

In October 2011, after receipt of all the required approvals, the shares of Kardan Yazamut were distributed as dividend in kind to the Company's shareholders and Kardan Yazamut shares were listed for trade on the TASE. For additional information refer to Note 5 in the consolidated financial statements.

b Revaluations and impairment tests in Europe

Refer to Note 7 in the consolidated financial statements for information related to the Revaluations and impairment tests in Europe.

C Loans to consolidated subsidiaries:

As described in Note 4 above, the Company's loans to its subsidiaries Tahal Group International and Kardan Financial Services and GTC Real Estate Holding B.V were assigned to Emerging Investments XII B.V. As of December 31, 2012 the Company has an outstanding loan balance with its subsidiary Emerging Investment XII B.V in the amount of €159 million (including interest) which was granted for sole purpose of purchasing the Company Debentures Series A and B. The Company has a legal right and intention to settle the loan and the payment of the debentures on a net basis, therefore as of December 31 2012, the Company off-set the loan balance against its liability.

As of December 31, 2011 loans to consolidated subsidiaries include a loan to TGI amounting to €44 million, a loan to KFS amounting to €94 million, and a loan to GTC Holding amounting to €150 million. The loans are primarily denominated in Euro.

The main loan to KFS bore an interest of Euribor + 2.875% per annum. The loan to TGI bore interest of Euribor + 3% per annum. The loan to GTC Holding bore interest of Euribor + 3% per annum.

The movement in the loans is as follows:

€ in millions	2012	2011
Balance as of January 1	288	277
Loans granted to subsidiaries	18	18
Loans repaid by subsidiaries	(136)	–
Assignment of loans as capital contribution	(177)	–
Accrued interest and foreign currency differences, net	7	(7)
Balance as of December 31	**–**	**288**

D Net result from investments for the year

€ in millions	2012	2011
Net profit/(loss) of investments for the year	(70)	(114)
Impairment losses	–	(8)
Amortization	(1)	(2)
Net result as presented in the income statement	**(71)**	**(124)**

6 Cash And Cash Equivalents

Cash and cash equivalents comprise mainly short term deposits.
The average interest earned in 2012 on short term deposits is 1-2% (2011 - 0.8%).

7 Short-term Investments

€ in millions	December 31, 2012	December 31, 2011
Pledged deposits	1	6
	1	**6**

The pledged deposits relate to security provided for a loan and certain swap transactions, which are linked to the repayment of debentures, and were used to secure the Company's payments.

Following the completion of the Sovcombank transaction in 2012, pledged deposits in the amount of €5 million were released. For additional information refer to Note 5C in the consolidated financial statements.

The average interest earned was 1.9% (2011- 6.5%).

8 Dutch GAAP Shareholders' Equity

€ in millions	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Non-controlling interest holders transactions reserve	Retained earnings	Total
Balance as of January 1, 2012	**23**	**208**	**52**	**5**	**7**	**19**	**(111)**	**203**
Change in unrealized revaluation reserve	–	–	–	3	(7)	–	–	(4)
Net profit/(loss) for the period	–	–	–	–	–	–	(32)	(32)
Shares purchased in consolidated subsidiaries	–	–	–	–	–	1	–	1
Expired option plans for shares in a subsidiary	–	–	–	–	–	1	–	1
Reclassification according to requirements *	–	–	2	4	–	–	(6)	–
Balance as of December 31, 2012	**23**	**208**	**54**	**12**	**–**	**21**	**(149)**	**169**
Comprises of:								
Balance before treasury shares	23	208	54	12	–	21	(146)	172
Treasury shares ***	–	–	–	–	–	–	(3)	(3)
Balance as of December 31, 2012	**23**	**208**	**54**	**12**	**–**	**21**	**(149)**	**169**

