Annual Report
2013

KARDAN N.V.

Profile

Kardan identifies and develops assets in promising emerging markets, mainly in Asia (predominantly China), Africa and selected CEE and CIS countries. Our activities are mainly focused on three sectors that benefit from the rising middle class: Real Estate, Water Infrastructure and Banking and Retail Lending. Kardan's company headquarters are in the Netherlands. The Company aims at holding controlling interests in its investments and is actively involved in the definition and implementation of their strategy through its local business platforms. Kardan is listed on NYSE Euronext Amsterdam and the Tel Aviv Stock Exchange.

€ in million	2013	2012 *	2011 *
Revenues	208.0	161.8	123.1
Net profit (loss) before income taxes	(32.4)	(6.0)	(75.4)
Net profit (loss)	(122.0)	(138.9)	(409.9)
Net profit (loss) net of non-controlling interest	(101.4)	(32.8)	(149.4)
Total equity	71.8	708.6	735.3
Equity net of non-controlling interest	66.1	166.2	202.2
Total consolidated assets	924,6	2,986.7	3,372.9
Solvency (total equity/total consolidated assets)	7.8%	23.7%	21.8%
Return on average equity net of non-controlling interest	(87.3%)	(17.8%)	(55.7%)
Number of employees (as at year-end)	2,873	3,056	7,001

* Restated to reflect the impact of IFRS 11

€ per share	2013	2012	2011
Basic earnings (loss)	(0.92)	(0.3)	(1.34)
Diluted earnings (loss)	(0.92)	(0.3)	(1.35)
Total consolidated equity	0.65	6.41	6.60
Equity net of non-controlling interest	0.60	1.50	1.81
Number of shares			
(used for calculation of information per share, in 000')			
	110,575,647	110,419,779	111,390,454
December 31	111,848,583	111,824,638	111,824,638
Weighted average for the year *	110,575,647	110,419,779	111,390,454
Diluted	110,575,647	110,419,779	111,390,454

* Excluding treasury shares outstanding as of December 31

Annual Report

2013

KARDAN N.V.

Annual Report 2013

DISCLAIMER

This Annual Report contains forward-looking statements and information, for example concerning the financial condition, results of operations, businesses and potential exposure to market risks of Kardan N.V. and its group companies (jointly ‘Kardan Group’).
All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements (including ‘forward looking statements’ as defined in the Israeli Securities Law). Forward-looking statements are statements of future expectations that are based on management’s current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. These forward-looking statements are identified by the use of terms and phrases such as ‘anticipate’, ‘believe’, ‘could’, ‘estimate’, ‘expect’, ‘intend’, ‘may’, ‘plan’, ‘objectives’, ‘outlook’, ‘probably’, ‘project’, ‘will’, ‘seek’, ‘target’, ‘risks’, ‘goals’, ‘should’ and similar terms and phrases.
A variety of factors, many of which are beyond Kardan Group’s control, affect our operations, performance, business strategy and results and could cause the actual results, performance or achievements of Kardan Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. For Kardan Group, particular uncertainties arise, amongst others but not limited to and not in any order of importance, (i) from dependence on external financing with the risk that insufficient access to capital threatens its capacity to grow, execute its business model, and generate future financial returns (ii) from concentration of its business in certain countries (such as China) as a result of which Kardan Group is strongly exposed to these particular markets (iii) from risks related to the financial markets as a result of Kardan N.V.’s listings on NYSE Euronext Amsterdam and the Tel Aviv Stock Exchange and (iv) from it being a decentralized organization with a large number of separate entities spread over different geographic areas in emerging markets, so that Kardan Group is exposed to the risk of fraudulent activities or illegal acts perpetrated by managers, employees, customers, suppliers or third parties which expose the organization to fines, sanctions and loss of customers, profits and reputation etc. and may adversely impact Kardan Group’s ability to achieve its objectives and (v) from any of the risk factors specified in this Annual Report and in the related ‘Periodic Report’ (published by Kardan N.V. in Israel) published in March 2014, which is also available via the Kardan website.
Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Kardan N.V. does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.

Kardan's Business Strategy

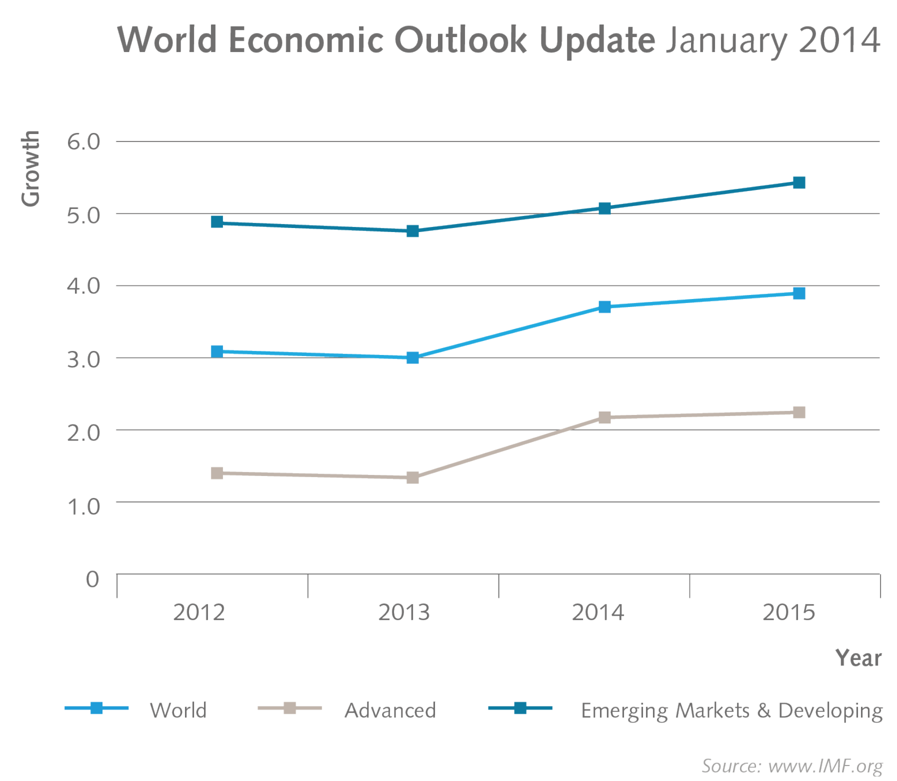
Background

In its World Economic Outlook (January 2014) the International Monetary Fund indicated that for the coming two years it expects the annual GDP growth of emerging markets and developing economies to be significantly higher than that of developed markets. Kardan's Business Strategy is based on an assumption that the IMF's forecast will be true for that period and beyond.

It is clear that world economies are inextricably interlinked – through the international financial and capital markets and through trade relationships between countries – as first the banking crisis and thereafter the European sovereign debt crisis impacted the growth rates of both developed and emerging markets. It is generally and cautiously expected that 2014 will show some slight improvements again for economies worldwide.

Governments of emerging markets specifically need to address the rising economic power of the middle class, as stability is an important condition for achieving sustainable growth and therefore of importance to the worldwide economic and political landscape. Accordingly, governments worldwide have a vested interest to encourage emerging countries to organize their economies and to increase wealth and social welfare among their populations. Stimulating internal demand by increasing purchasing power and maintaining consumer confidence are therefore high on the agenda of most governments. This is most notably the case in China, where 'rebalancing', i.e. boosting the internal market to become less dependent on export, is a focal point of the current Five Year Plan.

Industrialization and urbanization are changing China's demographics. The demand for housing – particularly in tier-2 and tier-3 cities – is increasing, as is the need



Kardan's Business Strategy

for shopping centers and office buildings. It is also widely recognized that industrialization and economic development generally have a polluting effect on emerging markets and that – among other things – an adequate water infrastructure is a prerequisite for sustainable development. Moreover, it has become clear that a properly working banking and retail lending system is essential.

Strategy

Given the vision of the Company, Kardan initiates, develops and manages assets and projects in a number of carefully selected emerging markets in real estate, water infrastructure and retail banking. The Company aims to use its experience of operating in these areas, through its major subsidiaries and joint ventures, to gain an established and reputable position in these sectors and accordingly to generate growing and healthy returns for its investors.

Listed in Amsterdam and Tel Aviv we adhere to strict corporate governance standards and a stringent risk management approach, which we deem essential particularly when being active in emerging markets only. We start by identifying promising emerging markets in which there is a growing middle-class to underpin economic growth. After thorough 'on the ground' research we establish local organizations ('platforms') in selected countries, combining international and local know-how and expertise. Platforms are established based on identified demand, economic viability, stability and legal infrastructure.

In China – too large to be assessed as a single country – we preferably focus on tier-2 and tier-3 cities as these locations generally offer higher growth potential than the country average. By diversifying our assets, spreading them geographically as well as by sector, we aim to spread our investments and as a result also our risks.

When establishing a new platform, Kardan usually supplies the start-up capital for its activities. Once a certain level of maturity has been reached and value has been created by the platform through the various projects and assets in its portfolio, the subsidiaries are expected to repay shareholder loans, pay out dividends or generate cash through the sale of assets or projects which can be used for debt servicing.
Occasionally, such as with GTC SA – the leading real estate developer in Central and Eastern Europe – we diminished our stake in steps: initially through an IPO, followed by selling off our remaining stake in the company in two steps, ultimately resulting in our complete exit in November 2013.

Local organizations are managed by international as well as local professionals, to maximize identifying and obtaining local opportunities and to minimize risks. It is our belief that local management receives information on existing local opportunities earlier than non-locals and that they can identify and assess potential risk at an earlier stage. We will only consider initiating a local project and investing funds if it has the capacity to deliver an IRR in excess of 15% after tax, including direct expenses but excluding general overhead.
It is considered the responsibility of the local management to review local project proposals and to arrange the funding. Consequently, leverage of Kardan is layered, and needs to be assessed on various levels and as such is a key parameter for all managers of the Kardan Group to control.

We recognize that debt reduction at the holding level and improving the debt servicing capacity throughout our group is currently our prime focus. We will only consider entering new markets once we have created more financial stability. At present the strategic agenda is dominated by deleveraging and cost optimization and creating greater efficiency throughout our group of companies.

Foreword of the Chairman

We look back on a challenging year 2013, in which Kardan has taken crucial steps towards repairing its Balance Sheet and in particular, reducing its substantial debt position. Principal among these was the decision to sell the 27.75% stake which we held in the Central and Eastern European real estate company GTC SA, initially founded by Kardan in the early 1990s. With this sale we generated sufficient cash to repay a substantial bank loan as well as the debentures maturing in 2014. As a result of the sale of GTC SA the geographical profile of the Company has changed, as we are now largely operational in China and less so in Central and Eastern Europe. Inevitably, the sale has also left us with a significantly smaller Balance Sheet but with less exposure to possible future diminution of values of the European property portfolio. The strategic focus, however, is still on strengthening our real estate and water infrastructure businesses, predominantly in emerging markets, as well as on improving the results of our banking and retail lending activities in Romania and Bulgaria.

I am pleased that the Board could welcome four additional non-executive members. After a careful selection process, in which we took our Board profile and our aspiration for diversity into consideration and during which we conducted various interviews, Elly Seinstra, Cor van den Bos, Eytan Rechter and Yosef Grunfeld were appointed by the EGM which was held in February 2013. Given the increased size of the Board we decided to appoint Cor van den Bos as Vice-Chairman of the Board. The current composition of the Board reflects individual talents from different backgrounds and a strong combination of experience. I am convinced that our enlarged Board will be able to deal with the challenges we face in a most effective and efficient manner. The full details on the changes in the Board – as well as on other Governance matters – can be found in the Corporate Governance Statement 2013, which is available on the corporate site www.kardan.nl.

Similarly, I have full confidence in our Executive Management, under the capable leadership of Shouky Oren as CEO. Just recently we appointed Guy Elias as Vice President Business Development and member of the Executive Management, joining Shouky Oren, and our CFO, Einat Oz-Gabber in the day-to-day management of our Company. Guy Elias has extensive experience in both the real estate sector, investment activities as well as in doing business in emerging markets. He joined Kardan in 2011 as VP Business Development of GTC Real Estate and played an essential role in the complex negotiations leading to the divestiture of GTC SA in November 2013.

In order for the new Board members to become better acquainted with the strategy, objectives and operations of the Company, the managing directors of Kardan Land China, Tahal, Kardan Water and TBIF all gave detailed presentations to the Board on the intricacies of their respective organizations. Primarily though, during the 12 meetings which we conducted in 2013, we dedicated a lot of attention to

Foreword of the Chairman

Kardan's strategy, its financial position and how Kardan would be able to service its short and long term debts. The relationship with debenture holders and banks as well as with the Israeli Securities Authority was specifically addressed in detail. In addition, we thoroughly discussed the possibility to sell various assets, which resulted in the decision to sell the stake which Kardan held in GTC SA. As this was such a material transaction, we elected a special committee from our midst to closely monitor the progress of the sale and to inform our colleague Board members regularly. Besides this specific case in which it was so important that we shared information more frequently than under normal circumstances, we were also consistently kept up to date on how the businesses were progressing by means of monthly reports from the CEO and his team. The Audit Committee and the Remuneration, Appointment and Selection Committee also met regularly and gave their advice to the Board. More details are contained in the Governance and Compliance chapter in this Annual Report, starting on page 100.

During 2013 Kardan encountered challenges on multiple levels, including our need to ensure that we remain able to service the Company's debts as well as controlling the operating risks in countries of operation where we have faced continuing weak macroeconomic circumstances. We dedicated specific attention to the risks we foresaw, and discussed our control systems with respect to these risks at length and concluded that as far as possible the Company has taken the appropriate measures to mitigate risks throughout the Group.
The business relationship between a company and its auditor is by nature complex and needs to be assessed every four years. Based on the evaluation of our external auditor by the members of our Audit committee, the Board concluded it is satisfied with the services rendered by and the relationship with the external auditor. It is therefore, in my opinion, all the more regrettable that, in the pursuit of achieving the highest and best transparency, it has been made mandatory to rotate auditors after a predetermined relatively short period. I believe that, although I agree that it is wise to refresh teams and business relationships occasionally, valuable knowledge, time and effort is wasted and that the cost for smaller companies to comply with this mandatory rotation are disproportionally high.
We consider Corporate Governance as a key prerequisite to be able to successfully execute Kardan's strategy and to continue to build a reliable reputation. Having an ethical and social framework in place which provides structure and clarity to our every day operations helps us to be a good corporate citizen. You can read more about this ambition in this Annual Report, in the chapters on Environmental and Social Governance as well as in the 'Project management' inserts. We deem setting a good example not only to be valuable for the internal organization but for our external relationships as well. We also took this into consideration when the Board initiated evaluation processes on its members. I will follow up on this evaluation this year in bilateral meetings with all my board colleagues.

I am proud to say that Kardan's workforce reflects the character of the Company: international, aiming for the best and being respectful. Throughout the Group we follow the practice to combine international and local professionals in order to optimize our opportunities and to minimize our risks but also to establish a sound business base by creating local jobs. In addition, we see a fair balance of males and females throughout the Group.
As a result of our aim to be a sustainable corporation in manner and execution, we have decided that the Annual Report 2013 will no longer appear in printed format but only on the corporate site of Kardan (www.kardan.nl) and – if so required – on a freely available USB stick. Consequentially, we have also been able to apply more interaction between the Annual Report document and the information which is available on the site, such as the detailed description of our Corporate Governance Structure and the procedures. We have also chosen to post the Corporate Governance Statement 2013, which forms

an integral part of our Annual Report, on the site only (in line with Dutch legislation), in order to attempt to keep our Annual Report succinct and to the point. Hence, I refer to this statement for detailed information about the Board and its Committees (and their respective activities) and the rights of shareholders. The statement also includes a detailed outline of our risk framework. For additional information I refer to the chapter 'Governance and Compliance' on page 100 of this Annual Report.

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

I want to thank all the Kardan employees around the world, each contributing a specific part to the total picture that makes Kardan, for all their dedication and perseverance during 2013.

Moreover, I want to thank all our stakeholders for their support and trust. My colleagues and I are determined to do everything in our power to reward that trust with positive and improving performance.

Peter Sheldon, OBE, JP,

Chairman of the Board

Letter of the Chief Executive Officer

'2013 was a very important year for Kardan'

In 2012, we announced that the main challenge for Kardan in 2013 would be to address its debt situation. In February 2014, the repayment of our debenture Series B was due besides the next installment for Series A, which entailed that we needed to generate around EUR 100 million of cash from our assets. We therefore decided to sell our 27.75% stake in the Central and Eastern European real estate company GTC SA. Whilst GTC SA in the past has been a strong contributor to the results of Kardan, this changed in the last years when substantial impairments were recognized on their portfolio following the dire economic sentiment in Central and Eastern Europe. Consequently, the decision to sell our stake was twofold: to generate the necessary cash but also to end possible future negative effects on the results of Kardan. The sale was completed in the fourth quarter of 2013 for EUR 160 million, which was above market price. With this transaction we were successful in securing the funds to repay our debenture holders according to plan, but also to prepay a substantial bank loan.

We reported a profit of EUR 5 million in the fourth quarter of 2013, and I believe that this positive result is indicative for Kardan going forward, i.e. a company focused on improved operating results.
For the full year 2013, however, we have reported a loss of EUR 101 million for our equity holders, of which more than half is attributable to a combination of GTC SA's results during 2013 and the accounting effect of its sale transaction. Furthermore, we recognized substantial impairments on goodwill and intangibles in our financial services division and we were faced with a negative foreign exchange impact on our financing expenses at the corporate level relating to our Debentures.

Strategic highlights

Besides addressing the corporate debt situation, we continued to put a lot of emphasis on growing our existing businesses whilst working increasingly more efficiently. When looking at our various segments, I am happy to report that the measures which have been taken throughout the Group, in terms of cost efficiency and stringent risk management, have started to pay off.

As we continue to have obligations to repay our Debentures on time, it remains necessary for us to continue to focus on strengthening our existing businesses, thereby creating value to enable us to sell or refinance assets within our Group which are not essential to our goal of maintaining a strong and viable future business.

Real Estate

With the sale of our Central and Eastern European real estate activities in Q4 of 2013, we no longer have a Real Estate Europe segment. Our real estate operations are now all located in China, where we have been active since 2005, currently under the brand name Kardan Land China. It is our policy to closely follow the strategy of the Chinese government and to pace the development of our operations accordingly.
The current five-year-plan of the Chinese government (2011 – 2015) has 'Quality growth' as the main theme, meaning that accelerated growth should go hand in hand with protection and even improvement of the environment. At the same time, further urbanization (the percentage of the population living in cities is set to rise from 47.5% to 51.5%) and a continuation of improving the standard of living of the Chinese middle-class are key components of the Five Year Plan. Kardan Land China therefore is more and more focused on developing mixed-use projects, whereby retail and residential real estate go hand in hand, taking into account the 'lifestyle' requirements such as green surroundings, public transport access etc., and building on the emphasis that the Government puts on stimulating consumers' purchasing behavior.

Our significant project Europark in Dalian is indicative of our mission: to create a lifestyle experience.
We started construction at the end of 2012 and plan to open the Galleria Dalian shopping mall before the end of 2014. In addition, we have already handed over the first SOHO (Small Office Home Office) apartments in the fourth quarter of 2013. Just recently it was announced that Europark Dalian is set to win three different honors at the prestigious Asia-Pacific Property Awards for 2014, which event is to take place in the beginning of May 2014, in the categories of mixed-use, residential and retail development.

Galleria Chengdu, our first retail center in China of which we still own 50%, performed very well in 2013 through active asset management for all the tenants of the fully occupied mall. Additionally, our residential joint venture projects were successful both in the number of apartments which were handed over as well as in the number of apartments which were sold during 2013.

Water Infrastructure

Tahal Projects has been successful in capitalizing on its sustainable reputation through large irrigation and engineering projects, largely in Africa, leading to improved operating results in 2013 compared to 2012. The Quiminha project in Angola is a key example of Tahal's technical, engineering, environmental and social approach. Later in this annual report, this project and its management is highlighted in more detail (see page 66). Tahal Assets operates predominantly in China with the development of wastewater treatment, water re-use and water supply facilities. It particularly addresses two aspects: the business need of its clients, mainly Chinese municipalities, as well as the governmental desire to fight pollution in China.
Both our water infrastructure segments have implemented additional efficiency measures during 2013 to improve their operating results. In the first quarter of 2013, Tahal Projects recognized a gain on the sale of a real estate asset in Israel, but this gain was more than off-set by the full impairment on its Polish subsidiary which filed for insolvency later in the year. We are therefore especially pleased that only just recently a significant contract was signed to manage part of a larger agricultural development project – involving developing, engineering, procurement, construction and consulting – in an Eastern European country.

Banking and Retail Lending

Although the Banking and Retail Lending segment contributed a net loss for 2013, we are positive about the development of its operating results. The 2013 market circumstances in Bulgaria and Romania – the main countries of operation for our financial services activities – remained challenging as the consumer and business sentiment in both countries continued to be fragile. We experienced that clients were still more inclined to save money, as is evidenced in the growth of deposits particularly in Bulgaria, rather than to take on loans or credit facilities, although a slight turn for the better was noticeable. TBIF managed to significantly grow its revenues on better origination and improved qualities of portfolios, whilst keeping its operating costs well under control, nearly moving it out of its long standing operational loss situation. A lot of effort was dedicated to extending our reach to potential and existing clients and to retaining them by offering relevant products and services speedily and efficiently. During the reporting year, we planned to sell the leasing activities in Ukraine, through its 66% holding in Avis Ukraine. Consequently an impairment on this investment was recognized. TBIF remains intent to sell its stake in Avis Ukraine during 2014 and is hopeful of doing so. Additionally, in the fourth quarter of 2013 impairments were recognized on goodwill and intangibles of TBIF, which are now fully written off. As a consequence, TBIF has started 2014 with a clean slate and we expect that this will be visible in its results during 2014.

Going forward

Looking at our group operating results, particularly during the fourth quarter of 2013, I am cautiously optimistic about the progress of our various operating companies. In all our organizations we have implemented efficiency measures and have put a lot of emphasis on stringent project management in order to diminish our risks. We deem it in all our stakeholders' interest to continue with our plans to encourage our business segments to improve their results thereby creating value and generating cash in order to meet the obligations to our debt holders.
In our attempts to do so, we wish to demonstrate our commitment to strengthen the financial position of Kardan and to bring back stability to the Company.
I believe that we can achieve our objectives.

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

Shouky Oren,

Chief Executive Officer

Shareholder Information and Investor Relations

Kardan shares

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

As at December 31, 2013 a total of 111,848,583 ordinary shares have been issued and are outstanding. Under the Dutch Supervision Act, shareholdings of 3% or more in any Dutch listed company must be disclosed by the relevant shareholders to the Dutch Authority for the Financial Markets (AFM). The following table presents the shareholders who have reported to the AFM that they had an interest of 3% or more in the share capital of Kardan as at December 31, 2013:

DECEMBER 31, 2013
A TOTAL OF
111,848,583
ORDINARY SHARES HAVE BEEN ISSUED AND ARE OUTSTANDING

	Number of shares held (ordinary shares of € 0.20 each)	Holding rate
Y. Grunfeld (1)(4)	21,493,927	19.22%
A. Schnur (2)(4)	19,818,465	17.72%
E. Rechter (3)(4)	4,098,719	3.66%
Kardan Israel Ltd. (5)	12,300,330	11.00%
Migdal Insurance & Financial Holdings Ltd.	4,020,756	3.59%

(1) The shares are held directly and indirectly through Talromit Financial Holdings (1995) Ltd., a company wholly owned by Mr. Grunfeld.
(2) The shares are held through Raitalon Ltd., a company wholly owned by Mr. Schnur.
(3) The shares are held through Shamait Ltd., a company owned by Mr. Rechter and his wife.
(4) Mr. Grunfeld, Mr. Schnur and Mr. Rechter have a voting agreement which represents approximately 40.6% of the votes.
(5) Mr. Grunfeld, Mr. Schnur and Mr. Rechter have a voting agreement with respect to their respective shareholdings in the capital of Kardan Yazamut (2011) Ltd. (42.64% jointly). Kardan Yazamut (2011) Ltd. holds 73.67% of the shares in the share capital of Kardan Israel Ltd, which holds 11% of the shares in the Company.

Board participations and employee options

Besides the above listed shareholdings of Mr. Grunfeld, Mr. Schnur and Mr. Rechter, who are also non-executive Board Members of Kardan, the CEO, Mr. Oren, has disclosed to the AFM that he holds 100,000 shares in the capital of Kardan. Additionally, a total of 2,532,135 options to purchase shares in the capital of Kardan are granted to a) the CEO as part of his remuneration (2,282,135 options; see also the Remuneration Report on page 106 of this Annual Report) and b) to 4 senior employees of Kardan (250,000 options in total), with an exercise price of EUR 1.298 (NIS 6.136).

Key financial figures per share

€ per share	2013	2012	2011	2010
Basic earnings (loss)	(0.92)	(0.30)	(1.18)	(0.24)
Diluted earnings (loss)	(0.92)	(0.30)	(1.20)	(0.24)
Total consolidated equity	0.65	6.4	6.6	9.5
Equity net of non-controlling interest *	0.60	1.5	1.8	3.4

* Excluding treasury shares outstanding as of December 31

Share prices in 2013

	Euronext (EUR)	Tel Aviv (NIS)*
Highest share price	0.86	425.5
Lowest share price	0.30	145.3
Year-end	0.34	157

* in 0.01 NIS

Liquidity provider

Petercam SA acted as a liquidity provider for the Kardan shares listed on Euronext Amsterdam until November 1, 2013. Currently there is no liquidity provider for the Kardan shares.

Dividend policy

The dividend policy of Kardan will take into consideration the level of net income, liquidity and the capital position, future financing requirements and financial covenants of Kardan, all within the limitations of the law. If circumstances allow, the dividend policy recommends an annual distribution of between 20% and 30% of net income. Dividend pay-out may vary from year to year though. It is noted that as part of an agreement reached with the Company's debenture holders in January 2013, the Company has committed not to pay out dividend until the February 2015 repayment (principal and interest) of outstanding debentures and in any event not before the publication of the annual accounts 2013.

Investor Relations

The Company acknowledges the importance of being transparent and explanatory towards its shareholders and other investors. As such, the CEO together with the Investor Relations officers, frequently engages in (one-on-one) meetings with investors and shareholders and has, over 2013, had extensive discussions with the Company's debenture holders. The shareholders are given the opportunity to ask questions at the AGM and in addition, the Company has addressed their questions over the course of the year. All is done in accordance with Kardan's policy on bilateral contacts, as published on the Company's website.

Financial calendar

Annual results 2013 – March 27, 2014

Q1 2014 results – May 27, 2014

Annual General Meeting of Shareholders – May 28, 2014

Q2 2014 results – August 28, 2014

Q3 2014 results – November 27, 2014

Additional information

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

Other publications and information: www.kardan.nl

Shareholder Information and Investor Relations

Main events in the portfolio of Kardan

Kardan's management was fully committed in 2013 to bringing down Kardan's debt, just as in 2012. Given that the repayment of the principal and interest to the holders of Kardan debentures (Series A and Series B) was due in February 2014, it was imperative for Kardan to generate net cash through the sale of assets and/or repayment of shareholder's loans or dividend distribution by Kardan's subsidiaries.
In addition, cost optimization and improvement of the results of the subsidiaries were set as main operational targets. The main events in the Kardan Group's portfolio that took place during 2013 reflect management's focus on dealing with the debt situation and are described in more detail below, per division.

Kardan N.V.

Following up on the Annual General Meeting in May 2012, in which a one tier board structure was approved and new board members were appointed, in February 2013 the Extraordinary General Meeting of Shareholders appointed four additional non-executive board members.
These are Mr. C. van den Bos and Mrs. E. Seinstra as independent board members and Mr. Y. Grunfeld and Mr. E. Rechter as non-independent board members. In addition, the remuneration proposals for the new Board Members were approved as was the revised exercise price of the CEO's option package.

Throughout the year 2013, several meetings took place between Kardan and representatives of the trustees and the holders of its debentures Series A and Series B. At the beginning of 2013, Kardan agreed to certain concessions towards the holders of its debentures (Series A and Series B), which were approved by the general meeting of holders of the Debentures in March 2013.The main concessions under the agreement are as follows:

1. Commitment not to pledge part of Kardan Land China (KLC) shares:

   Until repayment of the Debentures in February 2014 (principal and accrued interest):
   51% of KLC shares (held by GTC RE) will not be pledged.

   After the February 2014 repayment and until repayment of the Debentures in February 2015 (principal and accrued interest):
   49% of KLC shares (held by GTC RE) will not be pledged.

2. Prior notice will be given in the event of pledging of assets:

   Until the repayment of the Debentures in February 2015, Kardan will issue an immediate report/press release, 30 days in advance, in the event it reaches a financing agreement against the pledge of shares in KLC (subject to 1 above) or in Tahal Group International B.V.

3. In the event that Kardan were to obtain financing through the pledge of assets:

   Before the February 2014 repayment:
   - 80% of such financing proceeds – which will be raised through the pledge of assets – will be used for early repayment of the 2014 payment (including accrued interest until that date).

   After the February 2014 repayment and before the February 2015 repayment:
   - 60% of the proceeds of such financing that will be used for repayment of the debentures, as long as up to 50% (of the 60%) is through the repurchase of Debentures, on the condition that no more than 80% of the repurchased Debentures will be of one specific series.

4. Sale of assets:
   Until the repayment in February 2014 (principal and interest), at least 50% of the proceeds from sale of assets will be used for early repayment of the February 2014 payment. Such commitment will not apply to proceeds of less than EUR 15 million.

5. Early repayment of the Debentures principal:
   Kardan will be allowed to early repay Debentures principal amounts, any time, at the pari value on the condition that each such early repayment will be in an amount exceeding NIS 15 million (approximately EUR 3 million).

6. No dividend distribution:
   No dividend will be distributed until the February 2015 repayment (principal and interest) and in any event not before the publication of the annual accounts 2013.

7. Limitations on repurchased debentures:
   The agreement will set limitations on the pledge of repurchased Debentures (including REPO transactions). In addition, Kardan agrees that the sale of repurchased Debentures to third parties will be done only at a yield lower than 10%.

In January 2014, following further discussions with the representatives of the trustees and of the holders of its debentures Series A and Series B, the Company agreed to three additional commitments:

- It was agreed to appoint a representative of the trustees who, after having signed a non-disclosure agreement with the Company, will be informed regularly of the Company's progress and have access to confidential information. The representative is not permitted to share information with the trustees or the Debenture holders, but may reveal his conclusions and make recommendations based on the information provided to him. The representative is appointed until March 31, 2015.
- The Company is committed to giving at least 45 days public notice prior to:
  - Pledging shares (part or all) of the target assets as laid down in the March 2013 agreement with the Debenture holders. The notification is required until the repayment of the Debentures (principal and interest) in February 2016 has taken place.
  - Pledging shares (part or all) of Kardan Financial Services (KFS). The notification is required until the repayment of the Debentures (principal and interest) in February 2016 has taken place.
  - In the event of an increase in any credit secured by assets, any change in the identity of the holders of the pledge and in the event of any material change in the terms of a pledge or credit facility which is secured by assets.
    All relates to existing as well as new pledges on assets.
- It was agreed that Kardan will not start insolvency procedures itself (either in Israel or abroad), including suspension of payments or liquidation, without giving the trustees of the Debenture holders written notice 30 days in advance.
- Maalot, the Israeli subsidiary of Standard & Poor's (S&P), reported on Kardan a couple of times during 2013:
  - In March 2013, following the press release in which the Company announced that the negotiations to sell 50% of the mixed-use project Europark Dalian in China had ended, S&P changed the rating of Kardan and its debentures Series A and Series B from ilBBB-negative outlook into ilBB Watch Negative, due to a worsening liquidity profile. S&P also put Kardan and the Debentures on CreditWatch with negative implications until the end of June 2013, when it would again review the ratings.
  - In June 2013, the rating of the Company and its debentures Series A and Series B was retained as well as holding Kardan and the Debentures on CreditWatch with negative implications for

approximately six weeks, when it would again review the ratings.

– In August 2013, the rating of Kardan and its debentures Series A and Series B was adjusted downwards to ilB Negative outlook for Kardan and ilB for the Debentures. S&P took Kardan off the CreditWatch, but would review the rating of the Company again in the coming months.

Further to earlier discussions and correspondence between the Israeli Securities Authority (ISA) and Kardan with respect to a sampling audit conducted by the ISA regarding, inter alia, the examination of the values of five real estate assets owned by a then subsidiary (GTC SA), with respect to the financial statements as of December 31, 2009, Kardan received a letter from ISA in May 2013 and again in October 2013, when the ISA ordered Kardan to make public ISA's final report regarding the aforementioned audit. From the start, Kardan consistently and strongly opposed ISA's position on this matter and provided ISA with lengthy and thorough argumentation in this respect such as, among other things, independent opinions of internationally reputed valuation firms. As of November 22, 2013, Kardan no longer held a stake in GTC SA.

In October 2013 Kardan announced that, due to its liquidity needs in relation to the repayments of principal and interest of Kardan's debentures in February 2014 and 2015, GTC RE had started a process to possibly sell, directly or indirectly, its 27.75% stake in GTC SA to a strategic investor. In mid-November 2013, the agreement to sell GTC RE's stake in GTC SA (the Transaction) to a wholly owned subsidiary of Lone Star Funds (collectively Lone Star) for a consideration of EUR 160 million (Consideration) was signed and the Transaction was completed a week later. EUR 150 million was paid directly in cash to GTC RE and the remaining EUR 10 million was paid in cash on December 13, 2013. The share purchase agreement contains a 'clawback 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, Lone Star has the right to receive an amount of EUR 3.15 million per target. As the GTC SA shares were pledged to a lending bank in order to secure a loan of approximately EUR 101 million, the Consideration was predominantly used to repay this loan. The Transaction with Lone Star was the result of a controlled process aimed at value maximization in the interest of Kardan and its stakeholders, and was led and managed by Citigroup Global Markets Limited.

Real Estate

In February 2013, Kardan announced that its indirect wholly owned subsidiary KLC was in negotiations with an international fund to sell a 50% stake in its mixed-use project Europark Dalian (the Transaction), following the signing of a non-binding Letter of Intent in December, 2012. In March 2013, KLC was informed by the international fund that it had decided not to pursue the Transaction.

In January 2014, following a conditional agreement that was signed in November 2013, a detailed financing agreement was signed between GTC RE and Israel Discount Bank (the Bank) for a new loan in the amount of EUR 33 million (the New Credit), the amount of which was used, along with additional amounts of Kardan, to repay the holders of Kardan's debentures (Series A and Series B) in February 2014.

The New Credit bears an interest rate of six months Euribor +5.5% p.a. and will be repaid in two installments as follows: an amount of EUR 28 million will be repaid no later than December 26, 2014 (the First Installment) and the remainder of the principal of the New Credit will be repaid no later than December 25, 2015 (the Second Installment). Interest will be paid in semi-annual payments. As collateral for the credit facility, the Company pledged all the shares of KFS and all the shares of Tahal Group International (TGI) in favor of the Bank and GTC RE pledged 51% of the shares of KLC, and in addition all shareholder loans of these companies. After the repayment of the First Installment, the pledge over the TGI and KFS shares will be released and after repayment by Kardan of all payments to the holders of Debentures in February 2015, GTC RE will pledge in favor of the Bank the remainder of KLC shares held by it. GTC RE has undertaken not to pledge these shares to any other party (a negative pledge) till the pledge of the remaining shares of KLC, in line with the understanding as agreed in January 2014 with the Debenture holders.

GTC RE is entitled to make an early repayment of the New Credit at any time. In the event of distribution of dividends and/or repayment of shareholder loans by the pledged companies, all funds received by GTC RE or by Kardan, as the case may be, shall be used for the repayment of the New Credit in accordance with the provisions stipulated in the Financing Agreement. Kardan has also undertaken to ensure that all or part of the funds received by the pledged companies as a result of the sale or pledge of certain assets set forth in the Financing Agreement shall be used for the early repayment of the First Installment of the New Credit as well, pursuant to the terms of the Financing Agreement and subject to the subsidiaries' undertakings. In addition, the Financing Agreement includes customary financial covenants and events of default. It is further noted that at the date of signing the Financing Agreement, GTC RE repaid to the Bank a former debt in the amount of EUR 8 million.

Water Infrastructure

In January 2013, an indirectly held subsidiary of TGI (Tahal Water planning for Israel Ltd.), completed the sale of its rights in a leased real estate asset in Tel Aviv, Israel to an unrelated third party for NIS 74 million (approximately EUR 15 million).

TGI reached an agreement in September 2013 with Hutchison Water International Holdings Pte Ltd. (HWIH) to sell 50% of its stake (81%) in the Pumped Storage project in Israel (Tahal Water Energy), which relates to the production of energy based on pumped storage technology, for which a conditional license was granted in 2009 (the Transaction). The consideration for this Transaction, by means of a shareholder loan, was NIS 32 million (approx. EUR 6.7 million) which was used by Tahal Water Energy to repay part of the shareholder loan provided by Tahal in two parts: NIS 2 million (approx. EUR 0.4 million) on signing and NIS 18.5 million (approx. EUR 3.8 million) will be paid upon the financial closing of the Pumped Storage project, which is expected to take place by the end of Q1 2015. In addition, Tahal is entitled to a premium of NIS 10 million (approx. EUR 2.1 million) upon financial closing of aforementioned project, subject to certain conditions agreed upon by the parties. The agreement was signed in December 2013 and the first payment was received.

Tahal Water Energy was also granted a conditional license for the expanded capacity to 340 MW (from 300 MW), subject to the approval of the Minister of Infrastructure, Energy and Water. The construction of the Pumped Storage plant is expected to take approximately 4 to 5 years as of financial closing. The total investment is estimated to be USD 430 million, approximately 80% of which is to be funded by non/limited-recourse debt and the rest by means of shareholders' resources of which, as of December 31, 2013, approximately 4% of the total investment had been invested by Tahal.

Also in September 2013, a wholly owned Polish subsidiary of Tahal Group B.V. (Tahal Group) – the project organization of Tahal Group International – decided to file a petition for insolvency with the Polish court, and as a result Tahal recognized a write-off of EUR 8.2 million in its third quarter 2013 results.

Financial Services

In June 2013, TBIF negotiated an agreement to sell its 66% share in the leasing company Avis Ukraine to its co-owner Kardan Vehicle Ltd. (Kardan Vehicle), for a consideration of USD 8.6 million. In addition,

Kardan Vehicle guaranteed the repayment, which was expected by the end of 2013, of a loan of approximately USD 5 million granted by TBIF to Avis Ukraine. In November 2013, however, it was announced that the intended agreement had not been endorsed by Avis Europe Holdings. TBIF continues to take action to sell its holdings in Avis. The decision to sell the leasing activities in Ukraine is in line with TBIF's strategy to focus on its financial service activities in Bulgaria and Romania, and with Kardan's objective to generate free cash in order to deleverage.
The proceeds from the Transaction would be used to repay shareholder loans to Kardan.

For a more detailed overview of the operations of each of the divisions, see pages 45 to 86.

Financial Review 2013

Einat Oz-Gabber, CFO

General

Kardan N.V. recorded a loss of EUR 101 million in 2013 (2012: loss of EUR 33 million) for its equity holders, of which EUR 55 million is attributable to a combination of GTC SA's results during 2013 and the effects of the sale of GTC SA in the fourth quarter of 2013. In addition, substantial impairments were recognized on goodwill and intangibles in the financial services division and, on the corporate level, Kardan's financing expenses with respect to the debentures were negatively impacted by foreign exchange losses.

In the fourth quarter of 2013, however, Kardan reported a profit of EUR 5 million, indicative of Kardan going forward; focused on improving the operating results throughout the Group.

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

Condensed Consolidated Income Statement Kardan N.V. by Quarter

The 2013 quarterly results of Kardan N.V. are presented in the table below:

€ in million	Q1/2013	Q2/2013	Q3/2013	Q4/2013	2013
Total revenues	41.3	48.9	40.6	77.2	208.0
Total expenses	42.6	48.7	40.3	71.4	203.0
Profit (loss) from operation before fair value adjustments, disposal of assets and financial expenses	(1.3)	0.2	0.3	5.8	5.0
Profit (loss) from fair value adjustments and on disposal of assets and investments	12.5	1.4	(16.0)	(2.0)	(4.1)
Result from operations before finance expenses and income taxes	**11.2**	**1.6**	**(15.7)**	**3.8**	**0.9**
Financing income (expenses), net	(24.5)	(5.2)	(10.5)	(5.5)	(45.7)
Share of profit of associates and joint ventures according to equity method	–	0.8	3.2	8.4	12.4
Profit (Loss) before income tax	(13.3)	(2.8)	(23.0)	6.7	(32.4)
Income tax (expenses)/benefit	(4.6)	(5.0)	0.3	(5.1)	(14.4)
Profit (Loss) from continuing operations	**(17.9)**	**(7.8)**	**(22.7)**	**1.6**	**(46.8)**
Profit (Loss) from discontinued operations	(24.6)	(10.8)	(43.3)	3.5	(75.2)
Profit (Loss) for the period	**(42.5)**	**(18.6)**	**(66.0)**	**5.1**	**(122.0)**
Attributed to non controlling interest	(20.1)	(0.1)	(0.3)	(0.1)	(20.6)
Attributed to share holders	**(22.4)**	**(18.5)**	**(65.7)**	**5.2**	**(101.4)**

Condensed Consolidated Income Statement Kardan N.V.

The 2013 condensed consolidated income statement split into the different segments of Kardan N.V. is shown in the table below.

Following the overall analysis, the 2013 results of every individual segment is analyzed in more detail.

€ in million	Real Estate	Infrastructure		Banking and Retail lending	Other	Total		
	Asia	Assets	Projects			12M - 2013	12M - 2012 *	12M - 2011 *
Total revenues	29.0	31.0	122.0	26.0	–	208.0	161.8	123.1
Total expenses	30.2	22.5	117.1	27.4	5.8	203.0	186.9	176.7
Profit (loss) from operation before fair value adjustments, disposal of assets and financial expenses	(1.2)	8.5	4.9	(1.4)	(5.8)	5.0	(25.1)	(53.6)
Profit (loss) from fair value adjustments, disposal of assets and investments, equity earnings (loss)	23.4	–	(1.0)	(15.0)	0.8	8.2	9.4	15.7
Result from operations before finance expenses	**22.2**	**8.5**	**3.9**	**(16.4)**	**(5.0)**	**13.2**	**(15.7)**	**(37.9)**
Financing income (expenses), net	(0.1)	(3.5)	(2.4)	(1.9)	(37.7)	(45.6)	9.7	(37.5)
Profit (Loss) before income tax	22.1	5.0	1.5	(18.3)	(42.7)	(32.4)	(6.0)	(75.4)
Income tax (expenses)/benefit	(3.8)	(2.8)	(4.1)	(0.5)	(3.2)	(14.4)	(0.9)	(8.3)
Profit (Loss) from continuing operations	**18.3**	**2.2**	**(2.6)**	**(18.8)**	**(45.9)**	**(46.8)**	**(6.9)**	**(83.7)**
Profit (Loss) from discontinued operations	–	–	–	–	(75.2)	(75.2)	(131.9)	(326.2)
Profit (Loss) for the period	18.3	2.2	(2.6)	(18.8)	(121.1)	(122.0)	(138.8)	(409.9)
Attributable to:								
Non-controlling interest	–	(0.9)	0.3	–	(20.0)	(20.6)	(106.0)	(260.5)
Net result for the segment	**18.3**	**3.1**	**(2.9)**	**(18.8)**	**(101.1)**	**(101.4)**	**(32.8)**	**(149.4)**
Profit (Loss) for the period	18.3	2.2	(2.6)	(18.8)	(121.1)	(122.0)	(138.8)	(409.9)

* Restated to reflect the impact of IFRS 11.

Board Report

Overall 2013 review

Despite the substantially higher revenues and equity earnings, the **Kardan 2013 consolidated result from continuing operations** has decreased (y-o-y) by EUR 40 million. This can first be explained by the fact that the 2012 result included a EUR 43 million financial income on the buyback of debentures. Secondly, the result for 2013 was negatively impacted mainly by four events: 1) a write off of EUR 8 million in Q3 2013 due to the insolvency situation of Tahal Projects' Polish subsidiary, which was 2) mitigated by the gain on the sale of a real estate asset in Israel, 3) the banking and retail lending segment impaired goodwill on its activities on the back of continuing challenging market circumstances and on its investment in Avis Ukraine pending TBIF's intention to sell its stake in this business activity and wrote off most of its intangibles (in the total combined amount of EUR 17.5 million) and 4) the financing costs of Kardan were negatively impacted by revaluation losses (EUR 10 million) due to foreign exchange differences (Israeli Shekel versus Euro) with regard to the debentures.
It should be noted that after losses in the previous quarters, the Q4 2013 result from continuing operations amounted to a profit of EUR 1.6 million predominantly due to the performance of Real Estate Asia and of Tahal Projects, with strong revenue growth, significant equity earnings and continued cost control.

The 2013 result from continuing operations reported by *Real Estate Asia* (Kardan Land China) amounted to EUR 18.3 million profit, 30% better than in 2012 (EUR 14.1 million profit) mainly on the back of an increase in gross profit and significantly higher results from residential activities and retail center Chengdu (reflected as equity earnings). In Q4 2013, apartments (120) of the Dalian projects were handed over for the first time, for which the revenue is 100% attributable to KLC. The strong improvement in equity earnings is mainly due to 20% more apartments which were handed over from the joint venture projects in 2013 than in 2012. Nearly twice the number of apartments was sold in 2013 in comparison to the same period last year, which will impact the results when the apartments will be handed over to the buyers (approximately 18 to 24 months from the sale).

Water Infrastructure Assets contributed EUR 2.2 million profit from continuing operations in 2013 (2012: EUR 0.3 million profit) primarily due to better gross profit, controlled SG&A expenses and less finance expenses.
Despite higher revenues and a significantly stronger gross profit combined with less SG&A expenses, *Water Infrastructure Projects* recorded a loss from continuing operations of EUR 2.6 million (2012 loss of EUR 7.3 million) mainly because of the write off of the Polish subsidiary in Q3 2013, although this was mitigated by the one-off gain on the sale of a real estate asset in Tel Aviv.

Although the *Banking and Retail Lending* segment recognized revenues which were almost double those of 2012 on improved origination and a better quality of portfolios resulting in an improved gross result, a loss from continuing operations of EUR 18.8 million was recorded over 2013 (2012: loss of EUR 21.3 million). In 2013, the segment recognized a one-off gain due to a recovery of an investment as well as goodwill and other intangible impairments as follows: the investment in Avis Ukraine was impaired on TBIF's announcement of its intention to sell this subsidiary, and the goodwill and intangible assets related to the Romanian and Bulgarian activities were fully written down, totaling a negative impact of EUR 16.4 million on the net result. In comparison, goodwill in 2012 was impaired by EUR 3.8 million.

