KARDAN N.V.
AMSTERDAM, THE NETHERLANDS

IFRS Financial Statements (non-statutory)

For the year ended December 31, 2012

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

A s s e t s

	Note	**December 31, 2012**	December 31, 2011(*)
		€in millions	
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 receivable		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
		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.

E q u i t y   a n d   l i a b i l i t i e s

	Note	**December 31, 2012**	December 31, 2011(*)
		€in millions	
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	-
		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

	Note	2012	2011(*)	2010(*)
		For the year ended December 31,		
		€in millions		
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
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)

*) Earning (loss) per share were adjusted retrospectively, refer to note 38 for additional information

(*) Reclassified – see Note 2E.

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

STATEMENT OF COMPREHENSIVE INCOME (EXPENSES)

	For the year ended December 31,		
	2012	2011	2010
		€in millions	
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 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

	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	Accumulate deficit	Total	Non-controlling interest	Total equity
	€in millions										
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)

	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	Accumulate deficit	Total	Non-controlling interest	Total equity
	€in millions										
Balance as of December 31, 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 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)

	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
	€in millions										
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
Shares 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 Chineze 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		
	2012	2011	2010
	€in millions		
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 investment 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		
	2012	2011	2010
	€in millions		
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

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

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended December 31

	2012	2011	2010
		€in millions	
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	**2012**	2011	2010
		€in millions	
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**	**-**
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**

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

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**
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.com).

(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 1 January 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 estimate future cash flows from assets and estimates of discount rates applicable to those assets. In some cases the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the company's assets (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 and €89 million respectively (2011 - €11 million and €78 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 theses 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	0.184	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 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 improvements	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:

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

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

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

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

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

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

I. 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 criterion 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 27The 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			
	December 31, 2012 as reported	**Potential impact of the amendment**	**December 31, 2012 as will be presented**
	€in millions		
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			
	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**
	€in millions		
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			
	December 31, 2011 as reported	**Potential impact of the amendment**	**December 31, 2011 as will be presented**
	€in millions		
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			
	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**
	€in millions		
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 1 January 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 1 January 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

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:

	Investment in shares	Credit facilities provided by the Company to its subsidiaries		Total investment in the subsidiary (*)
		Loans	Collaterals	
	€in millions			
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.

(***) 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
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

Holding company	Name of subsidiary or joint venture	Country of incorporation	% equity interest of the direct holding as of December 31		
			2012	2011	
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 S.A. 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 NV 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:

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
		€in millions	
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:

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
		€in millions	
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:

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
		€in millions	
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:

	October, 2011
	€in millions
Assets	
Tangible fixed assets	18
Investment properties	20
Investments 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 S.A

In June 2012 GTC S.A. 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 S.A. remained 27.75%.

2011

1. Sale and purchase of Shares in GTC S.A.

In January 2011 GTC Holding sold 35.1 million shares of GTC S.A. (which is included in the Company's Real Estate – Europe segment), constituting 16% of GTC S.A.'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 S.A., representing an interest of 27.14%.

As a result of retaining control over GTC S.A, 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 S.A. 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 S.A. 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 S.A., as well as the historical voting patterns at the general meeting, resulted in retaining effective control over GTC S.A.. Accordingly, GTC Holding continued consolidating the financial statements of GTC S.A.

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% Sovcom bank

In June 2011 TBIF signed an agreement with Sovco Capital Partners B.V. (TBIF's partner in Sovcom Bank) to sell the shares in Sovcom Bank 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 Sovcom Bank 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 Sovcom Bank'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 Sovcom Bank as of that date, which were disposed of as a result of the sale were as follows:

	May 2012
	€in millions
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 Sovcom Bank and VAB Bank:

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
	€in millions		
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 Sovcom bank 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:

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
		€in millions	
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:

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
		€in millions	
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

2012-2010

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.

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:

	December 31, 2012	December 31, 2011
	€in millions	
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:

	December 31, 2012	December 31, 2011(*)	December 31, 2010(*)
	€in millions		
Revenues	88	135	94
Expenses	(76)	(65)	(74)
Net profit	12	70	20

(*) Due to the sale of the remaining 50% in Sovcom Bank (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'

Please 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:

	December 31, 2012	December 31, 2011
	€in millions	
GTC SA (*)		
Carrying value	204	199
Market value	215 (**)	128

(*) Traded on the Warsaw Stock Exchange.

