

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 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 March 31 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, Eastern and Central Europe and West Asia, mainly in the field of infrastructure contracting, 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 its 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 the 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).

- **Infrastructure** – 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 – Sole 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

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

has accumulated, it is acting to expand its geographical deployment to neighboring countries and new regions, including the United States and South 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 expanding 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 response to 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

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

holdings of one of the partners to the activity 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. is active in Germany in the purchase and improvement of residential apartments and commercial spaces intended to produce rental income.

- **Concession** – activity in this field 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 a significant growth potential. In recent years there has been a trend evident on behalf of the Israeli government 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 for 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 raise finances 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 and constructing the Tel Aviv Courthouse project.

Constructing and providing operation, maintenance and training services for the Israel Police’s national training center. Financial closure took place on April 4 2012. 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 Concentration Committee publications may constitute a threat to 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:
Solar-thermal power production field – initiation, financing, construction and operation of thermo-solar projects including:

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

- 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 submitted, along with Siemens, a bid for a tender issued by the Israeli Government for the financing, construction and operation of a thermo-solar project to of a scope of 110 MW at Aashalim. The Company has passed the threshold conditions but has yet to reach an agreement regarding the price.
- 3) The development of independent technological-engineering capabilities in the thermo-solar field. On February 22 an experimental thermo-solar facility was inaugurated at Ardomb (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 an arrangement for the construction of small and medium-sized facilities. In Spain, the Company has a stake in a company (50%) possessing 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 works 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 natural gas-based private power production project in the Ashdod Industrial Zone with a combined cycle, 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**

Global activity began to recover slightly in the first quarter of 2012. However, after a period of relative calm in concerns regarding the European debt crisis, these concerns have arisen again as a result of the situation in Spain, and to a certain degree in Italy.

The International Monetary Fund (IMF) revised its projection on global growth and trade levels at the end of the first quarter of 2012.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

Growth projections for 2012 and 2013 were raised by 0.2% and 0.1%, to 3.5% and 4.1%, respectively, and global trade growth projections were raised to 4% and 5.6%, a 0.2% improvement over previous projections. At the same time, the IMF emphasized the risks involved in the recovery process. Global inflation remained stable and most central banks left interest unchanged as of the end of Q1.

The Euro Zone

The Euro Zone was in a state of severe crisis in the first quarter of 2012.

After a 1.2% drop in growth in yearly terms in the last quarter of 2011, a 0.5% negative growth rate occurred in the first quarter of the year. The decrease in GDP will continue in coming quarters due to the restraining influence of growth throughout the continent in light of the escalation of the debt crisis and the increase in Spanish and Italian ten-year bond yields to 6%. In recent weeks the Greek financial situation has also grown worse, something that may lead to Greece's departure from the Euro Zone, which may have many far-reaching implications.

The EU and mainly its largest economies – Germany and France – are acting to forestall the Zone's dissolution while providing significant amounts of assistance to Spain and Italy and imposing budgetary demands on the Greek government.

At the end of Q1 2012 the IMF managed to secure an obligation to increase the scope of financing to \$430 billion in order to assist European countries when necessary.

The status of the employment market in the Euro Zone remains problematic and unemployment reached a peak of 10.9% at the end of the first quarter of 2012, which will make recovery in the future difficult.

The United States

Q1 data in the United States indicated continued growth, but at a more moderate rate.

The U.S. economy grew by 2.2% in the first quarter. Growth was a bit below projections, but private consumption was surprisingly good and increased by 2.9%.

Leading manufacturing activity indices indicate expanded activity.

The high unemployment rate will make improvements in private consumption more difficult and the assumption is that unemployment will remain at 8.2% in the second quarter of 2012 as well.

The Israeli Economy and the Construction Industry

The growth rate slowed down over the course of the first quarter of 2012, which was expressed in a decrease in industrial exports and a moderation of private consumption.

According to Central Bureau of Statistics data, in Q1 the GDP growth rate on a yearly scale was 3.0%, lower than the growth rate in Q4 2011 (3.2%) and in Q3 (3.3%); private consumption expenses increased by 4.2%, 6.2% in fixed assets, 14.2% in goods and services exports and 0.8% in public consumption expenses.

The unemployment rate increased to 6.9% in March compared to 6.5% in February, and the yearly deficit rate is expected to reach 4.5% of the GDP, requiring either budgetary cuts or tax increases.

