Shikun & Binui Ltd.
Directors' Report on the State of the Company's Affairs
For the Period Ending on June 30, 2011

Translated from the Hebrew Original

The Board of Directors of Shikun & Binui Ltd. ("the Company") is honored to present the financial statements of the Company for the period ended June 30, 2011.

1. The Corporation and its business environment

A. General

The Company and its investees ("Shikun & Binui Ltd. Group") operate in Israel and overseas in the following industries: roadwork and infrastructure contracting; construction contracting; various areas of real estate, including: the purchase, design, improvement, and development of property; the sale of property with and without buildings; holdings in and rental of income-producing properties; investment and operations in the fields of renewable energy, particularly thermal solar energy; water treatment using facilities for improving and desalinizing water; and concessions in projects, mainly in the infrastructure sector, as well as other activities that are connected to or complement the Company's aforementioned spheres of activity.

The Group's operations in Israel focus on development of residential and non-residential real estate, construction and infrastructure contracting projects, infrastructure and construction projects financed by the private sector instead of government financing, and renewable energy and water treatment projects. Overseas, the Group operates mainly in Western countries, East Africa, Central America, Central and Eastern Europe, and Western Asia, where it engages primarily in infrastructure contracting, the maintenance and renting of income-producing properties, and residential housing development. The Company also has investments in the solar energy industry in Spain.

The Company conducts its activity in each sector according to the sustainability principle, which mandates the integration of economic, environmental, and social considerations in management and decision-making processes. The Group's human resources policy supports its business strategy, placing as the focus of its activity the inculcating of the Group's vision (sustainability) and its values among all of the Group's employees in Israel and abroad. New and advanced infrastructure has been developed for assimilating suitable human capital and training it in order to solidify a strong new organizational culture.

B. Group spheres of activity

The Group's activities are carried out in the following five spheres of activity (through seven operating segments, as listed in Part 2 of this report):

- **Infrastructure** – mainly through Shikun & Binui – S.B.I Infrastructures Ltd. and its subsidiaries (overseas) and Shikun & Binui – Solel Boneh (Building and Infrastructure) Ltd. (in Israel).

Shikun & Binui – S.B.I. Infrastructures Ltd. has more than 53 years of experience in overseas infrastructure development, mainly in Africa, Central America, Central Europe and Western Asia. Shikun & Binui – S.B.I. Infrastructures currently engages in roadwork, infrastructure, and building contracting in over 10 countries, and is striving to broaden and expand its operations in these countries. Likewise, based on the know-how accumulated in the various countries, the project management capabilities that it has developed, and the long-standing reputation it has acquired, it is working to extend its geographic deployment to neighboring countries and new regions. In 2010, an agreement took effect for a road construction project in Tanzania and a road-building project was begun in Azerbaijan – countries in which the Group had not previously been active.

Shikun & Binui – Solel Boneh (Building and Infrastructure) Ltd. has focused for over 80 years on civil engineering ventures, national transportation and infrastructure projects, and large-scale construction projects. The Company finished 2008 with its first net profit in six years, and this profitability trend of Solel Boneh was sustained in 2009 and 2010. In addition to its technical capabilities, Solel Boneh Building and Infrastructure) Ltd. also has capabilities for independent production of prefabricated components, recycling of building waste, asphalt production, cement plants, special bridge projects, and production of special bridge elements.

The Group's capabilities within and outside of Israel in the field of infrastructure and the management of large projects constitute a basis for expansion of its concession projects; these large-scale projects include substantial BOT and PFI infrastructure projects.

- **Real estate development in Israel and overseas** – mainly through Shikun & Binui Real Estate Ltd. (in Israel) and Shikun & Binui Real Estate Development B.V., and A.D.O. Group Ltd. (overseas).

  Shikun & Binui Real Estate Ltd. operates in Israel. It combines over 50 years of experience in residential housing construction with the application of advanced architectural design, innovative work methods and stringent international standards, while placing special emphasis on green construction standards for creating a sustainable and progressive living environment. Shikun & Binui Real Estate provides a comprehensive package of products and services that ensures a high quality of life and a comfortable residential environment. In the past year, it has positioned itself as a leader of the construction industry in Israel, and construction of most of the buildings commenced since 2009 is consistent with Israel Green Standard 5281. Shikun & Binui Real Estate is expanding its activities in the key demand areas, while emphasizing green projects, such as its residential project in eastern Netanya (Pure) and the Project of Dreams in Karkur, the first residential project in Israel to be awarded the Green Standard. Shikun & Binui Real Estate also engages in non-residential real estate activities (commercial and office space), intended, inter alia, to generate rental income. In these activities as well, the Company places special emphasis on compliance with green construction standards. Such projects include the planned student dormitories project at Tel Aviv University (a BOT project), the 7th Avenue open-air shopping mall in Beer Sheba, and the Ir Yamim shopping mall in Netanya (not yet completed), in which the design took into account the relevant social and environmental factors, from the design stage through completion and sale of the project.

Shikun & Binui Real Estate Development B.V., which operates in Central and Eastern Europe, mainly in Hungary, Romania, Poland and the Czech Republic, develops residential and non-residential projects for sale or rent. As part of the Company's preparations for the global financial conditions, particularly in the countries in which it operates, the Company cut back its activity two years ago in countries that have not yet recovered from the crisis, and is currently acting to utilize business and investment opportunities in projects in countries where the local economy supports real estate projects, such as Poland and Czech Republic.

On June 9, 2011, business in Germany was transferred from Shikun & Binui Real Estate Development B.V. to A.D.O. Group Ltd. (for further particulars, see Section 1.D of this report). In Germany, A.D.O. Group Ltd. purchases and upgrades residential housing and commercial space designed to generate rental income.

- **Concession** – This sphere includes finance, construction and operation of "mega projects", mainly in infrastructure and construction in Israel and overseas. The Company continues to expand its concession activity in Israel and overseas, which Company management believes has significant growth potential. Company management believes (although there is no certainty that this will be realized, especially in view of the present worldwide difficulties in obtaining financing) that the trend towards bringing the private sector into large-scale infrastructure projects will continue and intensify in the coming years, and that the vast experience of the Group's companies in these fields is likely to help it win additional tenders in this sphere. Among other things, the Company's concession activities include construction and operation of the Trans-Israel Highway Project, including the main segment (opened to traffic in January 2004), and its extensions, and Segment 18 of the highway (opened to traffic on July 20, 2009, about eight months ahead of schedule); construction of the Carmel Tunnels (opened to traffic on November 30, 2010, about five months ahead of schedule); construction, operation, and expansion of the water desalinization facility in Hadera (the desalinization facility commenced operations on January 23, 2010, and its construction, including the expansion, was completed on November 1, 2010); renovation and reinforcement of roads in the North; and construction of the Tel Aviv Courthouse. On January 12, 2011, a jointly-controlled company was awarded a tender to build and provide operating, maintenance and training services for the National Center of the Israeli Police, and the concession agreement was signed on February 16, 2011. The Company continues to compete in tenders of this type in Israel and abroad.

- **Renewable energy**

In the fields of renewable energy, the Company operates through its subsidiary, Shikun & Binui Renewable Energy Ltd., as follows:

Solar-thermal electricity production – the development, financing, construction, and operation of thermal solar projects:

1) A 120-megawatt project in planning stages in Kibbutz Tze'elim in the Negev.
2) On February 13, 2011, the Company, together with Siemens, submitted a bid in an Israeli government tender to finance, build and operate a 110-megawatt thermal solar project in Ashelim. The Company is waiting for the government's answer in this tender.
3) The Company is developing independent technological and engineering capabilities in the thermal solar field.

Production of photovoltaic solar electricity – the development, financing, construction, and operation of projects for the production of photovoltaic solar electricity on rooftops and land in Israel and overseas. In Israel, the Company operates in the framework of an arrangement to build small and medium-sized facilities. In Spain, the Company has a 50% holding in a company that owns a photovoltaic farm with a total capacity of 15 megawatts.

Production of natural gas-based electricity – the development of a project to produce private electricity based on natural gas in the Ashdod industrial zone, using combined cycle technology, with a capacity of 120 megawatts.

Production of electricity based on conventional energy – production of 26 megawatts of high voltage electricity and the sale of this power to the Israel Electric Corporation at a power plant in Ashdod operating on heavy crude – this facility is used as a "peaker," and operates on the basis of availability.

Energy efficiency – The Company has a 25.5% holding in PowerSines, a company operating both in Israel and overseas that utilizes a unique technology for reducing demand for electricity.

Water

In the water and sewage sector, activities include the design, construction, operation, and maintenance of facilities to improve potable water, and the providing of water and sewer infrastructure management services. The Company is also acting to develop additional technological capabilities, and to expand its water treatment activities by building facilities to improve potable water, by designing, building, and operating seawater desalinization facilities.

The Company intends to develop its water sector business mainly by acquiring companies or activities in this sphere in order to create engineering capabilities that will enable it to develop and carry out projects in this field in Israel and abroad.

C. Global economy

Global economic activity continued to slow down in the second quarter.

The level of uncertainty has increased, following the European debt crisis, poor growth figures in the US, prolonging in the discussions for raising the debt ceiling in the US, and expectations of budget cutting, factors expected to have a negative impact on short-term growth. The global economy slowed further after the reporting date, accompanied by concern over a renewal of the crisis.