€ in millions	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Non-controlling interest holders transactions reserve	Retained earnings	Total
Balance as of January 1, 2011	**23**	**235**	**114**	**–**	**9**	**(1)**	**(46)**	**334**
Currency translation differences	–	–	–	–	(1)	–	–	(1)
Change in unrealized revaluation reserve	–	–	–	(1)	–	–	–	(1)
Net profit/(loss) for the period	–	–	–	–	–	–	(148)	(148)
First time consolidation	–	–	–	–	–	1	–	1
Issuance Company's shares to non controlling interest	–	–	–	6	(1)	22	–	27
Shares purchased in consolidated subsidiaries	–	–	–	–	–	(3)	–	(3)
Purchase of treasury shares	–	(27)	–	–	–	–	24	(3)
Reclassification according to requirements *	–	–	(62)	–	–	–	62	–
Balance as of December 31, 2011	**23**	**208**	**52**	**5**	**7**	**19**	**(108)**	**206**
Comprises of:								
Balance before treasury shares	23	208	52	5	7	19	(108)	206
Treasury shares ***	–	–	–	–	–	–	(3)	(3)
Balance as of December 31, 2011	**23**	**208**	**52**	**5**	**7**	**19**	**(111)**	**203**

* In accordance with the Dutch law, part of the retained earnings is restricted for distribution, following the regulations to maintain a revaluation reserve in respect of real estate unrealized fair value and other adjustments.

** As of December 31 2012 and 2011, amounts of €17 million and €14 million respectively resulted from equity gains in associates and joint ventures and therefore the distribution of these amounts is pending on approval of the shareholders and partners.

*** During 2011, GTC Holding, a subsidiary of the Company, acquired shares of the Company for an amount of €3 million.
Following this purchase, GTC Holding has a 1.1% stake in the Company. These shares are presented in the Company's shareholders' equity as treasury shares.

9 Debentures

Composition:

€ in millions	December 31, 2012	December 31, 2011	Interest rate %
Debentures – issued in 2007	175	282	4.45
Debentures – issued in 2008	281	316	4.9
	456	**598**	
Less – discount	(3)	(3)	
Less – debt issuance expenses	(1)	(2)	
	452	**593**	

Maturities:

€ in millions	December 31, 2012	December 31, 2011
First year – current maturities	44	–
Second year	84	71
Third year	84	116
Fourth year	84	116
Fifth year	40	115
Sixth year onwards	120	180
Total	**456**	**598**

In the second and third quarter of 2012, the Company granted a loan to its fully owned subsidiary GTC Real Estate Holding B.V. ('GTC Holding') for the sole purpose of purchasing the Company Debentures Series A and B.

GTC Holding purchased NIS 431,237,185 par value Debentures Series A, issued by the Company in 2007 for a consideration of €77.3 million (approximately NIS 377 million) and NIS 120,222,513 par value Debentures Series B for a consideration of €15.5 million (approximately NIS 76 million). The repurchase resulted in a gain of €43 million which was included as 'equity earnings' in the Company's income statement.

As part of the loan agreement signed with the lending bank in the third quarter of 2012, GTC Holding assigned 466,024,459 par value Debentures Series A and 168,534,012 par value Debentures Series B and the related loan to a Company's fully owned subsidiary Emerging Investments XII B.V. The Company has a legal right and intention to settle the loan and the payment of the debentures on a net basis, therefore as of December 31 2012, the company off-set the loan balance of €159 million (including interest) against its debentures liability.

In 2011 GTC Holding and Tahal Consulting Engineers Ltd purchased 18,846,589 par value Debentures Series A and NIS 48,311,499 par value Debentures Series B for a total consideration of €41 million. The repurchase resulted in a gain of €3.5 million which was included as 'equity earnings' in the Company's income statement.

For further details please refer to Note 23 to the consolidated IFRS financial statements regarding debentures issued by the Company.

10 Loans From Banks

Composition:

€ in millions	December 31, 2012	December 31, 2011
Israel Discount Bank [1]	–	30
	–	**30**
Less – current maturities *	–	(30)
	–	**–**

As stated in Note 27 to the annual financial statements, as at December 31, 2011, the Company did not meet financial covenants relating to maintaining a minimum equity level. In April 2012, the Company early repaid an amount of €5 million of the outstanding loan. In August 2012, the Company, GTC Holding and the lending bank signed a new loan agreement which includes, amongst others, amended financial covenants, assignment of the Company's loan of €25 million to GTC Holding. Additionally, other commitments with respect to securities were provided to the bank. For additional information refer to Note 27 in the consolidated financial statements.

