Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending June 30 2012

The Board of Directors of Shikun & Binui Ltd. (hereinafter: **"the Company"**) is honored to submit the Financial Statements of the Company for the period ending June 30 2012.

1. The Corporation and its Business Environment

a. General

The Company and its investees ("the Shikun & Binui Group" or "the Group") operate in Israel and outside of Israel in paving and infrastructure contracting work; building contracting; various aspects of real estate, including: purchasing, designing, improving and developing real estate; selling real estate, built-up and not built-up; holding and renting cash-generating properties; performing investments and activity in the fields of renewable energy including thermo-solar energy and photo-voltaic solar energy; treatment of water through water reclamation and desalination facilities; project concessions mainly in the field of infrastructure; as well as other activities concurrent to or complementary with the Group's stated areas of activity.

The Group's Israeli activity concentrates on the field of residential and non-residential development, construction and infrastructure contracting, as well as projects in the field of infrastructure and construction carried out through private sector financing in lieu of government financing, as well as projects in the fields of renewable energy and the fields of water treatment. Outside of Israel the group is mainly active in West and East African countries, Central America, South-Central Europe and West Asia, mainly in the field of infrastructure contracting, in the maintenance and rental of cash-generating properties as well as residential development. Furthermore, the Company has investments in the field of solar energy by way of photo-voltaic projects in Spain.

The Company operates in all areas of its activity according to existing approaches, which demand integration of economic, environmental and social considerations in the management and decision-making processes. The Group's human resources policy supports the business strategy and places the implementation of the Group's vision (sustainability) and its values for all of the group's workers in Israel and abroad at the center of its activities. In recent years the Group has developed new and advanced infrastructures for absorbing appropriate human capital and training it with the aim of establishing a new and powerful organizational culture matching the Group's vision.

b. The Group's Areas of Activity

The Group's activity is carried out on the basis of the five areas of activity detailed below (through seven segments, as detailed in Section 2 of this report).

- **<u>Infrastructure</u>** – in the field of infrastructure the group is mainly active through Shikun & Binui – SBI Infrastructure Ltd. and through its subsidiaries (outside of Israel) and Shikun & Binui – Solel Boneh (Construction and Infrastructure) Ltd. (in Israel).

  Shikun & Binui – SBI Infrastructure Ltd. has over 53 years of experience in the development of infrastructure abroad, mainly in Africa, Central America, East and Central Europe and West Asia. Shikun & Binui Ltd. – SBI Infrastructures is currently active in more than ten countries in the fields of contracting, paving, infrastructure and construction and is acting to deepen and broaden its activity in these countries. Furthermore, based on its accumulated knowledge in the various countries, the project management capabilities it has developed and the many years of reputation it has accumulated, it is acting to expand its geographical deployment to neighboring countries and new regions, including the United States and Latin America.

Shikun & Binui – Solel Boneh Infrastructure Ltd. has for over 85 years focused on civil engineering ventures, national projects in the field of transportation and infrastructure and large-scale construction projects in Israel. In addition to its professional capabilities, Shikun & Binui – Solel Boneh Infrastructure Ltd. has its own manufacturing capabilities for pre-cast components, construction waste recycling, asphalt production, concrete factories and special bridging works and the manufacture of special bridging elements.

The Group’s capabilities in Israel and abroad in the field of infrastructures and large project management constitute the basis for the expansion of its activity in the field of concession projects, which are large-scale projects, and in particular in significant BOT and PFI projects in the field of infrastructure.

- **Real estate ventures** – in the field of real estate venture, the Group is mainly active through Shikun & Binui Real Estate Ltd. (in Israel), Shikun & Binui Real Estate Development B.V., and A.D.O Group Ltd. (abroad).

  Shikun & Binui Real Estate Ltd. (87% stake), which is active in Israel, combines over 56 years of experience in constructing residential apartments while implementing advanced architectural design, innovative work methods and international standards, including and while placing special emphasis on green construction standards for creating a sustainable and advanced living environment. Shikun & Binui Real Estate provides a complete envelope of products and services, guaranteeing a high quality of life and a comfortable living environment. Over recent years it has positioned itself as the leader in the field of construction in Israel and most of the buildings construction of which has started since 2009 are being built under the green Israeli Standard 5281, and some are submitted for certification under the U.S. LEED standard. Shikun & Binui Real Estate mostly operates in high demand areas, while placing emphasis on green projects such as its residential project in East Netanya (“Pure”) and the Karkur Dreams Project, which was the first residential project in Israel to receive Green Standard approval. Furthermore, Shikun & Binui Real Estate is active in non-residential real estate development, particularly in the field of commerce. In this activity as well, the Company places special emphasis on construction in accordance with green construction standards, such as the students’ dormitories project being constructed at Tel Aviv University (BOT project); the Seventh Avenue open shopping center in Beersheba; and the Ir Yamim Mall in Netanya, the design of which also took into account the relevant social and environmental factors from the design stage to the project’s completion and realization.

Shikun & Binui Real Estate Development B.V. is active in Central and Eastern Europe, in Hungary, Romania, Poland and the Czech Republic in the development of residential and non-residential projects intended for sale or rental. As part of the Company's preparations for the financial situation around the world and in the countries it operates in particular, the Company has reduced its activity in some of the countries in which it is active that have yet to emerge from the crisis, and is currently acting to take advantage of business opportunities and make investments in projects in countries in which the local economy supports real estate projects. As a result, the Group has purchased the full holdings of one of the active partners in Poland, so that after the transaction the Company holds a 67% stake and is the controlling shareholder in this activity.

The A.D.O Group Ltd. (a public company in which the Company holds a 48% stake as of the balance sheet date) is active in Germany in the purchase and improvement of residential apartments and commercial spaces intended to produce rental income.

- **Concessions** – activity in these fields includes the financing, construction and operation of large-scale projects ("mega-project") mainly in the field of infrastructure and construction in Israel and abroad. The Company is continuing to expand its concession activity in Israel and abroad, which in the opinion of Company management contains significant growth potential. There has been a trend evident on behalf of the Israeli government in recent years to continue the use of the PPP format for the construction of infrastructure and to grant concessions to external factors for their implementation that allows, among other things, savings in the State's budgets by transferring most of the responsibility for performing supervision and control over the construction and operation of the project to the concession holder. On the other hand, following the implications of the current financial crisis, difficulty exists in receiving underwriting commitments at extensive amounts from financing bodies, an increase is evident in financing costs and difficulty exists in raising very long-term financing from international financing bodies, with the exception of governmental development banks (such as the European Investment Bank). These difficulties and changes had a particular impact on the ability of concessionaires to secure financing for projects to which they had committed prior to the beginning of the financial crisis and they are taken into account in the new project proposal stage.

  The Company's concession activity includes, among other things, the construction of the Cross-Israel Freeway and its operation, which covers the central portion including its expansion and Segment 18 of the road (on September 13 2011 an agreement was signed for the sale of the project, subject to certain stipulations – for further details see Note 18.a.6 to the 2011 Financial Statements), the construction and operation of the Carmel Tunnel project, the construction of the Hadera Desalination Plant, its expansion and operation, restoring and maintaining roads in Northern Israel, constructing the Tel Aviv Courthouse project and constructing and providing operation, maintenance and instruction services at the Israel Police National Center (financial closing taking place on April 4). On October 3 2011 the Company entered into an agreement for the purchase of rights to a pumped storage project (for further details see Note 31.c.6 to the 2011 Financial Statements). The Company continues to contend in these types of tenders in Israel and abroad.

  Note that the passing of the Competition Promotion and Centralization reduction Law may have a negative impact on the future growth of activity in Israel in this field.