(**) Market Value of GTC SA in March 20, 2013 was €175 million

G. The Group has received the following dividend amounts in the reporting period:

	2012	2011
	€in millions	
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

	Freehold Land, buildings And assets under construction	Property, plant and equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	€in millions					
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:

	2012	2011
	€in millions	
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:

	2012	For the year ended December 31, 2011	2010
		€in millions	
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 fair value adjustments/impairments separated to Asia and Europe:

	For the year ended December 31,		
	2012	2011	2010
		€in millions	
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:

	December 31, 2012	December 31, 2011
	€in millions	
Completed investment properties (F)	1,377	1,477
Investment properties under construction carried at fair value (1) (F)	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:

	December 31, 2012	December 31, 2011
	€in millions	
Investments properties in Europe (GTC S.A. 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	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%

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 to 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.

(*) 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

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):

	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, has 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.

<u>2011</u>

4. Sale of Galleria Mokotow

In August, 2011 GTC S.A. (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), the 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. <u>ISA Letter</u>

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 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:

		% of ownership and control by the direct holding company as of		
Holding company	Name of associate	**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:

	December 31, 2012	December 31, 2011
	€in millions	
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:

	2012	2011
	€in millions	
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:

	Interest rate (p.a)	**December 31, 2012**	December 31, 2011
		€in millions	
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:

	December 31, 2012	December 31, 2011
	€in millions	
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:

	For the year ended December 31,		
	2012	2011	2010
	€in millions		
Revenues	15	15	29
Net profit (losses)	(10)	(3)	6

(9) LOANS TO BANK CUSTOMERS

A. Composition:

	December 31, 2012	December 31, 2011
	€in millions	
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:

	2012	2011
	€in millions	
Balance as per 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 per December 31	4	27

Maturities:

	December 31, 2012	December 31, 2011
	€in millions	
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 Sovcom Bank – 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:

	December 31, 2012	December 31, 2011
	€in millions	
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:

	December 31, 2012	December 31, 2011
	€in millions	
Financial leases	33	57
Consumer credits and mortgages	42	86
	75	143
Current	23	61
Non Current	52	82
	75	143

	December 31, 2012	December 31, 2011
	€in millions	
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:

	2012	2011
	€in millions	
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 per December 31	62	58

(11) INTANGIBLE ASSETS AND GOODWILL

At December 31, KNV's market value amounts to €87 million and is below its carrying amount of €169. 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:

	Goodwill	Service concessions	Other intangibles (4)	Total
	€in millions			
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 Sovcom bank.
(3) The change in 2012 relates to the sale of Sovcom Bank- 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:

	December 31, 2012	December 31, 2011
	€millions	
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 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 31 December 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 Romania 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 Romania operations and in an additional impairment charges of €1.5 million for Ukrainian operation.

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 Romania.

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	Gross profit	operating income
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:

	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:

	Carrying value December 31, 2011	Reclassification	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:

	December 31, 2012	December 31, 2011
	€in millions	
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.

	December 31, 2012	December 31, 2011
	€in millions	
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:

	December 31, 2012	December 31, 2011
	€in millions	
Cost of buildings in progress and residential land bank in the CEE region (GTC S.A.)	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:

	December 31, 2012	December 31, 2011
	€in millions	
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			
	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
	€in millions			
Revenues recognized	79	370	87	235
Cost recognized	62	302	65	197

	December 31, 2011			
	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
	€in millions			
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:

	December 31, 2012	December 31, 2011
	€in millions	
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 (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:

	Past due but not provided						
Neither past due nor impaired	< 30 days	30 – 60 days	60 – 90 day	90 – 120 day	>120 days	Provision for doubtful accounts	Total
€in millions							

2012	34	6	2	4	1	17	(5)	59
2011	19	3	3	3	3	11	(5)	37

(14) OTHER RECEIVABLES AND PREPAYMENTS

	December 31, 2012	December 31, 2011
	€in millions	
Financial:		
Central bank 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
Advances 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 Sovcom Bank 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

	December 31, 2012		December 31, 2011	
	Average interest rate	€ in millions	Average interest rate	€ 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 Sovcom Bank.