11 Share plan

In March 2012, the Supervisory Board of the Company approved a grant of 119,759 non-listed shares of the Company (the Unreleased Shares) under the 2010 share plan to executives and employees of the Company.

According to the share plan, the Unreleased Shares will be held by the Company as custodian for a period of two years and will be released for trade at the moment the participant has accumulated (at least) five consecutive years of service with the Company since January 1, 2009.

The participants may elect to receive up to 50% of this incentive by way of a cash payment, subject to the approval of the Company's Board of Directors. The grant was approved by the Annual General Meeting of Shareholders in May 2012.

The grant was accounted for assuming equity settlement and the total expenses booked in the period were immaterial and were included as 'General and administration expenses' in the income statement.

12 Taxes on income

Up to and including 2011 Kardan N.V. has estimated tax losses of €174.7 million that are available for carry forward. The carry back of losses is restricted to one year, whereas the carry forward of losses is limited to nine years. In principle, Kardan can only set off its tax losses which originate from holding and finance activities against future taxable profits as far as those profits are also realized with holding and finance activities. Compensation of losses is disallowed if the balance of the related-party receivables and the related-party payables of a company with holding losses, during the year in which a profit was realized, exceed that balance in the financial year the losses were incurred.

Deferred tax assets have been recognized only with respect to potential tax liability in relation with the Company's hedge transactions. Deferred taxes amounted to €2 million as of December 31, 2012 (as of December 31, 2011 amounted to nil).

The Company has received final tax assessments for the years 2003 to 2009.

Net loss for the year amounts to €39 million (2011: €148 million), including net result from investments of €77 million losses (2011: €124 million losses), which are not deductable/taxable, due to the participation exemption, described above. The Company assumes that the remaining other expenses and income will not result in tax benefits or tax expenses due to the available tax losses from previous years of the Company.

For more information regarding to taxes on income refer to Note 36 to the Consolidated Financial Statements.

13 Other Payables

€ in millions	December 31, 2012	December 31, 2011
Accrued expenses (mainly accrued interest on debentures)	20	25
Others	–	4
	20	**29**

14 Other Income (Expense)

In 2012, other income (expense), net comprise mainly of finance income of €41 million, management fees income of €1 million, general and administrative and other income and expenses amounting to €22 million. The finance income is the result on repurchase of the Company's debentures for which a separate line is opened in the income statement. Also refer to Note 9.

In 2011, other income (expense), net comprise mainly finance expense of €16 million, management fees income of €1 million, general and administrative expenses and other income and expenses amounting to €9 million.

Share based payments and other remunerations to related parties amount to less than €1 million. For additional information refer to Note 18 to the consolidated IFRS financial statements.

15 Audit Fees

The table below summarizes the fees invoiced to the Company's by its auditors, Ernst & Young Accountants and others in:

€ in millions	Ernst & Young	Others	Total
2012			
Audit services - Kardan NV	0.5	*	0.5
Audit services - Subsidiaries	2.3	–	2.3
Total statutory audit fees	**2.8**	*	**2.8**
Other services relevant to taxation	0.3	*	0.3
Other non audit services	*	*	*
Total non audit services	**0.3**	*	**0.3**
Total	**3.1**	*	**3.1**

* Represent an amount under €100 thousands.

€ in millions	Ernst & Young	Others	Total
2011			
Audit services - Kardan NV	0.6	–	0.6
Audit services - Subsidiaries	3	0.3	3.3
Total statutory audit fees	**3.6**	**0.3**	**3.9**
Other services relevant to taxation	0.3	*	0.3
Other non audit services	*	*	*
Total non audit services	**0.3**	*	**0.3**
Total	**3.9**	**0.3**	**4.2**

* Represent an amount lower than €100 thousands.

16 Remuneration of Management Board and Supervisory Board, and Board of Directors

The Company's Board received remuneration in 2012 and 2011 as described in Note 39 to the consolidated IFRS financial statements.

17 Commitments, contingent liabilities, guarantees, and subsequent events

For commitments, contingent liabilities, guarantees, and subsequent events please refer to Notes 27 and 40 respectively of the consolidated IFRS financial statements.