Euro Bloc

The crisis in Europe continues to affect the financial markets, and to create concern about another crisis.

Beyond the problems in the PIGS countries (Portugual, Ireland, Greece, and Spain), a risk arose of a credit event in Italy, Europe’s third largest economy and one of the G8 countries. A credit crisis in Italy is liable to cause upheaval in the euro bloc, undermine its stability, and affect even a strong economy like Germany, which will be unable to continue providing aid through the European Financial Stability Facility (EFSF) to economies on the scale of Spain and Italy.

US

Growth forecasts in the US were lowered during the second quarter.

Concern exists in the US that, as happened to the Japanese economy, years will ensue with low growth, deflation, and a near-zero interest rate.

A significant event occurred after the reporting date – US government bonds were downgraded to AA+ for the first time in over 60 years, a process that caused instability in the global markets, and also in Israel.

The Israeli economy and the construction industry

According to figures from the Central Bureau of Statistics and the Bank of Israel, economic growth is expected to continue in 2011. albeit at slower pace than in the first quarter of the year. A breakdown of activity by sector shows a moderation of economic growth, caused mainly by a slowdown in the export sectors. According to the Bank of Israel's Companies Survey for the second quarter and a survey and assessment of business trends for June by the Central Bureau of Statistics, economic expansion is expected to continue; it appears, however, that global economic developments and geopolitical developments in Israel are liable to have a negative impact in the future.

Reports by companies and businesses indicate that economic activity continued to expand in the second quarter of 2011, but at a slower pace than in the first quarter – the net weighted balance in the business sector was positive. According to the survey responses, growth was concentrated in the commercial sector and the domestic component of services, while growth in industry was slower than in the preceding quarter. At the same time, employment in economic sectors continued to rise.

The Bank of Israel Research Department projects 4.8% growth in 2011, and predicts that average unemployment for the year will dip slightly below 6.0% (compared with 6.6% in 2010). Inflation in the next four quarters (starting in the third quarter of 2011) is projected to decline to 2.9%, and to remain within the target range in 2012. The Research Department predicts that the prime interest rate will rise gradually to 3.9% in the second quarter of 2012. According to the forecast, higher prices (and an interest rate hike) during the coming year will contribute to a further rise in housing rents, and the high level of commodities and energy prices is expected to persist during the year.

In addition, after the reporting date, the Bank of Israel updated its inflation forecast for the next 12 months to 2.9%, and predicted that the prime rate would rise to an average of 3.4% in the third quarter of the year (the forecast as of the reporting date was 3.25%), and to 4.0% within a year.

In the labor market, the number of unemployment compensation claims fell continuously in the first six months of 2011, reaching an average rate of 5.7%, lower than in the second half of 2010.

The construction industry

According to figures from the Central Bureau of Statistics and the Bank of Israel compiled from reports by construction companies, the volume of construction work rose slightly in the second quarter, owing to an increase in the construction of buildings. The survey indicated a continuation of the significant rise in output prices in the sector.

The construction companies survey also indicated that the duration of construction of buildings had risen. At the same time, the shortage of employees with expertise continued to worsen, in addition to a rise in land prices, whose increase had moderated since the beginning of the year. According to the companies' reports, an increase in activity in the sector in the third quarter is possible.

Mortgage interest rates continued to rise in all instruments in the second quarter, due, among other things, to the Bank of Israel's recent interest rate hikes.

Residential construction

According to figures from the Central Bureau of Statistics, demand for new apartments dropped 21% between the first and second quarters of 2011, and by 7% in the second quarter of 2011, compared with the second quarter of 2010.

As of the end of the second quarter of 2011, the supply of new apartments for sale rose 14%, compared with the preceding year. According to Central Bureau of Statistics figures, demand in the first half of the current year was down sharply, compared with the preceding year, particularly in Kfar Saba (40%), Ashdod (34%), and Petah Tikva (28%).

The Bank of Israel implemented an additional stabilizing measure for mortgages during the second quarter of the year – it restricted the variable interest component to 33% of the mortgage amount. According to Bank of Israel figures, as of the end of the second quarter, the proportion of variable interest mortgages fell to 82%, compared with 85% at the end of the first quarter. The effect of this measure, which was designed to stem the rise in housing prices and reduce the lending banks' exposure to insolvency, is expected to continue in the future. In addition, the Ministry of Finance's taxation measures, enactment of which is expected soon, are affecting some housing purchasers.

Accordng to Bank of Israel figures, the volume of mortgages granted over the past 12 months (July 2010-June 2011) fell for the first time since July 2009.

The annualized rise in housing prices continues to be high, but according to the Central Bureau of Statistics, the rate of increase over the past 12 months fell to 13.7%. The Bank of Israel forecast indicates that the rate of increase in housing prices is likely to slow in 2011.

The interest rate hike, the Bank of Israel's measures affecting mortgages, and the Ministry of Finance's real estate taxation measures are designed to push prices down over the coming year.

The Government Appraiser's data show a moderating trend in housing prices, which rose only 1.6% in the second quarter.

Cities with prominent price rises of 3-4% included Ashkelon, Beer Sheva, Rishon LeZion, and Tel Aviv.

According to the Government Appraiser's data, prices dipped 1% in the second quarter in Ashdod, Jerusalem, Kfar Saba, and Netanya.

A significant dip in housing sales in July-August is emerging.

Non-residential construction

Central Bureau of Statistics and Ministry of Construction and Housing data indicate that non-residential construction investment is stable.

GDP growth in the first half of 2011 is likely to lead to gradual improvement in future price levels, as a result of a reduction in the existing supply.

Investments in infrastructure and roadwork

The volume of actual investment in infrastructure and roads rose in the first six months of 2011.

Continued implementation of this government policy was evident in the second quarter. Tenders were published for Golani Junction (Highways 65/77) and Highway 9, and money was effectively budgeted for continuation of the Highway 531 Project and sections of the Jezreel Valley Railway Project.

The Netivei Israel (Israel Highways) plan was included in the framework of the 2011-2012 budget. This plan has a NIS 27.5 billion designated budget for the purpose of making it possible to meet the government’s targets for development of the Negev and the Galilee.

The Netivei Israel plan includes:

- Development of the network of roads in the North (continuation of Trans-Israel Highway in the direction of Somekh Junction and building a high-speed eastern segment between Yokne’am and the Amiad Junction).
- Construction of a railway route to Carmiel, Afula and Beit She'an.
- Electrification of the National Railway system, purchase of mobile railway equipment, and a southward extension of the Trans-Israel Highway.
- Moving forward the planning for additional projects.

All of the above budgets and plans are likely to change the volume of activity in 2011 and in subsequent years, depending on the amounts actually budgeted.

D. Significant events during and after the reporting period

Dividend distribution to shareholders

On March 28, 2011, the Company's board of directors resolved to distribute a NIS 200 million dividend, constituting NIS 0.4985648 per share of NIS 1.00 par value, based on the Company's issued share capital as of the resolution date. The "com-date" is April 20, 2011, the "ex-date" is April 21, 2011 and the payment date is May 3, 2011.

The total dividend included in the statement of changes in capital includes the dividend net of the dividend attributed to the Company’s shares held by a consolidated company.

Vacating of the temporary injunction in the project to build the Israel Police National Training Center

Pursuant to Note 36A to the Company's 2010 financial statements regarding its winning the tender published by the State of Israel to build the Israel Police National Training Center ("the Center"), and the Jerusalem District Court's issuing of a temporary injunction against implementation of the agreement relating to the tender, the Jerusalem District Court vacated its temporary injunction on April 10, 2011, and dismissed the motions for an interim order by the third parties that had filed a petition against the consolidated company's win in the tender.

Let it be noted that the Court has not yet ruled on the petition against the consolidated company's win in the tender, which is still being heard by the Court.

Options to managers

On April 28, 2011, the Chairman of the Board exercised 3,391,698 of the Company’s options. 1,337,679 ordinary shares of the Company were allocated to her, which she sold shortly after the exercise date.

On April 28, 2011, the Company's CEO exercised 3,765,891 of the Company’s options. 1,897,590 ordinary shares of the Company were allocated to him, which he sold shortly after the exercise date.

In addition, several Group employees exercised insignificant numbers of options during the reporting period.

For additional details, see Notes 34G(1), 34G(2), and 28C to the Company's 2010 financial statements.

The A.D.O. transaction

On June 9, 2011, the Company completed a transaction with A.D.O. Group Ltd. – a company listed for trading on the Tel Aviv Stock Exchange Ltd. ("A.D.O."). As part of this transaction, the Company invested a total of NIS 189 million in shares, a loan that will be converted into A.D.O. shares, and options to purchase shares issued to it by A.D.O. This transaction involved, and was combined with, a transaction for the sale of companies in Germany and loans granted to those companies that were held by the consolidated company to a foreign company held by A.D.O. For further particulars, see Note 36D to the Company's 2010 financial statements.

Following the transaction, the Company holds 48% of A.D.O.'s share capital (not including dilution for the loan that will be converted into A.D.O. shares and options). The company included 56% of A.D.O.'s profit in its financial statements (under assumptions of dilution for the loan that will be converted into A.D.O. shares).