(16) CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
	€in millions	
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:

	December 31, 2012		December 31, 2011	
	Authorized	Issued and paid-in	Authorized	Issued and paid-in
	Number of shares		Number of shares	
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	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:

	For the year ended		
	December 31, 2012	December 31, 2011	December 31, 2010
	€in millions		
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 excisable 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 they will 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 Meetingof 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 S.A. 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	No.	WAEP
		PLN		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 NV allowing Kardan NV to pay the senior executive cash or shares of Kardan NV upon exercise of the options. The exercise of options (to cash or Company shares) is subject to the Kardan NV'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 No.	2012 WAEP	2011 No.	2011 WAEP
		EUR		EUR
Outstanding at 1 January	4,105	4,056.94	1,468	4,394.48
Granted during the year	-	-	2,637	3,868.09
Outstanding at 31 December	4,105	4,056.94	4,105	4,056.34
Exercisable at 31 December	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:

	2012 SEP	2012 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 its 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 can 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 No.	2012 WAEP	2011 No.	2011 WAEP
		€		€
Outstanding at 1 January	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 at 31 December	1,540	961	2,155	990
Exercisable at 31 December	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 (EUR)	1,291	1,112
Model used	Binomial	Binomial

The weighted average remaining contractual life for the share options outstanding as at 31 December 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:

	December 31, 2012	December 31, 2011*)
	€in millions	
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:

	December 31, 2012	December 31, 2011
	€in millions	
Deposits from corporate clients	26	89
Deposits from individual clients	42	431
	68	520

B. Maturities:

	December 31, 2012	December 31, 2011
	€in millions	
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 Sovcom Bank – 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

	December 31, 2012	December 31, 2011
	€in millions	
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

	December 31, 2012	December 31, 2011
	€in millions	
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	Balance as of December 31, 2012	Balance as of December 31, 2011	Interest rate	Currency and linkage	Maturities principal
	€in millions			%		
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 S.A. 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 S.A. also bought for redemption purposes, PLN 106.6 million (approximately €26 million) for approximately 98% of its nominal value. GTC S.A 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 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).

Maturities:

	December 31, 2012	December 31, 2011
	€in millions	
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

	December 31, 2012	December 31, 2011
	€in millions	
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

Collateral – 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 Sovcom Bank balance which was sold in 2012, for additional information see Note 5C.

(26) OTHER PAYABLES AND ACCRUED EXPENSES

	December 31, 2012	December 31, 2011
	€in millions	
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 sovcom bank	-	33
Other	10	5
	235	244

(1) Promissory notes included notes issued by Sovcom Bank. 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 Sovcom Bank 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 S.A. 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 Holdings 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 Holdings meets all its financial covenants.

The Company and GTC Holdings 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 S.A.

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 Sovcom Bank sale (for additional information see Note 5C), in My 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:

	2012		2011	
	Limited	Not limited in amount	Limited in amount	Not limited in amount
	€in millions		€in millions	
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 S.A. 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 S.A. ("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 S.A. 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 S.A 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:

	2012	2011
	€in millions	
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 Sovcom Bank, 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 Sovcom), 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:

	Real Estate		Banking and Retail lending	Infrastructure		
	Asia	Europe		Projects	Assets	Total
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

For the year ended December 31, 2011:

	Real Estate		Banking and Retail lending	Infrastructure		
	Asia	Europe		Projects	Assets	Total
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

For the year ended December 31, 2010:

	Real Estate		Banking and Retail lending	Infrastructure		
	Asia	Europe		Projects	Assets	Total
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 expenses						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

	December 31,	
	2012	2011
	€in millions	
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

	December 31,	
	2012	2011
	€in millions	
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):

	For the year ended		
	2012	2011	2010
	€in millions		
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):

	December 31, 2012	December 31, 2011
	€in millions	
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

	For the year ended December 31,		
	2012	2011	2010
	€in millions		
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 Sovcom Bank. 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

	For the year ended December 31,		
	2012	2011	2010
		€in millions	
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 Sovcom Bank. 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

	For the year ended December 31,		
	2012	2011	2010
		€in millions	
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

	For the year ended December 31,		
	2012	2011	2010
		€in millions	
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

	For the year ended December 31,		
	2012	2011	2010
	€in millions		
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:

	For the year ended December 31,		
	2012	2011	2010
	€in millions		
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