- **Renewable energy** – in the field of renewable energy, the Company is active through its subsidiary Shikun & Binui Renewable Energy Ltd., mainly in the fields detailed below:

  <u>Solar-thermal power production field</u> – initiation, financing, construction and operation of thermo-solar projects including:

1) Initiation of a project in planning stages to the scope up to 120 mW on land owned by Kibbutz Tze'elim in the Negev (the Shneor Project). The scope of the project will be determined according to rate arrangements.
2) On February 13 2011 the Company, along with Siemens, submitted a bid for a tender published by the Israeli Government for the financing, construction and operation of a 110 mW thermo-solar project at Aashalim. The Company has passed the threshold conditions but has yet to reach an agreement with the State regarding the price and the other terms of the project.
3) The development of independent technological-engineering capabilities in the thermo-solar field. On February 22 an experimental thermo-solar facility was inaugurated at Ardom (near Kibbutz Yotvata).

Photo-voltaic power production field – initiation, financing, construction and operation of projects for the production of photo-voltaic solar power on rooftops and land in Israel and abroad. In Israel the Company is operating pursuant to the arrangement for the construction of small and medium-sized facilities. In Spain, the Company has a stake in a company (50%) holding photo-voltaic projects with a total installed scope of 15 mW.

Conventional energy-based power production field – production and sale of power to the Electric Company at a total scope of 26 mW, using the Ashdod Power Station, which operates on mazut, uses "peaker" and operates on an availability basis, which is expected to be converted to the production of power on a natural gas basis.

Natural gas power production field – development of a combined cycle natural gas-based private power production project in the Ashdod Industrial Zone, at an output of 120 mW, and the development of a project for the conversion of the Ashdod power plant at an output of 26 mW to a natural gas plant.

- **Water**

In the field of water, the Group's activity mainly takes place through Shikun & Binui Water Ltd. and includes the design, construction, operation and maintenance of well improvement facilities, and providing water and sewage infrastructure management services. In addition, the Company is acting to develop additional technological capabilities and to expand its water treatment activity, through the construction of freshwater reclamation facilities as well as the design, construction and operation of salt water desalinization facilities. The Company intends to develop its water activities mainly by purchasing companies or activities in the field and developing its own capabilities, in order to create engineering capabilities that will allow the initiation and execution of projects in the field in Israel and abroad.

c. The Global Economy

We are witnessing contractions or slowdowns in most economies around the world. This is evident both in developing and developed market. China dropped from an 8.1% growth rate in the first quarter to 7.6% in the second quarter. The U.S. dropped from a 2.0% growth rate in the first quarter to a 1.5% growth rate in the second quarter and the UK, which is officially in a recession, saw a significant drop from the 0.25% contraction in the first quarter to a 0.7% contraction in the second quarter.

The IMF global growth forecasts for 2012 and 2013 dropped by 0.1% and 0.2% to 3.5% and 3.9%, respectively, and the global trade growth forecasts for these years dropped by 0.3% and 0.5% to 3.8% and 5.1%, respectively. As a rule, the IMF estimates a worsening in economic conditions compared to the previous quarter, and notes the global difficulty in creating new workplaces.

Global inflation is expected to remain low, and even drop as a result of a decrease in demand and drops in commodity prices. This is despite the low level of interest rates around the world, which are expected to remain low in the near future, in light of an expansive monetary policy employed by central banks in Europe, China, Australia, South America and Israel.

The global bank risk, as embodied by the gap between interest on interbank loans and yields on government debentures, presented a mixed trend (for instance, margins dropped in the U.S. and Europe but increased in Japan and Canada). This is in light of the increased liquidity to these systems on the one hand, and increases in insolvency risks on the other.

The Euro Zone

The euro zone debt crisis continued, while the positive influences of the ECB LTRO loans began to fade. A summit was held in Brussels in June of euro zone leaders, in which a number of key decisions were made, including the establishment of a pan-European financial supervisory mechanism and the establishment of a growth fund and the provision of €100 billion to rescue the Spanish banks. Despite this, there are no signs of recovery in the near term, largely due to the political uncertainty in Greece, the problems with the banking system in Spain in particular and in Germany in general, and doubts regarding the governments' ability to pass necessary reforms. Yields on Italian and Spanish debentures continued to increase, reaching a level of 6.4% and 7.5%, respectively.

In Q2 the EU GDP contracted by 0.2% relative to the previous quarter, and 0.4% relative to the corresponding quarter last year. According to the IMF, the European economy is expected to contract by 0.3% in 2012. The growth forecast for 2013 was revised downward by 0.2% and is currently 0.7%. Italy and Spain are expected to contract by 1.9% and 1.5% in 2012, respectively.

The status of the employment market remains problematic and the average unemployment rates reached a peak of 11.2% at the end of the second quarter of 2012, with 22.4% of all young people in the euro zone unemployed. Particularly evident are the unemployment levels in Spain, which reached 24.8% in the second quarter. The lack of a significant improvement in the labor market, which influences both demand and the state's tax revenues, makes it difficult for euro zone members to achieve sustainable recovery.

The U.S.

Despite the fact that the world's economic attention has been focused on Europe, the U.S. has been unable to achieve a significant and sustainable recovery since the sub-prime crisis, which officially ended 3 years ago. The economy grew by 1.5% in the second quarter, after first quarter data was revised from 2% to 1.9%.

The American superpower may have been impacted by the drop of demand around the world, but one of the key difficulties it faces is increasing private consumption, which constitutes its significant growth engine (70% of products are attributed to private consumption). The main reason for this is a slow job market with unemployment rates exceeding 8% for the past three years. Despite an improvement in weekly data of new job seekers, chronic unemployment data (40 weeks) has worsened, along with participation in the job market, which dropped to 63.8%. The U.S. has fallen into a vicious cycle, in which the lack of material growth does not allow the creation of work places, and on the other hand, the difficulties in the labor market have slowed down private consumption, which as noted, constitutes a key economic growth engine.

Government debenture yields are at a historic low, with 10-year yields at under 1.5%. This is in light of an expansive monetary policy employed by the decision-makers throughout the curve. In addition, estimates exist of additional quantitative expansions, with an election year in the background (there has never been an unemployment rate of over 8% during an election year).

The Israeli Economy

According to data published by the Central Bureau of Statistics, the slowdown in growth has continued, and the economy grew by 2.8% in the first quarter in yearly terms. In Q2 2012 the GDP increased to 3.2%, in yearly terms. The increase in GDP in the second quarter reflects increases in exports of goods and services (10.3%), in private consumption expenses (5.4%) and in public consumption expenses (1.8%), and a drop in investments in fixed assets (-1.1%)., calculated on a yearly basis.

At the same time, real activity data indicates a drop in the growth rate, which along with an increase in the repayment index for all sectors of the Israeli economy in April-May (3.4% by yearly calculation), a drop occurred in the comprehensive balance of business activity in June (9%) and a sharp drop in industrial exports in June (13%, which covers most sectors of the economy).

The job market has shown mixed data, with Bank of Israel estimates referring to stalled improvement. One the one hand, one must note that an increase occurred in the second quarter in participation in the labor market from 62.8% to 63.6%, in the employment rate from 58.5% to 59.1%, as well as a 0.2% increase in real salaries (1% in nominal salaries). On the other hand, unemployment data shows an increase throughout the quarter from 6.8% in April to 7.1% in May and 7.2% in June.

The Bank of Israel dropped the interest rate by 0.25% to 2.25% over the course of the second quarter in light of concerns regarding continued growth. In addition, interest rates continued to drop along the curve, with 10-year government bond yields (average life span) dropping below 4.65%. At the same time, a drop must be noted in state risk, as expressed by the margin of yields relative to U.S. bond yields, as well as CDS trade.

The government raised the 2013 deficit goal to 3% of the GDP, and in order to avoid exceeding this, budgetary cuts are expected alongside indirect and direct tax increases.

The Consumer Price Index increased by 0.57% in the second quarter (2.3% yearly calculation), and is within the range of the Bank of Israel's inflation goals. The 12-month inflation estimates continue their drop, and are currently below the middle of the goal, between 1.6% and 2%. Expectations for ranges of two and more years are estimated at 2.3%-2.4%.

