34. Financial risk management objectives and policies

Financial Risk Factors

The Group's activities give rise to a variety of financial risks, including foreign exchange, interest rate, credit and liquidity risks. The Group's overall risk management programme focuses on the volatility of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group as a whole.

Foreign Exchange Risk

Group exposure to exchange rate risk derives primarily from existing or expected cash flows denominated in currencies other than the euro (imports / exports) and from international investments. This risk is addressed in the context of approved policies.

FX risks are managed using natural hedges and FX forwards. Borrowings are denominated in the same currency as the assets that are being financed (where feasible), therefore creating a natural hedge for investments in foreign subsidiaries whose equity is exposed to FX conversion risk. Thus, the FX risk for the equity of Group subsidiaries in the USA is partially hedged by concluding dollar-denominated loans.

Exceptions to this are Turkey, Egypt and Albania, where Group investments are in Turkish Liras, Egyptian Pounds and Albanian Lek, whereas part of the financing is in Euro and US dollar in Turkey, in Euro in Albania, and in Euro and in Yen in Egypt. This issue is re-examined at regular intervals.

Specifically, the financing in Yen in Egypt has been hedged with forward exchange contracts US dollar - Yen, that are renewed every semester and exercised by the Group's subsidiary Iapetos LTD. As of December 31, 2012, the fair value of the forward exchange contract was recorded as a liability of €1,294 thousand in the statement of financial position.

Moreover, the Group's subsidiary Titan America LLC entered into borrowings of €100 mil. in 2009 and €53.5 mil. in the first semester of 2012 from Titan Global Finance. At the same time, Titan America LLC also entered into forward foreign currency exchange contracts with three third- party financial institutions. The transactions were undertaken in order to hedge the foreign currency risk (€/$) associated with the Euro denominated borrowing. At the inception of the hedge relationships, Titan America LLC formally designated the hedges as a cash flow hedges and documented the risk management objective and strategy for undertaking the hedges. The hedges are assessed to be highly effective.

The above mentioned instruments were initially recognized at fair value on the effective date of the contract, and are being subsequently remeasured at fair value. As of December 31, 2012, the fair value of the derivative contracts was recorded as a liability of €10,909 thousand (31.12.2011: €12,002 thousand) in the statement of financial position. As these derivative instruments have been designated as a cash flow hedge, any gains or losses arising from changes in fair value of the derivatives are recognized in the statement of comprehensive income as a separate component of equity. Consequently, as of December 31, 2012 a net unrealized loss of €524 thousand and a deferred tax asset of €204 thousand was recognized.

The following table demonstrates the sensitivity of the Group's profit before tax and the Group's equity to reasonable changes in the US Dollar, Serbian Dinar, Egyptian Pound, British Pound, Turkish Lira and Albanian Lek floating exchange rates, with all other variables held constant:

34. Financial risk management objectives and policies (continued)

Sensitivity analysis in foreign exchange rate changes

(all amounts in Euro thousands)	Foreign Currency	Increase/ Decrease of Foreign Currency vs. €	Effect on Profit Before Tax	Effect on equity
Year ended 31 December 2012	USD	5%	-3.795	22.634
		-5%	3.433	-20.478
	RSD	5%	924	2.060
		-5%	-836	-1.864
	EGP	5%	3.993	37.727
		-5%	-3.613	-34.134
	GBP	5%	22	181
		-5%	-19	-164
	TRY	5%	622	2.507
		-5%	-563	-2.268
	ALL	5%	-477	2.441
		-5%	431	-2.209
Year ended 31 December 2011	USD	5%	-4.734	26.749
		-5%	4.283	-24.201
	RSD	5%	772	2.410
		-5%	-698	-2.180
	EGP	5%	6.558	44.228
		-5%	-5.934	-40.016
	GBP	5%	34	170
		-5%	-31	-153
	TRY	5%	58	979
		-5%	-52	-885
	ALL	5%	-374	1.852
		-5%	338	-1.675

Note: a) Calculation of "Effect on Profit before tax" is based on year average FX rates; calculation of "Effect on Equity" is based on year end FX rate changes b) The above sensitivity analysis is used on floating currencies and not on fixed.

