KARDAN N.V.
AMSTERDAM, THE NETHERLANDS

IFRS Financial Statements (non-statutory)

For the year ended December 31, 2014

CONTENTS

NON-STATUTORY FINANCIAL STATEMENTS

Consolidated IFRS Financial Statements

Consolidated statements of financial position 3
Consolidated income statements 3
Consolidated statements of comprehensive income 4
Consolidated statements of changes in equity 5
Consolidated cash flow statements 8
Notes to the consolidated IFRS financial statements13 15

Company-only Dutch GAAP Financial Statements

Company-only statements of financial position 150
Company-only income statements 151
Notes to the company-only financial statements 152
Company-only statements of changes in equity 157

Independent Auditors’ Report 165

Additional information according to Rule 9c of the Israeli Securities Authority 167

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

	Note	**December 31, 2014**	December 31, 2013
		In €'000	
Non-current assets			
Tangible fixed assets, net	6	60,862	56,227
Investment property	7	181,072	118,068
Investments in associates	8	7,378	5,695
Investments in joint ventures	9	84,445	128,658
Other financial assets		521	-
Loans to bank customers	10	63,763	50,392
Long-term loans and receivables	11	104,521	86,762
Intangible assets and goodwill, net	12	17,640	22,513
Deferred tax assets	36	2,898	3,985
		523,100	472,300
Current assets			
Inventories, contract work, buildings and apartments inventory and land bank	13	112,745	109,957
Current maturities of long-term loans and receivables	11	18,708	29,735
Loans to bank customers	10	54,596	48,522
Trade receivables	14	62,001	67,259
Income tax receivables		1,071	1,298
Other receivables and prepayments	15	53,449	56,209
Short-term investments	16	7,250	14,427
Cash and cash equivalents	17	148,545	118,268
		458,365	445,675
Assets held for sale	5	32,144	6,640
Total current assets		490,509	452,315
Total assets		1,013,609	924,615

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

Equity and liabilities

	Note	**December 31, 2014**	December 31, 2013
		In €'000	
Equity attributable to equity holders of the parent	18		
Issued and paid-in capital		23,041	23,041
Share premium		208,002	208,117
Foreign currency translation reserve		23,943	(4,680)
Property revaluation reserve		21,033	34,300
Revaluation reserve, other		10,765	12,296
Non-controlling interest holders transactions reserve		15,178	21,104
Treasury shares		(2,625)	(2,786)
Accumulated deficit		(206,939)	(225,297)
		92,398	66,095
Non-controlling interests		5,362	5,655
Total equity		97,760	71,750
Non-current liabilities			
Interest-bearing loans and borrowings	20	84,131	70,423
Banking customers accounts	21	230	128
Other long-term liabilities	22	3,111	6,887
Options	23	1,442	4,317
Debentures	24	250,047	327,240
Deferred tax liabilities	36	20,062	12,584
Accrued severance pay, net		1,502	1,488
		360,525	423,067
Current liabilities			
Advances from customers in respect of contracts	13	56,454	40,214
Banking customers accounts	21	189,239	137,593
Trade payables		21,666	21,296
Current maturities of debentures	24	83,802	67,409
Interest-bearing loans and borrowings	25	89,719	47,786
Income tax payables		8,952	1,419
Advances from apartment buyers	13	164	5,667
Derivatives		49	273
Other payables and accrued expenses	26	87,340	108,141
		537,385	429,798
Liabilities associated with assets held for sale	5	17,939	-
Total current liabilities		555,324	429,798
Total liabilities		915,849	852,865
Total equity and liabilities		1,013,609	924,615

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

CONSOLIDATED INCOME STATEMENTS

		For the year ended December 31		
		2014	2013	2012
	Note	In €'000		
Contract revenues		170,258	153,010	142,967
Retail lending activities	29	33,295	24,406	10,966
Sale of apartments		46,866	23,984	-
Management fees and other revenues		7,425	6,595	7,835
Total revenues		257,844	207,995	161,768
Contract costs		133,887	121,342	121,962
Costs of retail lending activities	30	25,578	25,182	23,562
Cost of sale of apartments		44,217	19,697	-
Other expenses, net	31	6,108	3,358	5,370
Total expenses		209,790	169,579	150,894
Gross margin		48,054	38,416	10,874
Selling and marketing expenses	32	8,192	7,912	8,210
General and administration expenses	33	24,527	25,513	27,740
Profit (loss) from operations before fair value adjustments, disposal of assets and investment and other income		15,335	4,991	(25,076)
Adjustment to fair value of investment properties	7	8,859	8,802	10,383
Impairment losses on goodwill	12	(5,190)	(3,926)	(4,005)
Gain (loss) on disposal of assets and other income, net	34	16,018	(8,947)	(1,690)
Profit (loss) from fair value adjustments, disposal of assets and investments and other income		19,687	(4,071)	4,688
Profit (loss) from operations		35,022	920	(20,388)
Financial income	35	2,048	6,185	50,072
Financial expenses	35	(22,235)	(51,803)	(41,389)
Adjustment to fair value of other financial instruments, net		-	-	1,073
Total financial income (expenses), net		(20,187)	(45,618)	9,756
Profit (loss) before share of profit (loss) from investments accounted for using the equity method		14,835	(44,698)	(10,632)
Share of profit of investments accounted for using the equity method, net	8,9	6,712	12,345	4,662
Profit (loss) before income taxes		21,547	(32,353)	(5,970)
Income tax expenses	36	16,485	14,443	938
Profit (loss) for the year from continuing operations		5,062	(46,796)	(6,908)
Net loss from discontinued operations	5	-	(75,177)	(131,948)
Net profit (loss) for the year		5,062	(121,973)	(138,856)
Attributable to:				
Equity holders		5,091	(101,333)	(32,852)
Non-controlling interest holders		(29)	(20,640)	(106,004)
		5,062	(121,973)	(138,856)
Earnings (loss) per share attributable to shareholders	37			
Basic from continuing operations		0.05	(0.42)	(0.06)
Basic from discontinued operations		-	(0.50)	(0.24)
		0.05	(0.92)	(0.30)
Diluted from continuing operations		0.05	(0.42)	(0.06)
Diluted from discontinued operations		-	(0.50)	(0.24)
		0.05	(0.92)	(0.30)

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

STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended December 31		
	2014	2013	2012
		In €'000	
Net profit (loss) for the year	5,062	(121,973)	(138,856)
Foreign currency translation differences (3)	28,638	(4,596)	(5,931)
Change in hedge reserve, net of tax (1)	(1,676)	6,677	10,123
Other comprehensive income (expense) for the year to be reclassified to profit or loss in subsequent periods (2)	26,962	2,081	4,192
Total comprehensive income (expenses)	32,024	(119,892)	(134,664)
Attributable to:			
Equity holders	32,038	(101,409)	(37,641)
Non-controlling interests holders	(14)	(18,483)	(97,023)
	32,024	(119,892)	(134,664)

(1) Including reclassification of reserve due to the sale of derivative instruments in the amount of €(1,300) thousand, €2,201 thousand, €3,000 thousand for the years ended December 31, 2014, 2013 and 2012, respectively (see also Note 38 and Note 5C). The amounts presented are net of tax amounting to €(1,659) thousand, €622 thousand and €713 thousand for the years ended December 31, 2014, 2013 and 2012, respectively.

(2) Including the impact resulting from associates and joint ventures for the years 2014, 2013 and 2012 amounting to €(2,500) thousand, €(1,059) thousand and €(4,610) thousand respectively.

(3) See also Note 9.

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	Foreign currency translation Reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Non-controlling interest holders transactions reserve	Treasury shares	Accumulated deficit (*)	Total	Non-controlling interest	Total equity
						In €'000					
Balance as of January 1, 2014	23,041	208,117	(4,680)	34,300	12,296	21,104	(2,786)	(225,297)	66,095	5,655	71,750
Other comprehensive income (expense)	-	-	28,623	-	(1,676)	-	-	-	26,947	15	26,962
Profit (loss) for the period	-	-	-	-	-	-	-	5,091	5,091	(29)	5,062
Total comprehensive income (expense)	-	-	28,623	-	(1,676)	-	-	5,091	32,038	(14)	32,024
Share-based payment	-	-	-	-	191	-	-	-	191	593	784
Issuance of treasury shares (Note 18D)	-	(115)	-	-	(46)	-	161	-	-	-	-
Transaction with non-controlling interest (**)	-	-	-	-	-	(5,926)	-	-	(5,926)	(872)	(6,798)
Reclassification according to the Netherlands civil code requirements law (*)	-	-	-	(13,267)	-		-	13,267	-	-	-
Balance as of December 31, 2014	23,041	208,002	23,943	21,033	10,765	15,178	(2,625)	(206,939)	92,398	5,362	97,760

(*) In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 18F).

(**) See also Note 19.

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	Foreign currency translation Reserve (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Non-controlling interest holders transactions reserve	Treasury shares	Accumulated deficit (*)	Total	Non-controlling interest	Total equity
	In €'000										
Balance as of January 1, 2013	23,041	208,165	(462)	57,802	8,156	20,128	(2,847)	(147,809)	166,174	542,454	708,628
Other comprehensive income (expense)	-	-	(4,218)	-	4,142	-	-	-	(76)	2,157	2,081
Loss for the period	-	-	-	-	-	-	-	(101,333)	(101,333)	(20,640)	(121,973)
Total comprehensive income (expense)	-	-	(4,218)	-	4,142	-	-	(101,333)	(101,409)	(18,483)	(119,892)
Share-based payment	-	-	-	-	295	1,766	-	-	2,061	(4,207)	(2,146)
Issuance of treasury shares (Note 18D)	-	(48)	-	-	(13)	-	61	-	-	-	-
Transaction with non-controlling interest	-	-	-	-	-	(790)	-	-	(790)	622	(168)
Disposal of a subsidiary (Note 5C)	-	-	-	-	(343)	-	-	343	-	(514,810)	(514,810)
Other reserves	-	-	-	-	59	-	-	-	59	79	138
Reclassification according to the Netherlands civil code requirements law (*)	-	-	-	(23,502)	-	-	-	23,502	-	-	-
Balance as of December 31, 2013	23,041	208,117	(4,680)	34,300	12,296	21,104	(2,786)	(225,297)	66,095	5,655	71,750

(*) In accordance with the Netherlands civil code, part of the equity is restricted for distribution (see Note 18F).

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 (*)	Property revaluation reserve (*)	Revaluation reserve, other (*)	Non-controlling interest holders transactions reserve	Treasury shares	Accumulate Deficit (*)	Total	Non-controlling Interest	Total equity
						In €'000					
Balance as of January 1, 2012	23,041	208,165	6,868	52,169	5,328	18,765	(2,847)	(109,324)	202,165	533,137	735,302
Other comprehensive income (expense)	-	-	(7,330)	-	2,541	-	-	-	(4,789)	8,981	4,192
Net loss for the year	-	-	-	-	-	-	-	(32,852)	(32,852)	(106,004)	(138,856)
Total comprehensive income (expense)	-	-	(7,330)	-	2,541	-	-	(32,852)	(37,641)	(97,023)	(134,664)
Share-based payment	-	-	-	-	287	-	-	-	287	2,627	2,914
Issuance of shares in a subsidiary	-	-	-	-	-	-	-	-	-	72,403	72,403
Shares purchased in consolidated and transaction with non-controlling interest holders	-	-	-	-	-	1,233	-	-	1,233	33,061	34,294
Other	-	-	-	-	-	130	-	-	130	(1,751)	(1,621)
Reclassification according to the Netherlands civil code requirements (*)	-	-	-	5,633	-	-	-	(5,633)	-	-	-
Balance as of December 31, 2012	23,041	208,165	(462)	57,802	8,156	20,128	(2,847)	(147,809)	166,174	542,454	708,628

(*) In accordance with the Netherlands civil code, part of the retained earnings is restricted for distribution (see Note 18F).

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

CONSOLIDATED CASH FLOW STATEMENTS

	For the year ended December 31		
	2014	2013	2012
		In €'000	
Cash flow from operating activities			
Profit (Loss) from continuing operations before taxes on income	21,547	(32,353)	(5,970)
Profit (Loss) from discontinued operations before taxes on income	-	(69,531)	(126,377)
Adjustments to reconcile net profit (loss) to net cash (see A below)	7,202	(20,235)	(62,953)
Adjustment on operating activities from discontinued operations	-	81,720	134,520
Net cash provided by (used in) operating activities	28,749	(40,399)	(60,780)
Cash flow from investing activities			
Acquisition of tangible fixed assets and investment properties	(45,257)	(36,128)	(31,241)
Investments and collection (granting) loans from (to) companies accounted for using the equity method, net	(1,958)	471	6,589
Proceeds from sale of assets and investments	496	18,439	4,191
Change in loans to bank customers, net	8,200	(41,965)	(35,687)
Change in long-term loans and receivables	(35,105)	26,174	48,014
Change in short-term investments	(632)	(286)	2,492
Disposal of an investment accounted for using the equity method (*)	74,369	-	84,770
Change from full consolidation to equity method (see B below)	-	1,223	-
Disposal of a previously consolidated subsidiary due to bankruptcy (see C below)	-	(22)	-
Change from equity method to full consolidation (see D below)	-	208	-
Change in deferred brokerage fees and other assets	70	(1,990)	1,410
Capital withdrawal from investment in joint ventures	-	-	952
Net cash provided by (used in) investing activities from continuing operations	183	(33,876)	81,490
Change from full consolidation to equity method (see E below) (discontinued operation)	-	(197,151)	-
Disposal of an investment accounted for using the equity method (discontinued operation)	-	157,349	-
Net cash provided by (used in) investing activities from discontinued operation	-	(8,181)	109,194
Net cash provided by (used in) investing activities	183	(81,859)	190,684

(*) See also Note 9.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

	For the year ended December 31		
	2014	2013	2012
		In €'000	
Cash flows from financing activities			
Issuance of debentures	2,155	-	1,869
Repayment and repurchase of debentures	(68,538)	(58,390)	(100,381)
Change in loans from bank customers	51,748	69,401	54,081
Proceeds from long-term loans	89,152	30,849	71,588
Repayment of long-term loans	(48,003)	(132,045)	(150,560)
Change in short-term loans and borrowings	(1,415)	(8,432)	(1,389)
Release of pledged Deposit	8,025	(8,029)	43,520
Repayment of long term liability	(8,031)	-	-
Change in short-term deposits	(351)	-	-
Proceeds from sale of hedge instruments	-	11,634	52,155
Costs related to issuance of loans	(267)	-	-
Change in other long term liabilities	75	-	-
Transaction with non-controlling interest holders (**)	(6,791)	(356)	(2,870)
Net cash (used in) provided by financing activities from continuing operations	17,759	(95,368)	(31,987)
Net cash used in financing activities from discontinued operations	-	(31,707)	(60,042)
Net cash provided by (used in) financing activities	17,759	(127,075)	(92,029)
Foreign exchange differences relating to cash and cash equivalents	5,127	(1,640)	797
Increase (decrease) in cash and cash equivalents	51,818	(250,973)	38,672
Change in cash of assets held for sale	(21,541)	131	(287)
Cash and cash equivalents at the beginning of the year	118,268	369,110	330,725
Cash and cash equivalents at the end of the year	148,545	118,268	369,110

(**) See also Note 19.

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

	For the year ended December 31		
	2014	2013	2012
	In €'000		
A. Adjustments to reconcile net profit (loss) to net cash charges / (credits) to profit (loss) not affecting operating cash flows:			
Share of profit of companies accounted for using the equity method	(6,712)	(12,345)	(4,662)
Impairment of investment in investee	-	8,254	-
Impairment of goodwill and other intangible assets	5,429	13,588	4,005
Gain on disposal of assets and investments, net	(16,739)	-	-
Share-based payment	1,302	1,804	2,182
Depreciation and amortization	5,473	7,196	8,888
Fair value adjustments of investment properties	(8,859)	(8,802)	(10,383)
Financial expense and exchange differences, net	30,268	37,366	47,190
Capital loss (gain) from sale property plant and equipment	(19)	(7,886)	500
Decrease (increase) in fair value of securities held for trading and hedge instruments, net	-	(1,736)	(12,697)
Increase in provision for bad debts in the financial services segment	7,797	7,026	14,077
Gain from early repayment of loans and debentures	-	-	(43,035)
Changes in operating assets and liabilities:			
Change in trade and other receivables	(32,298)	(71,225)	(129,752)
Change in inventories and in contract work in progress, net of advances from customers	13,683	2,368	1,372
Change in trade and other payables	1,566	16,688	50,127
Increase of concession finance receivables	(7,358)	(4,854)	(8,681)
Movement in pledged time deposit	(1,752)	-	-
Interest paid	(17,151)	(37,835)	(66,033)
Interest received	35,476	36,412	75,816
Income taxes paid	(3,124)	(6,027)	(1,925)
Dividend received from joint ventures accounted for using the equity method, net of tax	-	-	10,482
Other	220	(227)	(424)
	7,202	(20,235)	(62,953)

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

	For the year ended December 31		
	2014	2013	2012
		In €'000	
B. Change from full consolidation to equity method			
Working capital (excluding cash and cash equivalents)	-	(475)	-
Receivable from sale of an investment in a subsidiary	-	(3,759)	-
Non-current assets	-	10,768	-
Investment in an associate accounted for using the equity method	-	(5,681)	-
Gain on disposal of investment	-	370	-
	-	1,223	-

	For the year ended December 31		
	2014	2013	2012
		In €'000	
C. Disposal of a previously consolidated subsidiary due to bankruptcy			
Working capital (excluding cash and cash equivalents)	-	(2,921)	-
Non-current assets	-	2,571	-
Deferred tax	-	328	-
	-	(22)	-

D. Change from equity method to full consolidation			
Working capital (excluding cash and cash equivalents)	-	254	-
Non-current assets	-	(2)	-
Investment in an associate accounted for using the equity	-	(94)	-
Goodwill	-	(1,241)	-
Option granted to non-controlling interest	-	667	-
Deferred tax liability	-	50	-
Non-controlling interest	-	(94)	-
Gain on disposal of investment		668	
	-	208	-

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

E. Change from full consolidation to equity method

Working capital (excluding cash and cash equivalents)	-	(161,058)	-
Non-current assets	-	1,689,273	-
Non-current liabilities	-	(1,012,01	-
Non-controlling interests	-	(514,810)	-
Recycling of reserves to the income statement	-	4,501	-
Loss from revaluation of formally consolidated company	-	(30,208)	-
Bargain gain	-	31,868	-
Investment in company accounted for at equity	-	(204,706)	-
	-	(197,151)	-

F. Material non cash transaction

Liability to purchase shares from non-controlling interest Holders(*)	3,380	-	-
	3,380	-	-

(*) See also Note 19

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(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, infrastructure projects, infrastructure assets, banking and retail lending, and others through its subsidiaries, joint ventures and associated companies (for additional segment information, see Note 28).

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 as of December 31, 2014 was 2,554 (December 31, 2013 – 2,875) of which 154 are part of the real estate sector, 987 are part of the infrastructure segments, 1,395 are part of the banking and retail lending sector and 18 which are part of the headquarters.

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

These non statutory financial statements were approved by the board of the Company on March 25, 2015.

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).

B. Going concern

As at December 31, 2014, the Company had, on a stand-alone basis and in the consolidated financial statements, a working capital deficit of €106 million and €65 million respectively, which is mainly due to the current maturities of the Company’s Debentures to repay € 101.2 million and € 94.5 million in August 2015 and February 2016, respectively.
In September 2014, the Board decided to accept the offer of the trustees and the representatives of the Debenture Holders (series A and B) of the Company (‘the Debentures’) to begin negotiations in order to examine the possibilities of an arrangement with the Debenture Holders, which included postponement or rescheduling the repayments of the Debentures, while repaying the debt in full.

Subsequent to the balance sheet date, an interim arrangement was reached in stages and was approved by the Debentures Holders in January 2015. The final settlement is expected to be approved by the Debentures Holders in April 2015.

The amendment of the deeds of trust outlined in section C below is subject to the approval of the Debenture Holders by a special majority. The Company’s management is of the opinion that the chances for approving and finalizing the final debt settlement in accordance with the principles set forth in section C below are high in view of the fact that the Company was successful in selling assets in accordance with its plan and intends to fully pay the interest which was deferred from February 2015 by the end of Q1 2015.
However, the approval and finalization of the debt settlement is not under the control of the

Company and is dependent on the approval of third parties. These conditions indicate the existence of a material uncertainty which may cast significant doubt regarding the Company's ability to repay its liabilities when they become due and its ability to continue as a going concern.

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

The Company's plans for the repayment of principal and interest of the Debentures in 2017 and onwards, in case that the final debt settlement will be approved, include mainly disposal of assets and / or receipt of dividends from its subsidiaries. The Company's management and the Board estimate that the Company has the ability to obtain the required resources for repaying its obligations and continue its business operations in the future.

C. Debt settlement between the Company and its Debenture Holders

The interim arrangement which was approved on January 6, 2015, includes two phases, as follows: the first phase includes an immediate amendment to the deeds of trust and postponement of principal and interest payments from February 2015 to August 2015 with additional interest and linkage differences as described below. In the second phase a period of 90 days has been given to the Company, the trustees and the Debenture Holders in order to reach a final debt settlement which will include a comprehensive amendment to the deeds of trust according to the proposed principles that were presented to the Debenture Holders as detailed below.

Interim arrangement main principles

Postponement of principal and interest payments - Series A:

A. According to the interim arrangement, the principal payment which the Company originally had to pay on February 25, 2015 to the debenture holders (series A) was postponed to August 25, 2015. The deferred principal payment shall bear annual interest at the rate of 6.325% (an addition of 1.875% to the nominal interest rate of the original deed of trust) for the period from February 25, 2015 to the earlier of August 25, 2015 or the date of an early repayment, all including linkage differences.

B. According to the interim arrangement, the interest amount which the Company originally had to pay on February 25, 2015 to the debenture holders (series A) shall bear annual interest at the rate of 6.825% for the period from February 25, 2015 to the earlier of August 25, 2015 or the date of an early repayment, all including linkage differences.

Postponement of principal and interest payments - Series B:

A. According to the interim arrangement, the principal payment which the Company originally had to pay on February 1, 2015 to the debenture holders (series B) was postponed to August 1, 2015. The deferred principal payment shall bear annual interest at the rate of 6.775% (an addition of 1.875% to the nominal interest rate of the original deed of trust) for the period from February 1, 2015 to the earlier of August 1, 2015 or an early repayment date and all including linkage differences.

B. According to the interim arrangement, the interest which the Company originally had to pay on February 1, 2015 to the debenture holders (series B) shall bear annual interest at the rate of 7.275% for the period from February 1, 2015 to the earlier of August 1, 2015 or an early repayment date and all including linkage differences.

Establishment of pledges in favor of the debenture holders

According to the interim arrangement, the Company committed to establish and register a primary, exclusive pledge with no limitations of amounts, over GTC RE's shares and on the accompanying rights of these shares, including dividends, options, bonus shares etc. in favor of the trustees of the debenture holders. These pledges were registered on February 17, 2015.

Final debt settlement main principles

The final debt settlement ('the Final Settlement') constitutes new deeds of trust to series A and B and replaces the original deeds of trust, including all related amendments. The Final Settlement postpones the debt repayment dates that were determined in the original deeds of trust while repaying the debt in full to the debenture holders. Below are the main principles of the Final Settlement which will be detailed in the amended deeds of trust which were approved by the general meetings of the debenture holders of each series ('the Amended Deeds of Trust').

Principal and interest payments according to the Final Settlement

Series A:

A. The principal payments (and linkage differences in respect thereof) which the Company originally would have had to pay on February 25, 2015 and February 25, 2016 are postponed to February 25, 2017 and February 25, 2018, respectively.

B. No change will occur in the interest payment dates set in the deeds of trust, except the February 2015 interest payment, which will be paid according to the interim arrangement, as detailed above. The interest set in the deed of trust will be increased by 1.875%, so that the principal of Debentures Series A shall bear an annual interest rate of 6.325%, payable once a year, on February 25 of each year from 2016 up to and including 2018.

Series B:

A. The principal payments (and linkage differences in respect thereof) which the Company originally would have had to pay on February 1, shall be postponed by 24 months, excluding the principal payments of 2019 and 2020, which shall remain unchanged (and shall grow, due to the postponement of the principal payments of this series from 2017 and 2018 to 2019 and 2020).

B. No change will occur in the interest payment dates set in the deed of trust, except the February 2015 interest payment, which will be paid according to the interim arrangement, as detailed above. The interest set in the deed of trust will be increased by 1.875%, so that the principal of Debentures Series B shall bear an annual interest rate of 6.775%, payable once a year, on February 1 of each year from 2016 up to and including 2020.

Issuance of shares to the debenture holders
The Company should allocate to the Debenture Holders, without consideration, shares of the Company, which shall constitute 12% of the Company's issued and paid in capital immediately after the issuance. Due to legal limitations applicable to the Company according to the Dutch law, it was agreed that the Company will issue, upon signing of the Amended Deeds of Trusts or close to that date, 9.9% of the Company’s issued and paid-in capital immediately after the issuance. Additional 2.1% will be issued 12 months following the date of the first shares issue.