The Construction Industry

Investment in fixed assets (investments in residential houses and investments by sectors of the economy in construction equipment and vehicles) dropped by 2.2% compared to the first quarter of the year, but is expected to increase by an accumulated 5.9% in 2012. In the first half of the year, investment in fixed assets increased by 4.2% after a 14.1% increase in the previous half and a 17.9% increase in the corresponding half of 2011. The moderation compared to 2011 derives mainly from a moderation in the growth rate of investment in the various sectors of the economy.
Investment in residential houses increased by 6.3% in the first half, after an 11.7% increase in the previous half and a 13.2% increase in the corresponding half.

In May, following the recommendations of the Trachtenberg Commission to act to reduce housing costs, the government approved a tax exemption for provident funds and pension funds investing in long-term residential apartments. Note that in the past, contractors did not consider such projects, which require long-term management, to be sufficiently profitable. Neither are banks eager to finance projects the yield for which is not immediate, unlike projects in which apartments are sold.

Residential Construction

It seems as though in the housing industry, the increase in the inventory of apartments for sale, mainly via private initiative, has halted, along with the increase in construction starts. By the end of June, 20,620 new apartments were available for sale, 22% more than at the end of June 2011, but less than the 20,880 remaining for sale at the end of the previous quarter. The decrease in apartment sales has stopped, and there is an apparent return to increased sales.

The amount of new apartments wanted in January-June 2012 was 5% higher compared to July-December 2011, but 10% lower than the corresponding period last year, with a drop in the wanted amount in all regions, with the exception of Jerusalem and the north (increases of 38% and 4%, respectively). Study of trend data regarding the amounts of new apartments wanted in recent years indicates an increase from 2,600 apartments a month to 3,500 apartments in the beginning of 2011. This number dropped over the course of 2011, and has stabilized at about 3,000 apartments since 2012. Of the apartments sold to the general public in the first half of 2012, 7,390 were constructed as a result of private enterprise and 2,820 were a result of public enterprise.

The share of construction not for sale (apartments built for personal use, purchase groups, rental and more) out of the total wanted amount of new apartments ranged between 84% in the northern district and 29% in the center. Of all apartments not for sale whose construction has started, 1,380 were constructed as part of purchasing groups, compared to 1,950 in the corresponding period in 2011.

A 10.5% increase occurred in residential construction, at a yearly level, in the first quarter of 2012.
Apartment prices increase 2% compared to the second quarter of 2011. The housing prices index increased by 0.1% in June and the rental index increased by 0.2%. Comparing transactions carried out in April-May 2012 to transactions carried out in March-April 2012 indicates that apartment prices increased by 0.7%.

The housing construction input prices index increased by 0.3% in June 2012, reaching 103.0 points. This index has increased by 2.2% since the beginning of the year. Materials and products prices and salaries paid those employed in the industry increased by 0.4% each in June 2012.

The increase in apartment prices came in light of the influence of the delay in the drop in Bank of Israel interest rates, the fading of the social protest movement and disappointment in the partial implementation of the Trachtenberg Commission.

Non-Residential Construction

Publications by the Central Bureau of Statistics for the first quarter of 2012 indicate a 4.8% drop in the scope of non-residential construction and other construction works.

The commercial and office construction input prices index increased by 0.2% in June 2012, reaching 101.5 points. This index has increased by 1.5% since the beginning of the year.

Investments in Infrastructure and Roads

Data from the National Road Council’s Multi-Year Plan for 2011-2016 indicates that the assessed new projects in the Multi-Year Plan are estimated at 13 billion NIS. The scope of expenses in 2011-2016 for these projects is estimated at 8.8 billion NIS.

The road network development plan also includes projects that the Company began carrying out in 2010-2011 (“Budgeted Projects”). The total scope of expenses for these projects in 2011-2016 amounts to 3.3 billion NIS.

The planned scope of the investment over the course of the multi-year plan in safety projects and specific projects amounts to 1.7 billion NIS.
Continuation of the trend of government investment and the increase in the scope of works depends on whether the large projects will come to fruition and whether the budgets will be realized.

d. **Material Events During and Subsequent to the Reported Period**

Issuance of Debentures

Following that stated in Note 27.(4).h to the 2011 Financial Statements, on January 1 2012 the Company issued debentures (Series 5) in return for a total of 235 million NIS.

In addition, on June 26 2012 the Company issue debentures by way of a Series 5 expansion in return for a total of 155 million NIS. For further details see Section 7 of this Report.

The Ashbod Transaction.

On March 15 2012 a subsidiary purchased an additional stake in a company holding Polish companies acting in the field of real estate enterprises in Poland, so that after the transaction the subsidiary controls the company in question. As a result of the transaction the subsidiary listed a profit of 12 million NIS. For further details see Note 4b to the Financial Statements.

Financial Closing of the Israel Police National Training Center Construction Project

The financial closing of the project for the construction of the Israel Police National Training Center was completed on April 4 2012 at a total scope of loans to the amount of 691 million NIS. For further details see Note 3a to the Company's Financial Statements.

Dividend Distribution

On March 28, 2012 the Company's Board of Directors decided to distribute dividends to the amount of 65 million NIS, which were paid on April 28 2012.

On May 28, 2012, the Company's Board of Directors decided to distribute dividends to the amount of 65 million NIS, which were paid on July 2 2012.

On August 29 2012 the Company's Board of Directors decided to distribute dividends to the amount of 40 million NIS, paid on October 22 2012.

For further details see Note 4e to the Company's Financial Statements.

Texas Highway 99 Tender

On August 22 2012 a joint enterprise, in which the Group held a 25% stake, submitted a proposal as part of the Texas Highway 99 tender. The road has a total length of 60 km. The project cost is estimated at $1.5 billion.

Securities Framework for Planned Activity in the United States

In August 2012 the Company entered into an agreement with the Zürich American Insurance Company for the receipt of a securities framework intended to serve it mainly as part of its planned activity in the United States, to the amount of $400 million.

For further details see Note 5c to the Company's Financial Statements.

2. Business Activity Results

The following is concise data regarding business activity results.

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30	
	2012	2011	2012	2011
	Millions of NIS		Millions of NIS	
Revenues from Works and Sales	3,329	2,666	1,621	1,336
Cost of works performed and sales	2,645	2,066	1,271	1,058
Gross Profit	684	600	350	278
Proceeds from the sale of investment property	5	9	-	-
Sales and marketing expenses	(18)	(14)	(11)	(7)
General and administrative expenses	(167)	(165)	(85)	(85)
Other revenues (expenses), net	4	76	(9)	78
Operating earnings	508	506	245	264
Financing costs, net	(82)	(90)	(48)	(50)
Company's share of losses of affiliates	(13)	(35)	(9)	(4)
Profit before taxes on income	413	381	188	210
Taxes on income	(116)	(88)	(58)	(39)
Profit for the period	297	293	130	171

Shikun & Binui's operating segments are:

- Infrastructure and construction abroad – carried out through Shikun & Binui SBI Infrastructures Ltd.
- Infrastructure and Construction in Israel – carried out via Shikun & Binui – Solel Boneh Infrastructure Ltd.
- Real estate development in Israel – carried out via Shikun & Binui Real Estate Ltd.
- Real estate development abroad – carried out via Shikun & Binui Real Estate Development B.V. and the A.D.O. Group Ltd.
- Renewable Energy – carried out via Shikun & Binui Renewable Energy Ltd.
- Water – carried out via Shikun & Binui Water Ltd.
- Concession activity – includes concession activity in Israel, carried out directly and through the following key affiliated companies: Derech Eretz Highways (1997) Ltd., the Carmelton Group Ltd., H2ID Ltd., the Shoval Project Tel Aviv Ltd. and Polycity Ltd., as well as a group of operation companies operating on concession projects. Activity is also carried out via Shikun & Binui – Northern Lanes Ltd.
- Others – includes the Company's holdings in activities not part of its core business.