	For the year ended December 31,		
	2012	2011	2010
	€in millions		
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

	For the year ended December 31,		
	2012	2011	2010
	€in millions		
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:

	For the year ended December 31,		
	2012	2011	2010
		€in millions	
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:

	For the year ended December 31,		
	2012	2011	2010
	€in millions		
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

	Consolidated statement of financial position		Recorded in the income statement		
			Movement for the year ended December 31,		
	December 31, 2012	December 31, 2011	**2012**	2011	2010
	€in millions		€in millions		
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:

	December 31,	
	2012	2011
	€in millions	
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 profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, less the weighted average number of treasury shares.
Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent, after adjusting for interests on convertible shares of the Company and Group companies, by the weighted average number of ordinary shares outstanding during (less the weighted average number of treasury shares) the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, adjusted for the effects of dilutive options and dilutive convertible debentures of the Company and of Group companies.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	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) <u>Risk management</u>

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 NV 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 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) <u>Interest-rate risk</u>

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

	2012			
	Effect on OCI			
	€in millions			
	+50%	+25%	-25%	-50%
EURIBOR	1	1	(1)	(1)
	+20%	+10%	-10%	-20%
Israeli NIS interest	-	-	-	-

6.2

	2011			
	Effect on OCI			
	€in millions			
	+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.

6.4

	Sensitivity to change in EURIBOR			
	Effect on profit and loss			
	€in millions			
	+50%	+25%	-25%	-50%
2012	-	-	-	-
	+50%	+25%	-25%	-50%
2011	(1)	-	-	1

6.6	Sensitivity to change in Russian interest			
	Effect on profit and loss			
	€in millions			
	+50%	+25%	-25%	-50%
2012	-	-	-	-
	+50%	+25%	-25%	-50%
2011	18	9	(9)	(18)

7) <u>Derivatives</u>

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)	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
Discount Bank	Debentures (*)	Aug-07	Jan-16	59.90	4.45% + CPI	5.64%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	12.9	22.4
Ben-leumi Bank	Debentures (*)	March-07	Jan-16	36.0	4.45% + CPI	5.43%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	-	11.2
Discount Bank	Debentures (*)	March-07	Jan-16	37.0	4.45% + CPI	5.43%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	-	8.3
Discount Bank (1)	Debentures (*)	Dec-07	Jan-20	35.3	4.9%+CPI	6.44%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	-	9.2
Discount Bank (1)	Debentures (*)	Sep-08	Jan-20	81.6	4.9%+CPI	7.06%	Yearly installments	Cash flow hedge accounting	Cash flow hedge accounting	-	4.7
Bank PEKAO S.A	Bonds	Apr-07	Apr-12	18.3	Floating PLN	Fixed Euro 5.745%	Semiannual installments	Cash flow hedge accounting	Cash flow hedge accounting	-	(3.5)
Bank PEKAO S.A	Bonds	Apr-07	Apr-14	85.1	Floating PLN	Fixed Euro 5.745%	Semiannual installments	Cash flow hedge accounting	Cash flow hedge accounting	(23.6)	(39.1)
Bank PEKAO S.A	Bonds	May-08	May-13	80.1	Floating PLN	Fixed Euro 6.63%	Semiannual installments	Cash flow hedge accounting	Cash flow hedge accounting	(19)	(28.5)
Bank PEKAO S.A	Galleria Jurajska shopping center	Feb - 10	Feb - 15	105.9	Floating	Fixed 2.50%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(5.8)	(5.3)
Bank PEKAO S.A	Galleria Kazimierz shopping center	Feb-09	Jan-14	42	Floating	Fixed 3.11%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(1.4)	(2.3)
ING Bank	Platinium 1 + 2 office building	Jan-09		39.5	Floating	Fixed 4.83%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	-	(5.6)
ING Bank	Nothus + Zephirus office building	Jan-09	Dec-15	33.2	Floating	Fixed 4.74%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(4.4)	(4.7)
BPH bank	Globis Wroclaw office building	March-09	March-15	26.7	Floating	Fixed 4.81%	Monthly installments	Cash flow hedge accounting	Cash flow hedge accounting	(2.8)	(3.3)
Erste Group Bank AG	City gate office buildings	Nov-11	Dec-16	96.9	Floating	Fixed 1.95%	Quarterly installments	Hedge accounting	Hedge accounting	(5.5)	(1.9)
Other										(4.4)	(6.6)
Total										(54)	(45)
Assets										13	58
Liabilities										(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:

Derivatives Cycle:

	2012	2011
	€in millions	
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:

	December 31, 2012							
Assets	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
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

Liabilities	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
	€in millions							
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

Assets	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
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

	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	€in millions							
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:

	December 31, 2012							
	0-3	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	€in millions							
Other undrawn commitment to lend	6	3	-	-	-	-	-	9
	6	3	-	-	-	-	-	9

Breakdown of current commitments and contingent liabilities as of December 31, 2011:

	December 31, 2011							
	0-3	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	€in millions							
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 S.A. 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:

December 31, 2012

8.4 IAS 39 classification	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
				€in millions			
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

December 31, 2011

8.4 IAS 39 classification	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
				€in millions			
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 Euros	In U.S. Dollars	In NIS (Israeli)	In PLN (Polish)	In RMB (Chinese)	In other currencies(*)	At Fair Value	Non Monetary	Total
Assets					Millions €				
Property and equipment	-	-	-	-	36	-	-	46	82
Investment properties	-	-	-	-	-	-	-	1,748	1,748
Goodwill and other intangible assets	-	-	-	-	9	-	-	41	50
Other financial assets	-	-	-	-	-	-	-	-	-
Investments in associates	27	17	-	-	-	-	-	(2)	42
Long-term receivables	75	12	2	-	66	32	-	-	187
Loans to bank customers	66	-	-	-	-	-	-	-	66
Derivatives	-	-	-	-	-	-	13	-	13
Deferred tax assets	2	-	-	1	-	-	-	17	20
Inventory	-	-	-	-	-	-	-	99	99
Cost of building in progress	4	-	-	-	1	-	-	334	339
Accounts receivable	10	23	12	2	3	5	4	-	59
Other receivables	29	11	7	4	27	6	1	26	111
Short term investments	23	1	1	-	2	2	-	-	29
Cash and cash equivalents	219	5	54	53	40	11	1	-	383
Assets classified as held for sale	3	-	-	-	-	1	-	51	55
	458	**69**	**76**	**60**	**184**	**57**	**19**	**2,360**	**3,283**

Liabilities									
Deferred tax liability	-	-	-	-	-	-	-	141	141
Interest bearing loans and borrowing	1,004	43	8	-	76	2		-	1,133
Derivatives	-	-	-	-	-	-	67	-	67
Warrants and options	3	2	-	-	-	-	-	-	5
Debentures	19	-	425	238	-	-	-	-	682
Other long term liabilities	11	-	2	6	-	3	-	-	22
Other payables and accrued expenses	33	10	32	37	55	8	6	56	237
Trade payables	9	2	4	9	10	5	-	-	39
Advances from apartment buyers	-	-	-	-	-	-	-	141	141
Income Tax payable	3	-	-	-	2	-	-	-	5
Banking customers accounts	67	1	-	-	-	-	-	-	68
Liabilities directly associated with the assets classified as held for sale	28							(1)	27
	1,177	**58**	**471**	**290**	**143**	**18**	**73**	**337**	**2,567**
Differences between assets and liabilities	**(719)**	**11**	**(395)**	**(230)**	**41**	**39**	**(54)**	**2,023**	**716**

As of December 31, 2011:

9.2	In Euros	In U.S. Dollars	In NIS (Israeli)	In PLN (Polish)	In RMB (Chinese)	In Rub (Russia)	In other currencies(*)	At Fair Value	Non Monetary	Total
	€Million									
Assets										
Property and equipment	-	-	-	-	-	-	-	-	103	103
Investment properties	-	-	-	-	-	-	-	-	1,885	1,885
Goodwill	-	-	-	-	-	-	-	-	94	94
Other financial assets	-	-	-	-	-	-	-	6	-	6
Investments in associates	30	16	-	-	-	-	1	-	7	54
Long-term receivables	162	21	1	-	59	10	30	-	12	295
Loans to bank customers	19	48	-	-	-	355	-	-	-	422
Derivatives	-	-	-	-	-	-	-	58	-	58
Deferred tax assets	-	-	-	-	-	-	-	-	19	19
Inventory	-	-	-	-	-	-	-	-	118	118
Cost of building in progress	3	18	-	-	-	-	-	-	331	352
Accounts receivable	5	3	15	3	2	1	8	-	-	37
Other receivables	16	10	2	8	31	10	11	-	18	106
Restricted bank deposits	79	12	-	-	3	161	1	4	-	260
Cash and cash equivalents	180	25	47	34	66	42	13	-	-	407
Assets classified as held for sale	1	-	-	-	-	-	-	-	138	139
	495	**153**	**65**	**45**	**161**	**579**	**64**	**68**	**2,725**	**4,355**