Interest Rate Risk

A percentage of 37% of the total Group debt is based on fixed, pre-agreed interest rates and an additional 15% of the floating debt has been become fixed based on pre-agreed interest rate spreads. Thus, the Group receives interest based on floating rate and pays interest based on fixed rate. As a result, the impact of interest rate volatility is minor in the period profits and cash flows of the operating activities of the Group, as it is shown in the sensitivity analysis table below:

Sensitivity analysis of Group's borrowings due to interest rate changes

(all amounts in Euro thousands)		Interest rate variation	Effect on profit before tax
Year ended 31 December 2012	EUR	1,0%	-2.819
		-1,0%	2.819
	USD	1,0%	1.464
		-1,0%	-1.464
	TRY	1,0%	-54
		-1,0%	54
	BGN	1,0%	-282
		-1,0%	282
	EGP	1,0%	-638
		-1,0%	638
	ALL	1,0%	-328
		-1,0%	328
Year ended 31 December 2011	EUR	1,0%	-5.261
		-1,0%	5.261
	USD	1,0%	-2.236
		-1,0%	2.236
	TRY	1,0%	-
		-1,0%	-
	BGN	1,0%	-345
		-1,0%	345
	EGP	1,0%	-
		-1,0%	-
	ALL	1,0%	-330
		-1,0%	330

Note: Table above excludes the positive impact of interest received from deposits.

34. Financial risk management objectives and policies (continued)

The ratio of fixed to floating rates of the Group's net borrowings is determined by market conditions, Group strategy and financing requirements. Occasionally interest rate derivatives may also be used, but solely to ameliorate the relevant risk and to shift the ratio of fixed/floating rates, if that is considered necessary.

Specifically, Titan Cement Company S.A. borrowed €100 mil. under floating rates from Titan Global Finance in early 2011. Titan Cement Company S.A. then entered into floating to fixed interest rate swaps of €100 mil. notional with five financial institutions, where the Company receives floating rate and pays fixed. The transaction was undertaken in order to hedge the interest rate risk associated with the floating part (1month EURIBOR) of the Euro denominated borrowing. At the inception of the hedge relationship, Titan Cement Company S.A. formally designated the hedge as a cash flow hedge and documented the risk management objective and strategy for undertaking the hedge. The terms of the interest rate swaps have been negotiated to match the terms of the Euro Loan and the hedge was assessed to be highly effective.

The derivative financial instrument was initially recognized at fair value on the effective date of the contract, and is being subsequently re-measured at fair value. As of December 31, 2012, the fair value of the derivative contracts of €4,589 thousand (31.12.2011: €4,546 thousand) was recorded as a liability in the statement of financial position. As this derivative instrument has been designated as a cash flow hedge, any gains or losses arising from changes in the fair value of the derivative are recognized in the statement of comprehensive income as a separate component of equity. Consequently, as of December 31, 2012 an unrealized loss of €43 thousand was recognized. As already mentioned, if the interest rate swaps included in the calculation of the fixed rate debt, the percentage of the fixed rate debt to the total Group's debt would be 52%.

In addition, Titan Cement Company S.A. has an interest rate swap amounting to €30 mil. since 2009, which is recognized as fair value hedge. As of December 31, 2012, the fair value of the derivative contracts was recorded as a liability of €1,286 thousand (31.12.2011: €1,278 thousand) in the statement of financial position. The valuation's result of €605 thousand of the above mentioned derivative was recorded as finance expense in the income statement of the year 2012.

Interest rate trends and the duration of the Group's financing needs are monitored on a forward looking basis. Consequently, decisions about the duration and the mix between fixed and floating rate debt are taken on an ad-hoc basis.