For further information see Note 7 to the Company's Financial Statements.

a. Revenues from Works and Sales

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30	
	2012	2011	2012	2011
	Millions of NIS		Millions of NIS	
Infrastructure and construction abroad	1,748	1,439	807	763
Infrastructure and construction in Israel	917	710	458	362
Israeli real estate ventures	642	503	361	202
Foreign real estate ventures	5	2	3	1
Renewable energy	61	42	23	23
Water	17	18	9	9
Concessions	83	145	39	82
Adjustments	(144)	(193)	(79)	(106)
Total Consolidated	3,329	2,666	1,621	1,336

Revenues from works and sales in the first six months of 2012 amounted to a total of 3,329 million NIS compared to a total of 2,666 million NIS in the corresponding period last year, a 663 million NIS increase constituting a 25% increase relative to the corresponding period last year. The main changes that occurred in the first six months of the year compared to the same period last year are as follows: the foreign infrastructure and construction segment saw a 309 million NIS increase in revenues. The increase in revenues in this segment derives from the expansion of activities in the counties in which the Company is active and from entry into new countries, such as Tanzania Note that the changes in exchange rates between the NIS and the USD have an effect on the growth in foreign revenues, as as a result of the fact that the dollar's rate of exchange increased compared to last year, an additional increase of 130 million was listed in revenues in this segment compared to last year. The Israeli infrastructure and construction segment saw a 207 million NIS increase from the expansion of activity. Furthermore, the Israeli real estate ventures segment noted a 139 million NIS increase. In the real estate venture sector, recognition of income from the sale of apartments occurs upon delivery to the customer and not upon the apartments' sale in practice. The Company performed 354 apartment occupations in the first six months of the year compared to 291 apartment occupations in the corresponding period last year; and in addition, the average price of an apartment occupied was higher than the average price of an apartment occupied in the corresponding period last year.

At the same time, there were no sales of land or lots in this segment during the reported period, while in the same period last year, lots were sold in Kiryat Ono and Tzur Hadassah and land was sold in Ashkelon, Pardes Hannah and Kfar Saba in the same period last year. In addition, a 19 million NIS increase in revenues occurred in the renewable energy sector as a result of increased activity of the Ashdod power plant. On the other hand, a 62 million NIS decrease occurred in the concession segment due to work on a BOT project – restoration and maintenance of roads in northern Israel, the construction stage of which is expected to conclude this year.

Revenues from works and sales in the second quarter of the year increased by 285 million NIS relative to the same quarter last year, amounting to 1,621 million NIS – a 21% increase. The main changes relative to the corresponding period last year are as follows: a 159 million NIS increase in the in the Israeli real estate venture segment deriving from the fact that the Company performed 211 apartment occupations in the second quarter of the year compared to 120 apartment occupations in the corresponding quarter last year, a 96 million NIS increase in the Israeli infrastructure and construction segment in Israel (mainly as a result of the increase in performance by the Construction Division), and a 44 million NIS increase in the overseas infrastructure and construction segment (if it were not for the increase in the rate of the USD relative to last year, a 38 million NIS decrease would have been listed in this segment relative to the corresponding period last year).

b. Gross Profits

	For the Six-Month Period Ending June 30		For the Three-Month Period Ending June 30	
	2012	2011	2012	2011
	Millions of NIS		Millions of NIS	
Infrastructure and construction abroad	359	347	160	176
Infrastructure and construction in Israel	59	49	35	23
Israeli real estate ventures	259	213	153	92
Foreign real estate ventures	(1)	(18)	(2)	(18)
Renewable energy	7	10	3	6
Water	-	4	-	2
Concessions	(3)	2	(3)	1
Adjustments	4	(7)	4	(4)
Total Consolidated	684	600	350	278

Gross profits in the first six months of the year amounted to a total of 684 million NIS compared to a total of 600 million NIS in the corresponding period last year. The gross profit rate in this half of the year amounted to 20.5% compared to 22.5% in the corresponding period last year. The 84 million NIS increase in gross profits in the first six months of the year compared to the corresponding period last year mostly derives from the increase in gross profits in the Israeli real estate ventures segment (46 million NIS). Note also that gross profits in this segment dropped relative to the corresponding period last year, thanks to the drop in lot and land sales in which the Company has particularly high gross profit rates. The drop in the gross profit rate in this segment was offset thanks to an increase in gross profit rates from the sale of housing projects as a result of the increase in the average price per housing unit compared to the corresponding period last year. In addition, an increase was noted in gross profit deriving from the increase in the scope of activity of the overseas infrastructure and construction segment (12 million NIS), as well as from the increase in the scope of activity in the Israeli infrastructure and construction segment (10 million NIS).

The 72 million NIS increase in gross profits in the second quarter of the year compared to the corresponding period last year mostly derives from the Israeli real estate ventures segment (a total of 61 million NIS).

c. Administrative and General Expenses

Administrative and general expenses in the first six months of the year amounted to a total of 167 million NIS, a 2 million NIS increase compared to the corresponding period last year (a total of 165 million NIS). An increase was listed in the reported period in office maintenance expenses, which include rental expenses for the new office building to which the Company moved (in the corresponding period last year, the offices were in a building owned by the Company); on the other hand, a decrease in expenses was listed due to tenders the Company is competing for in Israel and abroad.

Administrative and general costs amounted to a total of 85 million NIS in the second quarter of the year, similar to the corresponding quarter last year.

d. Other Operating Revenues (Expenses), Net

These revenues amounted to 4.3 million NIS in the first six months of the year compared to net revenues of 76 million NIS in the corresponding period last year. The following are details of the key revenues and expenses included in this item:

	For the Six-Month Period Ending June 30		For the Three-Month Period Ending June 30	
	2012	2011	2012	2011
	Millions of NIS		Millions of NIS	
Profit from the revaluation of investment in affiliate (1)	12.0	82.2	-	82.2
Capital loss from the sale of fixed assets	(0.3)	(0.6)	(0.2)	(0.3)
Profit from increase in value (loss from the impairment) of assets, net	0.5	(2.3)	-	(1.2)
Others, net (2)	(7.9)	(3.3)	(9.1)	(2.7)
	4.3	76.0	(9.3)	78.0
	=====	=====	=====	=====

(1) The revaluation profit was listed following the acquisition of control in an affiliate, the loss of material influence over it in accordance with the value of the affiliate as reflected in a transaction with third parties; see also Section 1d of this report. Last year, due to the revaluation of investments in German associates, see also Note 18.a.11 to the Company’s 2011 Financial Statements.

(2) Including a compensation provision due to an obligation by a subsidiary – Shikkun & Binui Real Estate Ltd. according to an allocation agreement dated December 31 2009 toward a number of classified investors, to act to register its stock for trade on the stock exchange no later than December 31 2012. The allocation agreement states that failure to register the shares will not be considered a violation of the agreement, but will award the investors with monetary compensation the sum of which increases in accordance with the timing of the registry for trade of Shikkun & Binui Real Estate shares (for details see also Section 22.1 of the Company's 2011 Report on Corporate Affairs). As of this report, Shikkun & Binui Real Estate is undergoing negotiations with the institutional partners in question, for the purpose of postponing the last date for registry for trade as noted, in return for compensation at a sum immaterial to the Company. If these negotiations do not result in a binding agreement, the Company estimates that Shikkun & Binui Real Estate will act to register it for trade no later than March 31 2013.

e. Operating Earnings

	For the Six-Month Period Ending June 30		For the Three-Month Period Ending June 30	
	2012	2011	2012	2011
Infrastructure and construction abroad	286	284	120	143
Infrastructure and construction in Israel	23	17	15	6
Israeli real estate ventures	208	181	124	72
Foreign real estate ventures	10	59	(4)	62
Renewable energy	(10)	(8)	(6)	(1)
Water	(6)	(5)	(3)	(4)
Concessions	(5)	(7)	(5)	(6)
Others	(1)	-	-	-
Adjustments	77	55	40	25
Total by operating segments	582	576	281	297
Segment-wide expenses	(74)	(70)	(36)	(33)
Total operating earnings	508	506	245	264

Operational profits in the first six months of 2012 amounted to 508 million NIS, a 2 million increase over the corresponding period last year. The increase derives mostly from an increase in operational profits in the Israeli real estate ventures segment (27 million), offset by the overseas real estate ventures (a 49 million NIS decrease), mainly as a result of revenues listed in the second quarter last year due to the revaluation of investments in German associates, which brought about a particularly high operational profit (a total of 82 million NIS).