Included in *'Other'* are the expenses and finance costs of Kardan. In 2013, the financing expenses were negatively impacted by a revaluation loss (EUR 10 million) related to foreign exchange differences (Israeli Shekel versus Euro) with regard to the debentures. Overall, the negative contribution of 'Other' expenses relating to continuing operations amounted to EUR 45.9 million in 2013

(2012: EUR 7.3 million positive contribution, mainly due to EUR 43 million financial income on the buy-back of debentures).

The **loss from discontinued operations**, which is included under 'Other', is fully attributable to the financial results of GTC SA during the year and the results of the disposal of this investment in Q4 of 2013. The result includes the impairment of the investment in GTC SA to its market value less costs of sale in the amount of EUR 43.9 million as well as the gain of EUR 3.5 million reported in Q4 2013, as the sales price was higher than market value as of September 30, 2013.

For further details see Note 5 C of the financial statements.

The 2013 **net result** for equity holders of Kardan N.V. amounted to a loss of EUR 101.4 million (2012: loss of EUR 32.8 million).

The 2011 net result of Kardan N.V. amounted to a loss of EUR 149.3 million, mainly following substantial negative revaluations of real estate assets of the then held investment in GTC SA, as well as impairments in the Banking and Retail Lending segment.

Highlights per segment

Every segment result for 2013 is analyzed separately below.

The result from operations before finance expenses of each segment is presented in Note 29 of the consolidated financial statements called 'Segment result'. In this chapter, additional segment information is provided for information purposes.

Real Estate

During 2013, Kardan was active in development and management of Real Estate through two segments:

1) Asia, which includes its 100% subsidiary Kardan Land China, and 2) Europe, which included the investment in 27.75% of the shares of GTC SA. In the fourth quarter of 2013, Kardan sold its stake in GTC SA, and consequently the segment Real Estate Europe is no longer presented as a separate segment but reported under 'Other'.

GTC SA is listed on the Warsaw Stock Exchange. For full details on the GTC SA 2013 results, which were published on March 20, 2014, reference is also made to the company website: www.gtc.com.pl.

Real Estate Asia

Kardan Land China's strategy is to focus on the development of mixed-use projects, i.e. shopping malls in combination with (service) apartments and Small Office Home Office apartments (SOHO), in China's tier-2 and tier-3 cities, which have above (country) average growth. Over the last 30 years, the Chinese economy has gradually gone from being an economy controlled by the central government to being a market economy that is more open to international markets. China's current five-year plan (2011-2015) focuses on 'Quality Growth', namely: accelerated growth that is sustainable at the same time, i.e. that such growth can be maintained at a level in which there is a balance between industrial development and urbanization on the one hand and such matters as environmental protection and the individual's quality of living on the other. As purchasing power and internal consumption are stimulated, the urbanization continues and the middle-class expands, the underlying fundamentals for shopping centers and for low-to mid-end residential real estate in tier-2 and tier-3 cities remains.

Board Report

Results Real Estate Asia

€ in million	For the year ended December 31		For the three months ended December 31	
	2013	2012 *	2013	2012 *
Delivery of units	24.0	–	24.0	–
Management fee and other revenues	5.0	4.9	1.4	1.5
Other expenses, net	21.9	2.3	20.3	0.5
Gross profit	7.1	2.6	5.1	1.0
SG&A expenses	8.3	7.3	2.6	2.7
Adjustment to fair value (impairment) of investment properties and gain on disposal of assets	8.9	10.4	3.7	10.4
Equity earnings (losses)	14.5	9.7	7.8	3.9
Result from operations before finance expenses	**22.2**	**15.4**	**14.0**	**12.6**
Financing income (expenses), net	(0.1)	0.3	0.2	(0.7)
Income tax (expenses) / benefit	(3.8)	(1.6)	(3.2)	(2.0)
Profit (loss) from continuing operations	**18.3**	**14.1**	**11.0**	**9.9**
Net profit (loss)	18.3	14.1	11.0	9.9
Attributable to:				
Equity holders (Kardan N.V.)	**18.3**	**14.1**	**11.0**	**9.9**

Additional information Real Estate Asia

€ in million	2013 (31.12)	2012 * (31.12)
Balance sheet		
Share of investment in JVs	105.8	93.1
Investment Property Under Construction	118.1	82.4
Inventory	96.9	95.3
Cash & short term investments	26.2	36.1
Total Assets	364.7	326.5
Loans and Borrowings	60.9	37.8
Advance payments from buyers	5.7	8.9
Total Equity	269.5	256.8

*restated according to IFRS 11

Additional information Real Estate Asia continue

	2013	2012	Q4 2013	Q4 2012
Jointly controlled ventures: Operational Information Residential				
Revenue (in EUR million)	79.2	60.4	38.0	11.7
Gross profit (in EUR million)	24.3	17.3	10.8	6.1
Apartments sold in period (a)	2,118	1,194	516	554
Apartments delivered in period	2,847 (b)	2,272 (c)	1,501 (b)	455 (c)
Total apartments sold, not yet delivered	3,308 (d)	4,037	3,308 (d)	4,037

	2013	2012	Q4 2013	Q4 2012
Jointly controlled ventures: Operational Information Retail (in EUR million)				
Revenue (50% rental Chengdu, 100% service fees)	7.4	6.4	2.0	1.8
Gross profit	4.8	3.8	1.4	1.4

(a) All residential apartments, incl. Dalian (100%), including units 'in reserve', for which contract is signed but less than 30% of sales price has been paid. The remainder of the price is on average deposited within approx. two months after signing of contract. 2013 includes 1% sold apartments (of total 2,118) in reserve, H1 2013 includes 22% of the total sold as at H1 2013.
(b) This number includes 120 Dalian apartments (100%); the remainder reflects 100% of the joint venture apartments of which KLC holds 50%
(c) Reflects number of apartments 100%; Kardan Land China holds 50%
(d) Includes approximately EUR 20 million gross profit (Kardan Land China share)

Revenues

In line with IFRS 11, KLC reports the results of its joint venture residential activities as well as the results of the 50% stake in retail center Chengdu as 'Equity in net earnings of joint ventures'. Therefore, the 'management and service recharge revenues' as presented relate to the 100% asset management activities of Chengdu. The revenues of the delivery of apartments of the Europark Dalian project (100%) are presented separately as 'delivery of units'.

Total revenues in 2013 increased significantly (y-o-y) compared to 2012 due to the hand-over of 120 apartments of the Europark Dalian project in Q4 of 2013 which are fully attributable to KLC. The sale of these apartments started in Q4 2012. The revenues from service management fees with respect to the retail center in Chengdu remained stable in 2013 compared to 2012.

Gross Profit

This comprises the gross profit on asset management services with a margin of 55% in 2013 (2012: 52%) and the gross profit on the delivery of the apartments of Europark Dalian in 2013, with a margin of 19%. No deliveries occurred in 2012.

Board Report

Sales & Marketing, and General & Administrative expenses (SG&A)
In 2013, these expenses were 15% higher than in 2012, predominantly due to an increase in staff with respect to the Europark Dalian project as well as to sales commission fees regarding the delivery of the Dalian apartments. SG&A expenses relating to the joint venture operations (Chengdu and the residential apartments excluding Dalian) are included in the Equity earnings of joint ventures.

Adjustment to fair value of investment property
A positive adjustment to fair value was recorded for the Europark Dalian retail center in all four quarters of 2013 as the construction progressed according to plan. The first valuation gain for Europark Dalian was recorded in Q4 2012.

Equity earnings / (losses)
This line item relates to the share of profit / (loss) of the joint venture companies (i.e. Chengdu and the residential projects excluding those in the Europark Dalian project, which is fully owned by KLC).
The y-o-y increase in equity earnings of over 50% can be explained by markedly better operating profits both for the residential as well as for the retail activities.

– *Residential*
  During Q4 2013, KLC delivered 1,381 apartments, which accounted for approximately 50% of the 2,727 apartments handed over during the full year 2013. The residential revenue for 2013 (revenue is recognized when apartments are handed over) increased by 31% (y-o-y), as 20% more units were delivered than during 2012, the mix of apartments was different and the average prices were higher. The gross profit margin (approximately 30%) on residential activities in 2013 was similar to that recorded in 2012.

– *Retail*
  Rental income from the 50% stake in Chengdu combined with 100% service management fees increased in 2013 y-o-y by 16% largely on the back of higher tenant turnover, an increase in the base rent following renewals and replacements and higher service management fees from tenants. During 2013, Galleria Chengdu organized many events, which strengthened the positioning of the mall and also led to an increase in footfall in comparison to last year. The gross profit margin on the retail activities (Chengdu) increased to 65% in 2013 (from 59% in 2012) following tight cost control.

Financing Income/expenses, net
The swing to net financing expenses as reported in 2013, from a net financing income in the same period last year, is mainly due to a negative foreign currency impact of EUR 0.9 million (RMB compared to the Euro, y-o-y) this year, whereas in 2012 it was a gain.

Income tax (expenses) / benefit
The current tax charge from the delivery of apartments combined with a deferred tax charge on the valuation gain on the retail center of Europark Dalian were the reason for the income tax expense in 2013.

Additional Information
Investment property under construction, which relates fully to the retail center of Europark Dalian, increased by 43% (from December 31, 2012) as the result of the construction progress according to plan and the consequential positive valuation. In line with this progress, ‘Loans and borrowings’, which primarily relates to the use of a construction loan for Europark Dalian was significantly higher at December 31, 2013 than at year end 2012.

At the end of 2013 ‘Advance Payments from Buyers’, relating only to the Europark Dalian apartments, was lower than at year end 2012 as a significant number of Dalian apartments were handed over in Q4 of 2013. In line with the equity method applicable to the Real Estate Asia segment results presentation the advance payments from the other (joint venture) residential projects are presented as part of the total amount ‘Share of Investments in joint ventures’ in the balance sheet. The y-o-y increase of EUR 12.7 million as at December 31, 2013 of the Share of investments in joint ventures is mainly on the back of the net profit of the residential projects and on the profit of the retail center in Chengdu which included a positive revaluation of EUR 1.5 million.

In general, KLC aligns the pace of construction to match the market conditions and to control the percentage of completed unsold apartments in the inventory. Given the higher pace of construction in the Europark Dalian buildings, the percentage as at December 31, 2013 was 6%, higher than at the end of 2012 (4%).

Water Infrastructure

Tahal Group International B.V. (TGI), Kardan's water infrastructure company, focuses on developing water assets (e.g. wastewater, water treatment and water supply plants) and on executing water related projects worldwide. Tahal Assets is mainly active in China but also in Turkey, whilst Tahal Projects is mostly involved in projects in Africa, Central and Eastern Europe, Latin America and in other regions and countries, such as Israel.

Results Water Infrastructure Assets (Tahal Assets)

€ in million	For the year ended December 31*		For the three months ended December 31 *	
	2013	2012 **	2013	2012 **
Contract revenues	31.0	35.6	9.6	9.3
Contract cost	16.1	22.7	5.5	6.4
Gross profit	14.9	12.9	4.1	2.9
SG&A expenses	6.4	6.7	1.8	1.8
Equity earnings / (losses)	(0.2)	0.1	–	(0.2)
Gain on disposal of assets and other income	0.2	0.4	0.1	(0.3)
Result from operations before financing expenses	**8.5**	**6.7**	**2.4**	**0.6**
Financing income (expenses) net	(3.5)	(4.4)	(1.2)	0.9
Income tax (expenses) / benefit	(2.8)	(2.0)	(0.9)	0.2
Profit (loss) from continuing operations	**2.2**	**0.3**	**0.3**	**1.7**
Net profit (loss)	2.2	0.3	0.3	1.7
Attributable to:				
Non-controlling interest holders	(0.9)	(0.7)	(0.2)	–
Equity holders (Kardan N.V.)	**3.1**	**1.0**	**0.5**	**1.7**

* Finance expenses of Tahal Group International have been allocated to Tahal Assets
** Restated to reflect the impact of IFRS 11.

Additional Information Tahal Assets

€ in million	2013 (31.12)	2012 (31.12)
Balance sheet		
Cash & short term investments	7.3	3.2
Total Assets	166.6	162.5
Net Debt (excl shareholder loans) *	62.4	53.2
Equity **	84.5	95.1
Equity ** / Assets	50.7%	58.5%

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

Revenues
The revenue of Tahal Assets is largely generated by Kardan Water in China.

Reported revenues comprise the operational revenues from rendering of water services and the effect of construction activities. The 13% drop in reported revenues of 2013 reflects substantially less construction activities of Kardan Water in China than in 2012, mitigated by an increase in revenues from rendering of services by Kardan Water (y-o-y) of 11%.

Gross profit
Higher revenues from rendering of water services and fewer construction activities in China during 2013 in comparison to 2012, reduced the impact of lower margin construction activities, which led to an increase in the gross profit margin to 48% in 2013 (2012: 36%).

Gain on disposal of assets and other income
This relates primarily to VAT tax exemption for Kardan Water China facilities, following a change in the VAT regulation in China.

Financing income (expenses), net
The y-o-y decrease of net financing expenses in 2013 can largely be explained by a positive impact of the valuation of the warrant and call option related to a loan which was provided by a private equity investor in 2010. In addition, interest bearing loans and borrowings for Kardan Water decreased by 5% (y-o-y) as at December 31, 2013.

It is noted that as of Q1 2013, Tahal Assets' joint venture activities in Turkey are reported according to the Equity method, in line with IFRS 11.
The comparative results have been adjusted to conform to these changes.

Results Water Infrastructure Projects (Tahal Projects)

€ in million	For the year ended December 31 *		For the three months ended December 31 *	
	2013	2012 **	2013	2012 **
Contract revenues	122.0	107.4	35.6	28.8
Contract cost	105.2	99.3	30.9	26.9
Gross profit	16.8	8.1	4.7	1.9
SG&A expenses	11.9	13.4	2.9	2.6
Equity earnings / (losses)	(0.1)	0.2	(0.1)	0.3
Gain on disposal of assets and other income (loss)	(0.9)	(1.1)	(0.3)	(1.0)
Result from operations before financing expenses	**3.9**	**(6.2)**	**1.4**	**(1.4)**
Financing income (expenses), net	(2.4)	(2.0)	–	(1.5)
Income tax (expenses) / benefits	(4.1)	0.9	(0.4)	1.0
Profit (loss) from continuing operations	**(2.6)**	**(7.3)**	**1.0**	**(1.9)**
Net profit (loss)	(2.6)	(7.3)	1.0	(1.9)
Attributable to:				
Non-controlling interest holders	0.3	0.1	0.1	(0.2)
Equity holders (Kardan N.V.)	**(2.9)**	**(7.4)**	**0.9**	**(1.7)**

* General and Administrative expenses of Tahal Group International have been allocated to Water Infrastructure Projects
** Restated to reflect the impact of IFRS 11.

Additional Information Tahal Projects

€ in million	2013 (31.12)	2012 (31.12)
Balance sheet		
Cash & cash equivalents	7	22.6
Total Assets	140.9	135.2
Net debt (excl. shareholder loans) *	(5.5)	(17.4)
Equity **	40.8	33.3
Equity ** / Assets	28.9%	24.6%
Other (in USD million)		
Backlog	320	391***

* Bank loans net of cash and cash equivalents
** Group equity including shareholder loans
*** Restated from USD 411 million to exclude the backlog of the former Polish subsidiary

Board Report

Revenues

Revenues grew by 14% y-o-y in 2013 mainly due to projects in Africa. In Q4 2013, revenues showed a 24% y-o-y increase on the back of accelerated progress in existing projects.

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

Gross profit

The gross margin in Q4 2013 at 13% was significantly better than in Q4 2012 (7%) largely due a mix of better performing projects and due to the fact that the Polish activities no longer negatively impacted the gross profit. For the full year 2013 the gross margin increased to 14% (2012: 8%) for the same reasons.

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

SG&A expenses continued to decrease (2013: 11% less than in 2012). Marketing expenses in particular were lower in 2013 than in 2012 as the business orientation was more focused.

Gain (loss) on disposal of assets and other income

The small loss reported in 2013 includes the gain realized on the sale of Tahal's rights in a leased real estate asset in Tel Aviv, Israel which was completed in Q1 2013 and the write-off of the investment in the Polish subsidiary in Q3 2013.

Financing income / (expenses) net

Net financing expenses in 2013 were slightly higher than in 2012 particularly on negative foreign currency effects.

Income tax (expenses) / benefit

The substantial increase in tax expenses in the reporting period compared to 2012 is primarily attributable to the reversal of a tax asset relating to Tahal's Polish subsidiary as well as to the sale of the real estate asset in Tel Aviv in Q1 2013.

Additional information Tahal Projects

Due to long process cycles of projects, delays occurred in closing new contracts during 2013 impacting the backlog position which stood at USD 320 million on December 31, 2013 (year end 2012: USD 391 million, as adjusted for elimination of USD 20 million backlog of Tahal Poland). In Israel, Tahal Projects is working, among other, on the large Pumped Storage project, which entails building an electricity generating facility.

Banking and Retail Lending

Kardan operates in the financial services sector through its 100% holding in Kardan Financial Services (KFS), which owns 100% of TBIF (banking and retail lending), mainly in Bulgaria and Romania. In addition, KFS is active in Ukraine with leasing activities through its 66% holding in Avis Ukraine. In line with IFRS 11, Joint Arrangements, the results of Avis Ukraine and two other small entities are presented according to the equity method. In May, 2012, TBIF completed the sale of its 50% in the Russian Sovcombank to its co-shareholder in the bank.

Results Banking and Retail Lending

€ in million	For the year ended December 31		For the three months ended December 31	
	2013	2012 *	2013	2012 *
Banking and retail lending activities	24.4	11.0	6.4	3.0
Other revenues	1.6	2.9	0.2	1.5
Total revenues	26.0	13.9	6.6	4.5
Costs of banking and lending activities	25.2	23.6	4.4	6.8
Other expenses, net	1.1	2.9	0.9	0.4
Gross profit	(0.3)	(12.6)	1.3	(2.7)
SG&A expenses (income)	1.1	1.5	0.1	0.5
Equity earnings / (losses)	(2.7)	0.9	0.4	0.1
Gain (loss) on disposal of assets and other income (loss)	(8.4)	(1.2)	(5.0)	(0.6)
Impairment losses on goodwill	(3.9)	(3.8)	(0.5)	(3.0)
Result from operations before financing expenses	**(16.4)**	**(18.2)**	**(3.9)**	**(6.7)**
Financing income (expenses), net	(1.9)	(3.1)	(0.1)	2.0
Income tax (expenses) / benefits	(0.5)	–	(0.7)	–
Profit (loss) from continuing operations	**(18.8)**	**(21.3)**	**(4.7)**	**(4.7)**
Net profit (loss) from discontinued operations	–	0.5	–	–
Net profit (loss)	**(18.8)**	**(20.8)**	**(4.7)**	**(4.7)**
Attributable to:				
Equity holders (Kardan N.V.)	**(18.8)**	**(20.8)**	**(4.7)**	**(4.7)**

Additional information KFS Banking and Retail Lending

€ in million	2013 (31.12)	2012 * (31.12)
Balance sheet		
Net loan portfolio	137.2	124.7
Cash & short term investments	64.1	31.1
Total Assets	268.3	223.6
Deposits	149.7	67.2
Total Equity	29.2	42.6
Portfolio quality		
Provisions / non performing loans	77%	75%

* Restated to reflect the impact of IFRS 11.

Board Report

Revenues
TBIF continued to improve its performance in 2013 with revenues which were almost twice as high as in 2012 due to better origination and quality of portfolios and targeted risk management (and consequentially less provisions deducted from revenues). In Q4 2013, revenues showed a y-o-y increase of 47% mainly as a result of a growth in gross portfolios in Bulgaria, particularly in retail lending.

Gross profit
'Gross result' in 2013, although still slightly negative, was significantly better than in 2012 mainly on the back of better revenues particularly in Bulgaria. The increase in costs of banking and lending activities is a reflection of the higher revenues and the relating growth of the sales force, especially in Romania.

Equity earnings
These relate predominantly to the leasing activities of the joint venture Avis Ukraine, of which TBIF holds 66%, as well as to the mortgage activities operations in Bulgaria (of which 50% is owned). The equity earnings result in 2013 includes an improved operational result of Avis Ukraine which was off-set by an impairment on the investment in Avis Ukraine in the sum of EUR 4.1 million as TBIF announced its intention to sell Avis Ukraine.

Other income (loss)
'Other income' in 2013 is in respect of the one-off recovery payment relating to a former investment in Serbia which was reported in Q1 2013, a partial reversal of the provision which was taken on the Bulgarian retail portfolio in previous quarters and an impairment of an intangible asset as well as an impairment of intangibles relating to TBI Bank in Q4 2013, all totaling a loss of EUR 8.4 million.

Impairment losses on goodwill
In 2013, goodwill impairments totaling EUR 3.9 million were recognized predominantly on the Romanian activities, on the back of continued challenging market circumstances.

Financing income (expenses), net
As KFS repaid its entire external debt in 2012, financing expenses have decreased markedly in 2013 compared to 2012.

Additional Information
As at December 31, 2013, the total net loan portfolio of KFS is 10% more than as at December 31, 2012, mainly due to an improvement in origination, less need for provisioning and slightly off-set by repayments. TBI Bank, in Bulgaria in particular, reported a doubling of the value of deposits (y-o-y) as at year end 2013. In Q4 2013, deposits increased by 5% when compared to the balance as at September 30, 2013. In Bulgaria, deposit taking from corporates showed a larger growth rate than from retail clients. In Romania, where deposit taking was initiated in the second quarter of 2013, deposits derive predominantly from retail clients.

'Other'

€ in million	For the year ended December 31		For the three months ended December 31	
	2013	2012	2013	2012
General and administration expenses	5.8	7.2	1.9	1.6
Equity earnings (losses)	0.8	(6.2)	0.3	(0.4)
Financing income (expenses), net	(37.7)	18.9	(4.5)	(12.3)
Income tax (expenses) / benefit	(3.2)	1.8	0.1	1.0
Profit (loss) from continuing operations	(45.9)	7.3	(6.0)	(13.3)
Net profit (loss) from discontinued operations	(75.2)	(132.4)	3.5	(88.6)
Net profit (loss)	**(121.1)**	**(125.1)**	**(2.5)**	**(101.9)**
Attributable to:				
Non-controlling interest holders	(20.0)	(105.5)	–	(69.3)
Equity holders (Kardan N.V.)	**(101.1)**	**(19.6)**	**(2.5)**	**(32.6)**

General

The results under 'Profit (loss) from continuing operations' relate to the holding and finance expenses of Kardan N.V. and its direct subsidiary GTC Real Estate Holding BV (GTC RE). In addition, as the 27.75% stake in GTC SA was sold in the fourth quarter of 2013 the segment Real Estate Europe is no longer presented as a separate segment but included in this presentation of 'Other Expenses'.

General and Administrative expenses

The substantial decrease of these expenses recognized in 2013 compared to 2012 is to be explained by a downsizing of management at Kardan holding and a reduction in other professional service costs.

Financing income (expenses), net

Whereas in 2012 a substantial financial income could be recognized on the back of the gain on the buyback of debentures, in 2013, the financing expenses were negatively impacted by a revaluation loss (EUR 10 million) related to foreign exchange differences with regard to the Debentures, resulting from the strengthening of the Israeli Shekel (NIS) versus the Euro. Currently, the company equity is mostly exposed to the Chinese RMB on its assets side and to NIS on its liabilities side. Changes in the NIS exchange rate mostly impact the income statement while changes in RMB mostly impact the equity directly.

In Q4 2013 a positive foreign exchange impact was recognized of EUR 1.4 million, whereas in the comparable quarter last year financing expenses were impacted negatively by EUR 9 million foreign exchange and CPI.

Income tax

The income tax expense relates to deferred and current tax on hedge instruments.

Net profit (loss) from discontinued operations

The result amounting to EUR 75.2 million loss fully derives from the company holding in GTC SA and includes the financial results of GTC SA during the year as well as the result of its sale in Q4 2013.
The net impact of GTC SA on the net profit of Kardan N.V. amounted to a loss of EUR 55 million, as the allocation to non-controlling interest holders in Q1 2013 – when GTC SA was still fully consolidated – should be taken into account.

Board Report

Financial position of the holding companies of the Kardan Group

The net debt position of Kardan N.V., GTC RE BV, Emerging Investments XII, KFS BV and TBIF BV as of December 31, 2013 decreased to EUR 325.4 million from EUR 425 million as of December 31, 2012, mainly as a result of the sale of GTC SA.

The following table summarizes the net debt of Kardan N.V. and if applicable of its directly held subsidiaries (company only) as of December 31, 2013:

€ in million Company	Net Debt *	
Kardan NV / GTC RE / Emerging Investments XII**	**Liabilities:**	
	Debentures	(400.2)
	Assets:	
	Loan to KFS	42.2
	Loan to TGI	2.1
	Cash and short term investments	38.4
	Net debt	(317.5)
KFS/TBIF	**Liabilities:**	
	Loans from Kardan NV	(42.2)
	Assets:	
	Cash and short term investments	1.4
	Loans to others	11.0
	Loans to subsidiaries	21.9
	Net debt	**(7.9)**
TGI	**Liabilities:**	
	Loans from others (and related warrant)	(16.2)
	Loan from Kardan NV	(2.1)
	Assets:	
	Cash and short term investments	0.4
	Loan to subsidiary	2.1
	Net debt	**(15.8)**

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

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

Consolidated Balance Sheet

Total assets
Total consolidated assets decreased to EUR 925 million as at December 31, 2013 from EUR 3.0 billion as at December 31, 2012 (restated from EUR 3.3 billion to reflect the impact of IFRS 11, 'Joint Arrangements'), predominantly due to the deconsolidation and subsequent sale of GTC SA following which investment properties decreased by approximately EUR 1.2 billion.

Consolidated equity
The consolidated equity decreased to EUR 72 million as at December 31, 2013 from EUR 709 million as at year-end 2012, resulting from the loss in the period (EUR 101 million) and the deconsolidation of GTC SA (the main impact was the decrease of the non-controlling interest of EUR 0.5 billion).

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

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

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

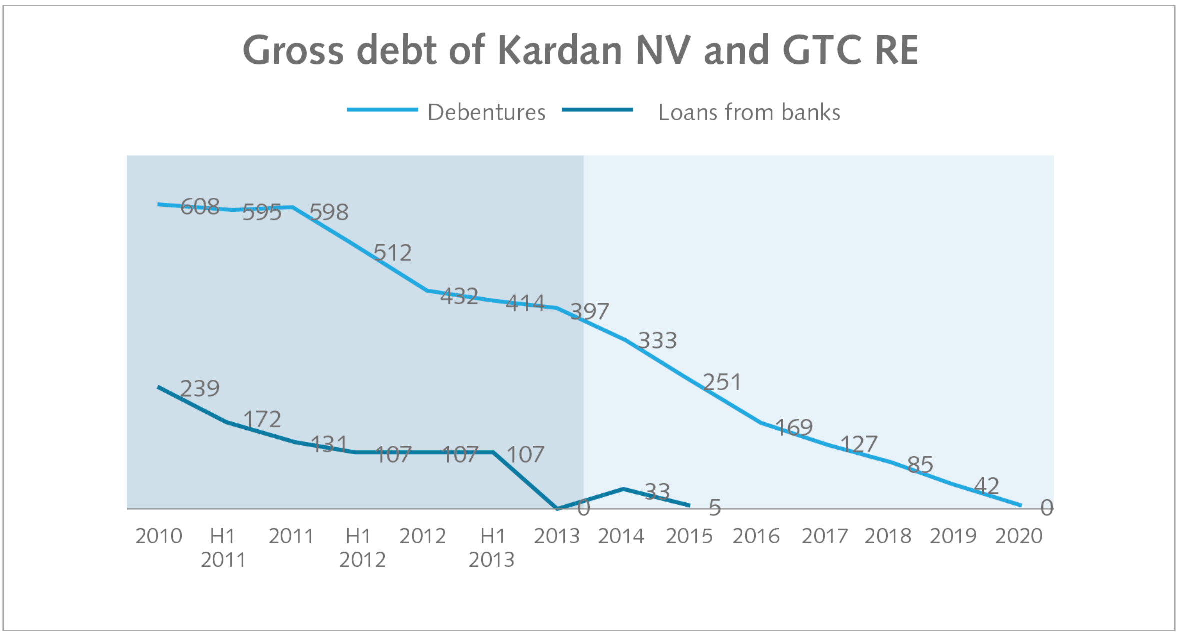
€ in million	2013	2012 *
Total Assets	486	642
Total Equity	66	166
Equity/Total assets (%)	14%	26%

* Restated to reflect the retrospective impact of adopting IFRS 11 (Joint Arrangements) and the effect of a reclassification regarding GTC Investments out of 'held for sale'.

Total assets
Kardan N.V.'s total assets decreased by EUR 156 million, which is mainly the result of the sale of GTC SA of which the proceeds were used for deleveraging, as well as due to the loss in the period.

Shareholder's equity
Shareholder's equity of Kardan N.V. decreased from EUR 166 million as of December 31, 2012 to EUR 66 million as of December 31, 2013, mainly due to the result in the period.

Interest bearing liabilities
Kardan N.V. owed EUR 397 million to bond holders as at December 31, 2013, (December 31, 2012: EUR 450 million including accrued interest). The cash position of Kardan N.V. and its intermediate holding companies decreased by EUR 15 million to EUR 38 million, as of December 31, 2013.



* Company Only – Kardan N.V. & GTC RE (principals only as at December 31, 2013)
Amounts exclude accrued interest and hedges.

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

Company Only – Kardan N.V. & GTC RE
(principal only as at February 28, 2014)

€ in million	03 thru 12/2014	2015	2016	2017	2018	2019	2020	Total
Debentures – Series A *		40	40					80
Debentures – Series B		42	42	42	42	43	42	253
Loans from Banks	28	5						33
Total	**28**	**87**	**82**	**42**	**42**	**43**	**42**	**366**

* Net of debentures held by subsidiaries

Kardan N.V. has extended guarantees in favor of third parties for the liabilities of companies in the Kardan Group stemming from various loans. The balance of the guarantees amounts to, as at December 31, 2013 and around the date of these annual accounts, approximately EUR 7.6 million (relating to TGI and its subsidiaries). In addition, Kardan N.V. extended a performance guarantee regarding the financing of Tahal's project in Angola (Quiminha) and Tahal's liabilities in case of no-performance. At balance sheet date this guarantee is estimated at EUR 29 million.

The Company plans to service the liabilities maturing in the years 2014 and 2015 according to the following cash-flow projection:

Cash flow forecast

€ in million Cash flow forecast	January 1, 2014 - December 31, 2014	January 1, 2015 – December 31, 2015
Cash and cash equivalents at the beginning of the period – Kardan NV*	**22.1**	**104**
Cash and cash equivalents at the beginning of the period – GTC RE	**16.3**	**0.9**
Company only resources		
From operating activities		
General and administration expenses	(5.5)	(5.5)
From investing activities		
Sale/refinance of assets in the group	120	100
Other	0.2	0.2
From financing activities		
Loan from bank	33	–
Resources from investee companies		
From operating activities in investments – Loan repayment or grant	23.5	27.6
From operating activities in investments – Management fees	0.9	0.5
Total resources	**210.5**	**227.7**
Expected Uses		
For financing activities		
Repayment of a loan and liability to the bank	36	5
Interest payment of loans	1.7	0.4
Interest payment of debentures – Series A	0.7	3.6
Interest payment of debentures – Series B	1.7	12.4
Principal payment of debentures – Series A	35.1	40.8
Principal payment of debentures – Series B	30.4	42.1
Total Uses	**105.6**	**104.3**
Cash and cash equivalents at the end of the period	**104.9**	**123.4**

* Includes a cash balance related to Emerging Investments XII in the amount of EUR 5 million.

Assumptions and Notes to the cash flow forecast:

1. The cash-flow projection has been jointly prepared for Kardan N.V. (company-only) and its wholly owned subsidiaries GTC Real Estate Holding BV (company-only) and Emerging Investments XII BV as the treasury of these companies is centralized. With respect to limitations regarding the transfer of funds between Kardan NV and GTC RE please see below under point 8.

2. The forecasted General and administration expenses are based on estimates of the Company according to its past experience.

3. In 2014 and 2015, 'Sale of assets' includes the sale of shares in subsidiaries and other group companies and of real estate assets which are held by the subsidiaries.
   Possible scenarios could be as follows:
   a) Sale of real estate projects in China and distribution of (part) of the proceeds as dividend;
   b) Sale of shares of unpledged subsidiaries or Joint Ventures, or pledging of shares for receiving a loan;
   c) Sale of shares of pledged investee companies and redeeming the underlying loan, whereby the potential surplus amount will be paid to Kardan N.V.

4. In 2014 and 2015, most of the loan repayments are mostly due to be received from KFS.
   The balance of the shareholder's loan to KFS amounted to EUR 42.2 million as of the balance sheet date. This loan was assigned to Emerging Investments XII BV, which in its turn distributed the proceeds as dividend. The remainder of the payment in 2014 is expected to be received as dividend or a loan grant from a subsidiary.

5. The amount of Management fees from investee companies is based on existing agreements between the Company and its subsidiaries as of the balance sheet date.

6. The Interest calculations are based on CPI, exchange rates and interest rates which are applicable as of December 31, 2013. The principal and interest payments for the debentures include the amount net of the interest which relates to the debentures held by GTC RE and Emerging Investment XII BV (wholly owned subsidiaries of the Company) but not net of the debentures which are held by TCE (a subsidiary of TGI).

7. The cash flow forecast does not include any additional investments which the Company will make once those will be approved by the appropriate bodies in the Company. As of the authorization of these financial statements, the Company did not approve any new investments.

8. Limitations on transferring funds: transfer of funds between Kardan N.V. and GTC RE is done through the repayment of a shareholder's loan, of which the balance amounts to EUR 26.7 million as of December 31, 2013. In addition, GTC RE has free distributable reserves according to Dutch law amounting to EUR 195.7 million as of December 31, 2013. The Company and GTC RE own shares in other subsidiaries (as specified in section 'value of investments' in this report) which are not pledged.

9. Restrictions on transfer of funds: money transfer from Emerging Investments XII BV to the Company is done by dividend payment from Emerging Investments XII. Retained earnings according to the Dutch law are in the amount of EUR 124.2 million as of December 31, 2013.

10. Covenants: on January 29, 2014, GTC RE received a loan from a lending bank in the amount of EUR 33 million. Under the conditions of the loan there are certain covenants and restrictions on transferring cash from certain subsidiaries, which precede the full repayment of the 2014 installment of the debentures in the amount of

EUR 68 million from existing cash balances and repayment of loans from subsidiaries in the amount of EUR 11 million and the loan in the amount of EUR 33 million.

11. This estimate is forward looking information as defined in the Israeli Securities Act, based on management assumptions and expectations.

The aforesaid may not materialize completely or part thereof, or materialize in a different manner, including materially different from what is expected as a result of changes in the state of the market, difficulties in raising credit, decrease in value of investments and change in cash amounts expected to be received from affiliated companies.

Comparison table and explanation for material deviations

€ in million Cash flow forecast	January 1, 2013 - December 31, 2013 (projected)	January 1, 2013 - December 31, 2013 (actual)	Comments and explanations
Sources			
From investing activities			
Sale of assets	85	169.4	(1)
Resources from investee companies			
From operating activities in investments – Loan repayment	30	27	(3)
Uses			
Loan repayment	6	107	(1)
Interest payment of debentures – Series A	6	11	(2)
Interest payment of debentures – Series B	14	26.1	(2)
Principal payment of debentures – Series A	35	43.4	(2)
Principal payment of debentures – Series B	–	11.7	(2)

Comments and explanations:

(1) During the year, GTC RE completed the sale of GTC SA. The consideration from the sale of GTC SA was the main reason the inflow from sale of assets exceeded the company's projections (for additional information reference is made to the paragraph 'Main events in the period').

(2) As was agreed with the debenture holders, the sale of GTC SA triggered an early repayment with the debenture holders (for additional information reference is made to the paragraph 'Main events in the period').

(3) Loan repayments from subsidiaries were lower than planned due to the inability to complete the transaction to sell Avis Ukraine (for additional information reference is made to the paragraph 'Main to events in the period').

Covenants

As at reporting date, December 31, 2013, the Company and its subsidiaries were not in breach of any covenants.

For additional information on covenants, see Note 28 in the 2013 Financial Statements.

Dividend 2013

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

Dividend pay-out may vary from year to year. Due to the loss for the year under review, and taking into account the financial position of Kardan N.V. as well as the concession granted to the Debenture holders that no dividend will be distributed until the February 2015 repayment (principal and interest) has taken place and in any event that no dividend will be distributed before the publication of the annual accounts of 2013, the Board has decided not to distribute any dividend from the reserves for the financial year 2013.

Outlook 2014

Kardan N.V.

Management of Kardan deems it in the interest of all its stakeholders to continue with its plans to encourage its business segments to improve their results thereby creating value and generating cash in order to meet the obligations to the debt holders.
Management is committed to succeed in growing our existing businesses and strengthening the financial position of Kardan.

The outlook 2014 for the divisions and segments are published in the next chapters, the Board Reports with respect to the three divisions (pages 45 to 86).

Real Estate Division

General

Kardan, through its wholly owned subsidiary GTC RE, operates under the brand name Kardan Land China (KLC) in the real estate segment in China, and operated in Central and (South) Eastern Europe as GTC SA until November 2013, when GTC RE sold its 27.75% stake in GTC SA for a consideration of EUR 160 million.

Development of Group companies

GTC RE

The main activity of GTC RE as holding company of the real estate activities of Kardan is the management of the investments in KLC and, up to November 2013, of GTC SA as well as the financing of these investments.

Real Estate Asia (Kardan Land China)

Market development China
China's economic growth in 2013 arrived at 7.7% (y-o-y), similar to 2012 and slightly higher than the planned 7.5% annual growth as indicated by the Chinese government. In the fourth quarter of 2013, GDP increased (y-o-y) by 7.7%, a little lower than in the third quarter (7.8%) due to less export growth, lower industrial production and less investments. Overall, however, the growth during 2013 was more investment-led than it was driven by domestic demand, whereas the focus of the Chinese government is to shift from an export-oriented economy to one focused on internal demand and to achieve economic stability. Therefore, the government again introduced reform measures to cool down the real estate market during 2013, such as a capital gains tax on the sale of real estate property as well as a hike in down-payments on second mortgages, among other things.

KLC's strategy is to develop mixed-use real estate projects (retail centers that offer a lifestyle experience by including entertainment facilities, for instance, combined with residential apartments) in cities where the expectation is that the growth in the purchasing power of the middle-class will exceed that of the country average. In 2013, total retail sales of consumer goods showed an annual rise of 13.6%, supported by a nominal annual increase in the per capita disposable income of urban households of 9.7% (annual real growth of 7% after deducting price factors as particularly food became more expensive by approximately 4.7% y-o-y, whereas the inflation rate arrived at 2.5% as at year-end 2013). In addition, the urban population increased by 2.7%, whereas the rural population decreased by 2% during 2013, mainly due to urbanization.

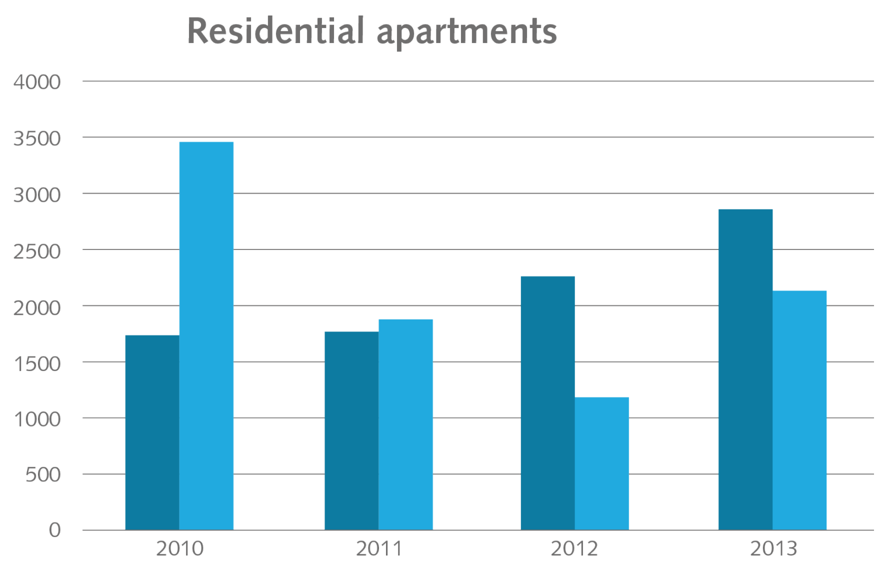
In general, the competition in the Chinese real estate market has intensified as new supplies are increasing, both in the residential sector and the retail sector. KLC selects its locations carefully and focuses its marketing efforts specifically on the middle- and higher-middle-class buyers. With respect to its retail center Galleria Dalian which is planned to be opened by the end of 2014: as of December 31, 2013, KLC had signed lease agreements and LOIs of over 25%, with additional negotiations ongoing in various stages.

Portfolio of Kardan Land China
At the time of its incorporation in 2005, KLC initially only focused on residential real estate development, in tier-2 and tier-3 cities, which it undertook together with a partner in order to spread the risk and to obtain a good and local reputation. Over time, KLC also started to focus on retail development and in November 2010 the first stand-alone shopping center was opened in Chengdu. Currently, KLC is mainly dedicated to developing mixed-use projects, in which residential apartment buildings are constructed conjunct with retail center(s) on one location.
In May 2012, the large project 'Europark' was initiated which comprises a shopping center, two SOHO buildings, two luxury apartment buildings, a service apartment/office building and parking spaces, totaling a gross buildable area of 327,006 sqm located at the East Port Area in Dalian. The completion of the shopping center is planned in the second half of 2014. In line with its strategy to spread its construction pace to minimize risk, KLC envisages to continue to develop

mixed-use projects in close co-ordination with leading retailers, in tier-2 and tier-3 cities, which generally show an above (country) average growth rate in GDP.

As mentioned, in all of the purely residential projects, KLC co-operates with Lucky Hope, a company from Hong Kong, generally on a 50/50 basis. The joint venture projects are located in Shenyang (2), Xi'an and Changzhou and represent a total of approximately 27,000 apartments (100%; KLC share is 50%), of which approximately 50% has already been sold and of which some 18% has not yet been completed. KLC similarly has joint (50%) ownership of the shopping center in Chengdu, with the private equity fund MGPA. The Europark project in Dalian is wholly owned.

During the four quarters of 2013 a fairly consistent and high number of residential apartments were sold (total 2,118), which was an increase of over 77% compared to the number sold in 2012. Most of this growth is attributable to KLC's policy to follow market demand, i.e. the initial size and design of the apartments were adapted and the selling prices in the projects with the partner Lucky Hope were reduced. It also seems as if buyers are considering the Home Purchase Restrictions imposed by the Chinese government a consistent characteristic of the real estate market.



	2010	2011	2012	2013
Hand over Yearly	1,748	1,767	2,272	2,847
Sold Yearly	3,461	1,883	1,194	2,118

1. Sold apartments: numbers relate to all residential apartments, including the Dalian apartments. Apartments are sold once the contract has been signed and a minimum deposit of currently 30% of the sale price has been paid, otherwise the apartment is 'reserved' until 30% or more has been received by KLC. The remainder of the price is on average deposited within approximately two months after the contract has been signed. 2013 includes 1% of the mentioned sold apartments (2,118) as reserved.
2. In 2013, 120 Dalian apartments were handed over, of which KLC holds 100%. The rest reflects number of apartments 100%, but Kardan Land China holds 50%.

Following a significant effort in the fourth quarter of 2013, 1,501 apartments were handed over, representing over 50% of the annual number of 2,847 in 2013. It is noted that out of this total 120 apartments relate to the Europark Dalian project and are therefore 100% attributable to KLC, whereas the other apartments are held for 50%. As revenue is recognized at the time the apartments were handed over, the impact in the fourth quarter was substantial. For details on the financial results, reference is made to the chapter 'Financial Review 2013' on page 23.

As at December 31, 2013, 6,004 apartments were held in inventory of which 55% was sold (2012: 63%). The decrease in the percentage of sold units in the inventory is due to KLC's decision to speed up the pace of construction in order to be more aggressive in its sales efforts as well as due to the Europark Dalian project, for which the construction is also done in a high pace.

In April 2014, Kardan Land Dalian ('the Project Company'), a wholly owned subsidiary of KLC, completed the signing of a Letter of Intent ('LoI') with a Chinese investor (the 'Purchaser') for the sale of building A2 in the Europark Dalian project in China, which comprises 201 'SOHO' units as well as 100 parking spaces ('the Transaction'). The total consideration is RMB 334 million (approximately EUR 39 million).

After the signing of the LoI, the Purchaser paid a deposit of 10% of the total consideration that can be refunded only in case the final purchase agreement will not be signed due to the shortcomings of the Project Company.

The completion of the Transaction is subject to various conditions precedent, including the signing of the final purchase agreement. It is not certain at this time that the sale will be completed. The proceeds of the Transaction will be used by the Project Company to further develop the project.

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

In the commercial real estate sector, KLC's competitors currently are mainly local developers focused on the tier-2 and tier-3 cities.

As of 2005, KLC has been developing residential projects in tier-2 cities and has consequently built up a good reputation with numerous service suppliers and government agencies, which helps to expand its operations in the cities in which it operates as well as in new regions. Competition varies in each project and depends, among other things, on other projects built in the immediate vicinity.

Given the scattered competition, it is not possible to estimate KLC's share in the Chinese real estate market.

Funding
The Chinese projects are funded through shareholder equity, supplier credit, advance payments from apartment buyers, and loans from banks, which are secured by pledging land. The total book value of the investment in KLC in the financial statements of GTC RE amounted to EUR 269.5 million as of December 31, 2013 (December 31, 2012: EUR 257 million). The increase is mainly due to the result in the reporting period.

In August 2012, Kardan Land Dalian (the 'Project Company'), a wholly owned subsidiary of KLC, had entered into a construction loan agreement of RMB 500 million (approximately EUR 60 million) with a construction bank for the development of Europark in Dalian. As at December 31, 2013, the entire amount was drawn under this agreement, with an effective interest rate of 8.3% p.a. On top of this agreement, in February, 2014, the Project Company entered into an agreement with the same bank which had formed a syndicate with another Chinese bank, for an additional credit of RMB 400 million (approximately EUR 48 million), bringing the total loan to RMB 900 million. The duration of the Credit is three years and seven months, until September 2017 and repayment will be done in three tranches. Kardan Land China estimates that it will not need additional external funding within the next 12 months for financing its current activities.

Risks during 2013

The Chinese real estate market is characterized by a high level of political intervention by the Chinese government which makes a great effort to try to curtail the capital appreciation of (higher-end) urban private housing while simultaneously encouraging the development of social housing units and apartments targeted at first time home-buyers and occupiers. In the beginning of 2013, for instance, the Chinese government issued a recommendation to implement an option, which legally already existed, to charge a 20% capital gains tax on the profit of the sale of residential property and to prefer this option to the other option, which is a 2% (on average) charge of the transaction value.