Pledges and guarantees in favor of the Debentures holders
The Company committed to establish and register primary, exclusive pledges with no limitations of amounts over all of the Group's interests in GTC RE, KLC, KFS, TBIF, TGI, EMERGING (the ‘Pledged Subsidiaries’), including all benefits which will emanate from these interests and all the rights of the Group in loans granted to the Pledged Subsidiaries. As long as the aforesaid pledges have not been exercised the Company shall be allowed to use the benefits derived from these interests and from loan repayments. Issuance or sale of shares in the Pledged Subsidiaries will be used to early repay the Debentures.

In addition, the Company will establish in favor of the trustees primary exclusive pledges with no limitations of amounts over the bank accounts of the Company (‘the Pledged Accounts’). All the funds in the Company’s possession, shall be deposited and kept in the Pledged Accounts, excluding the Free Amount (‘Free Amount‘ signifies a maximum of €3 million, which will serve for the payment of the Company's general and administrative expenses), which will not be pledged in favor of the trustees and which can be deposited in a bank account which is not pledged in favor of the trustees. Insofar the said pledge has not been exercised, the Company may use the funds freely.

In addition, to secure the Company’s commitments, KLC will provide a guarantee in favor of the trustees limited to an amount of €100 million which will expire upon meeting the Relief Conditions as detailed below. The trustees will not be able to use the guarantee or to take any action against KLC as long as the construction loan from Chinese Banks to the Dalian project has not been fully repaid, as well as loans that will be obtained, if obtained, in relation to the Dalian project.

Financial Covenants

The Company’s debt coverage ratio shall not be below 100% during the years 2015 till 2017 (including), and shall not be below 120% from 2018 onwards. The coverage ratio is the total value of the assets according to the Company’s stand-alone financial statements divided by the total stand-alone liabilities of the Company, net of certain amounts as detailed in the Debt Settlement. If the Company's coverage ratio in the years 2015-2017 shall be lower than 110%, and as of 2018 – lower than 130%, KLC's coverage ratio shall not be lower than 180%.

Additional provisions

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

It was also agreed that the Company may retain certain amounts, prior to an early repayment, for general and administrative expenses, interest payment to the debenture holders, the Company's obligations in respect of the GTC SA transaction (see Note 5C) as well as for supporting its subsidiaries.

Purchase of Debentures

According to the Amended Deeds of Trust, the Company or any entity under its control shall be permitted to purchase the Company's Debentures (series A and B) at any price only through the Tel Aviv Stock Exchange subject to some preconditions detailed in the Amended Deeds of Trust.

Debentures purchased by the Company will expire and deleted from trade on the stock exchange. A corporation controlled by the Company that will purchase Debentures of the Company, will have to choose, in its discretion whether to transfer the Debentures to the Company for expiry or to pledge the Debentures in favor of the trustee of that series.

Restrictions on business activities

It was agreed that the Company and GTC RE shall not initiate any new business activity, shall not make any new investments and shall not be allowed to raise any new credit (unless it is subordinated to the Debentures).

KFS and any company under its control shall not be allowed to enter into new business activities except for the ones detailed in the Amended Deeds of Trust. KFS and TBIF shall not be allowed to make any new investments, however any corporation under their control shall be allowed to invest in existing and new projects in its area of operations, provided that the source of the funds is the ongoing operations of such corporation. KFS and TBIF themselves shall not be allowed to raise any credit, except for credit taken by KFS from TBIF, or short term credit that will be taken by any of them from a corporation under their control in an aggregate amount not exceeding €5 million. Any corporation under their control shall be allowed to obtain unlimited credit, for the purpose of its business activity subject to the conditions detailed in the

Amended Deeds of Trust.

KLC and any corporation under its control shall not be allowed to enter into new business activities or to invest in new projects or activities even if they are within the current area of operations. In addition, KLC shall not expand the Dalian Project, and the Lucky Hope joint venture companies shall not initiate or develop any new projects beyond the existing projects which will be developed on the land plots they currently own. Proceeds from the sale of assets owned by KLC or companies under its control shall serve only for that project. Unless approved by a 66% majority by each of the meetings of the debenture holders of the two series, KLC or any entity under its control shall not be allowed to raise credit except under the certain limitations which are detailed in the Amended Deeds of Trust.

TGI and TGA or any entity under their control (except TG and entities under its control) shall not be allowed to enter into new business activities except for those detailed in the Amended Deeds of Trust. They can make investments and obtain credit insofar the source of the investments is from the operating activities of any of the entities controlled by TGI; and the securities for such credit will be provided by TGI and entities under its control and not by other Group companies.

Relief Conditions

Upon meeting both of the following conditions: (1) Repayment (taking into account repurchase of Debentures which would be done after the date of completion of the Final Settlement) of 55% of the par value of the Debentures (which are not owned by the Company or its subsidiaries) as of December 31, 2014;and (2) the coverage ratio of the Company calculated according to the Company's most recent stand-alone financial statements (quarterly or annual, according to the date), will stand at more than 180% ('Relief Conditions'), all the restrictions on purchase of Debentures by the Company or any corporation under its control will be removed, the Free Amount will increase to €6 million, pledges over TGI or KFS and TBIF (or both) will be revoked, provided that the coverage ratio calculated using the remaining pledged assets after the revocation of said pledges and the Company's debt shall be at least 180%, restrictions on the business activities of subsidiaries as described above will be revoked, restriction on dividend distribution will be revoked (distribution will be allowed after the Company will repay 75% of the par value of the Debentures) and the right to appoint a board member on behalf of the debenture holders will be cancelled. In addition, after the Relief Conditions have been met the Company shall be obligated to repay only 35% of the funds received from disposal of certain assets (as detailed in the Amended Deeds of Trust).

Accounting

The Company examined the changes in the terms of Debentures series A and B in accordance with IAS 39 and concluded that the changed terms are not substantially different and therefore accounting for the debt settlement if finalized will be as a modification and not as an extinguishment.

(2) BASIS OF PREPARATION

A. Basis of preparation

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

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

The Company has elected to present the comprehensive income in two statements – the income statement and the statement of comprehensive income. The 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 endorsed by the European Union ('EU').

C. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2014.

Subsidiaries are fully consolidated from the date the Group obtains control. Control is present when the Group is exposed, or has rights, to variable returns from its involvement with the investee companies and has the ability to affect those returns through its power over the investee companies. This principle applies to all investees companies, including structured entities.

Determination of control

Existence of control over investee companies is determined by management by examining its power to direct the activities of the investee company. Regarding an investee company, there is a presumption that a majority of voting rights result in control. When the Company has less than half of the voting rights, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) The reporting entity has the power over the investee, which is described as having existing rights that give the current ability to direct the activities of the investee that significantly affect the investee's returns;

(b) The reporting entity has exposure, or rights, to variable returns from its involvement with the investee;

(c) The reporting entity has the ability to exert power over the investee to affect the amount of the investor's returns.

In determining control, the effects of potential voting rights existing as of the balance sheet date are taken into account (see also Note 5C).

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 re-attributes ‘Other Comprehensive Income’ ('OCI') in transactions that do not result in the loss of control of a subsidiary.

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

If the Group loses control over a subsidiary, it:

- Derecognizes all assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the entire carrying amount of any NCI;
- Derecognizes amounts deferred in OCI, as appropriate;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in the income statement;
- Reclassifies the parent’s share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

D. Changes in accounting policies and disclosures

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2014.

The nature and the impact of each new standards and amendments is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

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’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group as all offsetting arrangement meet the IAS 32 amendments.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

(3) SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Revaluation of investment properties 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 Group 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 completion percentage and the pre-let percentage.

In cases where 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, 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 determined reliably.

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

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

Refer to Note 7 for a sensitivity analysis of profit (loss) before tax due to changes in 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, 2014 was €8 million (2013– €13 million), all of which allocated to the infrastructure activities.

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, 2014 amounted to a total of €8 and €104 million, respectively (2013 – €8 million and €68 million, respectively).

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that 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, 2014 was €3 million (2013 – €4 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 judgment is required in establishing fair values. The judgments 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 19.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

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 10.

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, 2014 was €113 million (December 31, 2013 - €110 million). See Note 13 for additional information with regards to impairments in the reporting period.

Future interest payable

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

Provision for legal claims

In estimating the chances of lawsuits filed against the Group and its investee companies, the Group relies on the opinion of its legal councils. These estimates are based on the legal advisers’ best professional judgment, considering the stage which proceedings are in, and the legal experience gained on the various issues. Since the results of the claims will be determined in the courts, these results may differ from these estimates.

(4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BUSINESS COMBINATIONS AND GOODWILL

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

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

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

B. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

The Group's investments in its associates and in joint ventures are accounted for using the equity method. An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

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

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

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

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

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

C. FOREIGN CURRENCY TRANSLATION

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

As of the reporting date, the assets and liabilities of the 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, 2014	0.82	0.21	7.4556	132.8
December 31, 2013	0.73	0.21	8.3491	133.0
December 31, 2012	0.74	0.20	8.2207	130.7
Change in 2014	13.4%	1.2%	(10.70%)	(0.15%)
Change in 2013	(4.3%)	2.9%	1.54%	1.81%
Change in 2012	(3.9%)	-	1.23%	1.6%

D. FAIR VALUE MEASUREMENT

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability

Or

In the absence of a principal market, in the most advantageous market for the asset or liability.

The principle or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

A. Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

B. Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

C. Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted available for sale financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operations.

External valuers are involved for valuation of significant assets, such as investment property. Involvement of external valuers is decided upon annually by the management after discussion with the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Group's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, management presents the valuation results to the Audit Committee. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

E. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

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

b. is a part of a single cooperated plan to dispose of a separate major line of business or geographical area of operations; or

c. is a subsidiary acquired with a view to resale.

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

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

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, if any. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred, providing the recognition criteria are met. Land is not depreciated.

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

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

Office furniture and equipment	3-16 years (mainly 10 years)
Property, plant and equipment	10-20 years (mainly 10 years)
Motor vehicles	2-7 years (mainly 5 years)
Buildings (not including land)	25-50 years (mainly 50 years)
Leasehold improvements	over the term of the lease (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, 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 Method or on the basis of Sales Comparison Method. 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 7.

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

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 as defined by IAS 39. Gains or losses on investments held for trading are recognized in profit or loss as part of the financing income or expenses.

Loans and receivables

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

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

Available-for-sale financial assets

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

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 ‘revenues from banking and retail lending activities’ on a straight line basis over the life of the guarantee.

Debentures

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

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

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; or
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through'

arrangement; and

- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Financial liabilities

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

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

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').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 19.

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 19. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense (see Note 19 and 23).

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 fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

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

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

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

Group as a lessor

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

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

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 is recognized as a reduction of rental income over the lease term on a straight-line basis. Rental income is recognized within the Company's real estate segments.

Sale of apartments

Revenue from the sale of 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 segment.

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 includes revenues 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 re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by independent 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 difference between the carrying value of non-controlling interest and the liability is adjusted against another component of equity. Any changes in the fair value of that financial liability in subsequent periods are taken to the income statement.

Dividends paid to the other shareholders are recognized as an expense of the group, unless they represent a repayment of the liability. If the put option is exercised, the carrying amount of the financial liability at that date is extinguished by the payment of the exercise price. If the put option expires unexercised, the liability is derecognized with the non-controlling interest being reinstated as if nothing happened. Any difference between the liability and non-controlling interest is recognized against another component of equity, generally the same component reduced when the liability was initially recognized.

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 construction works include items that may be realized within the abovementioned operational business cycle.

EE. CASH FLOW STATEMENT

Cash flow statements are prepared using the indirect method. Cash flows in foreign currencies have been translated into Euros using the weighted average rates of exchange for the periods involved. Cash flows from derivative instruments that are accounted for as fair value hedges or cash flow hedges are classified in the same category as the cash flows from the hedged items. Cash flows from other derivative instruments are classified consistent with the nature of the instrument.

FF. FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Group is intends to early adopt on January 1, 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but no material impact on the classification and measurement of the Group’s financial liabilities.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 January 2015. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 January 2015 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service

- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 January 2015 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Properties

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Improvements to IFRSs - 2012-2014 Cycle (Issued September 2014)

The IASB issued the 2012-2014 cycle improvements to its standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording. These improvements cover the following standards and subjects.

IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal
IFRS 7 Financial Instruments: Disclosures: Servicing contracts
Applicability of the amendments to IFRS 7 to condensed interim financial statements.
IAS 19 Employee Benefits: Regional market issue. IAS 34 Interim Financial Reporting: Disclosure of information “elsewhere in the interim financial report”
The Group is currently assessing the impact of these improvements. The improvements will become effective for financial years beginning on or after 1 January 2016.

GG. 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 RE – GTC Real Estate Holding B.V.
GTC Group – GTC RE and its subsidiaries, joint ventures and associates
GTC SA – Globe Trade Centre S.A.
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 Israel or KIL – Kardan Israel Ltd.
KIL Group – KIL and its subsidiaries, joint ventures and associates
TGA - Tahal Group Assets B.V.
TGI – Tahal Group International B.V.
TGI Group – TGI and its subsidiaries, joint ventures and associates
KWIG- Kardan Water International Group Limited
Kardan Land China or KLC – Kardan Land China Ltd.
TASE – The Tel-Aviv Stock Exchange

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(5) BUSINESS COMBINATIONS AND INVESTMENT IN SUBSIDIARIES

A. Principle 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 directly held subsidiaries:

Name of subsidiary	Country of incorporation	% equity interest and voting rights as of December 31		
		2014	2013	
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	98.43	98.42	Subsidiary
Emerging Investments XII B.V.	Netherlands	100	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 (**)	Guarantees	(*)
	€ in thousands			
2014				
Kardan Financial Services B.V.	37,763	-	-	37,763
GTC Real Estate Holding B.V.	297,369	-	-	297,369
Tahal Group International B.V.	99,431	-	861	99,431
Emerging Investments XII B.V.	22,341	(***)	-	22,341
	456,904	-	861	456,904
2013				
Kardan Financial Services B.V.	29,230	-	-	29,230
GTC Real Estate Holding B.V.	267,007	-	-	267,007
Tahal Group International B.V.	47,490	-	6,240	47,490
Emerging Investments XII B.V.	124,235	(***)	-	124,235
	467,962	-	6,240	467,962

(*) The total investment in a subsidiary includes the investment in shares and loans granted by Kardan N.V.. The Company has no goodwill balances in the investment in directly held subsidiaries.

(**) All loans to KFS and TGI and GTC RE were granted (provided to) by Emerging Investment XII B.V. (a wholly owned subsidiary).

(***) As of December 31, 2014 and 2013 the Company has an outstanding loan balance with its subsidiary Emerging Investment XII B.V. in the amount of €97,061 thousand and €120,682 thousand respectively (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, 2014 and 2013, the Company offset the loan balance against its liability.

B. Principle indirectly held subsidiaries (fully consolidated into the Group)

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Following is a list of the main Company's indirectly held subsidiaries.

Holding company	Name of subsidiary	Country of incorporation	% equity interest by the direct holding as of December 31	
			2014	2013
Kardan Financial Services B.V.	TBIF Financial Services B.V.	The Netherlands	100	100
TBIF Financial Services B.V.	TBI Credit IFN SA	Romania	99.99	99.99
	TBI Leasing IFN SA	Romania	99.99	99.99
	TBI Bank EAD	Bulgaria	100	100
TBIF Bulgaria EAD	TBI Leasing EAD	Bulgaria	100	100
	TBI Credit EAD (*)	Bulgaria	100	100
GTC Real Estate Holding B.V.	Kardan Land China Limited	Hong Kong	100	100
Kardan Land China Limited	Kardan Land (BJ) Management & Consulting Co. Ltd.	China	100	100
	GTC (China) Investment Co. Ltd	China	100	100
	Kardan Land Dalian Ltd.	China	100	100
Tahal Group International B.V.	Tahal Group B.V.	The Netherlands	100	100
	Tahal Group Assets B.V.	The Netherlands	100	100
Tahal Group B.V.	Tahal Consulting Engineers Ltd.	Israel	100	100
	Water Planning for Israel Ltd.	Israel	100	100
	Sitahal 'Hagal' (Talia) Partnership	Israel	100	100
	Palgey Maim Ltd.	Israel	55.5	55.5
	Fideco DOO	Serbia	100	100
	Tahal Angola Ltd.	Angola	70	70
	TMNG Ltd. (**)	Israel	65	65

(*) The subsidiary was sold after the balance sheet date. See also Note 5C.
(**) See also Note 5C.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Holding company	Name of subsidiary	Country of incorporation	% equity interest of the direct holding as of December 31	
			2014	2013
Tahal Group Assets B.V.	Kardan Water International Group Limited (*)	Hong Kong	100	100
	Task Water B.V.	The Netherlands	100	100
	Agri Products N.V.	The Netherlands	51	51
Kardan Water International Group Limited (*)	Perilla Water Group Ltd.	Hong Kong	100	100
	Tri-River Water Group Ltd.	Hong Kong	100	100
	Dazhou Tianhe Water Supply and Drainage Co., Ltd.	China	100	100
	KWIG Xuanhua Development Limited	Hong Kong	100	100
	KWIG Dingzhou Development Ltd.	Hong Kong	100	100
	Zhangjiakou Kardan Water Development Co., Ltd.	China	100	100

(*) For details regarding the sale of shares in this subsidiary, see also Note 40.

C. Significant transactions and business combinations

1. GTC Group (Real Estate)

2014

There were no significant transactions or business combinations in 2014.

2013

a. Investment in GTC SA: Sale and presentation

Until February 22, 2013 GTC SA was accounted for as a subsidiary of GTC RE, and its results were consolidated in the Company's financial statements. On February 22, 2013, due to changes in the composition of the shareholders of GTC SA, the Company concluded that its accounting effective control (de facto control) over GTC SA ceased to exist and accordingly it stopped consolidating its financial statements. As of that date the Company accounted for its investment in GTC SA according to the equity method. For details regarding the impact of the deconsolidation, see below in the paragraph 'Loss of control – GTC SA'.

As of September 30, 2013 the investment in GTC SA was presented in the interim financial statements as 'Assets held for sale' following a decision to sell the 27.75% stake. The carrying value of GTC SA prior to the classification amounted to €194.5 million. The market value (which was determined based on the share price of GTC SA on the Warsaw Stock Exchange as at September 30, 2013), less costs to sell amounted to €150.6 million. Accordingly in the third quarter of 2013, GTC RE recorded a revaluation loss in the amount of €43.9 million which is presented in the income statement, along with the past results of GTC SA as part of 'Net profit (loss) for the period from discontinued operations'.

On November 22, 2013, GTC RE completed the sale of its investment in GTC SA for a consideration of €160 million. An amount of €150 million was paid on the closing date, and an amount of €10 million was paid in December 2013.

The share purchase agreement contains a 'claw-back' clause which is conditional upon GTC SA achieving two specific business targets, one by March 31, 2015 and one by December 31, 2015. If a target is not met in time, the investment fund has the right to receive an amount of €3.15 million per target. The fair value of the liability amounts to €3.15 million as at December 31, 2014.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Presented in the table below is the composition of the gain recognized from the sale:

	€ '000
Carrying value of the investment in GTC S.A. as held for sale on November 22, 2013	(150,613)
Consideration received	160,014
Fair value – claw-back option	(3,150)
Transaction costs	(2,665)
Recycling of capital reserves to the profit and loss	(64)
Gain from the sale of GTC S.A. (net)	3,522

As the GTC SA shares were pledged to a lending bank as security for a loan of approximately €100.6 million, the consideration was mostly used for the repayment of this loan. The net proceeds, after repayment of the loan, amounted to approximately €57 million and were used to repay the Company's Debentures in December 2013.

b. **Loss of control in GTC SA**

As mentioned above, on February 22, 2013, the Company concluded that its accounting control (de facto control) over GTC SA ceased to exist.

As a result of the loss of control over GTC SA, and based on the requirements of IFRS 10, the Company re-measured the investment in GTC SA at fair value on the date when control was lost, according to the share price on the Warsaw Stock Exchange. As a result of the re-measurement of the investment in GTC SA the Company recognized a loss of €30 million in the first quarter of 2013. In addition, the Company reclassified to the income statement foreign currency translation reserve and hedge reserve, net of tax, amounting to €1.3 million gain and €5.8 million loss, respectively. These amounts were included in 'Net profit/loss from discontinued operations' in the income statement.

Following the above, the Company accounted for the retained investment using the equity method as defined in IAS 28. At the date control was lost the Company prepared a provisional purchase price allocation according to the acquisition method as described in IFRS 3, and as a result recognized a bargain gain of approximately €31.8 million. Since the Company sold the entire investment in GTC SA in November 2013, the Company did not conclude the PPA, and the provisional PPA was deemed the final one. It should be noted that the results of the Company's investment in GTC SA, including the abovementioned loss and bargain gain, and the results of the sale transaction, are included in one line item 'discontinued operations' for the year ended December 31, 2013. Therefore the results of the PPA do not have an impact on the net result from discontinued operations.

c. Discontinued operations related to loss of effective control and sale of GTC SA:

The activities of GTC SA were classified as discontinued operations. These activities were clearly distinguishable, operationally and for financial reporting purposes as GTC SA represented a separate business and major geographical area of operations.

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

	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
		€ '000	
Income	-	31,409	130,814
Expenses	-	(52,066)	(257,190)
Loss before tax	-	(20,657)	(126,376)
Equity losses (**)	-	(22,190)	-
Income tax expenses, net	-	(5,644)	(6,097)
Loss from discontinued operations before revaluation and release of capital reserves (***)	-	(48,491)	(132,473)
Loss from revaluation of investment (***)	-	(25,707)	-
Release of capital reserves due to deconsolidation (***)	-	(4,501)	-
	-	(30,208)	-
Discontinued operation items related to the November 2013 sale of GTC SA:			
Capital gain	-	3,586	-
Release of capital reserves due to sale	-	(64)	-
Net loss from discontinued operations	-	(75,177)	(132,473)
Attributable to:			
Equity holders	-	(55,303)	(26,948)
Non-controlling interest holders	-	(19,874)	(105,525)
	-	(75,177)	(132,473)

* The 2012 income statement includes an immaterial amount for the banking and retail lending activities which was not included in the above table.

** Including equity losses from Q2 and Q3 2013, bargain gain (in the amount of €31.8 million) and impairments (in the amount of €43.9 million).

*** The net loss from discontinued operations before revaluation and release of capital reserves relates to 100% results of GTC SA, including the share attributable to the non-controlling interest holders, while the loss from revaluation of investment and release of capital reserves only reflects the 27.75% interest held by the Company.

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
		€ 000'	
Change in fair value of hedge instrument, net of tax (*)	-	3,467	10,967
Adjustments arising from translating financial statements of foreign operations	-	(1,875)	(295)
Recycling to the income statement of the hedge reserve due to loss of control over a subsidiary (*)	-	5,782	-
	-	7,374	10,672
Attributable to:			
Equity holders	-	5,276	3,338
Non-controlling interest holders	-	2,098	7,334
	-	7,374	10,672

(*) includes 100% results of GTC SA, including the share attributable to the non-controlling interest holders, while the release of capital reserves only reflects the 27.75% interest held by the Company.

2. KFS Group (Banking and Retail Lending)

2014

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

The transaction, which was subject to various regulatory approvals, was finalized in February, 2015. Upon closing, the Company recognized a gain of approximately €1 million.

In accordance with the requirements of IFRS 5, as of December 31, 2014, the Company presents the assets of TBI Credit as 'Assets held for sale' and the liabilities as 'Liabilities associated with assets held for sale'

The below table represents the assets and liabilities of TBI Credit EAD presented as held for sale:

	December 31, 2014
	€ 000'
Assets	
Cash and cash equivalents	18,852
Trade receivables	22
Other receivables and prepayments	7,657
Current maturities of long-term loans and receivables	821
Tangible fixed assets	290
Total assets (*)	27,642
Liabilities	
Trade payables	880
Interest-bearing loans and borrowings	75
Other payables and accrued expenses	16,984
Total liabilities	17,939
Total Equity	9,703

(*) Additional assets held for sale in the amount of €4.5 million which are not included in the above table are repossessed assets held for sale in TBIF group.

2013

There were no significant transactions or business combinations in 2013.

2012

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), which was accounted for using the equity method, 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 the equity method to the investment in Sovcom Bank as of January 1, 2012 and presented the results of the investment as discontinued operations.

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, a foreign currency translation reserve in the amount of €0.5 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 proceeds 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.