18 Financial instruments and Risk Management

For disclosers required by IFRS 7 regarding financial instruments and risk management, refer to Note 38 in the consolidated IFRS financial statements.

Board

P. Sheldon

S. Oren

C. van den Bos

A. May

A. Schnur

M. Groen

E. Seinstra

Y. Grunfeld

E. Rechter

Other Information

Statutory arrangements in respect of the appropriation of net result

The Articles of Association of the Company provide that the appropriation of the net result for the year is decided upon at the Annual General Meeting of Shareholders.

Proposed appropriation of 2012 result

The proposal is to deduct the result of 2012 from the reained earnings.
The dividend policy of Kardan N.V. will take into consideration the level of net income, liquidity and the capital position, future financing requirements and financial covenants of the Company, all within the limitations of the law. If circumstances allow, the dividend policy recommends an annual distribution of between 20% and 30% of net income.
Dividend pay-out may vary from year to year. Due to the loss for the year under review, and taking into account the financial position of Kardan N.V. as well as the concession granted to the Debenture holders that no dividend will be distributed until the February 2015 repayment (principal and interest) has taken place and in any event that no dividend will be distributed before the publication of the annual accounts of 2013, the Board has decided not to distribute any dividend from the reserves for the financial year 2012.

Subsequent events

For subsequent events please refer to Note 40 of the consolidated financial statements.

Independent Auditor's Report

To: The Management and Shareholders of Kardan N.V.

Report on the statutory financial statements

We have audited the accompanying statutory financial statements for the year ended December 31, 2012 of Kardan N.V., Amsterdam (as set out on pages 106 to 282). The statutory financial statements consist of the Consolidated IFRS financial statements and the Company only Dutch GAAP financial statements. The Consolidated IFRS financial statements comprise the consolidated statement of financial position as at December 31, 2012, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. The Company only Dutch GAAP financial statements comprise the company only balance sheet as at December 31, 2012, the company only income statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility
Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these statutory financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch standards on auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

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

Opinion with respect to the Consolidated IFRS financial statements
In our opinion, the Consolidated IFRS financial statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2012, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the Company only Dutch GAAP financial statements
In our opinion, the Company only Dutch GAAP financial statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2012, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Emphasis of matter with respect to the going concern assumption
We draw attention to Note 1 to the consolidated financial statements which indicates that the Company has repaid debentures in February 2013 totaling €58 million and has to repay €98 million in February 2014. This repayment is likely to be funded through existing cash balances, cash generated from the repayment of certain shareholder's loans by some of the Company's subsidiaries, cash generated through sale of certain assets, cash raised through new loans or equity transactions. The realization of some of the Company's plans and continued compliance with the loan covenants are uncertain and depend on factors that are not wholly within the Company's control, however, the Company believes that it will be able to repay its liabilities as they mature in the foreseeable future. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, April 17, 2013

Ernst & Young Accountants LLP
Signed by: W.C. van Hoeven

Additional Financial Information

According to Rule 9C of the Israeli SEC

Herewith financial data and separate financial information related to the company-only derived from the consolidated financial statements of the Company as of December 31, 2012 which is published as part of the annual report (herewith – Consolidated Financial Statements), presented according to Rule 9c to the Israeli Securities and Exchange Regulations (Periodic and Immediate Reports), 1970. The main accounting policies that were used for this financial information are described in the notes to the Consolidated Financial Statements. The notes to this financial information are those not included in the notes to the Consolidated Financial Statements.