Before the transaction, the Company had a joint controlling interest with A.D.O. in the above-mentioned companies in Germany. With the completion of the transaction, the Company exercises a significant influence in A.D.O.

With the transition of the Company from joint control of the companies in Germany to significant influence in A.D.O., the Company posted a profit on revaluation of the companies in Germany to their fair value and the sale of the loans granted to those companies at the price reflected by the A.D.O. share price on the date on which the above-mentioned transaction was implemented. As a result, the Company posted an NIS 82 million profit in its financial statements, which was included in the "Miscellaneous Operating Revenue" item in the profit and loss statement.

Negotiations to allocate shares in Carmelton end without results

Carmelton, which the Group jointly controls with a 50% holding, was in negotiations for the allocation of 10% of its share capital to a third party unrelated to the Company and the other shareholders in Carmelton.

The negotiations ended with no agreement between Carmelton and the third party.

Buyback of bonds

During June 2011, the Company carried out a buyback of Series 1 bonds, purchasing bonds with a total par value of NIS 20,224,000, at an overall cost of NIS 25,967,000 (including the cost of the purchase). The Company posted a NIS 2,874,000 loss on these bonds for the reporting period, which was included under the financing expenses item in its profit and loss statement.

Extension of the agreement for building a road in Nigeria

In July 2011, subsequent to the reporting date, the consolidated company contracted an agreement with the Nigerian government in an appendix to an existing agreement to increase the scope of the consolidated company's work in the PORT HARCOURT

EKET Highway project in Nigeria. Work on the project includes an additional two-lane route, renovation of an existing road, and construction of a bridge over the Imo River between segments of the road in Nigeria. The contract extension is worth $190 million, and the total amount of the contract following the extension is $420 million. The work included in the agreement to extend the contract is expected to take place in 2011-2013.

Suspension and rescinding of the suspension of the rates in the Alameda Project in Spain

Pursuant to the content of Note 18.A.9 to the Company's 2010 financial statements concerning the Company's investment in Gilatz (a company jointly controlled by the consolidated company that develops photovoltaic solar energy facilities in Spain, and which is reported in the Company's financial statements according to its balance sheet value), Gilatz, the owner of a project in Spain known as the Alameda project ("the Project"), received notice from the National Energy Commission in Spain ("the Commission") on May 4, 2011 that the Commission had decided to temporarily suspend payment of the special rate granted to the project for the electricity it sells. The suspension was due to the Commission's preliminary conclusion that its examination had failed to provide proof that the project was fulfilling the conditions entitling it to the special rate granted to the project under Royal Order 661/2007 ("the special rate").

Based on a legal opinion that it obtained, Gilatz made a €6.5 million provision in its first quarter profit and loss statement for a decline in value. The consolidated company's share of the loss, which totaled €3.25 million (NIS 16 million), was included during the reporting period under the "share of losses of investee companies handled according to the balance sheet value" item in the profit and loss statement.

Like other companies, Gilatz contacted the Commission and claimed that the project had fulfilled the conditions entitling it to the special rate. As a result, on July 25, 2011 and July 26, 2011, subsequent to the reporting date, all the companies through which the Alameda project is owned received notice that the suspension of the special rate for these companies had been rescinded, and that these companies were irrevocably entitled to the special rate. Notice that the suspension had been rescinded and that eligibility had been restored constitutes grounds for canceling the loss from a decline in the value of the project, whose book value had been written down due to the notice of suspension of entitlement to the special rate, as stated above. Since notice that the suspension had been rescinded was received after the reporting date, this assessment will take place in the third quarter of 2011.

Bond issue

On August 3, 2011, subsequent to the reporting date, the Company issued bonds as an extension of its Series 4 bonds. Proceeds from the issue totaled NIS 193 million. See Section 7 of this report for further details.

Exercising of first refusal rights by Derech Eretz

Pursuant to the content of Note 18.A.6.a.3 to the Company’s 2010 financial statements, On August 14, 2011 Derech Eretz Highways (1997) Ltd., a company of which the Company has joint control (“Derech Eretz”) notified the State of Israel that it was exercising its first refusal rights to purchase the State’s rights in certificates of participation in Derech Eretz. These certificates confer the right to receive 49% of the payments to be transferred by Derech Eretz to its owners. The first refusal rights were exercised at a total cost of NIS 1.394 billion. This transaction reflects a value for the Company’s holdings that is higher than their NIS 75 million book value (a value based on transactions conducted in Derech Eretz in December 2010). This higher value is not reflected in the Company’s financial statements. Given the high price set for the certificates of participation, the Company has decided to refrain from participation in financing their purchase (even though its available resources are expected to suffice for this purpose). The Company holds 50% of Derech Eretz’s share capital, while the Israel Infrastructure Fund holds the other 50%. The Company’s handling of its Derech Eretz holding assumes full dilution of the State’s above-mentioned rights, and the Company accordingly included 25.5% of Derech Eretz’s profits in it financial statements.

In order to exercise the above-mentioned first refusal rights, a limited partnership managed by the Israel Infrastructure Fund will provide all the financing that Derech Eretz requires. As a result, subject to completion of the exercise of the first refusal rights by Derech Eretz, limited partnerships managed by the Israel Infrastructure Fund will hold 74.5% of the rights in Derech Eretz, while the Company will hold 25.5% of these rights. The Company will continue its joint control of Derech Eretz, together with the Israel Infrastructure Fund, given the still valid joint control agreement between them.

2. Business results

Operating segments of Shikun & Binui are:

- Overseas infrastructure and construction – includes construction, roadwork and infrastructure contracting outside of Israel carried out through Shikun & Binui S.B.I. Infrastructures Ltd.
- Infrastructure and construction in Israel – includes construction, roadwork and infrastructure contracting in Israel carried out through Shikun & Binui Solel Boneh (Building and Infrastructure) Ltd.
- Real estate development in Israel – carried out through Shikun & Binui Real Estate Ltd.
- Overseas real estate development – carried out through Shikun & Binui Real Estate Development B.V. and A.D.O. Group Ltd.
- Renewable energy – carried out mainly through Shikun & Binui Renewable Energy Ltd.
- Water – carried out mainly through Shikun & Binui Water Ltd.
- Concessions – includes concession activities in Israel carried out directly and through affiliates: Derech Eretz Highways (1997) Ltd., Carmelton Group Ltd., H2ID Ltd., Policity Ltd., and a group of operational companies engaged in concession projects. These activities are also carried out through Shikun & Binui – Northern Routes Ltd.
- Other – includes the Company's holdings in operations that are not part of its core business; most of these were sold as part of the process of focusing on core operations.

For additional information, see Note 6 to the Company's financial statements.

A. Revenues from projects and sales

	For the Six Months Ending on June 30		For the Three Months Ending on June 30	
	2011	2010	2011	2010
	NIS Millions		NIS Millions	
Overseas infrastructure and construction	1,439	1,282	763	666
Infrastructure and construction in Israel	710	671	362	365
Real estate development in Israel	503	310	202	146
Overseas real estate development	2	3	1	2
Renewable energy	42	37	23	16
Water	18	27	9	15
Concession	145	-	82	-
Adjustments	(193)	(60)	(106)	(28)
Consolidated total	2,666	2,270	1,336	1,182

Revenues from projects and sales in the first six months of 2011 totaled NIS 2.666 billion, compared with NIS 2.270 billion in the corresponding period last year. The main changes that occurred in the first six months of the year, compared with the corresponding period last year, are as follows: an increase of NIS 193 million in the real estate development in Israel segment, in which revenues from the sale of homes are recognized when the homes are handed over to the customer, not when they are actually sold. During the first six months of the year, the Company handed over more homes than last year (in the first six months of the year, 324 housing units were handed over, compared with 184 housing units handed over last year, for which revenues were recognized in the corresponding period last year). Furthermore, this segment posted growth in revenues from the sale of plots and land (proceeds of NIS 87 million from sales in Kiryat Ono, Ashkelon, Kfar Saba, Tzur Hadassah, and Pardes Chana, compared with proceeds from sale of plots and land totalling NIS 79 million in Ramat Aviv, Ir Yamim, and Tzur Hadassah last year).

In the overseas infrastructure and construction segment, revenues increased by NIS 157 million. This segment's revenue increase was driven by the expansion of activities in countries in which the Company operates. Note that changes in the shekel/dollar exchange rate have an offsetting effect on growth in overseas revenues; were it not for the dollar rate falling below last year's rate, revenue growth in this segment would have been NIS 99 million higher. In the infrastructure and construction in Israel segment, there was an increase of NIS 39 million, and a further increase of NIS 145 million in the concessions segment, driven by the start of BOT projects – renovation and maintenance of roads in the North.

Revenues from projects and sales totaled NIS 1.336 billion in the second quarter of 2011, an increase of NIS 154 million, compared with the corresponding quarter last year. The principal changes from the corresponding period last year were a NIS 97 million rise in the overseas infrastructure and construction segment, a NIS 56 million increase in the real estate development in Israel segment, and an NIS 82 million rise in the concessions segment, driven by the start of a BOT project – renovation and maintenance of roads in the North.