KLC focuses on tier-2 and tier-3 cities with an above country average economic growth rate, where it aims to develop apartments for 'own use' buyers from the middle- to higher-middle-class. In addition, for the majority of its residential real estate projects KLC cooperates in a 50/50 joint venture with a Chinese partner in order to understand and deal with the political gamesmanship optimally. The construction of the projects is phased according to demand in order to minimize the number of apartments in inventory.

Whilst the urbanization continues, local governments are in need of cash and are consequently willing to sell more land. Moreover, the disposable income of the middle-class increases, in turn supported by the proactive policies of the central government to stimulate internal demand and therefore also retail sales. These fundamentals have led to an increase in competition, and in some locations to oversupply of retail property. KLC focuses on active asset management of its retail center Galleria Chengdu, addressing the needs of the tenants and assisting them in strong positioning through marketing events. The location of Europark Dalian, relatively secluded from competitive malls, and the fact that the mall will be accessible by means of public transport as the subway will have a stop in the project location, are key characteristics of KLC's approach to retail development.

Environmental and Social Governance

KLC is required to comply with various provisions regarding the protection of the environment, such as noise, pollution, soil impact etc. when developing new real estate projects. Before acquiring land, therefore, KLC conducts preliminary tests to examine compliance with the environmental provisions. In addition, KLC works with the best (inter)national consultants to ensure that their assets address the needs and requirements of the future residents and tenants, but also to create sustainable real estate which is an asset to its surroundings and its environment. Europark Dalian, for example, is designed and will be operated according to the LEED (Leadership in Energy & Environmental Design) standard.

Kardan Land China has been granted several awards for its development activities in the past years, such as the Best Retail Development – China award in 2010 (Asia-Pacific Property Awards) for its Galleria Chengdu, and in 2013 the Europark Dalian shopping mall won the Design Innovation Award, which was handed out by Mall China, the largest representative organization of China's retail centers. In March 2014, Europark Dalian was nominatedto win three different honors at the prestigious Asia-Pacific Property Awards 2014, which event will take place in May 2014, in the categories of mixed-use, residential and retail development.

As of December 31, 2013, the total number of employees in China is 362 compared to 346 at year-end 2012. Thirty-one people were located at the head office of KLC, which is located in Beijing, as of December 31, 2013, one less than as at December 31, 2012. For 2014, it is expected that the number of staff will remain fairly stable.

For the 2013 financial result of Kardan's real estate segment (Real Estate Asia) we refer to the chapter 'Financial Review 2013' on page 23.

Real Estate Europe (GTC SA)

As Kardan sold its stake in GTC SA in the fourth quarter of 2013, the segment Real Estate Europe ceased to exist. The discontinued operations of GTC SA are presented under 'Other' in the chapter 'Financial Review 2013', on page 23.

GTC SA is listed on the Warsaw Stock Exchange. For details on the GTC SA 2013 results reference is made to the company website www.gtc.com.pl.

Outlook 2014

Real Estate Asia

Kardan Land China expects to deliver approximately 1,900 apartments during 2014 (2013: 2,847), albeit with higher average prices. In addition, KLC aims to sell approximately the same number of apartments as in 2013 (2,118), pending the economic situation in China and the possible measures which the Chinese government may take to fight speculation in the real estate market.

The opening of the Europark Dalian retail center is planned to take place in H2 2014. Based on many (re)new(ed) lease contracts during H2 2013 for the Chengdu shopping mall, Kardan Land China expects to achieve better results during 2014. The focus of Kardan Land China will continue to be on developing mixed-use projects.


A1

'Our aim is for Europark Dalian to offer the best mix of work and pleasure'

Kardan Land China

Europark Dalian

PER APARTMENT
80-220SQM

CONSTRUCTION AREA
320,000
SQUARE METERS (SQM)

3.3-METER-HIGH CEILINGS
EUROPARK RESIDENCE

WWW.DLEUROPARK.COM

Europark highlights

City	Dalian	
District/Region	Donggang	
Type	Mixed-use residential and commercial center	
Size	Construction area approximately: 320,000 square meters (sqm)	
Project status	Under development	
Land acquired	2008	
Building permit	2012, first construction permit received	
Handover dates	SOHO Towers	October 2013
	'Galleria' shopping mall	Q4 2014
	Serviced apartment tower	2015
	Luxury apartment towers	Q4 2015

Europark Residence

- 80 – 220 sqm per apartment
- 3.3-meter-high ceilings
- Private community with focus on safety and serenity
- Parking lot
- Handicap friendly design
- Elevator pass security system
- Home electronic management system for all home appliances

Europark
凯丹天地

LIVING SMART

Daring to be different

Europark is Dalian's first international mixed-use project in which the synergy between the mall, park, subway connection and other components creates a unique proposition: a lifestyle destination.

Why we chose Dalian

Dalian is one of China's fastest-growing cities. Within China's urban ranking system it is considered to be a tier 'one and a half' city, i.e. on a clear path to becoming a tier-1 city comparable to Beijing, Shanghai, Guangzhou or Tianjin. Dalian has one of

Daring to be different: creating a modern lifestyle across boundaries

China's largest ports and with the country's only commodity futures exchange serves as the financial center for the rich northeastern region. With its rich history, international port and its proximity to Korea and Japan the city is home to a relatively large foreign population and attracts a large number of foreign business travelers. As such, Dalian had the market dynamics of a tier-2 city (lower land prices, limited presence of international real estate developers / operators) while being on a clear path to becoming one of China's most important international cities: a perfect location for KLC to develop a mixed-use project.

Our vision for Europark Dalian

China's retail landscape is changing: malls are becoming lifestyle destinations providing entertainment, eating facilities and a variety of shops in a relaxed atmosphere.

Our aim is for Europark Dalian to offer the best mix of work and pleasure

PER APARTMENT
40-60 SQM

OFFICES SPACES VARYING FROM
48 – 1,200
SQUARE METERS (SQM)

> Europark highlights

Serviced Apartments

- 40 – 60 sqm per apartment
- Room dimensions averaging 4 x 3 meters
- Includes Europark health club
- Hotel-style services

SOHO (office) Tower

- Office spaces varying from 48 – 1,200 sqm
- Parking spaces
- Use of low-emission glass
- Access control to ensure security
- Central air conditioning

Europark Dalian shopping center under construction

Europark is Dalian's first international mixed-use project, in which every component is complementary to the value of all other components: residents and office workers enjoy the convenience of the nearby shopping mall; the mall benefits from a steady flow of visitors from surrounding buildings; and all components benefit from being in the heart of Dalian's new CBD, next door to a green park, on top of a massive and convenient parking lot and directly connected to the city's first subway line. This synergy provides a strong proposition to residents, visitors and consumers.

Provides a 6,000 sqm international supermarket and a total of more than 100,000 sqm of retail space with all the leading fashion, accessories and convenience brands.

Europark key features

- Offers the city's widest selection of fine and casual dining, including a sunlit indoor dining street and restaurant spaces overlooking the park and the coast
- Allows visitors to enjoy the sun and the view while not being exposed to the city's cold weather
- Has direct connections to the city's first subway line and ample parking
- Close to Dalian's most affluent district (Zhongshan)
- Includes various entertainment and education facilities for children
- Features Dalian's largest and most advanced IMAX 4D cinema
- Provides a 6,000 sqm international supermarket and a total of more than 100,000 sqm of retail space with all the leading fashion, accessories and convenience brands.

Investing in long-term projects means taking risks

When we acquired the land for Europark Dalian in a new development zone adjacent to Dalian's existing CBD, the infrastructure in the area was still under construction. The subway line was due to open in 2014 and featured a key characteristic of the project, i.e. accessibility by means of public transport in order to meet clients' wishes and to support the environment, so we phased the development of our construction activities accordingly. The opening date of the mall will coincide with the operational start of the new subway line and the completion of nearby hotels, offices and residential projects. Likewise, we scheduled the construction of the other components of the project in line with the pace of the market development.

Taking care of people and the planet simultaneously

Environmental and Social Governance is still a new concept in China. Kardan Land is therefore doing its best to introduce new practices: Unlike other projects in the new CBD, Europark Dalian is developed around a green park. We understand that value is created by providing a pleasant living environment and balanced lifestyle to our customers. Europark is fully connected to Dalian's public transport system, including two direct subway connections and designated areas for easy access to city buses.

- Several of the project's different components are designed and built according to LEED standards, ranging between LEED Silver and LEED Gold.

- The vast majority of our employees working on the Europark project are from the Dalian metro area, as is the project's main contractor, and therefore his employees are also mostly from Dalian's vicinity. We chose our partners based on their local and international experience, but particularly their presence and reputation in China.

Europark Dalian Location

Nurturing our relationship with existing tenants is part of our DNA:

'All of the main tenants from our shopping mall in Chengdu have expressed interest in partnering with us again in Dalian and many of the new tenants mention that their knowledge of Galleria Chengdu has influenced them to decide to become a tenant in Europark'.

Managing a project like this requires collaboration, inspiration and a singular focus: Quality!

The project is managed by five main teams that meet regularly, covering all aspects such as the overall budget and schedule, sales and marketing, design, construction management and asset management. Each team has sub-committees to deal with the specific issues, such as the SOHO handover committee, the mall handover committee and other committees who also have regular progress meetings.

Europark Dalian wins an Asian Pacific Property Award

In 2011, Europark won first place in the 'Business Complex – China Division' category at the Asian Pacific Property Awards, a competition jointly staged by the International Property Awards and Bloomberg Television.

In 2013, the Europark Dalian shopping mall won the Design Innovation Award, handed out by Mall China, the largest representative organization of China's retail centers with approximately 700 corporate members including investors, developers, operators, retailers and relevant service agencies.

Water Infrastructure Division

General

Kardan is active in the water infrastructure business through Tahal Group International B.V. (TGI), which operates as a leading international engineering company, specializing in water-related infrastructure projects and water-related asset ownership.
During the more than 60 years of its existence, TGI has participated in the planning, development, design, construction, and management of thousands of projects in approximately 50 countries across four continents. Its advanced technical resources include a staff of approximately 1,000 employees, including engineers and scientists in a wide variety of disciplines.

Tahal Group B.V. (Tahal Projects) engages in two basic types of projects: engineering, procurement, and construction projects (EPC), and design projects. EPC projects include planning, procurement, management, and construction, as well as financing arrangements, and are usually in the field of water supply, desalination, wastewater treatment, and agriculture. Design projects include planning, design, project management, and construction supervision in a wide variety of fields such as water supply, waste and wastewater treatment, desalination, water resource planning, solid waste management, and agricultural planning. Tahal Projects is involved in projects in Africa, Central and Eastern Europe, Latin America and in other regions and countries such as in Israel. The total number of projects is approximately 1,400 out of which 10 are EPC projects.

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

Markets

Water scarcity is a growing problem across the globe, compounded by climate change, population growth, urbanization and in-dustrialization. The world's population increasingly chooses to live in large urban centers, leading to a growing need for efficient use of natural resources and improved connectivity, among other things. It is widely recognized that access to natural or treated water is one of the preconditions for social and economic development. In many emerging markets meeting basic human needs for potable water, wastewater treatment and electricity remains a challenge. Also in China where Tahal Assets is operational through its subsidiary Kardan Water, the government, despite the country's strong economic development, acknowledges that the increasing water problem needs immediate action and therefore embraces a Public Private Partnership policy to make it possible for Chinese and non-Chinese companies to initiate and execute infrastructure projects.
Building water facilities requires substantial upfront investment, whereas in many emerging markets the public is not yet used to paying the actual costs for these utilities through user fees. Consequently, the long-term issue of funding water infrastructure projects, namely who pays, and the shorter-term options for financing the infrastructure, i.e. how do we pay, are becoming very important questions for policy makers particularly in a time when the world is faced with significant economic and environmental challenges.

Tahal Projects includes its experience of finding the relevant funding for a project as part of their tender offers.

Development of Group companies

Tahal Projects

Tahal Projects ended 2013 with a backlog of USD 320 million, compared to a backlog of USD 391 million at the end of 2012. In the third quarter of 2013, a wholly owned subsidiary of Tahal Projects in Poland filed for insolvency and consequently Tahal Projects recognized an impairment in its results. To adjust the backlog for the exclusion of the Polish subsidiary, an amount of USD 20 million was subtracted from the reported backlog of USD 411 million as at year-end 2012.

During 2013, Tahal Projects mainly focused on executing three large projects and their promotion. In addition, a lot of effort was dedicated to identifying appropriate projects and proposals for a number of interesting tenders were submitted, which combined would add substantially to the backlog. Many projects need to be financed by means of grants and/or subsidized loans from international institutions such as the World Bank. As many of these institutions have fewer funds to allocate as a result of the worldwide economic crisis, some projects will not be able to be funded at all and generally the tender processes take longer than in the past. This is one of the reasons why Tahal Projects did not succeed in signing many new projects during 2013.

After balance sheet date, however, Tahal Projects announced that it had signed an agreement to manage part of a larger agricultural development project, involving developing, engineering, procurement, construction and consulting, in an Eastern European country. The project, which entails the development and cultivation of considerable agricultural areas, has a consideration of EUR 62 million which will be paid to Tahal Projects over the four years that the project is expected to take.

Tahal Assets

Tahal Assets develops and invests in water-related assets predominantly in China (via Kardan Water). During the development phase, no cash is generated. After completion of a development, however, water is delivered to municipalities and industrial areas on a long-term concession basis (typically for 20 to 30 years) which includes an agreement on pricing. During 2013, Kardan Water executed some maintenance activities and replaced some equipment at some facilities, but no material investments were made.

Due to an interruption of operations as a result of the maintenance work at the Tanggu facility, the average utilization rate during 2013 was lower than in 2012. Generally, all other facilities were able to increase their already fairly high utilization rates, when compared to 2012. The water supply and wastewater treatment plant in Dazhou, which comprises the only BOO contract of Kardan Water, is to a large extent dependent on the increase of the number of companies in the industrial zone in which the facility is located. Kardan Water expects to be able to increase the utilization of this plant in 2014. No new license contracts were signed during the year.

For main events in the portfolio of TGI, see the chapter 'Main events in the portfolio of Kardan', starting on page 18.

For financial information on TGI, see the chapter 'Financial Review 2013', starting on page 23.

Overview Assets Kardan Water China

	Number of operations	Maximum Capacity ('000 m3/day) – Expected – based on expansions 2013	2014
Tianjin	5	230	295
Dazhou	2	110	110
Dingzhou	1	20	20
Xuanhua	2	240	240
Zichuan	1	30	30
Total	**11**	**630**	**695**

Competition

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

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

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

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

Funding

TGI finances its operations through incoming cash flow from existing projects from Tahal Projects, loans from banks and other financial institutions and from shareholder's loans which it receives from its parent company, Kardan N.V. Most of the shareholder loans are drawn to finance Tahal Assets' operations.

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

In July 2010, Kardan N.V. capitalized EUR 41 million of the shareholder's loan it had provided to TGI into share capital of TGI. As of December 31, 2013, and as of the date of the publication of the 2013 annual results, the balance of loans which Kardan N.V. provided to TGI stood at approximately EUR 50 million. The said loans are for periods of three years and they bear an annual interest rate of Euro LIBOR +3%.

In July 2010, TGI signed an agreement with FIMI, an Israeli private equity fund, pursuant to which FIMI would provide TGI with a loan of up to USD 50 million

(approximately EUR 37 million), to be drawn before July 2012 and repaid after 5 years from the date the agreement was signed (July 2010).
According to the agreement, FIMI would receive warrants in an amount of up to USD 50 million (approximately EUR 37 million) to purchase an equity stake in TGI based on a pre-money company valuation for TGI which would be the lower of (a) USD 250 million plus interest or (b) 25% discount on the company valuation at an exit event (such as an IPO). The warrants expire at the earlier of the lapse of five years from closing or upon an exit event.
Kardan has the option to buy back up to 60% of the warrants at an internal rate of return for FIMI of 17.5% (provided that a pro-rata portion of the loan shall be repaid at that time) (Call Option). The Call Option can be exercised in the six-month-period commencing two and a half years from closing, or earlier in certain events. In July 2010, FIMI provided USD 25 million to TGI under the loan agreement.
In June 2011, TGI signed an amendment to the loan agreement which included an extension of one year for the drawdown period for the remaining loan in an aggregate amount of USD 25 million and an extension of one year for the repayment date of the aggregated total loan as well as that the exercise period reflected in the corresponding warrant agreement was extended by one year. In June 2012, TGI signed an additional amendment to the loan agreement with FIMI, in which the annual interest on the loan was raised to 6M Libor + 5%, starting as of July 1, 2012, and it was stipulated that the right of TGI to draw the additional USD 25 million loan was subject to the approval of FIMI and was to be drawn before December 31, 2013. As this right was not exercised, the right to this second USD 25 million facility expired.

The principal of the loan (USD 25 million) will be repaid in two installments with 30% of the principal to be repaid in October 2015 and the balance to be repaid in August 2017.

Following the redemption of certain loans, the total amount of consolidated debt from third parties according to the 2013 consolidated financial statements of TGI amounts to approximately EUR 47 million (December 31, 2012: EUR 58 million). Total cash and cash equivalents amounts to EUR 15 million compared to EUR 25 million as of December 31, 2012.

Risks during 2013
At times, Tahal Projects is required, among other things, to arrange financing for a project, i.e. to find a commercial financial institution to provide a loan to the customer for financing a project. In such cases, the effective start of such a loan agreement is usually a precondition for the start of the project.
Consequently, as it has become more difficult to attract funding in the past years, this may negatively impact the ability to close a new project. Over the years, Tahal Projects has gained significant experience in arranging financing for a project and considers this risk element to be part of the project scope.

Infrastructure construction and development projects are by nature subject to various performance risks, including the inability to complete the project within the timeframe, budget, guidelines and standards established in the specific agreement. In addition, projects may be delayed as a result of political reasons (such as delays in obtaining various permits and licenses, the release of goods from customs, and making the site available for the project). A lot of attention is dedicated to continuous improvement of project management in order to minimize risks. However, risks do occur and at times cannot be avoided.

An overview of the main risk categories for the Kardan Group can be found in the chapter 'Risk Management', starting on page 89.

Environmental and Social Governance

In general, TGI's quality standards require employees to work according to predetermined high standards on environmental issues and to follow control procedures which address the ESG protocols of sub/contractors, project managers and suppliers. In addition, a project framework has been designed which facilitates a systematic and controlled monitoring of all project-related processes as well as the environmental aspects and the safety issues.

TGI consequentially also devotes a great deal of time conducting environmental surveys prior to deciding whether or not to take on a certain project.
Not only does TGI focus on environmental regulations, it also attempts to hire local people for projects, either temporarily or if at all possible to create job opportunities for the longer term. An example is the Quiminha project in Angola, where a significant number of positions are being created over time. Please see the project management part, starting on page 66.

As of December 31, 2013, Tahal Projects employed 617 employees compared to 711 employees as of December 31, 2012, mainly as the result of streamlining the engineering department and the subsidiaries as well as due to the termination of the activities of the Polish subsidiary. As of the date of this report, there was no material change in the number of employees employed by Tahal Projects.

Tahal Assets had 425 employees as of December 31, 2013, compared to 459 employees as at December 31, 2012. As of the date of this report, there was no material change in Tahal Assets' number of employees.

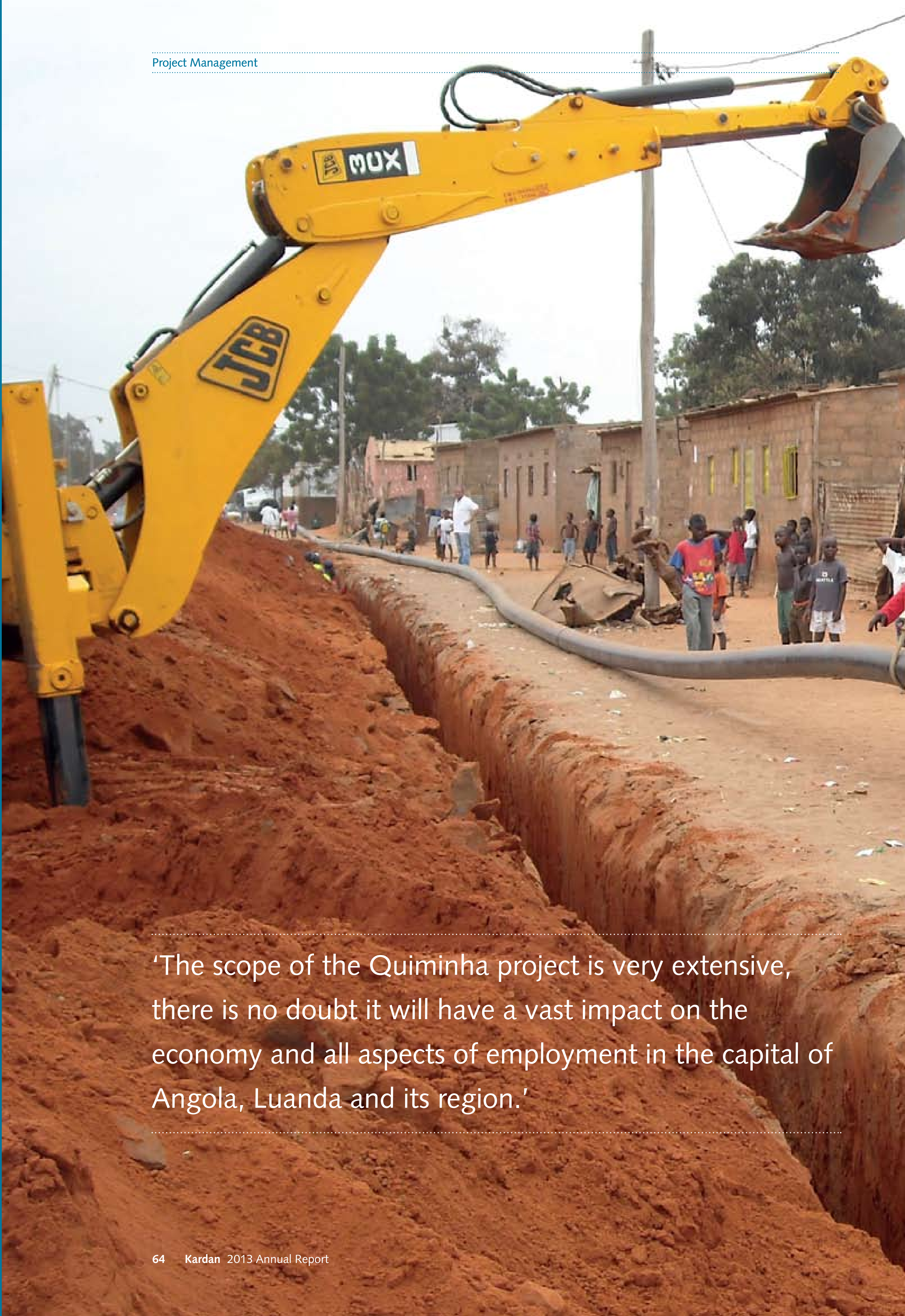
Outlook 2014

Water Infrastructure Assets

Kardan Water plans to continue increasing the revenue from rendering water treatment services during 2014, mainly as a result of increasing utilization rates.
Also, expansion activities in two of its current plants in China and other developments are planned to increase the total designed capacity of the combined Kardan Water facilities to 695,000 m3/day by year-end 2014. The construction of the expansions should have a positive impact on the revenue line of Kardan Water in the upcoming quarters. In addition, Kardan Water has identified the field of water re-use as a potential future field and plans to take actions to deepen its involvement in this area. Continuous cost optimizations are planned in order to improve the net result.

Water Infrastructure Projects

In the Infrastructure Projects segment the spectrum of activities is focused on Engineering, Procurement and Construction Projects (EPC) projects and on agricultural irrigation projects in frontier countries, as well as on design and engineering activities in Israel. Revenues and profitability are expected to increase from existing and recently signed projects (y-o-y), resulting in a net profit for the full year.
Tahal Projects expects to reach a backlog (in USD) at year-end 2014 that is approximately 20% higher than at year-end 2013.



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

Tahal Projects

The Quiminha Project, Angola

FAMILY SETTLEMENTS
310

300
EGG PRODUCTION UNITS

300
FARMS

1 HA IRRIGATED PLOT
2 HA RAIN FED PLOT
TECHNICAL SUPPORT AND MARKETING SERVICES

Quiminha main features

City Quiminha, Angola
Type Integrated agricultural and regional development project

Infrastructure Development

- Development of agricultural roads and access roads
- Implementation of water supply system
- Implementation of electricity net system

310 Family settlements

- 310 houses, 100 square meters (sqm) each
- Infrastructure, water supply, wastewater treatment, road network, etc.
- Public buildings (1,400 sqm)

300 Farms:

- 1 ha irrigated plot
- 2 ha rain fed plot
- Technical support and marketing services

300 Egg production units:

- 300 chicken pens
- 288 egg layers per family
- Supply of layer hens, inputs and marketing from central unit

Our aim is to enable farmers in emerging and frontier markets to earn a decent living. We do so by combining our engineering, environmental, technological, training and marketing expertise to provide a complete, sustainable and customer focused high-quality solution. Simultaneously, we aim to achieve our goals through inspiring collaboration and cooperation.

'Our aim is to enable farmers to earn a decent living'

Creating a viable agricultural community

The proposal for the Quiminha integrated agricultural and regional development project was submitted in October 2006. The project focuses on the development of an agricultural community on a 5,000 ha area, in which infrastructure development, collaboration and training go hand in hand, to construct 310 housing units (100 sqm each) and 1,400 sqm of public buildings including all the necessary utilities such as electricity, water supply, sewerage as well as water, wastewater and solid waste treatment. Given the size and the complexity of the project, various aspects and issues needed to be fine-tuned before the agreement was finalized

‘We will provide agricultural training to the farmers after the tangible parts of the project have finished’

between the Angola Ministry of Agriculture, Rural Development and Fisheries and Tahal in January 2008. Tahal provides the entire range of services: field surveys, planning, design, supervision, supply of equipment and materials, construction and the arrangement of the funding.

The development of the Quiminha project started in early 2012; we expect to complete the project works in 2015. After the tangible parts of the project have been finished, the intangible part will continue: to provide agricultural training for another two years to the farmers of the Quiminha community.

Identifying and addressing risks is an essential phase in project management

We assessed the project thoroughly to create a detailed risk universe to identify and document the risks as well as the relating control measures per category (financial, legal, engineering, political, etc.).

MAIN WATER SUPPLY SYSTEM CAPABLE OF IRRIGATING

3,200 ha

ROADS AND DRAINAGE SYSTEM FOR

64 farms

COMMERCIAL UNIT

900 ha

(IRRIGATED AREA FOR GRAIN AND VEGETABLE PRODUCTION)

> Quiminha main features

3200 ha of private farms (64 farms, 50 ha each)

- Roads and drainage system for 64 farms
- Main water supply system capable of irrigating 3,200 ha
- Water and energy supply up to the farm gate for 10 farms, 50 ha each

900 ha commercial unit (irrigated area for grain and vegetable production)

Logistic center

Agricultural services

- Agricultural machinery
- Input supply warehouse
- Post-harvest handling of produce and grains
- Marketing and transportation services

Egg project central unit

- Central pullet rearing house
- Packing and marketing
- Input and feed supply facilities

Technical assistance and training unit

- Training center building and facilities
- Two years of training services
- Laboratory
- Multidisciplinary support
- Training courses

The risk mitigation plan is discussed with senior management at least once a quarter and – when necessary – alternative plans are put in place to address identified risks. For instance: the project location was an area which was affected by the civil war (1975 – 2002) and was consequently contaminated with unexploded military ordnance. We took measures in planning the clearance activities carefully in coordination with the local authorities. Strict procedures are imposed to ensure the safety of the personnel, limiting work only to those areas which have been approved to be clean. The clearance activities are performed by professional teams and these days by Angolan security forces under Tahal's supervision and coordination.

Thorough preparation is the key to a successful project

Tahal made significant efforts to define the most appropriate agricultural plan for the local community

and to identify the optimal conditions for a successful implementation of the Quiminha project.
Accordingly, a sound and realistic marketing framework was determined, reliable local climatic data were gathered and the appropriate soil conditions were evaluated and selected.

Then, taking into account applicable technologies, the most appropriate product mix to be produced for both the commercial and the family units was defined.

In order to determine the maximum quantities that can be marketed without oversupplying the Luanda market as well as to define a realistic and conservative value for the products to be produced in the project, first-hand information was collected on imports of comparable products (by sea and air) into the Luanda region. Also, visits were made to wholesale markets and discussions were held with traders and producers to obtain all the relevant information to make the project a success.

In establishing the Quiminha community some 1,000 jobs will be created directly, spread over the commercial farm unit and the family farms.

Yakov Orenstein (General Manager, Tahal Angola), Shouky Oren (CEO, Kardan NV), Joao Baptista Borges (Minister of Energy and Water, Angola) and Saar Bracha (CEO of Tahal Group International).

Working together for a sustainable future

We are of the opinion that collaboration is imperative in order to achieve the best result.
Our strategic partner, ZRB, is well positioned in Angola's business community. In total, some 250 people are working together to make the Quiminha project a success for all. Besides our Tahal project management team (14 people) and the design team consisting of 30 or more engineers and experts, some 50 local staff members are directly employed by us for this project. The subcontractors provide work for approximately 150 local and international people.

On the operational level, the project management team holds weekly meetings with each subcontractor to discuss the progress according to the scope of the work plan. The steering committees, responsible for various specific components of the project, get together bi-weekly to keep track of the different developments, and last but not least, the budget is monitored closely by means of monthly financial reporting.
In establishing the Quiminha community some 1,000 jobs will be created directly, spread over the commercial farm unit and the family farms.
Indirectly, we estimate that the Quiminha project will generate employment for an additional 1,000 people. More jobs will be created once the 64 private farms are operational as well.

Recognition and reputation

In late 2013, during an event sponsored by the Israel-Africa Chamber of Commerce, TAHAL was presented with an Appreciation Award in recognition of its many years of significant projects that have contributed to water and agricultural development in Africa.

Kardan Water provides water solutions that contribute to a better environment

Kardan Water in China (KWIG)

Boshan Wastewater Treatment Plant

START PROJECT
2003

BOSHAN PHASE 1
50k t/day

BOSHAN PHASE 2
50k t/day
IN TWO STAGES
OF 25K T/DAY

Key features

Boshan wastewater treatment plant

Location	Zibo city, Shandong province
Start of project	2003
Type of license	BOT (Build, Operate, Transfer) Boshan Phase 1 began operation in February 2005 The concession agreement for Boshan Phase 2 was signed in June 2011
Capacity	Boshan Phase 1: 50k t/day Boshan Phase 2 50k t/day, in two stages of 25k t/day each Stage 1 operation was started in July 2013
Effluent standard	Class I A

‘We provide comprehensive water solutions and help fight the pollution in China’

Kardan Water selects its target locations in China on the basis of comprehensive standards on environmental, financial, legal and sustainability issues. We also take into account whether there is a potential to develop water projects which could reach out to adjacent areas. As a result of our stringent selection criteria, we currently are active in regions such as Shandong Province – where we operate the Boshan wastewater treatment plant – , as well as Huantai and Zichuan, to name a few.

Kardan Water aims to contribute to a healthy Chinese society by providing comprehensive water solutions in a sustainable manner

Water scarcity and pollution is increasingly becoming a serious challenge to the further growth of the social and economical development. Consequently, the Chinese government is implementing more and strict regulations with a clear target to combat the pollution,

Kardan Water aims to contribute to an improved environment in China by providing comprehensive water solutions

specifically to improve the quality of water and air. The Chinese Ministry of Commerce recognizes wastewater treatment as well as water reuse services as ‘environmental protection business’ and has therefore made various tax exemptions applicable to encourage entrepreneurs to invest in these activities. Kardan Water aims to contribute to an improved environment in China by providing comprehensive water solutions (including water treatment, waste water treatment and supply, water recycling, etc.) in selected cities and communities whilst simultaneously creating positions for local professionals. At present, our focus is primarily on developing and managing wastewater treatment plants. We are also making efforts in developing water reuse facilities, for which the Chinese government is looking to attract local and foreign investors too. Tap water supply services, however, are still mainly controlled by state-owned companies and as such it is more difficult for private and non-Chinese investors to enter this market.

Boshan Wastewater Treatment Plant (Zibo).

Developing water treatment facilities requires substantial funds

As the investments Kardan Water makes in developing water treatment facilities are significant, it is imperative that we have a risk control system in place to evaluate the possible risks. We only make a decision to enter into a license agreement after having performed a stringent due diligence and having identified solutions to mitigate risks from different levels on technical, financial, legal and environmental aspects, to name some.

In addition, in order to mitigate our risks, we align our interests with those of the Chinese (and local) government. Our operations are all governed by long term concession agreements and consequently the projects' development is to a large extent materially dependent on local government policy, business culture and funds.

Providing comprehensive water solutions needs to be sustainable and requires efforts from all parties involved

Not only does Kardan Water take into account key environmental conditions before starting to develop a water treatment facility, it also focuses on the manner in which there is a public awareness in the local market to support the further growth of environmental protection businesses and to create more of these opportunities going forward. We take an integral approach and are fully aware that fighting pollution and creating a better environment cannot be seen as a singular project by itself. We therefore phase our projects to achieve the optimal result; first we aim to realize an economical operation and consecutively we continue to focus on improving the technology – in order to reduce COD (Chemical Oxygen Demand) for instance – as well as the quality of the water effluent.

We start the operational phase of a project, following the design phase, on the basis of an integrated and detailed plan

Zooming in on the needs of our clients and beyond

We offer our clients comprehensive water solutions, by which we mean that we do not only provide the wastewater treatment service but that we also consider related services such as opportunities to develop water recycling as well as, for example, the exploration and research of sludge disposal.

Moreover, we feel that it is important to be a good corporate citizen and consequently we always endeavor to contribute more to local partners and communities. Kardan Water has, for instance, established a scholarship to support poor local students to continue their study as part of the Dingzhou project in 2011. As a rule, we try to introduce other development opportunities to local partners, not necessarily only water related, all to leave behind a sustainable presence.

Project Management

For each project, Kardan Water appoints a management team that is responsible for the overall project and establishes a local project company to sign the concession agreement and to monitor all the sequential aspects of the project locally. Once the engineering (technical architecture) has been taken care of, other key staff is recruited to form a new operational project team that is responsible for attracting qualified local staff to ensure that the operation, maintenance and management of the new project will be done efficiently. Meanwhile, Kardan Water headquarter supervises and monitors technical, financial and legal matters to make certain that the project meets all deadlines, parameters and standards.

We start the operational phase of a project, following the design phase, on the basis of an integrated and detailed plan which elaborates mainly on the scope of the project, schedule, quality, cost and safety, procurement, human resource and risk control. The project management team meets every week to track and supervise the progress on all aspects of the project; highlights are shared with and onsite visits and inspections are made by the management of Kardan Water on a regular basis.

Financial Services Division

General

Kardan operates in the financial services sector through its fully owned subsidiary Kardan Financial Services B.V. (KFS), which in its turn fully owns TBIF Financial Services B.V. (TBIF). KFS's strategy is to strengthen the existing investments in Bulgaria and Romania primarily through organic growth. Additionally, KFS also has a 66% indirect stake in operational lease franchise Avis Ukraine.

TBIF offers its clients a wide range of traditional banking services under the brand name TBI Bank. This includes current account products, credit facilities, loans and lease products to private and business clients (generally small amount consumer type credit), salary accounts, various term deposits, documentary credit and foreign trade financing solutions. As of 2012, TBIF also offers its clients, through TBI Credit, acquiring services for credit card transactions whereby it specifically focuses on online purchases. For this purpose, TBI Credit has implemented high-quality technological systems that also provide the required management information. In addition, TBI Credit has expanded the permits that it holds from the Visa and MasterCard companies and from the Central Bank of Bulgaria. TBIF uses a network of branches that are nationally deployed, the services of a call center, online banking services and has a stall presence in retail stores.

Development of Group companies

General

The only activity of KFS as the holding company of the financial division is the management of the investments in the shares of its subsidiary TBIF.

During 2013, TBIF decided to sell its 66% stake in the leasing activities in Ukraine (Avis) in line with its strategy to focus on its financial service activities in Bulgaria and Romania and with Kardan's objective to generate free cash in order to deleverage.
In June 2013, TBIF negotiated an agreement to sell its share in Avis Ukraine to its co-owner Kardan Vehicle Ltd. In November 2013, however, it was announced that the intended agreement had not been endorsed by Avis Europe Holdings. TBIF continues to take action to sell its holdings in AVIS.

Banking and Retail Lending

Market development Bulgaria and Romania

During 2013, the economies of the Central and Eastern European countries suffered from the dampening effect of fiscal policy measures on domestic demand and from the fact that export to Western European countries was still negatively impacted by the continued economic weakness of that area.

The year 2013 showed a bumpy economic development for Bulgaria, resulting in a y-o-y GDP growth of 0.5% (2012: 0.8% growth y-o-y). Political turmoil and social unrest negatively impacted the careful recovery that was achieved in the first quarter of the year, which is still susceptible to the country's instability and uncertain business climate. As a result, corporations remain hesitant to invest in future growth. During the year, a small revival of private consumption growth could be noticed on the back of an increase in real disposable income following a continued low inflation, albeit that the labor market continues to be weak and the population declines due to aging and emigration. On the other hand, export activities increased, particularly to Bulgaria's most important trading partner Germany.

Due to the high capitalization and healthy deposit growth that translates into a strong liquidity position, Bulgaria has a relatively strong financial sector. Deposit and lending interest rates have continued on a downward trend to ease lending conditions and facilitate credit availability. TBI bank continues to focus on retail lending and services. Whereas TBI bank managed to expand its new business activities in the retail market, the SME (small- and medium-sized enterprise) business remained difficult throughout 2013 and continues to be challenging.

Romania's economic growth is to a large extent influenced by the agricultural sector and by its exports, which both improved during 2013 resulting in a GDP growth y-o-y of 2.2%.The Romanian government continued with its strong fiscal consolidation measures combined with a prudent monetary policy. The banking sector, which remained fairly stable, was kept under close supervision. Consumer and business sentiment remained subdued, however, impacting the contribution of domestic demand to the economy. In addition, as a result of households continuing to decrease their high debt-service-to-income ratios, it proved challenging for banks to grow their portfolios. During 2013, the National Bank of Romania cut the interest rate in an effort to address stagnating consumption and boost private lending.

At the end of 2012, TBIF obtained a branch license in Romania for TBI Bank. Operations commenced in 2013, among others by implementing a direct sales force encompassing approximately 300 active agents.

Competition

Competitors in the banking segment in Central and Eastern Europe are mainly European (international) banks, which compete either through local branches or through acquired banking operations. In Bulgaria and Romania, 71% and 80% respectively of total bank assets are internationally owned. Whereas in previous years these international competitors in many cases had the advantage of providing their local subsidiaries with financial resources, often cheaper than local financial resources, this has changed due to the European sovereign debt crisis.
Increasingly, international banks are either downsizing their local subsidiaries in CEE or even withdrawing all together, leaving the opportunity to increase market share for the local banks.

The ability to enter the CEE markets for newcomers under a new banking platform remains limited, however, since most of the countries minimize the allotment of new bank licenses. It is also noted that non-financial companies are becoming increasingly active in the financial services market,
forcing incumbents to become more proactive and to improve customer satisfaction. The competition in the banking and lending business focuses on attracting more, and a diverse group of, clients (individual and business). Customer focus in order to retain existing clients and attract new ones is high on the agenda. Differentiation in product offering as well as the expediency with which clients are served is crucial and requires a thorough understanding of the client's needs. TBIF therefore held multiple customer surveys during 2013 in both countries of operation, on the basis of which – among other things – some 15 new products were introduced in Romania alone.
TBIF Group's advantage in the retail credit segment is its capability to supply fast and simple credit, based on receipt of credit authorization possibilities at the selling points.

Funding

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

The net debt of KFS/TBIF as of December 31, 2013 is EUR 7.9 million (December 31, 2012: net cash of EUR 3 million).

KFS/TBIF € in million	
Liabilities	
Loans from Kardan N.V.	(42.2)
Assets	
Cash and short-term investments	1.4
Loans to others	11.0
Loans to subsidiaries	21.9
Net debt	**(7.9)**

Board Report

Risks during 2013

In both Bulgaria and Romania, the markets remained depressed and there was limited growth potential in the financial services sector in general. Additionally, increased unemployment rates and a decrease in the purchasing power of consumers could have had an adverse effect on the quality of the credit portfolios and the possibility of growing these portfolios.
TBIF consequently focused on further improving client satisfaction to retain and grow their clientele, by offering expedient and fitting loan and deposit services and solutions. Considerable effort was put in raising deposits in Bulgaria and Romania, resulting in a significant growth of mainly retail deposits, particularly in Bulgaria. In addition, throughout the year the risk management controls were optimized and implemented, taking into consideration that each product type has its own specific risks.
By year-end 2013, as a result of the stringent risk controls, TBIF was able to improve its provision ratio (i.e. provisions/non-performing loans) to 77% in comparison to 75% as at December 31, 2012.

Environmental and social governance

TBIF Group aims to contribute to sustainable economic and social development in the countries of its operations by means of supporting its clients in growing their SME businesses as well as by being a respected and good employer for local professionals. The total number of personnel, employed by the Financial Services division grew slightly during 2013 to 1,450 as of December 31, 2013 (December 31, 2012: 1,318), mainly as a result of the increase in the sales organization in Romania. Both in Bulgaria and in Romania, TBIF employs significantly more women than men (ratio Bulgaria female/male: 80% and for Romania: 68%), which is common in many retail banks. TBIF made a dedicated effort in terms of developing its personnel in order to encourage and facilitate internal promotions: in Romania 30 internal promotions took place during 2013, in Bulgaria 65. TBIF does not expect that the number of staff will materially change during 2014.

Main financial developments

For an analysis with respect to the results and financial developments of KFS, see the chapter 'Financial Review 2013' (page 23).

Outlook 2014

TBIF aims to optimize its liquidity primarily by focusing on increasing its loan origination. It also plans to grow its network by opening approximately five new branches in both Bulgaria and Romania. Furthermore, TBIF continues to effect synergies of business consolidation in order to improve the operational result and to achieve a net profit in 2014. TBIF is taking action to sell its 66% stake in Avis Ukraine in 2014.

Putting our clients first: helping them out soonest with a fitting product


КРЕДИТ
БЪРЗИ ПАРИ
Бързината
е предимство
5000
5 МИНУТИ
TBI Bank

TBIF

Opening the Romanian branch of TBI Bank

NUMBER OF BRANCHES
5

BUCHAREST
CONSTANZA
YASI

Locations

TBI Bank

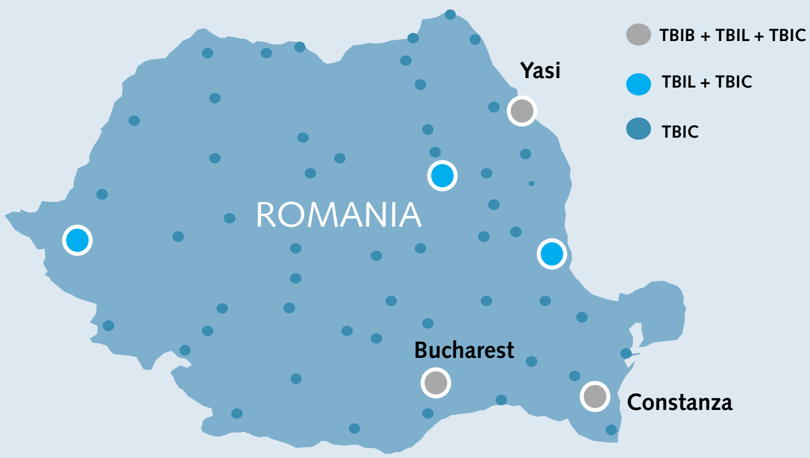
TBI Credit
A TBIF Company

TBI Leasing
A TBIF Company

WWW.TBIF.COM

'Our prime goal is to service retail clients as well as Small- and Medium-sized Enterprises (SMEs) with relevant products speedily and efficiently'

TBI BANK IN ROMANIA



Building a reputable retail bank

We acquired the Bulgarian bank NLB Banka Sofia AD from two Slovenian banks in April 2011 and rebranded the bank to TBI Bank. Our aim was to further strengthen our existing investments in Bulgaria and Romania, as these were licensed as non-banking financial institutions at the time and were therefore limited in comparison to banks in their product array and in access to diversified funding possibilities. Under EU regulation, a bank within the EU is entitled to passport its license and to start operations in another EU country under its license. This process included applying to the Bulgarian national bank, which coordinated the opening of the branch with the Romanian National Bank.

With TBI Bank, TBIF started to create a flexible and dynamic banking operation focused on people and companies who value their assets and require high-quality service.

Putting our clients first

TBI Bank aims to service its SME and retail clients expediently and with fitting products and services. Various loan products were already available under the previous non-banking operations. The challenge lay in

As a result of our expansion in Romania, we have created new positions in cities and regions, predominantly for local professionals

introducing deposits and saving products geared to the local clients and marketing these successfully. For this, we could build on the extensive experience we have with these types of products at TBIF for many years in general and in Bulgaria at TBI Bank in particular. In addition, we also worked with customer surveys to get a better understanding of the local demands.

Tight project management was demanded

As the opening of the Romanian branch was a material initiative, practically all top managers of the Bulgarian and Romanian operations were part of the project team. Cooperation was required across various subject matters, including IT, products, legal, accounting, treasury and operation, for which many working teams were created. The project team ensured that an integral approach was being taken and consequently met regularly and frequently to monitor the various aspects of the project and to ensure that all deadlines and targets were met. For instance, we needed to implement a new core banking system in Romania in order to be able to offer full banking services, and we also need to be able to integrate our systems with the reporting system of the Romanian National Bank as well as with the local payment system.

Risk management

The success of a bank (branch) depends on, among other things, the macroeconomic circumstances, liquidity management as well as underwriting skills and a risk management practice that is compatible with the Basel agreements. As we planned to open the Romanian branch of TBI Bank in the midst of the European sovereign debt crisis, and we realized that we have no influence on the macroeconomic development of Romania, it was imperative that we selected our target client group carefully and ensured that we would offer fitting products and services. Building on our TBI Bank experience in Bulgaria, we also put a lot of emphasis on ease of access and expediency for our clients. In addition, we implemented a stringent risk management system to monitor all processes within TBI bank and its Romanian branch, which enables us to take immediate measures when needed.

Being a good corporate citizen

TBI Bank holds its staff and its clients in high esteem and follows the European regulated banking AML policy, such as reporting to the national bank of Romania on liquidity, anti-money laundering, new products and consumer protection. We promote a working environment that is conscientious about energy saving and recycling with a customer friendly atmosphere. As a result of our expansion in Romania, we have created new positions in cities and regions, predominantly for local professionals. We have more female than male staff members at both the TBI Bank in Bulgaria and the branch in Romania.