Additional Financial Information from the Company's Statement of Financial Position

December 31, 2012

€ in millions	Additional information	December 31, 2012	December 31, 2011
Assets			
Non-current assets			
Long-term receivable (mainly fair value of derivatives)		–	57
Financial fixed assets			
Investments in consolidated subsidiaries		578	482
Loans to consolidated subsidiaries		–	288
		578	**770**
Current assets			
Cash and cash equivalents	2	51	28
Short-term investments	3	1	6
Other receivables	4	14	3
		66	**37**
Total assets		**644**	**864**
Equity and liabilities			
Equity attributable to equity shareholders			
Share capital		23	23
Share premium		208	208
Property revaluation reserve		54	52
Revaluation reserve, other		12	5
Currency translation reserve		–	7
Non-controlling interest holders transaction reserve		21	19
Treasury shares		(3)	(3)
Accumulated deficit		(146)	(108)
		169	**203**
Long-term liabilities			
Debentures		408	593
Warrants and other long-term liabilities		3	9
		411	**602**
Current liabilities			
Current maturities of debentures long-term liabilities	5	44	30
Other payables		20	29
		64	**59**
Total equity and liabilities		**644**	**864**

Additional Information from the Company's Income Statement

€ in millions	For the year ended December 31,		
	2012	2011	2010
Net result from investments for the year	(70)	(124)	–
Gain from repurchase of debentures by a subsidiary	41	–	–
Other income	1	1	1
Total revenues	**(28)**	**(123)**	**1**
General and administrative expenses, net	6	7	8
Other expenses, net	–	–	1
Total expenses	**6**	**7**	**9**
Loss from operations before financing expenses	(34)	(130)	(8)
Financing income (expenses), net	2	(16)	(22)
Income tax expense (benefit)	–	2	(3)
Loss for the year	**(32)**	**(148)**	**(27)**

Additional Information from the Company-only Statement of Comprehensive Income

€ in millions	For the year ended December 31, 2012	2011	2010
Loss for the year	**(32)**	**(148)**	**(27)**
Foreign currency translation differences	(7)	(1)	61
Change in hedge reserve, net	3	–	13
Unrealized revaluations, net of tax	–	(1)	1
Other comprehensive income (expense) for the period	(4)	(2)	75
Total comprehensive income (expense)	**(36)**	**(150)**	**48**

Additional Information from the Company-only Cash Flow Statement

€ in millions	For the year ended December 31,		
	2012	**2011**	**2010**
Cash flow from operating activities of the Company			
Loss for the year	(32)	(148)	(27)
Adjustments to reconcile Loss to net cash of the Company			
Change in fair value of hedge instruments	(10)	12	(14)
Financial expense	10	35	35
Dividend received	21	–	13
Gain from early repurchase of debentures	(41)	–	–
Equity losses	70	124	–
Changes in working capital of the Company			
Change in receivables	–	1	2
Change in payables	(2)	(1)	2
Cash amounts paid and received during the year			
Interest paid	(28)	(29)	(29)
Interest received	3	–	5
Net cash used in operating activities of the Company	**(9)**	**(6)**	**(13)**
Cash flow from investing activities of the company			
Short-term investments, net	5	2	(1)
Loans to subsidiaries, net	67	(18)	(52)
Investments in subsidiaries	(11)	(16)	–
Proceeds from sale of investee companies	–	41	–
Net cash provided by (used in) investing activities of the Company	**61**	**9**	**(53)**
Cash flow from financing activities			
Investment in shares of a subsidiary	–	(4)	–
Dividend distributed	–	(3)	(3)
Repurchase of debentures and repayment of long-term debt	(76)	–	–
Proceeds from sales of hedge instruments	52	45	29
Repayment of long-term debt	(5)	(23)	(11)
Net cash provided by (used in) financing activities of the Company	**(29)**	**15**	**15**
(Decrease) / increase in cash and cash equivalents of the Company	23	18	(51)
Cash and cash equivalents at beginning of the period	28	10	61
Cash and cash equivalents at end of the period of the Company	**51**	**28**	**10**

* Non Cash material transaction: In Q4 2012 the Company to Emerging Investment XII B.V. (its wholly owned subsidiary) all of the shareholder's loans it granted to Tahal Group International, Kardan Financial Services and GTC Real Estate Holding B.V. for additional information see Note 5 to the consolidated financial statements.

Notes to the Additional Information

1 Financial State

In 2012 the Company incurred losses in the amount of €32 million, which contributed to a decline of shareholders' equity to €169 million. In addition, the Company (on a solo basis) had negative cash flows from operations of €9 million in 2012.