The Bank of Israel Research Division estimates that inflation is expected to increase by 2.6% over the next twelve months. The GDP is expected to increase by 3.1% in 2012 and 3.5% in 2013; Bank of Israel interest rates are expected to remain unchanged throughout the coming quarter.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

The Construction Industry

Investment in fixed assets (investments in housing and investments by elements of the economy in construction, equipment and transportation) increased by 6.2% on a yearly level in the first quarter of 20.12, after a 6.7% increase in the previous quarter. The increase in investments in fixed assets mainly reflects a 4.7% increase in construction investments, after a 16.7% increase in the previous quarter.

In addition, subsequent to the reported date, the government approved a tax exemption for provident funds and pension funds that will invest in long-term residential apartments. This step is expected to support the addition of residential projects and continued investments in construction.

Residential Construction

In the residential field, a clear trend is evident of an increase in the inventory of apartments for sale, mainly via private initiative, with a decrease in apartment sales on the one hand and stability in starts of construction on the other.

May 2012 Central Bureau of Statistics data indicate that an 11.2% increase occurred in residential construction, at a yearly level, in the first quarter of 2012. Apartment prices dropped by 3% compared to the first quarter of 2011, and in addition, the Bureau noted that sales had dropped by 15% compared to the first quarter of 2011, but that a 6% increase had occurred in the number of new apartments needed in Q1 compared to Q4 2011.

At the end of Q1 2012, the total number of new apartments remaining for sale amounted to 20,880, which constitutes a 38% increase over the corresponding period last year.

Over the course of Q1 2012, a drop was listed in the numbers of apartments needed in all districts, with the exception of the Jerusalem District (a 25% increase), compared to the corresponding period last year.

Based on State Revenue Administration data, the Ministry of Finance stated that sales in the new apartment market had recovered a slightly in the first quarter of 2012, but were still 15% below the corresponding period last year. In addition, the report states that the number of apartments sold by investors in Q1 was 12% higher than the previous quarter, as a result of increased taxation expected for investors.

The stabilization of apartment prices comes in light of the continued growth in the number of construction starts, was influenced by the delay in Bank of Israel interest rate increases, the Bank of Israel's steps in the field of mortgages and the steps taken by the Ministry of Finance in the matter of real estate taxation. These steps, along with land marketing efforts made by the Ministry of Construction and Housing and the Israel Land Administration, are expected to continue moderating the increase in housing prices.

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.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

Investments in Infrastructure and Roads

Data from the National Road Council's Multi-Year Plan for 2011-2016 indicates that new plans 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 issue debentures (Series 5) in return for a total of 233 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, 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 5a to the Company's Financial Statements.

Dividend Distribution

On May 28, 2012 the Company's Board of Directors decided to distribute dividends to the amount of 65 million NIS.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

2. **Business Activity Results**

The following is concise data regarding business activity results.

	For the Three Month Period	
	Ending March 31	
	2012	2011
	Millions of NIS	
Revenues from works and sales	1,708	1,329
Cost of works and sales	<u>1,373</u>	<u>1,006</u>
Gross earnings	335	323
Proceeds from the sale of investment property	4	9
Sales and marketing expenses	(8)	(8)
General and administrative expenses	(81)	(80)
Other revenues (expenses), net	<u>13</u>	<u>(2)</u>
Operating earnings	263	242
Financing costs, net	(34)	(39)
Company's share of losses of affiliates	<u>(4)</u>	<u>(31)</u>
Earnings before taxes on income	225	172
Taxes on income	<u>(59)</u>	<u>(50)</u>
Earnings for the period	166	122
	=====	=====

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 affiliated companies: Derech Eretz Highways (1997) Ltd., the Carmelton Group Ltd., H2ID Ltd., the Shobel Project Tel Aviv Ltd. and Policity Ltd., as well as a group of operation companies operating on concession projects. Activity is also carried out via Shikun & Binui – Northern Routes Ltd.
- Others – includes the Company's holdings in activities not part of its core business.