3. TGI Group (water infrastructure)

2014

a. Conversion of shareholders loans-Foodyard

In February 2014, TGI Group, being the majority shareholder, converted approximately €17 million of shareholders loans to Foodyard in exchange for 2 additional shares. The ownership and voting rights of TGI Group in the (negative) equity of Foodyard did not significantly increase. Since Foodyard losses in previous periods have been split between the Company and the non-controlling interest holders, the conversion of the loans resulted in a decrease in the 'Non-controlling interest holders transaction reserve' in the shareholders equity attributable to equity holders of the Company by approximately €3.2 million, and increased of the 'Non-controlling Interests' by the same amount.

b. Liquidation of Watek Polska -

In July and August 2013, Watek Polska SP ('Watek'), a wholly owned subsidiary of TGI received a notice cancellation of two contracts by two clients. In September 2013, after examining Watek's financial position, TGI decided not to provide any additional financial support to Watek. As a result in September 2013, Watek filed a declaration of bankruptcy at the district court in Poland and in December 2013 the bankruptcy of Watek was announced and the court appointed a liquidator. As a result, TGI ceased consolidating Watek. In 2013, TGI fully impaired its equity investment in Watek of approximately €5.8 million and in addition TGI booked a provision of €2.4 million due to a guarantee which was provided to an insurance company in Poland. In 2014 TGI has reached an agreement with the insurance company, whereby TGI will reimburse the insurance company with a total amount of approximately €1.4 million. As a result of this agreement, TGI recorded an income of approximately €0.9 million. The total amounts are included in the income statement as part of the 'Gain (loss) on disposal of assets and other income (expenses).

2013

a. Sale of shares in Star Pumped Storage Ltd.

On December 29, 2013, a transaction between Water Planning for Israel Ltd. ('Tahal' - a wholly-owned subsidiary of the Company, indirectly) and Hutchison Water International Holdings Pte Limited ('HWIH) was completed, upon which Star Pumped Storage Ltd. (previously Tahal Water Energy Ltd.) ('Star'), a company previously held (indirectly) 81% by the Group, allocated to HWIH 40.5% of the Star shares. Consequently, each of Tahal and HWIH holds 40.5% of Star and a third party - Triple R Energy (1995) Ltd. - holds the remaining 19% of Star.

Star was granted a license to build, operate and own a 300 MW power plant ("the Plant") in Israel, producing energy for the Israel Electric Company based on pumped storage technology. The consideration, by means of a shareholder loan, shall be approximately NIS 29 million (approximately USD 8.3 million) which Star shall use to repay part of the shareholder loan provided by Tahal in two parts: NIS 5.5 million (approximately USD 1.6 million) on signing and NIS 18 million (approximately USD 4.6 million) upon the financial closing of the Pumped Storage Project ("the Project"). In addition, Tahal is entitled to a premium of NIS 10 million (approximately USD 2.6 million) upon financial closing of the Project, subject to meeting certain conditions agreed upon by the parties.

In addition, Star was recently granted a conditional license for the expanded capacity to 340 MW (from 300 MW) following discussions and consultations with both the Grid Operator (Israel Electric Corporation) and the Public Utility Authority - Electricity (PUA). The construction of the Plant is expected to take approximately 54 months.

As a result of the decrease in holding stake in Star, the Group ceased the consolidation of Star starting December 29, 2013. Since the transaction was valued based on book value of Star, no gain was recorded due to the transaction.

b. TMNG Ltd.

In October 2013, Tahal Consulting Engineers Ltd. ('TCE'), signed an agreement to increase its holding in TMNG Ltd. ('TMNG') from 51% (which was previously accounted for as a joint venture using the equity method) to 65% in exchange for TCE's business of natural gas plants. Due to the agreement, a third party's share of 49% of TMNG was diluted to 35%.

As part of the agreement, the seller was granted a put option, according to which the seller will be entitled to sell to the TGI Group his entire stake at fair value in the period of six years starting after two years from the agreement date.

Prior to the transaction, the investment in TMNG was accounted for using the equity method. Upon gaining control, the Group has recognized a gain from revaluation of its previously held stake of approximately USD 921 thousand (€670 thousand). In addition, the Group recognized a liability reflecting the fair value of the option granted to the third party and treated its investment in TMNG as if the non-controlling stake was already acquired.

The fair value of the identifiable assets and liabilities of TMNG and the corresponding carrying amount as determined provisionally were:

	fair value	Carrying amount
	€ in thousands	
Cash and cash equivalents	212	212
Trade receivables	413	413
Other accounts receivable	65	65
Receivables from construction contracts	189	-
Property, plant and equipment, net	2	2
	881	692
Trade payables	(529)	(529)
Liabilities from construction contracts	(241)	(241)
Other accounts payable	(114)	(114)
Deferred taxes	(50)	-
	(934)	(884)
Net identifiable assets	(53)	(192)
Goodwill arising on acquisition	1,241	
Total acquisition cost		1,188

D. The following shares are used as collateral by the Group companies:

As of December 31, 2014, the shares the company owns in TGI, KFS, TBIF and 51% of KLC were pledged in favor of a lending bank. Subsequent to the balance sheet date the pledges were removed due to repayment of the underlying loan. See Note 1.

E. The Group has received the following dividend amounts in the reporting period from subsidiaries:

	2014	2013
	€ in thousands	
Subsidiaries	134,395	84,231

The amounts above relate to transfers from Emerging Investments XII B.V. a subsidiary holding the shareholders loans of the Group.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(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 thousands			
Cost:						
Balance as of January 1, 2013	38,248	35,745	10,313	19,877	963	105,146
Additions	4,672	664	1,966	1,036	1,365	9,703
Disposals	-	(10,768)	(1,176)	(3,349)	(1)	(15,294)
Reclassification	(3,325)	(2,236)	(2,620)	(7,697)	-	(15,878)
Exchange rate differences	(356)	(182)	(185)	(16)	24	(715)
Balance as of December 31, 2013	39,239	23,223	8,298	9,851	2,351	82,962
Additions	135	404	3,719	1,157	449	5,864
Disposals	(478)	(1,597)	(1,230)	(629)	-	(3,934)
Exchange rate differences	3,657	2,062	62	951	111	6,843
Balance as of December 31, 2014	42,553	24,092	10,849	11,330	2,911	91,735
Accumulated depreciation:						
Balance as of January 1, 2013	2,435	17,157	5,403	10,619	155	35,769
Depreciation for the year	531	1,126	1,373	1,105	248	4,383
Disposals	(511)	(1,750)	(1,907)	(6,357)	-	(10,525)
Disposals consolidated subsidiaries	-	-	(689)	(2,112)	-	(2,801)
Exchange rate differences	7	73	(118)	(60)	7	(91)
Balance as of December 31, 2013	2,462	16,606	4,062	3,195	410	26,735
Depreciation for the year	666	1,395	1,316	990	301	4,668
Disposals	(110)	(1,282)	(822)	(211)	-	(2,425)
Exchange rate differences	181	1,373	43	254	44	1,895
Balance as of December 31, 2014	3,199	18,092	4,599	4,228	755	30,873
Net book value December 31, 2013	36,777	6,617	4,236	6,656	1,941	56,227
Net book value December 31, 2014	39,354	6,000	6,250	7,102	2,156	60,862

Freehold land and buildings are related to owner-occupied property.

(7) INVESTMENT PROPERTIES

A. General

As of December 31, 2014 and 2013, the closing balances relate to the shopping mall in the city of Dalian, China which is under construction.

B. The movements in investment properties for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
	€ in thousands	
Opening balance	118,068	1,565,044
Additions capitalized subsequent expenditure	34,954	32,280
Valuation gains	8,859	8,849
Valuation losses and impairment adjustments	-	(25,406)
Deconsolidation of a subsidiary (1)	-	(1,462,863)
Foreign currency translation differences	19,191	(1,789)
	181,072	116,115
Transfer (to) from assets held for sale	-	1,953
Closing balance (2)	181,072	118,068

(1) Due to the loss of control in GTC SA in February 2013, the Company ceased to consolidate the financial statements of GTC SA, for additional information see Note 5C.

(2) An investment property valued at December 31, 2014 of €152,639 thousand is pledged in favor of a lending bank.

Investment property under construction carried at cost includes the borrowing costs incurred in connection with the construction of the projects. During 2014 borrowing costs capitalized as Investment property under construction amounted to €3,602 thousand (2013: €1,979 thousand).

C. Fair value adjustments, impairments, reversal of impairments comprise:

	For the year ended December 31,		
	2014	2013	2012
	€ in thousands		
Valuation gains from newly completed investments properties	-	-	5,586
Valuation losses from newly completed investments properties	-	-	(9,668)
Valuation gains from investments properties completed in prior years	-	47	8,670
Valuation loss from investments properties completed in prior years	-	(8,933)	(93,958)
Adjustment to fair value of investment property under construction	8,859	8,802	14,953
Reversal of impairment of investment property measured at recoverable amount	-	-	2,395
Impairment of investment properties measured at recoverable amount	-	(16,473)	(20,834)
Fair value of properties held for sale	-	-	4,466
Adjustment to fair value, impairments and reversal of impairments of investment property presented as discontinued operation	-	25,359	98,773
Total fair value adjustments, impairments, reversal for the year	8,859	8,802	10,383

D. Fair value measurement of investment property (Level 3 of fair value measurements) significant assumptions:

The fair value of investment properties under construction has been determined on a market value basis in accordance with International Valuation Standards (IVS), as set out by the International Valuation Standards Committee. In arriving at their estimates of market values, the external valuer has relied on historical transactions and used its market knowledge and professional judgment.

The fair value of the shopping mall in Dalian (‘Dalian Shopping Mall’) was determined as of December 31, 2014 and December 31, 2013 based on the Residual Approach and the Cost Approach in considering the Market Value of the Property. In arriving at the Gross Development Value (the “GDV”) of the Property to be adopted in the Residual Approach, the Discounted Cash Flow Analysis (the “DCF Analysis”) and the Direct Comparison Approach were adopted to arrive the GDV of the retail portion of the Property. For the GDV of the car parking portion of the Property, the Direct Capitalisation Approach was adopted. The Direct Comparison Approach to assess the market rents of the Property and to carry out the yield analysis of the Property for the purpose of DCF Analysis. The Direct Comparison Approach was also adopted to assess the land value of the Property during valuation under the Cost Approach.
The combination of techniques determined the fair value of the Dalian Shopping Mall at the end of construction.

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

	December 31, 2014	December 31, 2013
DCF method (*)		
Estimated rental value per sqm per month (in €)	23	26
Discount rate	10.5%	9%
Rental growth	5%-12% (mainly 7.8%)	0.5%-10% (mainly 3.7%)
Terminal cap rate	5.5%	5.5%
Residual method		
Remaining construction cost (in € millions) (*)	28	53
Remaining construction period (in months)	1	7
Development profit	8%	12%

(*) As of December 31, 2014 the percentage of completion of the project is 71% (December 31, 2013: 45%)

E. Sensitivity analysis:

The table below presents the sensitivity of the profit (loss) before tax due to change in the following assumptions (the values are presented in absolute numbers as a change can either be positive or negative):

	December 31, 2014	December 31, 2013
	€ in thousands	
Investment property under construction		
Change of 25 BP in discount rate and terminal yield	2,547	1,188
Change of 5% in estimated rental income	2,547	1,544
Change of RMB 5 million (approximately €600 thousand) in the remaining construction costs	402	356
Change of 1 month in the remaining construction period	670	356
Addition of 2% in the development profit	2,011	1,544

(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, 2014**	December 31, 2013	Country
Tahal India B.V.	MVV Water Utility Pvt Ltd.	26.0	26.0	India
Water Planning for Israel Ltd.	Star Pumped Storage Ltd. (previously Tahal Water Energy Ltd.)	40.5	40.5	Israel

B. The Composition of the Investment in associates is as follow:

	December 31, 2014	December 31, 2013
	€ in thousands	
Total of equity investments	84	14
Loans	7,294	5,681
Total investment in associates	7,378	5,695

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

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

	2014	2013
	€ in thousands	
Balance as of January 1	5,695	41,817
Additions (*)	70	204,706
Change in loans, net	1,539	(1,419)
Equity earnings (losses) (**)	(625)	(10,407)
Changes due to deconsolidation of a subsidiary (***)	-	(40,341)
Foreign currency translation differences and other	3	168
Classification as held for sale (****)	-	(194,510)
Change from full consolidation to equity method (*****)	-	5,681
Capitalized interest	696	-
Balance as of December 31	7,378	5,695

(*) Due to the loss of control over GTC SA, the investment in GTC SA was accounted for, from the date of loss of control as an investment in an associate company.
(**) Equity losses for the years 2013 and 2012 in the amount of €10,346 thousand and €9,992 thousand respectively, are included in the income statement as part of the 'Net profit (loss) from discontinued operations'.
(***) Due to the loss of control over GTC SA, as described in Note 5C, associated companies of GTC SA had been deconsolidated from the date of loss of control.
(****) Regarding the Company's sale GTC SA, see Note 5C.
(*****) For additional information relating to the Star Pumped Storage Ltd. deal, see Note 5C.

D. Loans:

The investment in associated companies includes loans as follows:

	Interest rate (p.a)	**December 31, 2014**	December 31, 2013
		€ in thousands	
In NIS	10.5% linked to the CPI	7,294	5,681

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(9) INVESTMENTS IN JOINT VENTURES

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

		% of ownership and control by the direct holding company as of December 31,		Loans granted to the joint venture and their subsidiaries as of December 31, 2014		
Holding company	Name of joint venture	2014	2013	(In €'000)	Country	Nature of activities
Kardan Land China Limited	Shenyang Taiying Real Estate Development Ltd.	50.0	50.0	-	China	Real estate development and property management
	GTC Lucky Hope Dadong Ltd.	50.0	50.0	7,334	Hong Kong	Holding
	Sino Castle Development Ltd.	50.0	50.0	54	Hong Kong	Dormant
	Kardan Land Chengdu (HK) Ltd.	-	50.0	-	Hong Kong	Holding
	Green Power Development Ltd.	50.0	50.0	13,515	Hong Kong	Holding
	Rainfield Development Ltd.	50.0	50.0	7,069	Hong Kong	Holding
	Shanxi GTC Lucky Hope Real Estate Development Ltd.	50.0	50.0	-	China	real estate development, property lease and property management
Task water B.V.	Afken SU Kanalizasyon	50.0	50.0	475	Turkey	management and construction establishments for producing drinking water
Sitahal 'Hagal' (Talia) Partnership	Energy Hagal-Talia Partnership	50.0	50.0	-	Israel	Electricity (biogas)
Tahal Consulting Engineers Ltd.	Tahal South Africa (PTY) Ltd.	50.0	50.0	423	South Africa	Water projects

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Holding company	Name of joint venture	% of ownership and control by the direct holding company as of December 31, 2014	2013	Loans granted to the joint venture and their subsidiaries as of December 31, 2014 (In €'000)	Country	Nature of activities
Tahal Consulting Engineers Ltd.	Lahat Joint Venture	50.0	50.0	-	Israel	Water desalination
GTC Real estate Holding B.V.	GTC Investments B.V.	48.75	48.75	-	Netherlands	Holding
TBIF Financial Services B.V.	TBIF-Dan Leasing Ltd.	66.0	66.0	1,156	Cyprus	Holding
TBI Financial Services Bulgaria EAD	Creditex OOD	50.0	50.0	6,357	Bulgaria	Mortgage lending
TBI Financial Services Bulgaria EAD	Hypocredit AD	50.0	50.0	-	Bulgaria	Mortgage lending

B. The Composition of the interest in joint venture is as follow:

	December 31, 2014	December 31, 2013
	In €'000	
Total of equity investments (*)	45,346	61,723
Goodwill (*)	8,206	14,007
Deemed cost on China projects (**)	2,085	2,870
Loans and other long-term balances	36,383	57,831
	92,020	136,431
Less impairments (see F below)	(7,575)	(7,773)
Total investment in joint ventures	84,445	128,658

(*) The decrease in equity investments relates to the sale of Kardan Land Chengdu (HK) Ltd., see F below.
(**) Deemed cost are the group financial cost which were capitalized to projects in joint ventures prior to adoption of IFRS11.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

C. Loans:

The investment in joint ventures companies includes loans as follows:

	Interest rate (p.a)	**December 31, 2014**	December 31, 2013
		In €'000	
In EUR	-	7,493	31,287
In EUR	3 months Euribor + 3.5%	3,217	3,100
In EUR	6 months Euribor + 3.5%	2,572	2,628
In EUR	6 months Euribor + 3.125%	1,156	1,156
In HKD	-	14	11
In USD	-	21,363	18,537
In USD	10%	-	558
In USD	6 months libor + 3.5%	568	505
In ZAR	-	-	49
		36,383	57,831

D. Summary of financial data from material joint venture companies accounted using the equity method:

The requirements of the Israeli Securities Regulations stipulate that if the net results of a joint venture or an associated company exceed 10% of the net results of the Company for the reported period, a summary of financial information will be disclosed in the interim financial statements. The above criterion was met by Kardan Land Chengdu (HK) Ltd., whose summary of financial information is presented below:

GTC Lucky Hope Dadong Ltd.

Summary of financial data from the statement of financial position:

	December 31, 2014	December 31, 2013
	In €'000	
Current assets (not including cash and cash equivalents)	68,902	64,139
Cash and cash equivalents	496	358
Non-current assets	1,830	2,185
Current liabilities	69,766	65,606
Total equity attributed to the owners	1,462	1,076
% held in the joint venture	50	50
	731	538
Deemed cost on projects	895	950
Total investment	1,626	1,488

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Summary of financial data from the income statement:

	For the year ended		
	2014	2013	2012
	In €'000		
Revenues from operations	11,966	3,373	9,554
Cost of operations	9,851	2,757	6,402
Selling and marketing, other income (expenses), and administrative expenses	1,502	1,802	2,206
Interest income	2	4	7
Other financial income (expenses), net	(1,457)	485	-
Profit (loss) before tax	(842)	(697)	953
Income tax expenses	(318)	223	(423)
Profit (loss) for the year attributed to equity holders	(1,160)	(474)	530
% held of the joint venture	50	50	50
	(580)	(237)	(265)
Realizing of deemed cost on projects	(55)	(326)	(61)
Group's share of loss for the year	(635)	(563)	(326)
Total other comprehensive income (expenses) attributed to equity holders	1,546	(134)	226
% held of the joint venture	50	50	50
Group share of the total other comprehensive income (expenses)	773	(67)	113

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Shanxi GTC Lucky Hope Real Estate Development Ltd.

Summary of financial data from the statement of financial position:

	December 31, 2014	December 31, 2013
	In €'000	
Current assets (not including cash and cash equivalent)	155,182	114,488
Cash and cash equivalent	11,640	11,572
Non-current assets	15,154	11,512
Current liabilities	140,044	105,748
Current financial liabilities	9,470	4,514
Non-current liabilities	414	294
Non-current financial liabilities	-	4,752
Total equity attributed to the owners	32,048	22,264
% held in the joint venture	50	50
	16,024	11,132
Deemed cost on projects	121	316
Total investment in joint ventures	16,145	11,448

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Summary of financial data from the income statement:

	For the year ended		
	2014	2013	2012
	In €'000		
Revenues from operations	28,488	75,550	35,332
Cost of operations	15,316	52,658	23,182
Selling and marketing, other income (expenses), and administrative expenses	4,802	6,548	4,718
Interest income	82	28	32
Profit before tax	8,452	16,372	7,464
Income tax expenses	2,114	4,142	3,054
Profit for the year attributed to equity holders	6,338	12,230	4,410
% held of the joint venture	50	50	50
	3,169	6,115	2,205
Realizing of deemed cost on projects	(195)	(104)	(120)
Group's share of profit for the year	2,974	6,011	2,085
Total other comprehensive income (expenses) attributed to equity holders	3,446	(374)	(1,730)
% held of the joint venture	50	50	50
Group share of the total other comprehensive income (expenses)	1,723	(187)	(865)

Green Power Development Ltd.

Summary of financial data from the statement of financial position:

	December 31, 2014	December 31, 2013
	In €'000	
Current assets (not including cash and cash equivalent)	155,926	118,732
Cash and cash equivalent	2,328	4,166
Non-current assets	7,460	8,050
Current liabilities	149,728	117,337
Non-current liabilities	-	217
Non controlling interest holders	3,274	2,801
Total equity attributed to the owners	12,712	10,593
% held in the joint venture	50	50
	6,356	5,296
Deemed cost on projects	790	938
Total investment in joint ventures	7,146	6,234

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Summary of financial data from the income statement:

	For the year ended		
	2014	2013	2012
		In €'000	
Revenues from operations	41,449	33,522	54,250
Cost of operations	32,636	21,970	38,884
Selling and marketing, other income (expenses), and administrative	6,299	3,867	4,094
Interest income	31	18	90
Other financial income (expenses), net	(3,514)	1,168	-
Profit (loss) before tax	(969)	8,871	11,362
Income tax expenses	1,593	2,147	3,545
Profit (loss) for the year attributed to equity holders	(2,562)	6,724	7,817
Profit (loss) for the year attributed to non controlling interest	(74)	(430)	(558)
	(2,636)	6,294	7,259
% held of the joint venture	50	50	50
	(1,318)	3,147	3,630
Realizing of deemed cost on projects	(148)	(118)	(399)
Group's share of profit (loss) for the year	(1,466)	3,029	3,231
Total other comprehensive income (expenses)	4,758	(532)	(1,077)
Total other comprehensive income (expenses) attributed to the non controlling interest	368	(40)	162
Total other comprehensive expense attributed to equity holders	4,390	(492)	(915)
% held of the joint venture	50	50	50
Group share of the total other comprehensive income (expenses)	2,195	(246)	(457)

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

E. Additional per company information regarding joint ventures that are accounted using the equity method:

	December 31,			
	2014		2013	
	In €'000			
	Goodwill included in the investment	Impairments to the investment	Goodwill included in the investment	Impairments to the investment
TASK SU kanalizasyon SU	1,059	-	1,059	-
Shenyang Taiyling Real Estate Development Ltd.	140	(140)	140	(140)
Kardan Land Chengdu (HK) Ltd. (*)	-	-	5,801	-
TBIF-Dan leasing Ltd.	7,007	(7,435)	7,007	(7,435)
GTC Investments B.V.	-	-	-	(198)
	8,206	(7,575)	14,007	(7,773)

(*) See F below.

F. Additional information

1. Kardan Land China

a. Capital commitments:

As of December 31 2014, the contractual commitments of KLC amount to €10,969 thousand (2013: €21,500 thousand).

b. Dividend distribution restrictions:

As of December 31, 2014, Shanxi GTC Lucky Hope Real Estate Development Ltd. have entered into agreements with banks according to which, prior to the full repayment of principal and interest, these entities are not allowed to distribute dividend to their shareholders.

c. Pledges:

Assets which are financed by external debt in joint ventures and their subsidiaries are pledged in most cases as a security to the lending banks.

d. Guarantees:

As at December 31, 2014, the joint ventures of KLC and its subsidiaries provided guarantees of €91.2 million (2013: €75.3 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of properties of the joint ventures of Kardan Land China and its subsidiaries properties, which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiration date of the guarantees, the joint ventures of Kardan Land China and its subsidiaries are responsible for repaying the outstanding mortgage principals and interest to the banks.

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

e. Sale of 50% of Galleria Chengdu

On 23 December 2014, Kardan Land China disposed of its remaining 50% equity interest in Kardan Land Chengdu (HK) Limited, a joint venture of the KLC, for a consideration of €74.7 million. Immediately prior to the disposal, KLC's investment in Kardan Land Chengdu (HK) Limited was €37.3 million which includes goodwill of €5.2 million. Taken into account of the repayment of shareholder's loan to Kardan Land Chengdu (HK) Limited of €20.7 million, a gain of disposal of an associate company in amount of €16.7 million thousand was recognized by the Group for the year ended 31 December 2014.

The sale resulted in reclassification of exchange rate differences in credit previously recognized in other comprehensive income to the income statement in the amount of €12.7 million (which included in the €16.7 above).

2. GTC Investments B.V.

Insolvency procedures – German portfolio

Blitz Portfolio GmbH, a subsidiary of GTC Investments B.V., is under insolvency court procedures since April 2013. As a result, GTC Investments B.V. has no control over this company.

3. Impairment of TBIF-Dan leasing

In 2013 TBIF recognized an impairment of €4 million on its investment in TBIF-Dan Leasing Ltd. (Avis Ukraine) further to a prospective deal to sell its stake in the joint venture.

(10) LOANS TO BANK CUSTOMERS

a. Composition:

	December 31, 2014	December 31, 2013
	€ in thousands	
Loans and advances to individuals	83,102	69,794
Mortgage loans	758	733
Other loans and advances to banks	8,180	9,489
	92,040	80,016
Corporate loans	36,952	27,083
Total loans and advances gross	128,992	107,099
Less - allowance for impairment losses (1)	(10,633)	(8,185)
	118,359	98,914

(1) Movements in allowance for impairment losses are:

	2014	2013
	€ in thousands	
Balance as per January 1	8,185	4,695
Allowance for the period, net	2,448	5,237
Recognized written off uncollectible debts	-	(1,747)
Balance as per December 31	10,633	8,185

Maturities:

	December 31, 2014	December 31, 2013
	€ in thousands	
Presented as current assets	54,596	48,522
Presented as non-current assets	63,763	50,392
	118,359	98,914

During 2014, TBIF repossessed assets with a carrying value of €4.5 million (€5.7 million in 2013). TBIF is in the process of selling the repossessed assets which are presented as assets held for sale.