B. Gross profit

	For the Six Months Ending on June 30		For the Three Months Ending on June 30	
	2011	2010	2011	2010
	NIS Millions		NIS Millions	
Overseas infrastructure and construction	347	277	176	145
Infrastructure and construction in Israel	49	39	23	23
Real estate development in Israel	216	128	93	62
Overseas real estate development	(18)	-	(18)	-
Renewable energy	10	7	6	4
Water	4	6	2	4
Concession	2	-	1	-
Adjustments	(7)	(3)	(3)	(1)
Consolidated total	603	454	280	237
	=====	=====	=====	=====

Gross profit in the first six months of the year totaled NIS 603 million, compared with a total of NIS 454 million in the corresponding period last year. The gross profit margin in this period was 23%, compared with 20% in the corresponding period last year. The NIS 149 million increase in gross profit (33%), compared with the corresponding period last year, was driven by the real estate development in Israel segment (NIS 88 million), due mainly to the revenue growth in this segment, compared with to the corresponding period last year, the constant increase in home prices, and the overseas infrastructures and construction segment, which had growth of NIS 70 million, compared with the corresponding period last year. Among other things, the rise in the gross profit rate in the overseas infrastructure and construction segment was due to the obtaining of final accounting and approval of exception claims, which contributed to additional proceeds and high profits. Note that were it not for the decrease in the exchange rate of the dollar, compared with last year, the gross profit would have been NIS 24 million higher. Furthermore, growth of NIS 10 million was posted in the infrastructure and construction in Israel segment. On the other hand, provision was made for a drop in the value of land for a residential housing project in Hungary, which caused an NIS 18 million decrease in gross profit in the overseas real estate development sector.

Gross profit in the second quarter was NIS 279 million, up NIS 42 million, compared with the corresponding quarter last year. This rise was due to the overseas infrastructure and construction segment (NIS 31 million) and the real estate development in Israel segment (NIS 31 million), offset by an NIS 18 million decrease in gross profit in the overseas real estate development caused by a provision for a write-down in value, as stated above.

C. General and administrative expenses

In the first six months of the year, general and administrative expenses totaled NIS 165 million, an increase of NIS 20 million compared with the corresponding period last year (NIS 145 million). Most of the change was due to the increase in expenses for tenders in which the Company competed in Israel and overseas. Additional growth in expenses was due to expenses for renewable energy development.

General and administrative expenses in the second quarter totaled NIS 85 million, up NIS 12 million, compared with the corresponding quarter last year.

D. Miscellaneous operating income (expenses), net

This income totaled NIS 75 million in the first half of 2011, compared with net miscellaneous operating expenses of NIS 14.6 million in the corresponding period last year. The key income and expenses included in this item were as follows:

	For the Six Months Ending on June 30		For the Three Months Ending on June 30	
	2011	2010	2011	2010
	NIS Millions		NIS Millions	
Profit from revaluation of an investment in an associated company (1)	82.2	-	82.2	-
Loss on the sale of fixed asset	(0.6)	(0.3)	0.3)	(0.6)
Profit (loss) on the sale of consolidated companies	2.0	(5.6)	2.0	(5.6)
Impairment loss on assets, net	(2.3)	(1.6)	(1.2)	-
Provision for doubtful balances	-	(3.6)	-	(3.6)
Expenses for streamlining plan	(0.3)	(0.6)	(0.3)	(0.6)
Miscellaneous, net	(5.1)	(2.9)	(4.5)	(0.6)
	75.9 -	(14.6)	77.9	(11)

(1) See also Section 1.D of this report.

E. Operating income

	For the Six Months Ending on June 30		For the Three Months Ending on June 30	
	2011	2010	2011	2010
	NIS Millions		NIS Millions	
Overseas infrastructure and construction	284	216	143	133
Infrastructure and construction in Israel	17	7	6	6
Real estate development in Israel	181	96	72	51
Overseas real estate development	59	(6)	62	(2)
Renewable energy	(8)	(5)	(1)	(1)
Water	(5)	(7)	(4)	(6)
Concessions	(7)	(1)	(6)	-
Miscellaneous	-	(2)	-	(2)
Adjustments	55	56	25	26
Total according to activity segments	576	354	297	185
Expenses of all segments	(70)	(64)	(33)	(31)
Total operating income	506	290	264	154
	====	====	====	====

Operating income in the first six months of 2011 totaled NIS 506 million, up NIS 216 million, compared with the corresponding period last year. The increase was driven mainly by the increase in operating income in the real estate development in Israel segment (NIS 85 million) and from a NIS 68 million increase in operating income in the overseas infrastructure and construction segment, driven mainly by the expansion of overseas operations and a NIS 65 million rise in the overseas real estate development segment, caused by revaluation of the investment in associated companies in Germany (see also Section 1.D of this report for further details). A NIS 10 million increase in the infrastructure and construction in Israel segment was also posted.

Operating income totaled NIS 264 million in the second quarter of 2011, up NIS 110 million, compared with the corresponding quarter last year. Most of the change was due to a NIS 64 million increase in the overseas real estate development segment, a NIS 30 million rise in the overseas infrastructure and construction segment, and a NIS 21 million increase in real estate development segment in Israel.

F. <u>Net financing costs</u>

Net financing costs totaled NIS 89 million in the first six months of 2011, compared with NIS 60 million in the corresponding period last year. Financing costs related to long-term credit totaled NIS 168 million in the first six months of the year, compared with NIS 107 million in the corresponding period last year. Most of the costs for long-term credit were affected by the change in the rate of increase in the CPI, which rose 2.16% in the reporting period, compared with a 0.4% rise in the corresponding period last year, thereby increasing these expenses. On the other hand, an offsetting effect of NIS 28 million was recorded for the increase in financing income deriving from loans granted to affiliates, most of which were also affected by the change in the rate of increase in the CPI.

Net financing costs totaled NIS 50 million in the second quarter, compared with NIS 48 million in the corresponding period last year. Since the increase in the CPI was similar in the second quarter (1.27%) to the increase in the corresponding quarter last year (1.3%), no significant change in the volume of net financing costs occurred.

G. Taxes on income

Tax expenses totaled NIS 88 million in the first six months of 2011, compared with NIS 66 million in the corresponding period last year. Tax expenses in Israel were NIS 16 million higher than in the same period last year, due to the increase in the earnings of Shikun & Binui Real Estate Ltd. Additionally, overseas tax expenses were NIS 6 million higher than in the corresponding period last year, due to the increase in income overseas.

Tax expenses totaled NIS 39 million in the second quarter of 2011, compared with NIS 36 million in the corresponding quarter last year.

H. Income of investees, net

The Company's share of the results of affiliates in the first six months of 2011 amounted to a NIS 35 million loss, compared with a NIS 9 million profit in the corresponding period last year. The change of NIS 44 million was due to losses recognized by an affiliate engaged in the production of electricity in Spain (our share was NIS 16 million) – for additional details see Section 1.D of this report - and the increase in losses is attributable to the effect of the revaluation of the State's option on the results of Derech Eretz (the Company's share was NIS 19 million). The Company's share of the results of affiliated companies totaled NIS 4 million in the second quarter, the same as in the corresponding period last year.

I. Net profit for the period

Net profit totaled NIS 293 million in the first six months of 2011, up 70%, compared with the NIS 172 million in the corresponding period last year

Net profit totaled NIS 171 million in the second quarter of 2011, up 160%, compared with NIS 66 million in the corresponding period last year.

3. Orders backlog

As of June 30, 2011, the Company's orders backlog in the construction and infrastructure contracting sphere totaled NIS 8 billion, of which NIS 6 billion ($1.8 billion) was for overseas activity. At the end of last year, the orders backlog totaled NIS 8.8 billion, of which NIS 6.6 billion ($1.9 billion) was for overseas activity.

A drop in the shekel/dollar exchange rate accounted for a NIS 235 million drop in the orders backlog. Subsequent to the reporting date, a consolidated overseas infrastructure and construction company won a $190 million contract. See also Section 1.D of this report for further details.

4. Housing sales

The Company (excluding the share of partners in joint projects) sold 335 housing units in the first six months of 2011, compared with 426 housing units sold in the corresponding period last year. Proceeds from housing sales totaled NIS 472 million in the first half of the year, compared with NIS 537 million in the corresponding period last year.

Sales according to years were as follows:

	Housing Units Sold	Sales Excluding VAT NIS Millions	Average Housing Unit Price NIS Thousands
January-June 2010	426	537	1,261
April-June 2010	186	249	1,339
January-June 2011	335	472	1,409
April-June 2011	162	219	1,352

5. Liquidity and financing sources

- Cash flows used for current activities in the first six months of 2011 totaled NIS 247 million, compared with NIS 271 million from current activities in the corresponding period last year. Cash flows from current activities in the first six months of 2011 were used mainly for an investment in BOT projects. The change from the corresponding period last year was due primarily to land purchases and investments in BOT projects, and to slower debt collection and advances from overseas customers, as a result of the elections that took place in several overseas countries in which the Company operates.
- Cash flows used for investment activities were used mainly to redeem NIS 251 million in pledged deposits used to repay short-term credit in this quarter, offset by an amount used by the Company mainly for NIS 244 million in fixed asset investments, primarily to support the growth in overseas infrastructure activity. Cash flows from investment activities totaled NIS 26 million in the first six months of 2011, compared with NIS 139 million used by the Company in the corresponding period last year.
- Cash flows used by the Company in financing activities totaled NIS 356 million in the first six months of 2011, compared with NIS 181 million in the corresponding period last year. In the first six months of 2011, the Company repaid NIS 264 million of credit (mostly for the above-mentioned redemption of pledged deposits), bought back NIS 26 million in bonds, and paid NIS 108 million in interest, while mobilizing NIS 251 million in credit. On the other hand, in the same period of last year, the Company repaid a total of NIS 315 million in credit and paid NIS 83 million in interest, while obtaining NIS 332 million in credit.