With TBI Bank, TBIF started to create a flexible and dynamic banking operation focused on people and companies who value their assets and require high-quality service.


TBI Bank

Personnel and Organization

As Kardan is active in different markets and as the subsidiaries, although mostly wholly owned, are fairly independent organizations, its personnel policy and its operational structure are therefore decentralized. The one common denominator is that Kardan considers its employees as fundamental to its success and is therefore committed to attracting and retaining highly competent personnel throughout its organization. Given the international character of the Company and its practice to 'be global but to act local' (i.e. to be 'glocal'), this translates into the Kardan Group having a very diverse group of employees representing many nationalities, age groups and backgrounds.

Kardan's headquarters is located in Amsterdam, the Netherlands. Apart from general activities related to its ongoing operations as a listed company, the headquarters deals with supervising Kardan's operations abroad and with the corporate finance, legal and corporate positioning activities of the Group. The head office employees therefore, in line with the responsibilities and activities of the headquarters, predominantly provide services to the Group companies. The sale of GTC SA in the fourth quarter of 2013 consequently impacted the workload of some of the employees at headquarters, leading to a slight reduction of staff members as of the first quarter of 2014.

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

As at December 31, 2013, 16 people worked at the headquarters of Kardan in a ratio of 70% female and 30% male staff members. As at year-end 2012 Kardan headquarters employed 19 people. On average also, the number of staff at headquarters during 2013 was less than in 2012.

The holding company Kardan is not only responsible for strategic development, but it also contributes its business and specialist experience as well as its local and international networks to its subsidiaries throughout the Group. Each subsidiary is headed by an experienced manager with an appropriate background. With its lean management structure, Kardan takes a pragmatic and entrepreneurial approach. In our view, for instance, combining international and local know-how and expertise in the management of the local organizations is essential to initiate and develop assets in emerging markets. This ensures that we have timely access to appropriate opportunities, while also understanding and managing local risks.

At year-end 2013, the number of people employed by Kardan and its consolidated companies totaled 2,873. As of December 31, 2012 the number of employees was 3,056. The reduction of the number of employees derives predominantly from the sale of the 27.75% stake in the central and eastern European real estate company GTC SA in November 2013.

	Number of employees as of December 31, 2013				
	Kardan Head Office	Real Estate	Water Infrastructure	Financial Services	Total
Europe (mainly CEE)	16 *	2	151	1,449	1,618
China	–	362	351	–	713
Israel	–	1	405	1	407
Other	–	–	135	–	135
Total	**16 ***	**365**	**1,042**	**1,450**	**2,873**

* Excludes two employees located in Amsterdam but working predominantly for Real Estate.

Real Estate

During 2013, Kardan was active in real estate in Asia and in Central and Eastern Europe through GTC RE, which comprised the Real Estate Asia and Real Estate Europe segments. Real Estate Europe consisted mainly of GTC SA, the real estate company in Central and Eastern Europe in which Kardan held a 27.75% stake until November 2013.

Real Estate Asia comprises Kardan Land China, with headquarters in Hong-Kong and a Beijing main office. KLC's head office deals with the management and operation of the real estate assets and projects in China, as well as with business development in general. As of December 31, 2013, KLC employed 362 people (346 as of December 31, 2012), of which 31 people worked at the Kardan China headquarters in 2013, one less staff member than in 2012.
The increase in the number of staff is due to the growth of activities. KLC has a near balanced ratio of male and female staff at the headquarters and has a low, stable, absence rate of around 2%. This is, among other things, due to the pro-active approach which KLC takes to its human resources policy whereby its management development efforts are paying off. During 2013, almost 30 people were internally promoted.

Due to the sale of GTC SA, the number of people employed by GTC RE and located in Europe decreased substantially from 174 as at year end 2012 to 2 people (located at the head office in Amsterdam) as of December 31, 2013.

Water Infrastructure

TGI's organization is based on operations divided into two business segments: Tahal Projects and Tahal Assets.

Each business segment is led by its own management, this in addition to the management and headquarters of TGI itself.

As of December 31, 2013, Tahal Projects employed 617 people and Tahal Assets employed 425 people, bringing the total number of employees of TGI to 1,042 employees (December 31, 2012: 1,170).
The decrease is mainly the result of a reduction of staff within Tahal Projects following the reorganization which was started in 2011. In order to retain an organizational culture of achievement and excellence – even during a large reorganization process – Tahal has implemented several human resource programs focused on various topics (e.g. engineering, project management etc.). This has resulted in a low absence rate of staff during 2013. Specific attention is given to internal communication, as creating a sense of

cohesion is considered important in a company with employees that are active all over the world.

The number of staff at Kardan Water in China remained stable during 2013 compared to 2012 (351 compared to 349). There are generally more males than females working for Kardan Water in the various project companies, although for instance at Xuanhua there is almost a balanced count of men and women. Given that Kardan Water has been active in China as of 2007, it is notable that the average tenure of employees is around 3 years. Kardan Water dedicates time and effort to various staff events around special dates and specific topics such as being a sustainable company as well as enhancing team building and collegiality.

Approximately 60% of the people working at the Tahal head office in Israel are male, whereas this percentage is substantially higher in the project operations, which are active mainly in emerging and frontier markets.

Financial Services

As of December 31, 2013, there were 1,450 people employed in the Financial Services division by TBIF, 10% more than last year (1,318) as the result of the efforts to grow the activities in Romania. The ratio male / female staff in Bulgaria was approximately 1 to 4, whereas in Romania this was 1 to 3. A lot of effort is put into retaining a good working environment, both in terms of office space and infrastructure as well as in terms of business atmosphere. This has resulted in a very low absence rate (under 1% both in Bulgaria as well as in Romania), an average tenure of staff of between 2 to 3 years and many internal promotions, as part of the policy. It should be noted that this includes the large sales organization where the sales agents are generally employed for very short periods.

TBIF Group headquarters, located in Amsterdam, the Netherlands, are made up of employees who engage purely in management duties. All of the other TBIF Group employees are employed locally in Bulgaria and Romania. As AVIS Ukraine is operated as a joint venture, their employees are not included in the total personnel number of TBIF.

Risk Management

Risk as an integral part of Kardan's business model

Kardan's strategy is to focus on emerging markets where the Company initiates, develops and manages assets and projects. Kardan's business is consequently exposed to a relatively high degree of entrepreneurial, geopolitical and legal risks inherent to these markets, which by nature have a different risk profile than developed markets. The Board is of the opinion that we have sufficient controls in place to identify and manage risks within the boundaries of our chosen strategy. Kardan appoints management teams in all the markets in which it is active, consisting of local and international members to ensure adequate knowledge and understanding of its business environments. By thoroughly analyzing all business opportunities up front Kardan aims to avoid and mitigate risks that are not intrinsic to its business model and core competencies.

Kardan's risk management approach

Kardan believes that taking risks is an integral part of doing business and can create opportunities which in turn can lead to positive results. Therefore, Kardan deems it essential to embed risk management and internal control in its day-to-day operations as a joint responsibility for all employees throughout the Kardan Group. It is the Company's view that effective risk management can only be achieved if all Kardan staff have the appropriate mindset required for conducting responsible business, i.e. that there is a proper 'risk culture' throughout the organization. Management leads the way by setting the right example through their behavior and decisions. In addition, Kardan continuously reinforces and cultivates its 'risk culture', among other things, by means of guidelines and communication.

A reliable, consistent and continuous management information system is essential for the Executive Management teams throughout the Group to make informed analyses and decisions. The Executive Management stays informed by means of monthly management reports submitted by the subsidiaries. In addition, the governance structures in place within the Kardan Group create regular opportunities for the Executive Management to discuss the businesses as well as the risks and opportunities during the management / supervisory board meetings. Moreover, certain structural control measures, such as thresholds for approval of important decisions and, on occasion, internal audits which are executed on issues selected by the relevant audit committee ensure a profound approach to decisions and measures. Kardan's (main) subsidiaries provide Kardan with a representation letter on a yearly basis. In addition, we refer to the Corporate Governance statement 2013 which can be found on the corporate site, www.kardan.nl.

Our risk management framework and processes

Kardan believes its risk management framework constitutes a link between strategy, policy-making and execution. The Company's risk management approach is underpinned by a framework that – by means of high-quality information flows – gives the Board and the Executive Management a clear view of its business environment and its position therein to provide reasonable assurance that the Group's objectives will be achieved. The implemented risk management framework has been developed based on the guidance of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and consequentially certain recurring and ongoing processes have been implemented, which are mentioned below. We also refer to the Corporate Governance Statement 2013, which can be found on the site, www.kardan.nl.

The Board holds two annual strategy meetings. During the preparatory meeting the Board discusses, and if deemed appropriate, modifies Kardan's corporate strategy and related objectives. After this meeting the Executive Management discusses the objectives with the managers of the subsidiaries in order for them to include these targets into their budgets and strategic plans. The Board and the Executive Management put a lot of emphasis on the need for the subsidiaries to identify business risk factors and controls in their budgets and plans. After approval of the business plans of the subsidiaries, the Executive Management prepares the final strategic plan for the Board, which includes the main risks and the relating control measures that have been determined during a risk assessment session. This session is conducted by the Executive Management in close cooperation with risk management professionals. If this is deemed necessary, then some of the risk categories and controls which were identified during the assessment are integrated in ongoing management information systems. Minutes of all meetings are made and shared with the Board of Kardan and with the internal auditors. The internal audit, which is carried out by a third-party organization and is done independently of management's own risk assessment, plays an important role in monitoring the risk management framework.

Kardan complies with Israel's Securities Law regulations relating to the effectiveness of internal control over financial reporting and disclosure ('Israeli SOX'). During the year under review until the date of this report, all steps have been taken to be able to provide a declaration regarding the effectiveness of the internal control as referred to previously. Based upon the work performed, the CEO and the CFO of Kardan N.V. have made a statement in the Israeli Annual Report that as of December 31, 2013 the control over financial reporting and disclosure is effective ('the Control Statement'). The effectiveness of the Control Statement was also audited by the Group's auditors.

Main risk categories and measures

The main risk categories (in alphabetical order) associated with Kardan's strategy are presented below, as well as the related measures in place to control these risks. Reference is also made to the financial risks, as described in the 2013 Statutory Financial Statements. We note that there may be other significant risks that we have not yet identified or that were assessed as not having a significant potential impact on the business, but which could materialize at a later stage.

Please note that in our view, the risk categories listed below should be seen as general guidance for considering the main risks related to our businesses and strategy. We deem all risk categories, as discussed during our annual risk assessments, to be relevant for our business performance and hence conscientiously monitor all of them.

Authority / limit

Kardan is a decentralized organization, allocating the relevant business and financial responsibilities to its subsidiaries. This is in line with Kardan's strategy to minimize risk and optimize opportunities by being 'glocal' and working locally. A consequence of a decentralized organization is that authorities and limits need to be defined, implemented, communicated and monitored clearly, as do the authorization processes. Ineffective lines of authority may cause managers or staff to enter into commitments they should not enter into or fail to request approval for entering into these commitments, which could lead to unacceptable risks.

Measures:
We have internal authorization policies in place, including a framework for internal (i.e. within the group companies) decision-making. We monitor, on an ongoing basis, the proper implementation of and compliance with the authorization policy and articles of association as applicable for Kardan and its group companies mainly through what are referred to as 'entity level controls' of the Israeli SOX, as mentioned earlier. In addition, annual testing of the entity level controls is performed by Management (via Grant Thornton), including the proper implementation of these authorization policies. A 'Legal Procedures Flowchart' has also been implemented.

Budget and Planning

Budgeting and planning are crucial to all companies. The reliability of budgets depends on the ability of management to plan and control but can also be significantly impacted by the sector in which a company is active. Kardan, with its real estate, water infrastructure and financial services activities in emerging markets, faces a number of elements in budgeting – such as periodic valuation of assets, particularly property assets, which in turn are affected by macro-economic developments and consumer sentiment – creating uncertainties that are almost impossible to manage or foresee.

Measures:
The budgets and strategic plans of all the subsidiaries of Kardan are presented to our Board and focus primarily on all those income statement line items that management can directly influence and control. Factors which are not under our control – such as foreign exchange rate impacts, macro- economic development and the resulting consumer and business sentiment, etc. – are not taken into account in the budgets. Monthly highlights, per subsidiary, ensure a proper understanding of the development within the operations. At the end of each quarter, a new result estimate is made, adapting if necessary to operational, market and economic realities and insights, according to which measurements can and will be taken if considered necessary.

Capital availability

Our financial strategy entails, among other things, that mature subsidiaries are largely responsible for their own funding. Kardan has a substantial debt level at present, limiting our 'in-house banker's function'. As a result, capital availability – both in terms of equity and debt – is crucial for Kardan Group. We are therefore exposed to the risk that insufficient access to capital may threaten our capacity to execute our business model, as well as to grow and generate future financial returns.

Measures:
We intend to bring down debt at the Kardan level as well as at the level of our intermediary holding companies further and to grow the direct financing of our operating activities within the subsidiaries. Reducing debt at the Kardan level will alleviate the

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

Concentration

With the sale of Kardans' stake in GTC SA in November 2013, Kardan Group's real estate activities are now mainly concentrated in China, where it also has the majority of its water infrastructure assets. The water project activities are spread more globally – but primarily in emerging and frontier markets – and the banking and retail lending operations are located in Bulgaria and Romania. Consequently, the Kardan Group is specifically exposed to these regions and markets, their economic developments and, in some instances, the measure to which government policy affects the operations of local subsidiaries. The fact that the Kardan Group – in line with its strategy – has diversified its business activities across different sectors in different (locations in) emerging markets provides, to a certain extent, risk mitigation, albeit that our core activities are characterized by long-term investments and commitments, and as such make us less flexible in changing our profile at short notice.

Measures:
Kardan diverts managerial and financial resources to its investments in China, as well as to its investments in Central and Eastern Europe, and will carefully look to further expand its activities in Asia when opportune. Consequently, we closely monitor risks related to the specific markets and segments we operate in and might further expand into, and discuss these risks at length in the Board meetings before taking such decisions.

Customer needs and Competition

The needs of customers are changing as markets and technologies develop. Additionally, a logical consequence of the economic improvement of emerging markets, Kardan's target markets, is that competition will increase. Given that the sectors in which we are active are characterized by long-term investments, the flexibility to change our strategic focus or move to other markets is limited.

Measures:
As a listed company we have a strong governance structure in place to support a communication process that ensures that crucial developments are discussed during all the (supervisory) Board meetings and between management of the subsidiaries and the Executive Management. Based on regular customer and market surveys, the management of the various subsidiaries (consisting of local and international managers), choice of location, pace of development, geographical and product diversification and the need for possible strategic changes are discussed and decided upon.

Financial markets

Kardan is a listed company and is strongly dependent on external financing and has a high exposure to emerging markets. As such, we run the risk that fluctuations in, for example, currencies, prices, rates and indices affect the value of our financial assets and the prices of our listed securities, impacting our ability to raise capital as well as the cost of capital. Although we are not able to estimate the impact of this, developments in the financial markets could adversely affect our results, the equity base of Kardan, the value of our assets, our ability to comply with the covenants agreed upon with lenders and our ability to raise financing as well as the terms of such financing.

Measures:
Kardan intensively monitors the financial positions within its businesses and hedges these risks if and when deemed necessary. In addition, as mentioned earlier, we intend to further decrease the debt position at Kardan's level as well as at the level of our intermediary holding companies – and to further enhance the direct financing of our operating activities within the subsidiaries. This will reduce Kardan's exposure to risks related to debt-servicing capacities, e.g. by being less dependent on financing and refinancing possibilities in adverse financial markets.

Fraud and illegal acts

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

Measures:
Our Code of Conduct provides guidance to all employees on ethical behavior with the aim of preventing fraud and illegal acts and is circulated throughout the Kardan Group annually. In addition, we have embedded relevant policies and procedures as much as possible in the daily operations, providing checks and balances for our activities. As Kardan needs to comply with many regulations, several entity level controls were implemented (also as part of the Israeli SOX referred to above) in order to prevent and detect fraud and illegal acts. On top of this, Kardan is subject to internal and external audits on an ongoing basis.

Human resources

Kardan considers having highly qualified and committed personnel as a critical success factor. We depend on a relatively small group of skilled managers, experienced in the markets in which they operate. Particularly in the emerging markets, the availability of local personnel qualified to manage local businesses in accordance with standards applied in developed countries is limited and under continuous pressure from strong competition.

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

Investor relations

Investor confidence depends on the ability of Kardan to deliver positive results and on clear, transparent, comparable and reliable information provided to the investor communities. In the past few years Kardan has not been able to present positive results, which has impacted the investor sentiment vis-à-vis the Company. Moreover, Kardan is still relatively unknown in the capital markets outside of Israel, which limits our ability to successfully diversify our shareholder base. This could adversely affect our strategy to further grow our businesses.

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

Sovereign/political

As we operate in emerging markets, we can be confronted with unstable, unpredictable, political situations. Such instabilities might adversely affect our operations and their results. Moreover, as Kardan is listed on the Tel Aviv Stock Exchange, and the majority of its shares and debentures are held by Israeli institutional investors, Kardan may be perceived to be an Israeli affiliated company. The geopolitical situation of Israel can therefore have an impact on our results.

Measures:
The management of our subsidiaries closely monitors the political situation of the countries in which we are located and adjusts our strategic position where necessary, desirable and possible. In order to enhance the understanding of the local political environments and the resulting consequences on our businesses, we select the right local partners and appoint management teams consisting of local and international qualified managers.

In-Control Statement of the Board

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

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

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

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

Environmental and Social Governance (ESG)

'Being a good corporate citizen'

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

Kardan aims to contribute to sustainable growth throughout all its businesses. Initiating and developing assets and projects in our selected core activities that serve the middle-class's needs in emerging markets, we are confronted with the social and environmental challenges specific to these markets and activities.
In many emerging markets, economic development comes at the expense of the environment.
Increasing urbanization and industrialization – as well as the need for energy, food and water – has caused significant pollution. Consequently, governments of these markets have started to address the side effects of economic growth by identifying sustainability as a key priority and by making funds available to combat pollution and to initiate and support sustainable projects. We follow these developments carefully and are dedicated to implementing ESG standards wherever and whenever possible. In addition, in line with our strategy to establish local organizations (platforms) that create positions for both international and local professionals, we believe that bringing diversity to our staff ameliorates our insights into market opportunities and customers' requirements.

As we believe that ESG should be considered a core value of the Group, a Code of Conduct and a Whistleblower Policy have been implemented to provide the Group's employees with guidelines for behavior and activities, taking into account laws, regulations and ethical standards that govern Kardan's businesses.

We continuously focus on providing an inspiring working environment for our employees and on enhancing long term relationships with our clients by offering environmentally sound solutions, thereby creating a sustainable company for our stakeholders.

On a practical level we monitor our ESG activities using the table as presented below. Each division implements its own ESG strategy taking into account the effects of its activities on people, planet and profit for the three categories of stakeholders.

	People	Planet	Profit
Employees	– Equal opportunities – People should realize their potential – Diversity – Health and safety	– Offices near public transport – Waste policies	– Job security – Continuity – Career opportunities
Customers	– Long term relationships – Retention of customers – Partnering	– Green building standards (real estate) – Sustainability standards in water infrastructure projects	– Price / quality balance – Continuity – Reliability
Stakeholders	– Corporate governance – Transparency – Accessibility	– CSR – ESG reporting	– Return on Investment – Consistency in reporting – Reliability and accessibility

SUSTAINABLE COMPANY

Real Estate

When doing business in real estate markets it has become imperative to take into account that tenants and buyers increasingly demand shopping malls and residential apartment buildings to adhere to sustainability standards. We aim to meet these standards by delivering high-quality assets that address the needs of our tenants and buyers by, among other things, being sustainable and having been designed in an environmentally friendly manner.

In addition, we deem it important to be a 'good corporate citizen' and to leave behind a positive impression. As we initiate, develop and hold real estate property (for the medium to longer term), we take heed to be a well-respected company, both explicitly – i.e. the asset itself and its sustainability characteristics – as well as implicitly – the social governance aspects, such as employing local staff, business ethics, values, and operating principles.

Kardan Land China differentiates itself in China by carrying out activities with future residents and tenants in mind as of the start. We work with the best-of-breed (inter)national consultants to ensure safe and energy friendly buildings, which not only fit well in the landscape but also include green surroundings as part of their value to future users. Kardan Land China selects its locations according to accessibility by public transport: the construction of the large mixed-use project Europark Dalian was planned in conjunction with the opening of two direct subway connections and also took into consideration easy access to bus connections.

The latest trends in sustainable and environmentally friendly design are applied when developing new assets. Europark Dalian is designed and will be operated according to the LEED (Leadership in Energy & Environmental Design) standard. The Small Office Home Office building includes, for instance, the use of low emission glass and raised flooring systems to reduce static electricity and decrease attendant pollutants. We also make every effort to create and maintain long-term relationships with our tenants, which is expressed, by example, by our proactive asset management stance. On a regular basis the management of Galleria Chengdu organizes high-level promotional and seasonal events, thereby also enhancing the brands of the tenants of the Galleria.

Kardan Land China considers its employees to be a crucial asset: engaged employees are innovative, committed, dedicated and productive. By recruiting the best people and appropriately and handsomely rewarding its staff, as well as by paying attention to their training and development, the company promotes the well-being and growth of its multinational workforce. Moreover, we aim to use local contractors for our developments and consequently provide local professionals with jobs.

Kardan Land China has been granted several awards for its development activities in the past years, such as the Best Retail Development China award in 2010 (Asia Pacific Property Awards) for its Galleria Chengdu, and in 2013 the Europark Dalian shopping mall won the Design Innovation Award which was handed out by Mall China, the largest representative organization of China's retail centers.

Water Infrastructure

Water scarcity is a growing problem across the globe, compounded by climate change, population growth, urbanization and industrialization. It is widely recognized that access to natural or treated water is one of the preconditions for social and economic development. The development of water supply systems in rural areas in frontier and developing countries and markets is not only essential for food security but also creates job opportunities, generates income and improves the general health of people. In many emerging markets however, meeting basic human needs for potable water, wastewater treatment and electricity remains a challenge.

For over 60 years, Tahal has played a worldwide role in addressing this challenge by developing access to water, treating wastewater and solid waste, enhancing agricultural production, and producing energy from solid waste. In doing so, Tahal demonstrates clearly how environmental, social and economic goals are interlocked.

Tahal carries out in-depth research and ground work before embarking on a project or investing in a water treatment facility. Being fully committed to providing solutions in an environmentally sound and socially responsible manner, it performs studies on sources and characteristics of pollution entering rivers, lakes, oceans and other surface water bodies, as well as on groundwater aquifers before initiating the actual execution of a project. Over the years, Tahal has planned, designed and supervised construction of wastewater re-use schemes worldwide, involving collection of wastewater from domestic and industrial sources, treatment to the desired quality, and re-use of the effluents in industry and agriculture.

Since its initiation in 2007, Tahal's subsidiary Kardan Water in China has concluded 11 long-term concession agreements to develop and operate wastewater and water treatment plants as well as water recycling facilities. While on the one hand Kardan Water attempts to increase its capacity of wastewater and water treatment, on the other hand it is actively exploring methods to further reduce energy consumption in the operation process of its water and wastewater treatment. Furthermore, Kardan Water continues to look for further opportunities in the field of water re-use, a segment that is directed towards ensuring more efficient use of scarce water resources. Accordingly, Kardan Water was awarded the prize of China Best Water Service Company during the China Water Star Award ceremony at the 8th China International Water Summit 2013. It was the third time Kardan Water was recognized as a high-quality company by being granted a prize in such a leading event in the China water industry.

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

Tahal Projects focuses on developing water solutions predominantly in frontier and emerging countries. In these projects, Tahal Projects aims to combine its engineering, environmental, technological, training and marketing expertise to provide a complete, sustainable and customer-oriented high-quality solution. At present, for instance, Tahal is active in a number of major projects in Africa – one in Angola and four in Ghana – which involve the development and construction of water supply, sewage and drainage systems, as well as the irrigation of farmland. After completion of the technical part of the projects, Tahal Projects will at times also provide training programs to ensure proper use of the project. Executing these kinds of projects invariably entails creating jobs for local people, which is also taken into consideration in the planning phase of a project.

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

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

Financial Services

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

TBI operates locally, by offering its services through local offices and points of sale. By providing financial services to individuals and small- and medium-sized enterprises, in order to support these clients in growing their businesses, TBI aims to contribute to the sustainable economic and social development in the countries of its operations. The manner in which a bank's clients behave has been impacted, however, by a succession of major global political and economic events, which is also the case for the TBI customers. The notions of 'value for money', convenience, speed and service are now more important than ever.

Whilst strictly adhering to the banking rules and regulations, TBI has established customer retention as one of its key strategic priorities. The bank finances all sectors of the economy in an ethically responsible manner, paying considerable attention to the indirect impact that its actions may have on society.
TBI therefore believes that it is vital to employ staff of the highest ethical standards and that there is a working environment that is conscientious about energy saving and recycling with a customer friendly atmosphere. The human resource policy reflects this high standard, addressing equal opportunities, training, non-discrimination and other aspects which enhance TBIF Group as a respected and good employer.

Governance and Compliance

Introduction

As of the AGM 2012, Kardan is managed by a one tier board, which currently consists of one executive Board Member, the CEO, and eight non-executive Board Members. The Board reports to the General Meeting of Shareholders of Kardan. The Board as a whole bears ultimate responsibility for the management of Kardan, whilst the responsibility for the day-to-day management is assigned to the CEO of Kardan, jointly with Executive Management, consisting of the Chief Financial Officer (CFO) and the VP Business Development, based on a limited power of attorney provided by the Board. The day-to-day management is supervised by, and may be subject to prior approval of, the Board in accordance with the Articles and the Board Regulations of Kardan as set out in the Corporate Governance Statement. In 2013, no changes were made to the Company's governance framework.

Corporate Governance Statement

Pursuant to the Dutch governmental Decree of December 23, 2004, in which further instructions concerning the content of the annual report were established (Besluit van 23 december 2004 tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag; the 'Decree'), listed companies may provide certain information in a Corporate Governance Statement instead of in the Annual Report. Such information pertains to (i) the extent and manner of implementation of the Code (see www.commissiecorporategovernance.nl), (ii) the main characteristics of the risk management and internal control systems connected with Kardan's financial reporting process, (iii) the functioning of the General Meeting of Shareholders, (iv) the composition and functioning of the Board, and the (v) statement in light of Article 10 of the European Takeover Directive. Kardan's Corporate Governance Statement 2013 is available on its website and forms an integral part of this Annual Report.

Board

Composition and Reappointment schedule

The Board comprised of five board members from the moment it was established in May 2012 until the beginning of 2013. At the EGM 2013, four additional non-executive Board Members were appointed, namely Mrs. Seinstra, Mr. Van den Bos, Mr. Rechter and Mr. Grunfeld. The Remuneration, Appointment and Selection (RAS) Committee followed a due selection process to find appropriate external candidates to take up positions as independent non-executive Board Members, taking into consideration the Board's profile and gender diversification. It conducted various interviews and reference checks and reported to the Board on its findings and recommendations. Given the increased size of the Board, it was decided to appoint Mr. Van den Bos as Vice-Chairman in 2013.

An overview of the composition of the Board and a reappointment schedule can be found in the table below.

Name	Committee	Date of birth	Nationality	Status	Date of first appointment	End of current term
Mr. P. Sheldon (Chairman)	Audit RAS	1941	British	Non-executive Independent	May 31, 2012	AGM 2016
Mr. C. van den Bos (Vice-Chairman)	Audit (Chairman)	1952	Dutch	Non-executive Independent	February 6, 2013	AGM 2017
Mr. M. Groen	Audit	1946	Dutch	Non-executive Independent	May 31, 2012	AGM 2016
Mr. Y. Grunfeld		1942	Israeli	Non-executive Non-independent	February 6, 2013	AGM 2017
Mr. A. May	RAS (Chairman) Audit	1955	Belgian	Non-executive Independent	May 31, 2012	AGM 2016
Mr. S. Oren (CEO)		1959	Israeli	Executive	May 31, 2012	AGM 2017
Mr. E. Rechter		1949	Israeli	Non-executive Non-independent	February 6, 2013	AGM 2017
Mr. A.A. Schnur		1948	Israeli	Non-executive Non-independent	May 31, 2012	AGM 2016
Mrs. E. Seinstra	RAS	1951	Dutch	Non-executive Independent	February 6, 2013	AGM 2017

Board Meetings

The Board meets at least once every quarter, either at Kardan's head office in Amsterdam or by conference call. In 2013, the Board met 12 times. None of the Board Members were frequently absent from Board meetings. Resolutions of the Board are generally adopted by an absolute majority of the votes cast as defined in the Articles, except for extraordinary transactions, in which case resolutions made by the Board are adopted by a special Board majority.
Each Board Member has one vote, except in the event of a conflict of interest, in which case the respective Board Member can neither participate in the discussions nor vote. When deemed necessary, the Board consulted outside experts for advice and invited them to attend Board meetings.

During 2013, the newly appointed Board Members dedicated considerable time to become acquainted with Kardan's strategy and objectives as well as with the various business segments of Kardan. In addition, during the course of 2013, the business managers of TBIF, Tahal, KLC and KWIG gave detailed presentations to the Board. At the beginning of the year, the Board discussed a proposal to reach an amended agreement with the trustees of debentures Series A and Series B. The Board thoroughly assessed and weighed all aspects of this proposal and concluded to approve it, as it was considered to be in the best interest of the Company to do so. Once every year, the Board is given an extensive presentation on the main risks for the Kardan Group and the conclusions of management on how to manage these risks. The Board was informed that continuous follow-up takes place by management and that, as far as possible, control measures of major risks are linked to the Company's strategy.

The Board discussed the Company's strategy, financial position, financial forecasts, results, its cash flow projections and cash-generating options and the ability of the Company to service its short- and long-term debts recurrently and extensively. In light thereof, the Board considered all related matters, such as the relation with the debenture holders, covenants with banks and possibly selling various assets, particularly the sale of GTC SA The Board elected a special committee from its midst to closely monitor the sale of GTC SA and mandated it to approve the sale on behalf of the Board within certain limits. The CEO updated the special committee on a continuous basis on developments in the process of the sale of GTC SA The involvement of the special committee contributed to a smooth and transparent decision-making process, which in turn facilitated the sale of GTC SA

Since 2010, the Company has been in discussion and correspondence with the Israeli Securities Authority (the 'ISA') with respect to a sampling audit conducted by the ISA regarding, inter alia, the valuation of certain real estate assets owned by a then subsidiary (GTC SA) in the financial statements of December 31, 2009. The Board paid special attention to this matter during the course of 2013 and to Kardan's detailed response to the final audit report of the ISA, as published on the website of Kardan on October 23, 2013, together with the ISA's final audit report.

As a recurring item, the CEO provided business updates to the other Board Members during Board meetings and via e-mail, addressing major developments and events in all segments of the Kardan Group.

The Board was periodically updated by the chairmen of both the Audit Committee and the RAS-Committee on the discussions that took place in the meetings of their respective Committees. If so required, the Board was asked to resolve matters that were prepared by the respective committees. As a special item this year, the Board executed its quadrennial evaluation of the external auditor, Ernst & Young, further to an evaluation by the Audit Committee. The Board concluded that the external auditor's knowledge and provision of services to the Kardan Group was satisfactory.

Board evaluation

As part of the annual self-assessment, the Board Members were requested in November 2013 to submit an extensive questionnaire to the RAS-Committee. The RAS-Committee distilled the main conclusions from the submitted questionnaire and shared them with the entire Board. It was agreed that the Chairman will follow up on these conclusions in bilateral meetings with all Board Members in 2014.

Board Committees

The Board has established an Audit Committee and a RAS-Committee, comprising only non-executive independent Board Members, without in any way derogating from the primary responsibilities of the Board as a whole. The respective chairmen of these committees report on their activities periodically to the entire Board. Both committees are subject to specific regulations, which form part of the Board Regulations.

Audit Committee

The Audit Committee met six times during 2013 and extensively discussed the periodic and annual financial statements in the presence of Kardan's CEO, CFO and external auditor. Accounting issues, when present, and main assumptions, judgments and valuations were discussed, and the external auditor reported its findings. Considerable attention was paid to Kardan's cash flow forecast and the quarterly going-concern statement in this respect. The Audit Committee specifically discussed Kardan's S&P rating and the

shares and debentures issued by Kardan, the effects of the loss of accounting effective control over GTC SA and the deconsolidation of GTC SA as well as the foreign exchange impact of the debentures and the Chinese operations. The internal auditor presented several audits, which were discussed, and updates were given on the follow-up of these internal audit findings in later meetings. The Audit Committee performed its annual review of the external auditor and came to the conclusion that the external auditor has demonstrated thorough knowledge of Kardan and is functioning satisfactorily. In addition, the Audit Committee discussed annual compliance and integrity updates, both from the Dutch and the Israeli perspective, pursuant to which internal procedures have been implemented/updated. Also, Kardan is in the process of implementing an internal enforcement plan in line with Israeli Securities Regulations.
During the course of 2013, the chairman of the Audit Committee had frequent meetings with Kardan's financial executives and the external auditors in preparation of the Audit Committee's meetings.

Remuneration, Appointment and Selection Committee

In 2013, the RAS-Committee met three times, either in physical meetings or via teleconference. Following the appointment of four new Board Members at the EGM 2013, the Board reached its current and mature form in terms of size as well as a balanced breakdown of knowledge, expertise and experience amongst its members. After the EGM 2013, the RAS-Committee focused more on assessments and performed an annual assessment of the Executive Management and the targets set for the Executive Management.
The performance of the Executive Management was found to be satisfactory. Furthermore, the RAS- Committee analyzed the self-assessments submitted by the Board Members in November 2013, whereupon the main findings were shared with the entire Board.

Internal regulations and conflicts of interest of Board Members

Kardan's Articles include extensive provisions on conflicts of interest between Kardan and Holders of Control (as defined in the Articles), which are also applicable if these Holders of Control hold a position on the Board (for a further description of these provisions, see the section 'Related Party Transactions' in this chapter). In addition, Kardan endorses the principles and provisions of the Code that address conflicts of interest between Kardan and one or more Board Members. To this effect, provisions have been included in the Board Regulations covering best practice provisions III.6.1 through III.6.3 of the Code, which were adhered to in light of the conflicts of interest described hereafter. At the beginning of each Board meeting the Chairman verifies whether any Board Member has a (potential) conflict of interest with respect to any item on the agenda.

In 2013, Mr. Grunfeld, Mr. Rechter and Mr. Schnur reported a conflict of interest with respect to (i) the proposal to amend the service agreement with Kardan Israel Ltd. and (ii) the proposal to approve the sale of Avis Ukraine to Avis Israel Ltd. (subsidiary of Kardan Israel Ltd.), as they hold shares in Kardan Israel Ltd. Hence, they did not participate in the decision making process of the Board on these matters. Furthermore, Mr. May stated that he was approached to render services to an investor with a potential interest in a division of the Kardan Group. The Board discussed such an engagement and considered that – given the extensive experience of Mr. May in this particular field – it would be an excellent opportunity for the Kardan Group and approved Mr. May's engagement by this investor, subject to Mr. May committing to certain confidentiality agreements and to his not being able to participate in any discussions and/or decision-making processes related to the subject matter.

Board Report

Remuneration and shareholdings of Board Members

The Shareholders approved a remuneration policy for the Board at the AGM 2012. Non-executive Board Members will receive fixed remuneration, and a specific remuneration package was adopted for the Executive Board Members. The General Meeting of Shareholders determines the remuneration of each Board Member.

The remuneration of the non-executive Board Members does not depend on the performance of Kardan's shares, and rights to shares are not granted to the non-executive Board Members as remuneration. Kardan has not granted personal loans, guarantees or the like to Board Members, all of which are prohibited by the Board Regulations unless in the normal course of business and with prior approval granted by the Board. There are three non-executive Board Members who hold shares in the capital of Kardan: Mr. Schnur currently holds 19,818,466 shares, Mr. Grunfeld currently holds 21,493,927 shares, and Mr. Rechter currently holds 4,098,719 shares through Shamait Ltd., a company in which he holds 97.5% of the shares. Mr. Grunfeld and Mr. Rechter are directors and shareholders of Kardan Israel Ltd., which holds approximately 11% of the shares in Kardan. Mr. Oren holds 100,000 shares in the capital of Kardan.
In addition, as part of his remuneration package, he has been granted an option to purchase ordinary shares in the share capital of Kardan constituting 2% of the issued share capital.

Detailed information on the remuneration of all Board Members can be found in the Remuneration Report on page 106 of this Annual Report.

Related Party Transactions

Articles 7, 8 and 9 of the Articles of Kardan contain rules on the corporate resolution process in the case of dealings between Kardan and one or more Holders of Control, as defined in the Articles (Special Approval Procedure). Holders of Control are deemed to be any Person (as defined in the Articles) holding 25% or more of the voting rights in the General Meeting of Shareholders, if there is no other Person holding more than 50% of the voting rights. Certain transactions, as described in Kardan's Articles, between Kardan and a Holder of Control require special approval, as follows: (i) Board approval with an absolute majority of votes, including the affirmative vote of the majority of the Independent Board Members (as defined in the Articles) and (ii) approval of the General Meeting of Shareholders with an absolute majority of votes, provided that either (a) such a majority includes the affirmative votes of at least half of all the votes of the shareholders who are present at the meeting and who do not have a Personal Interest (as defined in the Articles), or (b) the opposition votes of those shareholders who are present at the meeting and who do not have a Personal Interest, do not constitute more than 2% of the total number of votes that can be cast in a General Meeting of Shareholders. In 2013, this procedure was followed for the approval of the amendment to the service agreement with Kardan Israel Ltd., which was approved in the AGM 2013. It is noted that the aforementioned agreement has been concluded on an arm's length basis, in accordance with provision III.6.4 of the Code.

Relations with Shareholders

Kardan acknowledges the importance of being transparent towards its shareholders and other investors. As such, the CEO frequently engages in (one-on-one) meetings with investors and shareholders and has, during 2013, had multiple discussions with Kardan's debenture holders and their representatives. Shareholders are given the opportunity to ask questions at the General Meetings of Shareholders and, in addition, Kardan has addressed their questions during the course of the year. All is done in accordance with Kardan's policy on bilateral contacts, as published on Kardan's website.

Compliance

As a company listed on NYSE Euronext in Amsterdam and the Tel Aviv Stock Exchange, Kardan is subject to laws and regulations in the countries of listing. Moreover, as an internationally operating company, Kardan must comply with laws and regulations in every country in which it conducts its business. Compliance with applicable laws and regulations is embedded in Kardan's organization, amongst others by means of internal rules and procedures that have been put into place to safeguard compliance. In light thereof, a Whistleblower Policy has been implemented, enabling employees to adequately and safely report any suspicions they may have of irregularities of a general, operational or financial nature. In 2013, one anonymous report was received under this policy, which was investigated and deemed to be unfounded. In addition, Kardan has adopted a Code of Conduct designed to provide its employees with guidelines for their behavior and activities to comply with laws, regulations and ethical standards that govern Kardan's business. In order to safeguard a level playing field for investors, Kardan has put in place an Insider Trading Policy and a Policy Bilateral on Bilateral Contacts. All of the aforementioned policies can be found on Kardan's website under 'Governance'.

Due to its listing on NYSE Euronext in Amsterdam, Kardan is required to comply with the Dutch Securities Law and listing standards of NYSE Euronext as available on https://europeanequities.nyx.com/regulation/market-rules. Supervision of the Dutch Securities Law is, to the extent relevant for Kardan, carried out by the Dutch Financial Markets Authority ('AFM'), who is responsible for supervising the efficient operation of the financial markets in the Netherlands.

Due to its listing on the Tel Aviv Stock Exchange, Kardan is required to comply with Israeli Securities Regulations and listing standards of the Tel Aviv Stock Exchange (TASE), as available on www.tase.co.il/TASEEng. Supervision of the Israeli Securities Regulations is carried out by the ISA.

Any report required in Israel is conducted through the Electronic Disclosure System (MAGNA). Through the MAGNA system, the reports are sent to the ISA and the TASE, and can be reviewed by any investor online. Reporting requirements in Israel include (but are not limited to) the following:

(i) any Interested Party and any Senior Office Holder (as defined in the Articles) of Kardan is required to report to Kardan about any change in their holdings in Kardan's shares, and Kardan has to report this via the MAGNA system.

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

(iii) Kardan has to publish an Immediate Report about convening a General Meeting of Shareholders and the resolutions adopted in such meeting;

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

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

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

Remuneration Report

The RAS-Committee makes proposals to the Board regarding the fixed and variable remuneration (as applicable) of the individual Board Members. However, in accordance with the Articles, the final determination of the board members' remuneration (amount and composition) lies with the Company's General Meeting of Shareholders.

In the AGM 2012, a remuneration policy was adopted for non-executive Board Members (the 'Policy') and a remuneration package for the CEO (the 'Package') was approved, as explained in more detail below. It is noted that pension arrangements are not provided for by Kardan.

Remuneration policy of the non-executive Board Members

The AGM 2012 adopted the Policy, which stipulates that each non-executive Board Member receives a fixed remuneration of EUR 26,000 per year. No change to this Policy was proposed in 2013. The Chairman receives an additional fee of EUR 9,000 per year; a committee chairman receives an additional fee of EUR 6,000 per year; and committee members who are not chairmen receive an additional fee of EUR 4,000 per year. The remuneration for non-executive Board Members consists of fixed remuneration only. A breakdown of the total remuneration as paid in 2013 is presented in the table below (pro-rated for their tenure in 2013).

Non-executive Board Member		* Gross Annual remuneration in €	Gross Remuneration in 2013 in €
Mr. P. Sheldon	Chairman of the Board; member of the Audit Committee and of the RAS-Committee	43,000	43,000
Mr. C. van den Bos	Vice-Chairman of the Board and Chairman of the Audit Committee	32,000	26,856
Mr. M. Groen	Member of the Audit Committee	30,000	32,000
Mr. Y. Grunfeld		26,000	23,275
Mr. A. May	Chairman of the RAS-Committee and member of the Audit Committee	36,000	36,000
Mr. E. Rechter		26,000	23,275
Mr. A. Schnur		26,000	26,000
Mrs. M. Seinstra	Member of the of the RAS-Committee	30,000	26,856

* Situation as of April 2014

Pursuant to the Articles, Board Members receive indemnification for losses, damages and costs which they may incur as a result of a claim or proceedings related to the fulfillment of their duties as board members (willful misconduct and gross negligence excluded). No such indemnification was granted in 2013. The Board will not propose to the AGM 2014 to amend the Policy for 2014.

Remuneration of the CEO

The Package of the CEO was proposed and adopted during the AGM 2012. Insofar as the Package deviates from the Code, this is explained in the Company's Corporate Governance Statement 2013.

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

Fixed remuneration
The CEO is entitled to receive an annual fee of EUR 437,000 including customary social benefits and allowances such as a car, cellular telephone, etc. The fee is allocated between services provided by the CEO to the Company in the Netherlands and services provided by him to companies abroad within the Kardan Group.

Variable remuneration – short term
The Board may propose to the General Meeting of Shareholders to grant the CEO an annual bonus for each calendar year, based on his achievements during the relevant year and taking into account his total Package. The proposal is at the discretion of the Board and is not directly linked to measurable targets. The Board deems it in the best interest of the Company not to set specified targets, as both the markets in which Kardan operates and the price of the Kardan shares have proven to be volatile. As such, specific targets would not necessarily do justice to the achievements of the CEO. It is noted that the General Meeting of Shareholders is ultimately the corporate body to approve a bonus. In the event that the CEO leaves the Company at the initiative of the Company, he is entitled to a severance fee equal to six months' fixed remuneration. The non-executive Board Members have decided to propose a bonus for the CEO to the AGM 2014 in the amount of EUR 725.000. This bonus is to be paid following the end of the financial year 2014 and will be dependent on the Company having raised sufficient cash to redeem the Debentures due for repayment on February 15, 2015 plus a bank loan of EUR 33 million due for repayment by the end of 2014.

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

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

The Option vests over a period of five years from February 20, 2012 (the 'Effective Date'), this being the date that he was nominated as CEO, as follows:
1/4 after two years from the Effective Date;
1/4 after three years from the Effective Date;
1/4 after four years from the Effective Date;
1/4 after five years from the Effective Date;

The following conditions apply:

– Upon termination of the engagement as described above, during the first year as of the Effective Date, the Option shall expire, without any further right to compensation.

– Upon termination of the engagement during the second year as of the Effective Date, the CEO will be entitled to exercise a relative part of the first portion he is entitled to exercise at the end of the second year.

– Upon termination of the engagement as of the Effective Date, after the end of the second year, the CEO will be entitled to exercise all the vested portions and the relative part of the next portion, up to the termination date.

– In the event of termination for cause as of the Effective Date, the entire unexercised portions (whether vested or not) shall expire, without any further right to compensation.

– The only condition is that Mr. Oren is the CEO at the time of vesting. It is noted that Mr. Oren can exercise 25% of the Option after two years from the Effective Date. The Code prescribes that options may not be exercised within three years from the date of grant. Given the fact that half of the options can be exercised only after the three-year period, the nature of the option schedule is such that Mr. Oren will only benefit in the case of good long-term performance of the Company.

The act on the revision and claw back of bonuses and profit-sharing arrangements of board members and certain (other) employees of financial institutions entered into force on 1 January 2014 (the 'Act'). The Act explicitly provides for the possibility to:

– revise a bonus prior to payment, if unaltered payment of the bonus would be unacceptable pursuant to the criteria of 'reasonableness and fairness'; and

– claw back (part of) a paid bonus, if payment took place on the basis of incorrect information on the fulfilment of the bonus targets or conditions for payment of the bonus.

The revision and clawback provisions under the Act apply only to bonuses paid from 1 January 2014, which includes bonuses earned in performance year 2013, payable in the 2014 bonus round.

Total remuneration

A breakdown of the total costs of the remuneration paid to the CEO in 2013 is presented in the following table:

Element	Remuneration in 2013
Base Fee (including social benefits)	EUR 453,000 [1]
Allowances	company car, cell phone
Annual Bonus	nil
Options (grant day: February 6, 2013)	nil
Pension	nil

1 Actual costs are higher than the approximate EUR 437,000 as indicated in the notes to the Annual General Meeting 2012, due to exchange rate differences and CPI adjustments.

Employee Options

In 2013, the Company granted 250,000 options to purchase shares in the Company to four senior employees. For each employee, the options vest in four equal annual installments commencing on 1 June 2014. Options (whether vested or not) shall lapse immediately and automatically, without any consideration becoming due, upon the occurrence of the earliest of the following events: (i) 1 June 2020; (ii) a participant ceases to be an employee for any reason other than, due to his death, as a consequence of total and permanent disability or retirement, or any other reason the CEO so decides at his absolute discretion, (iii) the participant transfers or encumbers the options. The option price is EUR 1.298 (NIS 6.136) and options can be exercised either by payment of the option price by the participant or by a) either issuing or transferring shares to the participant in an amount as shall reflect the net value of the exercised options per the exercise date, or b) settling the exercise of the options in cash in an amount equal to the difference between (i) the market price of the underlying shares of the exercised options at the exercise date and (ii) the option price multiplied by the number exercised options at the exercise date. As at December 31, 2013, no options were exercised.