Liabilities										
Deferred tax liability	-	-	-	-	-	-	-	-	149	149
Interest bearing loans and borrowing	1,308	79	3	1	42	51	27	-	-	1,511
Derivatives	-	-	-	-	-	-	-	103	-	103
Warrants and options	3	4						5	4	16
Debentures	289	-	546	-	-	-	-	-	-	835
Other non-current liabilities	-	-	2	-	-	-	-	-	-	2
Other long term liabilities	13	-	5	-	-	-	-	-	5	23
Other payables and accrued expenses	63	16	6	3	31	25	32	-	38	214
Trade payables	12	4	4	12	38	-	9	-	-	79
Advances from apartment buyers	-	-	-	-	-	-	-	-	157	157
Income Tax payable	2	-	-	-	2	-	1	-	-	5
Banking customers accounts	40	41	-	-	-	439	-	-	-	520
	1,730	**144**	**566**	**16**	**113**	**515**	**69**	**108**	**353**	**3,614**
Differences between assets and liabilities	**(1,235)**	**9**	**(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	Sensitivity to change in EUR\ PLN			
	Effect on profit and loss			
	€in millions			
	+10%	+5%	-5%	-10%
2012	1	-	-	(1)
2011	3	1	(1)	(3)

9.4	Sensitivity to change in EUR \RUB			
	Effect on profit and loss			
	€in millions			
	+10%	+5%	-5%	-10%
2012	-	-	-	-
2011	4	2	(2)	(4)

9.5	Sensitivity to change in EUR\ RON			
	Effect on profit and loss			
	€in millions			
	+10%	+5%	-5%	-10%
2012	3	2	(2)	(3)
2011	-	-	-	-

9.6	Sensitivity to change in EUR\ NIS			
	Effect on profit and loss			
	€in millions			
	+10%	+5%	-5%	-10%
2012	36	18	(18)	(36)
2011	31	15	(15)	(31)

9.7	Sensitivity to change in EUR \RMB			
	Effect on profit and loss			
	€in millions			
	+10%	+5%	-5%	-10%
2012	3	2	(2)	(3)
2011	12	6	(6)	(12)

9.8	Sensitivity to change in Israeli CPI			
	Effect on profit and loss			
	€in millions			
	+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	Methods of determining fair value	Carrying amount		Fair value		
		2012	2011	**2012**	2011	
		€in millions				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			
	Level 1	Level 2	Level 3	Total
Financial assets	€in millions			
Derivatives that are designated as hedging	-	-	13	13
Financial Liabilities at fair value through				
Derivatives that are designated as hedging instruments	-	-	66	66
Derivatives that are not designated as hedging instruments	-	-	1	1
Warrants and options	-	-	6	6

10.2 Fair value levels schedule:	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial assets	€in millions			
Debentures	145	26	-	171
Derivatives that are designated as hedging	-	-	58	58
Call options	-	-	-	-
Available for sale financial assets:				
Shares	-	-	6	6
Financial Liabilities at fair value through				
Derivatives that are designated as hedging	-	-	101	101
Derivatives that are not designated as	-	-	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:

	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
			€in millions				
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:

	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
			€in millions				
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:	December 31,	
	2012	2011
	€in millions	
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)

	2012	2011
	€in millions	
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)

	2012	2011
	€in millions	
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.