(11) LONG-TERM LOANS AND RECEIVABLES

A. Composition:

	December 31, 2014	December 31, 2013
	€ in thousands	
In USD	-	1,116
In EUR (1)	45,453	76,308
In other currencies (2)	26,917	27,824
	72,370	105,248
Less – current maturities	(18,708)	(29,735)
	53,662	75,513
Service concessions (3)	86,637	68,919
Provision for doubtful debts (4)	(37,817)	(57,678)
Other	2,039	8
	104,521	86,762

(1) As of December 31, 2014 the balance includes: an amount of €28,941 thousand and €35,651 thousand from consumer finance and financial lease respectively (2013: € 28,049 thousand and € 38,682 thousand, respectively). The decrease relates to the sale of TBI Credit (see Note 5C).

(2) The balance includes mainly consumer finance denominated primarily in Romanian lei.

(3) 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 6.67% (2013: 6.67%).
A short-term portion of concession agreements in the amount of €17 million (in 2013 - €16 million) is presented in other receivables (see Note 15). The increase in 2014 relates to new financial assets and foreign exchange.

Provision for doubtful debts primarily includes provision for impairment losses relating to consumer credit, mortgages and finance leases. The amounts decreased due to a sale of TBI Credit (see Note 5c).

On November 21, 2014, TBIF learned, from a press release of the National Bank of Ukraine (‘NBU’), that the NBU declared VAB Bank insolvent and has instructed to appoint an administrator to VAB Bank as the VAB Bank is not able to achieve plans to strengthen its equity. TBIF has an outstanding subordinating loan to VAB Bank which is due on December 15, 2014. As a result, the Company decided to fully provide for the remaining outstanding debt of VAB Bank to TBIF amounting to EUR 2.8 million (net of a provision of EUR 2.1 million) in the third quarter of 2014.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Long-term loans and receivables are further specified as follows:

	December 31, 2014	December 31, 2013
	€ in thousands	
Financial leases(*)	22,880	26,238
Consumer credits and mortgages	10,888	12,032
	33,768	38,270
Current	2,892	22,160
Non-current	30,876	16,110
	33,768	38,270

(*) Net investments in financial leases are further specified as follows:

	December 31, 2014	December 31, 2013
	€ in thousands	
Not more than one year	24,813	26,946
Later than one year and not later than five years	12,200	14,752
Later than five years	4,473	2,774
Gross receivables from financial leases	41,486	44,472
Less – gross earnings allocated to future periods	(5,835)	(5,790)
Less – allowance for impairment losses	(12,771)	(12,444)
Net investment in financial leases (1)	22,880	26,238
(1) Maturity table:		
Not more than one year	10,408	12,607
Later than one year and not later than five years	8,832	11,661
Later than five years	3,640	1,970
	22,880	26,238

Financial leases include mainly agreements with corporate and private customers for rental of vehicles and production equipment.

B. Movement in the provision for doubtful debts:

	2014	2013
	€ in thousands	
Balance as per January 1	57,678	59,534
Allowance for the period, net	3,615	1,788
Recognized written off uncollectible debts	(1,854)	(4,429)
Translation differences	13	785
Disposal of an investment (held for sale)	(21,644)	-
Others	9	-
Balance as per December 31	37,817	57,678

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(12) INTANGIBLE ASSETS AND GOODWILL

A. Movement in goodwill, service concession and other intangible assets is as follows:

	Goodwill	Service concessions (5)	Other intangibles (1)	Total
	€ in thousands			
Balance as of January 1, 2013	15,921	9,045	11,729	36,695
Additions (2)	1,241	33	517	1,791
Change due to disposal of subsidiaries	-	-	(60)	(60)
Impairment and amortization (3)	(3,926)	(524)	(11,235)	(15,685)
Foreign currency exchange differences	(138)	(103)	13	(228)
Balance as of December 31,2013	13,098	8,451	964	22,513
Additions	-	-	218	218
Change due to disposal of subsidiaries	-	(239)	-	(239)
Impairment and amortization (4)	(5,190)	(528)	(273)	(5,991)
Foreign currency exchange differences	135	1,004	-	1,139
Balance as of December 31, 2014	8,043	8,688	909	17,640

(1) In 2013 other intangible assets included mostly excess cost allocated to banking license and loan benefits.
(2) The additions in 2013 relate primarily to the TMNG deal – for additional information, refer to Note 5C.
(3) Impairment of intangible assets in 2013 relates primarily to the banking license and loan benefit.
(4) Impairment in 2014 relate primarily to the Group's 'Water Infrastructure – Assets' segment. For the impairment of goodwill see further in this note.
(5) Tianjin Tanggu Huanke Xinhe Sewage treatment plant. The plant's remaining operational period is 18 years as of December 31, 2014.

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

	December 31, 2014	December 31, 2013
	€ thousands	
Infrastructure segment:		
Assets segment:		
KWIG(*)	-	3,343
Dahzou Tianhe Water Supply(*)	593	974
Tianjin Huanke Water Development Co., Ltd.(*)	2,287	3,753
Project segment:		
Tahal Consulting Engineers Ltd. (TCE)	3,508	3,398
TMNG (see Note 5C)	1,244	1,241
Palgey Maim	411	389
	8,043	13,098

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.

(*)As of December 31, 2014 TGI determined the recoverable amounts based on the consideration in the agreement to sell KWIG less costs to sell. KWIG is a subsidiary in the 'Water infrastructure – Assets' segment. The total impairment of the investment in KWIG amounted to €6.9 million, out of which an amount of €5.2 million relates to goodwill. For additional information see also Note 40.

C. Impairment of goodwill

TGI

The recoverable amount has been determined based on a value in use calculation. The method used for calculating the value in use is the Discounted Cash Flow ('DCF') method. This approach is based on the estimation of future returns on an investment in terms of cash flows, and the calculation of the present value of the expected cash flows by discounting them according to the required rate of Weighted Average Cost of capital (WACC).The period used in the DCF method is 5-30 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:				
2014	12%	3%	13%	5.3%
2013	13.5%	2%	11.6%	3.3%

D. Amortization and impairment expenses:

Amortization expenses of intangible assets are included in the following line items in the income statement:
- Contract costs;
- Costs of banking and retail lending activities;
- Other expenses;
- Finance expenses;
- Net profit (loss) from discontinued operations;
- Impairment of goodwill.

(13) INVENTORIES, CONTRACT WORK , BUILDINGS AND APARTMENTS INVENTORY IN PROGRESS AND LAND BANK

A. Composition:

	December 31, 2014	December 31, 2013
	€ in thousands	
Building and apartments inventory and land bank (1)	99,857	96,864
Contract work in progress (2)	9,874	9,900
Merchandise inventories (3)	3,014	3,193
	112,745	109,957

(1) Building and apartments inventory and land bank:

a. As of December 31, 2014 inventory in the amount of €98,075 thousand is pledged for security in favor of a lending bank.

b. Inventory presented at cost includes finance expenses capitalized during the construction of the project. During 2014, finance expenses capitalized on account of inventory property under construction amounted to €5,712 thousand (in 2013: €2,527 thousand).

c. Composition of cost of buildings and apartments:

	December 31, 2014	December 31, 2013
	€ in thousands	
Current:		
Completed	14,889	21,657
Under construction	84,968	75,207
	99,857	96,864

d. Buildings and apartments inventory is stated in gross figures. Advances from apartment buyers are presented under current liabilities and amount to €164 thousand as of December 31, 2014 (December 31, 2013: €5,667 thousand).

e. During the past year the Group entered into 1,254 sales contracts of apartments, for which the total consideration is estimated at €106.7 million (RMB 866.9 million). As of December 31, 2014, the aggregated number of signed contracts of existing projects for which revenues were not recognized amounts to 2,681 contracts for which the aggregated consideration is estimated at approximately €169.3 million (RMB 1,375.4 million).

(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, 2014	December 31, 2013
	€ in thousands	
Contract costs incurred	521,805	321,788
Less – invoices on account of progress	(568,385)	(352,102)
	(46,580)	(30,314)
Presented in statement of financial position:		
Current assets – contract work in progress costs	9,874	9,900
Current liabilities – advances from customers in respect of contracts	(56,454)	(40,214)
	(46,580)	(30,314)

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

(3) In 2014 and 2013 merchandise inventory mainly relates to the fruit inventory of the subsidiary in Mast Foods (Greece).

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

	December 31, 2014			
	Residential construction		Infrastructure works	
	For the year ended 2014	Cumulative up to the end of the reporting period	For the year ended 2014	Cumulative up to the end of the reporting period
	€ in thousands			
Revenues recognized	46,866	70,850	86,292	318,606
Cost recognized	43,543	62,950	75,151	242,552

	December 31, 2013			
	Residential construction		Infrastructure works	
	For the year ended 2013	Cumulative up to the end of the reporting period	For the year ended 2013	Cumulative up to the end of the reporting period
	€ in thousands			
Revenues recognized	23,984	23,984	90,707	232,314
Cost recognized	19,697	19,697	55,630	167,401

(14) TRADE RECEIVABLES

A. Composition:

	December 31, 2014	December 31, 2013
	€ in thousands	
Trade receivables	64,682	68,426
Less provision for doubtful debt	(2,681)	(1,167)
	62,001	67,259

As of December 31, 2014 an amount of €53,518 thousand (31 December 2013: €60,469 thousand) derives from the infrastructure projects segment.

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

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

		Past due (net of impairment)					
	Neither past due nor impaired	< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days	Total
	€ in thousands						
2014	31,051	11,344	4,493	1,513	1,852	11,748(*)	62,001
2013	30,019	8,715	8,567	10,261	1,687	8,010	67,259

(*) Subsequent to the balance sheet date, the Group collected over €5 million of this amount.

(15) OTHER RECEIVABLES AND PREPAYMENTS

	December 31, 2014	December 31, 2013
	€ in thousands	
Central bank in Bulgaria (1)	16,812	15,546
Accrued income	3,891	5,523
Concession current financial assets	17,458	16,266
VAT receivable	695	1,378
Receivables from joint ventures in China	2,061	743
Prepaid expenses	2,290	5,875
Advances to suppliers	4,575	5,490
Other	5,667	5,388
	53,449	56,209

(1) TBI Bank is required to maintain, in the form of non-interest earning cash deposits, certain cash reserves with the local central bank (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 bank provided that the minimum reserve requirements are met. If the minimum average reserve requirements are not met, the banks could be subject to certain penalties. The bank is obligated to maintain the minimal cumulative average reserve calculated on a daily basis over a monthly period. The bank met the obligatory reserve requirements for the whole year 2014 and 2013.

(16) SHORT-TERM INVESTMENTS

	December 31, 2014		December 31, 2013
	Average interest rate	€ in thousands	€ in thousands
	%		
Bank deposits in other currencies	0%-5.5%	155	858
Restricted bank deposits	0%-5.5%	6,503	13,481
Other	-	592	88
		7,250	14,427

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(17) CASH AND CASH EQUIVALENTS

	December 31, 2014	December 31, 2013
	€ in thousands	
Cash at bank and in hand	43,225	61,792
Short-term deposits *)	105,320	56,476
	148,545	118,268

*) In 2013 the amount includes also €604 thousand which is held for trading securities. As of December 31, 2014 the range of the annual interest rate earned on short-term deposits was 0.5%-1.5% (December 31, 2013 - up to 3%).

(18) ISSUED AND PAID-IN CAPITAL

A. Composition:

	December 31, 2014		December 31, 2013	
	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	111,848,583	225,000,000	111,848,583

B. Movement in issued and paid-in shares:

	Number of shares	par value in €
Balance as of January 1, 2013	111,824,638	22,364,927
Issuance of shares in 2013	23,945	4,789
Balance as of December 31, 2013 and 2014	111,848,583	22,369,716

C. Changes in share capital:

During 2013, the Company issued 23,945 shares to one of its senior manager in relation to following the 2010 Share Plan; for additional information see Note 19B.

D. Movement in treasury shares:

	Number of shares	par value in €
Balance as of January 1, 2013	1,268,422	253,685
Treasury shares granted to a former officer	(27,832)	(5,566)
Balance as of December 31, 2013	1,240,590	248,119
Treasury shares granted to a former officer	(73,005)	(13,871)
Balance as of December 31, 2014	1,167,585	234,248

	December 31,	
	2014	2013
Rate of treasury shares from the issued and paid-in share capital	1%	1%

During 2014 and 2013, the following transactions took place:

In January 2014, the Company transferred 73,005 shares to senior managers of the Company according to the 2010 Share Plan, for additional information see Note 19.

In March 2013, the Company granted 27,832 shares to a former officer of the Company as part of his termination agreement (see also Note 19B).

E. Dividend:

For limitations regarding the distribution of dividends refer to Note 1. In 2014 and 2013, there were no distributions of dividends.

F. Restrictions for distribution:

In accordance with Dutch civil code, part of the retained earnings is restricted for distribution following the regulation to maintain reserves in respect of real estate unrealized fair value revaluation, cash flow hedges, foreign currency differences from investment in foreign operations, and equity gains from associates and joint ventures.

(19) SHARE-BASED PAYMENTS

A. The expenses recognized during the year are shown in the following table:

	For the year ended		
	December 31, 2014	December 31, 2013	December 31, 2012
	€ in thousands		
Expense arising from equity-settled share-based payment transactions of the Company and the subsidiaries	776	1,247	2,039
Expense arising from cash-settled share-based payment transactions of a subsidiary	526	557	143
	1,302	1,804	2,182

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 five 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. On February 6, 2013 the Extraordinary General Meeting approved an adjusted exercise price of NIS 6.136. The Company share price on the grant date was NIS 3.98 .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 September 2013 (the ‘Grant Date’), the Board of the Company approved a stock-option plan according to which the Company granted to several employees of the Company a total of 250,000 options exercisable into up to 250,000 ordinary shares of the Company, each having a par value of €0.20 (subject to adjustments). The exercise price of each option is equal to NIS 6.136. The options are exercisable in four annual equal portions, starting June 2012 (the ‘Effective Date’), of which the first 25% are exercisable two years following the Effective Date. The total value of the options at date of grant was immaterial. The Company share price on Grant Date was approximately NIS 1.9052. The grant was accounted for assuming equity settlement and the total expenses booked in the period were immaterial and were included as ‘General and administration expenses’ in the income statement.

The fair value of the options grant was calculated by an independent external valuator using the adjusted binomial model under the following assumptions:

Number of options	2,282,135
Exercise price (in NIS)	6.136
Risk-free interest rate	1.53%-3%
Expected term of the options (in years)	6
Standard deviation	66.8%
Valuation	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:

	2014		2013	
	No.	WAEP	No.	WAEP
		NIS		NIS
Outstanding on January 1	2,532,135	6.136	2,532,135	6.136
Granted during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding on December 31	2,532,135	6.136	2,532,135	6.136
Exercisable on December 31	633,034	6.136	-	

The expected life of the options was based on historical data and was not necessarily indicative of exercise patterns that may have occurred. The expected volatility reflected the assumption that the historical volatility was indicative of future trends, which may also not have necessarily been the actual outcome.

(2) GTC RE and its subsidiaries

A. Kardan Land China

Employee Share Option Plan

During 2010, Kardan Land China adopted the Employee Share Option Plan (‘ESOP’).
According to 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.

In January 2013, certain share options under ESOP were modified, with options to settle in cash. The cash settlement can be calculated on a gross basis or the difference between KLC fair value and the exercise price which is the difference between the fair value of KLC and the total investment in KLC and the accumulated interest.

The share options vest according to the following schedule: 33%, 33% and 34% of the share options shall vest for additional 5, 17 and 26 months of employee service from the date of the modification. The fair value of modified share options at the end of the reporting period is estimated using a binomial pricing model, taking into account the terms and conditions upon which the options were modified. The contractual life of each option is 7.7 years.

The fair value of options granted during the year ended December 31, 2013, was estimated on December 31, 2013, using the following assumptions:

Dividend yield (%)	0.00
Expected volatility (%)	51
Risk-free interest rate (%)	1.93
Expected life (years)	7.7
Share price (EUR)	3,856.85

In June 2013, certain share options under ESOP were modified, with options to settle in cash. The cash settlement price is a specified amount with respect to 2/3 of the options; the last 1/3 cash settlement will be according to the fair value of KLC. The modified share options vest immediately.

The fair value of the options which were modified is €2.6 million, see also Note 27.

Senior Executive Plan

Under the Senior Executive Plan (SEP), which was adopted in 2011, 2,637 share options of Kardan Land China (which represent 5% of the share capital of KLC) were granted to a senior executive of Kardan Land China. According to the plan the senior executive is entitled to receive shares of KLC for consideration of the proportionate part of the investment cost of GTC RE in KLC. Alternatively, the senior executive has the right to receive shares in the value of the difference between his proportionate share in KLC fair value to the proportionate part of the investment cost of GTC RE in KLC.

According to the terms of the options agreements, the options vest at the date of the 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 account the terms and conditions upon which the options were granted. The contractual life of each option granted was seven years.

Simultaneously, a put option agreement was signed between a senior executive and Kardan N.V. allowing Kardan N.V. to pay the senior executive cash or shares of Kardan N.V. upon exercise of the options. The exercise of options (to cash or Company shares) was subject to the Kardan N.V.'s discretion.

In February 2014, KLC signed an agreement with the senior executive under which the senior executive shall exercise his share options in equal parts in February, June and December 2014 and simultaneously KLC shall acquire the shares resulting from the exercise. The agreement determined the settlement price for the first 66% of the share options. As for the last third, it was agreed that the settlement price would be agreed between the parties or determined by an external appraiser. The exercise price of the options reflects the cost of the Company's investments in Kardan Land China. As a result of the agreement, the Company recorded in the first quarter of 2014 a decrease in shareholders' equity, reflecting the difference between the estimate of the consideration for the sale of shares by the senior executive to Kardan Land China and the exercise price in the amount of €4.9 million.

In February and December 2014, the senior executive exercised the first 66% of the share options for consideration of €6.7 million. As of December 31, 2014 the Company has a provision in the amount of €3.38 million for the settlement of the last third. Subsequent to the balance sheet date, the senior executive announced his wish to exercise the third tranche.

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:

	2014 No.	2014 WAEP	2013 No.	2013 WAEP
		EUR		EUR
Outstanding on January 1	3,559	4,004.46	4,105	4,056.94
Cancelled during the year	(330)	4,394.48	(546)	4,394.48
Exercised during the year	(1,758)	3,219.61	-	-
Outstanding on December 31	1,471	3,692.43	3,559	4,014.08
Exercisable on December 31	1,454		3,514	

The weighted average remaining contractual life for the share options outstanding as of December 31, 2014 is 3.25 years (2013: 4.25 years).
The range of the exercise prices per option for options outstanding at the end of the year was €3,219.61 to €4,394.48 (2013: €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, 2014 and December 2013:

	SEP	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.

For year ended December 31, 2014, KLC has recognized €211 thousand of share-based payment expense in the statement of profit or loss (2013: €553 thousand).

(3) KFS and its subsidiaries

a. In 2014 consolidated companies in the financial services sector incurred expenses in the amount of €0.2 million (2013: €0.3 million), arising from options granted to senior managers in those companies.

b. 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 four operations of TBIF. The exercise price for these options was determined to be the base value at the time of grant plus interest. The options vest in four equal portions on 30 June 2012, 2013, 2014 and 2015. This option plan is treated under IFRS 2; (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

1. 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 ranges between €869 to €1,717 per option. The options can be exercised until December 31, 2012, unless extended and have different vesting periods for each of the option holders. During 2012, TGI extended the outstanding options of a manager holding 97 options by one year; however these options expired without being exercised. In December 2012 the former chairman of the supervisory board of TGI exercised his options in return for 578 shares.

In March 2013, 578 new shares each were issued to the heirs of the former chairman of TGI.

Upon exercise of the options, the supervisory board of TGI will determine whether to allocate the full number of shares deriving from the exercise of 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. The expected life of the options is based on historical data. TGI accounts for the options granted assuming equity payment will be effected.

In July 2013 the heirs sold 185 of the TGI shares to the Company in consideration of €663 thousand. The proceeds were used to settle the loan to TWP and the tax liability deriving from selling of shares to the tax authorities.

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

2. During 2011, the supervisory board and the general meeting of shareholders of TGI formally approved TGI to 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 amounted to €4,317 per option. The options can be exercised until December 31, 2017.

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

   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.

3. In March 2013, TGI granted three senior employees stock options totaling to 2.2% of TGI's issued and paid-in capital (580 options). TGI accounted for these options as equity settled. Based on B&S model, the total fair value of the options is €0.6 million which will be recognized in the income statements during the remaining vesting period of 4 years.

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

Value per share	4,868
Expected volatility (%)	46.4%
Risk-free interest rate (%)	0.7%
Expected term of options (years)	5
Stock price (EUR)	3,495
Model used	Black–Scholes

4. In August 2014, the supervisory board of TGI decided to grant five executive managers options to purchase 1.9 % of TGI's share capital. The total value of the grant is approximately USD 1 million (€ 0.7 million) and was calculated by the company using the Black & Scholes model, based on the following assumptions:

Expected volatility (%)	35
Risk-free interest rate (%)	0.429
Expected term of options (years)	4
Weighted average share exercise price ($)	6,044
Weighted average share value ($)	6,360

   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:

	2014 No.	2013 No.	2014 WAEP	2013 WAEP
			EUR	
Outstanding on January 1	982	1,472	4,334	2,641
Granted for the year	499	185	4,510	4,741
Expired during the year	-	(675)	-	991
Outstanding on December 31	1,481	982	4,393	4,334
Exercisable on December 31	916	531	4,366	4,317

B. Kardan Water International Group Ltd.

2010 Plan

During 2010, KWIG 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%.

During 2013, 669 options were extended for another two years. The fair value of the options extended was €216 thousand.

During the year ended December 31, 2013, 750 options were granted to two other eligible employees. Under this plan, the eligible employees have the right to exercise 50% of the granted option shares on the 2nd anniversary of the date of commencement of services, 25% on the 3rd anniversary and 25% on the 4th anniversary. The option period will expire on the 4th anniversary for the first 50% of the vested options and on the 5th 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.

There are no cash settlement alternatives.

2011 Plan

In 2011, pursuant to the 2011 Employee Stock Option Plan (the ‘Plan’), 1,021 new share options were granted to a director of KWIG. The option shares were 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:

	2014 No.	2014 WAEP	2013 No.	2013 WAEP
		€		€
Outstanding on 1 January	2,396	1,262	1,442	1,031
Forfeited during the year	-	-	(215)	1,061
Granted during the year	-	-	750	1,773
Extended during the year	-	-	669	1,061
Expired during the year	(125)	1,061	(250)	1,061
Outstanding at 31 December	2,271	1,331	2,396	1,262
Exercisable at 31 December	1,521	1,112	1,646	1,029

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

The following tables list the inputs to the binomial model used in the grants:

	2014	
	SEP	ESOP
Dividend yield (%)	0	0
Expected volatility (%)	42.82	33.99
Risk-free interest rate (%)	2.94	0.53
Expected life of share options (years)	3.50	3.18
Weighted average share price (EUR)	1,291	1,749

The weighted average remaining contractual life for the share options outstanding as at December 31, 2014 is 2.62 years (December 31, 2013: 3.43 years).

After the balance sheet date, as part of the transaction to sell KWIG (see Note 40), 1,250 share options had been cancelled against cash consideration. The deeds of waiver and release were signed by these option holders in February 2015 . Additionally, 1,021 option shares were exercised by an option holder in February 2015 into KWIG shares, which were purchased from him by TGA shortly afterwards . There are no outstanding share options as of the end of February 2015. In total, USD 1.9 million has been paid by TGA to the employees. The excess of the consideration over the previously recognized expense in was recorded as an expense as of December 31, 2014 (see also Note 40).

(20) NON-CURRENT INTEREST-BEARING LOANS AND BORROWINGS

A. Composition:

	December 31, 2014		December 31, 2013	
	Weighted interest rate as of %	€ in thousands	Weighted interest rate as of %	€ in thousands
Banks:				
In EUR	3.5-7.1	10,807	3.97-7.89	10,489
In USD	4-5.4	19,063	4-5.24	19,672
In NIS	4-7	149	3.5-4	297
In RMB	3-8.1	138,870	5.54-7.36	79,088
Linked to other currencies	-	332	-	-
Others – in EUR	2	3,425	2	1,042
Linked to other currencies	4-7	196	3.66-5.75	760
		172,842		111,348
Less:				
- Current maturities		(59,536)		(13,630)
- Long-term interest-bearing loans related to current inventory		(29,175)		(27,295)
		84,131		70,423

B. Maturities:

	December 31, 2014	December 31, 2013
	€ in thousands	
First year – current maturities	59,536	13,630
Second year	53,616	32,279
Third year	58,560	31,991
Fourth year	941	15,842
Fifth year	189	821
Thereafter	-	16,785
	172,842	111,348

For details regarding covenants, refer to Notes 27 and 38.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(21) BANKING CUSTOMERS ACCOUNTS

A. Composition:

	December 31, 2014	December 31, 2013
	€ in thousands	
Deposits from corporate clients	85,856	47,624
Deposits from individual clients	103,613	90,097
	189,469	137,721

B. Maturities:

	December 31, 2014	December 31, 2013
	€ in thousands	
First year – current maturities	189,239	137,593
Second year	106	102
Third year and forward	124	26
	189,469	137,721

Under normal circumstances, banking customer accounts which can be redeemed on demand are considered covered by the banks' financial assets – refer also to Note 38.