For further details regarding share based payments see Note 19 of the consolidated financial statements.

Board Report

Declaration by the Board

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

(i) The Consolidated Financial Statements for the 2013 financial year give a fair view of the assets, liabilities, financial position and losses of Kardan and of the companies included in the consolidation.

(ii) The Annual Report 2013 gives a fair view of Kardan's condition on the balance sheet date, the development of Kardan and its affiliated companies (subsidiaries, joint ventures, and associated companies) during the 2013 financial year, and all material risks to which Kardan and its affiliated companies are exposed.

Amsterdam, April 16, 2014

Board of Directors

P. Sheldon (Chairman)

S. Oren (CEO)

C. van den Bos (Vice-Chairman)

M. Groen

Y. Grunfeld

A. May

E. Rechter

A. Schnur

E. Seinstra

Statutory Financial Statements

for the year ended December 31, 2013 by Kardan N.V., Amsterdam, The Netherlands

Consolidated IFRS Financial Statements

Company-only Dutch GAAP Financial Statements

Notes to the Consolidated IFRS Financial Statements

Consolidated Statement of Financial Position

€ in '000	Note	December 31, 2013	December 31, 2012 *	January 1, 2012 *
Assets				
Non-current assets				
Tangible fixed assets, net	6	56,227	69,377	65,990
Investment properties	7	118,068	1,565,044	1,614,335
Investments in associates	8	5,695	41,817	54,151
Investments in joint ventures	9	128,658	193,521	335,311
Financial assets		–	–	6,239
Loans to bank customers	10	50,392	20,553	5,515
Long-term loans and receivables	11	86,762	101,082	106,735
Derivatives	39	–	–	56,677
Intangible assets and goodwill, net	12	22,513	36,695	43,014
Long-term land bank inventory	13	–	98,985	110,983
Deferred tax assets	37	3,985	18,767	16,130
		472,300	**2,145,841**	**2,415,080**
Current assets				
Inventories, contract work, buildings and apartments inventory and land bank	13	109,957	182,661	189,862
Derivatives	39	22	12,895	646
Current maturities of long-term loans and receivables	11	29,735	43,008	104,904
Loans to bank customers	10	48,522	40,242	20,322
Trade receivables	14	67,259	58,718	33,152
Income tax receivables		1,298	2,353	2,865
Other receivables and prepayments	15	56,187	55,204	42,242
Short-term investments	16	14,427	25,832	85,464
Cash and cash equivalents	17	118,268	369,110	330,725
		445,675	**790,023**	**810,182**
Assets held for sale	5	6,640	50,839	147,622
Total current assets		**452,315**	**840,862**	**957,804**
Total assets		**924,615**	**2,986,703**	**3,372,884**

* Restated – see Note 2D

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

€ in '000	Note	December 31, 2013	December 31, 2012 *	January 1, 2012 *
Equity and liabilities				
Equity attributable to equity holders of the parent	18			
Issued and paid-in capital		23,041	23,041	23,041
Share premium		208,117	208,165	208,165
Foreign currency translation reserve		(4,680)	(462)	6,868
Property revaluation reserve		34,300	57,802	52,169
Revaluation reserve, other		12,296	8,156	5,328
Non-controlling interest holders transactions reserve		21,104	20,128	18,765
Treasury shares		(2,786)	(2,847)	(2,847)
Accumulated deficit		(225,297)	(147,809)	(109,324)
		66,095	**166,174**	**202,165**
Non-controlling interests		**5,655**	**542,454**	**533,137**
Total equity		**71,750**	**708,628**	**735,302**
Non-current liabilities				
Interest-bearing loans and borrowings	20	70,423	885,520	823,020
Banking customers accounts	21	128	58	625
Derivatives	39	–	33,490	78,451
Other long-term liabilities	22	6,887	20,307	22,062
Options	23	4,317	5,446	15,276
Debentures	24	327,240	543,909	807,324
Deferred income tax liabilities	37	12,584	121,059	122,648
Accrued severance pay, net		1,488	1,485	1,943
		423,067	**1,611,274**	**1,871,349**
Current liabilities				
Advances from customers in respect of contracts	13	40,214	16,441	12,605
Banking customers accounts	21	137,593	68,262	13,622
Trade payables	25	21,296	31,882	41,118
Current maturities of debentures	24	67,409	130,307	–
Interest-bearing loans and borrowings	26	47,786	165,671	501,059
Income tax payables		1,419	5,244	4,313
Advances from apartment buyers	13	5,667	12,936	6,431
Derivatives	39	273	32,362	22,060
Other payables and accrued expenses	27	108,141	176,228	165,025
		429,798	**639,333**	**766,233**
Liabilities associated with assets held for sale	5	–	27,468	–
Total current liabilities		**429,798**	**666,801**	**766,233**
Total liabilities		**852,865**	**2,278,075**	**2,637,582**
Total equity and liabilities		**924,615**	**2,986,703**	**3,372,884**

* Restated – see Note 2D

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

Consolidated Income Statement

€ in '000	Note	For the year ended December 31, 2013	2012 *	2011 **
Contract revenues		153,010	142,967	111,854
Retail lending activities	30	24,406	10,966	2,029
Sale of apartments		23,984	–	–
Management fee and other revenues		6,595	7,835	9,207
Total revenues		**207,995**	**161,768**	**123,090**
Contract costs		121,342	121,962	92,285
Costs of retail lending activities	31	25,182	23,562	27,202
Cost of sale of apartments		19,697	–	–
Other expenses, net	32	3,358	5,370	11,582
Total expenses		**169,579**	**150,894**	**131,069**
Gross margin		**38,416**	**10,874**	**(7,979)**
Selling and marketing expenses	33	**7,912**	8,210	10,789
General and administration expenses	34	25,513	27,740	34,916
Profit (loss) from operations before fair value adjustments, disposal of assets and investment and other income		**4,991**	**(25,076)**	**(53,684)**
Adjustment to fair value of investment properties	7	8,802	10,383	16,545
Impairment losses on goodwill	12	(3,926)	(4,005)	(17,805)
Gain (loss) on disposal of assets and other income, net	35	(8,947)	(1,690)	20,180
Profit (loss) from fair value adjustments, disposal of assets and investments and other income		**(4,071)**	**4,688**	**18,920**
Profit (loss) from operations		**920**	**(20,388)**	**(34,764)**

* Restated – see Note 2D

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

Consolidated Income Statement (continued)

€ in '000	Note	For the year ended December 31, 2013	2012 *	2011 *
Financial income	36	6,185	50,072	10,066
Financial expenses	36	(51,803)	(41,389)	(43,733)
Adjustment to fair value of other financial instruments, net		–	1,073	(3,860)
Total financial income (expenses), net		**(45,618)**	**9,756**	**(37,527)**
Loss before share of profit (loss) from investments accounted for using the equity method		**(44,698)**	**(10,632)**	**(72,291)**
Share of profit (loss) of investments accounted for using the equity method, net	8, 9	12,345	4,662	(3,117)
Loss before income taxes		**(32,353)**	**(5,970)**	**(75,408)**
Income tax expenses	37	14,443	938	8,328
Loss for the year from continuing operations		(46,796)	(6,908)	(83,736)
Net loss from discontinued operations	5	(75,177)	(131,948)	(326,114)
Net loss for the year		**(121,973)**	**(138,856)**	**(409,850)**
Attributable to:				
Equity holders		(101,333)	(32,852)	(149,312)
Non-controlling interest holders		(20,640)	(106,004)	(260,538)
		(121,973)	**(138,856)**	**(409,850)**
Earnings (loss) per share attributable to shareholders	38			
Basic from continuing operations		(0.42)	(0.06)	(0.97)
Basic from discontinued operations		(0.50)	(0.24)	(0.37)
		(0.92)	**(0.30)**	**(1.34)**
Diluted from continuing operations		(0.42)	(0.06)	(0.98)
Diluted from discontinued operations		(0.50)	(0.24)	(0.37)
		(0.92)	**(0.30)**	**(1.35)**

* Restated – see Note 2D

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

Consolidated Statement of Comprehensive Income (expense)

€ in '000	For the year ended December 31,		
	2013	2012	2011
Net loss for the year	**(121,973)**	**(138,856)**	**(409,850)**
Foreign currency translation differences [1]	(4,596)	(5,931)	(7,899)
Change in hedge reserve, net of tax [2]	6,677	10,123	2,670
Net loss on available for sale financial assets	–	–	(1,419)
Other comprehensive income (expense) for the year to be reclassified to profit or loss in subsequent periods [3]	2,081	4,192	(6,648)
Total comprehensive expenses	**(119,892)**	**(134,664)**	**(416,498)**
Attributable to:			
Equity holders	(101,409)	(37,641)	(151,294)
Non-controlling interests holders	(18,483)	(97,023)	(265,204)
	(119,892)	**(134,664)**	**(416,498)**

* Restated – see Note 2D

1 Foreign currency translation differences for the year ended December 31, 2011 include release of amounts related to business combinations and to the distribution of Kardan Yazamut shares as dividend in kind, for additional information refer to note 5C.
2 Including reclassification of reserve due to the sale of derivative instruments in the amount of €2,201 thousand for the year ended December 31, 2013 (see also Note 39 and Note 5C). The amounts presented are net of tax amounting to €622 thousand, €713 thousand and €2,317 thousand for the year ended December 31, 2013, 2012 and 2011 respectively.
3 Including the impact resulting from associates and joint ventures for the years 2013, 2012 and 2011 amounted to €(1,059) thousand, €(4,610) thousand and €(134) thousand respectively.

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

Consolidated Statement of Changes in Equity

€ in '000	Attributable to equity holders of the parent										
	Issued and paid-in capital	Share premium	Property revaluation reserve *	Revaluation reserve, other *	Foreign currency translation reserve *	Non-controlling interest holders transactions reserve	Treasury shares	Accumulate deficit *	Total	Non-controlling interest	Total equity
Balance as of January 1, 2013	**23,041**	**208,165**	**57,802**	**8,156**	**(462)**	**20,128**	**(2,847)**	**(147,809)**	**166,174**	**542,454**	**708,628**
Other comprehensive income (loss)	–	–	–	4,142	(4,218)	–	–	–	(76)	2,157	2,081
Loss for the period	–	–	–	–	–	–	–	(101,333)	(101,333)	(20,640)	(121,973)
Total comprehensive income (loss)	**–**	**–**	**–**	**4,142**	**(4,218)**	**–**	**–**	**(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**	**34,300**	**12,296**	**(4,680)**	**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)

€ in '000	Attributable to equity holders of the parent										
	Issued and paid-in capital	Share premium	Property revaluation reserve **	Revaluation reserve, other ** ***	Foreign currency translation reserve **	Non-controlling interest holders transactions reserve	Treasury shares	Accumulate deficit	Total	Non-controlling interest	Total equity
Balance as of January 1, 2012	**23,041**	**208,165**	**52,169**	**5,328**	**6,868**	**18,765**	**(2,847)**	**(109,324)**	**202,165**	**533,137**	**735,302**
Other comprehensive income (loss)	–	–	–	2,541	(7,330)	–	–	–	(4,789)	8,981	4,192
Net result for the year	–	–	–	–	–	–	–	(32,852)	(32,852)	(106,004)	(138,856)
Total comprehensive income (loss)	**–**	**–**	**–**	**2,541**	**(7,330)**	**–**	**–**	**(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**	**57,802**	**8,156**	**(462)**	**20,128**	**(2,847)**	**(147,809)**	**166,174**	**542,454**	**708,628**

* Restated – see Note 2D.
** In accordance with the Netherlands civil code, part of the retained earnings is restricted for distribution (see Note 18F).
*** Reclassified – see Note 2E.

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

Consolidated Statement of Changes in Equity (continued)

€ in '000	Attributable to equity holders of the parent										
	Issued and paid-in capital	Share premium	Property revaluation reserve **	Revaluation reserve, other ** ***	Foreign currency translation reserve **	Non-controlling interest holders transactions reserve	Treasury shares	Accu-mulated deficit	Total	Non-controlling interest	Total equity
Balance as of January 1, 2011	**23,041**	**235,177**	**113,905**	**1,055**	**8,059**	**(2,104)**	**(26,904)**	**(18,101)**	**334,128**	**704,688**	**1,038,816**
Other comprehensive income (loss)	–	–	–	(2,172)	190	–	–	–	(1,982)	(4,666)	(6,648)
Net result for the year	–	–	–	–	–	–	–	(149,312)	(149,312)	(260,538)	(409,850)
Total comprehensive income/loss	**–**	**–**	**–**	**(2,172)**	**190**	**–**	**–**	**(149,312)**	**(151,294)**	**(265,204)**	**(416,498)**
Share-based payment	–	–	–	–	–	–	–	–	–	7,873	7,873
Issuance and sale of shares to non-controlling shareholders	–	–	–	6,445	(1,381)	22,052	–	–	27,116	166,013	193,129
Shares purchased in subsidiaries and first time consolidation of subsidiary (Note 5C)	–	–	–	–	–	(1,183)	–	–	(1,183)	29,562	28,379
Purchase of treasury shares	–	–	–	–	–	–	(2,955)	–	(2,955)	–	(2,955)
Deconsolidation of a subsidiary	–	–	–	–	–	–	–	–	–	(35,358)	(35,358)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(3,505)	(3,505)
Distribution of a subsidiary as dividend in kind (Note 5C)	–	(27,012)	–	–	–	–	27,012	(3,647)	(3,647)	(70,932)	(74,579)
Reclassification according to the Netherlands civil code requirements (**)	–	–	(61,736)	–	–	–	–	61,736	–	–	–
Balance as of December 31, 2011	**23,041**	**208,165**	**52,169**	**5,328**	**6,868**	**18,765**	**(2,847)**	**(109,324)**	**202,165**	**533,137**	**735,302**

* Restated – see Note 2D.
** In accordance with the Netherlands civil code, part of the retained earnings is restricted for distribution (see Note 18F).
*** Reclassified – see Note 2E

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

Consolidated Cash Flow Statement

For the year ended December 31

€ in '000	2013	2012 *	2011 *
Cash flow from operating activities			
Loss from continuing operations before taxes on income	(32,353)	(5,970)	(75,408)
Loss from discontinued operations before taxes on income	(69,531)	(126,377)	(307,777)
Adjustments to reconcile net profit (loss) to net cash (see A below)	(20,235)	(62,953)	70,220
Adjustment on operating activities from discontinued operations	81,720	134,520	324,556
Net cash provided by (used in) operating activities	**(40,399)**	**(60,780)**	**11,591**
Cash flow from investing activities			
Acquisition of tangible fixed assets and investment properties	(36,128)	(31,241)	(57,375)
Investments and Collection (granting) loans from (to) companies accounted for using the equity method, net	471	6,589	503
Proceeds from sale of assets and investments	18,439	4,191	685
Change in loans to bank customers, net	(41,965)	(35,687)	12,150
Change in long-term loans and receivables	26,174	48,014	23,371
Change in short-term investments	(286)	2,492	1,638
Acquisition of newly consolidated subsidiary, net of cash acquired (see B below)	–	–	(602)
Disposal of an investment accounted for using the equity method (**)	–	84,770	28,720
Disposal of formerly consolidated subsidiaries (see C below)	–	–	2,724
Change from full consolidation to equity method (see D below)	1,223	–	45,371
Disposal of a previously consolidated subsidiary due to bankruptcy (see E below) (**)	(22)	–	–
Change from equity method to full consolidation (see F below) (**)	208	–	–
Change in deferred brokerage fees and other assets	(1,990)	1,410	(16,453)
Capital withdrawal from investment in joint ventures	–	952	–
Net cash provided by (used in) investing activities from continuing operation	(33,876)	81,490	40,732
Change from full consolidation to equity method (see G 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	(191,669)
Net cash provided by (used in) investing activities	**(81,859)**	**190,684**	**(150,937)**

* Restated – see Note 2D
** See also Note 5C

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

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in '000	2013	2012 *	2011 *
Cash flows from financing activities			
Dividend paid to non-controlling interest holders	–	–	(26)
Decrease in cash due to distribution of a subsidiary as dividend in kind (**)	–	–	(19,363)
Issuance of debentures	–	1,869	1,973
Repayment and repurchase of debentures	(58,390)	(100,381)	(40,948)
Change in loans from bank customers	69,401	54,081	(2,951)
Proceeds from long-term loans	30,849	71,588	11,345
Repayment of long-term loans	(132,045)	(150,560)	(261,075)
Change in short-term loans and borrowings	(8,432)	(1,389)	(1,797)
Change in short term deposits	(8,029)	43,520	-
Proceeds from sale of hedge instruments	11,634	52,155	44,790
Purchase of treasury shares	–	–	(2,955)
Transaction with non controlling interest holders	(356)	(2,870)	(5,853)
Net cash (used in) provided by financing activities from continuing operation	**(95,368)**	**(31,987)**	**(276,860)**
Net cash (used in) provided by financing activities from discontinued operation	(31,707)	(60,042)	254,286
Net cash (used in) provided by financing activities	(127,075)	(92,029)	(22,574)
Foreign exchange differences relating to cash and cash equivalents	(1,640)	797	3,146
Increase (decrease) in cash and cash equivalents	(250,973)	38,672	(158,774)
Change in cash of assets held for sale	131	(287)	–
Cash and cash equivalents at the beginning of the year	369,110	330,725	489,499
Cash and cash equivalents at the end of the year	**118,268**	**369,110**	**330,725**

* Restated – see Note 2D
** See also Note 5C

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

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in '000	2013	2012 *	2011 *
A. Adjustments to reconcile net profit (loss) to net cash			
Charges / (credits) to profit / loss not affecting operating cash flows:			
Share of loss (profit) of associated companies and joint ventures accounted for using the equity method	(12,345)	(4,662)	3,117
Impairment of investment in investee	8,254	–	–
Impairment of goodwill and other intangible assets	13,588	4,005	17,805
Gain on disposal of assets and investments, net	–	–	(15,902)
Share-based payment	1,804	2,182	6,590
Depreciation and amortization	7,196	8,888	10,517
Fair value adjustments of investment properties	(8,802)	(10,383)	(16,545)
Financial expense and exchange differences, net	37,366	45,710	33,158
Change in fair value of options and share appreciation rights	–	1,480	(3,864)
Capital loss (gain) from sale property plant and equipment	(7,886)	500	(16)
Capital gain from realization of investment in companies	–	–	(8,169)
Decrease (increase) in fair value of securities held for trading and hedge instruments, net	(1,736)	(12,697)	12,446
Increase in provision for bad debts in the financial services segment	7,026	14,077	26,276
Gain from early repayment of loans and debentures	–	(43,035)	(3,446)
Changes in operating assets and liabilities:			
Change in trade and other receivables	(76,079)	(138,433)	(68,641)
Change in inventories and in contract work in progress, net of advances from customers	2,368	1,372	(48,530)
Change in trade and other payables	16,688	50,127	79,791
Interest paid	(37,835)	(66,033)	(93,861)
Interest received	36,412	75,816	139,941
Income taxes paid	(6,027)	(1,925)	(7,599)
Dividend received from joint ventures accounted using the equity method, net of tax	–	10,482	7,152
Other	(227)	(424)	–
	(20,235)	**(62,953)**	**70,220**

* Restated – see Note 2D

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

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in '000	2013	2012	2011
B. Acquisition of newly consolidated subsidiary, excluding cash acquired			
Working capital (excluding cash)	–	–	(841)
Non-current assets	–	–	(29,750)
Goodwill on acquisition	–	–	(520)
Long-term liabilities	–	–	30,509
Total	–	–	**(602)**
C. Disposal of formerly consolidated subsidiaries			
Working capital (excluding cash)	–	–	(129)
Non-current assets	–	–	891
Non controlling interests	–	–	(1)
Long-term liabilities	–	–	(102)
Gain on disposal of investment	–	–	2,065
Total	–	–	**2,724**
D. Change from full consolidation to equity method			
Working capital (excluding cash and cash equivalents)	(475)	–	(6,237)
Receivable from sale of an investment in a subsidiary	(3,759)	–	–
Investment property	–	–	119,819
Non-current assets	10,768	–	1,395
Goodwill on acquisition	–	–	1,984
Investment in a joint venture accounted using the equity method	–	–	(45,858)
Investment in an associate accounted using the equity method	(5,681)	–	–
Change in capital reserve	–	–	(3,243)
Non-current liabilities	–	–	(35,672)
Gain on disposal of investment	370	–	11,861
Total	1,223	–	44,049
Foreign currency translation on cash	–	–	1,322
	1,223	–	45,371

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

Consolidated Cash Flow Statement (continued)

For the year ended December 31

€ in '000	2013	2012	2011
E. 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)	–	–
F. Change from equity method to full consolidation			
Working capital (excluding cash and cash equivalents)	254	–	–
Non-current assets	(2)	–	–
Investment in an associate accounted using the equity method	(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	–	–
G. 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	(1,012,011)	–	–
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)	–	–

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

Notes to the Consolidated IFRS Financial Statements

December 31, 2013

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 29). During 2013, the Company completed the sale of GTC SA which represented the Real Estate Europe segment (for additional information see Note 5C). During 2012, the Company completed the sale of Sovcom Bank (which is a part of the Retail and lending segment), for additional information see Note 5C. During 2011, the Company distributed its rental of vehicles and sale of vehicles segment and parts of the other segment as dividend in kind to its shareholders (refer to Note 5 for additional information).

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

The total number of employees in the Company and its subsidiaries as of December 31, 2013 was 2,875 of which 365 part of the Real Estate sector (363 are located abroad), 1,042 are part of the infrastructure sector (all are located abroad) 1,450 are part of the Banking and retail landing sector (all 1,449 are located abroad) and 18 which are part of the headquarter. (December 31, 2012 – 3,056).

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

These financial statements were approved by the Board of Directors of the Company on March 26, 2014.

Going concern

As at December 31, 2013 the Company had, on a stand-alone basis, a working capital deficit of €54,746 thousand, which is mainly due to the current maturities of the Company's debentures. In addition, in 2013 the Company incurred a loss attributable to the equity holders in the amount of €101,333 thousand, which resulted in a decline in equity attributable to equity holders to €66,095 thousand. The Company also reported negative consolidated cash flows from operations of €40,399 thousand in 2013.

In the months December 2013, January and February 2014, the Company repaid the second installment and interest of debentures series A, and the first installment and interest of debentures series B, totaling €102 million (including interest) and a bank loan and liability in an amount of €109 million using the proceeds from the sale of the investment in GTC SA, repayment of shareholder's loans and receipt of a bank loan in the amount of €33 million by GTC RE (for additional information refer to Note 5C and 41). After the repayment the cash balance of the Company (stand alone) amounts to €3 million.

The Company's consolidated financial statements as of December 31, 2013 have been prepared under the assumption that the Company will continue as a going concern. This is based, among others, on the Company's current cash balances and the estimated cash flow that will derive from the sale of assets and/or repayment of shareholder's loans or dividend distribution by some of the Company's subsidiaries.

The Company, together with GTC RE, has prepared a liquidity analysis for the next two years as of the balance sheet date, which addresses the required liquidity for the Company to be able to repay the principle and interest of debentures (series A and B) in February 2015 in the total amount of €99 million, the abovementioned bank loan for an amount of €28 million in December 2014, and its other liabilities and to finance its operations.

The repayments are likely to be funded mostly by cash to be generated through the sale of certain assets, including the sale of investments in shares of certain subsidiaries, by raising loans (against pledge of free assets) and / or repayment of certain shareholder's loans and dividend distribution by some of the Company's subsidiaries. In this context it should be noted that the Company is engaged directly and through its subsidiaries in a number of negotiations - in various stages – regarding materialization of such assets. The proceeds from the realization of these above mentioned plans will serve the Company within the limitations of the agreements reached with the debentures holders and with Discount Bank, as disclosed in Note 28 and 41 to these financial statements.

The realization, the price and the timing of the Company's plans in relation to the sale of assets, repayment of shareholder's loans by certain subsidiaries and raising debt are uncertain and depend also on factors that are not wholly within the Company's control and on the willingness of third parties to invest and grant credit. The Company believes that, the value of its total assets remains considerably higher than its total liabilities, and in light of the current indications regarding the ability to realize a sale of assets and/or obtain credit in the required timeframe, it will be able to realize its plans and that it will be able to repay its liabilities as they mature in the foreseeable future.

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

2 Basis of preparation

A. Basis of preparation

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

The consolidated financial statements are presented in Euros and all values are rounded to the nearest 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 adopted by the European Union ('EU').

As the IAS 39 carve out has no impact, these financial statements also comply with IFRS as issued by the IASB

C. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2013.

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. An investee company for which 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) 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 – refer also to 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 reattributes '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 recognised 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 early adopted certain standards and amendments that require restatement of comparative numbers which were reported in previous financial statements. These include IFRS 10 'Consolidated Financial Statements' and IFRS 11 'Joint Arrangements'. Additionally the Group applies for the first time IFRS 13 'Fair Value Measurement', IAS 27 'Separate Financial Statements', IAS 28 'Investment in Associates and Joint Ventures', IFRS 12 'Disclosure of

Interests in Other Entities' and amendments to IAS 1 'Presentation of Financial Statements'.

In addition, the application of IFRS 12 'Disclosure of Interest in Other Entities' would result in additional disclosures in the annual consolidated financial statements.
Several other new standards and amendments apply for the first time in 2013. However, they do not materially impact the annual consolidated financial statements of the Group.

The nature and the impact of each new standard/ amendment is described below:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 'Consolidated and Separate Financial Statements' that dealt with consolidated financial statements and SIC-12 'Consolidation – Special Purpose Entities'.
IAS 27R replaces IAS 27 and addresses the separate financial statements only. Existing guidance for separate financial statements remained unchanged in IAS 27R. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:
(a) an investor has power over an investee;
(b) the investor has exposure, or rights, to variable returns from its involvement with the investee;
(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 'Joint Arrangements' and IAS 28 'Investment in Associates and Joint Ventures'
IFRS 11 replaces IAS 31 - 'Interests in Joint Ventures' and SIC-13 'Jointly-controlled Entities — Non-monetary Contributions by Venturers'. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.
The application of this new standard impacted the statement of financial position and the income statement of the Company by replacing proportionate consolidation of the joint venture in several entities with the equity method of accounting.

IAS 28R replaces IAS 28, the main changes relate to equity method accounting treatment for investments in joint ventures. IAS 28R also states to apply the requirements of IFRS 5 and only in respect of the part that is reclassified as held for sale; the remaining part of the investment continues to be accounted for by the equity method. The amendment of IAS 28R had no impact on the consolidated financial statements.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Consolidated financial statements, Joint arrangements and Disclosure of Interests in Other Entities.

In July 2012, the IASB published amendments to the standards allowing to adjust the comparatives of one year only. The adjustment of prior comparatives is possible, but not mandatory. The amendments also eliminated the requirement to present comparative information for prior periods in relation to non-consolidated structured entities.

Impact of IFRS 11 on the income statement

€ in '000	For the year ended December 31, 2012	2011
Total decrease in revenues	82,141	168,608
Total decrease in expenses	54,414	(9,386)
Decrease in Gross margin	27,727	159,222
Decrease in Selling and marketing and general and administration expenses	7,800	9,267
Decrease in profit (loss) from operations before fair value adjustments, disposal of assets and financial expenses	19,927	149,955
Decrease in Profit (loss) from fair value adjustments and on disposal of assets and investments	(1,871)	143,861
Decrease in profit (loss) from operations before finance expenses and income taxes	21,798	6,094
Total decrease (Increase) in financial expenses, net	4,322	(6,327)
Increase (Decrease) in loss from operations	17,476	(233)
Decrease in Share of profit (loss) of associates accounted for using the equity method	10,638	6,365
Increase(decrease) in loss before income taxes	(6,838)	6,132
Income tax expenses (benefit)	6,399	11,830
Decrease in profit (loss) for the period from continuing operations	(439)	5,698
Decrease in profit (loss) for the period from discontinuing operations	–	6,643
Net profit (loss) for the period	(439)	(946)
Attributable to:		
Equity holders	(146)	(1,132)
Non-controlling interest holders	(293)	186

Impact of IFRS 11 on the statement of financial position

€ in '000	December 31, 2012	January 1, 2012
Non-current assets		
Decrease in investment properties	(183,061)	(270,648)
Increase in investment in associates	184,988	335,460
Decrease in intangible assets and goodwill	(12,472)	(46,405)
Decrease in other assets	(50,150)	(288,492)
	(60,695)	(270,085)
Current assets		
Decrease in inventories, contract work and buildings inventory in progress	(156,775)	(174,485)
Decrease in other assets	(60,192)	(469,076)
Decrease in cash and cash equivalents	(13,860)	(76,750)
	(230,827)	(720,311)
Decrease in assets held for sale	(3,821)	8,743
Total decrease in current assets	(234,648)	(711,568)
Total decrease in assets	(295,343)	(981,653)

Impact of IFRS 11 on the statement of financial position

€ in '000	December 31, 2012	January 1, 2012
Decrease in equity attributable to equity holders of the parent	(1,356)	(1,096)
Decrease in non-controlling interests	(4,443)	(4,118)
Total impact on equity	(5,799)	(5,214)
Non-current liabilities		
Decrease in interest-bearing loans and borrowings	(71,504)	(148,790)
Decrease in other long-term liabilities	(3,200)	(276,842)
Decrease in deferred income tax liabilities	(19,994)	(26,613)
	(94,698)	(452,245)
Current liabilities		
Decrease in interest-bearing loans and borrowings	(18,089)	(62,104)
Decrease in other liabilities	(65,763)	(324,911)
Decrease in advances from apartment buyers	(110,994)	(137,179)
	(194,846)	(524,194)
Total decrease in liabilities	(289,544)	(976,439)
Total decrease in equity and liabilities	(295,343)	(981,653)

Impact of IFRS 11 on the Cash flow statement

€ in '000	For the year ended December 31, 2012	2011
From operating activities	(15,976)	(37,409)
From investing activities	24,281	126,063
From financing activities	635	(151,574)
	8,940	(62,290)

The impact of the early adoption of IFRS 11 had no impact on the OCI and an immaterial impact on the Group's earning per share calculation.

IFRS 12 'Disclosure of Interests in Other Entities'
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities. IFRS 12 disclosures are provided in Notes 5, 8 and 9.

IFRS 13 'Fair Value Measurement'
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defined fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 39.

IAS 1 'Presentation of Items of Other Comprehensive Income' – Amendments to IAS 1
The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period.
The amendments clarify that the opening statement of financial position (as at 1 January 2011 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at 1 January 2011. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)
IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognized in profit or loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and;

unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. In case of the Group, the transition to IAS 19R had no significant impact on the net defined benefit plan obligations.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
The amendments require disclosure about rights to set-off and related arrangements (e.g., collateral agreements). These disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Company is setting off financial instruments in accordance with IAS 32 and has relevant offsetting arrangements, the amendment does not have an impact on the Company's current disclosures.

IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets
The amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment losses have been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group has early adopted these amendments to IAS 36 in the current period since the amended/additional disclosures provide useful information as intended by the IASB. Accordingly, these amendments have been considered while making disclosures for impairment of non-financial assets. These amendments would continue to be considered for future disclosures.

Improvements to IFRSs (Issued May 2012)
In May 2012, the IASB issued the 2009-2011 cycle improvements to its standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording. When the adoption of an improvement is deemed to have an impact on the financial statements or the performance of the Group, its impact is described below:

- IAS 1 Presentation of Financial Statements: The amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntary provides comparative information beyond the minimum required comparative period. The amendments also clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements, does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at 1 January 2012. The amendments affect presentation only and disclosure only, and have no impact on the Group's financial position or performance.
- IAS 16 Property, Plant and Equipment: The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. This improvement did not have an impact on the Group's financial position
- IAS 32 Financial Instruments: Presentation: The amendment clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12

to any income tax arising from distributions to equity holders. This improvement did not have an impact on the Group's financial position.

E. Reclassifications

The comparative information in the statement of financial position relating to investment property and tangible fixed assets as of December 31, 2012 was reclassified to conform to current period's presentation. The reclassification was not material.

In addition, the comparative information in the income statement and cash flow statement for the year ended December 31, 2012 and 2011 were reclassified to conform to current period's presentation. The reclassification was not material.

3 Significant accounting judgments, estimates and assumptions

A. Judgments, estimates and assumptions

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

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

Revaluation of investment properties and of investment properties under construction

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

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

In cases where the fair value of investment property under construction can be reliably measured, management considers factors such as zoning and construction permits, the 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, which depending on the geographical area in which the Company operates, to assess whether the substantial risks are eliminated (and therefore the fair value can be reliably measured):

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

Management can decide to fair value investment property under construction even if all internal guideline criteria have not yet been met, but management is of the opinion that fair value can be determine reliably.

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

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

Refer to Note 7 for 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, 2013 was €13 million (2012 - €16 million), of which nil (2012 - €4 million) is allocated to financial services activities, and €13 million (2012 - €12 million) is 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, 2013 amounted to a total of €8 and €68 million respectively (2012 - €9 million and €67 million respectively).

Deferred tax assets
Deferred tax assets are recognized for all unused tax losses to the extent it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of the deferred tax assets as of December 31, 2013 was €4 million (2012 - €19 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 39).

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.

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, 2013 was €110 million (December 31, 2012 €282 million). See Note 13 for additional information with regard 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 39).

Provision for legal claims

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

4 Summary of significant accounting policies

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

A. Business combinations and goodwill

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

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

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

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

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

B. 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.

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, 2013	0.73	0.21	8.3491	133.0
December 31, 2012	0.74	0.20	8.2207	130.7
December 31, 2011	0.77	0.20	8.2253	128.6
December 31, 2010	0.75	0.21	8.7351	125.4
Change in 2013	(4.3%)	2.9%	(1.54%)	1.81%
Change in 2012	(3.9%)	–	1.23%	1.6%
Change in 2011	3.0%	(4.1%)	(5.8%)	2.6%

D. Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

For the sale to be highly probable:

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

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

E. 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 plant and equipment when that cost is incurred, providing the recognition criteria are met. Land is not depreciated.

The initial cost of property and equipment 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 improvement	over the term of the lease (mainly 5 years)

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

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

F. 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 approach or on the basis of sales comparison approach. Investment property under construction that cannot be reliably measured is valued at cost or lower recoverable amount. For a description of these valuation techniques and assumptions, see Note 3A and 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.

G. Contract work and building inventory in progress

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

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

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

i. Leasehold rights for land, construction costs paid to subcontractors for the construction of housing units; and

ii. Capitalized costs which include borrowing costs, planning and design costs, construction overheads and other related costs.

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

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

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

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

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

H. 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.

I. 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.

J. 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.

K. 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.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

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.

L. 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.

M. 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.

N. 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.

O. 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.

P. Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

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

Loans and borrowings

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

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

Financial guarantee liabilities

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

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.

Q. 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.

R. 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 or cancelled or expires.

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

S. 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.

T. 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 38).

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 remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense (see Note 19 and 23).

U. Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement

Group as a lessee

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

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

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

Group as a lessor

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

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

V. Revenue recognition

General

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

Contract revenues

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

Rental income

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

Sale of apartments

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

Rendering of services (including management fees)

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

Sale of goods

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

Interest and dividend income

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

W. 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.

X. 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.

Y. Derivative financial instruments and hedging

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

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

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

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

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

Fair value hedges

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

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

If the hedged item is derecognized, the unamortized fair value is recognized immediately in the income statement.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement. The changes in the fair value of the hedging instrument are also recognized in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flow that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the income statement. The effective portion of the gain or loss on the hedging instrument is recognized in OCI through the hedge reserve, while the ineffective portion is recognized in the income statement.

Amounts taken to OCI are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in OCI are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in OCI remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

Z. Put option granted to non controlling shareholders

The Group recognizes a financial liability under such contract at its fair value. The non controlling interest reported in the financial statements is subsequently reclassified as a financial liability. Any changes in the fair value of that financial liability in subsequent periods are taken to the income statement or to equity if the put option can be classified as an IFRS 3-like transaction (business combination).

AA. 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.

BB. 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.

CC. Period of operational business cycle

The period of the operational cycle of the Group exceeds one year, especially in connection with real estate and infrastructure construction projects that may last for 2-4 years. Accordingly, assets and liabilities derived from the construction works include items that may be realized within the abovementioned operational business cycle.

DD. Cash flow statements

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.

EE. Future changes in accounting policies

IFRS 9 Financial Instruments
IFRS 9 as issued reflects the first and the third phase of the IASBs' work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39 (first phase) and hedge accounting (third phase). In subsequent phases, the IASB is addressing impairment of financial assets. The Group is still investigating the implication of the IFRS 9 on its financial statements. IFRS 9 becomes effective for annual periods beginning on or after 1 January 2018.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off'. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions
The amendment simplifies the accounting for contributions from employees or third parties to defined benefit plans that are independent of the number of years of employee service. The amendment will have no impact on the Group's financial position The amendment becomes effective for financial years beginning on or after 1 January 2015.

IFRIC 21 Levies
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is

reached. IFRIC 21 becomes effective for financial years beginning on or after 1 January 2014. This interpretation will have no material impact on the Group's financial position and performance.

IAS 39 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. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

Improvements to IFRSs 2010-2012 Cycle (Issued December 2013)
The IASB issued the 2010-2012 cycle improvements to its standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording.

- IFRS 2 Share-based Payment: The performance condition and service condition definitions were clarified to address several issues.
- IFRS 3 Business Combinations: It was clarified that contingent consideration in a business combination that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 'Financial Instruments'.
- IFRS 8 Operating Segments:
  - It was clarified that if operating segments are combined, the economic characteristics used to assess whether the segments are similar must be disclosed.
  - It was clarified that the reconciliation of segment assets to total assets is only required to be disclosed if this reconciliation is reported to the chief operating decisions maker, similar to the required disclosure for segment liabilities.
- IFRS 13 Fair Value Measurement: It was clarified in the Basis for Conclusions that short-term receivables and payables with no stated interest can be held at invoice amounts when the effect of discounting is immaterial.
- IAS 16 Property, Plant & Equipment and IAS 38 Intangible Assets: The revaluation method was clarified: accumulated depreciation or amortisation is eliminated so that the gross carrying amount and carrying amount equal the market value.
- IAS 24 Related Party Disclosures: It was clarified that a management entity - an entity that provides key management personnel services - is a related party subject to related party disclosure requirements. An entity that uses a management entity is required to disclose the expenses incurred for management services.

The improvements become effective for financial years beginning on or after 1 July 2014.

Improvements to IFRSs 2011-2013 Cycle (Issued December 2013)
The IASB issued the 2011-2013 cycle improvements to its standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording.

- IFRS 3 Business Combinations: It was clarified that joint arrangements, and not only joint ventures, are outside the scope of IFRS 3. It was further clarified that the scope exemption only applies to the accounting in the financial statements of the joint arrangement itself.
- IFRS 13 fair Value measurement: It was clarified that the portfolio exception can be applied to financial assets, financial liabilities and other contracts.
- IAS 40 Investment Property: The interrelationship between IFRS 3 and IAS 40 was clarified. The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property. IFRS 3 is used to determine if the transaction is the purchase of an asset or a business combination.

The improvements become effective for financial years beginning on or after 1 July 2014.

FF. Definitions

The following definitions are used throughout these financial statements:

Kardan or the Company – Kardan N.V.
The Group or Kardan Group – Kardan N.V. and its subsidiaries, joint ventures and associates
GTC 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 Yazamut - Kardan Yazamut (2011) Ltd.
Kardan Yazamut Group – Kardan Yazamut and its subsidiaries, joint ventures and associates
Kardan Israel or KIL – Kardan Israel Ltd.
KIL Group – KIL and its subsidiaries, joint ventures and associates
TGI – Tahal Group International B.V.
TGI Group – TGI and its subsidiaries, joint ventures and associates
Kardan Land China or KLC – Kardan Land China Ltd.
TASE – The Tel-Aviv Stock Exchange

5 Business combinations and investment in subsidiaries and joint ventures

A Principal directly held subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Following is a list of the Company's principal directly held subsidiaries:

Name of subsidiary	Country of incorporation	% equity interest and voting rights as of December 31		
		2013	2012	
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	98.42*	100	Subsidiary
Emerging Investments XII B.V.	Netherlands	100	100	Subsidiary

* see Note 19.

Additional information regarding directly held subsidiaries:

€ in '000	Investment in shares	Credit facilities provided by the Company to its subsidiaries		Total investment in the subsidiary *
		Loans **	Guarantees	
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
2012				
Kardan Financial Services B.V.	47,616	–	–	47,616
GTC Real Estate Holding B.V.	311,953	–	6,200	311,953
Tahal Group International B.V.	46,327	–	12,029	46,327
Emerging Investments XII B.V.	169,723	–***	–	169,723
	575,619	–	18,229	575,619

The Company has no goodwill balances in the investment in directly held subsidiaries.

* The total investment in a subsidiary includes the investment in shares and loans granted by Kardan N.V.

** On October 1, 2012, the Company assigned to Emerging Investment XII B.V. (a wholly owned subsidiary) all of the shareholder's loans it granted to TGI, KFS and GTC RE.

*** As of December 31, 2013 and December 31, 2012 the Company has an outstanding loan balance with its subsidiary Emerging Investment XII B.V. in the amount of €120,682 thousand and €159,287 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, 2013 and December 31, 2012, the Company offset the loan balance against its liability.

B Principal 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 2013	2012	
Kardan Financial Services B.V.	TBIF Financial Services B.V.	The Netherlands	100	100	Subsidiary
TBIF Financial Services B.V.	TBI Credit IFN SA	Romania	99.99	99.99	Subsidiary
	TBI Leasing IFN SA	Romania	99.99	99.99	Subsidiary
	TBI Bank EAD	Bulgaria	100	100	Subsidiary
TBIF Bulgaria EAD	TBI Leasing EAD	Bulgaria	100	100	Subsidiary
	TBI Credit EAD	Bulgaria	100	100	Subsidiary
GTC Real Estate Holding B.V.	Globe Trade Centre S.A.[1]	Poland	–	27.75	Subsidiary
	Kardan Land China Limited	Hong Kong	100	100	Subsidiary
Globe Trade Centre SA	GTC Hungary Real Estate Development Company Ltd.	Hungary	–	100	Subsidiary
	GTC Real Estate Investments Romania B.V.	The Netherlands	–	100	Subsidiary
	GTC Real Estate Investments Serbia B.V.	The Netherlands	–	100	Subsidiary
	GTC Real Estate Investments Croatia B.V.	The Netherlands	–	100	Subsidiary
	GTC Real Estate Investments Slovakia B.V.	The Netherlands	–	100	Subsidiary
	GTC Real Estate Investments Bulgaria B.V.	The Netherlands	–	100	Subsidiary
Kardan Land China Limited	Kardan Land (BJ) Management & Consulting Co. Ltd.	China	100	100	Subsidiary
	GTC (China) Investment Co. Ltd	China	100	100	Subsidiary
	Kardan Land Dalian Ltd.	China	100	100	Subsidiary
Tahal Group International B.V.	Tahal Group B.V.	The Netherlands	100	100	Subsidiary
	Tahal Group Assets B.V.	The Netherlands	100	100	Subsidiary

Holding company	Name of subsidiary	Country of incorporation	% equity interest by the direct holding as of December 31		
			2013	2012	
Tahal Group B.V.	Tahal Consulting Engineers Ltd.	Israel	100	100	Subsidiary
	Water Planning for Israel Ltd.	Israel	100	100	Subsidiary
	Sitahal 'Hagal' (Talia) Partnership	Israel	100	100	Subsidiary
	Palgey Maim Ltd.	Israel	55.5	55.5	Subsidiary
	Watek Polska SP	Poland	–	100	Subsidiary
	Fideco DOO	Serbia	100	100	Subsidiary
	Tahal Angola Ltd.	Angola	70	70	Subsidiary
	TMNG Ltd.	Israel	65	51	Subsidiary
	Tahal Water Energy Ltd.[2]	Israel	40.5	81	–
Tahal Group Assets B.V.	Kardan Water International Group Limited	Hong Kong	100	100	Subsidiary
	Perilla Water Group Ltd.	Hong Kong	100	100	Subsidiary
	Tri-River Water Group Ltd.	Hong Kong	100	100	Subsidiary
	Dazhou Tianhe Water Supply and Drainage Co., Ltd.	China	100	100	Subsidiary
	TASK Water B.V.	The Netherlands	100	100	Subsidiary
	Agri Products N.V.	The Netherlands	51	51	Subsidiary
	KWIG Xuanhua Development Limited	Hong Kong	100	100	Subsidiary
	KWIG Dingzhou Development Ltd.	Hong Kong	100	100	Subsidiary
	Zhangjiakou Kardan Water Development Co., Ltd.	China	100	100	Subsidiary

1 Regarding loss of control and sale of GTC SA see Note 5C.
2 For additional information see Note 5C.

C Significant transactions and business combinations

1. GTC Group

2013

a. Investment in GTC SA: Sale and presentation

Until February 22, 2013 GTC SA (whose results were included in the (former) 'Real Estate – Europe' segment) 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. Upon closing, GTC RE measured the fair value of this liability, using management's estimate of the probability that the above business goals will not be met. The fair value of the liability amounts to €3.15 million as at December 31, 2013. Any future measurement differences will be recorded to profit and loss as 'Other income (expenses), net'.

Capital reserves of an immaterial amount were classified to the income statement in the fourth quarter of 2013 due to the sale.

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

	€ in '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.

In addition to the gain mentioned above, as a result of early repaying the loan, the remaining balance of an intangible asset that was attributed to a benefit related to the loan, in the amount of €5.4 million was fully amortized in Q3 2013 and presented in the income statement as part of the 'Gain (loss) on disposal of assets and other income, net'.

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 now 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 which was included in 'Net profit (loss) for the period from discontinued operations' in the income statement.