Operational profits in the second quarter of the year amounted to a total of 245 million NIS compared to a total of 264 million NIS in the corresponding quarter last year. Most of the change derives from a 66 million NIS decrease in the overseas real estate ventures segment, offset by a 52 million NIS increase in the Israeli real estate ventures segment.

f. Financing Costs, Net

Net financing costs amounted to a total of 82 million NIS in the first six months of 2012 compared to a total of 90 million NIS in the corresponding period last year. Financing costs referring to long-term credit in the first six months of the year amounted to a total of 162 million NIS compared to a total of 168 million NIS in the corresponding period last year. Most of the costs due to long-term credit are influenced by the changes in the rate of increase of the Consumer Price Index. In the first six months of the year, a 1.25% increase was noted compared to a 2.16% increase in the corresponding period last year. Therefore, a decrease was noted in credit linkage costs, but on the other hand an increase was listed in interest expenses on long-term credit due to the increase in credit volume. On the other hand, a decrease was listed to the amount of 16 million NIS in financing revenues deriving from loans granted to affiliates, which are also mostly influenced by the change in the CPI increase rate.

Net financing costs amounted to 48 million NIS in the second quarter of the year compared to 50 million NIS in the corresponding quarter last year.

g. Taxes on Income

Tax expenses amounted to 116 million NIS in the first six months of 2012 compared to 88 million NIS in the corresponding period last year. Tax expenses abroad increased by 13 million NIS compared to the corresponding period last year, due to the closing of tax assessments and increases in profits abroad. In addition, Israeli tax expenses increased by 15 million NIS compared to the corresponding period last year, mainly as a result of the increase in profits in the Israeli real estate ventures segment.

Tax expenses in the second quarter of the year amounted to 58 million NIS compared to a total of 39 million NIS in the corresponding quarter last year, with each increase deriving from an increase in tax expenses in Israel, mainly due to the increase in profits in the real estate ventures segment.

h. Losses of Investees, Net

The Company's share in the expenses of investees the first six months of 2012 amounted to a loss of 13 million NIS compared to a loss of 35 million NIS listed in the corresponding period last year. The 22 million NIS change derives from both losses listed in the corresponding period last year by an affiliated company operating in the production of electricity in Spain (our share being 18 million NIS; for further details see Note 18.a.10 to the Company's 2011 Financial Statements) and from a drop in losses attributed to impact of the revaluation of the value of the state option on the results of Derech Eretz listed in the corresponding period last year.

The Company's share of the results of associates in the second quarter of the year amounted to a total loss of 9 million NIS, compared to a 4 million NIS loss in the corresponding quarter last year.

i. Earnings for the Period

Earnings for the first six months of 2012 increased by 4 million NIS compared to the corresponding period last year, amounting to 297 million NIS compared to 293 million NIS.

Profits in the second quarter of the year amounted to a total of 130 million NIS compared 171 million NIS in the corresponding quarter last year.

3. Accumulated Orders

The Company's accumulated orders in the field of construction and infrastructure contracting as of June 30 2012 amounted to 9 billion NIS, of which 6.6 billion NIS ($1.7 billion) is for overseas activity. At the end of last year, the Company's accumulated orders in this field amounted to 9.5 billion NIS, of which 7.8 billion NIS ($2.0 billion) was for overseas activity.

4. Apartment Sales

In the first six months of the year the Company (the Company's share – not including the share of partners in joint projects) sold 306 housing units in Israel in return for 430 million NIS compared to 335 housing units in return for 472 million NIS in the corresponding period last year.

	Housing Units Sold	Sales Not Including VAT (In Millions of NIS)	Average Price Per Apartment Without VAT (In Thousands of NIS)
1-6/2012	306	430	1,405
4-6/2012	181	249	1,375
1-6/2011	335	472	1,409
4-6/2011	162	229	1,413

In the period from the start of July until the publication of the report the Company sold 102 housing units in return for 147 million NIS.

5. Liquidity and Financing Sources

- The net cash flow deriving from profits and adjustments to profits amounted to a total of 599 million NIS compared to a total of 530 million NIS in the corresponding period last year. The cash flow used for current activity in the first six months of 2012 amounted to 103 million NIS, compared to a total of 247 million NIS in the corresponding period last year. The main change relative to last year derives mainly from the purchase of land inventories at higher sums than last year.
- The cash flow used for investment activity in the first six months of 2012 amounted to 181 million NIS, compared to a total of 26 million NIS deriving from investment activity in the corresponding period last year. The key differences compared to the same period last year in cash flows used for investment activity largely derive from a reduction listed last year in banking deposits (a total of 251 million NIS).
- The cash flow used for financing activity in the first six months of 2012 amounted to a total of 106 million NIS compared to 356 million NIS in the corresponding period last year. In the first six months of 2012 the Company redeemed credit to the amount of 449 million NIS and paid interest to the amount of 115 million NIS. On the other hand, the Company raised 302 million NIS in credit and issued debentures to the amount of 233 million NIS. In comparison, in the corresponding period last year the Company redeemed credit to the amount of 263 million NIS and paid interest to the amount of 108 million NIS. On the other hand, the Company raised 251 million NIS in credit.

The Company's working capital as of June 30 2012 amounted to 443 million NIS compared to 471 million NIS at the end of 2011. The Company has balances of cash and cash equivalents to the amount of 870 million NIS and unused credit frameworks to the amount of 530 million NIS.

The Company's separate interim financial information summary (hereinafter the Separate report) as of June 30 2012 has a working capital deficit if 141 million NIS. In the opinion of Board members, after being presented with data by Company management, the deficit in question in working capital in the Separate Report does not indicate a liquidity problem. This ruling is based on the cash balances held by the group, on its expected future cash flow, on the Company's assets and the Group's credit frameworks.

6. Financial Status

	Debentures and Credit from Banks and Others	Cash and Cash Equivalents	Deposits and Short and Long-Term Loans	Net
	Millions of NIS			
Infrastructure and construction abroad	8	363	87	(442)
Infrastructure and construction in Israel	1	205	96	(300)
Israeli real estate ventures	1,029	120	295	614
Foreign real estate ventures	247	22	9	216
Renewable energy	67	20	51	(4)
Water	13	-	3	10
Concessions	461	7	111	343
Company HQ	3,123	133	6	2,984
Total Consolidated	4,949	870	658	3,421

a. Equity

The Company's equity as of June 30 2012 amounts to 1,207 million NIS, compared to 969 million NIS on December 31 2011. The increase in equity largely derives from profits in the first six months of 2012 (to the amount of 297 million NIS), from adjustments due to the translation of the financial statements of overseas subsidiaries (to the amount of 49 million NIS) largely prepared in dollars and euros, and from a 28 million NIS increase in minority rights (mainly as a result of purchasing the full holdings of one of the partners in activity in Poland). This increase was partially offset by dividends to the amount of 128 million NIS declared for shareholders.

b. Current Assets

Total current assets held by the Company amount to 5,145 million NIS as of June 30 2012. The balance of current assets increased by 119 million NIS in the first six months of the year, compared to the end of the previous year. The key changes are as follows: a 445 million NIS increase occurred in the balance of customer income receivable (354 million NIS abroad). The increase in the foreign customers balance derives mainly from collection delays. Subsequent to the reported date and as of the approval of the Financial Statements, the Company received 420 million NIS from overseas customers. In addition, an 87 million NIS increase was listed in loans and short-term investments due to expected receipts in the Northern Lanes project, a 15 million NIS increase in deposits in banking corporations and a 56 million NIS increase in accounts receivables and others. On the other hand, a 385 million decrease was listed in the cash balance (a decrease of 239 million NIS abroad compared to an increase of 145 million NIS from activity in Israel), mostly due to the delay in collection due to overseas projects noted above. In addition, a 51 million NIS decrease occurred in current tax assets (22 million NIS of which due to the repayment of tax advance payments for 2010).