The Company's financial statements as of December 31, 2012 have been prepared on the assumption the Company will continue as a going concern. This is based, among others, on the current cash balances and its available assets as well as considering cash from future operations and transactions. In February 2013, the Company repaid the first installment and interest of Debentures Series A, and interest of Debentures Series B, totalling €58 million (including interest). After the repayment the cash balance of the Company (stand alone) amounts to €5 million.

In February 2014 the first installments of the Company's Debentures Series B mature and the second installment of series A in the total amount of €98 million (including interest) have to be repaid. These repayments are likely to be funded through existing cash balances, cash generated from the repayment of certain shareholder's loans by some of the Company's subsidiaries, cash generated through sale of certain assets, raising loans (against assets free from collaterals) or equity transactions. The Company prepared a two year liquidity analysis as part of its normal course of business which addresses the required liquidity to be able to repay the debentures in February 2014 and all its other liabilities and to finance its operating activities. However these plans can only be achieved within the limitations of an agreement reached subsequent to the balance sheet date with debentures holders, as disclosed in Note 40 to the consolidated financial statements.

As described in Note 27 to the consolidated financial statements, the Company has to meet certain covenants, amongst others, relating to minimum equity threshold of €160 million and commitment to continue steering the activities of GTC SA through its directors. As of December 31, 2012 the shareholders' equity amounts to €169 million and the Company has the ability to steer the activities of GTC SA through its directors, see also note 40 to the consolidated financial statements.

The realization of some of the Company's plans and continued compliance with the loan covenants are uncertain and depend on factors that are not wholly within the Company's control, however the Company believes that it will be able to repay its liabilities as they mature in the foreseeable future.

2 Cash and Cash Equivalents

€ in millions	December 31, 2012	December 31, 2011
Short-term deposits in EURO	2	28
Short-term deposits in NIS	49	–
	51	**28**

The cash is primarily comprised out of short term deposits.
The average interest rate on short term deposits was 1%-2% p.a. in 2012 (in 2011 – 0.8%).

3 Short-Term Investments

€ in millions	December 31, 2012	December 31, 2011
Pledged deposits	1	**6**

The pledged deposits relate to security provided for a loan and certain swap transactions.
The average interest earned in 2012 and 2011 was 1.4%.

4 Other Receivables

€ in millions	December 31, 2012	December 31, 2011
Interest receivable from subsidiaries	–	1
Derivatives	13	1
Other	1	1
	14	**3**

5 Details of material financial assets in accordance with IAS 39

€ in millions	December 31, 2012	December 31, 2011
Financial assets at fair value through profit or loss:		
Loans to subsidiaries	–	288
Derivatives	13	57
Receivables	1	3
Short-term investments	1	6
Cash and cash equivalents	51	28
	66	**382**

6 Expected realization periods of material financial assets and liabilities grouped in accordance with IAS 39 classifications:

Financial assets as of December 31, 2012

€ in millions	Up to 1 year	1-2 years	2-3 years	Total
Cash and short-term investments	52	–	–	52
Loans and receivables	1	–	–	1
	53	**–**	**–**	**53**

Financial assets as of December 31, 2011

€ in millions	Up to 1 year	1-2 years	2-3 years	Total
Cash and short-term investments	34	–	–	34
Loans and receivables	3	–	288	291
	37	**–**	**288**	**325**

Financial liabilities as of December 31, 2012

€ in millions	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Debentures *	64	108	104	100	55	151	582
Payables	1	–	–	–	–	–	1
Put Option	–	–	3	–	–	–	3
Total	**65**	**108**	**107**	**100**	**55**	**151**	**586**

* Including interest

Financial liabilities as of December 31, 2011

€ in millions	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Debentures *	28	99	141	135	130	203	736
Loans **	30	–	–	–	–	–	30
Payables	–	–	–	–	6	–	6
Put Option	3	–	–	–	–	–	3
Total	**61**	**99**	**141**	**135**	**136**	**203**	**775**

* Including interest
** For more information refer to Notes 25 to the Consolidated Financial Statements

The substantial majority of the Company's financial assets, other than cash, are denominated in EURO.

7 Taxes on income

For more information regarding to taxes on income refer to Note 36 to the Consolidated Financial Statements.