The provisional fair values of the identifiable assets and liabilities of GTC SA at the deconsolidation date were as follows:

€ in '000	Fair Value	Carrying value
Assets:		
Property, plant and equipment	1,728	1,728
Investment properties	1,466,063	1,466,063
Residential land bank	98,047	98,047
Investment in associates and joint ventures	116,759	116,759
Long term deposits and receivables	3,066	3,066
Deferred tax assets	7,081	7,081
Other non-current assets	49	49
Inventory	67,088	67,088
Trade receivables	5,512	5,512
VAT receivables	3,533	3,533
Income tax receivables	1,440	1,440
Other receivables and prepayments	4,992	4,992
Short-term deposits and restricted cash	25,375	25,375
Cash and cash equivalents	197,151	197,151
Assets held for sale	7,878	7,878
	2,005,762	**2,005,762**
Liabilities:		
Interest bearing loans and borrowings (current and non-current)	(802,943)	(802,943)
Debentures (current and non-current)	(237,019)	(237,019)
Other non- current liabilities	(9,279)	(9,279)
Derivatives financial instrument (long and short term)	(66,873)	(66,873)
Deferred tax liabilities	(111,402)	(111,402)
Trade payables	(10,458)	(10,458)
Other payables	(16,357)	(16,357)
Advances from apartment buyers	(3,264)	(3,264)
VAT payable	(1,229)	(1,229)
Income tax payables	(2,338)	(2,338)
Liabilities to be repaid upon sale	(27,078)	(27,078)
	(1,288,240)	**(1,288,240)**
Non controlling interests on the level of GTC SA	20,074	20,074
Net identifiable assets	737,596	737,596
Company's share (27.75%)	204,706	
Market value of retained investment	172,838	
Bargain Gain	31,868	

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

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

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

€ in '000	For the year ended December 31,		
	2013	2012*	2011
Income	31,409	130,814	138,518
Expenses	(52,066)	(257,190)	(455,204)
Loss before tax	(20,657)	(126,376)	(316,686)
Equity earnings **	(22,190)	–	–
Income tax expenses, net	(5,644)	(6,097)	(17,727)
Loss from discontinued operations before revaluation and release of capital reserves ***	(48,491)	(132,473)	(334,413)
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)	(334,413)
Attributable to:			
Equity holders	(55,303)	(26,948)	(73,447)
Non-controlling interest holders	(19,874)	(105,525)	(260,966)
	(75,177)	**(132,473)**	**(334,413)**

* 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:

€ in '000	For the year ended December 31,		
	2013	2012	2011
Change in fair value of hedge instrument, net of tax *	3,467	10,967	2,659
Adjustments arising from translating financial statements of foreign operations	(1,875)	(295)	1,678
Recycling to the income statement of the hedge reserve due to loss of control over a subsidiary*	5,782	–	–
	7,374	10,672	4,337
Attributable to:			
Equity holders	5,276	3,338	1,319
Non-controlling interest holders	2,098	7,334	3,018
	7,374	10,672	4,337

* 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.

2012

There were no significant transactions or business combinations in 2012

2011

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

In January 2011 GTC RE sold shares of GTC S.A., constituting 16% of GTC S.A.'s share capital. The shares were sold at a price of PLN 21.50 per share. Gross proceeds amounted to approximately €195 million (PLN 754,650,000); net proceeds amounted to approximately €187 million. Following the transaction, GTC RE held an interest of 27.14% in GTC S.A.

Subsequent to the sale, in September 2011, GTC RE purchased additional shares for a consideration of €3.8 million and increased its interest in GTC S.A. by 0.61% to 27.75%. The increase in holding was also accounted as an equity transaction in accordance to IAS 27R (was replaced by IFRS 10) and resulted in a positive equity impact of €2.3 million.

2. KFS (Banking and Retail Lending)

2013

There were no significant transactions or business combinations in 2013

2012

a. 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 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.

2011

b. Acquisition of NLB Banka Sofia (TBI Bank)

In July 2011 TBIF (the holding company of the Banking and retail lending segment) finalized the purchase of NLB Banka Sofia AD ('NLB Bank'). TBIF purchased 100% of the shares of the NLB Bank for a consideration of € 15 million. The excess of purchase price over the carrying value of the acquired net assets, amounting to €5 million, was allocated primarily to the acquired banking license. Subsequent to the purchase the name of the bank was changed to TBI bank. During the fourth quarter of 2013 TBIF impaired the entire intangible asset (banking license) in the amount of €5 million – see also Note 12.

3. TGI

2013

a. Watek Polska - Liquidation

In July and August 2013, Watek Polska SP ('Watek'), a wholly owned subsidiary of TGI (and is part of the 'Infrastructure – Projects' segment) 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. 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. The total amounts are included in the income statements as part of the 'Gain (loss) on disposal of assets and other income (expenses)'.

b. Tahal Water Energy Ltd. ('TWE') Deal

On December 29, 2013, a transaction between Water Planning for Israel Ltd. (a wholly-owned indirectly held subsidiary of TGI) and Hutchison Water International Holdings Pte Limited ('HWIH') was completed, upon which 40.5% of Tahal Water Energy Ltd. ('TWE'), shares were sold to HWIH. Consequently, Water Planning for Israel Ltd. and HWIH each hold 40.5% of TWE and a third party holds the remaining 19%.

TWE 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, amounted to NIS 32 million (approximately €6.7 million) which TWE used to repay part of the shareholder loan provided by Water Planning for Israel in two instalments: NIS 2 million (approximately €0.4 million) upon signing and NIS 18.5 million (approximately €3.8 million) upon financial closing of the project. In addition, Water Planning for Israel is entitled to a premium of NIS 10 million (approximately €2.1 million) upon financial closing of the project provided it will meet certain conditions agreed upon by the parties.

In addition, TWE was recently was granted a conditional license for expanding the capacity to 340 MW. The construction of the Plant is expected to take approximately 54 months.

As a result of the decrease in the holding stake in TWE, TGI ceased the consolidation of TWE starting December 29, 2013 and the investment is now accounted for using the equity method. Since the proceeds from the transaction were valued based on the carrying value of TWE, the transaction had no impact of the profit and loss.

c. TMNG Ltd.

In October 2013, Tahal Consulting Engineers Ltd. ('TCE', a wholly owned subsidiary of TGI Group) 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 which previously held 49% of TMNG were 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 6 years starting after 2 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:

€ in '000	Provisional Fair value	Carrying amount
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**

2012–2011

There were no significant transactions or business combinations in 2012 and 2011.

Kardan N.V.

2013–2012

There were no significant transactions or business combinations in 2013 and 2012 on the level of Kardan NV.

2011

a. Spin-off of the Company's main Israeli activities

In September 2011 the Extraordinary Shareholders' Meeting of Kardan approved a transaction according to which Kardan would spin-off its 73.7% holding in Kardan Israel Ltd. and its indirect 97% holdings in Milgam Municipal Services Ltd. ('Milgam', a subsidiary of Kardan Municipal Services Ltd.- 'KMS', formerly named Tahal Assets Israel Ltd.). The Company restructured most of its holdings in Israel and transferred the Company's shares in Kardan Israel and in KMS to its newly incorporated Israeli ,100% owned subsidiary, Kardan Yazamut (2011) Ltd. In October 2011, after receipt of all the required approvals, the shares of Kardan Yazamut were distributed as dividend in kind to the Company's shareholders and Kardan Yazamut shares were listed for trade on TASE.

For accounting purposes, the carrying value and the fair value of Kardan Yazamut (net of treasury shares and non controlling interest) was close to nil, therefore, the book value of dividend distributed was immaterial. In October 2011, dividend withholding tax of €2.9 million was booked directly to equity and was paid subsequent to the distribution. In October 2011, as a result of the distribution, the Company reclassified to the income statement a foreign currency translation reserve and a hedge reserve, net of tax, amounting to €13 million and € (5) million, respectively. In addition, as a result of the distribution, 11% of the Company's shares which were held by Kardan Israel as treasury shares were re-issued.

Discontinued operations related to the Spin-off:
The activities of Kardan Yazamut were clearly distinguishable, operationally and for financial reporting purposes. Kardan Yazamut represents several separate businesses and a major geographical area of operations and is part of a single co-ordinated plan to split these operations.

Composition of the income and expenses related to discontinued operations:

€ in '000	For the year ended December 31,		
	2013	2012	2011
Total income	–	–	285,582
Total expenses	–	–	(273,170)
Profit (loss) before tax	–	–	12,412
Income tax expenses	–	–	(1,546)
Net profit from discontinued operations	–	–	10,866
Attributable to:			
Equity holders	–	–	9,682
Non-controlling interest holders	–	–	1,184
	–	–	**10,866**

Composition of other comprehensive income items related to discontinued operations:

€ in '000	For the year ended December 31,		
	2013	2012	2011
Gain on hedge transactions	–	–	6,051
Foreign currency translation differences	–	–	(14,954)
	–	–	**(8,903)**

Assets and liabilities which were distributed as a result of the split

The below table represents the assets and liabilities of Kardan Yazamut, distributed as described above:

€ in '000	October, 2011
Assets	
Tangible fixed assets	18,070
Investment properties	20,499
Investment in associates	120,014
Long-term loans and receivables	13,098
Intangible assets and goodwill	22,107
Inventories, contract work and buildings inventory in progress	165,213
Trade receivables	31,477
Other receivables and prepayments	18,255
Short-term investments	64,820
Cash and cash equivalents	19,363
Total assets	**492,916**
Liabilities	
Convertible debentures	15,369
Other debentures	60,300
Deferred income tax liabilities	7,356
Accrued severance pay, net	1,183
Trade payables	15,598
Interest-bearing loans and borrowings	222,147
Advances from apartment buyers	60,780
Other payables and accrued expenses	39,251
Total liabilities	**421,984**
Non-controlling interests	70,932
	492,916

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

As of December 31, 2013, the Group did not pledge shares of any Group companies. Regarding the pledge of subsidiaries' shares due to a new loan received, subsequent to the balance sheet date, see Note 41.

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

€ in '000	2013	2012
Subsidiaries	84,231	20,684

For Liens, Contingent Liabilities and commitments of investees refer to Note 28.

F. Assets Held for Sale

Assets held for sale as at December 31, 2013 comprised of repossessed assets as part of the Banking and Retail lending activities.
Assets held for sale and Liabilities associated with assets held for sale as at December 31, 2012 comprised of Platinium V, three shopping centers located in Romania (all relating to the former Real Estate Europe segment) and repossessed finance lease assets and acquired collateral assets as part of the Banking and Retail lending activities.
Assets held for sale as of January 1 2012, are comprised mostly of Platinium I-IV and repossessed assets as part of the Banking and Retail lending activities of the Company.

6 Tangible fixed assets

€ in '000	Freehold Land, buildings and assets under construction	Property, plant and equipment	Motor vehicles	Office furniture and equipment	Leasehold improve-ments	Total
Cost						
Balance as of January 1, 2012	33,347	34,404	9,952	17,809	2,914	98,426
Additions	7,956	2,227	2,483	2,800	764	16,230
Disposals	(9)	(872)	(2,353)	(228)	(2,703)	(6,165)
Reclassification	–	–	–	–	22	22
Exchange differences	(3,046)	(14)	231	(504)	(34)	(3,367)
Balance as of December 31, 2012	**38,248**	**35,745**	**10,313**	**19,877**	**963**	**105,146**
Additions	4,672	664	1,966	1,036	1,365	9,703
Disposals consolidated subsidiary	–	(10,768)	(1,176)	(3,349)	(1)	(15,294)
Disposals	(3,325)	(2,236)	(2,620)	(7,697)	–	(15,878)
Exchange 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**
Accumulated depreciation:						
Balance as of January 1, 2012	1,597	14,892	5,599	9,907	441	32,436
Depreciation for the year	790	1,875	1,289	1,411	342	5,707
Eliminated on disposals	–	(680)	(1,577)	(164)	–	(2,421)
Exchange differences	48	1,070	92	(535)	(628)	47
Balance as of December 31, 2012	**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 subsidiary	–	–	(689)	(2,112)	–	(2,801)
Exchange differences	7	73	(118)	(60)	7	(91)
Balance as of December 31, 2013	**2,462**	**16,606**	**4,062**	**3,195**	**410**	**26,735**
Net book value						
December 31, 2012	35,813	18,588	4,910	9,258	808	69,377
Net book value						
December 31, 2013	**36,777**	**6,617**	**4,236**	**6,656**	**1,941**	**56,227**

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

7 Investment properties

A General

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

As of December 31, 2012, the balance primarily included assets of the GTC SA Group, which was sold in November 2013 (see Note 5C).

B The movements in investment properties for the years ended December 31, 2013 and 2012 are as follows:

€ in '000	2013	2012
Opening balance	1,565,044	1,614,335
Acquisition of newly consolidated subsidiaries [1]	–	26,355
Additions capitalized subsequent expenditure	32,280	63,985
Valuation gains	8,849	29,209
Valuation losses and impairment adjustments	(25,406)	(122,065)
Disposals [2]	–	(4,079)
Transfer to inventory	–	(397)
Deconsolidation of a subsidiary [3]	(1,462,863)	–
Foreign currency translation differences	(1,789)	(1,400)
	116,115	**1,605,943**
Transfer (to) from assets held for sale [4]	1,953	(40,899)
Closing balance [5]	**118,068**	**1,565,044**

1 The 2012 movement relates to a newly consolidated subsidiary previously accounted for using the equity method.
2 In 2012 relates to sale of a land plot in Romania.
3 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.
4 Assets classified as 'held for sale' during 2012 relates to investment properties in Romania and Poland.
5 An investment property valued at December 31, 2013 of €99,289 thousand is pledged in favor of a lending bank loan.

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

€ in '000	For the year ended December 31, 2013	2012	2011
Valuation gains from newly completed investments properties	–	5,586	14,973
Valuation losses from newly completed investments properties	–	(9,668)	(62,945)
Valuation gains from investments properties completed in prior years	47	8,670	60,613
Valuation loss from investments properties completed in prior years	(8,933)	(93,958)	(115,073)
Adjustment to fair value of investment property under construction	8,802	14,953	(2,864)
Reversal of impairment of investment property measured at recoverable amount	–	2,395	–
Impairment of investment properties measured at recoverable amount	(16,473)	(20,834)	(84,895)
Fair value of properties held for sale	–	4,466	–
Impairment of receivables and accruals	–	–	(4,961)
Adjustment to fair value, impairments and reversal of impairments of investment property presented as discontinued operation	25,359	98,773	211,697
Total fair value adjustments, impairments, reversal for the year	**8,802**	**10,383**	**16,545**

D Investment properties can be split up as follows:

€ in '000	December 31, 2013	December 31, 2012
Completed investment properties	–	1,226,248
Investment properties under construction carried at fair value	118,068	82,355
Investment properties under construction/land plots carried at cost/recoverable amounts	–	256,441
	118,068	**1,565,044**

Real estate under construction carried at cost includes the borrowing costs incurred in connection with the construction of the projects. During 2013 borrowing costs capitalized as real estate under construction amounted to €1,779 thousand (2012: €893 thousand).

Presented in the table below the Group's investment properties in Asia and Europe:

€ in '000	December 31, 2013	December 31, 2012
Investments properties in CEE (GTC SA)	–	1,482,689
Investments properties in Asia (Kardan Land China)	118,068	82,355
	118,068	**1,565,044**

E Fair value measurement of investment property (level 3 of fair value measurements) significant assumptions:

€ in '000	December 31, 2013	December 31, 2012
At 1 January	82,355	53,775
Fair value adjustment [1]	8,802	10,383
Capital expenditure	28,700	19,584
Foreign exchange differences	(1,789)	(1,387)
At 31 December	**118,068**	**82,355**
(1) Total cumulative unrealized gains as of the end of the period which were recognized in the income statement	19,185	10,383

As of December 31, 2013 the investment property which is in level 3 of fair value measurements is the Shopping center under construction in the city of Dalian in China, which is the only investment property in the consolidated financial statements.

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, CBRE HK Limited, has relied on historical transactions and used its market knowledge and professional judgment.

To asses the fair value of investment property under construction, the Residual Method and Cost Approach have been adopted, whereas for fair value of the Shopping Mall at the end of construction, the Discounted Cash Flow Approach and the Direct Comparison Method have been applied. The investment property under construction is classified as Level 3 in the fair value hierarchy (see below). Except for the above described changes in the valuation techniques, there were no additional changes during the year.

Changes in valuation techniques

The fair value of the shopping mall in Dalian ('Dalian Shopping Mall') was determined as of December 31, 2012 based on the Residual Method using the Income capitalization method to determine the fair value of the Shopping Mall at the end of construction. As of December 31, 2013 the Company changed the valuation method, according to which the fair value is calculated using the average value between the Residual Method based on the DCF method and the Cost Approach.

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

	Asia	
	December 31, 2013	December 31, 2012
Income capitalization method *		
Yield (retail)	–	8.5%
Estimated rental value per sqm per month (in €)	–	30
DCF method *		
Estimated rental value per sqm per month (in €)	26	–
Discount rate	9%	–
	0.5%-10% (mainly)	
Rental growth	(3.7%)	–
Residual method		
Remaining construction cost (in € millions) **	53	80
Remaining construction period (in months)	7	14.2
Development profit	12%	15%

* Regarding the change in valuation techniques see above.
** As of December 31, 2013 the percentage of completion of the project is 45% (December 31, 2012: 21%).

F 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):

€ in '000	Asia
	December 31, 2013
Investment property under construction	
Change of 25 BP in discount rate and terminal yield	1,188
Change of 5% in estimated rental income	1,544
Change of RMB 5 million (approximately €600 thousand) in the remaining construction costs	356
Change of 1 month in the remaining construction period	356
Change of 2% in the development profit	1,544

G. ISA Letter

ISA Letter

During the year 2013 the Company received a letter from the Israeli Securities Authority (hereafter - ISA), further to the letter dated March 15, 2012 and earlier discussions and correspondence between the ISA and the Company, in light of a sample audit conducted by the ISA regarding the audited financial statements of the Company as at December 31, 2009 and including, among other things, an examination of the carrying amount of five investment properties (three income generating properties and two land plots) owned by a former Group company (GTC SA). According to this letter, 'The purpose of the audit was to examine the accounting treatment for investment property presented in the financial statements of the Company at their fair value and investment property presented in the financial statements at cost for which impairment testing was performed.'

The findings of ISA specified in the letter, show that according to the ISA's staff some of the assumptions, estimates and methodology used by the Company in estimating the fair value and the recoverable amount as at December 31, 2009, of the properties and land plots that were sampled, as applicable, were outside the reasonability range. In light of these findings, the ISA staff believes that the sampled value of the assets as stated in the financial statements did not reflect adequately the fair value (or their recoverable amount, as applicable) as of December 31, 2009, as required by International Financial Reporting Standards (IFRS).

Note that these valuations performed by the Company and in particular GTC SA, for most investment property included in the financial statements of the Company were carried out at least twice a year by independent external appraisers of leading international firms in their fields. Likewise, it should be noted that the financial statements of the former Group company (GTC SA) are audited by the accounting firm Ernst & Young.

The Company examined, during the discussions with the ISA staff, the audit results received and also obtained the view of leading experts in the field as to the reasonableness of estimates, assumptions and methodology used by the former subsidiary to estimate the fair value or recoverable amount of the real estate assets.

On October 23, 2013, the Company, following the request of ISA, published an immediate report regarding the said audit, which included ISA's full audit report as well as the Company's detailed response. In addition, the Company has examined the validity of the findings of the ISA in relation to the book value of its investment property which were not included in the sample and examined the need to amend the financial statements. In the management's opinion, the values of the properties tested are reasonable and the Company disputed the ISA's conclusion.

8 Investments in associates

A Composition:

The Company has (indirect) shareholdings in the following associates:

Holding company	Name of associate	% of ownership and control by the direct holding company as of		
		December 31, 2013	December 31, 2012	Country
Tahal India B.V.	MVV Water Utility Pvt Ltd	26.0	26.0	India
Water Planning for Israel Ltd.	Tahal Water Energy Ltd.	40.5	81.0	Israel
Globe Trade Centre S.A.	Lighthouse Holdings Ltd. S.A	–	35.0	Luxembourg
	Vokovice BCP Holding S.A.	–	35.0	Luxembourg
	Holesovice Residential Holding S.A.	–	35.0	Luxembourg
	CID Holding S.A.	–	35.0	Luxembourg
GTC Real Estate Investments Ukraine B.V.	Europort Investment (Cyprus)1 LTD	–	49.99	Cyprus
Emerging Investment III B.V.	Europort LTD.	–	9.9	Israel

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

€ in '000	December 31, 2013	December 31, 2012
Total of equity investments	14	(1,731)
Loans	5,681	43,548
Total investment in associates	**5,695**	**41,817**

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

€ in '000	2013	2012
Balance as of January 1	41,817	54,151
Additions	**204,706	273
Change in loans, net	(1,419)	(3,264)
Equity earnings (losses) ***	(10,407)	(9,992)
Deconsolidation of a subsidiary *	(40,341)	–
Foreign currency translation differences and other	168	649
Classification as held for sale ****	(194,510)	–
Change from full consolidation to equity method *****	5,681	–
Balance as of December 31	**5,695**	**41,817**

* 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.

** 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 associate according to the equity method.

*** 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'.

**** Regarding the Company decision to sell the investment in GTC SA, see Note 5C.

***** For additional information relating to the TWE deal, see Note 5C.

D Loans:

The investment in associated companies includes loans as follows:

€ in '000	Interest rate (p.a.)	December 31, 2013	December 31, 2012
In NIS	10.5% linked to the CPI	5,681	–
In EUR	3M Euribor+4.3%	–	26,453
In USD	6 months Libor +4.875% and 10%	–	17,095
		5,681	**43,548**

E Below is a summary of financial data from the statement of financial positions of the Group's associated companies:

€ in '000	December 31, 2013	December 31, 2012
Current assets	555	11,681
Non-current assets	5,266	119,042
Current liabilities	167	72,798
Non-current liabilities	5,640	53,204
Non Controlling interest	–	6,452
Attributable to the equity holders	14	(1,731)

Share of the Group in the results of associated companies proportionate to the holding rate for the year:

€ in '000	For the year ended December 31,		
	2013	2012	2011
Revenues	20,207	14,505	22,021
Net profit (losses)	(10,407)	(9,992)	(3,563)
Other comprehensive income	168	649	(78)

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:

Holding company	Name of joint venture	% of ownership and control bythe direct holding company as of December 31, 2013	% of ownership and control bythe direct holding company as of December 31, 2012	Guarantees provided to the joint venture (In €'000)	Loans granted to the joint venture and their subsidiaries (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	–	6,454	Hong-Kong	Holding
	Sino Castle Development Ltd.	50.0	50.0	–	40	Hong-Kong	Dormant
	Kardan Land Chengdu (HK) Ltd	50.0	50.0	–	20,845	Hong-Kong	Holding
	Green Power Development Ltd	50.0	50.0	–	11,888	Hong-Kong	Holding
	Rainfield Development Ltd.	50.0	50.0	–	7,061	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	Akfen SU Kanalizasyon	50%	50%	–	–	Turkey	management and construction establishments for producing drinking water

Holding company	Name of joint venture	% of ownership and control bythe direct holding company as of		Guarantees provided to the joint venture (In €'000)	Loans granted to the joint venture and their subsidiaries (In €'000)	Country	Nature of activities
		December 31, 2013	December 31, 2012				
Sitahal 'Hagal' (Talia) Partnership	Energy Hagal- Talia Partnership	50%	50%	–		Israel	Electricity (Bio Gas)
Tahal Consulting Engineers Ltd.	Tahal South Africa (PTY) Ltd.	50.1%	–	–	49	South Africa	Water Projects
Tahal Consulting Engineers Ltd.	Lahat Joint Venture	50%	50%	–	–	Israel	Water Desalination
Tahal Consulting Engineers Ltd. -	TMNG Ltd [2]	–	51%	–	–	Israel	Gas
GTC Real estate Holding B.V	GTC Investments B.V.	48.75	48.75	–	3,547	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	–	6,791	Bulgaria	Mortgage lending
TBI Financial Services Bulgaria EAD	Hypocredit AD	50.0	50.0	–	–	Bulgaria	Mortgage lending
Bucharest Towers Investments B.V	Ana tower offices S.R.L [1]	–	50.0	–	–	Romania	Real estate development
GTC Real Estate Investments Russia B.V.	Yatelsis Vibrogskaya Limited of Nicosia [1]	–	50.0	–	–	Cyprus	Holding
Globe Trade Centre S.A.	GTC Galeria Kazimierz Sp z.o.o [1]	–	50.0	–	–	Poland	Real Estate property lease

Comments:

1 Due to the deconsolidation of GTC S.A, the Company ceased from applying the equity method to these companies. See Note 5C.
2 Regarding the increase in the interest in TMNG Ltd to 65% and gaining control, see Note 5C.

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

€ in '000	December 31, 2013	December 31, 2012
Total of equity investments	61,723	84,724
Goodwill	14,007	14,029
Deemed cost on China projects *	2,870	3,237
Unrecognized share of losses (Relates to GTC Investments B.V)	–	5,278
Loans and other long-term balances	57,831	89,764
	136,431	197,032
Less impairments (see F below)	(7,773)	(3,511)
Total investment in joint ventures	**128,658**	**193,521**

* Deemed cost are the group financial cost which were capitalized to projects in joint ventures prior to adoption of IFRS11 requirements.

C Loans:

The investment in joint ventures companies includes loans as follows:

€ in '000	Interest rate (p.a.)	December 31, 2013	December 31, 2012
In EUR	0%	31,287	31,884
In EUR	3 months Euribor + 3.5%	3,100	4,261
In EUR	6 months Euribor + 3.5%	2,628	2,532
In EUR	6 months Euribor + 3%	–	29,661
In EUR	6 months Euribor + 3.125%	1,156	1,156
In EUR	9%	–	115
In Rubal	9%	–	93
In HKD	0%	11	11
In USD	0%	18,537	19,274
In USD	10%	558	777
In USD	6 months libor + 3.5%	505	–
In Zar	0%	49	–
		57,831	**89,764**

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

Shanxi GTC Lucky Hope Real Estate Development Ltd.
Summary of financial data from the statement of financial position:

€ in '000	December 31, 2013	December 31, 2012	January 1, 2012
Current assets (not including cash and cash equivalent)	114,488	128,306	125,160
Cash and cash equivalent	11,572	8,398	17,926
Non-current assets	11,512	13,110	17,154
Current liabilities (not including current financial liabilities *)	105,748	135,942	139,242
Current financial liabilities *	4,514	3,006	-
Non-current liabilities (not including non current financial liabilities *)	294	460	650
Non-current financial liabilities *	4,752	–	–
Total equity attributed to the owners	22,264	10,406	20,348
% held in the joint venture	50	50	50
	11,132	5,203	10,174
Deemed cost on China projects	316	420	540
Total investment in joint ventures	**11,448**	**5,623**	**10,714**

* Excluding trade and other payables and provisions

Summary of financial data from the income statement:

€ in '000	For the year ended December 31,		
	2013	2012	2011
Revenues from operations	75,550	35,332	22,968
Cost of operations	52,658	23,182	13,334
Selling and marketing, other income (expenses), and administrative expenses of which depreciation and amortization is €35 thousand (2012: €24 thousand, 2011: €26 thousand)	6,548	4,718	4,456
Interest income	28	32	80
Profit before tax	16,372	7,464	5,258
Income tax expenses	4,142	3,054	1,604
Profit for the year attributed to equity holders	12,230	4,410	3,654
% held of the joint venture	50	50	50
	6,115	2,205	1,827
Realizing of deemed cost	104	120	81
Group's share of profit for the year	6,011	2,085	1,746
Total other comprehensive income (expenses) attributed to equity holders	(374)	(1,730)	1,660
% held of the joint venture	50	50	50
Group share of the total other comprehensive income (expenses)	(187)	(865)	830

E Additional aggregated information regarding immaterial joint ventures that are accounted using the equity method according to the Group's share:

€ in '000	December 31, 2013	December 31, 2012
Current assets	155,481	155,729
Non-current assets	105,337	265,962
Current liabilities	165,554	214,602
Non-current liabilities	40,671	125,083
Non-controlling interest	4,002	2,485
Total equity attributed to the equity holders	**50,591**	**79,521**

Share of the Group in the results of joint venture companies proportionate to the holding rate for the year.

€ in '000	For the year ended 2013	2012
Profit (loss) for the year (continuing operation) (including impairments)	11,936	(2,142)
Profit for the year (Discontinued operation)	596	1,962
Unrecognized share of losses (reversal of unrecognized share of losses)	(5,278)	5,278
Realizing of deemed cost	263	559
Group share for the loss for the year	6,991	4,539
Group share for the other comprehensive expenses	1,040	4,394
Group share for the total comprehensive income	5,951	145

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

€ in '000	December 31, 2013		December 31, 2012	
	Goodwill include in the investment	Impairments to the investment	Goodwill include 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	–	5,871	–
TBIF-Dan leasing Ltd.	7,007	(7,435)	6,959	(3,371)
GTC Investments B.V.	–	(198)	–	–
	14,007	(7,773)	14,029	(3,511)

G Dividend received or entitlement of dividend from joint ventures

€ in '000	December 31, 2013	December 31, 2012
Shenyang Taiying Real Estate Development Ltd.	–	3,946
GTC Galeria Kazimierz Sp z.o.o	–	2,321
Sovcom Bank LLC	–	11,077
Shanxi GTC Lucky Hope Real Estate Development Ltd	–	7,026
	–	**24,370**

H Additional information

Kardan Land China

Capital commitments:

As at December 31 2013, to the joint ventures of KLC contractual commitments of €21,500 thousand (2012: €11,489 thousand).

Dividend distribution restrictions:

At of December 31 2013, Shanxi GTC Lucky Hope Real Estate Development Ltd. and Kardan Land Chengdu Ltd (subsidiary of Kardan Land Chengdu (HK) 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.

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.

Guaranties:

As at December 31, 2013, the joint ventures of Kardan Land China and its subsidiaries provided guarantees of €75.3 million (2012: €51 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers 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 expiry 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.

GTC Investments B.V

Insolvency procedures – German portfolio:

A bank loan granted to Blitz Portfolio GMBH (a Subsidiary of GTC Investments B.V.) and its subsidiaries amounting to €86 million was due on January 18, 2013. Blitz Portfolio GMBH and the Bank signed a standstill agreement for a period up to February 28, 2013 which was not further extended. The mortgage loan is non-recourse, as such the liabilities related to the Blitz portfolio and its financing are limited for the Company.

In April 2013 after filing for insolvency in the German court, preliminary insolvency officers were appointed by the court. During December 2013 the final insolvency officers were appointed. As a consequence of the above, GTC Investments B.V. lost control over Blitz Portfolio GMBH.

Impairment of TBIF-Dan leasing

In the second quarter of 2013 the TBIF recognized an impairment of €4 million on its investment in TBIF-Dan Leasing Ltd (which is included in the Banking and Retail lending segment) further to a prospective deal to sell its stake in the joint venture. The transaction is subject to a number of approvals by third parties and is not considered highly probable as of 31 December 2013. Consequently, the investment in TBIF-Dan Leasing Ltd is not presented as held-for-sale as of this date.

10 Loans to bank customers

A Composition

€ in '000	December 31, 2013	December 31, 2012
Loans and advances to individuals	69,794	33,545
Mortgage loans	733	1,076
Other loans and advances to banks	9,489	6,815
	80,016	41,436
Corporate loans	27,083	24,054
Total loans and advances gross	107,099	65,490
Less – allowance for impairment losses [1]	(8,185)	(4,695)
	98,914	**60,795**

1 Movements in allowance for impairment losses are:

€ in '000	2013	2012
Balance as per January 1	4,695	11,072
Deconsolidation	–	(445)
Allowance for the period,net	5,237	(75)
Recognized written off uncollectible debts	(1,747)	(5,857)
Balance as per December 31	**8,185**	**4,695**

B Maturities

€ in '000	December 31, 2013	December 31, 2012
Presented as current assets	48,522	40,242
Presented as non-current assets	50,392	20,553
	98,914	**60,795**

During 2013, TBIF repossessed assets with a carrying value of €5.7 million (€7.5 million in 2012). 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:

€ in '000	December 31, 2013	December 31, 2012
In USD	1,116	1,193
In EUR [1]	76,308	82,936
In other currencies [2]	27,824	50,266
	105,248	**134,395**
Less – current maturities	(29,735)	(43,008)
	75,513	**91,387**
Service concessions [3]	68,919	67,059
Provision for doubtful debts [4]	(57,678)	(59,534)
Other	8	2,170
	86,762	**101,082**

1 As of December 31, 2013 the balance includes: an amount of €38,682 thousand and €28,049 thousand (2012: €32,116 thousand and €39,891 thousand) from Consumer finance and financial lease respectively.

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% (2012: 6.45%).
Short term portion of concession agreements in the amount of €16 million (in 2012 €15 million) is presented in other receivables (see Note 15).

4 Provision for doubtful debts primarily includes provision for impairment losses relating to consumer credit, mortgages and finance leases.

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

€ in '000	December 31, 2013	December 31, 2012
Financial leases *	26,238	28,807
Consumer credits and mortgage	12,032	35,109
	38,270	**63,916**
Current	22,160	37,587
Non Current	16,110	26,329
	38,270	**63,916**

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

€ in '000	December 31, 2013	December 31, 2012
Not more than one year	26,946	26,599
Later than one year and not later than five years	14,752	17,636
Later than five years	2,774	895
Gross receivables from financial leases	44,472	45,130
Less – gross earnings allocated to future periods	(5,790)	(5,238)
Less – allowance for impairment losses	(12,444)	(11,085)
Net investment in financial leases [1]	**26,238**	**28,807**
(1) Maturity table:		
Not more than one year	12,607	13,782
Later than one year and not later than five years	11,661	14,388
Later than five years	1,970	637
	26,238	**28,807**

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

C Movement in the provision for doubtful debts:

€ in '000	2013	2012
Balance as per January 1	59,534	54,431
Allowance for the period,net	1,788	14,141
Recognized written off uncollectible debts	(4,429)	(8,549)
Translation differences	785	(489)
Balance as of December 31	**57,678**	**59,534**

12 Intangible assets and goodwill

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

€ in '000	Goodwill	Service concession	Other intangibles [1]	Total
Balance as of January 1, 2012	19,906	9,729	13,379	43,014
Additions [2]	40	–	326	366
Impairment and amortization [3]	(4,005)	(530)	(1,949)	(6,484)
Foreign currency exchange differences	(20)	(154)	(27)	(201)
Balance as of December 31,2012	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**

1 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. For the impairment of goodwill see further in this note.

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

€ in '000	December 31, 2013	December 31, 2012
KFS		
Romania and Bulgaria - Consumer credit and leasing	–	3,942
TGI		
Assets segment:		
KWIG	3,343	3,343
Dahzou Tianhe Water Supply	974	974
Tianjin Huanke Water Development Co., Ltd	3,753	3,753
Project segment:		
Tahal Consulting Engineers Ltd (TCE)	3,398	3,508
TMNG (see note 5C)	1,241	–
Palgey Maim	389	401
	13,098	**15,921**

Goodwill acquired through business combinations has been allocated to the relevant cash-generating units, and is primarily allocated to anticipated future benefits arising from synergies. Relevant cash generating units within the reportable segments could be individual subsidiaries, activities in a certain country, or total operating segments before aggregation.

The recoverable amount of the goodwill has been determined based on the values used for valuations of each cash generating unit, according to methods and assumptions applicable to such cash generating unit. The Company annually assesses impairment, or more frequently if deemed required.

C Impairment of goodwill

KFS

Impairment charges recognized

During 2013, KFS recognized impairments charge of €4 million (2012- € 4 million). In 2013, impairments related mainly to the Bulgarian operations while in 2012 impairments mostly related to the operations in Romania. As a result of these impairments, the goodwill balance which relates to KFS as of December 31, 2013 is nil.

The reduction in recoverable amounts was based on estimated values in use. Generally, for each CGU, the value in use was calculated by discounting management's cash flow projections. as of December 31, 2013 the value in use of the Romanian and Bulgarian operations was estimated to be equal to the equity of these companies, thus resulting in a full impairment of relating goodwill amounts. These goodwill amounts were originally recognized due to investments made by TBIF in Romania and Bulgaria.

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 rate	Gross profit margin	Operating income margin
Projects segment:				
2013	13.5%	2%	11.6%	3.3%
2012	12 %	5%	12.5%	4.5%
Assets segment:				
(mainly KWIG and Tianjin)				
Chinese Assets				
2013	10%-11%	[1]	[2]	10% - 20% [3]
2012	8%-12%	[1]	[2]	10% - 20% [3]

1 The majority of the asset companies have revenues which are based on contractual fixed incomes, as part of the concession agreements. The growth rate is not an element in the fair value evaluation. For those asset companies that have no contractual fixed incomes the annual growth rate is 3% (2012: 5%) on average.
2 For the asset segments, only the operating income margin is used for value in use.
3 The operating income margin differs between the individual plants in China.

D The movement during the year for the project is as follows:

	Carrying value December 31, 2012	Reclassification	Amortization	Upgrading investments	Exchange differences	Carrying value December 31, 2012
Tianjin Tanggu Huanke Xinhe Sewage treatment	9,045	–	(524)	33	(103)	8,451

The construction period consists of upgrading activities to the plants. As per December 31, 2013 all significant upgrading activities were finished, and all plants are operational. The plant is operational and the remaining operational period is 19 years.

E 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:

€ in '000	December 31, 2013	December 31, 2012
Building and apartments inventory and land bank [1]	96,864	270,208
Contract work in progress [2]	9,900	7,666
Merchandise inventories [3]	3,193	3,772
	109,957	**281,646**

(1) Building and apartments inventory and land bank:

a. For the impact of the deconsolidation of GTC SA refer to Note 5C.
b. As of December 31, 2013 inventory in the amount of €94,408 thousand is pledged for security in favor of a lending bank.
c. Inventory presented at cost includes finance expenses capitalized during the construction of the project. During 2013, finance expenses capitalized on account of inventory property under construction amounted to €2,527 thousand (in 2012: €293 thousand).
d. Composition of cost of buildings and apartments:

€ in '000	December 31, 2013	December 31, 2012
Current:		
Completed	21,657	62,292
Under construction	75,207	95,934
In design stage	–	12,997
	96,864	171,223
Non-current:		
Land in design stage	–	98,985 *
	96,864	**270,208**

* Land in design stage amounting to €98,985 thousand was presented as of December 31, 2012 as long-term inventory as starting date of the respective projects have not been determined yet.

e. Buildings and apartments inventory is stated in gross figures. Advances from apartment buyers are presented under current liabilities and amount to €5,667 thousand as of December 31, 2013 (December 31, 2012: €12,936 thousand).

f. During the past year the Group entered into 90 sales contracts of apartments, for which the total consideration is estimated at €19,438 thousand (RMB 160,163 thousand). As of December 31, 2013, the aggregated number of signed contracts of existing projects for which revenues were not recognized, amounts to 30 contracts for which the aggregated consideration is estimated at approximately €6,207 thousand (RMB 51,141 thousand).

(2) Contract work in progress:
Contract work in progress relates to infrastructure projects, which are not considered service concession arrangements.

Details are as follows:

€ in '000	December 31, 2013	December 31, 2012
Contract costs incurred	321,788	266,373
Less – invoices on account of progress	(352,102)	(275,148)
	(30,314)	(8,775)
Presented in statement of financial position:		
Current assets – contract work in progress costs	9,900	7,666
Current liabilities – Advances from customers in respect of contracts	(40,214)	(16,441)
	(30,314)	**(8,775)**

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

(3) In 2013 and 2012 merchandise inventory mainly relates to the fruit inventory located in Mast Foods (Greece).

B Additional information concerning long term construction works in Inventory:

December 31, 2013 € in '000	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
Revenues recognized	23,984	23,984	90,707	232,314
Cost recognized	19,697	19,697	55,630	167,401

December 31, 2012 € in '000	Residential construction		Infrastructure works	
	For the year ended 2012	Cumulative up to the end of the reporting period	For the year ended 2012	Cumulative up to the end of the reporting period
Revenues recognized	19,027	154,383	76,671	154,617
Cost recognized	19,036	137,238	52,357	122,721

14 Trade receivables

A Composition:

€ in '000	December 31, 2013	December 31, 2012
Trade receivables	68,426	62,815
Checks and credit card receivables	–	16
	68,426	62,831
Less provision for doubtful debt	(1,167)	(4,113)
	67,259	**58,718**

As of December 31, 2013 an amount of €60,469 thousand (31 December 2012: €49,700 thousand) derives from the Infrastructure projects segment.

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

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

€ in '000	Neither past due nor impaired	Past due (net of impairment)					Total
		< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	> 120 days	
2013	30,019	8,715	8,567	10,261	1,687	8,010 *	67,259
2012	33,614	5,576	2,287	3,576	1,271	12,378	58,702

* Subsequent to the balance sheet date, the Group collected a major part of this amount.

15 Other receivables and prepayments

€ in '000	December 31, 2013	December 31, 2012
Central bank in Bulgaria [1]	15,546	6,399
Accrued Income	5,523	7,962
Concession current financial assets	16,266	15,026
VAT receivable	1,378	5,313
Receivables from joint ventures in China	743	2,098
Prepaid expenses	5,875	6,881
Advances to suppliers	5,490	2,180
Advances for land	–	2,440
Other	5,366	6,905
	56,187	**55,204**

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 banks provided that the minimum reserve requirements are met. If the minimum average reserve requirements are not met, the banks could be subject to certain penalties. The 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 2013 and 2012.

16 Short-term investments

	Average interest rate	December 31, 2013	Average interest rate	December 31, 2012
	%	€ in '000	%	€ in '000
Bank deposits in other currencies	0.5%-3%	858	0.5%-3%	965
Restricted bank deposits [1, 2]	0.5%-3%	13,481	0.5%-3%	24,777
Other	–	88	–	90
		14,427		**25,832**

1 The majority of the balance in 2013 is related to a pledged account in Discount bank. The majority of the balance is in Euro.
2 The majority of the balance as of December 31, 2012 is related to liabilities to loans. The majority of the balance is in Euro.

17 Cash and Cash Equivalents

€ in '000	December 31, 2013	December 31, 2012
Cash at bank and in hand	61,792	75,505
Short-term deposits *	56,476	293,605
	118,268	**369,110**

* In 2013 the amount includes also €604 thousand which are held for trading securities. As of December 31, 2013 the range of the annual interest rate earned on short term deposits was 0%-3% (December 31, 2012 0.5-3%).

18 Issued and Paid-In Capital

A Composition

Number of shares	December 31, 2013		December 31, 2012	
	Authorized	Issued and paid-in	Authorized	Issued and paid-in
Ordinary shares with nominal value of € 0.20 each	225,000,000	111,848,583	225,000,000	111,824,638

B Movement in issued and paid-in shares

	Number of shares	Par value in €
Balance as of January 1, 2012 and December 31, 2012	111,824,638	22,364,927
Issuance of shares in 2013	23,945	4,789
Balance as of December 31, 2013	**111,848,583**	**22,369,716**

C Changes in share capital

During 2013 the Company issued 23,945 shares to one of its management employees following the 2010 share plan, for additional information see Note 19B.

During 2012, there were no changes in the issued and paid-in capital of the Company.

D Movement in treasury shares

	Number of shares	Par value in €
Balance as of January 1, 2012 and December 31, 2012	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**

	December 31, 2013	December 31, 2012
Rate of treasury shares from the issued and paid in share capital	1%	**1%**

During 2013 the following transactions took place:

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).

Subsequent to the balance sheet date, in January 2014, the Company transferred 73,005 shares to (former) employees of the Company according to 2010 share plan, for additional information see Note 19B.

E Dividend:

In March 2013, the Company signed an agreement with the debentures holders in which the Company commited not to distribute any dividends till February 2015 and in any event not before the publication of the annual accounts 2013. For additional information see Note 28.

In 2012 and 2013 there were no distributions of dividends.

F Restrictions for distribution:

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 revalutation, 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 is shown in the following table:

€ in '000	For the year ended December 31		
	2013	2012	2011
Expense arising from equity-settled share-based payment transactions of the Company and the subsidiaries	1,247	2,039	6,590
Expense arising from cash-settled share-based payment transactions of a subsidiary	557	143	–
	1,804	**2,182**	**6,590**

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 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 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 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 February 2012 (the 'Effective Date') the supervisory board recommended to the Annual General Meeting of the Shareholders (the 'AGM') that assembled on May 2012, to approve the grant of stock options to the Company's CEO (the 'Option Plan'). According to the Option Plan, the CEO will be entitled to options representing a maximum of 2% of the outstanding share capital of the Company. The exercise price which was initially determined was the average closing price of the Company's shares on the Tel-Aviv Stock Exchange, during 5 days prior to the Effective Date which was NIS 8.272 (the 'Exercise Price'). The options are exercisable in four annual equal portions of which the first 25% is excisable two years following the Effective Date. In May 2012, the AGM approved the Option Plan but shortly prior to the AGM, it was agreed to re-examine the Exercise Price.

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.

The fair value of the 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

c In June 2008 the Annual General Meeting of shareholders of the Company approved the grant of 325,000 options to two members of the Management Board as follows:

1 150,000 options exercisable for into up to 150,000 ordinary shares in the capital of the Company at an exercise price of €6.615 per option, reflecting a price of 90% of the closing price of the Company's share on Euronext as of the date of grant, being April 1, 2008. None of the options were exercised and they expired on April 1, 2013.

2 175,000 options exercisable into up to 175,000 ordinary shares in the capital of the Company at an exercise price per option of €9.22 reflecting 90% of the closing price of Kardan's share on Euronext on the date of grant. In January 2013, the options were cancelled due to the termination of the participant's employment.

d In May 2010, the AGM of the Company adopted a Share Plan which is meant as an incentive plan for certain (limited) qualified key (management) employees of the Company. According to the Share Plan, a maximum of 2% of the issued share capital of the Company (as outstanding on January 1, 2009) will be granted to the qualified employees for the 3 years period ending on January 1, 2012.

In March 2012, the Annual General Meeting of the Company approved a grant of 119,759 shares of the Company ('the Unreleased Shares') under the 2010 share plan to executives and employees of the Company.

During April 2013, 23,945 shares were issued and deposited with a trustee for a former management board member. 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.

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 Company's shares that were held by a subsidiary.

e The fair value of the majority of the options grants was calculated by an independent external valuator using the adjusted Black & Scholes model under the following assumptions

Number of options	150,000	175,000
Exercise price (in €)	6.615	9.215
Risk free interest rate	3.68%	4.26%
Expected term of the options (in years)	5	6
Standard deviation	40.5%	40.4%
Valuation	External	External

Movement in the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of, and movement in, share options issued by the Company during the year:

	2013		2012	
	No.	WAEP €	No.	WAEP €
Outstanding at January 1	325,000	8	325,000	8
Granted during the year	2,532,135	6.136	–	
Expired during the year	(325,000)	8	–	
Outstanding on December 31	2,532,135	6.136	325,000	8
Exercisable on December 31	–		325,000	

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 the ESOP, share options of Kardan Land China are granted to eligible employees of Kardan Land China. The exercise price of the share options is calculated based on total capital injected plus interest under Libor/Euribor + 3%. The share options vest according to the following schedule: 50%, 25% and 25% of the share options shall be vested on the third, fourth and fifth anniversary of the date of commencement of services of the relevant option holder to Kardan Land China, respectively.

The fair value of the share options is estimated at the grant date using the Black&Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

The contractual term of each option granted is seven years.

In January 2013, certain share options under Employee Share Option Plan (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 31

December 2013 was estimated on 31 December 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. 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 accounts the terms and conditions upon which the options were granted. The contractual life of each option granted is seven years.