c. Non-Current Assets

The Company's long-term investments amount to 4,856 million NIS, a 274 million NIS increase over the end of the previous year. Key changes are as follows: a 115 million NIS increase occurred over the end of last year in the balance of lands. The entire increase in the lands item originates from overseas real estate venture activity, as a result of the first-time consolidation of a company holding companies operating in Poland as a result of purchasing the full holdings of the partner who held 33% of the rights to that company prior to the transaction. Regarding lands in Israel, no changes was listed as 31 million NIS were paid in the reported period for development expenses due to land in Yokneam and Tirat Hacarmel, and in addition, a total of 18 million NIS was paid due to the balance of the proceeds for land in Moshav Matzliach, while on the other hand lands to the amount of 50 million NIS in projects in which construction had started in Netanya and Kfar Saba were transferred to current inventory. Furthermore, a 37 million NIS increase occurred in receivables due to concession arrangements following the progress of works in the Northern Lanes Project, the Tel Aviv student dormitory construction project and a project for the construction of a pneumatic garbage removal system in Yavneh. In addition, a 17 million increase was listed in intangible assets, with 12 million of them constituting goodwill listed pursuant to the purchase of control in an associate holding companies operating in Poland. A 21 million NIS increase was listed in the balance of fixed assets (of these, additions to the amount of 9 million NIS in investments in leasehold improvements in the new office building to which the Company moved last year).

d. Current Liabilities

Current liabilities increased by 147 million NIS in the first six months of the year, compared to the end of 2011, amounting to 4,702 million NIS. The main changes are: a 204 million NIS increase in short-term credit from banks and others, deriving on the one hand from an increase in this item due to the inclusion of 25 million NIS of credit of a company holding companies operating in Poland that became consolidated in the Financial Statements following the purchase of control in this company, and the classifications of current maturities of long-term credit to the amount of 333 million NIS, and on the other hand, from a decrease due to redemptions of short-term credit to the amount of 157 million NIS. Against that, a 166 million NIS decrease was listed in the balance of payables – parties ordering works, as a result of progress in projects and the use of advance payments received in projects abroad (233 million NIS) offset by the receipt of advance payments in projects in Israel (67 million NIS mainly due to advance payments received for a BOT project – the Tel Aviv Courthouse). In addition, a 117 million decrease was listed in advance payments received from apartment buyers in Israel, mainly due to the occupation of apartments in projects in Kiryat Ono, Netanya, Givatayim and Karkur. Furthermore, a 16 million NIS decrease occurred in employee benefits, mainly due to the fact that as part of salary agreements signed in Nigeria, employees were paid the balances of accumulated compensation. On the other hand, a 51 million NIS increase was listed in dividends payable to shareholders paid after the balance sheet date on July 2 2012, and an 89 million NIS increase was listed in the balance of provisions (65 million NIS of which deriving from abroad), mainly due to the increase in overseas activity and a 50 million NIS increase in subcontractors, suppliers and service providers (8 million NIS of which deriving from abroad).

e. Non-Current Liabilities

The main component of this item are the debentures and obligations to banking corporations and others, amounting to 3,849 million NIS as of June 30 2012, compared to a total of 3,848 million NIS at the end of the previous year. Redemptions of the liabilities in question were listed in the first six months of the year (a total of 292 million NIS), and current maturities of long-term loans were classified to current liabilities (a total of 333 million NIS). On the other hand, during the first six months of the year the Company raised debentures (Series 5) in January 2012 at a total sum of 233 million NIS (for additional details see also Section 7 of this report) along with additional credit (a total of 302 million NIS).

Total other liabilities (due to employee benefits, deferred taxes, long-term provisions and a surplus of losses accumulated in affiliates) amount to 243 million NIS, an increase of 8 million NIS from the end of 2011.

7. Details regarding Bonds (Debentures)

Debentures – Series 2

Issue date	April 18 2007
Trustee:	The Union Bank Trust Company Ltd. 6 Ahuzat Bayit Tel Aviv The Company has received announcements from the Union Bank Trust Company Ltd. according to which it had entered into an agreement with Clal Finances Trusts 2008 Ltd., in which Clal Trusts 2007 Ltd. would take upon itself the position of trustee for this series.
NV Upon issue:	1,000,000,000 NIS
The Balance of notational value in circulation as of June 30 2012	450,000,000 NIS (in March 2010 a total of 400,000 NIS of the series was replaced with Series 4).
The balance of the notational value in circulation revalued according to the linkage terms (Linked to the March 2007 Consumer Price Index):	534,272,000 NIS
Linked interest	5.2%
Sum of interest accrued as of June 30 2012	5,556,000 NIS
Market value of 1 NIS NV as of June 30 2012	1.2467
Fair value as of June 30 2012	545,092,000 NIS
Fair value interest	4.67%
Principal redemption:	4 equal annual payments on each of the years from 2012 to 2015
Interest redemption:	16 semiannual payments starting October 2010 Final repayment date (principal and interest) in April 2015

For further details see Note 27.4.b and 24.4.d to the Company's 2011 Financial Statements.

Debentures – Series 3

Issue date:	September 29 2009 (the series was expanded according to the August 4 2010 shelf offering)
Trustee:	Clal Finance Trusts 2007 Ltd. 37 Menachem Begin St. Tel Aviv.
NV Upon issue:	200,000,000 NIS
Balance of notational value in circulation as of June 30 2012:	289,920,000 NIS
Interest 7.9% unlinked, sum of interest accumulated as of June 30 2012:	7,571,000 NIS
Market value of 1 NIS NV as of June 30 2012	1.0968
Fair value as of June 30 2012	304,682,000 NIS
Fair value interest	6.85%
Principal redemption:	8 equal semiannual payments starting March 2013
Interest redemption:	14 semiannual payments starting March 2010 Final repayment date (principal and interest): September 2016

For further details see Note 27.4.c. to the Company's 2011 Financial Statements.

Debentures – Series 4

Issue date:	March 4 2010 (the series was expanded according to the August 4 2010 shelf offering).
Trustee:	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon Tel Aviv.
NV on the issue date:	492,000,000 NIS.
Balance of notational value in circulation as of June 30 2012:	1,169,216,065 NIS
The balance of the notational value in circulation revalued according to the linkage terms/ (Linked to the January 2010 Consumer Price Index):	1,250,035,000 NIS
Linked interest	4.8%
Sum of interest accrued as of June 30 2012	18,334,000 NIS
Market value of 1 NIS NV as of June 30 2012	1.1212
Fair value as of June 30 2012	1,237,569 NIS
Fair value interest	5.48%
Principal redemption:	5 equal annual payments starting March 2015.
Interest redemption:	16 semiannual payments starting September 2010 Final repayment date (principal and interest): March 2019

For further details see Notes 27.4.d, 27.4.e and 27.4.g to the Company's 2011 Financial Statements.

Debentures – Series 5

Issue date	January 1 2012
Trustee:	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon Tel Aviv
NV on issue date:January 1 2012	235,000,000 NIS
The balance of the notational value in circulation revalued according to the linkage terms (Linked to the November 2011 Consumer Price Index):	237,938,000 NIS
Linked interest	5.5%,
Sum of interest accrued as of June 30 2012	6,543,000 NIS
Market value of 1 NIS NV as of June 30 2012	1.0208
Fair value as of June 30 2012	236,253,000 NIS
Fair value interest	6.18%
Principal redemption:	6 equal annual payments on each of the years from 2017 to 2022
Interest redemption:	21 semiannual payments starting June 2012 Final repayment date (principal and interest): June 2022

On July 26 2012 the Company issued additional debentures by way of an expansion of this series in return for a total of 155 million NIS.

For further details see Note 27.4.h to the Company's 2011 Financial Statements.

8. Reporting on Exposure and Market Risk and Management Thereof

The Party Responsible for Market Risk Management at the Corporation

The party responsible for risk management at the Company is Doron Belshar, the Chief Financial Officer, a senior Company executive (see Regulation 26a in the periodic report).

The Company performs supervision on the subject of exposure to market risk. No material changes have occurred in these risks and in the linkage basis report in the first six months of 2012 compared to that detailed in the December 2011 yearly report (see also Note 33 to the Yearly Financial Statements).