As of June 30, 2011, the Company's working capital totaled NIS 157 million, compared with NIS 954 million at the end of 2010. The Company had balances of cash and cash equivalents totaling NIS 768 million and an unutilized credit facility of NIS 911 million.

	Debentures and Credit from Banks and Others	Cash and Cash Equivalents	Short and Long-Term Deposits and Loans	Net
	NIS Millions			
Overseas infrastructure and construction	15	437	16	(438)
Infrastructure and construction in Israel	4	198	38	(232)
Real estate development in Israel	741	99	319	323
Overseas real estate development	251	18	5	228
Renewable energy	54	8	7	39
Water	18	1	4	13
Concessions	198	2	-	196
Company headquarters	2,883	5	8	2,870
Consolidated total	4,164	768	397	2,999

6. Financial position

A. Equity

As of June 30, 2011, equity stood at NIS 886 million, compared with NIS 875 million as of December 31, 2010. The increase in equity is due mainly to NIS 293 million in profits in the first six months of 2011, a NIS 5 million fund for hedging transactions, and imputation of a NIS 6 million benefit for an issue of options to employees and Company officeholders, offset by a NIS 197 million dividend declared for shareholders, a NIS 53 million dividend paid to minority shareholders, and NIS 43 million in foreign currency translation adjustments to the financial statements of foreign subsidiaries (drawn up mostly in dollars and euros).

B. Current assets

As of June 30, 2011, the balance of the Company's current assets totaled NIS 4,342 million. The balance of current assets decreased by NIS 544 million in the first six months of 2011, compared with the end of last year. The main changes derive from a decrease of NIS 590 million in the cash balance (NIS 265 million overseas and NIS 325 million originating in activities in Israel). Bank deposits were down NIS 251 million, most of which was used to repay short-term credit for overseas real estate development activity. a decrease of in The balance of short-term loans and investments dropped NIS 41 million, following the repayment of loans. Short-term loans for investee companies were down NIS 6 million as a result of a NIS 113 million drop caused by the sale to

A.D.O. (an affiliate) of the Company's holdings in affiliates in Germany, to which these loans were granted (see Section 1.D of the report) and a further drop in repayment of loans granted to investee companies (NIS 32 million). On the other hand, NIS 130 million in long-term loans granted to investee concession companies and scheduled for repayment in the near future was reclassified as current assets. Furthermore, accounts receivable (customers) rose NIS 235 million, including NIS 203 million overseas. The rise in overseas accounts receivable (customers) was due mainly to delays in collecting debts from the Nigerian government, caused by the elections held in that country. The balance of inventory of buildings for sale also rose by NIS 72 million. The increase in the inventory of buildings for sale resulted from the use of land in Rehovot (NIS 25 million), an investment in commercial tenders (NIS 30 million), and an investment in construction projects in Kiryat Ono, eastern Netanya, and Givayatim. On the other hand, the inventory of housing in Ir Yamim, Netanya and in Talmei Menashe was down, following the handing over of housing units there to purchasers. Finally, accounts receivable rose NIS 40 million as a result of advances paid to subcontractors.

C. Non-current assets

The Company's non-current investments total NIS 4.253 billion, an increase of NIS 585 million, compared with the end of last year. The main changes derive from a NIS 129 million increase, compared with the end of last year, in the balance of fixed assets, stemming mainly from the purchase of machinery and equipment overseas to support the Company's overseas infrastructure activities. There was also an increase in accounts receivable as a result of concession arrangements totaling NIS 167 million, due to work on the Netivei Hatzafon Project (NIS 155 million) and progress in the student dormitories project in Tel Aviv and the project to build a pneumatic waste removal system in Yavneh (NIS 12 million combined). The inventory of land rose NIS 133 million – NIS 139 million in Israel, offset by a NIS 5 million decrease overseas (most of the decrease derives from erosion in the shekel/euro exchange rate). The increase in properties in Israel is due mainly to land investments in Rosh HaAyin, Tzur Natan and Moshav Galya. Investments in investee companies were up NIS 178 million, mostly as a result of the purchase of 48% of the holdings in A.D.O. for NIS 189 million (see also Section 1.D of the report).

In addition, accounts receivable – loans and deposits were up NIS 44 million. Most of the change resulted from the granting of a loan to the landowners in the project in Hadera in order to clear the land of liens, and from partial payment of betterment tax.

On the other hand, loans to investee companies fell NIS 87 million, mostly owing to the above-mentioned reclassification of NIS 130 million due for repayment in the near future as current assets. Deferred tax assets used for activity in Israel also fell NIS 12 million.

D. Current liabilities

Current liabilities totaled NIS 4.226 billion in the first six months of 2011, up NIS 294 million, compared with the end of 2010. The principal changes are: a NIS 281 million increase in short-term bank and other credit caused by a NIS 271 million rise in current maturities, the reclassification of NIS 130 million in long-term loans to short-term loans, mobilization of NIS 180 in short-term credit in Israel (offset by NIS 300 million in repayment of short-term overseas loans), NIS 131 million in accounts payable – subcontractors, suppliers, and service providers (of which overseas business accounts for NIS 103 million), a NIS 43 million increase in the balance of advances from customers - particularly from housing purchasers in Israel, a NIS 23 million rise in current overseas tax liabilities caused by a higher volume of business, and a NIS 41 million jump in dividends payable that the consolidated company paid to shareholders on July 31, 2011, after the reporting date. On the other hand, accounts receivable – customer orders dropped NIS 219 million, mainly as a result of progress in projects and NIS 249 million in utilization of advances received in overseas projects. Advancers received in the Tel Aviv BOT Courthouse Project in Israel were up NIS 30 million.

E. Non-current liabilities

The main element of this item is debentures issued to institutional investors and liabilities from banks and other lenders, which totaled NIS 3.234 billion as of June 30, 2011, down NIS 239 million, compared with the end of last year. Most of the net decrease is due to changes in current maturities (NIS 271 million), the bond buyback (NIS 26 million - see also Section 1.D of this report), the reclassification of NIS 130 million in long-term loans to short-term loans, offset by the mobilization of NIS 251 million in additional credit – and revaluation of NIS 5.6 million in loans.

Miscellaneous liabilities (for employee benefits, deferred taxes, long-term provisions and surplus losses accrued in affiliates) totaled NIS 248 million, a decrease of NIS 25 million, compared with the end of 2010.

7. Information on debentures

Series 2 - debentures

Issue date	April 18, 2007
Trustee:	Union Bank Trust Company Ltd. 6 Ahuzat Bayit, Tel Aviv The Union Bank Trust Company notified the Company that it had contracted an agreement with Clal Trust Finance 2007 Ltd., under which Clal Trust 2007 Ltd. would assume the role of trustee for this series.
Par value on the issue date:	NIS 1,000,000,000
Balance of outstanding par value:	NIS 600,000,000 (in March 2010, 400,000 par value from Series 4 was replaced)
Balance of outstanding par value, revalued according to the linkage terms:	NIS 700,862,487
A linked interest rate of 5.2%, accrued interest amount as of 30/6/2011	NIS 7,288,970
Market value of NIS 1 par value as of 30/6/2011:	1.2441

The principal is scheduled for repayment in four equal installments on April 18th of each of the years 2012 through 2015 (inclusive).

The interest is paid twice a year, on April 18th and October 18th of each year, until the final repayment of the debentures (April 18, .2015).

Debentures (Series 2) were rated A2 by Midroog and were classified as long-term.

The interest and principal are linked to the consumer price index of March 2007, which was published on April 15, 2007 (98.9).

Under the terms of the debentures, several instances were specified in which the trustee would be entitled to call in the unsettled balance of the debentures for immediate repayment. These include non-payment of any amount within seven business days of the relevant payment date, an appointment of a receiver for the Company that is not be cancelled within 30 business days, the downgrading of the debentures below an A3 rating by Midroog or (A-) by Maalot, the Company's becoming a private company, an instance in which the Company ceases to be the controlling shareholder in Shikun & Binui Real Estate or the Arison Group ceases to be the controlling shareholder in the Company, and filing of a petition for a stay of proceedings against the Company that is not cancelled within 45 days.

As of the reporting date and as of the approval date of this Report, none of the aforementioned events had occurred.

Issue of debentures - Series 3

Issue date	September 29, 2009 (the Series was expanded pursuant to a shelf offering dated August 4, 2010).
Trustee:	Clal Finance Trusts 2007 Ltd. 37 Menachem Begin St., Tel Aviv
Par value on issue date:	NIS 200,000,000
Balance of outstanding par value as of 30/6/2011:	NIS 289,920,000
Unlinked interest of 7.9%, accrued interest amount as of 30/6/2011	NIS 7,570,939
Market value of NIS 1 par value as of 30/6/2011:	1.0868

On September 29, 2009, the Company held a private placement for institutional investors of 200 million debentures, NIS 1 par value each (Series 3). The offering proceeds totaled NIS 200 million (net proceeds after issue costs – NIS 197 million).