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

After the balance sheet date, in February 2014, KLC signed an agreement with the senior executive under which the senior executive shall exercise third of the share options in February 2014 and simultaneously KLC shall acquire the shares resulting from the exercise, so the senior executive will receive net proceeds of approximately €3.3 million. The agreement further states, that the senior executive shall have the right to exercise in June 2014 another third of the share options and sell them to KLC under similar conditions. The senior executive has the right to exercise the rest of the options in December 2014 at an exercise price that reflects the cost of the Company's investments in Kardan Land China and sell them to Kardan Land China in consideration of the fair value of the shares to be agreed at that time. According to the mechanism included in the initial put option, in the event the parties will not agree on the value of the shares, their fair value will be determined by an independent appraiser. Following the agreement, the Company estimates that it will record 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 (with respect to the shares that will be bought in February and June 2014 about €6.7 million, and with respect to the December 2014 portion, according to the value to be determined). The agreement essentially governs the exercise dates of the options which had already vested, which the senior executive has the right to exercise. Also, the commitment to purchase the shares replaces the said put option.

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:

	2013		2012	
	No.	WAEP EUR	No.	WAEP EUR
Outstanding at 1 January	4,105	4,056.94	4,105	4,056.94
Cancelled during the year	(546)	4,394.48	–	–
Outstanding at 31 December	3,559	4,014.08	4,105	4,056.94
Exercisable on December 31	**3,514**		**3,969**	

The weighted average remaining contractual life for the share options outstanding as of December 31, 2013 is 4.25 years (2012: 5.25 years).

The range of the exercise prices per option for options outstanding at the end of the year was €3,868.09 to €4,394.48 (2012: same).

The following tables list the inputs to the models used for the two plans for the years ended December 31, 2013 and December 2012:

	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, 2013, KLC has recognized €553 thousand of share-based payment expense in the statement of profit or loss (2012: €358 thousand) and an amount of €254 thousand reclassified from Non controlling interest to Non controlling interest holders transaction reserve, and transferred from Non controlling interest an amount of €3,413 thousand to a liability account.

(3) KFS and its subsidiaries

a In 2013 consolidated companies in the financial services sector incurred expenses in the amount of €0.3 million (2012: €0.4 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 4 operations of TBIF. The exercise price for these options was determined to be the base value at the time of grant plus interest. The options vest in 4 equal portions on 30 June 2012, 2013, 2014 and 2015. This option plan is treated under IFRS 2; (b) a Phantom option scheme relating to TBI Bank, treated under IAS 19; and (c) a bonus scheme relating to the loans granted to VAB Bank and VAB Leasing.

(4) Tahal Group International and its subsidiaries

A TGI

2009 Plan

In 2009, the management board, the supervisory board and the general meeting of shareholders of TGI approved a stock option plan, according to which TGI has granted key management members of TGI 1,253 options exercisable up to 1,253 shares of TGI. The exercise price of the options has a range of €869 to €1,717 per option. The options can be exercised until December 31, 2012 and has different vesting periods for each of the option holders. During 2012 the TGI extended the outstanding options of a manager holding 97 options by one year however these options expired without being exercised. In December, 2012 the chairman of the Supervisory Board of TGI exercised his options in return for 578 shares.

Upon exercise of the options the Supervisory board of TGI will determine whether to allocate the full number of shares deriving from exercise of the options or the number of shares reflecting only the benefit component inherent in the options, as calculated at the exercise date, or alternatively, the Supervisory board of TGI may elect to pay that benefit in cash.

The total value of the options at date of grant was estimated at €1.2 million. This fair value was determined by an independent external valuator. The expected life of the options is based on historical data. TGI accounts for the options granted assuming equity payment will be effected.

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

On the day of notice the chairman signed a loan agreement with Tahal Water Planning LTD ('TWP'), a subsidiary of TGI, in the amount of €0.5 million for payment of the exercise price of the options.

In July, 2013, the Inheritors 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

2011 Plan

During 2011, the supervisory board and the general meeting of shareholders of TGI formally approved a new stock option plan according to which TGI will grant to one management member of TGI 797 options, constituting approximately 3% of the shares of TGI, post-issuance. The newly issued stock option plan is divided into two agreements which have comparable option terms except from the vesting periods. Each option plan has been valuated separately.

The exercise price of the options 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.

2013 plan

In March 2013, TGI granted two senior employees 185 stock options totaling to 0.7% of TGI's issued and paid-in capital. 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 would be recognized in the income statements during the remaining vesting period of 4 years. The option plan to one senior employee was extended for 1 year, valued approximately €0.2 million.

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

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:

	2013	2012	2013	2012
	No.	No.	WAEP €	WAEP €
Outstanding at January 1	1,472	1,472	2,641	2,641
Granted for the year	185	–	4,741	–
Expired during the year	(675)	–	991	–
Outstanding at December 31	982	1,472	4,171	2,641
Exercisable at December 31	925	610	2,641	991

B Kardan Water International Group Ltd.

2010 Plan
During 2010, Kardan Water International Group Ltd. ('KWIG') formally approved a stock option plan to eligible employees of KWIG.

Pursuant to the plan 1,600 share options of KWIG were granted to the eligible employees, which constitute 3.4% of the total issued share capital. Under this plan, the eligible employees have the right to acquire 50% of the granted option shares on the 3rd anniversary of the date of commencement of services, 25% on the 4th anniversary, and 25% on the 5th anniversary. The options will expire at the 5th anniversary for the first 50% of the vested options and at the 7th anniversary for the remaining 50%.

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

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'), 985 new share options were granted to a director of KWIG equalling 2% of shares of KWIG following such issuance. The option shares are fully vested upon grant.

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2013 No.	2013 WAEP €	2012 No.	2012 WAEP €
Outstanding at 1 January	1,406	953	2,155	990
Forfeited during the year	(215)	1,061	(580)	1,061
Granted during the year	750	1,773	–	–
Extended during the year	669	1,188	–	–
Expired during the year	(250)	1,061	(169)	1,061
Outstanding at December 31	2,360	1,259	1,406	953
Exercisable at December 31	1,610	967	1,406	953

The following tables list the inputs to the Binomial model used for the Plan for the year ended December 31, 2013 and December 31, 2012:

	2013	
	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, 2013 is 3.43 years (December 31, 2012: 3.85 years).

20 Non-Current Interest Bearing Loans and Borrowings

A Composition

	December 31, 2013		December 31, 2012	
	Weighted interest rate as of %	€ in '000	Weighted interest rate as of %	€ in '000
Banks:				
In EUR	3.97-7.89	10,489	1.1-5.9	876,663
In USD	4-5.24	19,672	1.12-5.3	35,932
In NIS	3.5-4	297	6.75-8	8,213
In RMB	5.54-7.36	79,088	5.54-7.36	59,544
Linked to other currencies	–	–	3.66-11.2	4,748
Others – in EUR	2	1,042	3.25-3.5	66,157
Linked to other currencies	3.66-5.75	760	–	–
		111,348		**1,051,257**
Less:				
- Deferred debt issuance costs		–		(7,279)
- Current maturities of deferred debt issuance costs		–		773
- Current maturities		(13,630)		(140,653)
- Long-term interest bearing loans related to current inventory		(27,295)		(18,578)
		70,423		**885,520**

B Maturities

€ in '000	December 31, 2013	December 31, 2012
First year – current maturities	13,630	140,653
Second year	32,279	74,471
Third year	31,991	72,120
Fourth year	15,842	66,896
Fifth year	821	88,429
Thereafter	16,785	608,688
	111,348	**1,051,257**

For details regarding covenants, refer to Notes 28 and 41.

21 Banking Customers Accounts

A Composition

€ in '000	December 31, 2013	December 31, 2012
Deposits from corporate clients	47,624	25,343
Deposits from individual clients	90,097	42,977
	137,721	**68,320**

B Maturities

€ in '000	December 31, 2013	December 31, 2012
First year – current maturities	137,593	68,262
Second year	102	58
Third year	26	–
	137,721	**68,320**

Under normal circumstances, banking customers accounts which can be redeemed on demand are considered covered by the banks' financial assets – also refer to Note 39.

22 Other Long-Term Liabilities

€ in '000	December 31, 2013	December 31, 2012
Deposits from tenants	–	4,264
Advance from customers	515	–
Deferred purchase price for shares in a subsidiary	–	6,619
Provision for share based payment	–	5,583
Site coverage and rehabilitation provision	2,092	1,882
Land purchase commitment	–	1,737
Claw back liability regarding the sale of GTC SA (See Note 5C)	3,150	–
Other	1,130	222
	6,887	**20,307**

23 Options and warrants

€ in '000	December 31, 2013	December 31, 2012
Call options to third parties [1, 2]	3,650	5,446
Put option of third parties [3]	667	–
	4,317	**5,446**

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. Subsequent to the balance sheet date, the call option was cancelled. The impact of the cancellation will be an increase in equity (in NCI reserve) in the amount of €2.9 million.

2 FIMI Transaction
The balance includes the fair value of warrants granted to FIMI (which can be exercisable to TGI shares) in the amount of €0.8 million (December 31, 2012: €3 million). In 2012 the amount was offset with the fair value of a Call Option in the amount of €867 thousand.

In June 2012 TGI signed an amendment to the loan and warrant agreement with FIMI which resulted in an amendment to certain loan covenants. In addition it was agreed that:

a) The interest rate on the loan would be raised from 6 months Libor + 3% to 6 months Libor + 5%, starting July 1, 2012;
b) It is to FIMI's discretion whether to allow TGI to withdraw the additional USD 25 million facility;
c) The Loan principal will be repaid in two payments - 30% on October 2015 and 70% in August 2017.
d) The warrant's exercise period would terminate 7 years from the initial closing date. In an Exit event, the Warrants' exercise price would be the lower of the Ordinary Share price based on the Company Valuation, and Exit share price discounted by 30%. Kardan's call option's exercise period would start 5 years after the initial closing date for a period of 6 months.

The adjustment on fair value of this amendment has been accounted for as a financial expense in the income statement. The amendment of the loan was assessed to be a modification (and not an extinguishment) and was accounted for as such.

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 6 years that will start after 2 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 5.

24 Debentures

A Composition

	Par value (net) as of December 31, 2013	Balance as of December (Net)	Balance as of December (Net)	Interest rate	Currency and linkage	Maturities principal
	€ in '000	€ in '000	€ in '000	%		
Issuer						
The Company – 2007 [5]	93,467	113,190	150,969	4.45	[1]	2013-2016
The Company – 2008 [5]	234,014	278,901	275,698	4.9	[1]	2014-2020
GTC SA – 2007, 2008 and 2012	–	–	237,897	6M wibor+4%	PLN	2012-2018
Other subsidiaries	3,507	3,507	10,825	6.5%	In or linked to €	2008-2015
		395,598	675,389			
Less – Current maturities		(67,409)	(130,307)			
Less – Debentures issuance expenses		(949)	(1,173)			
		327,240	**543,909**			

1 The Company's debentures are traded on the TASE. The debentures are denominated in NIS linked to the Israeli CPI. For additional information refer to Note 39.

2 Repurchase of Kardan NV 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 the balance sheet date, the Company holds through its subsidiaries NIS 403,868,452 par value Debentures Series A (which represent 47.5% of the par value of Debentures Series A) and NIS 161,823,493 par value Debentures Series B (which represent 12.6% of the par value of Debentures Series B).

3 Subsequent to the balance sheet date, 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 Early repayment
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's subsidiaries) and the total accumulated interest till that day, for a total amount of approximately €34 million (approximately NIS 164 million).

5 Subsequent to the balance sheet date, 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).

Maturities:

€ in '000	December 31, 2013	December 31, 2012
First year – current maturities	67,409	130,307
Second year	81,466	162,090
Third year	80,964	77,000
Fourth year	41,385	77,000
Fifth year	41,385	63,245
Sixth year onwards	82,772	165,747
Total	**395,381**	**675,389**

25 Trade Payables

€ in '000	December 31, 2013	December 31, 2012
Trade payables	21,296	31,882

Trade payables are non-interest bearing and are normally settled on a 30-90 days' terms.

26 Interest-bearing loans and borrowings

	Weighted average annual interest rate	December 31, 2013	Weighted average annual interest rate	December 31, 2012
	%	€ in '000	%	€ in '000
Short-term credit from banks:				
In USD	4.5	2,717	4.5	6,094
In RMB	5.48	2,959	6.76	240
In EUR	4.5	1,185	4.5	879
		6,861		**7,213**
Long-term interest bearing loans related to current inventory (refer to note 20)		27,295		18,578
Current maturities:				
Loans (see Note 20)		13,630		140,653
Deferred debt issuance cost		–		(773)
		47,786		**165,671**

Collateral – see Note 28.

27 Other payables and accrued expenses

€ in '000	December 31, 2013	December 31, 2012
Financial:		
Accrued expenses	17,662	44,577
Payroll and related expenses	6,396	6,717
VAT payable	9	34,655
Payable to joint ventures in China accounted using the equity method	10,052	11,502
Liability regarding share based payment	2,626	–
Factoring liability	3,143	3,046
Deferred purchase price for shares in a subsidiary (see also note 41)	8,016	–
Other	10,017	14,215
Non Financial:		
Advances from customers	49,954	55,287
Unearned revenues	266	3,468
Advances from sale of an office building	–	2,440
Other		321
	108,141	**176,228**

28 Liens, contingent liabilities and commitments

A Financial covenants, Liens and collaterals:

1. Financial Covenants

- **a.** As of December 31, 2013 all Group companies meet their financial covenants. During 2013, the Company and some of its subsidiaries received waivers from lending banks, following which all related breaches were waived. As of December 31, 2013 the Company, GTC RE and TBIF have no financial covenants.
- **b.** Subsequent to the balance sheet date, the Company and GTC RE signed a new loan agreement. For details regarding to the financial covenants included in this loan agreement please refer to Note 41
- **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.
- **d.** Subsequent to the balance sheet date, 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.** For pledge of assets by the Company and by GTC RE as security to a loan agreement signed after the balance sheet date, refer to Note 41.
- **b.** For pledges of investment property, see Note 7.

B Guarantees

1 As of December 31, 2013 and 2012 TGI provided bank guarantees in an aggregated amount of approximately €13.7 million and €37.3 million, respectively, in favor of customers in respect of advances received from them for projects and for performance and tender guarantees.

2 As at December 31, 2013, Kardan Land China provided guarantees of €4,871 thousand (2012: no guarantees were provided) 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 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.

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

3 The Company provided guarantees to its subsidiaries in favor of lending banks which amounted to €7.6 million and €18 million as of December 31, 2013 and 2012, respectively.

4 For additional information regarding maturities of financial guarantees, refer to Note 39.

C Legal claims and contingencies:

As of December 31, 2013 the Company and its main subsidiaries do not have any material legal claims.

D Commitments:

1. In March 2013, the Company signed an agreement with the trustees of debentures series A and B holders. The agreements included among other the following:
   - a Commitment not to pledge 51% of the Company's shares in Kardan Land China till the repayment of the debentures in February 2014 (principal and interest) and not to pledge 49% of Kardan Land China shares till the repayment of the debentures in February 2015 (principal and interest).
   - b The Company committed to give a prior notice before pledging part of Kardan Land China shares (which may be pledged subject to the restriction in section 1 above) and/or the pledge of the Company's shares in TGI. The notification is required till the repayment of the debentures (principal and Interest) in February 2015. The Company's shares in Kardan Land China and TGI will be referred to as the 'Target assets'.
   - c 80% of the credit received against the pledge of the Target Assets will be used to repay the debentures payment in February 2014. From the repayment in February 2014 and till the repayment in February 2015 the Company committed that 60% of such credit received against the pledge of the Target Assets will be used to reduce the debentures debt, provided that: (a) only half of the above mentioned 60% credit will be used to reduce the debt trough a repurchase of the Company debentures; (b) From funds that are used to repurchase the debentures, the amount used to purchase one of the debentures series will not exceed 80% of the total purchase.
   - d 50% of the proceeds received from the sale of assets or any part of them, will be used to repay the debentures payment in February 2014. The commitment will not apply to amounts that are less than €15 million.
   - e The Company is allowed, at any time, to early repay the February 2014 and February 2015 repayments, provided that the amount of each early repayment will not be less than NIS 15 million.

f The Company committed not to distribute dividends until the debenture payment (principle and interest) in February 2015 and in any case not before the Company publishes the financial statements for the year 2013.

g Limitations on pledge of repurchased debentures and on sale of repurchased debentures to third parties.

In October 2013, a general meeting of the Company's debentures series A and debentures series B holders was held and resolved on the appointment of 4 joint representatives for debentures A and debentures B holders which will represent the interests of the debenture holders. It was also resolved to appoint a Dutch lawyer on their behalf. In November 2013 both the representative and the Dutch lawyer were selected and appointed.

Subsequent to the balance sheet date, in January 2014, the Company agreed to add the following additions to the agreement which was signed in March 2013:

a It was agreed to appoint a representative of the trustees who, after having signed a non disclosure agreement with the Company, will be informed regularly on the progress of the Company and have access to confidential information. The representative is not permitted to share information with the trustees or the Debenture holders, but may inform of his conclusions and recommendations based on the information provided to him. The representative is appointed until March 31, 2015.

b The Company committed to give at least 45 days written notice (by way of immediate report) prior to:

- **a.** Pledging shares (part or all) of the Target Assets as laid down in the March 2013 agreement with the debenture holders. The notification is required until the repayment of the debentures (principal and Interest) in February 2016 has taken place.

- **b.** Pledging shares (part or all) of KFS. The notification is required until the repayment of the debentures (principle and Interest) in February 2016 has taken place.

- **c.** In the event of an increase in any credit secured by assets, any change in the identity of the holders of the pledge and in the event of any material change in the term of a pledge or credit facility which is secured by assets, All relates to existing as well as new pledges on assets.

c Until December 31, 2014 The Company will not start insolvency procedures (in Israel or abroad), including suspension of payments or liquidation, without giving at least 30 days written notice to the trustees.

2. To meet the financial needs of customers, TBIF and its subsidiaries enter into various irrevocable commitments and contingent liabilities. Even though these commitments may not be recognized on the statement of financial position, they contain credit risk and are therefore part of the overall risk of the TBIF Group. The total outstanding commitments and contingent liabilities are as follow:

€ in '000	December 31, 2013	December 31, 2012
Contingent liabilities		
Financial guarantees	792	437
Commitments		
Undrawn commitments to lend	12,293	8,485
Total	**13,085**	**8,922**

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.

3. As of December 31 2013 Kardan Land China Group had commitments of €62,290 thousand (December 31, 2012: €11,410 thousand) 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.

4. The TGI Group owns concession agreements to provide water supply and waste water treatment services in China and Turkey. The agreements have a contract period between 15-30 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 this report there are no breaches relating to these concession agreements.

5. 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.

6. TGI has two large development projects in Ghana and in Angola. The project in Ghana relates to the construction, expansion and upgrade of water supply facilities and the total expected revenues are estimated at €70.8 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.

E 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 property. The aggregate amount of contracted future rental income as of December 31, 2013 amounts to approximately €11,420 thousand 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, 2013:

€ in '000	2013	2012
First year	166	87,440
Second to fifth year	3,031	241,572
After the fifth Year	8,223	109,216
	11,420	**438,228**

The amounts as of December 31, 2012 relate to operating lease contracts with tenants relating to the activities of GTC SA. As explained in Note 5C, in November 2013 the Company sold its investment in GTC SA.

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 €0.9 million.

b. Certain Group companies have entered into operating lease agreements with respect of office buildings rental. The total commitment as of December 31, 2013 amounts to €11 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 8 years. The total expected minimum lease payment amounts to €8.3 million as of December 31, 2013.

29 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 was the main company 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.

Following the split of Kardan Yazamut in 2011 (for additional information refer to Note 5C) the Company's CODM re examined its operating segments. In the past, the results of Kardan Israel were included in 4 operating segments: 'Rental and leasing of vehicles', 'Sale of vehicles', 'Real estate' and 'Others'. The results of Milgam were included in the 'Infrastructure – Assets' segment. Following the split, the Company is substantially no longer active in the 'Rental and leasing of vehicles' and 'Sale of vehicles' and 'Others' operating segments and their results are presented as discontinued operations. Due to the increase in its relative importance, subsequent to the split and the sale of VAB Bank and Sovcom Bank, the CODM has decided also to split between 'Real estate – Asia' and 'Real estate – Europe'.

Financial Services

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 - Asia

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 roup, and include the following two segments: Infrastructure Projects and Infrastructure Assets. Through 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 management fees or recharge of expenses, there is no material segment to segment invoicing. Allocated segment asset and liabilities are those directly linked to the segment activities in the operating companies. In most cases assets and liabilities of the holding companies are considered unallocated.

B Segments results

For the year ended December 31, 2013:

€ in '000	Real Estate Asia	Banking and Retail lending	Infrastructure Projects	Infrastructure Assets	Other **	Total
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)
Gain 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, net						(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.

** Includes the results of GTC Investments B.V. which were previously included in 'Real Estate – Europe'.

For the year ended December 31, 2012:

€ in '000	Real Estate Asia	Banking and Retail lending	Infrastructure			Total
			Projects	Assets	Other **	
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						(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.

** Includes the results of GTC Investments B.V. which were previously included in 'Real Estate – Europe'.

For the year ended December 31, 2011:

€ in '000	Real Estate Asia	Banking and Retail lending	Infrastructure			Total
			Projects	Assets	Other **	
Revenue	6,922	4,310	84,828	27,030	–	123,090
Other income (expense) *	32,582	(16,765)	802	2,263	(2,298)	16,584
Total Income	39,504	(12,455)	85,630	29,293	(2,298)	139,674
Segment result	26,005	(48,099)	(12,682)	5,777	(2,298)	(31,297)
Unallocated expenses						(6,584)
Loss from operations and share in profit of associates companies before finance expenses, net						(37,881)
Finance expenses, net						(37,527)
Loss before income tax						(75,408)
Income tax expenses						(8,328)
Loss from continuing operations						(83,736)
Loss from discontinued operations,net						(326,114)
Loss for the year						**(409,850)**

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

** Includes the results of GTC Investments B.V. which were previously included in 'Real Estate – Europe'.

C Segments assets

€ in '000	December 31, 2013	December 31, 2012
Real estate – Asia	354,101	315,430
Banking and Retail lending	254,829	230,139
Infrastructure – Assets	165,182	162,526
Infrastructure - Projects	110,458	123,174
Others	–	* 204,059
	884,570	**1,035,328**
Unallocated assets	40,045	68,822
	924,615	**1,104,150**

* In 2012 the 'Others' segment includes mainly the 'Real estate – Europe' activity, that was sold in November 2013 (for additional information see Note 5C).

D Segments liabilities

€ in '000	December 31, 2013	December 31, 2012
Real estate – Asia	95,190	69,734
Banking and Retail lending	197,416	121,952
Infrastructure – Assets	117,634	67,931
Infrastructure - Projects	106,934	85,256
	517,174	**344,873**
Unallocated liabilities *	335,691	586,426
	852,865	**931,299**

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

E Information about geographical areas:

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

€ in '000	For the year ended 2013	2012	2011
China and Hong Kong	59,887	34,287	27,139
Bulgaria and Romania	27,542	13,293	3,855
Israel	32,021	25,694	25,814
Other	88,545	88,494	66,282
	207,995	**161,768**	**123,090**

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

€ in '000	December 31, 2013	December 31, 2012
China and Hong Kong	167,293	83,512
Bulgaria and Romania	10,000	16,086
Israel	8,077	10,707
Other	11,438	42,465

Non-current assets include the investment properties, goodwill and intangible assets and property plant and equipment.

30 Revenues from retail lending activities

€ in '000	For the year ended December 31,		
	2013	2012	2011
Interest income	34,545	24,426	25,784
Finance costs	(10,122)	(6,511)	(7,895)
	24,423	17,915	17,889
Commission and service fees	7,008	7,127	10,028
Finance advisory fees	–	–	388
Impairment of loans granted	(7,025)	(14,076)	(26,276)
	24,406	**10,966**	**2,029**

31 Cost of retail lending activities

€ in '000	For the year ended December 31,		
	2013	2012	2011
Staff costs	14,261	12,847	12,890
Other operating expenses	10,921	10,715	14,312
	25,182	**23,562**	**27,202**

32 Other expenses, net

€ in '000	For the year ended December 31,		
	2013	2012	2011
Impairment of properties and inventory	–	8	1,511
Loss on disposal of investment	–	–	2,177
Cost of services	3,861	1,802	4,902
Other expenses, net	(503)	3,560	2,992
	3,358	**5,370**	**11,582**

33 Selling and marketing expenses

€ in '000	For the year ended December 31,		
	2013	2012	2011
Payroll and related expenses	2,928	3,117	5,639
Commissions	684	211	459
Marketing and advertising	1,526	2,204	177
Other	2,774	2,678	4,514
	7,912	**8,210**	**10,789**

34 General and administrative expenses

€ in '000	For the year ended December 31,		
	2013	2012	2011
Payroll and related expenses (1)	10,495	11,968	12,402
Share-based payment (see Note 19)	1,327	1,803	5,412
Management fees	2,132	1,996	446
Office maintenance	2,698	1,934	4,538
Professional fees	3,616	4,091	4,692
Depreciation and amortization	579	322	617
Other	4,666	5,626	6,809
	25,513	**27,740**	**34,916**

1 Payroll and related expenses are as follows:

€ in '000	For the year ended December 31,		
	2013	2012	2011
Wages and salaries	9,290	10,476	10,806
Unemployment contributions	753	1,094	1,510
Other social expenses	452	398	86
	10,495	**11,968**	**12,402**

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

35 Gain (loss) on disposal of assets and other income

€ in '000	For the year ended December 31,		
	2013	2012	2011
Impairment investment [1]	(8,254)	–	–
Gain on disposal of investment in companies [2]			16,563
Impairments of investments held for sale	(553)	(632)	(1,007)
Gain from sale of fixed assets [3]	8,038	–	–
Other [4]	(8,178)	(1,058)	4,624
	(8,947)	**(1,690)**	**20,180**

1 Impairment of TGI investment in Watek, for additional information see Note 5C.

2 Refer to Note 5C regarding capital gains (losses) which were recognized due to disposal of assets.

3 During 2013 a subsidiary of TGI, has 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.

4 In 2013 the amount related to impairment of banking license and loan benefit. For additional information see Note 12.

36 Financial income and expenses

€ in '000	For the year ended December 31,		
	2013	2012	2011
Income:			
Income from bank deposits	1,512	2,073	4,383
Revaluation of warrants	2,199	2,497	767
Gain from early repurchase of debentures (refer to Note 24)	–	43,035	3,446
Other	2,474	2,467	1,470
Total financing income	**6,185**	**50,072**	**10,066**
Expenses:			
Interest on long-term loans and borrowings	8,230	10,957	14,158
Interest on debentures	27,327	23,790	22,955
Exchange differences, net	12,096	6,519	2,140
Other	4,150	123	4,480
Total financing expenses	**51,803**	**41,389**	**43,733**

37 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 2012 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.

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

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

Country	Tax rate 2013	Tax rate 2012
Bulgaria	10%	10%
China	25%	25%
Hong-Kong	16.5%	16.5%
Israel	25%	25%
Romania	16%	16%
The Netherlands	20-25%	20-25%

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

€ in '000	For the year ended December 31,		
	2013	2012	2011
Current taxes	7,154	1,375	3,472
Deferred taxes (see also E below)	7,289	(437)	4,856
	14,443	**938**	**8,328**

D The reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:

€ in '000	For the year ended December 31,		
	2013	2012	2011
Accounting profit (loss)	(32,353)	(5,970)	(75,408)
Tax expense (tax benefit) computed at the statutory tax rate	(8,088)	(1,493)	(18,852)
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)	16,625	(3,504)	4,332
Adjustment in respect to tax of previous years	797	108	71
Share of results of investments accounted using the equity method	(2,588)	(35)	396
Non deductible expenses (income) and others, net	4,293	5,379	20,970
Impact of different tax rates	(654)	(183)	(264)
Temporary difference for which no deferred taxes were recognized	3,031	696	1,895
Other	1,027	(30)	(220)
	14,443	938	**8,328**

E Composition of deferred taxes

€ in '000	Consolidated statement of financial position		Recorded in the income statement		
	December 31, 2013	December 31, 2012	Movement for the year ended December 31,		
			2013	2012	2011
Deferred income tax assets (deferred tax liabilities) with respect to:					
Investment properties	(4,664)	(96,624)	(2,200)	(2,596)	(4,136)
Tangible fixed assets	–	273	(273)	–	299
Financial instruments	(7,849)	(25,227)	(1,984)	(960)	(2,733)
Temporary differences in reserves and allowances	(21)	(242)	221	43	(309)
Carry forwards losses available for offset against future taxable income	5,485	15,947	(791)	4,198	1,254
Basis differences in non- current assets	–	2,259	–		–
Differences in measurement basis	956	1,156	(200)	(8)	45
Accelerated depreciation for tax purposes	(1,654)	923	(2,577)	(27)	(100)
Timing differences of projects	(1,639)	(886)	(753)	(462)	607
Non-current assets eliminated for rendering of service among group companies	566	618	(52)	(52)	(19)
Other	221	(489)	1,320	301	236
	(8,599)	**(102,292)**	**(7,289)**	**437**	**(4,856)**

* 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 – for additional information see Note 5C.

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

€ in '000	December 31, 2013	December 31, 2012
Net deferred income tax asset	3,985	18,767
Net deferred income tax liability	(12,584)	(121,059)
	(8,599)	**(102,292)**

F Loss carry-forwards and final tax assessments

According to the Group's tax estimates, the accumulated amount of carry forward tax losses amount to approximately €315 million that are available for carry forward between five years and indefinitely.
Based on calculation of future taxable profits forecast, deferred tax asset have been recognized in total amount of €5,485 thousand.

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

38 Earnings per share

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

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

€ in '000	2013	2012	2011
Net profit (loss) attributable to ordinary equity holders of the parent	(101,333)	(32,852)	(149,312)
Effect of dilution of earnings of group companies	(893)	(347)	(1,505)
Effect of dilution of convertibles and options of the Company	–	–	–
	(102,226)	**(33,199)**	**(150,817)**
Weighted average number of ordinary shares for basic earnings per share	110,576	110,420	111,390
Effect of dilution:			
Shares options	–	–	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**110,576**	**110,420**	**111,390**

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, 2013, 2012 and 2011.

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 €55,304 thousand, €26,423 thousand and €41,099 thousand for the years 2013, 2012 and 2011, respectively.

39 Financial instruments and risk management

A Introduction

This Note deals with various disclosures required by IFRS 7 pertaining to risk management. Section B covers the Group as a whole and addresses the following:

1 Risk Management (financial and capital risk management and structuring thereof)
2 Market risk
3 Price risk
4 Political risk
5 Credit risks
6 Interest rate risk including sensitivity analysis
7 Derivatives
8 Liquidity risk including maturity profile of financial assets, liabilities and guarantees
9 Foreign currency risk including sensitivity analysis
10 Fair value disclosures

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

1 Capital adequacy
2 Liquidity
3 Credit risk
4 Indicators of liquidity risk

B The Kardan Group

1 Risk management

Financial risk management

The Group's principal financial instruments, other than derivatives, comprise of bank loans, debentures, convertible liabilities and cash deposits. The main purpose of these financial instruments is to 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 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 1.

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 monitoring risks.

(i) Corporate level

The Executive Management of Kardan NV works closely with risk managers within the Group, and together they have developed functional lines of responsibility and has the overall responsibility for the development of the risk strategy and implementation of principles, frameworks, policies and limits. 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 development affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, Kardan's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (CEE, CIS, China etc.); industry diversification (financial services, real estate, water infrastructure); product diversification (i.e. residential and commercial real estate, 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 operates in the real estate and water infrastructure sectors. 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 home mortgage market in China is not yet sufficiently developed and suffered from government restrictions. Difficulty in obtaining loans on easy terms for purchasing apartments may affect the demand for home units in the projects undertaken by the Group.

The Management of the Company believes that the following factors contribute significantly to its operating success and handling of the above-mentioned risks:

1. Skilled and 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 NV 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 risks

Credit risk is a risk the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk is also applicable for derivatives, financial guarantees and loan commitments. The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, deposits, and other financial assets (including 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 13 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, 2013 and 2012, cash and cash equivalent amounted to €118,268 thousand and €369,110 thousand, respectively, and deposits in banks amounted to €14,427 thousand and €25,832 thousand, respectively (refer to Notes 16 and 17). All deposits are deposited with high rated financial institutions primarily in the countries of operation.

Securities and other credit risk mitigators

The Group employs credit risk mitigators in order to decrease its credit risk, which exists primarily in its financial segment. As of December 31, 2013, credit risk with respect to loans given by Group companies in the banking and retail lending segment, in the amount of €98,914 thousand, is mitigated using pledge of certain assets such as vehicles, real estate and equipment.

Maximum exposure to credit risk

The sum of all financial assets presented in table 10.4 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 on 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 OCI and 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 tables below present the sensitivity of the OCI and the profit and loss (before tax) due to change in EURIBOR and Israeli NIS interest:

The fair values of the derivatives are determined by taking into account the EURIBOR and Israeli NIS interest anticipated future curves.

6.1

€ in '000	2013			
	Effect on OCI *			
	+100%	+50%	-50%	-100%
EURIBOR	–	–	–	–
	+50%	+25%	-25%	-50%
Israeli NIS interest	–	–	–	–

* the effect on OCI is nil as of December 31, 2013 due to the sale of the Company's hedge instruments and due to the sale of GTC SA which held most of the remaining hedge instruments

6.2

€ in '000	2012			
	Effect on OCI			
	+50%	+25%	-25%	-50%
EURIBOR	1,305	653	(653)	(1,305)
	+20%	+10%	-10%	-20%
Israeli NIS interest	(253)	(127)	127	253

2 The tables below present the sensitivity of the consolidated profit (loss) of the Group before tax due to change in interests rates, not including derivatives. The sensitivity analysis regarding derivatives is presented in the tables above. Further a detailed analysis performed by the Company.

6.3

€ in '000	Sensitivity to change in EURIBOR			
	Effect on profit and loss			
	+100%	+50%	-50%	-100%
2013	347	174	(155)	(366)
	+50%	+25%	-25%	-50%
2012	184	92	(93)	(184)

6.4

€ in '000	Sensitivity to change in RMB interest rate			
	Effect on profit and loss			
	+100%	+50%	-50%	-100%
2013	(1,228)	(614)	614	1,228
	+50%	+25%	-25%	-50%
2012	(701)	(350)	350	701

7 Derivatives

7.1 Details of Group companies' hedge transactions are presented as follows:

As of December 31, 2012 the fair value of the derivatives held by the Group amounted to €52,957 thousand, which comprised of €12,895 thousand of a derivative asset (held by Kardan NV) and €65,852 thousand liability (held by GTC SA group companies).

During 2013 and 2012, the Company sold six hedge instruments (Cross currency Swaps). The proceeds from the sales amounted to €64 million (€52 million in 2012 and €12 millions in 2013) and were mainly used to finance the repurchase of the Company's debentures (See Note 24). As a result from the sales, the related hedge reserve in equity amounting to €1 million and €6 million (as of the sale date) in 2012 and 2013, respectively will be released over the remaining term of the debentures. The amounts released during 2013 and 2012 due to the sale of all instruments amounted to €2 million and €3 million, respectively. Due to the sale of cross currency swap financial instruments by the Company during 2013 and 2012, the foreign currency risk exposure increased due to the debentures of the Company, which are denominated in Israeli NIS and linked to CPI. In 2013 the ineffective portion which was recognized in the income statements amounts to €2 million income (2012: €2 million expenses).

Due to the loss of control over GTC SA in February 2013 and the following sale of GTC SA in November 2013 (see also Note 5C) all derivative assets held by GTC SA and its subsidiaries were deconsolidated.

As of December 31 2013, the Company has no material hedge instruments.

Refer to table 10.3 for additional information.

8 Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

To limit this risk, the Group finances its operations through diversified, short-term and long-term credit obtained from the public, institutional investors and from financial institutions. The Group raises financing according to needs and market conditions at that time.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2013 and 2012. 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 actual amortization schedules of the financial liabilities.

For additional information regarding the liquidity risk management with respect to the Company's liquidity position and uncertainties, refer to Notes 1 and 28, respectively.

8.1 Liquidity table 2013:

€ in '000	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
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	34,020	16,369	17,160	145,095
Other debentures	68,108	2,354	100,608	94,931	50,360	138,701	455,062
Other financial liabilities	–	80,573	2,900	667	–	757	84,897
Others	–	1,419	8,378	–	–	–	9,797
	145,560	**279,301**	**148,152**	**129,644**	**66,729**	**156,618**	**926,004**

8.2 Liquidity table 2012:

€ in '000	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Liabilities							
Trade payables	31,882	–	–	–	–	–	31,882
Other payables and accrued expenses	–	86,188	–	–	–	–	86,188
Income tax payable	249	499	–	–	–	–	5,244
Banking customers accounts	25,124	50,838	–	–	–	64	76,026
Interest-bearing loans and borrowings	67,878	155,886	115,217	103,236	96,152	791,488	1,329,857
Other debentures	54,956	126,327	205,209	95,702	92,104	260,015	834,313
Other financial liabilities *	–	–	2,850	8,351	9,939	4,264	25,404
	180,089	**424,234**	**323,276**	**207,289**	**198,195**	**1,055,831**	**2,388,914**

8.3 Contingent liabilities and commitments:

8.3 Breakdown of current commitments and contingent liabilities as of December 31, 2013:

€ in '000	December 31, 2013						
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Financial guarantees	6	238	482	52	14	–	792
Undrawn commitments to lend	9,543	1,142	424	424	377	383	12,293
Total liquidity risk exposure	**9,549**	**1,380**	**906**	**476**	**391**	**383**	**13,085**

Breakdown of current commitments and contingent liabilities as of December 31, 2012:

€ in '000	December 31, 2012						
	0-3 months	4-12 months	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Financial guarantees	48	212	109	68	–	–	437
Undrawn commitments to lend	6,105	2,253	12	84	–	31	8,485
Total liquidity risk exposure	**6,153**	**2,465**	**121**	**152**	**–**	**31**	**8,922**

* In addition to the guarantees presented in the table above, GTC S.A. provided guarantees to third parties in connection with loans and cost overruns of its subsidiaries. As of December 31, 2012, these guarantees amounted to €263 million. As the guarantees are combined (financial and performance) it is impractical to assign them to a specific time bucket.

8.4 Expected realization periods of material financial assets, grouped in accordance to IAS 39 classification:

December 31, 2013

€ in '000	Up to 1 year	1-2 years	2-3 years	3-4 years	Over 4 years	Total
Derivatives	22	–	–	–	–	22
Cash, Loans and receivables	386,795	46,750	31,075	22,825	89,756	577,201
	386,817	**46,750**	**31,075**	**22,825**	**89,756**	**577,223**

December 31, 2012

€ in '000	Up to 1 year	1-2 years	2-3 years	3-4 years	Over 4 years	Total
Derivatives	12,895	–	–	–	–	12,895
Cash, Loans and receivables	605,112	51,379	62,091	21,162	131,682	871,426
	618,007	**51,379**	**62,091**	**21,162**	**131,682**	**884,321**

9 Foreign currency risk
Since the Group conducts business in a variety of countries, it is exposed to a foreign currency exchange rate risk, resulting from exposure to different currencies. The foreign currency exchange rate risk arises from transactions conducted in a currency that is not the functional currency of the relevant company in the Group.

Group companies conduct currency translation transactions at times to hedge the exposure to the foreign currency risk. For additional information refer to section 7.

a Currency exposure – statement of financial position

As of December 31, 2013:

9.1

€ in '000	In Euros	in US Dollars	in NIS (Israeli)	in RMB (Chinese)	in Rub (Russia)	in other curren-cies *	non monetary	Total
Assets								
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
Account 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**
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**

As of December 31, 2012:

9.2

€ in '000	In Euros	in US Dollars	in NIS (Israeli)	in PLN	in RMB (Chinese)	in Rub (Russia)	in other curren-cies *	non monetary	Total
Assets									
Property and equipment	–	–	–	–	–	–	–	69,377	69,377
Investment properties	–	–	–	–	–	–	–	1,565,044	1,565,044
Goodwill	–	–	–	–	–	–	–	36,695	36,695
Investments in associates	96,839	36,367	303	–	–	–	107	101,722	235,338
Long-term receivables	40,183	3,363	2,630	86	66,189	–	31,639	–	144,090
Loans to bank customers	60,795	–	–	–	–	–	–	–	60,795
Derivatives	–	–	–	–	–	–	12,895	–	12,895
Deferred tax assets	–	–	–	–	–	–	–	18,767	18,767
Inventory	–	–	–	–	–	–	–	110,423	110,423
Cost of building in progress	–	–	–	–	–	–	–	171,223	171,223
Accounts receivable	9,843	23,119	11,327	2,032	3,155	–	9,242	–	58,718
Other receivables	13,707	2,219	1,790	10,250	18,043	123	6,208	5,217	57,557
Restricted bank deposits	21,787	1,483	567	–	–	–	1,995	–	25,832
Cash and cash equivalents	215,273	4,295	53,736	51,029	34,041	1,731	9,005	–	369,110
Assets classified as held for sale	147	–	–	–	–	–	1,314	49,378	50,839
	458,574	**70,846**	**70,353**	**63,397**	**121,428**	**1,854**	**72,405**	**2,127,846**	**2,986,703**
Liabilities									
Deferred tax liability	–	–	–	–	–	–	–	121,059	121,059
Interest bearing loans and borrowing	945,505	46,700	8,221	–	54,651	–	3,348	(7,234)	1,051,191
Derivatives	–	–	–	–	–	–	65,852	–	65,852
Warrants and options	2,900	2,546	–	–	–	–	–	–	5,446
Debentures	10,825	–	425,494	237,897	–	–	–	–	674,216
Other long term liabilities	10,963	–	1,882	5,637	–	–	1,811	4	20,297
Other payables and accrued expenses	19,174	213	31,139	37,103	22,577	141	11,981	55,395	177,723
Trade payables	8,639	4,015	1,430	9,005	3,489	–	5,302	2	31,882
Advances from apartment buyers and customers in respect of contracts	–	–	–	–	–	–	–	29,377	29,377
Income Tax payable	2,668	–	–	99	2,423	–	54	–	5,244
Banking customers accounts	67,795	525	–	–	–	–	–	–	68,320
Liabilities directly associated with the assets classified as held for sale	27,596	–	–	–	–	–	491	(619)	27,468
Differences between assets and liabilities	**(637,491)**	**16,847**	**(397,813)**	**(226,344)**	**38,288**	**1,713**	**(16,434)**	**1,929,862**	**708,628**

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:

9.3

€ in '000	Sensitivity to change in EUR\PLN			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2013	–	–	–	–
2012	944	472	(472)	(944)

9.5

€ in '000	Sensitivity to change in EUR\RON			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2013	2,350	1,175	(1,175)	(2,350)
2012	3,014	1,507	(1,507)	(3,014)

9.6

€ in '000	Sensitivity to change in EUR\NIS			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2013	(39,501)	(19,751)	19,751	39,501
2012	(35,592)	(17,796)	17,796	35,592

9.7

€ in '000	Sensitivity to change in EUR\RMB			
	Effect on profit and loss			
	+10%	+5%	-5%	-10%
2013	1,460	730	(730)	(1,460)
2012	3,135	1,568	(1,568)	(3,135)

9.8

€ in '000	Sensitivity to change in Israeli CPI			
	Effect on profit and loss			
	+3%	+2%	-2%	-3%
2013	(11,888)	(7,911)	7,911	11,888
2012	(12,087)	(8,122)	8,122	12,087

10 Fair value disclosure:

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

10.1 Fair value schedule

€ in '000	Methods of determining fair value	Carrying amount 2013	Carrying amount 2012	Fair value 2013	Fair value 2012	Comment
Assets						
Cash and cash equivalents		118,268	369,110	118,268	369,110	A
Short-term investment		14,427	25,832	14,427	25,832	A
Loans to bank customers	(2)	98,914	60,795	100,871	70,620	F
Long-term loans and receivables		116,497	144,090	116,497	144,090	G
Loans to associates and Joint ventures		63,512	133,312	63,512	133,312	
Liabilities						
Banking customers accounts	(2)	137,849	68,378	139,855	69,657	H
Debentures	(1)	395,278	692,525	253,770	274,999	B
Interest-bearing loans and borrowings		111,348	1,014,751	111,348	1,014,751	C
Derivatives, net	(3)	273	52,957	273	52,957	E
Other long term liabilities	(3)	3,150	–	3,150	–	
Warrants and options	(3)	4,317	5,446	4,317	5,446	D

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

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

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

Comments regarding determining the fair value:

A The carrying amount of cash and cash equivalents and short-term investments, which only include bank deposits, approximates their fair values, due to the short-term nature of such financial assets. Refer to Notes 16 and 17 for additional information.

B Market price 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 €629 thousand for 2013 and €18,309 thousand in 2012.

C As of December 31, 2012 the majority of the Group loans bear floating interest rates (of which the majority was hedged). Therefore, the fair value of the loans which is related to the floating component of the interest equals to the market rate. As of December 31, 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 26 for reconciliation of short term credit from banks and others.

D Warrants, options and certain long-term liabilities were valued by independent external valuators. 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. In 2012, derivatives were externally and internally valued. Based on parameters such as the prevailing interest rate curves, exchange rates, projected inflation rates etc.

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, credit worthiness 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 2013, the related current maturities are in the amount of €29,735 thousand. In 2012, the related current maturities in the amount of €43,008 thousand are included. In determining that the carrying value was approximates the fair value management considered the continuous process for determining whether the value of these financial assets is impaired. Refers to Note 11 for additional information.

H This amount includes both short term and long term bank customer's 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, 2013. The fair value was determined by discounted future cash flows using currently available rates for debt on similar terms. Refer to Note 21 for reconciliation.

I The carrying value of 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

10.2 Fair value levels schedule:

December 31, 2013 € in '000	Level 1	Level 2	Level 3	Total
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)

December 31, 2012 € in '000	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivatives that are designated as hedging instruments	–	–	12,895	12,895
Financial Liabilities at fair value through profit or loss:				
Warrant and Call Option	–	–	(2,546)	(2,546)
Put Option	–	–	(2,900)	(2,900)
Derivatives that are designated as hedging instruments	–	–	(65,852)	(65,852)
Share based payment liability	–	–	(5,584)	(5,584)
Other Liabilities	–	(200)	–	(200)

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

10.3 Level 3 reconciliation:

€ in '000	As of January 1, 2013	Fair Value gain (loss) recorded in P&L	Gains Recorded in other compre-hensive income	Addition	Disposal	As of December 31, 2013	Total gains (losses) for the period included in P&L
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)**

€ in '000	As of January 1, 2012	Fair Value gain (loss) recorded in P&L	Gains Recorded in other compre-hensive income	Addition	Disposal	As of December 31, 2012	Total gains (losses) for the period included in P&L
Derivatives assets	55,902	8,466	682	–	(52,155)	12,895	8,466
Total assets	**55,902**	**8,466**	**682**	**–**	**(52,155)**	**12,895**	**8,466**
Warrants and call options	(4,214)	1,668	–	–	–	(2,546)	1,668
Put Option	(2,900)	–	–	–	–	(2,900)	–
Derivative liabilities	(99,211)	13,035	12,717	–	7,607	(65,852)	13,035
Share based payment liability	(685)	(4,899)	–	–	–	(5,584)	(4,899)
Total liabilities	**(107,010)**	**9,804**	**12,717**	**–**	**7,607**	**(76,882)**	**9,804**

10.4 IAS 39 classification of financial assets and liabilities:

€ in '000	December 31, 2013	December 31, 2012
Financial assets:		
Cash, Loans and receivables	538,638	853,699
Derivatives that are designated as hedging instruments	22	12,895
	538,660	**866,594**
Financial Liabilities:		
Financial liabilities presented at amortized cost	763,957	2,007,994
Financial liability through P&L	3,150	–
Derivatives that are designated as hedging instruments	273	65,852
Put option	667	–
Call option	3,650	5,446
	771,697	**2,079,292**

Section C: Banking and retail lending

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)

€ in '000	2013	2012
Tier 1 capital	15,561	8,352
Tier 2 capital	–	–
Total capital	**15,561**	**8,352**
Risk-weighted assets	**112,843**	**54,659**
Tier 1 capital ratio	13.79%	15.28%
Total capital ratio	13.79%	15.28%

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 (ie. 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.