9. Sensitivity Tests

a. Sensitivity Tests as of June 30 2012 that Constitute a Material Change from the December 31 2011 Sensitivity Tests

The following is a sensitivity table for sensitive instruments in accordance with changes in market factors as of June 30 2012, relevant to the Company in accordance with the risks described above. The sensitivity analysis was conducted regarding the fluctuation of financial instruments the Company believes have a material influence on the Company. In cases in which the result received for the sensitivity test for the highest rate of change tested amounts to a non-material sum in its absolute value, the Company decided not to present the sensitivity test as a whole.

Sensitivity to Changes in NIS Interest Rate

	Gain (Loss) from Changes			Fair Value	Gain (Loss) from Changes		
	50% Increase	10% Increase	5% Increase		5% Decrease	10% Decrease	50% Decrease
	In Interest Rate				In Interest Rate		
	Thousands of NIS						
Receivables due to concession arrangements	(66,526)	(12,942)	(7,527)	613,746	7,750	15,734	89,277
Long-term loans granted investees	(168,294)	(41,420)	(21,307)	653,870	22,592	46,573	304,156
Long-term loans received	76,690	13,439	8,316	(1,154,705)	(8,463)	(12,512)	(91,774)
Debentures	207,181	43,981	22,160	(2,679,263)	(22,506)	(45,361)	(241,834)
EUR/NIS forward transaction	(1,403)	(281)	(141)	(1,137)	141	282	1,412
USD/NIS forward transaction	(396)	(79)	(40)	(1,498)	40	79	395
CPI transactions	(502)	(101)	(50)	229	50	101	505
Total	**46,750**	**2,597**	**1,411**	**(2,568,758)**	**(396)**	**4,896**	**62,137**

Sensitivity to EUR/NIS Exchange Rate

	Gain (Loss) from Changes		Value in the Books	Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
	In the EUR Exchange Rate			In the EUR Exchange Rate	
	Thousands of NIS				
Cash and cash equivalents	1,492	746	14,921	(746)	(1,492)
Deposits in banking corporations	66	33	663	(33)	(66)
Short-term loans to affiliated companies	8,315	4,157	83,149	(4,157)	(8,315)
Long-term loans to affiliated companies	3,786	1,893	37,862	(1,893)	(3,786)
EUR/NIS forward transaction	(22,966)	(11,483)	(1,137)	11,483	22,966
Total	**(9,307)**	**(4,654)**	**135,458**	**4,654**	**9,307**

Sensitivity to Changes in EUR/USD Exchange Rate

	Gain (Loss) from Changes		Value	Gain (Loss) from Changes	
	10% Increase	5% Increase	in the Books	5% Decrease	10% Decrease
	In the EUR Exchange Rate vs. the USD			In the EUR Exchange Rate vs. the USD	
	Thousands of NIS				
Cash and cash equivalents	3,042	1,521	30,423	(1,521)	(3,042)
Short-term deposits	581	290	5,806	(290)	(581)
Net customers commissioning work	29,119	14,559	291,185	(14,559)	(29,119)
Subcontractors, suppliers and service providers in liabilities	(1,431)	(715)	(14,307)	715	1,431
Other payables	(4)	(2)	(35)	2	4
EUR/USD forward transaction	(2,487)	(1,243)	(37)	1,243	2,487
Total	**28,820**	**14,410**	**313,035**	**(14,410)**	**(28,820)**

Sensitivity to Changes in the Naira/USD Exchange Rate

	Gain (Loss) from Changes		Value	Gain (Loss) from Changes	
	10% Increase	5% Increase	in the Books	5% Decrease	10% Decrease
	In the Rate of the Naira vs. the USD			In the Rate of the Naira vs. the USD	
	Thousands of NIS				
Cash and cash equivalents	4,585	2,293	45,852	(2,293)	(4,585)
Customers commissioning work	41,010	20,505	410,103	(20,505)	(41,010)
Other receivables	428	214	4,284	(214)	(428)
Subcontractors, suppliers and service providers in liabilities	(7,676)	(3,838)	(76,761)	3,838	7,676
Other payables	(1,583)	(791)	(15,829)	791	1,583
Total	**36,764**	**18,383**	**367,649**	**(18,383)**	**(36,764)**

Sensitivity to Changes in the Exchange Rates of Other Currencies vs. the USD

	Gain (Loss) from Changes		Value	Gain (Loss) from Changes	
	10% Increase	5% Increase	in the Books	5% Decrease	10% Decrease
	In the Rates of Other Currencies vs. the USD			In the Rates of Other Currencies vs. the USD	
	Thousands of NIS				
Cash and cash equivalents	3,726	1,863	37,261	(1,863)	(3,726)
Customers commissioning work	23,500	11,750	234,996	(11,750)	(23,500)
Various receivables and debit balances	1,674	837	16,736	(837)	(1,674)
Short-term loans received	(785)	(393)	(7,854)	393	785
Subcontractors, suppliers and service providers in liabilities	(10,176)	(5,088)	(101,763)	5,088	10,176
Other payables	(3,319)	(1,660)	(33,192)	1,660	3,319
Total	**14,620**	**7,309**	**146,184**	**(7,309)**	**(14,620)**

Sensitivity to Changes in the Consumer Price Index

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	3% Increase	1% Increase		1% Decrease	3% Decrease
	In the CPI Rate			In the CPI Rate	
	Thousands of NIS				
Linked loans and deposits Short-term CPI-linked in assets	2,839	946	94,646	(946)	(2,839)
Long-term CPI-linked loans and deposits in assets	840	280	27,993	(280)	(840)
Receivables due to concession arrangements	11,005	3,668	366,837	(3,668)	(11,005)
Long-term loans given investees	20,562	6,854	685,395	(6,854)	(20,562)
Long-term CPI-linked loans in liabilities	(17,368)	(5,789)	(578,925)	5,789	17,368
Linked debentures	(68,901)	(22,967)	(2,296,713)	22,967	68,901
CPI transactions	3,720	1,240	229	(1,240)	(3,720)
Total	**(47,303)**	**(15,768)**	**(1,700,538)**	**15,768**	**47,303**

As an analysis of a change of constituting a 5% increase (decrease) in the consumer price index does not add relevant information, we have performed the sensitivity tests for 1% and 3% rates

Additional data:

The sensitivity analyses are based on the dollar's representative rate of exchange as of June 30 2012 – 3.923.

The sensitivity analyses are based on the euro's representative rate of exchange as of June 30 2012 – 4.9319.

Known CPI (in 2011 terms) – 105.3

10. Sustainability

Since 2008 the Group has managed its activity in a structured manner according to the sustainability principle, with the aim of realizing the Group's vision of creating a sustainable living environment in Israel in particular and in the world in general. The sustainability principle requires the implementation of economic, environmental and social considerations in management and decision making processes, and in deciding to adopt this approach, the Group chose to join an ever-growing number of leading world companies seeking to promote proper business behavior, which will allow global growth and prosperity without having a negative impact on humanity and the environment and the needs of future generations.

If, in the past, this behavior was particularly vital for companies active on the international stage, today sustainability is also vital to domestic companies and the influence of sustainability on the activities of these companies is evident.

A key challenge in sustainability management derives from the absence of agreed-upon management tools. Therefore, the Group has chosen to develop unique management tools suitable to the Group's needs, including characterizing existing processes, defining agreed-upon involvement points in the field of sustainability and subsequently, the assembly of procedures and establishment of computerized management systems for reporting. In addition, in order to establish and deepen capabilities in the field of sustainability, it was decided to appoint a sustainability supervisor in each of the primary subsidiaries in the Group subordinate, in professional terms, to the VP of Sustainability, in order to implement these tools.