(22) OTHER LONG-TERM LIABILITIES

	December 31, 2014	December 31, 2013
	€ in thousands	
Advances from customers	-	515
Site coverage and rehabilitation provision	2,298	2,092
Claw-back liability regarding the sale of GTC SA (See Note 5C)	-	3,150
Other	813	1,130
	3,111	6,887

(23) OPTIONS AND WARRANTS

	December 31, 2014	December 31, 2013
	€ in thousands	
Call options to third parties (1) (2)	428	3,650
Put option of third parties (3)	1,014	667
	1,442	4,317

(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. In January 2014 the option was cancelled by IDB. As a result of the cancellation an increase in equity of €2.9 million (in NCI reserve) was recorded.

(2) The balance includes the fair value of warrants granted to FIMI (which can be exercisable to 10% of TGI shares) in the amount of €0.4 million (December 31, 2013: €0.8 million).

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(3) As part of the purchase agreement to increase the holding in TMNG to 65%, the third party was granted a put option, according to which, he will be entitled in the period of six years that will start after two years from the agreement date to sell to the TGI Group his entire stake at fair value. The liability for the option is presented at fair value. For additional information refer to Note 5C.

(24) DEBENTURES

A. Composition:

	Par value (net) as of December 31, 2014	Balance as of December (Net) 31, 2014	Balance as of December (Net) 31, 2013	Interest rate	Currency and linkage	Maturities principal
		€ in thousands		%		
Issuer:						
The Company – 2007	68,151	82,452	113,190	4.45	(1)	2013-2016
The Company – 2008	211,435	252,121	278,901	4.9	(1)	2014-2020
Other subsidiaries		-	3,507	6.5%	In or linked to €	2008-2015
		334,573	395,598			
Less - current maturities		(83,802)	(67,409)			
Less - debentures issuance expenses		(724)	(949)			
		250,047	327,240			

(1) The Company’s Debentures are traded on the TASE. The Debentures are denominated in NIS and are linked to the Israeli CPI. For additional information refer to Note 38 and Note 1.

(2) Early repayment

On January 12 and February 14, 2014, the Company made an early repayment of NIS 136,918,906 par value Debentures Series A (net of Debentures held by the Company's subsidiaries) and the accumulated interest from the last repayment for a total amount of €36 million (approximately NIS 171 million).

(3) In January 2014, TCE sold its entire amount of the Company’s Debentures (NIS 11,955,355 par value) for a total consideration of approximately €2 million.

(4) Repurchase of Kardan N.V. Debentures

In 2012, GTC RE 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 2012 income statement.

As of December 31, 2014, the Company holds through its subsidiaries NIS 273,012,229 par value Debentures Series A (which represent 45.9% of the par value of Debentures Series A) and NIS 144,457,732 par value Debentures Series B (which represent 12.6% of the par value of Debentures Series B).

(5) With respect to early repayment of interest and principal subsequent to the balance sheet date, please see Note 40.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Maturities:

	December 31, 2014	December 31, 2013
	€ in thousands	
First year – current maturities	83,802	67,409
Second year	83,135	81,466
Third year	41,909	81,183
Fourth year	41,909	41,385
Fifth year	41,909	41,385
Sixth year onwards	41,909	82,770
Total	334,573	395,598

(25) INTEREST-BEARING LOANS AND BORROWINGS

	Weighted average annual interest rate	December 31, 2014	Weighted average annual interest rate	December 31, 2013
	%	€ in thousands	%	€ in thousands
Short-term credit from banks:				
In USD	-	-	4.5	2,717
In RMB	-	-	5.48	2,959
In EUR	4.5	1,008	4.5	1,185
		1,008		6,861
Long-term interest-bearing loans related to current inventory (refer to Note 20)		29,175		27,295
Current maturities:				
Loans (see Note 20)		59,536		13,630
		89,719		47,786

Collateral – see Note 27.

(26) OTHER PAYABLES AND ACCRUED EXPENSES

	December 31, 2014	December 31, 2013
	€ in thousands	
Financial:		
Accrued expenses	29,628	17,662
Payroll and related expenses	5,960	6,396
VAT payable	2,540	9
Payable to joint ventures in China accounted using the equity method	11,574	10,052
Liability regarding share-based payment	5,280	2,626
Factoring liability	-	3,143
Deferred purchase price for shares in a subsidiary	-	8,016
Other	8,903	10,017
Non-Financial:		
Advances from customers	20,305	49,954
Unearned revenues	-	266
Other	3,150	-
	87,340	108,141

(27) LIENS, CONTINGENT LIABILITIES AND COMMITMENTS

A. Financial covenants, Liens and collaterals:

1. Financial Covenants

(a) As of December 31, 2014 all Group companies met their financial covenants.

(b) Subsequent to the balance sheet date, GTC RE fully repaid a loan to Discount Bank. Following that, GTC RE has no outstanding loans and no financial covenants.

(c) TGI Group committed towards banks and financial institutions, with respect to long- and short-term loans, and guarantees, to maintain certain financial covenants relating to: minimum equity, the ratio of total current assets and total current liabilities, the ratio of equity and total credit and loans, the ratio of equity to total assets, the ratio of financial debt to operating income, and minimum EBITDA. Subsequent to the balance sheet date, in March 2015 TGI repaid a long-term loan of USD 25 million, and accordingly the financial covenants attached to that loan were removed.

(d) In February 2014 KLC signed a loan agreement with respect to the construction of Europark Dalian. As part of the loan agreement, the project company should maintain certain covenants including: ratio of total debt to total assets, current ratio, and the ratio of contingent liabilities to net assets.

2. Pledges

(a) Subsequent to the balance sheet date, in relation to the Interim settlement with the debenture holders, as described in Note 1, the Company pledged all its rights in shares and loans of GTC RE in favor of the trustees of the debenture holders of the Company. Additional pledges will be established after signing the final debt settlement, as described in Note 1.

(b) As of December 31, 2014 the Company and GTC RE had pledges on their rights in shares of TGI, KFS, TBIF and KLC and on shareholder’s loans granted to these companies. Subsequent to the balance sheet date, following the repayment of the Discount Bank loans, all these pledges were released.

(c) As of December 31, 2014 long-term loans amounting to €120.7 million granted to a subsidiary of KLC was secured by mortgages over investment property under construction and inventory.

(d) TBIF Group pledged assets with a carrying value of €4.9 million as of December 31, 2014 in relation to liabilities for property and vehicles and financial lease receivables. The assets pledged are strictly for the purpose of providing collateral for the counterparty. The pledged assets will be returned to TBIF when the underlying transaction is terminated, but in the event of default, the counterparty is entitled to use the collateral in order to settle the liability.

3. Guarantees:

(a) As of December 31, 2014 and 2013, TGI provided bank guarantees in an aggregated amount of approximately €30.8 million and €13.7 million, respectively, in favor of customers in respect of advances received from them for projects and for performance and tender guarantees.

(b) As at December 31, 2014, Kardan Land China provided guarantees of €6,434 thousand (2013 - €4,871 thousand) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Kardan Land China Group's properties, which were not provided for in the financial statements. Pursuant to the terms of the guarantees, upon default on mortgage payments by these purchasers before the expiry of the guarantees, the Kardan Land China Group is responsible for repaying the outstanding mortgage principals and interest to the banks.

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

With respect to such guarantees provided in joint ventures companies, refer to Note 9.

(c) The Company provided guarantees to its subsidiaries in favor of lending banks which amounted to €0.9 million and €7.6 million as of December 31, 2014 and 2013, respectively.

(d) For additional information regarding maturities of financial guarantees, refer to Note 38.

4. Legal claims and contingencies:

As of December 31, 2014 the Company and its main subsidiaries do not have any material legal claims.

5. Commitments:

(a) With respect to commitments to towards the debenture holders of the Company in relation to debt settlement, refer to Note 1.

(b) 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 and contingent liabilities are as follow:

	December 31	
	2014	2013
	€ in thousands	
Contingent liabilities		
• Financial guarantees	1,279	792
Commitments		
• Undrawn commitments to lend	7,771	12,293
Total	9,050	13,085

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 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.

(c) As of December 31, 2014 Kardan Land China Group had commitments of €36.5 million (December 31, 2013: €62.3 million) principally relating to the property development cost of the construction projects of the KLC Group.

With respect of commitments relating to Joint Venture companies, refer to Note 9.

(d) The TGI Group owns concession agreements to provide water supply and wastewater treatment services in China and Turkey. The agreements have a contract period of 5 to 30 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 these financial statements there are no breaches relating to these concession agreements.

(e) In relation to loans provided to TGI and some of its group companies, the Company committed, under certain circumstances, not to collect shareholder’s loans granted to TGI and not to decide on dividend distribution from TGI, unless consent from the relevant bank was obtained. See also note 40.

(f) TGI has three large development projects in Ghana, Angola and Russia. The project in Ghana relates to the construction, expansion and upgrade of water supply facilities and the total expected revenues are estimated at €61 million. The project in Angola is an integrated agriculture and regional development project, including the development and construction of the water supply, sewage and drainage system for a new rural settlement and irrigation of farm land. The revenues from this project are estimated at €143 million. The project in Russia is for the planning and construction of a water treatment plant and pumping system. The revenues for this project are estimated at USD 57 million (approximately €51 million).

B. Operating lease commitments:

(1) Operating lease commitments – Group as lessor

The Group has entered into various operational lease contracts with tenants related to the shopping center under construction in Dalian, China. The aggregate amount of contracted future rental income as of December 31, 2014 amounts to approximately €29.4 million from signed contracts as of the balance sheet date.

The expected dates for the minimum lease under the operating lease contracts which cannot be canceled as of December 31, 2014 and 2013:

	2014	2013
	€ in thousands	
First year	1,425	166
Second to fifth year	11,374	3,031
After the fifth Year	16,950	8,223
	29,749	11,420

(2) Operating lease commitments – Group as lessee

a. Certain Group companies have entered into commercial operating lease agreements on vehicles and machinery. These leases have an average life of three to five years with no renewal option included in the contracts. The annual rentals total approximately €0.6 million.

b. Certain Group companies have entered into operating lease agreements with respect of office buildings rental. The total commitment as of December 31, 2014 amounts to €10.4 million.

c. With respect to b above, one of the buildings was sub-leased to a third party under an operating lease agreement for a period of eight years. The total expected minimum lease payment amounts to €7.7 million as of December 31, 2014.

(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. 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.

Due to the sale of GTC SA in November 2013 (for additional information see Note 5C), the Company's CODM re-examined its operating segments. In the past, the results of GTC SA were the company main activities included in 'Real Estate – Europe' segment. Following the sale, the Company is substantially no longer active in the 'Real Estate – Europe' segment and the results of GTC SA have been presented as discontinued operation and thus no longer form a reportable operating segment. The comparative information has been amended accordingly.

Financial Services

The financial services activities currently include one segment – Banking and Retail Lending mainly in Bulgaria and Romania, in addition KFS is active in renting and leasing of vehicles in Ukraine through in holding in Avis Ukraine.

Real Estate

The real estate activities are incorporated under GTC RE and currently include the real estate in Asia. In the past, the operations of the real estate segment were split into two segments: real estate in Europe and real estate in Asia. Due to the sale of GTC SA (as described above) results of GTC SA have been presented as discontinued operation. 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 Group, and include the following two segments: Infrastructure Projects and Infrastructure Assets. Due to the sale of KWIG (see Note 40), from Q1 2015 there will be one infrastructure segment.

Through the TGI Group companies, the Company develops and invests in infrastructure assets and provides engineering, consulting and design services. TGI Group undertakes projects in Latin America, Eastern Europe, Africa, China, Israel and in other countries, mainly relating to the environment, water, sewage, drainage, irrigation, energy and agriculture.

The Group's segments are operating segments and are fully independent from each other. Apart from invoicing of 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.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

B. Segment results

For the year ended December 31, 2014:

	Real Estate Asia	Banking and Retail Lending	Infrastructure Projects	Infrastructure Assets	Other	Total
	In €'000					
Revenue	51,957	35,630	135,870	34,387	-	257,844
Other income (expense) (*)	32,861	1,281	(1,135)	(6,526)	(82)	26,399
Total income	84,818	36,911	134,735	27,861	(82)	284,243
Segment result	28,390	8,747	9,111	1,642	(82)	47,808
Unallocated expenses						(6,074)
Gain from operations and share in profit of associates companies before finance expenses, net						41,734
Finance expenses, net						(20,187)
Loss before income tax						21,547
Income tax expenses						(16,485)
Loss from continuing operations						5,062
Net profit for the year						5,062

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

For the year ended December 31, 2013:

	Real Estate Asia	Banking and Retail Lending	Infrastructure Projects	Infrastructure Assets	Other	Total
	In €'000					
Revenue	28,917	26,065	122,043	30,970	-	207,995
Other income (expense) (*)	23,422	(14,998)	(838)	(29)	864	8,421
Total income	52,339	11,067	121,205	30,941	864	216,416
Segment result	22,130	(16,359)	3,972	8,455	864	19,062
Unallocated expenses						(5,797)
Loss from operations and share in profit of associates companies before finance expenses, net						13,265
Finance expenses, net						(45,618)
Loss before income tax						(32,353)
Income tax expenses						(14,443)
Loss from continuing operations						(46,796)
Loss from discontinued operations						(75,177)
Loss for the year						(121,973)

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

For the year ended December 31, 2012:

			Infrastructure			
	Real Estate Asia	Banking and Retail Lending	Projects	Assets	Other	Total
			In €’000			
Revenue	4,927	13,871	107,351	35,619	-	161,768
Other income (expense) (*)	20,045	(4,157)	(872)	531	(6,197)	9,350
Total income	24,972	9,714	106,479	36,150	(6,197)	171,118
Segment result	15,271	(18,198)	(6,149)	6,755	(6,197)	(8,518)
Unallocated expenses						(7,208)
Loss from operations and share in profit of associates companies before finance expenses, net						(15,726)
Finance expenses, net						9,756
Loss before income tax						(5,970)
Income tax expenses						(938)
Loss from continuing operations						(6,908)
Loss from discontinued operations, net						(131,948)
Loss for the year						(138,856)

(*) 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	
	2014	2013
	€ in thousands	
Real Estate – Asia	420,392	354,101
Banking and Retail Lending	304,437	254,829
Infrastructure – Assets	178,352	165,182
Infrastructure – Projects	107,778	110,458
Others	15	-
	1,010,974	884,570
Unallocated assets	2,635	40,045
	1,013,609	924,615

D. Segments liabilities

	December 31	
	2014	2013
	€ in thousands	
Real estate – Asia (*)	163,315	95,190
Banking and Retail Lending	225,194	197,416
Infrastructure – Assets	49,045	117,634
Infrastructure – Projects	100,168	106,934
	537,722	517,174
Unallocated liabilities (**)	378,127	335,691
	915,849	852,865

(*)During the second quarter of 2014, Kardan Land Dalian (which is the main activity in ‘Real estate – Asia’ segment) raised an additional bank loan in the amount of RMB 400 million (approximately €54 million). As of December 31, 2014 and December 31, 2013 the outstanding liability amounts to RMB 900 million (approximately €115 million) and RMB 500 million (approximately €60 million), respectively.

(**) Most unallocated liabilities relate to the finance on the level of the holding companies.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

E. Information about geographical areas:

(1) Revenues by geographical markets (according to location of customers):

	For the year ended		
	2014	2013	2012
	€ in thousands		
China and Hong Kong	79,417	59,887	34,287
Bulgaria and Romania	55,330	27,542	13,293
Israel	21,410	32,021	25,694
Other	101,687	88,545	88,494
	257,844	207,995	161,768

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

	December 31, 2014	December 31, 2013
	€ in thousands	
China and Hong Kong	235,025	167,293
Bulgaria and Romania	10,585	10,000
Israel	6,136	8,077
Other	7,828	11,438

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		
	2014	2013	2012
	€ in thousands		
Interest income	38,431	34,545	24,426
Finance costs	(6,209)	(10,122)	(6,511)
	32,222	24,423	17,915
Commission and service fees	9,168	7,008	7,127
Impairment of loans granted	(8,095)	(7,025)	(14,076)
	33,295	24,406	10,966

(30) COST OF RETAIL LENDING ACTIVITIES

	For the year ended December 31		
	2014	2013	2012
	€ in thousands		
Staff costs	13,491	14,261	12,847
Other operating expenses	12,087	10,921	10,715
	25,578	25,182	23,562

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(31) OTHER EXPENSES, NET

	For the year ended December 31		
	2014	2013	2012
		€ in thousands	
Cost of services	4,700	3,861	1,802
Other expenses, net	1,408	(503)	3,568
	6,108	3,358	5,370

(32) SELLING AND MARKETING EXPENSES

	For the year ended December 31		
	2014	2013	2012
		€ in thousands	
Payroll and related expenses	3,307	2,928	3,117
Commissions	195	684	211
Marketing and advertising	1,160	1,526	2,204
Other	3,530	2,774	2,678
	8,192	7,912	8,210

(33) GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31		
	2014	2013	2012
		€ in thousands	
Payroll and related expenses (1)	12,572	10,495	11,968
Share-based payment (see Note 19)	805	1,327	1,803
Management fees	2,171	2,132	1,996
Office maintenance	2,348	2,698	1,934
Professional fees	3,658	3,616	4,091
Depreciation and amortization	258	579	322
Other	2,715	4,666	5,626
	24,527	25,513	27,740

Payroll and related expenses are as follows:

	For the year ended December 31		
	2014	2013	2012
		€ in thousands	
Wages and salaries	11,291	9,290	10,476
Unemployment contributions	714	753	1,094
Other social expenses	567	452	398
	12,572	10,495	11,968

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(34) GAIN (LOSS) ON DISPOSAL OF ASSETS AND OTHER INCOME

	For the year ended December 31		
	2014	2013	2012
	€ in thousands		
Impairment of an investment in a subsidiary (1)	(1,782)	(8,254)	-
Gain on disposal of investment in companies (2)	17,156	-	-
Impairments of investments held for sale (3)	(1,362)	(553)	(632)
Gain from sale of fixed assets (4)	-	8,038	-
Other (5)	2,006	(8,178)	(1,058)
	16,018	(8,947)	(1,690)

(1) The amount for 2014 relates to the sale of KWIG; for additional information, see Note 40. The amount for 2013 relates to Impairment of TGI investment in Watek; for additional information, see Note 5C.

(2) Refer to Note 9 mainly regarding capital gains that were recognized due to disposal of Chengdu.

(3) Relates to impairment of repossessed assets in the banking and retail lending segment.

(4) During 2013, a subsidiary of TGI completed the sale of its rights in a leased real estate asset in Tel Aviv, Israel to an unrelated third party for €15 million (NIS 74 million). The full consideration has been received in cash. The net profit on the transaction before tax amounts to approximately €8 million.

(5) In 2013, the amount related to impairment of banking license and loan benefit. For additional information see Note 12 and Note 9.

(35) FINANCIAL INCOME AND EXPENSES

	For the year ended December 31		
	2014	2013	2012
	€ in thousands		
Income:			
Income from bank deposits	432	1,512	2,073
Revaluation of warrants	461	2,199	2,497
Gain from early repurchase of debentures (see Note 24)	-	-	43,035
Other	1,155	2,474	2,467
Total financing income	2,048	6,185	50,072
Expenses:			
Interest on long-term loans and borrowings	5,057	8,230	10,957
Interest on debentures	17,290	27,327	23,790
Exchange differences, net	(2,353)	12,096	6,519
Other	2,241	4,150	123
Total financing expenses	22,235	51,803	41,389

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(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 2014 and 2013, 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.

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 deduction limitation rule, aimed on the limitation of the deduction of “Excessive Interest” expenses allocated to “Participation Debt” from the Dutch taxable profit (section 13L CITA). Based on this new rule, which has replaced the Dutch thin capitalization rules, both intercompany and third party interest relating to debt that is deemed to be used to finance participations on which the Dutch Participation Exemption applies (Participation Debt) is not deductible. The amount of Participation Debt is determined based on a mathematical formula. This rule applies only if the amount of non-deductible Excessive Interest expenses exceeds € 750,000.

It is noted that certain exceptions exist. The impact of Section 13L CITA can be limited if and to the extent that the interest held in an operational participation can be considered an expansion of the operational activities of the group (‘expansion investment escape’). Also a grandfathering rule applies for participations held by the Dutch tax payer on or before 1 January 2006.

In December 2013 the Company has filed a ruling request with the Dutch Tax Authorities regarding the (non-)applicability of Section 13L CITA for 2013 and further years.

New substance requirement regulations as per 2014

As per 2014, the Company might be subject to a new Decree which codifies the existing administrative guidance on substance requirements for companies engaged in inter-company financing and/or licensing activities. Dutch companies that claim the benefits of a tax treaty or EU Directive should now declare in their annual Dutch corporate income tax return whether the tax payer meets a defined set of substance requirements. If one or more of these requirements are not met and if the company has claimed treaty benefits, the Dutch Tax Authorities notify the foreign tax authorities.

The Company has analyzed the impact of the new substance requirement regulations and concluded that these do not apply to the Company and its Dutch group companies.

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

	Tax rate	
Country	**2014**	2013
Bulgaria	10%	10%
China	25%	25%
Hong-Kong	16.5%	16.5%
Israel	26.5%	25%
Romania	16%	16%
The Netherlands	20-25%	20-25%

C. Tax presented in the consolidated income statement is broken down as follows:

	For the year ended December 31,		
	2014	2013	2012
		€ in thousands	
Current taxes	8,396	7,154	1,375
Deferred taxes (see also E below)	8,089	7,289	(437)
	16,485	14,443	938

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,		
	2014	2013	2012
		€ in thousands	
Accounting profit (loss)	21,547	(32,353)	(5,970)
Tax expense (tax benefit) computed at the statutory tax rate 25%	5,387	(8,088)	(1,493)
Increase (decrease) in tax expense (tax benefit) due to:			
Carry forwards tax losses for which no deferred tax assets were recognized (In brackets – Utilization of tax losses from previous years for which no deferred taxes were recognized in the past)	4,113	16,625	(3,504)
Adjustment in respect to tax of previous years	1,537	797	108
Share of results of investments accounted using the equity method	(1,678)	(2,588)	(35)
Non deductible expenses (income) and others, net	1,618	4,293	5,379
Impact of different tax rates	351	(654)	(183)
Temporary difference for which no deferred taxes were recognized	2,478	3,031	696
Other	2,679(*)	1,027	(30)
	16,485	14,443	938

(*) Relates mainly to land tax in China.

E. Composition of deferred taxes

	Consolidated statement of financial position		Recorded in the income statement		
			Movement for the year ended December 31,		
	December 31, 2014	December 31, 2013	**2014**	2013 (*)	2012 (*)
	€ in thousands		€ in thousands		
Deferred income tax assets (deferred tax liabilities) with respect to:					
Investment properties	(7,680)	(4,664)	2,215	(2,200)	(2,596)
Tangible fixed assets	-	-	-	(273)	-
Financial instruments	(14,115)	(7,849)	5,613	(1,984)	(960)
Temporary differences in reserves and allowances	198	(21)	440	221	43
Carry forwards losses available for offset against future taxable income	5,650	5,485	127	(791)	4,198
Differences in measurement basis	1,088	956	(132)	(200)	(8)
Accelerated depreciation for tax purposes	(1,654)	(1,654)	-	(2,577)	(27)
Timing differences of projects	(1,738)	(1,639)	-	(753)	(462)
Non-current assets eliminated for rendering of service among group companies	566	566	99	(52)	(52)
Other	521	221	(273)	1,320	301
	(17,164)	(8,599)	8,089	(7,289)	437

(*) In 2013 and 2012 the difference between the movement in the deferred taxes in table E to the tax expenses in table C are mostly due to discontinued operation (see Note 5C).

Tax presented in the consolidated statement of financial position is broken down as follows:

	December 31,	
	2014	2013
	€ in thousands	
Net deferred income tax asset	2,898	3,985
Net deferred income tax liability	(20,062)	(12,584)
	(17,164)	(8,599)

F. Loss carry-forwards and final tax assessments

Under the 2010 Dutch Tax legislation the carry back of losses is restricted to one year and furthermore the carry forward of losses is restricted to nine years. The accumulated unused tax losses as at December 31, 2014 of Kardan NV company-only amount to €201.8 million (according to the 2013 tax return). The Company received final tax assessments up to and including the year 2013. The Company does not expect the year 2014 to result with a tax liability. The Company has not recorded any deferred tax assets for these losses.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(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:

	2014	2013	2012
		€ in thousands	
Net profit (loss) attributable to ordinary equity holders of the parent (€ in thousands)	5,091	(101,333)	(32,852)
Effect of dilution of earnings of group companies	(98)	(893)	(347)
Effect of dilution of convertibles and options of the Company	-	-	-
	4,993	(102,226)	(33,199)
Weighted average number of ordinary shares for basic earnings per share (in thousands)	110,754	110,576	110,420
Effect of dilution: Shares options	-	-	-
Adjusted weighted average number of ordinary shares for diluted earnings per share	110,754	110,576	110,420

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, 2014, 2013 and 2012.