€ in '000	2013	2012
Cash and cash equivalents (excluding cash on hand)	59,827	28,895
Deposits in banks	3,122	313
Balances with central banks	15,546	6,399
Loans and advances to clients	110,946	95,904
Finance leases	26,238	28,806
Other loans and long-term receivables	13,853	15,682
Other receivables	6,841	5,203
	236,373	181,202
Financial guarantees	792	437
Undrawn commitments to lend	12,293	8,484
	13,085	8,921
Total credit risk exposure	**249,458**	**190,123**

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, 2013:

€ in '000	Loans and advances to clients	Leasing	Others	Total
Romania	105,458	5,405	176	111,039
Bulgaria	122,328	4,721	1,156	128,205
Others	–	–	10,215	10,215
	227,786	**10,126**	**11,547**	**249,459**

Risk concentration of the maximum exposure to credit risk as of December 31, 2012:

€ in '000	Loans and advances to clients	Leasing	Others	Total
Romania	40,253	19,052	165	59,470
Bulgaria	97,728	10,319	1,197	109,244
Others	–	–	21,409	21,409
	137,981	**29,371**	**22,771**	**190,123**

(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 % of the carrying amount of the loans per type of portfolio as of December 31, 2013 and excluding the effects of overcollateralization, is the following:

	2013	2012
Net investment in finance leases	84%	85%
Bank loans granted	14%	23%
Other loans and long-term receivables	16%	23%

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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

Repossessed collateral

During 2013 TBIF repossessed assets (vehicles, machinery and property) with carrying value as of December 31, 2013 of € 5.7 million (2012 – € 7.2 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.

(v) Credit quality per class of financial assets

The credit quality of financial assets is managed by TBIF's subsidiaries using internal credit ratings. The system of internal credit ratings is applicable to each company in TBIF. High grade is given to assets where the counterparty is a central bank or has a formal high grade rating given by Fitch, Moody's or S&P, e.g. a long-term Fitch rating of A- to AAA. Low grade is given to assets which would be past due or impaired but were renegotiated to avoid that. Standard grade is given to all remaining assets. 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, 2013 – before impairment:

€ in '000	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	–	41,823	–	118,863	160,686
Finance leases	–	14,805	–	23,877	38,682
Other loans and receivables	–	3,066	7,946	6,520	17,532
Other receivables	–	6,792	–	226	7,018
	45,201	**99,780**	**7,946**	**149,486**	**302,413**

Credit quality per class of financial assets as of December 31, 2012 – before impairment:

€ in '000	Neither past due nor impaired				
	High grade	Standard grade	Low grade	Past due/ impaired	Total
Cash in banks	20,709	8,186	–	–	28,895
Deposits in banks	–	313	–	–	313
Balances with central banks	6,399	–	–	–	6,399
Loans and advances to clients	–	51,921	1,508	92,146	145,575
Finance leases	–	12,570	2,329	24,992	39,891
Other loans and receivables	–	8,283	3,494	7,378	19,155
Other receivables	–	5,203	–	–	5,203
	27,108	**86,476**	**7,331**	**124,516**	**245,431**

(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, 2013:

€ in '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**

Aging analysis of past due but not individually impaired loans and receivables as of December 31, 2012:

€ in '000	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to clients	9,555	2,728	1,175	53,010	66,468
Finance leases	4,950	1,716	333	2,294	9,293
Other receivables	–	1,457	291	2,157	3,905
	14,505	**5,901**	**1,799**	**57,461**	**79,666**

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, that would otherwise be past due or impaired

€ in '000	2013	2012
Loans and advances to clients	2,105	1,508
Finance leases	869	2,329
Long-term loans and receivables	4,847	3,494
Total credit risk exposure	**7,821**	**7,331**

The following table presents the amounts of individually impaired assets:

€ in '000	December 31, 2013	December 31, 2012
Loans and advances to clients	60,527	25,678
Finance leases	15,040	15,699
Long-term loans and receivables	6,520	3,473
	82,087	**44,850**

(viii) Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. TBIF addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

TBIF determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with TBIF's overall policy. Financial guarantees and letters of credit are assessed and provision 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.

Maturity analysis of TBIF's assets and liabilities as of December 31, 2013:

€ in '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	6,978	7,806	12,321	2,913	2,739	32,757
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
	130,161	**62,778**	**47,247**	**14,272**	**8,096**	**262,554**
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	**30,415**	**(7,728)**	**42,359**	**12,660**	**8,096**	**85,802**

Maturity analysis of TBIF's assets and liabilities as of December 31, 2012:

€ in '000	0-3 months	4-12 months	1-3 years	4-5 years	Thereafter	Total
Loans and advances to clients	24,907	47,872	28,625	6,694	6,608	114,706
Finance leases	9,705	6,121	13,941	2,535	827	33,129
Other long-term receivables	7,702	549	6,340	186	1,237	16,014
Trade and other receivables	3,049	2,427	–	–	–	5,476
Balances with central banks	6,399	–	–	–	–	6,399
Bank deposits	313	–	–	–	–	313
Cash and cash equivalents	31,115	–	–	–	–	31,115
	83,190	**56,969**	**48,906**	**9,415**	**8,672**	**207,152**
Bank customer accounts	25,124	50,838	–	38	26	76,026
Loans from banks and others	5,075	14,117	14,641	2,437	18,677	54,947
Non-convertible debentures	179	10,816	–	–	–	10,995
Other liabilities	4,754	–	–	–	–	4,754
	35,132	**75,771**	**14,641**	**2,475**	**18,703**	**146,722**
Liquidity gap	**48,058**	**(18,802)**	**34,265**	**6,940**	**(10,031)**	**60,430**

Bank customers accounts, as of December 31, 2013 include on-demand deposit at the amount of €40,813 thousand (December 31, 2012 - €5,519 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 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, 2013:

€ in '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**

Maturity analysis of TBIF's contingent liabilities and commitments as of December 31, 2012:

€ in '000	0-3 months	4-12 months	1-3 years	3-5 years	Total
Financial guarantees	48	212	177	–	437
Undrawn commitments to lend	6,105	2,253	96	30	8,484
Total	**6,153**	**2,465**	**273**	**30**	**8,921**

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

Ukraine unrest

Subsequent to the balance sheet date, the economic and political uncertainty in the Ukraine increased significantly. As a result, the Ukrainian Hryvnia devalued against major foreign currencies, the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market and International rating agencies have downgraded sovereign debt ratings for Ukraine.

These and any further negative developments in the Ukraine could adversely impact the results and the financial position of the Group in a manner is currently not determinable. Due to the Group's exposure in the country in the form of an investment in a joint venture (Avis Ukraine – refer to Note 9) and a loan in the carrying amount of €2.8 million, management has been closely monitoring the political developments in the Ukraine. The Company has not received any information after the balance sheet date that led it to conclude that the carrying amount is not recoverable.

40 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, 2013:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Trade receivables	14	–	1,186	–
Other receivables and prepayments	15	123	743	–
Loans and long term assets (including current maturities)	8,9	5,681	57,782	–
Other payables and accrued expenses	27	–	10,052	328

As of December 31, 2012:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Trade receivables	14	–	1,332	–
Other receivables and prepayments	15	–	2,098	–
Loans and long term assets (including current maturities)	8,9	43,543	89,764	–
Other payables and accrued expenses	27	–	11,502	–
Interest-bearing loans and borrowings (including current maturities)	26	–	11,844	–

B Transactions

For the year ended December 31, 2013:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Management fee, net	–	–	1,830	–
General and administrative expenses	34	(385)	–	1,173
Finance income	36	431	601	–
Finance expenses	36	–	72	–

For the year ended December 31, 2012:

€ in '000	Note	Associates	Joint ventures	Fellow subsidiaries
Management fee, net	–	–	1,696	–
General and administrative expenses (Income)	34	–	–	1,241
Finance income	36	2,078	1,712	–
Finance expenses	36	–	355	–

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

2. In May 2013, the Company has extended the services agreement, with its former subsidiary, Kardan Israel. The Company will pay for services rendered an amount of approximately €117.6 thousand per quarter, linked to the Israeli CPI as of May 2013. The agreement is valid for a period of three years starting June 1, 2013.

3. In February 2010, TGI entered into a lease agreement with Kardan Real Estate (a related party) for renting number of offices in Kardan Building in Tel-Aviv, for a period of 60 months (with an option for additional 60 months). Due to the move of TGI to a new location, TGI subleases the offices in the Kardan Building in Tel Aviv to a third party.

C Remuneration to related parties:

Starting May 31, 2012 a one Tier board structure was established in the Company. Below please find the breakdown of the compensation of the Board members of the one Tier structure from May 31, 2012 and the members of the Supervisory Board and Management Board, prior to the establishment of the one Tier Board.

Compensation of Executive management, management board, supervisory board and board of directors of the Company:

1 Fees to Board of Directors from January until December 31, 2013

€ in '000	Short term employee benefits
P. Sheldon	43
A. May	36
M. Groen	32
A. Schnur	26
J. Grunfeld	23
E. Rechter	23
E. Seinstra	27
C. van den Bos	27
	237

2 Fees to Supervisory Board until May 31, 2012

€ in '000	Short term employee benefits January till May 2012
J. Krant	16
I. Fink	10
J. Pomrenze	11
M.I. Groen *	11
A. Schnur *	10
K. Rechter	10
H. Benjamins	11
	79

* see also Table 3 below for fees from June till December 2012.

3 Fees to Board of Directors from June 1, 2012 till December 31, 2012:

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

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

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

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

€ in '000	Short term employee benefits	Post employment pension and medical benefits	Share based payment transaction	Total
E. Oz-Gabber *	83	–	2	85
W.van Damme	96	–	–	96
A. Ickovics	118	–	8	126
A. Shlank	–	–	8	8
J. Slootweg *	109	–	15	124
	406	**–**	**33**	**439**

* see also Table 6 below for fees from June till December 2012.

6. Fees to Executive Management from June 1, 2012 till December 31, 2012:

€ in ‘000	Short term employee benefits	Post employment pension and medical benefits	Share based payment transaction	Total
Shouky Oren *	375	–	229	604
E. Oz-Gabber	117	–	3	120
J. Slootweg	154	222 **	22	398
	646	**222**	**254**	**1,122**

* Mr. Oren is the CEO of the Company and a member of the Board of Directors. The amounts stated in the table are from the start of his employment in February 2012.

** An additional amount of €36 thousand was paid by the company on account of crisis levy tax.

Grant of options and unreleased shares by the Company *:

	No. of options	No. of unreleased shares
J. Slootweg [1]	175,000	27,832
A. Ickovics	–	35,344
A. Shlank	–	31,927
E. Oz-Gabber [2]	100,000	24,656
	275,000	**119,759**

* The unreleased shares are to be held in custody by the Company till the end of the vesting period on January 1, 2014. As of December 31, 2013, the shares have not been allocated yet.

1 following the termination of the employment agreement in 2013, all the options were cancelled, for additional information see also Note 19, in addition, the shares granted to Mr. Slootweg are fully released.

2 For additional information see also Note 19B.

41 Subsequent events

A Subsequent to the balance sheet date, In January 2014, GTC RE signed a financing agreement with the bank for providing a loan in the amount of €33 million. The credit amount bears an interest of 6 months Libor + 5.5%. Most of the credit facility, in the amount of €28 million, will mature in December 2014, and the rest will mature in December 2015.

As security to the loan, the Company pledged shares of KFS and TGI in favor of the bank, GTC RE pledged 51% of the shares of KLC (according to the agreed limitations with the debenture holders, as described in Note 28).

At the date of signing the detailed loan agreement, GTC RE repaid the bank a liability of approximately €8 million.

The financing agreement includes the following main financial covenants:

– The equity attributed to the shareholders of GTC RE will not be less than €150 million and following the first installment of the loan, will not be less than €50 million;

– The equity attributed to the shareholders of Kardan Land China will not be less than €200 million (subject to exchange rate adjustments) and following the first installment of the loan, will not be less than €50 million;

– Until the first installment of the loan, the total equity to balance sheet ratio of Kardan Land China will not be less than 50% and following the first installment will not be less than 30%;

– The equity attributed to the shareholders of TGI will not be less than €90 million (subject to exchange rate adjustments), and the equity to consolidated balance sheet ratio of TGI will not be less than 28%;

– Value of the pledged shares and shareholders loans will be at any time at lease 750% of the liability balance.

2. Subsequent to the balance sheet date, in January 2014, the call option given to Israel Discount Bank to buy back 11% stake in KFS was canceled – see also Note 23.

3. Subsequent to the balance sheet date, on January 12 and February 14, 2014, the Company has early repaid NIS 136,918,906 par value Debentures Series A (net of debentures held by the Company subsidiaries)– for additional information see Note 24.

4. For information regarding an agreement for exercise of options signed after the balance sheet, refer to Note 19.

Company-only Dutch GAAP Financial Statements

Statement of Financial Position

December 31, 2013 – After Appropriation of Net Result

€ in '000	Note	December 31, 2013	December 31, 2012
Assets			
Non-current assets			
Tangible fixed assets		147	156
Intangible assets	3	–	6,508
Investments in subsidiaries	5A	467,937	569,125
Loans to subsidiaries	5C	20	19
		468,104	**575,808**
Current assets			
Cash and cash equivalents	6	16,224	51,237
Short-term investments	7	853	567
Other receivables and derivatives	4	1,109	13,980
		18,186	**65,784**
Total assets		**486,290**	**641,592**
Equity and liabilities			
Equity	8		
Share capital		23,041	23,041
Share premium		208,117	208,165
Property revaluation reserve		34,300	57,802
Other reserves		12,296	8,156
Foreign currency translation reserve		(4,680)	(462)
Non controlling interest holders transaction reserve		21,104	20,128
Treasure shares		(2,786)	(2,847)
Retained earnings (accumulated deficit)		(225,297)	(147,809)
		66,095	**166,174**
Non-current liabilities			
Debentures	9	344,363	408,256
Options and other long term liabilities	10	2,900	2,900
		347,263	**411,156**
Current liabilities			
Current portion of debentures	9	71,238	43,710
Other Payables	12	1,694	20,552
		72,932	**64,262**
Total equity and liabilities		**486,290**	**641,592**

See accompanying Notes.

Company-only Dutch GAAP Income Statement

Year ended December 31, 2013

€ in '000	Note	2013	2012
Net result from investments for the year	5D	(56,931)	(70,456)
Result on purchase of debentures	13	–	40,764
Other income (expense), net	13	(44,402)	(3,160)
Net loss		**(101,333)**	**(32,852)**

See accompanying Notes.

Notes to the company-only Dutch GAAP Financial Statements

December 31, 2013

1 General

The description of the Company's activity and the Group structure, as included in the Notes to the consolidated IFRS financial statements, also apply to the Company-only Dutch GAAP statutory financial statements, unless otherwise stated.

2 Significant Accounting Policies

The Company-only Dutch GAAP statutory financial statements are drawn up in accordance with accounting policies generally accepted in The Netherlands (Dutch GAAP).

In accordance with the provisions of article 362-8 of Book 2 of the Netherlands Civil Code the accounting policies used are the same as those used in the Notes to the consolidated financial statements, prepared under IFRS as endorsed by the European Union.
In accordance with Article 402 of part 9, Book 2, of the Netherlands Civil Code, the company-only Dutch GAAP income statement is presented on a condensed basis, as its income statement is already included in the consolidated IFRS income statement. Investments in subsidiaries are stated at net asset value, determined applying the IFRS accounting policies as described in the consolidated financial statements.

3 Intangible Fixed Assets

a Intangible fixed assets include other intangibles created in various transactions. The movement is as follows:

2013

€ in '000	2013	2012
Balance as of January 1	6,508	8,134
Amortization	(1,085)	(1,626)
Impairment losses	(5,423)	–
Balance as of December 31	**–**	**6,508**

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

€ in '000	2012 Total	Other intangibles	2013 Total
At January 1			
Cost	14,100	–	14,100
Less accumulated amortization and impairment losses	(7,592)	(6,508)	(14,100)
At December 31	**6,508**	**(6,508)**	**–**

€ in '000	2011 Total	Other intangibles	2012 Total
At January 1			
Cost	11,930	–	11,930
Less accumulated amortization and impairment losses	(3,796)	(1,626)	(5,422)
At December 31	**8,134**	**(1,626)**	**6,508**

b The other intangible assets amounted to nil million and €6,508 million as of December 31, 2013 and 2012, respectively, and related to the banking and retail lending segment – for additional information refer to Note 12 to the consolidated financial statements.

4 Derivatives

The derivatives all related to swap transactions on the Company's debentures. Further details of these derivatives are described in Note 39 to the consolidated IFRS financial statements.

€ in '000	2013	2012
Opening balance as of January 1	12,895	55,902
Revaluation of derivatives	(1,261)	9,148
Sale of derivatives	(11,634)	(52,155)
	–	**12,895**

The Company's principal financial instruments, comprise of debentures, and cash deposits. The main purpose of these financial instruments is to raise finance for the Group's operations.

During 2013 and 2012, the Company sold all hedge instrument's (Cross currency Swaps) respectively. The proceeds from the sale amounted to €11,634 and €52,155 thousand in 2013 and 2012 respectively. The proceeds were mainly used to finance the repayment of the Company's debentures and repurchase of the Company's debentures (See Note 24 to the Consolidated IFRS financial statements). As a result from the sale, the related hedge reserve in equity amounts to €1,211 and €5,794 thousand respectively will be released over the remaining term of the debentures. The amounts released during 2013 and 2012 from the mentioned sold hedge instruments amounted to €1,229 and €1,338 thousand 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 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:

€ in '000	2013	2012
Balance as of January 1	569,125	473,336
Investment in a subsidiary (A)	29,743	187,886
Sale of subsidiaries (Emerging investment IX and X)	(37)	–
Purchase of treasury shares (by a subsidiary)	61	–
Change in capital reserves (B)	3,692	(2,584)
Dividend distributed	(84,224)	(20,684)
Share in profit/(loss) of investments for the year	(50,423)	(68,829)
Balance as of December 31	**467,937**	**569,125**

(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 2012, the Company assigned to Emerging Investment XII B.V. (a wholly owned subsidiary of the Company) its loans with Tahal Group International, Kardan Financial Services and GTC Real Estate Holding B.V as a capital contribution– for additional information see section C below.
(B) Primarily relates to foreign currency exchange differences arising on translation of foreign operations.

2 The impact of the treasury shares is as follows:

€ in '000	2013	2012
Gross investment in subsidiaries, as of December 31	470,561	571,810
Treasury shares	(2,624)	(2,685)
Net investment in subsidiaries, as of December 31(*)	**467,937**	**569,125**

* Under Dutch GAAP, the goodwill is presented separately from the investment.

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

	2013		2012	
	Ownership %	Total value € in '000	Ownership %	Total value € in '000
Names of significant subsidiaries				
GTC Real Estate Holding B.V.	100	267,007	100	311,954
Kardan Financial Services B.V.	100	29,230	100	41,109
Tahal Group International B.V. (*)	98.4	47,490	97.7	46,327
Emerging Investments XII B.V.	100	124,234	100	169,723
Emerging Investments X B.V.	100	–	100	18
Emerging Investments IX B.V.	100	–	100	18
Kardan Asia B.V.	100	(24)	100	(24)
Total investments in significant consolidated subsidiaries (**)		**467,937**		**569,125**

* 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.

C Loans to consolidated 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, 2013 and 2012 the Company has an outstanding loan balance with its subsidiary Emerging Investment XII B.V in the amount of €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, 2013 and 2012, the Company off-set the loan balance against its liability.

The movement in the loans is as follows:

€ in '000	2013	2012
Balance as of January 1	19	287,586
Loans granted to subsidiaries	–	18,000
Loans repaid by subsidiaries	–	(133,632)
Assignment of loans as capital contribution	–	(182,576)
Accrued interest and foreign currency differences, net	1	10,641
Balance as of December 31	**20**	**19**

D Net result from investments for the year

€ in '000	2013	2012
Net profit/(loss) of investments for the year	(50,423)	(68,829)
Impairment losses	(5,423)	–
Amortization	(1,085)	(1,627)
Net result as presented in the income statement	**(56,931)**	**(70,456)**

6 Cash And Cash Equivalents

Cash and cash equivalents comprise mainly short term deposits.
The average interest earned in 2013 on short term deposits is 0.2%-1.5% (2012 - 1%-2%).

7 Short-term Investments

€ in '000	December 31, 2013	December 31, 2012
Pledged deposits	–	567
Trust account	853	–
	853	**567**

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

The pledged deposits (2012) related to security provided for a swap transaction. Following the maturity of the swap in February 2013 and the subsequent sale of the remaining of the swap in July 2013, the pledged deposit was released. For additional information refer to Note 39 in the consolidated financial statements.

In 2013, the average interest rate earned was 0.52% (2012- 1.4%).

8 Dutch GAAP Shareholders' Equity

€ in '000	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Non-controlling interest holders transactions reserve	Retained earnings **	Total
Balance as of January 1, 2013	**23,041**	**208,165**	**57,802**	**8,156**	**(462)**	**20,128**	**(150,656)**	**166,174**
Change in unrealized revaluation reserve	–	–	–	4,142	(4,218)	–	–	(76)
Net profit/(loss) for the period	–	–	–	–	–	–	(101,333)	(101,333)
Shares purchased in consolidated subsidiaries	–	–	–	295	–	1,766	–	2,061
Re-issuance of 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 of:								
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 '000	Issued and paid-in capital	Share premium	Property revaluation reserve*	Revaluation reserve, other*	Foreign currency translation reserve*	Non-controlling interest holders transactions reserve	Retained earnings **	Total
Balance as of January 1, 2012	**23,041**	**208,165**	**52,169**	**5,328**	**6,868**	**18,765**	**(112,171)**	**202,165**
Change in unrealized revaluation reserve	–	–	–	2,541	(7,330)	–	–	(4,789)
Net profit/(loss) for the period	–	–	–	–	–	–	(32,852)	(32,852)
Shares purchased in consolidated subsidiaries	–	–	–	–	–	1,233	–	1,233
Share-based payment	–	–	–	287	–	–	–	287
Expired option plans for shares in a subsidiary	–	–	–	–	–	130	–	130
Reclassification according to requirements (*)	–	–	5,633	–	–	–	(5,633)	–
Balance as of December 31, 2012	**23,041**	**208,165**	**57,802**	**8,156**	**(462)**	**20,128**	**(150,656)**	**166,174**
Comprises of:								
Balance before treasury shares	23,041	208,165	57,802	8,156	(462)	20,128	(147,809)	169,021
Treasury shares	–	–	–	–	–	–	(2,847)	(2,847)
Balance as of December 31, 2012	**23,041**	**208,165**	**57,802**	**8,156**	**(462)**	**20,128**	**(150,656)**	**166,174**

* 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, 2013 and 2012, amounts of €12,345 and €4,662 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:

€ in '000	December 31, 2013	December 31, 2012	Interest rate %
Debentures Series A	135,917	174,840	4.45
Debentures Series B	283,014	281,075	4.9
	418,931	**455,915**	
Less – discount	(2,381)	(2,776)	
Less – debt issuance expenses	(949)	(1,173)	
	415,601	**451,966**	

Maturities:

€ in '000	December 31, 2013	December 31, 2012
First year – current maturities	71,238	43,710
Second year	89,632	83,864
Third year	89,632	83,864
Fourth year	42,107	83,864
Fifth year	42,107	40,154
Sixth year onwards	84,215	120,459
Total	**418,931**	**455,915**

A Repayment of debentures:

In December 2013, the Company early repaid 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).

Subsequent to the balance sheet date, 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).

B Repurchase of debentures 2012

In the second and third quarter of 2012, the Company granted a loan to its fully owned subsidiary GTC Real Estate Holding B.V. (‘GTC RE’) for the sole purpose of purchasing the Company debentures series A and B.

GTC RE purchased NIS 431,237,185 par value Debentures Series A, for a consideration of €77.3 million (approximately NIS 377 million) and NIS 120,222,513 par value Debentures Series B for a consideration of €15.5 million (approximately NIS 76 million). The repurchase resulted in a gain of €43 million which was included as ‘equity earnings’ in the Company’s income statement in 2012.

As part of the loan agreement signed with the lending bank in the third quarter of 2012, GTC RE assigned 466,024,459 par value debentures series A and 168,534,012 par value debentures series B and the related loan to a Company’s fully owned subsidiary Emerging Investments XII B.V.

The Company has a legal right and intention to settle the loan and the payment of the debentures on a net basis, therefore as of December 31, 2013, the Company off-set the loan balance of €120 million (including interest) (2012: €159 million) against its debentures liability.

For further details please refer to Note 24 to the consolidated IFRS financial statements regarding debentures issued by the Company.

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 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 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 loss for the year amounts to €101 million (2012: €32 million), including net result from investments of €57 million losses (2012: €70 million losses), which are not deductable/taxable, due to the Participation Exemption, described above. The Company assumes that the remaining other expenses and income will not result in tax benefits or tax expenses due to the available tax losses from previous years of the Company.

Up to and including 2012 Kardan N.V. has estimated tax losses of €160.6 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 NV 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 €2,100 thousand as of December 31, 2013 (as of December 31, 2012 amounted to 1,511 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

€ in '000	December 31, 2013	December 31, 2012
Accrued expenses (mainly accrued interest on debentures) [1]	1,264	20,107
Others	430	445
	1,694	**20,552**

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 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.

In 2012, other income (expense), net comprise mainly finance expense of €42,183 thousand, management fees income of €1,105 thousand, general and administrative expenses and other income and expenses amounting to €5,683 thousands.

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.

Share based payments and other remunerations to related parties amount to €302 thousands. For additional information refer to note 18 to the consolidated IFRS financial statements.

14 Audit Fees

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

€ in '000	Ernst & Young	Others	Total
2013			
Audit services - Kardan NV	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**

€ in '000	Ernst & Young	Others	Total
2012			
Audit services - Kardan NV	525	–	525
Audit services - Subsidiaries	2,258	42	2,300
Total statutory audit fees	**2,783**	**42**	**2,825**
Other services relevant to taxation	245	65	310
Other non audit services	53	15	68
Total non audit services	**298**	**80**	**378**
Total	**3,081**	**122**	**3,203**

15 Remuneration of Management Board and Supervisory Board, and Board of Directors

The Company's Board received remuneration in 2013 and 2012 as described in note 40 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 28 and 41 respectively of the consolidated IFRS financial statements.

17 Financial instruments and Risk Management

For disclosers required by IFRS 7 regarding financial instruments and risk management, refer to Note 39 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

Other Information

Statutory arrangements in respect of the appropriation of net result

The Articles of Association of the Company provide that the appropriation of the net result for the year is decided upon at the Annual General Meeting of Shareholders.

Proposed appropriation of 2013 result

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

Subsequent events

For subsequent events please refer to Note 40 of the consolidated financial statements.

Independent Auditor's Report

To: The Board of Directors and Shareholders of Kardan N.V.

Report on the statutory financial statements

We have audited the accompanying statutory financial statements for the year ended December 31, 2013 of Kardan N.V., Amsterdam (as set out on pages 114 to 282). The statutory financial statements consist of the Consolidated IFRS Financial Statements and the Company only Dutch GAAP Financial Statements. The Consolidated IFRS Financial Statements comprise the consolidated statement of financial position as at December 31, 2013, 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, 2013, the company only income statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these statutory financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch standards on auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the Consolidated IFRS Financial Statements

In our opinion, the Consolidated IFRS Financial Statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2013, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the Company only Dutch GAAP Financial Statements
In our opinion, the Company only Dutch GAAP Financial Statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2013, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Emphasis of matter with respect to the going concern assumption
We draw attention to Note 1 to the consolidated financial statements which indicates that the Company had, on a stand-alone basis, a working capital deficit of €55 million per 31 December 2013 and that the Company, together with GTC RE, has to repay €28 million in December 2014 and €99 million in February 2015. According to the Company’s plans, these repayments are to be funded by existing cash balances of the Company and the Group holding companies, repayment of certain shareholder’s loans or dividend distributions by some of the Company’s subsidiaries, cash generated through the sale of certain assets, or by raising loans (against pledge of free assets). The realization, the price and the timing of the Company’s plans in relation to the sale of assets, repayment of shareholder’s loans by certain subsidiaries, and raising debt, are uncertain and depend also on factors that are not wholly within the Company’s control and on the willingness of third parties to invest and grant credit. However, the company believes that it will be able to repay its liabilities as they mature in the foreseeable future. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, April 16, 2014

Ernst & Young Accountants LLP

signed by W.P. de Pater

Additional Financial Information

According to Rule 9C of the Israeli SEC

Herewith financial data and separate financial information related to the company-only derived from the consolidated financial statements of the Company as of December 31, 2013 which is published as part of the annual report (herewith – Consolidated Financial Statements), presented according to Rule 9c to the Israeli Securities and Exchange Regulations (Periodic and Immediate Reports), 1970. The main accounting policies that were used for this financial information are described in the notes to the Consolidated Financial Statements. The notes to this financial information are those not included in the notes to the Consolidated Financial Statements.

Additional Financial Information from the Company's Statement of Financial Position

December 31, 2013

€ in '000	Additional information	December 31, 2013	December 31, 2012 *
Assets			
Non-current assets			
Tangible fixed assets		147	156
Financial fixed assets			
Investments in consolidated subsidiaries		467,937	575,633
Loans to consolidated subsidiaries		20	19
		467,957	**575,652**
Current assets			
Cash and cash equivalents	2	16,224	51,237
Short-term investments	3	853	567
Other receivables	4	1,109	13,980
		18,186	**65,784**
Total assets		**486,290**	**641,592**
Equity and liabilities			
Equity attributable to equity shareholders			
Share capital		23,041	23,041
Share premium		208,117	208,165
Property revaluation reserve		34,300	57,802
Other reserves		12,296	8,156
Foreign currency translation reserve		(4,680)	(462)
Non controlling interest holders transaction reserve		21,104	20,128
Treasury shares		(2,786)	(2,847)
Accumulated deficit		(225,297)	(147,809)
		66,095	**166,174**
Long-term liabilities			
Debentures		344,363	408,256
Warrants		2,900	2,900
		347,263	**411,156**
Current liabilities			
Current maturities of debentures		71,238	43,710
Other payables		1,694	20,552
		72,932	**64,262**
Total equity and liabilities		**486,290**	**641,592**

* Restated – see Note 2D to the consolidated financial statements.

Additional Information from the Company's Income Statement

€ in '000	For the year ended December 31,		
	2013	2012 *	2011 *
Net result from investments for the year	(56,931)	(70,456)	(125,297)
Gain from repurchase of debentures by a subsidiary	–	40,764	–
Total revenues	**(56,931)**	**(29,692)**	**(125,297)**
General and administrative expenses, net	3,982	5,396	5,321
Other expenses, net	–	–	315
Total expenses	**3,982**	**5,396**	**5,636**
Loss from operations before financing expenses	(60,913)	(35,088)	(130,933)
Financing income (expenses), net	(37,177)	1,419	(16,494)
Income tax expense (benefit)	3,243	(817)	1,885
Loss for the year	**(101,333)**	**(32,852)**	**(149,312)**

* Restated – see Note 2D to the consolidated financial statements.

Additional Information from the Company-only Statement of Comprehensive Income

€ in '000	For the year ended December 31,		
	2013	2012 *	2011 *
Loss for the year	**(101,333)**	**(32,852)**	**(149,312)**
Foreign currency translation differences	(4,218)	(7,330)	190
Change in hedge reserve, net	4,142	2,541	(753)
Unrealized revaluations, net of tax	–	–	(1,419)
Other comprehensive income (expense) for the year to be reclassified to profit or loss in subsequent periods	(76)	(4,789)	(1,982)
Total comprehensive income (expense)	**(101,409)**	**(37,641)**	**(151,294)**

* Restated – see Note 2D to the consolidated financial statements.

Additional Information from the Company-only Cash Flow Statement

€ in '000	For the year ended December 31,		
	2013	2012 *	2011 *
Cash flow from operating activities of the Company			
Loss for the year	(101,333)	(32,852)	(149,312)
Adjustments to reconcile Loss to net cash of the Company			
Change in fair value of hedge instruments	(1,510)	(9,992)	12,447
Financial expense	19,495	7,589	30,240
Dividend received	75,474	20,681	–
Gain from early repurchase of debentures	–	(40,764)	–
Share-based payment	276	287	–
Equity losses	56,931	70,456	125,297
Changes in working capital of the Company			
Change in receivables	22	877	549
Change in payables	(821)	(474)	772
Cash amounts paid and received during the year			
Interest paid	(20,256)	(28,549)	(26,232)
Interest received	151	3,000	1,946
Net cash provided by (used in) operating activities of the Company	**28,429**	**(9,741)**	**(4,293)**
Cash flow from investing activities of the company			
Short term investments, net	(286)	4,992	1,638
Collecting (granting) of loans from (to) subsidiaries, net	–	69,030	(18,290)
Investments in subsidiaries	(24,127)	(11,310)	(16,534)
Proceeds from sale of investee companies	–	–	41,447
Net cash provided by (used in) investing activities of the Company	**(24,413)**	**62,712**	**8,261**
Cash flow from financing activities			
Investment in shares of a subsidiary	(126)	–	(3,158)
Dividend distributed	–	–	(3,917)
Repurchase of debentures	–	(76,387)	–
Proceeds from sales of hedge instruments	11,634	52,155	44,790
Repayment of long term debt	(50,537)	(5,756)	(23,464)
Net cash provided by (used in) financing activities of the Company	**(39,029)**	**(29,988)**	**14,251**
(Decrease) / increase in cash and cash equivalents of the Company	**(35,013)**	**22,983**	**18,219**
Cash and cash equivalents at beginning of the period	51,237	28,254	10,035
Cash and cash equivalents at end of the period of the Company	**16,224**	**51,237**	**28,254**

* Restated – see Note 2D to the consolidated financial statements.

** Non Cash material transaction: In Q4 2012 the Company transferred to Emerging Investment XII B.V. (its wholly owned subsidiary) all of the shareholder's loans it granted to Tahal Group International, Kardan Financial Services and GTC Real Estate Holding B.V. for additional information see note 5 to the consolidated financial statements.

Notes to the Additional Information

1 Financial State

As at December 31, 2013 the Company had, on a stand-alone basis, a working capital deficit of €54,746 thousand, which is mainly due to the current maturities of the Company's debentures. In addition, in 2013 the Company incurred a loss attributable to the equity holders in the amount of €101,333 thousand, which resulted in a decline in equity attributable to equity holders to €66,095 thousand. The Company also reported negative consolidated cash flows from operations of €40,399 thousand in 2013.

In the months December 2013, January and February 2014, the Company repaid the second installment and interest of debentures series A, and the first installment and interest of debentures series B, totaling €102 million (including interest) and a bank loan and liability in an amount of €109 million using the proceeds from the sale of the investment in GTC SA, repayment of shareholder's loans and receipt of a bank loan in the amount of €33 million by GTC RE (for additional information refer to note 5C and 41 to the consolidated financial statements). After the repayment the cash balance of the Company (stand alone) amounts to €3 million.

The Company's consolidated financial statements as of December 31, 2013 have been prepared under the assumption that the Company will continue as a going concern. This is based, among others, on the Company's current cash balances and the estimated cash flow that will derive from the sale of assets and/or repayment of shareholder's loans or dividend distribution by some of the Company's subsidiaries.

The Company, together with GTC RE, has prepared a liquidity analysis for the next two years as of the balance sheet date, which addresses the required liquidity for the Company to be able to repay the principle and interest of debentures (series A and B) in February 2015 in the total amount of €99 million, the abovementioned bank loan for an amount of €28 million in December 2014, and its other liabilities and to finance its operations.

The repayments are likely to be funded mostly by cash to be generated through the sale of certain assets, including the sale of investments in shares of certain subsidiaries, by raising loans (against pledge of free assets) and / or repayment of certain shareholder's loans and dividend distribution by some of the Company's subsidiaries. In this context it should be noted that the Company is engaged directly and through its subsidiaries in a number of negotiations – in various stages – regarding materialization of such assets. The proceeds from the realization of these above mentioned plans will serve the Company within the limitations of the agreements reached with the debentures holders and with Discount Bank, as disclosed in Note 28 and 41 to the consolidated financial statements.

The realization, the price and the timing of the Company's plans in relation to the sale of assets, repayment of shareholder's loans by certain subsidiaries and raising debt are uncertain and depend also on factors that are not wholly within the Company's control and on the willingness of third parties to invest and grant credit. The Company believes that, the value of its total assets remains considerably higher than its total liabilities, and in light of the current indications regarding the ability to realize a sale of assets and/or obtain credit in the required timeframe, it will be able to realize its plans and that it will be able to repay its liabilities as they mature in the foreseeable future.

2 Cash and Cash Equivalents

€ in '000	December 31, 2013	December 31, 2012
EURO	14,651	1,930
NIS	1,563	49,290
USD	10	17
	16,224	**51,237**

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 2012 (in 2012 – 1%-2%).

3 Short-Term Investments

€ in '000	December 31, 2013	December 31, 2012
Pledged deposit	–	567
Deposit in a trust account	853	–
	853	**567**

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 pledged deposit in 2012 relates to security provided for a loan and certain swap transactions.
In July 2013, the Company sold its swap contract.
The net proceeds from the sale amounted to €8,726 thousands. Following the sale the pledged deposit was released.

The average interest earned in 2013 and 2012 was 0.52% and 1.4% respectively.

4 Other Receivables

€ in '000	December 31, 2013	December 31, 2012
Interest receivable from subsidiaries	563	398
Derivatives	–	12,895
Other	546	687
	1,109	**13,980**

5 Details of material financial assets in accordance with IAS 39

€ in '000	December 31, 2013	December 31, 2012
Financial assets:		
Loans to subsidiaries	20	19
Derivatives	–	12,895
Receivables	1,109	1,085
Short term investments	853	567
Cash and cash equivalents	16,224	51,237
	18,206	**65,803**

6 Expected realization periods of material financial assets and liabilities grouped in accordance with IAS 39 classifications:

Financial assets as of December 31, 2013

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

Financial assets as of December 31, 2012

€ in '000	Up to 1 year	1-2 years	2-3 years	Total
Cash and short term Investments	51,804	–	–	51,804
Loans and receivables	1,085	–	–	1,085
	52,889	**–**	**–**	**52,889**

Financial liabilities as of December 31, 2013

€ in '000	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
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

Financial liabilities as of December 31, 2012

€ in '000	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Debentures *	63,980	108,043	103,894	98,137	53,682	149,463	577,199
Payables	1,342	–	–	–	–	–	1,342
Put Option	–	–	2,900	–	–	–	2,900
Total	**65,322**	**108,043**	**106,794**	**98,137**	**53,682**	**149,463**	**581,441**

* 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

€ in '000	December 31, 2013	December 31, 2012
Debentures held by subsidiary	22,760	24,774
The largest amount of loans and current debts during the year	300,482	326,744
Collaterals in favor of investee companies *	7,620	18,350

* Collaterals are in respect of loans undertaken by subsidiaries.

B Transactions with investee companies

€ in '000	December 31,		
	2013	2012	2011
Management fees	992	1,105	1,238
Guarantee fees	71	89	354
General and administrative expenses	552	635	(728)
Financial income	–	10,622	12,311

9 Additional information

2013

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
Subsequent to the balance sheet date, on 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.

2012

a Repurchase of Kardan NV 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 the consolidated income statement.

As of the balance sheet date, the Company holds through its subsidiaries NIS 403,868,452 par value Debentures Series A (which represent 47.5% of the par value of Debentures Series A) and NIS 161,823,493 par value Debentures Series B (which represent 12.6% of the par value of Debentures Series B).

b Off-set of financial instruments

In the second and third quarter of 2012, the Company granted a loan to its fully owned subsidiary GTC Real Estate Holding B.V. ('GTC RE') for the sole purpose of purchasing the Company debentures series A and B. As part of the loan agreement signed with the lending bank in the third quarter of 2012, GTC RE assigned 466,024,459 par value debentures series A, 168,534,012 par value debentures series B and the loan assigned to the debentures to the Company fully owned subsidiary Emerging Investment XII B.V. The Company has a legal right and intention to settle the loan and the payment of the debentures on a net basis, therefore as of December 31 2012, the company off-set the loan balance of €159 million (including interest) against its liability.

During 2012, Emerging Investment XII B.V. distributed dividend in the amount of EUR 21 million.

Board of Directors

P. Sheldon

S. Oren

A. May

M. Groen

A. Schnur

Y. Grunfeld

E. Rechter

E. Seinstra

C. van den Bos

Glossary

AGM
Annual General Meeting of Shareholders

Annual Report
The Board Report and the Statutory Financial Statements combined

Articles
The articles of association of Kardan N.V.

Audit Committee
The audit committee of the Board of Kardan N.V

Board
The board of directors of Kardan N.V.

Board Member
Member of the Board

BOO
Build Operate Own: a term used with respect to a license agreement for water facilities
After construction, the ownership of the facility remains with the constructor

BOT
Build Operate Transfer: a term used with respect to a license agreement for water facilities.
After construction and exploitation,
the ownership of the facility is handed over to the client. The average tenure of a license is approximately 25 years

CEE
Central and Eastern Europe

CEO
Chief executive officer of the Company and executive member of the Board, Mr. Shouky Oren

CFO
Chief financial officer of the Company and member of the executive management of Kardan, Mrs. Einat Oz-Gabber

Chairman
Chairman of the Board, Mr. Peter Sheldon

Code
Dutch Corporate Governance Code adopted on December 9, 2003, as amended per January 1, 2009

Company
Kardan N.V.

Committee
A committee of the Board

COSO
Committee of Sponsoring Organizations of the Treadway Commission. COSO 1 has served as guidance for the risk management framework

Debentures
Debentures Series A and Series B issued by Kardan N.V., listed on the Tel Aviv Stock Exchange

delivered/handed-over
Residential apartments are usually handed-over / delivered approximately 18-24 months after they have been sold. Only at the moment that an apartment is handed-over / delivered will the selling price be recognized as revenue in the income statement

Diversification
The strategy to diversify our activities over various countries and sectors in order to decrease risks

Effluent
Wastewater – treated or untreated – that flows out of a treatment plant

EGM
Extraordinary General Meeting of Shareholders

ESG
Environmental and Social Governance

Executive Management
Senior officers of the Company who support the CEO in executing his duties

Financial Statements
The formal report of the financial results of a business

General Meeting of Shareholders
The corporate body representing the shareholders of Kardan

GLA
Gross Leasable Area; a term used to indicate the total floor space of real estate, which includes all the common areas

GTC RE
GTC Real Estate Holding B.V., a wholly owned subsidiary of Kardan N.V.

GTC SA
Globe Trade Centre S.A., the Central & Eastern European real estate company in which Kardan N.V. held 27.75% until November 2013 GTC SA is listed on the Warsaw Stock Exchange (Poland), www.gtc.com.pl

IAS
International Accounting Standard

IFRS
International Financial Reporting Standards. Kardan N.V. reports its financial results according to these standards

Kardan Group
Kardan and all its group companies as defined in article 2:24b of the Dutch Civil Code

Kardan
Kardan N.V.

KFS
Kardan Financial Services B.V., a wholly owned subsidiary holding company of Kardan, and 100% owner of TBIF

KLC
Kardan Land China Ltd., the wholly owned subsidiary of GTC RE, active in China in residential real estate and mixed-use projects (retail combined with residential)

LEED
'Leadership in Energy and Environmental Design' is a set of rating systems for the design, construction, operation,
and maintenance of green buildings, homes and neighborhoods and is developed by the U.S. Green Building Council (USGBC)

Mixed-use
Real estate projects in which retail centers are combined with residential apartments

NRA
Net Rentable Area: the actual square footage of the tenant's space

Platform
A head quarter of a division or a regional management office of a division

RAS-Committee
The remuneration, appointment and selection committee of the Board of Kardan

SEE
South Eastern Europe

SOHO
Small office home office apartments. This term is used by KLC to reflect residential apartments with a business appropriation

Tahal Assets
The business unit of Tahal Group International which focuses on developing water assets such as wastewater, water treatment and water supply plants

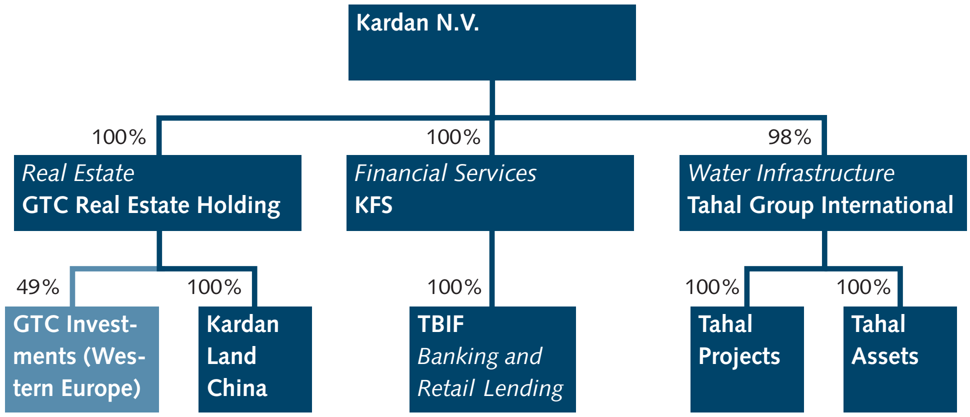
Tahal Projects
The business unit of Tahal Group International which focuses on water and irrigation projects mainly in emerging and frontier markets

TBIF
TBIF Financial Services BV, the wholly owned banking and retail lending business unit of KFS

TGI
Tahal Group International B.V., a 98% subsidiary of Kardan N.V.

Tier 2/3
In respect of China: cities that are considered less developed than the four tier-1 (Bijing, Shanghai, Guangzhou and Shenzhen) cities
The tier-2 and tier-3 cities are considered to be the fast growing cities which are most impacted by the urbanization

Organogram Kardan N.V. (April 2014)



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