In August 2010, the Company made an issue (expansion) of additional Series 3 debentures totaling NIS 89,206,000 par value of NIS 1 par value debentures each (expansion of Series 3). The offering proceeds totaled NIS 101 million (net proceeds after issue expenses totaled NIS 100 million). The expansion of the Series 3 debentures was executed pursuant to a shelf offering issued on August 4, 2010, based on the shelf prospectus issued by the Company on May 26, 2010.

The debentures (Series 3) will be repaid in eight equal semi-annual installments, in each of the years 2013 through 2016. The debentures are unlinked and bear interest at the effective annual rate of 8.4% (nominal interest is 7.9%). Interest is payable every six months. The debentures were issued pursuant to a shelf offering report published on September 23, 2009, based on a shelf prospectus issued by the Company on May 19, 2008 (including an amendment published on July 23, 2009).

The said debentures were rated "A2" by Midroog and were classified as long-term.

Under the terms of the debentures, several instances were cited in which the trustee is entitled to call in the unsettled balance of the debentures for immediate payment. These instances include non-payment of any amount within 60 business days after its due date, the appointment of a liquidator for the Company that is not cancelled within 60 business days, the imposition of a material attachment against the Company or its material assets that is not removed within 60 days, action by the Bailiff’s Office against material assets of the Company that is not cancelled within 60 days, the appointment of a permanent receiver for the Company, an announcement by the Company that it is halting payment of its debentures, discontinuation of the Company's operations, the calling in of another series of the Company's debentures for immediate payment, the liquidation or delisting of the Company and any other event that constitutes a material impairment of the debenture holders’ rights.

As of the reporting date and the report approval date, none of the above events had occurred.

Series 4 - debentures

Issue date	March 4, 2010 (series expansion pursuant to a shelf offering dated August 4, 2010)
Trustee:	Hermatic Trust (1975) Ltd. 113 Hayarkon Street, Tel Aviv
Par value on issue date:	NIS 492,000,000
Balance of outstanding par value as of 30/6/2011:	NIS 993,216,065
Balance of outstanding par value, revalued according to linkage terms:	NIS 1,044,726,440
A linked interest rate of 4.8%, accrued interest amount as of 30/6/2011	NIS 15,322,654
Market value of NIS 1 par value as of 30/06/2011:	1.0985

On March 3, 2010 the Company held a tender offer to purchase for NIS 400 million par value (NIS 447 million of the balance of debentures as of December 31, 2009) of Series 2 debentures against an allocation of NIS 492 million in Series 4 debentures, at an exchange ratio of 1.23 – in other words, NIS 100 par value of Series 2 debentures for NIS 123 par value of Series 4 debentures.

In August 2010, the Company issued additional Series 4 debentures totaling NIS 137,868,000 par value of NIS 1 par value each (expansion of Series 4). The offering proceeds totaled NIS 150 million (net proceeds after issue expenses totaled NIS 149 million). The expansion of the Series 4 debentures was carried out pursuant to a shelf offering issued on August 4, 2010, based on the shelf prospectus issued by the Company on May 26, 2010.

The debentures (Series 4) are linked to the CPI for January 2010 (principal and interest) and bear interest at a 6.6% effective annual rate of (the nominal interest rate is 4.8%). The Series 4 debentures are to be repaid (principal) in five annual payments on March 10 of each of the years 2015-2019 (inclusive). The interest is payable in two equal semi-annual payments on September 10 and March 10 of every year through March 2019, inclusive. Midroog rated the Series 4 debentures A2.

On December 13, 2010, the Company accepted an offer by holders of Series 1 debentures of the Company ("the holders") to purchase Series 1 debentures with a total par value of NIS 303,390,054 (92.75% of the outstanding Series 1 debentures).

The consideration for the allocation of the Company’s Series 3 and Series 4 debentures through an expansion of existing series, was as follows: orders were filled for the sale of NIS 600,000 in par value of Series 1 debentures of the Company against an allocation of NIS 714,000 in par value of Series 3 debentures of the Company at an exchange ratio of 1:1.19. Orders were filled for the sale of NIS 302,790,054 in par value of Series 1 debentures of the Company against an allocation of NIS 363,348,065 in par value of the Company ‘s Series 4 debentures of at an exchange ratio of 1.2:1.

For all practical purposes, the Series 3 and Series 4 debentures issued to holders of Series 1 debentures constitute part of the same series as the outstanding Series 3 or Series 4 debentures, respectively. The terms of the newly issued bonds are the same as the terms of the outstanding Series 3 and Series 4 debentures, respectively.

Series 1 debentures bought back by the Company were cancelled upon purchase. Accordingly, outstanding Series 1 debentures after the buyback by the Company had a total par value of NIS 23,697,761. Likewise, outstanding Series 3 debentures after the above-mentioned issuance of Series 3 debentures had a total par value of NIS 289,920,000 and the outstanding Series 4 debentures after the above-mentioned issuance of Series 4 debentures had a total par value of NIS 993,216,065.

Midroog rated the Series 3 and Series 4 debentures issued, as stated above (totaling NIS 380.4 million par value), A2, the same rating given to the outstanding Series 3 and Series 4 debentures of the Company.

According to the tax arrangement approved by the Tax Authority on December 27, 2010 relating to the private placement that is the subject of this report, the provisions regarding taxation of investors who participated in the private placement were applied, and it was also ruled that the Series 3 and Series 4 debentures had been issued with no discount.

In July 2011, the Company board of directors resolved to issue a private placement of Series 4 bonds listed on the Tel Aviv Stock Exchange Ltd. (“the bonds”) for classified bond investors. The placement was carried out through an expansion of the series; the par value was NIS 147,000,000 and the proceeds totaled NIS 160,965,000 at a price of NIS 109.50 per NIS 100 in par value of the bonds. Following the private placement, the balance of the bond series totaled NIS 1,140,216,065 in par value. Under the provisions of the deed of trust for the bonds, the Company notified the trustee for the bonds of this expansion of the series, and the trustee notified the Company that these bonds would constitute part of the Series 4 bonds, and that the provisions of the deed of trust would apply to them. As of July 21, 2011, the market value of the bonds was NIS 110.35 per bond.

In addition, the Company board of directors resolved in July 2011 to issue a private placement (that is not a significant private offering) of Series 4 bonds listed on the Tel Aviv Stock Exchange Ltd. ("the bonds") for classified bond investors. The placement was carried out through an expansion of the series; the par value was NIS 29,000,000 and the proceeds totaled NIS 31,755,000 at a ratio of NIS 109.50 per NIS 100 in par value of the bonds. Following this private placement, the balance of the bond series totaled NIS 1,169,216,065 in par value. Under the provisions of the deed of trust for the bonds, the Company notified the trustee for the bonds of this expansion of the series, and the trustee notified the Company that these bonds would constitute part of the Series 4 bonds, and that the provisions of the deed of trust would apply to them. As of July 26, 2011, the market value of the bonds was NIS 110.77 per bond.

The terms of these bonds are identical to the terms of the Series 4 bonds described in the shelf offering report published by the Company on February 18, 2010. The bonds were issued at more than their adjusted value (principal and interest). The bond allocation is subject to approval by the Tel Aviv Stock Exchange for the purpose of listing the bonds for trading.

The bonds will be listed for trading on the Tel Aviv Stock Exchange, but the blocking restrictions set forth in Section 15C of the Securities Law (1968) and the regulations based on its shall apply to them.

On August 1, 2011, Midroog notified the Company that it had confirmed an A2 rating with a stable outlook for the outstanding bonds, and had confirmed the same rating for the above-mentioned placement.

These placements were issued on August 3, 2011. Proceeds totaled NIS 193 million. The effective interest rate for these expansions was an annualized 4.91%.

8. Initial application of accounting standards

A. Related party disclosures

Commencing January 1, 2011, the Group applies IAS 24 (2009) – Related Party Transactions ("the Amendment"). The Standard includes changes in the definition of a related party and changes pertaining to the disclosures required by government agencies. The Standard will be applied retroactively.

For the purpose of initial application of the Standard, the Group mapped its relations with related parties. According to the new definition and as a result of the mapping, new related parties were identified.

B. Interim financial reporting

Commencing January 1, 2011, the Group applies the Amendment to IAS 34, Interim Financial Reporting, Significant Events and Transactions ("the Amendment") published in the framework of the Improvements Project for 2010. Under the Amendment, the list of events and transactions requiring disclosure in the interim financial statements was broadened. Likewise, the pre-Amendment threshold for defining events and transactions as material for purposes of the minimum disclosure requirements was eliminated. The disclosures required under the Amendment have been applied in the summary of these condensed interim financial statements.

9. Reporting on market exposure and risks and methods of managing them

Corporate official responsible for management of market risks

The official responsible for risks management in the Company is Doron Blachar, the CFO, a senior executive in the corporation (see Regulation 26A in the periodic report).

The Company exercises control of its exposure to market risks. No material change in these risks and in the report according to the linkage base occurred in the first six months of 2011, compared with that listed in the annual report for December 2010 (also see Note 33 to the annual financial statements).