Credit Risk

The Group has no significant concentrations of credit risk. Trade accounts receivable consist mainly of a large, widespread customer base. All Group companies monitor the financial position of their debtors on an on going basis.

When considered necessary, additional collateral is requested to secure credit. Provisions for impairment losses are made for special credit risks. At the end of the year 2012, it is deemed that there are no significant credit risks which are not already covered by insurance as a guarantee for the credit extended or by a provision for doubtful receivables.

Credit risk arising from counterparties' inability to meet their obligations towards the Group as regards cash and cash equivalents, investments and derivatives, is mitigated by pre-set limits on the degree of exposure to each individual financial institution. These pre- set limits are part of Group policies that are approved by the Board of Directors and monitored on a regular basis.

As of 31 December 2012, the Group's cash and cash equivalents were held at time deposits and current accounts . Note 21 includes an analysis on cash & cash equivalents.

Liquidity risk

Liquidity is managed by employing a suitable mix of liquid cash assets and long term committed bank credit facilities. The Group monitors on a monthly basis the ratio of s un-utilized long term committed bank credit facilities and immediately available cash over short term debt. At the end of the 2012, the ratio of the Group's committed long term un-utilised facilities and cash over short term debt stood at 4.89 times.

34. Financial risk management objectives and policies (continued)

The table below summarizes the maturity profile of financial liabilities at 31 December 2012 based on contractual undiscounted payments.

(all amounts in Euro thousands)

Group	On demand	Less than 6 months	6 to 12 months	1 to 5 years	>5years	Total
Year ended 31 December 2012						
Borrowings (note 24)	51.531	12.500	119.880	683.758	182.858	1.050.527
Other non current liabilities (note 27)	-	-	-	25.116	-	25.116
Trade and other payables (note 28)	35.739	105.429	26.342	6.874	-	174.384
	87.270	117.929	146.222	715.748	182.858	1.250.027
Year ended 31 December 2011						
Borrowings (note 24)	143.508	64.639	18.654	855.678	67.376	1.149.855
Other non current liabilities (note 27)	-	-	-	20.563	-	20.563
Trade and other payables (note 28)	31.676	120.027	24.750	7.481	-	183.934
	175.184	184.666	43.404	883.722	67.376	1.354.352

Company	On demand	Less than 6 months	6 to 12 months	1 to 5 years	>5years	Total
Year ended 31 December 2012						
Borrowings (note 24)	24.468	-	-	823.256	-	847.724
Trade and other payables	28.573	6.075	823	-	-	35.471
	53.041	6.075	823	823.256	-	883.195
Year ended 31 December 2011						
Borrowings (note 24)	69.442	35.516	-	703.374	-	808.332
Trade and other payables (note 28)	29.655	6.444	6.211	-	-	42.310
	99.097	41.960	6.211	703.374	-	850.642

Borrowings include the floating and fixed rate outstanding principal at year end plus accrued interest up to maturity.

The amounts that are described as "on demand", they are short-term uncommitted facilities.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its operations and maximize shareholder value.

The Group manages its capital structure conservatively with the leverage ratio, as this is shown from the relationship between net debt and EBITDA.

Titan's policy is to maintain leverage targets in line with an investment grade profile. During 2012, the Group reduced its level of net debt by €112,1 mil.

The Group monitors capital using net debt to EBITDA ratio. The Group includes within net debt, interest bearing loans and borrowings, less cash and cash equivalents.

	Group		Company	
(all amounts in Euro thousands)	**2012**	**2011**	**2012**	**2011**
Long term borrowings (note 24)	705.227	815.095	741.950	620.360
Short term borrowings (note 24)	174.636	226.564	24.468	104.692
Debt	**879.863**	**1.041.659**	**766.418**	**725.052**
Less: cash and cash equivalents (note 21)	284.272	333.935	35.601	29.478
Net Debt	**595.591**	**707.724**	**730.817**	**695.574**
Profit before interest, taxes, depreciation and amortization (EBITDA)	**195.838**	**244.058**	**37.675**	**40.883**