8 Loans, mutual balances, commitments and transactions with investee companies

A Balances with investee companies

€ in millions	December 31, 2012	December 31, 2011
Short-term deposit	–	3
Long-term loans to subsidiaries	–	288
Debentures held by subsidiary	24	41
The largest amount of loans and current debts during the year	172	288
Collaterals in favor of investee companies *	18	31

* Collaterals are in respect of loans undertaken by subsidiaries.

B Transactions with investee companies

€ in millions	December 31, 2012	2011	2010
Management fees	1	1	1
Guarantee fees	–	–	1
General and administrative expenses	–	(1)	(1)
Financial income	11	12	16

C Commitments

The Company collects yearly management fees from its subsidiaries and investee companies in the amount of €1 million.

9 Additional information

a **Repurchase of Kardan NV Debentures**
In 2012 GTC Holding purchased NIS 431,237,185 par value Debentures Series A issued by the Company in 2007 at an average price of NIS 0.88 per debenture, for a consideration of €77.3 million (approximately NIS 377 million) and NIS 120,222,513 par value Debentures Series B at an average price of NIS 0.63, for a consideration of €15.5 million (approximately NIS 76 million). The Company accounted for these purchases as an early repayment of debentures. The repurchase resulted in a gain of €43 million which was included as 'Other finance income' in the income statement.

As of the balance sheet date, the Company holds through its subsidiaries NIS 564,871,048 par value Debentures Series A (which represent 47.5% of the par value of Debentures Series A) and NIS 168,534,012 par value Debentures Series B (which represent 12.6% of the par value of Debentures Series B).

b Off-set of financial instruments

In the second and third quarter of 2012, the Company granted a loan to its fully owned subsidiary GTC Real Estate Holding B.V. ('GTC Holding') for the sole purpose of purchasing the Company Debentures Series A and B. As part of the loan agreement signed with the lending bank in the third quarter of 2012, GTC Holding assigned 466,024,459 par value Debentures Series A, 168,534,012 par value Debentures Series B and the loan assigned to the debentures to the Company fully owned subsidiary Emerging Investment XII B.V. The Company has a legal right and intention to settle the loan and the payment of the debentures on a net basis, therefore as of September 30 2012, the company off-set the loan balance of €154 million (including interest) against its liability.

During 2012, Emerging Investment XII B.V. distributed dividend in the amount of €21 million.

Board of Directors

P. Sheldon

S. Oren

C. van den Bos

A. May

A. Schnur

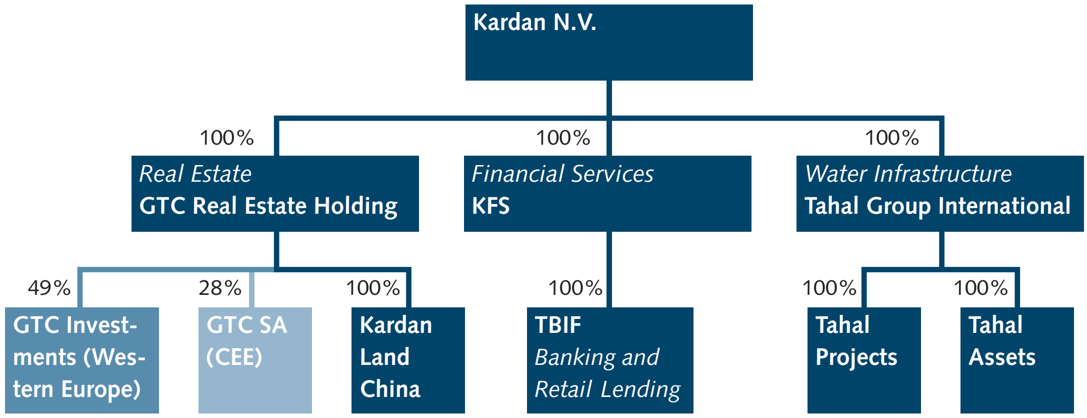
M. Groen

E. Seinstra

Y. Grunfeld

E. Rechter

Organogram Kardan N.V. (April 2013)



Unique investment gateway to emerging markets

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