10. Sensitivity tests

A. Sensitivity analyses as of 30.6.11 that constitute a material change, compared with the sensitivity analysis as of 31.12.2011

The following table is a sensitivity table for sensitive instruments according to the changes in market factors, as of June 30, 2011, relevant for the Company, based on the risks to which it is exposed. The sensitivity analyses were performed for financial instruments whose sensitivity to changes in the various risk factors is material, compared with the risk analyses performed for December 31, 2010.

Sensitivity to Changes in the NIS Interest Rate

	Gain (loss) from Changes		Fair Value	Gain (loss) from Changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In the Interest Rate			In the Interest Rate	
	NIS Thousands				
Accounts receivable for concession arrangements	(7,120)	(3,607)	325,626	3,704	7,510
Long-term loans granted to investee companies	(40,270)	(20,691)	740,698	21,888	45,061
Long-term loans	12,019	6,060	729,976	(7,270)	(11,288)
Debentures	33,613	16,909	(2,513,397)	(17,115)	(34,441)

Sensitivity to Changes in the Dollar/NIS Exchange Rate

	Gain (loss) from Changes		Fair Value	Gain (loss) from Changes	
	Increase of 10%	Increase of 5%		Increase of 5%	Increase of 10%
	In the Exchange Rate			In the Exchange Rate	
	NIS Thousands				
Dollar/NIS forward	2,572	1,285	(319)	(1,285)	(2,572)
Raw material forward	69	34	687	(34)	(69)

Sensitivity to Changes in the NIS Interest Rate

	Gain (loss) from Changes			Fair Value	Gain (loss) from Changes		
	Increase of 16%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 16%
	In the Interest Rate				In the Interest Rate		
	NIS Thousands						
Euro/NIS forward	1	-	-	(1)	-	-	(1)
Dollar/NIS forward	23	14	8	(319)	(8)	(14)	(23)

The sensitivity analysis of shekel interest includes an additional scenario (16% higher and 16% lower) that tests the most extreme daily change that occurred in the past 10 years.

Sensitivity to Changes in the Dollar Interest Rate

	Gain (loss) from Changes			Fair Value	Gain (loss) from Changes		
	Increase of 26%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 26%
	In the Interest Rate				In the Interest Rate		
	NIS Thousands						
Dollar/NIS forward	(3)	(1)	(1)	(319)	1	1	3

The sensitivity analysis of the dollar interest rate includes an additional scenario (26% higher and 26% lower) that tests the most extreme daily change that occurred in the past 10 years.

Sensitivity to Changes in the Euro Interest Rate

	Gain (loss) from Changes		Fair Value	Gain (loss) from Changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In the Interest Rate			In the Interest Rate	
	NIS Thousands				
Euro/NIS forward	-	-	1	-	-

Sensitivity to Changes in the Euro/NIS Exchange Rate

	Gain (loss) from Changes		Fair Value	Gain (loss) from Changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In the Exchange Rate			In the Exchange Rate	
	NIS Thousands				
Euro/NIS forward	296	148	(1)	(148)	(296)

Sensitivity to Changes in the Raw Materials Price

	Gain (loss) from Changes			Fair Value	Gain (loss) from Changes		
	Increase of 14%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 14%
	In the Raw Materials Price				In the Raw Materials Price		
	NIS Thousands						
Forward	485	346	173	687	(173)	(346)	(485)

The sensitivity analysis of changes in the raw materials price includes an additional scenario (14% higher and 14% lower) that tests the most extreme daily change that occurred in the past 10 years.

Sensitivity to Changes in the Real NIS Interest Rate

	Gain (loss) from Changes			Fair Value	Gain (loss) from Changes		
	Increase of 16%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 16%
	In the Interest Rate				In the Interest Rate		
	NIS Thousands						
CPI Forward	(8)	(5)	(2)	886	2	5	8

Sensitivity to Changes in the Nominal NIS Interest Rate

	Gain (loss) from Changes			Fair Value	Gain (loss) from Changes		
	Increase of 16%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 16%
	In the Interest Rate				In the Interest Rate		
	NIS Thousands						
CPI Forward	434	272	361	886	(137)	(273)	(438)

The sensitivity analysis of the real NIS interest includes an additional scenario (16% higher and 16% lower) that tests the most extreme daily change that occurred in the past 10 years.

Sensitivity to changes in the Consumer Price Index

	Gain (loss) from Changes			Fair Value	Gain (loss) from Changes		
	Increase of 10%	Increase of 5%	Increase of 1.5%		Decrease of 1.5%	Decrease of 5%	Decrease of 10%
	In the CPI				In the CPI		
	NIS Thousands						
CPI Forward	10,173	5,086	1,526	886	(1,526)	(5,086)	(10,173)

In February 2011, the Company purchased two forwards on the CPI. The transaction totaled NIS 100 million and its expiration date was in April 2012. The calculation of the fair value of the CPI forwards takes into account the cumulative CPIs through 30/6/2011, as well as the inflationary expectations from that date until the expiration date of the forwards.

Additional Data:

The interest rates used to calculate the fair value are the risk-free interest rates for the relevant period:

The NIS interest rates: 2.242%-2.595%.

The dollar interest rates: 0.161%-0.279%.

The Euro interest rate: 1.189%.

Known CPI (in 2011 terms) – 103.6.

Hedging Instruments Not Recognized for Accounting Purposes

Sensitivity to Changes in the Euro/Dollar Exchange Rate

	Gain (loss) from Changes		Fair Value	Gain (loss) from Changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In the Exchange Rate			In the Exchange Rate	
	NIS Thousands				
Euro/dollar forward	(16,988)	(8,494)	(20,094)	8,494	16,988

Sensitivity to Changes in the Dollar Interest Rate

	Gain (loss) from Changes			Fair Value	Gain (loss) from Changes		
	Increase of 26%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 26%
	In the Interest Rate				In the Interest Rate		
	NIS Thousands						
Euro/dollar forward	(81)	(31)	(16)	(20,094)	16	31	81

The sensitivity analysis of the dollar interest rate includes an additional scenario (26% higher and 26% lower) that tests the most extreme daily change that occurred in the past 10 years.

Sensitivity to Changes in the Euro Interest Rate

	Gain (loss) from Changes		Fair Value	Gain (loss) from Changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In the Interest Rate			In the Interest Rate	
	NIS Thousands				
Euro/dollar forward	127	64	(20,094)	(64)	(128)
Euro/NIS forward	138	69	(216)	(69)	(138)

Sensitivity to changes in the Nominal NIS Interest Rate

	Gain (loss) from Changes			Fair Value	Gain (loss) from Changes		
	Increase of 16%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 16%
	In the Interest Rate				In the Interest Rate		
	NIS Thousands						
Euro/NIS forward	(326)	(204)	(102)	(216)	102	204	327

The sensitivity analysis of the NIS interest rate includes an additional scenario (16% higher and 16% lower) that tests the most extreme daily change that occurred in the past 10 years.

Sensitivity to Changes in the Euro/NIS Exchange Rate

	Gain (loss) from changes		Fair Value	Gain (loss) from Changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In the Exchange Rate			In the Exchange Rate	
	NIS Thousands				
Euro/NIS forward	(15,493)	(7,746)	(216)	7,746	15,493

Additional data:

1. The sensitivity analyses are based on the representative dollar exchange rate as of 30/6/11 – NIS 3.415/$.
2. The sensitivity analyses are based on the representative euro exchange rate as of 30/6/11 – NIS 4.9441/€.

11. Sustainability

Since 2008, the Shikun & Binui Group has conducted its activity according to the sustainability principle, in order to realize its vision of creating a sustainable environment in Israel in particular and worldwide. The sustainability principle requires the integration of economic, environmental and social considerations in management processes and decision-making. In its decision to adopt this approach, Shikun & Binui elected to join a growing number of advanced companies around the world seeking to promote appropriate business conduct that facilitates global growth and prosperity without harming mankind and the environment.

While in the past such conduct was especially critical for companies operating in the international sphere, now, since Israel joined the OECD in May 2010, it is also critical for Israeli companies, which are required to comply with the world's advanced trends in sustainability.

A key challenge in sustainability management derives from the lack of generally accepted management tools. There is therefore a need to develop special management tools that are suitable for the needs of the Group and its subsidiaries.

The Shikun & Binui Group is coping with this challenge, while mobilizing all of its resources out of a commitment to build proper management tools that will enable it to meet the highest standards of sustainability management.

In the second quarter of 2011, the Group intensified its existing managerial sustainability processes. Measures taken included the following:

- Recruitment of an official responsible for sustainability in Shikun & Binui Real Estate and an official responsible for sustainability in Shikun & Binui Energy and Shikun & Binui Water. These officials act in the framework of the companies for whose sustainability they are responsible, and report on this matter to the VP responsible for planning and sustainability.
- Further improvement in sustainability management tools and reporting in the area of the Group’s human resources and training.
- Improvement of the tools and know-how for promoting concepts of sustainable design and construction through both systematic principles for selecting architects whose work conforms to the Group’s sustainability principles and a regular system of design evaluation in order to ensure optimal implementation of sustainability in the designing of projects in which the Group is involved.