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 loss used is nil, €55,304 thousand and €26,423 thousand for the years 2014, 2013 and 2012, respectively.

(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) Liquidity risk including maturity profile of financial assets, liabilities and guarantees
8) Foreign currency risk including sensitivity analysis
9) Fair value disclosures

Section C covers additional information on financial instruments in the Banking and Retail Lending segment and addresses the following:

1) Capital adequacy
2) Credit risk
3) Liquidity risk and liquidity management

B. The Kardan Group

1) Risk management

Financial risk management

The Group's principle financial instruments comprise of bank loans, Debentures, convertible liabilities, receivables and cash deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The operations of the Group expose it to various financial risks, e.g. market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. On occasions, the Group employs derivative financial instruments, principally interest rate swap transactions, to hedge certain exposures to risks.

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. Refer to Note 1A for additional information.

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

In addition, capital management objectives aim to ensure that relevant group companies, mainly in the financial sector, 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 1A.

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

(i) Corporate level
The executive management of Kardan N.V. (CEO, CFO and VP of business development) works closely with chief risk managers within the Group, and together they have developed functional lines of responsibility and have overall responsibility for the development of the risk strategy and implementation of principles, frameworks, policies and limits. 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.

(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 retail 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 developments affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, Kardan's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (CEE, CIS, China, etc.); industry diversification (financial services, real estate, water infrastructure); product diversification (i.e. residential and commercial real estate, retail 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 some operations in Central-Eastern Europe, mainly in the financial services sector, and in China, where the Group is active in commercial and residential real estate. The Company closely monitors the economic developments in Central-Eastern Europe and directs management and financial resources to and from 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 decades 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.

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

4) Political risk

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

5) Credit risk

Credit risk is a risk that 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 loans granted), 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 sector is not considered significant (refer to Note 14 and Section C in this note).

Credit risk, or the risk of counter-parties defaulting, is 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 14).

As of December 31, 2014 and 2013, cash and cash equivalent amounted to €148,545 thousand and €118,268 thousand, respectively, and deposits in banks amounted to €7,250 thousand and €14,427 thousand, respectively (refer to Notes 16 and 17). All deposits are deposited with highly 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 banking and retail lending segment. As of December 31, 2014, credit risk with respect to loans given by Group companies in the banking and retail lending segment, in the amount of €134,203 thousand, is mitigated using a collateral 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 and the sum of all financial guarantees is presented in table 8.3 below showing the maximum exposure to credit risk for the components of the Group. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

6) Interest-rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations and loans granted. The Group's policy is to manage its interest cost using a combination of debt with fixed and variable interest rates. Interest-rate risk management aims to limit the impact of fluctuations in interest rates on the results and reduce total interest expenses as much as possible. To manage this mix in a cost-efficient manner, from time to time, the Group enters into interest-rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. 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 to financial assets such as loans to bank customers is considered immaterial due to a compensating impact of financial liabilities.

The tables below present the sensitivity of the consolidated profit and loss of the Group to changes in certain interest rates. The change is calculated using the known interest rate as of the year end as the basis of the calculation.

Further a detailed analysis performed by the Company.

(1) The table below presents the sensitivity of the consolidated profit (loss) of the Group before tax due to change in interests rates.

6.1	Sensitivity to change in RMB interest rate			
	Effect on profit and loss			
	€ in thousands			
	+100%	+50%	-50%	-100%
2014	(9,580)	(4,790)	4,790	9,580
	+100%	+50%	-50%	-100%
2013	(1,228)	(614)	614	1,228

7) 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 liabilities as at December 31, 2014 and 2013. The liabilities are based on contractual undiscounted cash flow. The tables include repayments of principal amounts as well as interest due. Interest due was estimated based on contractual terms of the financial liabilities.

For additional information regarding the liquidity risk management with respect to the Company’s liquidity position and uncertainties, refer to Notes 1 and 27, respectively.

7.1 Liquidity table 2014:

	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
	EUR in thousands				
Liabilities					
Trade payables	14,610	7,055	-	-	21,665
Other payables and accrued expenses	14,645	28,792	-	-	43,437
Income tax payable	40	8,912	-	-	8,952
Banking customers accounts	124,560	66,729	114	127	191,530
Interest-bearing loans and borrowings	7,182	82,732	60,966	63,474	214,354
Other debentures	99,988	-	96,068	191,167	387,223
Employee benefit liabilities	-	-	-	1,502	1,502
Other long term liabilities	-	-	-	2,298	2,298
Total liabilities	**261,025**	**194,220**	**157,148**	**258,568**	**870,961**

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

7.2 Liquidity table 2013:

	0-3 months	4-12 months	1 to 2 years	Over 2 years	Total
	EUR in thousands				
Liabilities					
Trade payables	5,682	15,614	-	-	21,296
Other payables and accrued expenses	7,675	47,001	-	-	54,676
Income tax payable	203	1,216	-	-	1,419
Banking customers accounts	62,830	90,787	119	26	153,762
Interest-bearing loans and borrowings	1,062	40,337	36,147	67,549	145,095
Other debentures	68,108	2,354	100,608	283,992	455,062
Other financial liabilities	-	80,573	2,900	1,424	84,897
Others	-	1,419	8,378	-	9,797
Total liabilities	**145,560**	**279,301**	**148,152**	**352,991**	**926,004**

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

7.3 Contingent liabilities and commitments:

2014

	0-3 months	4-12 months	1-3 years	4-5 years	over 5 years	Total
Financial guarantees	166	1,022	49	41	–	1,278
Undrawn commitments to lend	4,900	1,177	309	819	565	7,770
Total	5,066	2,199	358	860	565	9,048

2013

	0-3 months	4-12 months	1-3 years	4-5 years	Total
Financial guarantees	6	238	534	14	792
Undrawn commitments to lend	9,543	1,142	848	760	12,293
Total	9,549	1,380	1,382	774	13,085

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

8) 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.

As of December 31, 2014:

8.1

	In euros	In US dollars	In NIS (Israeli)	In RMB (Chinese)	In Rub (Russia)	In other currencies	Non-monetary	Total
Assets				€ in thousands				
Property and equipment	-	-	-	-	-	-	60,862	60,862
Investment properties	-	-	-	-	-	-	181,072	181,072
Goodwill	-	-	-	-	-	-	17,640	17,640
Investments in associates	18,551	20,941	-	-	-	7,308	45,023	91,823
Long-term receivables	23,424	6	1,973	86,637	-	11,189	-	123,229
Loans to bank customers	87,889	-	-	-	-	30,470	-	118,359
Deferred tax assets	-	-	-	-	-	-	2,898	2,898
Inventory	-	-	-	-	-	-	112,745	112,745
Accounts receivable	17,026	10,434	23,245	5,310	3,475	2,511	-	62,001
Other receivables	14,773	1,050	6,414	22,762	63	6,980	2,478	54,520
Restricted bank deposits	4,294	-	673	2,283	-	-	-	7,250
Cash and cash equivalents	36,317	36,350	5,688	61,480	187	8,523	-	148,545
Other financial assets	-	-	-	-	-	521	-	521
Assets classified as held for sale	14,276	12,140	-	-	-	-	5,728	32,144
	216,550	**80,921**	**37,993**	**178,472**	**3,725**	**67,502**	**428,446**	**1,013,609**

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Liabilities								
Deferred tax liability	-	-	-	-	-	-	20,062	20,062
Interest-bearing loans and borrowing	15,586	19,063	84,147	138,856	-	-	-	257,652
Derivatives	-		36	-	-	-	13	49
Warrants and options	-	428	1,014	-	-	-	-	1,442
Debentures	-	-	250,047	-	-	-	-	250,047
Other long-term liabilities	-	-	3,631	813	-	169	-	4,613
Other payables and accrued expenses	28,917	6,089	22,376	23,200	2,236	4,387	135	87,340
Trade payables	1,652	1,733	5,131	11,186	1,170	794	-	21,666
Advances from apartment buyers	-	-	-	-	-	-	56,618	56,618
Income tax payable	78	-	1,139	7,589	-	148	(2)	8,952
Banking customers accounts	139,316	20,760	-	-	-	29,393	-	189,469
Liabilities directly associated with the assets classified as held for sale	5,799	12,140	-	-	-	-	-	17,939
Differences between assets and liabilities	**25,202**	**20,708**	**(329,528)**	**(3,172)**	**319**	**32,611**	**351,620**	**97,760**

As of December 31, 2013:

8.2

	In euros	In US dollars	In NIS (Israeli)	In RMB (Chinese)	In Rub (Russia)	In other currencies(*)	Non-monetary	Total
Assets				€ in thousands				
Property and equipment	-	-	-	-	-	-	56,227	56,227
Investment properties	-	-	-	-	-	-	118,068	118,068
Goodwill	-	-	-	-	-	-	22,513	22,513
Investments in associates	39,233	18,536	5,681	-	-	62	70,841	134,353
Long-term receivables	37,370	-	2,285	68,919	-	7,923	-	116,497
Loans to bank customers	67,769	-	-	-	-	31,145	-	98,914
Derivatives	22	-	-	-	-	-	-	22
Deferred tax assets	-	-	-	-	-	-	3,985	3,985
Inventory	-	-	-	-	-	-	109,957	109,957
Accounts receivable	20,251	28,963	12,625	3,551	-	1,869	-	67,259
Other receivables	26,659	5,499	6,019	17,442	175	1,116	575	57,485
Restricted bank deposits	11,226	1,813	858	530	-	-	-	14,427
Cash and cash equivalents	62,862	16,321	4,534	26,539	472	7,540	-	118,268
Assets classified as held for sale	-	-	-	-	-	12	6,628	6,640
	265,392	**71,132**	**32,002**	**116,981**	**647**	**49,667**	**388,794**	**924,615**

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Liabilities								
Deferred tax liability	-	-	-	-	-	-	12,584	12,584
Interest-bearing loans and borrowing	15,006	23,456	834	77,443	-	1,470	-	118,209
Derivatives	273	-	-	-	-	-	-	273
Warrants and options	2,900	750	667	-	-	-	-	4,317
Debentures	3,507	-	391,142	-	-	-	-	394,649
Other long-term liabilities	3,150	-	2,091	515	-	1,131	-	6,887
Other payables and accrued expenses	49,777	402	7,034	21,973	17	2,868	27,558	109,629
Trade payables	6,628	4,935	4,557	4,785	209	182	-	21,296
Advances from apartment buyers	308	415	-	-	-	4,132	41,026	45,881
Income tax payable	431	44	-	939	5	-	-	1,419
Banking customers accounts	116,097	2,066	-	-	-	19,558	-	137,721
Differences between assets and liabilities	**67,315**	**39,064**	**(374,323)**	**11,326**	**416**	**20,326**	**307,626**	**71,750**

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

8.3	Sensitivity to change in EUR\USD Effect on profit and loss € in thousands			
	+20%	+10%	-10%	-20%
2014	(2,284)	(1.142)	1.142	2.284
2013	(1,870)	(935)	935	1,870

8.4	Sensitivity to change in USD\EUR Effect on profit and loss € in thousands			
	+20%	+10%	-10%	-20%
2014	(1,612)	(806)	806	1.612
2013	(92)	(46)	46	92

8.5	Sensitivity to change in EUR\RON Effect on profit and loss € in thousands			
	+20%	+10%	-10%	-20%
2014	7,691	3,846	(3,846)	(7,691)
2013	4,700	2,350	(2,350)	(4,700)

8.6	Sensitivity to change in EUR\ NIS Effect on profit and loss € in thousands			
	+20%	+10%	-10%	-20%
2014	(70,569)	(35,284)	35,284	70,569
2013	(79,002)	(39,501)	39,501	79,002

8.7	Sensitivity to change in RMB/EUR Effect on profit and loss € in thousands			
	+20%	+10%	-10%	-20%
2014	902	451	(451)	(902)
2013	2,920	1,460	(1,460)	(2,920)

8.8	Sensitivity to change in Israeli CPI Effect on profit and loss € in thousands			
	+3%	+2%	-2%	-3%
2014	(10,135)	(6,757)	6,757	10,135
2013	(11,888)	(7,911)	7,911	11,888

9) Fair value disclosure:

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

9.1 Fair value schedule	Methods of determining fair value	Carrying amount		Fair value		
		2014	2013	**2014**	2013	
		€ in thousands				Comment
Assets						
Short-term investment		7,250	14,427	7,250	14,427	A
Loans to bank customers	(2)	118,358	98,914	118,327	100,871	F
Long-term loans and receivables		123,229	116,497	123,162	116,497	G
Loans to associates and Joint ventures		43,766	63,512	43,766	63,512	
Liabilities						
Banking customers accounts	(2)	189,469	137,849	189,720	139,855	H
Debentures	(1)	348,485	395,278	220,252	253,770	B
Interest-bearing loans and borrowings		156,727	111,348	156,721	111,348	C
Derivatives, net	(3)	49	273	49	273	E
Other long-term liabilities	(3)	3,111	3,150	3,111	3,150	D
Warrants and options	(3)	1,442	4,317	1,442	4,317	D

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

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2 – Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3 – Techniques which use inputs which have a significant effect on the recorded fair value that is not based on observable market data.

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

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

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 short-term nature of such financial assets. Refer to Notes 16 and 17 for additional information.

B. Market prices of Debentures Series A and Series B of the company have been used to determine the fair value of the listed Debentures which were issued by the Group. Please refer to Note 24 for additional information. The carrying value includes accrued interest in the amount €14,637 thousand for 2014 and €629 thousand in 2013.

C. As of December 31, 2014 and 2013 there a considerable part of the loans bear a floating rate, and management estimates that for the loans which bear fixed interest rates, this rate is approximately the same as the one at yearend. Refer to Note 20 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 liabilities were valued internally by the Group. The valuations were based on the DCF approach using the following assumptions: the exercise price, the price of the underlying asset, the contractual term of the option, the expected volatility of the asset price and the dividend yield. Refer to Note 23 for additional information.

E. Refer to the face of the statement of financial position for reconciliation.

F. The fair value was determined using the amount at which the loans could be exchanged in a current transaction between willing parties other than a forced or liquidation sale. Loans to bank customers are evaluated by the group based on observable parameters such as interest rate, specific country risk factors, individual creditworthiness of the costumer/project. Allowances are also taken based on this evaluation. Refer to Note 10 for additional information.

G. Accounted for as receivables. In 2014, the related current maturities were in the amount of €18,708 thousand. In 2013, the related current maturities in the amount of €29,735 thousand were included. In determining that the carrying value approximated the fair value, management considered the continuous process for determining whether the value of these financial assets was impaired. Refer to Note 11 for additional information.

H. This amount includes both short-term and long-term bank customers' accounts. The vast majority of the balance is current, as such there are no material differences between the fair value and the carrying amount as of December 31, 2014. The fair value was determined by discounted future cash flows using currently available rates for debt on similar terms, taking into account Kardan's own credit risk. Refer to Note 21 for reconciliation.

I. The carrying value of cash and cash equivalents and other financial instruments such as trade and other receivables, trade and other payables, which were not included in the table above, is assumed to approximate their fair value due to their short-term nature.

B. Financial assets and liabilities measured at fair value

9.2 Fair value levels schedule:	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	€ in thousands			
Financial assets:				
Held for trading securities and other	1,039	-	45	1,084
Financial liabilities at fair value through profit or loss:				
Warrant and call option	-	-	(428)	(428)
Put option	-	-	(1014)	(1014)
Claw-back liability	-	-	(3,150)	(3,150)
Share based payments and other liabilities	-	(11)	(5,280)	(5,291)

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	€ in thousands			
Financial assets:				
Held for trading securities and other	604	22	-	626
Financial liabilities at fair value through profit or loss:				
Warrant and call option	-	-	(1,417)	(1,417)
Put option	-	-	(2,900)	(2,900)
Claw-back liability	-	-	(3,150)	(3,150)
Other liabilities	-	(273)	-	(273)

During 2013 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

9.3 Level 3 reconciliation:

	As of January 1, 2014	Fair value gain (loss) recorded in P&L	Gains recorded in other comprehensive income	Addition	Disposal	As of December 31, 2014	Total gains (losses) for the period included in P&L
				€ in thousands			
Securities	-	-	-	45	-	45	-
Total assets	-	-	-	45	-	45	-
Warrants and call options	(1,417)	989	-	-	-	(428)	989
Put option	(3,567)	(347)	-	-	2,900	(1,014)	(347)
Share-based payment liability	-	(855)	-	(11,124)	6,699	(5,280)	(855)
Claw-back	(3,150)	-	-	-	-	(3,150)	-
Total liabilities	(8,134)	(213)	-	(11,124)	9,599	(9,872)	(213)

	As of January 1, 2013	Fair value gain (loss) recorded in P&L	Gains recorded in other comprehensive income	Addition	Disposal	As of December 31, 2013	Total gains (losses) for the period included in P&L
				€ in thousands			
Derivative assets	12,895	1,510	(2,771)	-	(11,634)	-	1,510
Total assets	12,895	1,510	(2,771)	-	(11,634)	-	1,510
Warrants and call options	(2,546)	1,129	-	-	-	(1,417)	1,129
Put option	(2,900)		-	-	-	(2,900)	
Derivative liabilities	(65,852)	(4,952)	3,931	-	66,873		(4,952)
Share-based payment liability	(5,584)	2,339	-	-	3,245		2,339
Claw-back	-	-	-	(3,150)	-	(3,150)	-
Total liabilities	(76,882)	(1,484)	3,931	(3,150)	70,118	(7,467)	(1,484)

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

9.4 IAS 39 classification of financial assets and liabilities:	December 31,	
	2014	2013
	€ in thousands	
Financial assets:		
Cash, loans and receivables	558,229	538,638
Derivatives that are designated as hedging instruments	-	22
	558,229	538,660
Financial liabilities:		
Financial liabilities presented at amortized cost	427,613	763,957
Financial liability through P&L	6,350	3,150
Derivatives that are designated as hedging instruments	36	273
Put option	1,014	667
Call option	428	3,650
	435,441	771,697

Section C: Banking and retail lending

(1) Capital adequacy

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 TBI Bank is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ('BIS rules/ratios') and adopted by the Bulgarian National Bank in supervising the banks.

During the past year, TBI Bank complied in full with all their externally imposed capital requirements.

Capital management

TBIF considers its equity to be its capital. The primary objectives of the Group'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 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)

	2014	2013
	€'000	€'000
Tier 1 capital	26,268	15,561
Tier 2 capital	–	–
Total capital	**26,268**	**15,561**
Risk-weighted assets	**152,367**	**112,843**
Tier 1 capital ratio	16.89%	13.79%
Total capital ratio	17.24%	13.79%

Risk mitigation

TBIF uses the analysis of the structure of its portfolios in order to mitigate excessive risk in each of the countries. Furthermore, this structure is also controlled on a product level and according to portfolio limits. The diversification of the business lines (corporate loans, 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 (i.e. overdrafts, credit cards, mortgage) and product feature (secured, unsecured).

(2) Credit risk

Credit risk is the risk that the Group 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 in TBIF

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.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

	2014	2013
	€'000	€'000
Cash and cash equivalents (excluding cash on hand)	62,060	59,827
Deposits in banks	3,224	3,122
Balances with central banks	16,812	15,546
Loans and advances to clients	129,247	110,946
Finance leases	22,880	26,238
Other loans and long-term receivables	811	13,853
Available-for-sale financial assets	521	–
Non-current assets held for sale	27,352	
Other receivables	3,958	6,841
	266,865	236,373
Financial guarantees	1,279	792
Undrawn commitments to lend	7,771	12,293
	9,050	13,085
Total credit risk exposure	**275,915**	**249,458**

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 details 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, 2014 (€'000):

	Loans and advances to clients	**Leasing**	**Others**	**Total**
Romania	64,159	1,406	–	65,565
Bulgaria	205,333	3,213	–	208,546
Others	–	–	1,804	1,804
	269,492	**4,619**	**1,804**	**275,915**

Risk concentration of the maximum exposure to credit risk as of December 31, 2013 (€'000):

	Loans and advances to clients	**Leasing**	**Others**	**Total**
Romania	105,458	5,405	175	111,038
Bulgaria	122,328	4,721	1,156	128,205
Others	–	–	10,215	10,215
	227,786	**10,126**	**11,546**	**249,458**

(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 amount of coverage of credit risk via collateral, expressed as a % of the carrying amount of the loans per type of portfolio as of December 31, 2014 and excluding the effects of overcollateralization, is as follows:

	2014	2013
Net investment in finance leases	93%	84%
Bank loans granted	21%	14%
Other loans and long-term receivables	–	16%

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.

Bank loans granted are part of Loans and advances to customers and as of 31 December amount to € 118,358 thousand (31 December 2013 – € 98,914 thousand). The rest of the balance of Loans and advances to customers consists of unsecured loans granted by the consumer credit companies in the Group.

No collateral can be sold or repledged in the absence of default by the owner of the collateral.

Repossessed collateral
During 2014, TBIF repossessed assets (vehicles, machinery and property) with carrying value as of December 31, 2014 of € 4.5 million (2013 – € 5.7 million), which TBIF is in the process of selling. It is TBIF's policy to sell repossessed collateral as soon as possible. The carrying value is deemed to approximate the fair value of the repossessed assets.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(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. A 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. A low grade is given to assets which would be past due or impaired but were renegotiated to avoid that. A standard grade is given to all remaining assets. A description of the nature of the remaining assets in the standard grade is included in Notes 10 and 11. 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, 2014 (€'000) – before impairment:

	Neither past due nor impaired				
	High grade	**Standard grade**	**Low grade**	**Past due/ impaired**	**Total**
Cash in banks	–	62,060	–	–	62,060
Deposits in banks	–	3,224	–	–	3,224
Balances with the central bank	16,812	–	–	–	16,812
Loans and advances to clients	–	59,943	–	97,989	157,932
Finance leases	–	14,464	–	21,187	35,651
Other loans and receivables	–	210	–	7,595	7,805
Available-for-sale fin. assets	521	–	–	–	521
Non-current assets held-for-sale	–	26,532	–	24,384	50,916
Other receivables	–	3,926	–	212	4,138
	17,333	**170,359**	–	**151,367**	**339,059**

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Credit quality per class of financial assets as of December 31, 2013 (€'000) – before impairment:

	Neither past due nor impaired				
	High grade	**Standard grade**	**Low grade**	**Past due/ impaired**	**Total**
Cash in banks	29,655	30,172	–	–	59,827
Deposits in banks	–	3,122	–	–	3,122
Balances with central banks	15,546	–	–	–	15,546
Loans and advances to clients	–	39,718	2,105	118,863	160,686
Finance leases	–	13,936	869	23,877	38,682
Other loans and receivables	–	3,066	4,847	9,619	17,532
Other receivables	–	6,792	–	226	7,018
	45,201	96,806	7,821	152,585	302,413

(vi) Aging analysis of past due but not individually impaired loans and receivables

Aging analysis of past due but not individually impaired loans and receivables as of December 31, 2014 (€'000):

	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to clients	52,002	2,616	824	24,586	80,028
Finance leases	71	322	114	916	1,423
Other loans and receivables	–	–	–	397	397
Non-current assets held-for-sale	–	–	–	22,129	22,129
Other receivables	1	7	2	200	210
	52,074	**2,945**	**940**	**48,228**	**104,187**

Aging analysis of past due but not individually impaired loans and receivables as of December 31, 2013 (€'000):

	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and advances to clients	2,117	1,482	1,203	53,533	58,335
Finance leases	5,719	665	789	1,665	8,838
Other loans and receivables	–	–	–	3,100	3,100
Other receivables	5	4	32	184	225
	7,841	**2,151**	**2,024**	**58,482**	**70,498**

The above receivables have been tested collectively for impairment, and provisions for such impairments have been included as necessary.

(vii) Carrying amount per class of financial assets whose terms have been renegotiated, which

would otherwise be past due or impaired

	2014	2013
	€'000	€'000
Loans and advances to clients	2,914	2,105
Finance leases	1,144	869
Long-term loans and receivables	–	4,847
Total credit risk exposure	**4,058**	**7,821**

(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.