The Group continued to deepen sustainability management processes in 2012. The following steps were taken, among others:

- The process of improving project management tools according to the sustainability principle in the three degrees of sustainability, society, environment and economy, in the development, planning, implementation and operation contexts has continued.
- Purchasing procedures were laid out for the Group that require activity in accordance with norms in engagements with suppliers and service providers.
- The implementation of interested party participation principles in the Group's activities continued. The circle of collaborations with interested parties such as the Society for the protection of Nature, the Jerusalem Institute and more was expanded.
- Activity to implement sustainable design principles by accompanying projects through the variety of planning stages and the scopes of various projects continued.
- In order to reduce the Group's environmental footprint, a process of mapping and analyzing environmental influences was carried out, focusing on carbon emissions and fuel consumption, electricity, water and aggregates. The Group characterized mapping data to sites fixed in Israel for the purpose of establishing an environmental management system, which is undergoing development. The possibility of promoting energy surveys in the permanent Solel Boneh factories for the purpose of energy improvement is also being examined.
- A comprehensive mapping was made of CO2 emissions as a result of the Group's activity in Israel. This analysis detected the main sources of emissions, and recommendations were put together for the posting of multi-year reduction goals according to the Group's various activities. The subject is being examined for the purpose of implementation

- The implications of compliance with environmental law are being studied by the Group in light of legislative and regulatory changes such in the field and an examination of their implications on the Group's various activities.
- A learning process was carried out, followed by data collection and preparations for reporting on the SAM questionnaire by the subsidiaries and the Group. To establish the sustainability management, Company Group management has decided to adopt the Sam Group Holdings index, which implements the Dow Jones sustainability index. Adoption of the index is a voluntary process. The measurement takes place as part of the Company's decision to act in preparation for compliance with international goals and to implement best practices in the fields of sustainability, in congruence with the behavior of leading world companies.

  For this purpose the group performs internal analyses of the SAM reports, providing, among other things, grades according to sectors (for instance for the field of renewable energy, water etc.); as well as average grades and threshold grades that allow for an in-depth learning process, alongside new goals to be achieved, thus challenging the companies and giving them the opportunity to improve their grades accordingly.

  Over the course of the year the Group has begun to apply in-depth study of the SAM report and to take required actions in order to improve its response in its internal reporting. The results of the report's analysis will allow the Company to be tested according to leading global criteria and estimate its sustainability, thus deriving the Group's improvement and development challenges in the field of sustainability.

11. Social Involvement and Contribution to the Community

The Group continued to expand its community relations activities in 2012, while emphasizing the Group's commitment to future generations by investing, *inter alia*, in projects promoting sustainability education, contributions and welfare activities. The Group sees itself as responsible not only for building and developing the country in such a way so as to prevent harm to the environment and to the future, but also to nurture the human society in which its business activity takes place.

The Group invested some 880,000 NIS in the first half of 2012 in various social and educational activities in Israel and around the world, and took part in a variety of activities in the field, including: adopting ORT Schools, accompanying the "young business leadership" project in northern Israel, founding a library at an at-risk children's center, accompanying schools in nature outings, adopting the LOTAR unit as part of the "Adopt a Warrior" campaign, supporting 50 nonprofits, renovating community centers, donating to Variety children, supporting activities with at-risk children in Israel's periphery and more.

Beyond the economic investment, the Group allows its workers to take an active part in volunteer activity, and over the course of the first half of 2012 600 volunteer hours were provided by employees in lieu of work hours.

The group harasses the professional skills, knowledge and capabilities it has acquired over the years in favor of social activity, for instance: renovations and carpentry work by Group workers, consulting and planning on the subject of green construction and more.

12. Board Members with Accounting and Financial Capabilities

In accordance with the Securities Authorities guidelines regarding reporting on directors with accounting and financial capabilities, the Board of Directors has decided that the minimum number of such directors will be three.

In the opinion of the Board of Directors, taking into account the nature of the Company as a holding company for companies operating largely in the same industry, this number of directors with accounting and financial capabilities will allow the Board of Directors to meet its obligations, in particular as regards the examination of the Company's financial status and the preparation and approval of the Company's Financial Statements.

The following is the list of six directors with accounting and financial capabilities, who are not employed by the Company in any other position:

Irit Isaacson, Shmuel Berkovitz, Nir Zichlinsky, Efrat Peled, Yosef Alsheikh and Moshe Lachmani (serving as Chairman of the Board of Directors as of July 1 2012).

13. The Board of Directors and Company Management

On March 29 2012 Mr. Israel (Izzy) Tapuchi concluded his service as external director at the Company.

On April 3 2012 Mr. Yitzhak (Khaki) Harel was appointed external director at the Company.

On June 30 2012 Ms. Ravit Barniv concluded her duties as Chairwoman of the Board of Directors and on July 22 2012 she concluded her duties as Company director.

On July 1 2012 Mr. Moshe Lachmani was appointed Chairman of the Company's Board of Directors

14. <u>Financial Statement Approval Process</u>

The Company organ responsible for approving the Financial Statements is the Company's Board of Directors. The Financial Statements are brought before the Board of Directors for discussion and approval after the Board's Finance and Financial Statements Examination Committee has discussed it in its meeting and has recommended that the Board of Directors approve the Financial Statements prior to their approval by the Board of Directors.

The Finance and Financial Statements Examination Committee consist of three Board members (who are also members of the Company's Audit Committee):"

a. Mr. Yosef Alsheikh, Chair of the Committee – external director.
b. Mr. Yizhak (Khaki) Harel – external director (Mr. Harel replaced Mr. Izzy Tapuchi on the Committee starting April 3 2012)
c. Mr. Shmuel Berkowitz (note that over the course of the period between March 7 2012 and March 22 2012, Mr. Moshe Lachmani served on the Committee in lieu of Mr. Berkowitz).

All members of the Committee posses the ability to read and understand financial statements and most of the committee members are external directors, most of who have financial and accounting capabilities. For additional information regarding the Committee members see Regulation 26 in the Additional Information on the Corporation report for 2011.

A detailed presentation is given by Company executives and other to the Finance and Financial Statement Examination Committee as well as the Board of Directors (which discusses the issue after the discussion at the Finance and Financial Statement Examination Committee), on the matter of the key points of the Financial Statements, material issues in financial reporting, including as regards transactions not carried out over the normal course of business, if any, estimates and assessments applied that were employed in the Financial Statements, internal controls related to financial reporting, the completeness and propriety of disclosure in the Financial Statements, the accounting policy adopted and the accounting treatment applied to the corporation's material issues and the changes occurring therein, including changes deriving from the first-time application of new standards, value assessments, including the assumptions and estimates that lie at their base, upon which the data in the Financial Statements relies.

The meeting of the Finance and Financial Statements Examination Committee on the matter of the approval of the Financial Statements was held on August 23 2012. Present at the meeting in question were Yossef Alsheikh, Yizhak (Khaki) Harel and Shmuel Berkowitz. The following senior executives also took part in the meetings of the Finance and Financial Statements Examination Committee held on August 23 2012 – Ofer Kutler (CEO), Amit Segev (Deputy CEO), Doron Belshar (CFO), Ronit Rosenzweig (Accountant) and Ronit Biran (Internal Auditor). Also taking part in the meeting of the Finance and Financial Statements Examination Committee and in the meeting of the Board of Directors discussing the approval of the Financial Statements was the Company's external auditor, who attended to the issues arising in the discussions of the Finance and Financial Statements Examination Committee and those of the Board of Directors and presented key subjects that arose over the course of the audit or the review of the Financial Statements.

Pursuant to the process of approving the Company's Financial Statements by the Board of Directors, a number of days prior to the regular Financial Statement approval meeting, a draft of the Company's Financial Statements including the Board of Directors Report and a Description of the Corporation's Business is submitted to the members of the Finance and Financial Statements Examination Committee and the other members of the Board of Directors to study. Prior to the meeting of the Board of Directors, the Finance and Financial Statements Examination Committee provides its recommendations on the matter of the approval of the Financial Statements and informs it of any fault or problem discovered (if any) over the course of the examination. The Board of Directors has established that providing the recommendations at least 48 hours before the meeting constitutes a reasonable period of time. The Board of Directors estimates that the Committee's recommendations were provided a reasonable period of time before the discussion by the Board of Directors, in light of the scope and complexity of the recommendations.

Moshe Lachmani	Ofer Kutler
Chairman of the Board of Directors	CEO

August 29 2012