- Completion of an examination of the existing possibilities in the market for sustainability management and reporting software, and making a decision to develop such as system within the Group in cooperation with control and information systems.
- Continuing the process of formulating the Company's employment policy in the framework of the sustainability forum. As with previous policy documents, a draft of the policy document will be sent to the Group's management for approval when completed.
- Intensifying the assimilation of cooperation with parties at interest, which was designated as a key goal for 2011. All of the Group's companies were introduced to this matter and the work tools developed in the second quarter. The official responsible for cooperation with parties at interest in Shikun & Binui has broadened the in-depth guidance of selected projects in all of the companies.
- The process of registering the future power stations at Tze'elim (Shneour) under the UN Framework Convention on Climate Change was completed in the second quarter. This is the first thermal solar project in Israel and the second thermal solar plant in the world to win such recognition. Approval of membership in the mechanism for reducing emissions will open the door to additional income, and will boost the project's economic viability, while ensuring its contribution to reducing the global carbon footprint
- In line with the importance that the Group assigns to leadership, Shikun & Binui has continued its involvement in the Standards Institute. The Group's employees have contributed significantly to formulating the revised standard for green construction (5281), and to promoting the revised standard for sustainability management (social responsibility) (Israel Standard 10000).
- As part of its workshops on integration of sustainability aimed at developing a common language and understanding of the sustainability principle among all of the Group's employees, orientation workshops are held for new employees in the Group. These workshops are conducted in coordination with the Group's hiring procedures.
- As part of Shikun & Binui S.B.I. Infrastructure Ltd.'s training program for new engineers slated to work overseas (the programs last several months), a concentrated system of study, practice, and lectures on sustainability topics was instituted for the new employees during the second quarter.

12. Social Involvement and Contribution to the Community

A. **Expansion of Shikun & Binui community relations activities throughout Israel**

In early 2011, we continued to expand Shikun & Binui's community relations activities, while increasing employee involvement. This year, we adapted the spread of the activities for the Group's employees throughout Israel, and about 80% of these activities are already taking place in three centers in the center, north and south of the country.

B. **Intra-organizational communication and promotion of employee volunteerism**

A community relations program was introduced for all Company's employees in the framework of the work-plan conferences for 2011 held in the various Company divisions during February and March, and as part of orientation days conducted during the year for new employees.

C. **"Building a Green Future" – promoting environmental education**

The Company has assumed the goal of promoting environmental education, mainly for youth, through the adoption of community projects with a significant and ongoing impact. In early 2011, we continued and expanded community relations activities with the schools we have adopted, including:

- Renovations and carpentry work at schools in central Israel performed by employees of the construction accessories unit in Shikun & Binui Solel Boneh. This work was done as a **volunteer action for the students' benefit**. A new pergola was built, in addition to financing and constructing a new two-classroom building for the school.
- In January, during the Tu Bishvat holiday, our community relations representatives celebrated with the students of ORT Avin their **certification as a Green School** by the Ministries of Education and Environmental Protection. Representatives of ORT Avin commended, saying, "Planting need not be confined to trees. Shikun & Binui works on and plans construction that respects the scenery and humanity. Besides this activity, reciprocal ties have been forged with the school that instill in students the values of love for the land, preservation of nature, and developing a special appreciation for the term 'environmental protection'. Environmental protection and a Green School are the wonderful fruit that the relationship between us has borne"
- A new collaboration has been launched with the Hayarden School, including a donation and assistance in **renovating the school's library,** including painting, carpeting, furniture, curtains, cushions, signs, the ordering of books and five pieces of sound equipment that were purchased for the school. After inaugurating

the renovated library, volunteer activities will be conducted there on a regular base by employees, who will read books with the children.

- In the **"Young Business Leadership"** project in Beer Sheba, which we have already guided for a year, an AKIM (special needs) kindergarten was inaugurated, which has become **a Green Kindergarten** through the work of the students participating in the program.

D. **"Planting a Green Future" – Tu Bishvat, January 2011**

This year, our planting tradition was enlarged; over 100 volunteer employees participated in Tu Bishvat planting activities in kindergartens and schools throughout Israel – in Beer Sheva, Ramat Gan, Kiryat Yam, Tirat Hacarmel and elsewhere. Also taking part in the plantings at the "Batevah" School in Gan Chava were soldiers from the elite Anti-Terror Brigade, whom we adopted under the "Adopt a Soldier" program.

E. **Purim with the Community, March 2011**

A variety of community activities were conducted on the Purim holiday this year including the sending of *mishloach manot* (food parcels) from children in the Batevah School to soldiers in the Anti-Terror Brigade whom we have adopted; financing a Purim party in the ALUT School in Even Yehuda, in which volunteer employees participated; distribution of 200 mishloach manot for adults with special needs in Beer Sheba, and holding a Purim party for them in collaboration with employees of the Seventh Avenue Shopping Mall and volunteer teams of employees from the cement factory; distribution of 400 mishloach manot for children of the *Hayim* (Life) Foundation, children in the neighboring WIZO center, an *ulpana* (high school for religious girls) hosting children at risk, and the residents of a senior citizens home in Arad; and distributing Purim costumes to children of the Yad Be'Yad Foundation.

F. Good Deeds Day, April 2011

Approximately 120 employees and managers participated at three locations for the fourth consecutive year: a creativity workshop event was held at activity centers with schoolchildren from southern Tel Aviv. In northern Israel, they painted, renovated, and planted a garden in a school for children at risk. In southern Israel, a creativity workshop was held in a center for children with hearing problems.

13. Directors with Accounting and Financial Expertise

In accordance with the instructions of the Israel Securities Authority regarding reporting on directors with accounting and financial expertise, the board of directors resolved that the minimum number of such directors will be three directors.

In the opinion of the board of directors, considering the Company is a holding company in companies operating mainly in the same industry, this number of directors with accounting and finance expertise will enable it to fulfill the obligations imposed on it, especially those involving examination of the Company's financial position and preparing and approving the financial statements.

The following is a list of the seven directors with accounting and financial expertise who are not employed in other positions in the Company:

Irit Izakson, Samuel Berkowitz, Nir Zichlinski, Efrat Peled, Israel (Izzy) Tapoohi, Joseph Alshich and Moshe Lahmany.

14. Board of Directors and Management of the Company

There were no changes in the composition of the Corporation's senior officeholders during or subsequent to the reporting period.

15. Financial Statement Approval Process

The Company organ responsible for approval and of financial statements and ultimate control is the board of directors. Before the financial statements are brought for discussion and approval by the Company's board of directors, the finance and financial statements examination committee of the board of directors must discuss the financial statements at its meetings and recommend that the board approve them.

There are three directors on the finance and financial statements examination committee (they are also members of the Company's audit committee):

(a) Mr. Joseph Alshich, Chairman of the committee – outside director – for further details, see also Section 6.13 of the annual board of directors report.

(b) Mr. Israel (Izzy) Tapoohi – outside director – for further details, see also Section 5.13 of the annual board of directors report.

(c) Mr. Samuel Berkovitz – for further details, see also Section 2.13 of the annual board of directors report.

All three committee members have accounting and finance expertise.

Officeholders and others in the Company make a detailed presentation before the finance and financial statements examination committee as well as before the board of directors (which discusses the subject only after the detailed discussion held in the finance and financial statements examination committee). The presentation of the financial statements addresses significant financial reporting issues, including those involving transactions not in the ordinary course of business (if any); assessments and estimates used in the financial statements; the internal audits relating to financial reporting; the completeness and diligence of disclosure in the financial statements; the accounting principles and policies applied in matters of significance to the Corporation, and any changes in them, including changes deriving from the first time application of new standards; and the valuations, including the assumptions and estimates on which they are based, that are used to derive the figures appearing in the financial statements.

A meeting of the finance and financial statements examination committee to discuss approval of the financial statements was held on August 21, 2011. All members of the committee (Joseph Alshich, Izzy Tapoohi and Samuel Berkovitz) were present at this meeting. were The following senior officeholders also participated in the meeting: Ofer Kotler (CEO), Amit Segev (Deputy CEO), Doron Blachar (CFO), Ronit Rosensweig (controller) and Ronit Biran (internal auditor). The Company's independent auditor, who addresses issues arising in discussions of the finance and financial statements examination committee and in board of directors' discussions, and presents key matters that arose during the audit or the review of the financial statements, also attended the meeting of the finance and financial statements examination committee and the board of directors meeting (held on August 23, 2011) dealing with approval of the financial statements.

As part of the process for the board of directors’ approval of the Company's financial statements, a draft of the Company's financial statements, including the report of the board of directors, is delivered to the members of the finance and financial statements examination committee and the other members of the board of directors for review several days before the scheduled meeting for approval of the financial statements. Before the board of directors convenes, the finance and financial statements examination committee communicates to the board of directors its recommendations regarding approval of the financial statements, and reports to it about any defect or problem found in that examination. The board of directors has decided that the communication of the recommendations at least 48 hours before the meeting constitutes a reasonable period of time. To the satisfaction of the board of directors, the committee's recommendations were communicated a reasonable length of time before the discussion by the board of directors, in view of the scope and complexity of the recommendations.

Ravit Barniv	Ofer Kotler
Chairman of the Board of Directors	Chief Executive Officer

August 23, 2011