(ix) 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:

	31-12-14	31-12-13
	€'000	€'000
Loans and advances to clients	17,960	60,527
Finance leases	19,765	15,040
Long-term loans and receivables	7,199	6,520
Non-current assets held-for-sale	2,256	–
	47,180	**82,087**

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 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 calculated 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 addition 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.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Maturity analysis of TBIF's assets and liabilities as of December 31, 2014 (€'000):

	0-3 months	4-12 months	1-3 years	4-5 years	Thereafter	Total
Loans and advances to clients	32,705	46,171	62,063	16,389	6,095	163,423
Finance leases	5,491	6,759	8,896	3,130	4,446	28,722
Other long-term receivables	811	–	–	–	–	811
Non-current assets held-for-sale	27,352	–	–	–	–	27,352
Trade and other receivables	3,959	–	–	–	–	3,959
Balances with the central bank	16,812	–	–	–	–	16,812
Available-for-sale fin. assets	37	18	506	–	–	561
Bank deposits	–	3,224	–	–	–	3,224
Cash and cash equivalents	67,595	–	–	–	–	67,595
	154,762	56,172	71,465	19,519	10,541	312,459
Bank customer accounts	124,560	66,729	116	10	114	191,529
Loans from banks and others	588	5,683	2,142	276	–	8,689
Liability classified as held-for-sale	17,939	–	–	–	–	17,939
Other liabilities	5,954	–	–	–	–	5,954
	149,041	72,412	2,258	286	114	224,111
Liquidity gap	5,721	(16,240)	69,207	19,233	10,427	88,348

Maturity analysis of TBIF's assets and liabilities as of December 31, 2013 (€'000):

	0-3 months	4-12 months	1-3 years	4-5 years	Thereafter	Total
Loans and advances to clients	30,423	48,463	31,921	10,202	5,357	126,366
Finance leases	6,605	8,361	11,540	2,828	2,695	32,029
Other long-term receivables	6,305	3,387	3,005	1,157	–	13,854
Trade and other receivables	6,863	–	–	–	–	6,863
Balances with central banks	15,546	–	–	–	–	15,546
Bank deposits	–	3,122	–	–	–	3,122
Cash and cash equivalents	64,046	–	–	–	–	64,046
	129,788	63,333	46,466	14,187	8,052	261,826
Bank customer accounts	89,559	64,058	145	–	–	153,762
Loans from banks and others	1,062	4,094	4,234	1,612	–	11,002
Non-convertible debentures	807	2,354	509	–	–	3,670
Other liabilities	8,318	–	–	–	–	8,318
	99,746	70,506	4,888	1,612	–	176,752
Liquidity gap	30,042	(7,173)	41,578	12,575	8,052	85,074

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

Bank customers accounts, as of December 31, 2014 include on-demand deposit in the amount of €61,990 thousand (December 31, 2013 - €40,813 thousand).

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 those 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, 2014 (€'000):

	0-3 months	4-12 months	1-3 years	4-5 years	over 5 years	Total
Financial guarantees	166	1,022	49	41	–	1,278
Undrawn commitments to lend	4,900	1,177	309	819	565	7,770
Total	5,066	2,199	358	860	565	9,048

Maturity analysis of TBIF's contingent liabilities and commitments as of December 31, 2013 (€'000):

	0-3 months	4-12 months	1-3 years	4-5 years	Total
Financial guarantees	6	238	534	14	792
Undrawn commitments to lend	9,543	1,142	848	760	12,293
Total	9,549	1,380	1,382	774	13,085

TBIF expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Ukraine unrest

The situation in Ukraine during and after 2014 was characterized by instability, caused by the tension in relations with Russia. The group withdrew its business from Crimea area, all contracts were ceased by either repayment of residual value or by early contract closing. No direct losses were recognized. The future developments in Ukraine could adversely affect results and financial position of the Group in a manner not currently determinable. Management continues to monitor closely the political developments in the country. The Group's exposure to Ukraine as of 31 December 2014 amounts to €5,836 thousand of investment in the shares of the joint venture TBIF-Dan Leasing Ltd, which holds 100% of the shares of the Ukrainian company VIP-Rent and € 6,357 thousand of loans granted to these two companies.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

(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 significant of these balances and transactions are as follows:

A. Balances

As of December 31, 2014:

	Note	**Associates**	**Joint ventures**	**Fellow subsidiaries**
			€ in thousands	
Trade receivables	14	-	1,878	-
Other receivables and prepayments	15	-	806	177
Loans and long-term assets (including current maturities)	8,9	7,294	57,831	-
Other payables and accrued expenses	26	-	11,574	1,223

As of December 31, 2013:

	Note	**Associates**	**Joint ventures**	**Fellow subsidiaries**
			€ in thousands	
Trade receivables	14	-	1,186	-
Other receivables and prepayments	15	123	743	-
Loans and long-term assets (including current maturities)	8,9	5,681	57,831	-
Other payables and accrued expenses	26	-	10,052	328

B. Transactions

For the year ended December 31, 2014:

	Note	Associates	Joint ventures	Fellow subsidiaries
			€ in thousands	
Management fee, net	-	-	2,122	-
General and administrative expenses	33	-	-	1,676
Finance income	35	-	287	-
Finance expenses	35	-	-	-

For the year ended December 31, 2013:

	Note	Associates	Joint ventures	Fellow subsidiaries
			€ in thousands	
Management fee, net	-	-	1,830	-
General and administrative expenses	33	(385)	-	1,173
Finance income	35	431	601	-
Finance expenses	35	-	72	-

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS
December 31, 2014

For the year ended December 31, 2012:

	Note	Associates	Joint ventures	Fellow subsidiaries
			€ in thousands	
Management fee, net	-	-	1,696	-
General and administrative expenses	33	-	-	1,241
Finance income	35	2,078	1,712	-
Finance expenses	35	-	355	-

1. Management fees for the year 2014, 2013 and 2012 related mostly to management fees from joint ventures by Kardan Land China companies. Finance income from associates and joint ventures are from loans granted the associates and joint ventures.

2. In June 2013 the services agreement between the Company and Kardan Israel Ltd. (a sister company and a former subsidiary) has been amended. According to agreement amended, effective June 1 2013, the consulting fees paid by the Company will be reduced to a total of € 474 thousands per year, linked to Israeli CPI (approximately € 119 per quarter).
   This agreement is effective for three years. In 2014, the Company paid to Kardan Israel for the services rendered an amount of approximately € 479 thousands (2013- € 556 thousands). Subsequent to the balance sheet date, the parties agreed to an additional amendment to the services agreement under which the scope of services will reduce and the company will pay a total of € 200 thousands per year, effective from March 2015.

3. Kardan Israel provides various services to the Group including, among others, the provision of office space and services. In addition, Kardan Israel is entitled to reimbursement of expenses incurred in connection with such services. With respect of the aforesaid services provided in 2014, the Company paid to Kardan Israel a total of € 25 thousands (2013- € 54 thousands).

4. In February 2010, Kardan Real Estate and TGI entered into an agreement to acquire TGI's lease rights of a building in Tel Aviv. In addition Kardan Real Estate and TGI entered into agreement according to which TGI would lease 5,300 square meters, subject to certain adjustments and parking spaces from Kardan Real estate. It was agreed that Kardan Real Estate take over the building and rebuild or renew all built up areas related to this property. In November 2012, TGI notified to Kardan Real Estate on its intention to terminate the agreement as it expected that Kardan Real estate would not comply with a condition precedent in the agreement. In December 2012 Kardan Real Estate confirmed the termination without waiving any of its rights, and announced it intends, in accordance with the agreement to transfer its claims against TGI to an arbitrator.

On May 7, 2014 the arbitrator's ruling regarding Kardan Real Estate's claims was given. According to arbitrator's ruling, TGI would pay a total of € 221 thousands to Kardan Real Estate.

C. Remuneration to related parties:

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 executive management, management board, supervisory board and board of the Company:

1. Fees to board:

	Short-term employee benefits		
	€000		
	for the year ended December 31, 2014	for the year ended December 31, 2013	for the year ended December 31, 2012
P. Sheldon	43	43	25
A. May	36	36	21
M. Groen	31	32	30
A. Schnur	26	26	25
J. Grunfeld	26	23	10
E. Rechter	26	23	-
E. Seinstra	30	27	-
C. van den Bos	31	27	-
J. Krant	-	-	16
I. Fink	-	-	10
J. Pomrenze	-	-	11
H. Benjamins	-	-	11
	249	237	159

2. Fees to Executive Management from January till December 31, 2014:

	Short-term employee benefits	Post-employment pension and medical benefits	Share-based payment transaction	Total
	€000	€000	€000	€000
S. Oren	1,146 (*)	45	179	1,370
G. Elias	207	47	-	254
E. Oz-Gabber	198	20	2	220
	1,551	112	181	1,844

(*) includes a conditional bonus provision of €725 thousands.

3. Fees to Executive Management from January till December 31, 2013:

	Short-term employee benefits	Post-employment pension and medical benefits	Share-based payment transaction	Total
	€000	€000	€000	€000
S. Oren	415	39	266	720
E. Oz-Gabber	193	20	3	216
	608	59	269	936

4. Fees to Executive Management from January till December 31, 2012:

	Short term employee benefits	Post employment pension and medical benefits	Share based payment transaction	Total
	€000	€000	€000	€000
S. Oren (*)	375	-	229	604
E. Oz-Gabber (*)	200	-	5	205
W.van Damme	96	-	-	96
A. Ickovics	118	-	8	126
A. Shlank	-	-	8	8
J. Slootweg (*)	263	222 (**)	37	522
	1,052	222	287	1,561

(*) Mr. Oren is the CEO of the Company and a member of the Board. 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 crisis levy tax.

5. Grant of options by the Company (*):

	No. of options
E. Oz-Gabber	100,000
S. Oren	2,282,135
	2,382,135

(*) For additional information see also Note 19B.

40. SUBSEQUENT EVENTS

A. Sale of KWIG

Subsequent to the balance sheet date, on January 15 2015, TGA,an indirectly held subsidiary (98.43%) signed a share purchase agreement ('the Agreement') with China Gezhouba Group Investments Holding Co Ltd. ('the Purchaser'), to sell all of its holdings (100%) in KWIG. KWIG operates 11 wastewater treatment facilities and water supply projects in China and was the main subsidiary in the Group's 'Water Infrastructure - Assets' segment.

The total consideration for the shares amounts to RMB 630 million (approximately €86 million, the FX was predetermined to be 6.24 RMB/USD) (the 'Consideration'). Additionally, as part of the transaction, all outstanding loans provided to KWIG by Group companies, totaling approximately to €42 million, shall be repaid.

The sale of KWIG will take place in two phases: in March 2015 the first phase of the transaction in which 75% of KWIG shares were sold was completed; the Purchaser paid 75% of the consideration and all outstanding loans from Group companies were repaid. The second phase of the transaction is expected to take place before June 30, 2015, when the remaining 25% of the Consideration will be paid to TGA.

The funds of the Consideration will be used by Tahal Group International's for its ongoing business operations and for repayment of debt, the Company is received at least €65 million of net proceeds (after payment of transaction costs, taxes and external loans).

Given that the different negotiations were not sufficiently progressed at the reporting date, and given our past experience with negation processes, and the surrounding uncertainties, towards closing deals in China As of December 31, 2014, management did not consider the transaction to be highly probable and accordingly, in line with IFRS 5, did not classify the investment in KWIG as held for sale and its results as discontinued operations.

Main items from the consolidated statement of financial position of KWIG

	December 31, 2014	December 31, 2013
	In € thousands	
Non-current assets	139,807	117,638
Current assets	24,446	26,145
Non-current liabilities	18,140	27,545
Current liabilities	58,389	42,259

Main items from the consolidated income statement of KWIG

	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
		In € thousands	
Revenue	27,463	24,047	30,920
Gross profit	12,002	12,892	12,552
Operating profit	8,737	9,568	9,135
Net profit	4,125	4,045	3,679

Following the completion of the transaction the Company expects to recognize a gain of €13 million net of tax, resulted by a reclassification of foreign currency translation reserve from OCI to the income statement.

With respect to impairment of goodwill related to the investment in KWIG, please refer to Note 12B.

B. FIMI loan repayment

In March 2015 TGI fully repaid FIMI the loan principle of USD 25 million (approximately €22.6 million) together with accrued interest as of that date. As a result, in the first quarter of 2015, TGI is expected to record a financial expense of approximately €2.5 million due to the early repayment.

C. Early Repayment of Debentures

Subsequent to the balance sheet date, on March 15, 2015 the Company announced that it intends to early repay interest and principal of Debentures series A and Debentures series B on March 31, 2015. According to its announcement the Company will early repay interest amounting to approximately €4.3 million relating to series A and approximately €14.1 million of interest to series B. Additionally, the Company will early repay principal amounting to approximately €3.3 million relating to series A (3.69% of the outstanding series) and approximately €3.4 million of principal to series B (1.23% of the outstanding series). The total repayment amounts to approximately €25.1 million.

D. Executive employees grant of options in TGI

Subsequent to the balance sheet date, in March 2015, the board of directors of TGI decided to grant one management member of the TGI options to purchase 2.0 % of TGI's share capital (fully diluted). The total benefit of the grant is approximately USD 1 million and was calculated using the Black & Scholes model, based on the following assumptions:

Expected volatility (%)	36%
Risk-free interest rate (%)	(-0.053)%
Expected term of options (years)	4
Weighted average share exercise price ($)	5,978
Weighted average share value ($)	6,137

E. Foreign currency impact

During the first quarter of 2015 and just before publishing these financial statements, a material appreciation (circa 10%) has occurred in the NIS/EUR exchange rate. Since the Company's debentures, whose carrying value including interest amounted to €348.5 million as at December 31, 2014 are denominated in NIS, the Company expects it will recognize a material financial expense during Q1/2015. Also, during the same period a material appreciation (circa 10%) has occurred in the RMB/EUR exchange rate. Since a large part of Company's assets are denominated in RMB, the Company expects it will record a material positive other comprehensive income during Q1/2015. For additional information refer to the sensitivity to exchange rates disclosure in Note 38.

KARDAN N.V.
AMSTERDAM, THE NETHERLANDS

COMPANY-ONLY DUTCH GAAP NON-STATUTORY FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

COMPANY-ONLY DUTCH GAAP NON-STATUTORY BALANCE SHEET

December 31, 2014

After appropriation of net result

	Note	**December 31, 2014**	December 31, 2013
		€ in thousand	
Assets			
Non-current assets			
Tangible fixed assets		127	147
Investments in subsidiaries	5A	456,880	467,937
Loans to subsidiaries		20	20
		457,027	468,104
Current assets			
Cash and cash equivalents	6	605	16,224
Short-term investments	7	796	853
Other receivables and derivatives	4	536	1,109
		1,937	18,186
Total assets		458,964	486,290
Equity and liabilities			
Equity	8		
Share capital		23,041	23,041
Share premium		208,002	208,117
Property revaluation reserve		21,033	34,300
Foreign currency translation reserve		23,943	12,296
Other reserve		10,765	(4,680)
Non-controlling interest holders transaction reserve		15,178	21,104
Treasure shares		(2,625)	(2,786)
Retained earnings (accumulated deficit)		(206,939)	(225,297)
		92,398	66,095
Non-current liabilities			
Debentures	9	258,226	344,363
Options and other long-term liabilities	10	-	2,900
		258,226	347,263
Current liabilities			
Current portion of debentures	9	90,630	71,238
Other payables	12	17,710	1,694
		108,340	72,932
Total equity and liabilities		458,964	486,290

See accompanying notes.

COMPANY-ONLY DUTCH GAAP NON-STATUTORY INCOME STATEMENT
Year ended December 31, 2014

	Note	**2014**	2013
		€ in thousand	
Net result from investments for the year	5B	31,079	(56,931)
Other income (expense), net	13	(25,988)	(44,402)
Net profit (loss)		5,091	(101,333)

See accompanying notes.

NOTES TO THE COMPANY-ONLY DUTCH GAAP NON-STATUTORY FINANCIAL STATEMENTS
December 31, 2014

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.
The movement is as follows:

2014

	2014	2013
	€ in thousand	
Balance as of January 1	-	6,508
Amortization	-	(1,085)
Impairment losses	-	(5,423)
Balance as of December 31	-	-

For additional information see also Note 12 of the consolidated financial statements.

Other intangibles

	2013 Total	Movement	2014 Total
	€ in thousand		
On January 1			
Cost	14,100	-	14,100
Less accumulated amortization and impairment losses	(14,100)	-	(14,100)
On December 31	-	-	-

Other intangibles

	2012 Total	Movement	2013 Total
	€ in thousand		
On January 1			
Cost	14,100	-	14,100
Less accumulated amortization and impairment losses	(7,592)	(6,508)	(14,100)
On December 31	6,508	(6,508)	-

B. For additional information regarding the impairment of the other intangible asset refer to note 12 to the consolidated financial statements.

4. DERIVATIVES

The derivatives were all related to swap transactions on the Company’s debentures. Further details of these derivatives are described in note 27 to the consolidated IFRS financial statements.

	2014	2013
	€ in thousand	
Opening balance as of January 1	-	12,895
Revaluation of derivatives	-	(1,261)
Sale of derivatives	-	(11,634)
	-	-

The Company's principle financial instruments consist of debentures and cash deposits. The main purpose of these financial instruments is to raise funds for the Group's operations.

During 2013, the Company sold a hedge instrument (a cross currency swap). The proceeds from the sale amounted to €11,634 thousand. As a result from the sale, the related hedge reserve in equity, will be released over the remaining term of the debentures. The amounts released from the sold hedge instruments amount to €1,315 thousand and €1,229 thousand for the years 2014 and 2013 respectively.

Due to the sale of cross currency swap financial instruments, the company’s exposure to changes in the Israeli shekel increased. The exposure relates primarily the debentures of the Company, which are denominated in New Israeli Shekel.

5. FINANCIAL FIXED ASSETS

A. Investments in consolidated subsidiaries

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

	2014	2013
	€ in thousand	
Balance as of January 1	467,937	569,125
Investment in a subsidiary (A)	72,797	29,743
Sale of subsidiaries (Emerging Investment IX and X)	-	(37)
Change in treasury shares (held by a subsidiary)	26	61
Change in capital reserves (B)	19,436	3,692
Dividend distributed	(134,395)	(84,224)
Share in profit/(loss) of investments for the year	31,079	(50,423)
Balance as of December 31	456,880	467,937

(A) In 2013 the Company purchased 185 shares of TGI, which were issued during 2013 to a former position holder in TGI for the amount of €663 thousands. For additional information see note 19 to the consolidated financial statements.

In 2014 the Company capitalized a shareholder’s loan to TGI in the amount of €50,830 thousands.

(B) Primarily relates to foreign currency exchange differences arising on translation of foreign operations.

(2) The impact of the treasury shares is as follows:

	2014	2013
	€ in thousand	
Gross investment in subsidiaries, as of December 31	459,343	470,561
Treasury shares	(2,463)	(2,624)
Net investment in subsidiaries, as of December 31(*)	456,880	467,937

(3) Further specification of the investments in subsidiaries is as follows:

	2014		2013	
Names of significant subsidiaries	Owner ship	Total value	Owner ship	Total value
	%	€ in thousand	%	€ in thousand
GTC Real Estate Holding B.V.	100	297,369	100	267,007
Kardan Financial Services B.V.	100	37,763	100	29,230
Tahal Group International B.V. (*)	98.43	99,431	98.42	47,490
Emerging Investments XII B.V.	100	22,341	100	124,234
Kardan Asia B.V.	100	(24)	100	(24)
Total investments in significant consolidated subsidiaries (**)		456,880		467,937

(*) See Note 5A.

(**) For the complete list of all subsidiaries in the Group refer to the Chamber of Commerce (www.kvk.nl) for a listing of all subsidiaries.

As described in Note 5 above, the Company's loans to its subsidiaries Tahal Group International, Kardan Financial Services and GTC Real Estate Holding B.V were assigned to Emerging Investments XII B.V. As of December 31, 2014 and 2013 the Company has an outstanding loan balance with its subsidiary Emerging Investment XII B.V in the amount of €97 million (2013: €121 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, 2014 and 2013, the Company off-set the loan balance against its liability.

B. Net result from investments for the year

	2014	2013
	€ in thousand	
Net profit/(loss) of investments for the year	31,079	(50,423)
Impairment losses	-	(5,423)
Amortization	-	(1,085)
Net result as presented in the income statement	31,079	(56,931)

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise mainly short-term deposits.
The average interest earned in 2014 on short-term deposits is 0.55%-1.5% (2013 – 0.2%-1.5%).

7. SHORT-TERM INVESTMENTS

	December 31,	
	2014	2013
	€ in thousand	
Deposits	732	-
Trust account	64	853
	796	853

The trust account deposit is held by trustees and is being used for future payment on account of the debentures liability and expenses of the trustees.

In 2014, the average interest rate earned was 0.55% (2013 – 0.52%).

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 thousand							
Balance as of January 1, 2014	23,041	208,117	34,300	12,296	(4,680)	21,104	(228,083)	66,095
Other comprehensive income (expense)	-	-	-	(1,676)	28,623	-	-	26,947
Profit (loss) for the period	-	-	-	-	-	-	5,091	5,091
Share-based payment	-	-	-	191	-	-		191
Issuance of treasury shares	-	(115)	-	(46)	-	-	161	-
Transaction with non-controlling interest	-	-	-	-	-	(5,926)	-	(5,926)
Reclassification according to the Netherlands civil code requirements law (*)	-	-	(13,267)			-	13,267	-
Balance as of December 31, 2014	23,041	208,002	21,033	10,765	23,943	15,178	(209,564)	92,398
Comprises:								
Balance before treasury shares	23,041	208,002	21,033	10,765	23,943	15,178	(206,939)	95,023
Treasury shares							(2,625)	(2,625)
Balance as of December 31, 2014	23,041	208,002	21,033	10,765	23,943	15,178	(209,564)	92,398

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 thousand							
Balance as of January 1, 2013	23,041	208,165	57,802	8,156	(462)	20,128	(150,656)	166,174
Other comprehensive income (expense)	-	-	-	4,142	(4,218)	-	-	(76)
Loss for the period	-	-	-	-	-	-	(101,333)	(101,333)
Share-based payment	-	-	-	295	-	1,766	-	2,061
Issuance of treasury shares	-	(48)	-	(13)	-	-	61	-
Disposal of a subsidiary	-	-	-	(343)	-	-	343	-
Transaction with non-controlling interest	-	-	-	-	-	(790)	-	(790)
Other	-	-	-	59	-	-	-	59
Reclassification according to requirements (*)	-	-	(23,502)	-	-	-	23,502	-
Balance as of December 31, 2013	23,041	208,117	34,300	12,296	(4,680)	21,104	(228,083)	66,095
Comprises:								
Balance before treasury shares	23,041	208,117	34,300	12,296	(4,680)	21,104	(225,297)	68,881
Treasury shares	-	-	-	-	-	-	(2,786)	(2,786)
Balance as of December 31, 2013	23,041	208,117	34,300	12,296	(4,680)	21,104	(228,083)	66,095

(*) In accordance to the Dutch civil code, part of the retained earnings is restricted for distribution following the regulation to maintain reserves in respect of real estate unrealized fair value revaluations, cash flow hedges, foreign currency for investments in foreign operations, and equity gains in associates and joint ventures (as disclosed in footnote **).

(**) As of December 31, 2014 and 2013, amounts of €27,226 and €12,345 thousand 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. This part of the retained earnings is therefore restricted for distribution.

9. DEBENTURES

Composition:

	December 31, 2014	December 31, 2013	Interest rate %
	€ in thousand		
Debentures Series A	96,109	135,917	4.45
Debentures Series B	255,456	283,014	4.9
	351,565	418,931	
Less – discount	(1,984)	(2,381)	
Less – debt issuance expenses	(725)	(949)	
	348,856	415,601	

Maturities:

	December 31, 2014	December 31, 2013
	€ in thousand	
First year – current maturities	90,630	71,238
Second year	90,630	89,632
Third year	42,576	89,632
Fourth year	42,576	42,107
Fifth year	42,576	42,107
Sixth year onwards	42,577	84,215
Total	351,565	418,931

A. Repayment of debentures:

In December 2013, the Company made an early repayment of NIS 21,895,392 par value Debentures Series A and 46,404,084 par value Debentures Series B (net of the relative portion of debentures held by the Company's subsidiaries) for a total amount of approximately €34 million (approximately NIS 164 million).

On January 12 and February 14, 2014, the Company early repaid NIS 136,918,906 par value Debentures Series A (net of debentures held by the Company subsidiaries) and the accumulated interest from the last repayment for a total amount of €36 million (approximately NIS 171 million). The repurchased debentures which are held by Emerging Investments XII B.V are netted from the debenture balance of Kardan NV.

B. For information regarding the debt settlement of the Company and the debenture holders refer to note 1 in the consolidated financial statements.

10. Share Plan

A. In September 2013 (the 'Grant date'), the Board of the Company approved a stock-option plan according to which the Company will grant to several employees of the Company 250,000 options exercisable in up to 250,000 ordinary shares of the Company, each having a par value of €0.20 (subject to adjustments). The exercise price of each option equals to NIS 6.136. The options are exercisable in four annual equal portions, starting June 2012 (the 'Effective Date') of which the first 25% are exercisable two years following the Effective Date. The total value of the options at date of grant was immaterial. The Company share price on the grant date was approximately NIS 1.9052. The grant was accounted for assuming equity settlement and the total expenses booked in the period were immaterial and were included as 'General and administration expenses' in the income statement.

B. 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 would 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.

During April 2013, 23,945 shares were issued and deposited with a trustee for the former Board of Directors member. Subsequent to the balance sheet date, in January 2014, 73,005 shares were granted to the former members of the management board and to an employee, from treasury shares that were held by the Company subsidiary – see also Note 19 to the consolidated financial statements.

11. TAXES ON INCOME

The Company has received final tax assessments for the years 2003 to 2010.

Net profit for the year amounts to €5.1 million (2013: €101million), including net result from investments of €31.1 million profits (2013: €57 million losses), which are not deductible/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.