	2012	2011
	€in millions	
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):

	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):

	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

	2012	2011
	€in millions	
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:

	2012	2011
	€in millions	
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

	December 31, 2012	December 31, 2011
	€in millions	
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

	For the year ended December 31,		
	2012	2011	2010
	€in millions		
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 number of offices in 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 will sell Kardan Real Estate all it's rights in the building and in return, Kardan Real Estate will pay Tahal 50% of the proceeds received from the sale apartments (which will 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

Short term employee benefits

	January till May 2012	2011
	€000	
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

	Short term employee benefits
	June till December 2012
	€000
M.I. Groen	19
A. Schnur	15
A. May	21
P. Sheldon	25
	80

3. Fees to Management Board till May 31, 2012:

2012

	Short term employee benefits	Post employment pension and medical benefits	Share based payment transaction	Total
	€000	€000	€000	€000
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, 2012 till December 31, 2012:

	Short term employee benefits	Post employment pension and medical benefits	Share based payment transaction	Total
	€000	€000	€000	€000
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

2011

	Short term employee benefits	Post employment pension and medical benefits	Share based payment transaction	**Total**
	€000	€000	€000	€000
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:

	Short term employee benefits	
	2012	2011
	€000	
Y. Grunfeld (*)	-	316
E. 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 (principle and interest) and a restriction on pledging 49% of Kardan Land China shares till the repayment of the debenture in February 2015 (principle 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 (principle 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 (principle 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 S.A. as per December 31, 2012.

Subsequent to balance sheet date in February 2013, one of the shareholders of GTC S.A. increased its stake to 10.04%, and further to this change, in March 2013, the shareholder appointed an additional supervisory board member in GTC S.A. As of the date of these financial statements, GTC Holding has 5 supervisory directors in GTC S.A. out of 10, while the chairman of the supervisory board, who was appointed by GTC Holding, has a casting vote. It should be noted that there is an additional shareholder who is entitled to appoint a supervisory board member, but this shareholder has not used its right yet.

As a result of these developments, the Company concluded that in the first quarter of 2013 its accounting effective control over GTC S.A. ceased to exist and accordingly it will stop consolidating the financial statements of GTC S.A. in the first quarter of 2013.

Within the financial covenants of GTC Holding towards a lending bank, GTC Holding is required to keep its ability to steer the activities of GTC S.A. through the directors it has appointed. At the date of approving these financial statements, GTC Holding maintained its ability to steer the activities of GTC S.A., since the entire executive management of GTC S.A. (the management board) was appointed by GTC Holding, and as the chairman of the supervisory board of GTC S.A., who was appointed by GTC Holding, has a casting vote. Accordingly, the Company is of the opinion, that even though from an accounting perspective, effective control over GTC S.A. ceased to exist, in light of the existing rights of other shareholder to appoint a supervisory director (although not yet exercised), this fact does not impact meeting the aforementioned financial covenant.

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 potential loss of control occur 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 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 S.A. consolidated balance items as of December 31, 2012	December 31, 2012 without the balance sheet items of GTC S.A.
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 S.A. 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 S.A. 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 S.A. at the date of loss of control.

The Financial statements of GTC S.A are attached to the Company’s financial statements. GTC S.A. reports according to the IFRS as adopted by the European Union. There are no material differences between GTC S.A.’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.

KARDAN N.V.
AMSTERDAM, THE NETHERLANDS

COMPANY -ONLY DUTCH GAAP NON STATUTORY FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

COMPANY- ONLY DUTCH GAAP NON STATUTORY BALANCE SHEET

December 31, 2012
Before appropriation of net result

	Note	**December 31, 2012**	December 31, 2011
		€in millions	
A s s e t s			
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
E q u i t y a n d l i a b i l i t i e s			
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 NON STATUTORY INCOME STATEMENT
Year ended December 31, 2012

	Note	**2012**	2011
		€in millions	
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 NON STATUTORY 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 non-statutory financial statements, unless otherwise stated.
These Company-only Dutch GAAP financial statements are not meant to be the statutory financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company-only Dutch GAAP non-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

	Other intangibles	Total
	€in millions	
Balance as of January 1	8	8
Amortization	(1)	(1)
Balance as of December 31	7	7

	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

	Goodwill	Other intangibles	Total
	€in millions		
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.

	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.

	2012	2011
	€in millions	
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:

	2012	2011
	€in millions	
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:

	2012	2011
	€in millions	
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	
Names of significant subsidiaries	Owner ship	Total Value	Owner ship	Total Value
	%	€in millions	%	€in millions
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:

	2012	2011
	€in millions	
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

	2012	2011
	€in millions	
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

	December 31,	
	2012	2011
	€in millions	
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 Sovcom Bank 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

	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
	€in millions							
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

8. DUTCH GAAP SHAREHOLDERS' EQUITY (CONTINUED)

	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
	€in millions							
Balance as of January 1, 2011	23	235	114	-	9	(1)	(46)	334
Currency translation	-	-	-	-	(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	-	-	-	6	(1)	22	-	27
Shares purchased in consolidated subsidiaries	-	-	-	-	-	(3)	-	(3)
Purchase of treasury	-	(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 and €14 millions 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 millions.
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:

	December 31, 2012	December 31, 2011	Interest rate %
	€in millions		
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:

	December 31, 2012	December 31, 2011
	€in millions	
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:

	December 31, 2012	December 31, 2011
	€in millions	
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 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

	December 31, 2012	December 31, 2011
	€Millions	
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:

2012	Ernst & Young	Others	Total
	€in millions		
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

2011	Ernst & Young	Others	Total
	€in millions		
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

A. May

A. Schnur

M. Groen

E. Seinstra

C. van den Bos

Y. Grunfeld

E. Rechter

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

To: The Management and Shareholders of Kardan N.V.

Report on the Non-statutory Financial Statements

We have audited the accompanying non-statutory financial statements for the year ended December 31, 2012 of Kardan N.V., Amsterdam. The non-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 and 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 non-statutory financial statements in accordance with International Financial Reporting Standards as adopted by the European Union as summarized on pages 14 to 45 and with Part 9 of Book 2 of the Dutch Civil Code as summarized on page 157. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the 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 non-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 non-statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-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 non-statutory 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 non-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 summarized on pages 14 to 45 of these IFRS financial statements.

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 and summarized on page 157 of the Dutch GAAP company only financial statements.

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.

Amsterdam, March 24, 2013

Ernst & Young Accountants LLP

Signed by: W.C. van Hoeven

KARDAN N.V.

Financial data included in

Consolidated financial statements related to the company

For the year ended December 31, 2012

ADDITIONAL FINANCIAL INFORMATION ACCORDING TO RULE 9C

Herewith financial data and separate financial information related to the company-only derived from the consolidated financial statements of the Company as of December 31, 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.

THE COMPANY'S STATEMENT OF FINANCIAL POSITION (DRAFT)

December 31, 2012

	Additional information	**December 31, 2012**	December 31, 2011
		€in millions	
A s s e t s			
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
E q u i t y a n d l i a b i l i t i e s			
Equity attributable to equity shareholders			
Share capital		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

THE COMPANY'S INCOME STATEMENT (DRAFT)

For the year ended December 31,

	2012	2011	2010
		€in millions	
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

For the year ended December 31,

	2012	2011	2010
		€in millions	
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

	For the year ended December 31,		
	2012	2011	2010
		€in millions	
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

	December 31, 2012	December 31, 2011
	€in millions	
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

	December 31, 2012	December 31, 2011
	€in millions	
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

	December 31, 2012	December 31, 2011
	€millions	
Interest receivable from subsidiaries	-	1
Derivatives	13	1
Other	1	1
	14	3

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

	December 31, 2012	December 31, 2011
	€in millions	
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 LASSIFICATIONS:

Financial assets as of December 31, 2012

	Up to 1 year	1-2 years	2-3 years	Total
	€in millions			
Cash and short term investments	52	-	-	52
Loans and receivables	1	-	-	1
	53	-	-	53

Financial assets as of December 31, 2011

	Up to 1 year	1-2 years	2-3 years	Total
	€in millions			
Cash and short term investments	34	-	-	34
Loans and receivables	3	-	288	291
	37	-	288	325

Financial liabilities as of December 31, 2012

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	€in millions						
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

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	€in millions						
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

	December 31, 2012	December 31, 2011
	€millions	
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.

	December 31, 2012	December 31, 2011	December 31, 2010
	€millions		
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 consolidated 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 December 31 2012, the company off-set the loan balance of €159 million (including interest) against its liability.
During 2012, Emerging Investment XII B.V. distributed dividend in the amount of EUR 21 million.

Board of Directors

P. Sheldon

S. Oren

A. May

A. Schnur

M. Groen

E. Seinstra

C. van den Bos

Y. Grunfeld

E. Rechter