Up to and including 2013, Kardan N.V. has estimated tax losses of €201.8 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. Special provisions apply for compensation of tax losses incurred in years during which a company's activities consists (almost) exclusively of holding and financing activities. Such tax losses can only be offset against future taxable profits of years during which the company's activities also consists (almost) exclusively of holding and finance activities. Furthermore compensation of losses is disallowed if the balance of the related-party receivables and the related-party payables of a company with holding and financing losses, during the year in which a profit was realized, exceed that balance in the financial year the losses were incurred, unless it can be demonstrated that the increase of the financing activities was not predominantly aimed at the compensation of the holding and financing losses. Kardan N.V. received confirmation from the tax authorities that its tax losses available for carry forward as per December 31, 2010 are not considered holding and financing losses and can therefore be compensated with future taxable profits.

Deferred tax assets have been recognized only with respect to potential tax liability in relation with the Company's former hedge transactions. Deferred taxes amounted to €1,772 thousand as of December 31, 2014 (as of December 31, 2013 amounted to 2,100 thousand). As of December 31, 2013 no deferred tax assets are presented in the balance sheet.

For more information regarding to taxes on income refer to Note 37 to the Consolidated Financial Statements.

12. OTHER PAYABLES

	December 31, 2014	December 31, 2013
	€ in thousand	
Accrued expenses (mainly accrued interest on debentures) (1)	15,170	1,264
Others	2,540	430
	17,710	1,694

(1) During December 2013, as part of the early repayment of the debentures (for additional information see Note 9 above) the Company repaid all the accumulated interest.

13. OTHER INCOME (EXPENSE)

In 2014, other income (expense), net comprise mainly of finance expenses of €20,144 thousand, general and administrative and other income and expenses amounting to €5,508 thousand.
In 2013, other income (expense), net comprise mainly of finance expenses of €37,192 thousand, management fees income of €995 thousand, general and administrative and other income and expenses amounting to €8,219 thousand.
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.

14. AUDIT FEES

The table below summarizes the fees invoiced to the Company's by its auditors, Ernst & Young Accountants and others in:

2014	Ernst & Young	Others	Total
		€ in thousand	
Audit services – Kardan N.V.	453	-	453
Audit services – subsidiaries	776	-	776
Total statutory audit fees	1,229	-	1,229
Other services relevant to taxation	59	39	98
Other non-audit services	75	54	129
Total non-audit services	134	93	227
Total	1,363	93	1,456

2013	Ernst & Young	Others	Total
	€ in thousand		
Audit services – Kardan N.V.	492	-	492
Audit services – subsidiaries	842	100	942
Total statutory audit fees	1,334	100	1,434
Other services relevant to taxation	55	23	78
Other non-audit services	54	6	60
Total non-audit services	109	29	138
Total	1,443	129	1,572

15. REMUNERATION OF MANAGEMENT BOARD AND SUPERVISORY BOARD, AND BOARD OF DIRECTORS

The Company's Board received remuneration in 2014 and 2013 as described in note 39 to the consolidated IFRS financial statements.

16. 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.

17. Financial instruments and risk management

For disclosures 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

M. Groen

A. Schnur

Y. Grunfeld

E. Rechter

E. Seinstra

C. van den Bos

INDEPENDENT AUDITOR'S REPORT

To: 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, 2014 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, 2014, 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, 2014 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 and with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the 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, 2014, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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, 2014, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Emphasis of uncertainty with respect to the going concern assumption
We draw attention to Note 1 to the consolidated financial statements which indicate that the Company had, on a stand-alone basis, and on the consolidated statements a working capital deficit of €106 million and €65 million, respectively, per December 31, 2014 which is mainly due to the current maturities of the Company's Debentures to repay €101.2 million and €94.5 million in August 2015 and February 2016, respectively. Subsequent to the balance sheet date, an interim arrangement was reached and approved by the Debentures Holders in January 2015. The Company's management is of the opinion that the chances for approving and finalizing the final debt settlement in accordance with the principles mentioned in Note 1 are high. However, the approval and finalization of the debt settlement is not under the control of the Company and is dependent on the approval of third parties. These conditions indicate the existence of a material uncertainty which may cast significant doubt regarding the Company's ability to repay its liabilities when they become due and its ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Amsterdam, March 25, 2015

Ernst & Young Accountants LLP

Signed by: W.P. de Pater

KARDAN N.V.

Financial data included in

Consolidated financial statements related to the company

For the year ended December 31, 2014

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, 2014 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

December 31, 2014

	Additional information	**December 31, 2014**	December 31, 2013
		In €'000	
Assets			
Non-current assets			
Tangible fixed assets		127	147
Financial fixed assets			
Investments in consolidated subsidiaries		456,880	467,937
Loans to consolidated subsidiaries		20	20
		456,900	467,957
Current assets			
Cash and cash equivalents	2	605	16,224
Short-term investments	3	796	853
Other receivables	4	536	1,109
		1,937	18,186
Total assets		458,964	486,290
Equity and liabilities			
Equity attributable to equity shareholders			
Share capital		23,041	23,041
Share premium		208,002	208,117
Property revaluation reserve		21,033	34,300
Other reserves		10,765	12,296
Foreign currency translation reserve		23,943	(4,680)
Non controlling interest holders transaction reserve		15,178	21,104
Treasury shares		(2,625)	(2,786)
Accumulated deficit		(206,939)	(225,297)
		92,398	66,095
Long-term liabilities			
Debentures		258,226	344,363
Warrants		-	2,900
		258,226	347,263
Current liabilities			
Current maturities of debentures		90,630	71,238
Other payables		17,710	1,694
		108,340	72,932
Total equity and liabilities		458,964	486,290

THE COMPANY'S INCOME STATEMENT

For the year ended December 31,

	2014	2013	2012
		In €'000	
Net result from investments for the year	31,079	(56,931)	(70,456)
Gain from repurchase of debentures by a subsidiary	-	-	40,764
Total revenues	31,079	(56,931)	(29,692)
General and administrative expenses, net	5,508	3,982	5,396
Total expenses	5,508	3,982	5,396
Profit (loss) from operations before financing expenses	25,571	(60,913)	(35,088)
Financing income (expenses), net	(20,146)	(37,177)	1,419
Income tax expense (benefit)	334	3,243	(817)
Net profit (loss) for the year	5,091	(101,333)	(32,852)

ADDITIONAL INFORMATION FROM THE COMPANY-ONLY STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31,

	2014	2013	2012
		In €'000	
Net profit (loss) for the year	5,091	(101,333)	(32,852)
Foreign currency translation differences	30,701	(4,218)	(7,330)
Change in hedge reserve, net	(3,754)	4,142	2,541
Other comprehensive income (expense) for the year to be reclassified to profit or loss in subsequent periods	26,947	(76)	(4,789)
Total comprehensive income (expense)	32,038	(101,409)	(37,641)

ADDITIONAL INFORMATION FROM THE COMPANY-ONLY CASH FLOW STATEMENT

	For the year ended December 31,		
	2014	2013	2012
		In €'000	
Cash flow from operating activities of the Company			
Profit (loss) for the year	5,091	(101,333)	(32,852)
Adjustments to reconcile Loss to net cash of the Company			
Change in fair value of hedge instruments		(1,510)	(9,992)
Financial expense	23,561	19,495	7,589
Dividend received	78,557	75,474	20,681
Gain from early repurchase of debentures		-	(40,764)
Share-based payment	191	276	287
Equity losses	(31,079)	56,931	70,456
Changes in working capital of the Company			
Change in receivables	(730)	22	877
Change in payables	1,474	(821)	(474)
Cash amounts paid and received during the year			
Interest paid	(2,997)	(20,256)	(28,549)
Interest received	10	151	3,000
Net cash provided by (used in) operating activities of the Company	**74,078**	**28,429**	**(9,741)**
Cash flow from investing activities of the company			
Short term investments, net	57	(286)	4,992
Collecting (granting) of loans from (to) subsidiaries, net		-	69,030
Investments in subsidiaries	(21,966)	(24,127)	(11,310)
Net cash provided by (used in) investing activities of the Company	**(21,909)**	**(24,413)**	**62,712**
Cash flow from financing activities			
Investment in shares of a subsidiary	-	(126)	-
Repurchase of debentures	-	-	(76,387)
Proceeds from sales of hedge instruments	-	11,634	52,155
Repayment of long term debt	(67,788)	(50,537)	(5,756)
Net cash used in financing activities of the Company	**(67,788)**	**(39,029)**	**(29,988)**
(Decrease) / increase in cash and cash equivalents of the Company	**(15,619)**	**(35,013)**	**22,983**
Cash and cash equivalents at beginning of the period	16,224	51,237	28,254
Cash and cash equivalents at end of the period of the Company	**605**	**16,224**	**51,237**

NOTES TO THE ADDITIONAL INFORMATION

1. FINANCIAL STATE

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, infrastructure projects, infrastructure assets, banking and retail lending, and others through its subsidiaries, joint ventures and associated companies (for additional segment information, see Note 28).

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 as of December 31, 2014 was 2,554 (December 31, 2013 – 2,875) of which 154 are part of the real estate sector, 987 are part of the infrastructure segments, 1,395 are part of the banking and retail lending sector and 18 which are part of the headquarters.

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

These non statutory financial statements were approved by the board of the Company on March 25, 2015.

Financial position

As at December 31, 2014, the Company had, on a stand-alone basis and in the consolidated financial statements, a working capital deficit of €106 million and €65 million respectively, which is mainly due to the current maturities of the Company’s Debentures to repay € 101.2 million and € 94.5 million in August 2015 and February 2016, respectively.
In September 2014, the Board decided to accept the offer of the trustees and the representatives of the Debenture Holders (series A and B) of the Company (‘the Debentures’) to begin negotiations in order to examine the possibilities of an arrangement with the Debenture Holders, which included postponement or rescheduling the repayments of the Debentures, while repaying the debt in full.

Subsequent to the balance sheet date, an interim arrangement was reached in stages and was approved by the Debentures Holders in January 2015. The final settlement is expected to be approved by the Debentures Holders in April 2015.

The amendment of the deeds of trust outlined in section C below is subject to the approval of the Debenture Holders by a special majority. The Company’s management is of the opinion that the chances for approving and finalizing the final debt settlement in accordance with the principles set forth in section C below are high in view of the fact that the Company was successful in selling assets in accordance with its plan and intends to fully pay the interest which was deferred from February 2015 by the end of Q1 2015.
However, the approval and finalization of the debt settlement is not under the control of the Company and is dependent on the approval of third parties. These conditions indicate the existence of a material uncertainty which may cast significant doubt regarding the Company’s ability to repay its liabilities when they become due and its ability to continue as a going concern.

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

The Company's plans for the repayment of principal and interest of the Debentures in 2017 and onwards, in case that the final debt settlement will be approved, include mainly disposal of assets and / or receipt of dividends from its subsidiaries. The Company's management and the Board estimate that the Company has the ability to obtain the required resources for repaying its obligations and continue its business operations in the future.

A. Debt settlement between the Company and its Debenture Holders

The interim arrangement which was approved on January 6, 2015, includes two phases, as follows: the first phase includes an immediate amendment to the deeds of trust and postponement of principal and interest payments from February 2015 to August 2015 with additional interest and linkage differences as described below. In the second phase a period of 90 days has been given to the Company, the trustees and the Debenture Holders in order to reach a final debt settlement which will include a comprehensive amendment to the deeds of trust according to the proposed principles that were presented to the Debenture Holders as detailed below.

Interim arrangement main principles

Postponement of principal and interest payments - Series A:

A. According to the interim arrangement, the principal payment which the Company originally had to pay on February 25, 2015 to the debenture holders (series A) was postponed to August 25, 2015. The deferred principal payment shall bear annual interest at the rate of 6.325% (an addition of 1.875% to the nominal interest rate of the original deed of trust) for the period from February 25, 2015 to the earlier of August 25, 2015 or the date of an early repayment, all including linkage differences.

B. According to the interim arrangement, the interest amount which the Company originally had to pay on February 25, 2015 to the debenture holders (series A) shall bear annual interest at the rate of 6.825% for the period from February 25, 2015 to the earlier of August 25, 2015 or the date of an early repayment, all including linkage differences.

Postponement of principal and interest payments - Series B:

A. According to the interim arrangement, the principal payment which the Company originally had to pay on February 1, 2015 to the debenture holders (series B) was postponed to August 1, 2015. The deferred principal payment shall bear annual interest at the rate of 6.775% (an addition of 1.875% to the nominal interest rate of the original deed of trust) for the period from February 1, 2015 to the earlier of August 1, 2015 or an early repayment date and all including linkage differences.

B. According to the interim arrangement, the interest which the Company originally had to pay on February 1, 2015 to the debenture holders (series B) shall bear annual interest at the rate of 7.275% for the period from February 1, 2015 to the earlier of August 1, 2015 or an early repayment date and all including linkage differences.

Establishment of pledges in favor of the debenture holders

According to the interim arrangement, the Company committed to establish and register a primary, exclusive pledge with no limitations of amounts, over GTC RE's shares and on the accompanying rights of these shares, including dividends, options, bonus shares etc. in favor of the trustees of the debenture holders. These pledges were registered on February 17, 2015.

Final debt settlement main principles

The final debt settlement ('the Final Settlement') constitutes new deeds of trust to series A and B and replaces the original deeds of trust, including all related amendments. The Final Settlement postpones the debt repayment dates that were determined in the original deeds of trust while repaying the debt in full to the debenture holders. Below are the main principles of the Final Settlement which will be detailed in the amended deeds of trust which were approved by the general meetings of the debenture holders of each series ('the Amended Deeds of Trust').

Principal and interest payments according to the Final Settlement

Series A:

A. The principal payments (and linkage differences in respect thereof) which the Company originally would have had to pay on February 25, 2015 and February 25, 2016 are postponed to February 25, 2017 and February 25, 2018, respectively.

B. No change will occur in the interest payment dates set in the deeds of trust, except the February 2015 interest payment, which will be paid according to the interim arrangement, as detailed above. The interest set in the deed of trust will be increased by 1.875%, so that the principal of Debentures Series A shall bear an annual interest rate of 6.325%, payable once a year, on February 25 of each year from 2016 up to and including 2018.

Series B:

A. The principal payments (and linkage differences in respect thereof) which the Company originally would have had to pay on February 1, shall be postponed by 24 months, excluding the principal payments of 2019 and 2020, which shall remain unchanged (and shall grow, due to the postponement of the principal payments of this series from 2017 and 2018 to 2019 and 2020).

B. No change will occur in the interest payment dates set in the deed of trust, except the February 2015 interest payment, which will be paid according to the interim arrangement, as detailed above. The interest set in the deed of trust will be increased by 1.875%, so that the principal of Debentures Series B shall bear an annual interest rate of 6.775%, payable once a year, on February 1 of each year from 2016 up to and including 2020.

Issuance of shares to the debenture holders

The Company should allocate to the Debenture Holders, without consideration, shares of the Company, which shall constitute 12% of the Company's issued and paid in capital immediately after the issuance. Due to legal limitations applicable to the Company according to the Dutch law, it was agreed that the Company will issue, upon signing of the Amended Deeds of Trusts or close to that date, 9.9% of the Company's issued and paid-in capital immediately after the issuance. Additional 2.1% will be issued 12 months following the date of the first shares issue.

Pledges and guarantees in favor of the Debentures holders

The Company committed to establish and register primary, exclusive pledges with no limitations of amounts over all of the Group's interests in GTC RE, KLC, KFS, TBIF, TGI, EMERGING (the 'Pledged Subsidiaries'), including all benefits which will emanate from these interests and all the rights of the Group in loans granted to the Pledged Subsidiaries. As long as the aforesaid pledges have not been exercised the Company shall be allowed to use the benefits derived from these interests and from loan repayments. Issuance or sale of shares in the Pledged Subsidiaries will be used to early repay the Debentures.

In addition, the Company will establish in favor of the trustees primary exclusive pledges with no limitations of amounts over the bank accounts of the Company ('the Pledged Accounts'). All the funds in the Company's possession, shall be deposited and kept in the Pledged Accounts, excluding the Free Amount ('Free Amount' signifies a maximum of €3 million, which will serve for the payment of the Company's general and administrative expenses), which will not be pledged in favor of the trustees and which can be deposited in a bank account which is not pledged in favor of the trustees. Insofar the said pledge has not been exercised, the Company may use the funds freely.

In addition, to secure the Company's commitments, KLC will provide a guarantee in favor of the trustees limited to an amount of €100 million which will expire upon meeting the Relief Conditions as detailed below. The trustees will not be able to use the guarantee or to take any action against KLC as long as the construction loan from Chinese Banks to the Dalian project has not been fully repaid, as well as loans that will be obtained, if obtained, in relation to the Dalian project.

Financial Covenants

The Company's debt coverage ratio shall not be below 100% during the years 2015 till 2017 (including), and shall not be below 120% from 2018 onwards. The coverage ratio is the total value of the assets according to the Company's stand-alone financial statements divided by the total stand-alone liabilities of the Company, net of certain amounts as detailed in the Debt Settlement. If the Company's coverage ratio in the years 2015-2017 shall be lower than 110%, and as of 2018 – lower than 130%, KLC's coverage ratio shall not be lower than 180%.

Additional provisions

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

It was also agreed that the Company may retain certain amounts, prior to an early repayment, for general and administrative expenses, interest payment to the debenture holders, the Company's obligations in respect of the GTC SA transaction (see Note 5C) as well as for supporting its subsidiaries.

Purchase of Debentures

According to the Amended Deeds of Trust, the Company or any entity under its control shall be permitted to purchase the Company's Debentures (series A and B) at any price only through the Tel Aviv Stock Exchange subject to some preconditions detailed in the Amended Deeds of Trust.

Debentures purchased by the Company will expire and deleted from trade on the stock exchange. A corporation controlled by the Company that will purchase Debentures of the Company, will have to choose, in its discretion whether to transfer the Debentures to the Company for expiry or to pledge the Debentures in favor of the trustee of that series.

Restrictions on business activities

It was agreed that the Company and GTC RE shall not initiate any new business activity, shall not make any new investments and shall not be allowed to raise any new credit (unless it is subordinated to the Debentures).

KFS and any company under its control shall not be allowed to enter into new business activities except for the ones detailed in the Amended Deeds of Trust. KFS and TBIF shall not be allowed to make any new investments, however any corporation under their control shall be allowed to invest in existing and new projects in its area of operations, provided that the source of the funds is the ongoing operations of such corporation. KFS and TBIF themselves shall not be allowed to raise any credit, except for credit taken by KFS from TBIF, or short term credit that will be taken by any of them from a corporation under their control in an aggregate amount not exceeding €5 million. Any corporation under their control shall be allowed to obtain unlimited credit, for the purpose of its business activity subject to the conditions detailed in the Amended Deeds of Trust.

KLC and any corporation under its control shall not be allowed to enter into new business activities or to invest in new projects or activities even if they are within the current area of operations. In addition, KLC shall not expand the Dalian Project, and the Lucky Hope joint venture companies shall not initiate or develop any new projects beyond the existing projects which will be developed on the land plots they currently own. Proceeds from the sale of assets owned by KLC or companies under its control shall serve only for that project. Unless approved by a 66% majority by each of the meetings of the debenture holders of the two series, KLC or any entity under its control shall not be allowed to raise credit except under the certain limitations which are detailed in the Amended Deeds of Trust.

TGI and TGA or any entity under their control (except TG and entities under its control) shall not be allowed to enter into new business activities except for those detailed in the Amended Deeds of Trust. They can make investments and obtain credit insofar the source of the investments is from the operating activities of any of the entities controlled by TGI; and the securities for such credit will be provided by TGI and entities under its control and not by other Group companies.

Relief Conditions

Upon meeting both of the following conditions: (1) Repayment (taking into account repurchase of Debentures which would be done after the date of completion of the Final Settlement) of 55% of the par value of the Debentures (which are not owned by the Company or its subsidiaries) as of December 31, 2014;and (2) the coverage ratio of the Company calculated according to the

Company's most recent stand-alone financial statements (quarterly or annual, according to the date), will stand at more than 180% ('Relief Conditions'), all the restrictions on purchase of Debentures by the Company or any corporation under its control will be removed, the Free Amount will increase to €6 million, pledges over TGI or KFS and TBIF (or both) will be revoked, provided that the coverage ratio calculated using the remaining pledged assets after the revocation of said pledges and the Company's debt shall be at least 180%, restrictions on the business activities of subsidiaries as described above will be revoked, restriction on dividend distribution will be revoked (distribution will be allowed after the Company will repay 75% of the par value of the Debentures) and the right to appoint a board member on behalf of the debenture holders will be cancelled. In addition, after the Relief Conditions have been met the Company shall be obligated to repay only 35% of the funds received from disposal of certain assets (as detailed in the Amended Deeds of Trust).

Accounting

The Company examined the changes in the terms of Debentures series A and B in accordance with IAS 39 and concluded that the changed terms are not substantially different and therefore accounting for the debt settlement if finalized will be as a modification and not as an extinguishment.

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. CASH AND CASH EQUIVALENTS

	December 31, 2014	December 31, 2013
	In €'000	
EURO	594	14,651
NIS	10	1,563
USD	1	10
	605	16,224

The cash is primarily comprised out of short term deposits.
The average interest rate on short term deposits was 0.2%-1.5% p.a. in 2014 (in 2013 –0.2%-1.5%).

3. SHORT TERM INVESTMENTS

	December 31, 2014	December 31, 2013
	In €'000	
Pledged deposit	732	-
Deposit in a trust account	64	853
	796	853

The Deposit in the trust account in 2013 is held by a trustee for future payment on account of the debentures liability in January and February 2014.

The average interest earned in 2014 and 2013 was 0.5%.

4. OTHER RECEIVABLES

	December 31, 2014	December 31, 2013
	In €'000	
Intercompany debtors	416	561
Prepaid expenses	120	221
Other	-	327
	536	1,109

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

	December 31, 2014	December 31, 2013
	In €'000	
Financial assets:		
Loans to subsidiaries	20	20
Receivables	536	1,109
Short term investments	796	853
Cash and cash equivalents	605	16,224
	1,957	18,206

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

Financial assets as of December 31, 2014

	Up to 1 year	1-2 years	2-3 years	Total
	In €'000			
Cash and short term Investments	1,401	-	-	1,401
Loans and receivables	536	-	-	536
	1,937	-	-	1,937

Financial assets as of December 31, 2013

	Up to 1 year	1-2 years	2-3 years	Total
	In €'000			
Cash and short term Investments	17,077	-	-	17,077
Loans and receivables	1,109	-	-	1,109
	18,186	-	-	18,186

Financial liabilities as of December 31, 2014

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	In €'000						
Debentures (*)	107,425	103,200	50,921	48,835	46,749	44,662	401,792
Total	107,425	103,200	50,921	48,835	46,749	44,662	401,792

(*) Including interest

Financial liabilities as of December 31, 2013

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	In €'000						
Debentures (*)	73,794	106,369	102,063	50,360	48,297	90,404	471,287
Payables	1,694	-	-	-	-	-	1,694
Put Option	-	2,900	-	-	-	-	2,900
Total	75,488	109,269	102,063	50,360	48,297	90,404	475,881

(*) Including interest

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 37 to the Consolidated Financial Statements.

8. LOANS, MUTUAL BALANCES, COMMITMENTS AND TRANSACTIONS WITH INVESTEE COMPANIES

A. Balances with investee companies

	December 31, 2014	December 31, 2013
	€ thousands	
Debentures held by subsidiary	13,657	22,760
The largest amount of loans and current debts during the year	20	300,482
Collaterals in favor of investee companies (*)	861	7,620

(*) Collaterals are in respect of loans undertaken by subsidiaries.

B. Transactions with investee companies.

	December 31, 2014	December 31, 2013	December 31, 2012
		€ thousands	
Management fees	522	922	1,105
Guarantee fees	22	71	89
General and administrative expenses	467	552	635
Financial income	-	-	10,622

9. ADDITIONAL INFORMATION:

a. Early repayment of debentures

In December 2013, the Company early repaid NIS 21,895,392 par value Debentures Series A and NIS 46,404,084 par value Debentures Series B (net of the relative portion of debentures held by the Company subsidiaries) and the total accumulated interest till that day. For additional information refer to note 24 of the consolidated financial statements.

b. Early repayment of debentures subsequent to the balance sheet date

In January and February, 2014, the Company early repaid NIS 136,918,906 par value Debentures Series A (net of debentures held by the Company subsidiaries) and the accumulated interest from the last repayment. For additional information see note 24 of the consolidated financial statements.

c. Repurchase of debentures

As of the balance sheet date, the Company holds through its subsidiaries NIS 273,012,229 par value Debentures Series A (which represent 45.9% of the par value of Debentures Series A) and NIS 144,457,732 par value Debentures Series B (which represent 12.6% of the par value of Debentures Series B).

d. Off-set of financial instruments

As of the balance sheet date, the Company granted a loan to its fully owned subsidiary Emerging Investment XII B.V. for the sole purpose of purchasing the Company debentures series A and B of 97,061 par value debentures series A and 120,682 par value debentures series 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 2014 and 2013, the company off-set the loan balance (including interest) against its liability.

Board of Directors

P. Sheldon

S. Oren

A. May

M. Groen

A. Schnur

Y. Grunfeld

E. Rechter

E. Seinstra

C. van den Bos