For further information see Note 6 to the Company's Financial Statements.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

a. **Revenues from Works and Sales**

	<u>For the Three Month Period</u>	
	<u>Ending March 31</u>	
	<u>2012</u>	<u>2011</u>
	<u>Millions of NIS</u>	
Infrastructure and construction abroad	941	676
Infrastructure and construction in Israel	459	347
Israeli real estate ventures	281	301
Foreign real estate ventures	2	1
Renewable energy	38	19
Water	8	9
Concessions	44	63
Adjustments	<u>(65)</u>	<u>(87)</u>
Total consolidated	1,708	1,329
	=====	=====

Revenues from works and sales in the first three months of 2012 amounted to a total of 1,708 million NIS compared to a total of 1,329 million NIS in the corresponding quarter last year. The main changes that occurred in the first three months of the year compared to the same period last year are as follows: the foreign infrastructure and construction segment saw a 265 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 46 million was listed in revenues in this segment compared to last year. The Israeli infrastructure and construction segment saw a 112 million NIS increase as a result of an expansion in activity, along with a 19 million NIS increase in the renewable energy segment.

At the same time, a 20 million NIS decrease was listed in the Israel real estate ventures segment, as a result of the fact that new land and lot realizations occurred in the reported period, while lots has been sold in Kiryat Ono, Ashkelon and Pardes Hannah in the same period last year. In this segment, recognition of income from the sale of apartments occurs upon delivery to the customer and not upon the sale of the apartment in practice. The Company performed 143 apartment occupations in the first quarter of the year compared to 171 apartment occupations last year; at the same time, the average price of an apartment occupied was higher than an apartment occupied in the corresponding period last year.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

b. **Gross Profits**

	<u>For the Three Month</u>	
	<u>Period Ending March 31</u>	
	<u>2012</u>	<u>2011</u>
	<u>Millions of NIS</u>	
Infrastructure and construction abroad	199	171
Infrastructure and construction in Israel	24	26
Israeli real estate ventures	106	123
Foreign real estate ventures	1	-
Renewable energy	4	4
Water	-	2
Concessions	-	1
Adjustments	<u>1</u>	<u>(4)</u>
Total consolidated	<u>335</u>	<u>323</u>
	=====	=====

Gross profits in the first three months of the year amounted to a total of 335 million NIS compared to a total of 323 million NIS in the corresponding period last year. The gross profit rate in this quarter amounted to 20% compared to 24% in the corresponding period last year. The 12 million NIS increase in gross profits compared to the corresponding period last year derives from the increase in the scope of activity in the overseas infrastructure and construction segment (28 million NIS).

On the other hand, a decrease in gross profits was listed in the Israeli real estate ventures segment (17 million NIS), with the drop in gross profits in this segment deriving from the drop in sales of lots (16 lots in Kiryat Ono, Ashkelon and Pardes Hannah), which was offset by an increase in gross profits from the sale of residential apartments, following the increase in the average cost per housing unit. The drop in gross profit rates in the quarter compared to the corresponding quarter last year derives from the Israeli real estate ventures segment, as a result of the drop in the sale of lots in which the Company has particularly high gross profit rates, as noted above, as well as from the foreign infrastructure and construction segment.

c. **Administrative and General Expenses**

Administrative and general expenses in the first three months of the year amounted to a total of 82 million NIS, a 2 million NIS increase over the corresponding period last year (a total of 80 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.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

d. **Other Operating Revenues (Expenses), Net**

These revenues amounted to 13.6 million NIS in the first quarter of the year compared to net expenses of 2 million NIS in the corresponding period last year. The following are details of the key revenues and expenses included in this item:

	<u>For the Three Month</u>	
	<u>Period Ending March 31</u>	
	<u>2012</u>	<u>2011</u>
	<u>Millions of NIS</u>	
Profit from the revaluation of investment in affiliate (1)	12.0	-
Capital gain (loss) from the sale of fixed assets	0.1	(0.3)
Profit from increase in value (loss from the impairment) of assets, net	0.5	(1.1)
Others, net	<u>1.0</u>	<u>(0.6)</u>
	13.6	(2.0)
	=====	=====

(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.

e. **Operating Earnings**

	<u>For the Three Month</u>	
	<u>Period Ending March 31</u>	
	<u>2012</u>	<u>2011</u>
Infrastructure and construction abroad	166	141
Infrastructure and construction in Israel	8	11
Israeli real estate ventures	84	109
Foreign real estate ventures	14	(3)
Renewable energy	(4)	(7)
Water	(3)	(1)
Others	-	(1)
Adjustments	<u>36</u>	<u>30</u>
Total by operating segments	301	279
Segment-wide expenses	<u>(38)</u>	<u>(37)</u>
Total operating earnings	263	242
	=====	=====

Operational profits in the first three months of 2012 amounted to 263 million NIS, a 21 million increase over the corresponding period last year. The increase derives both from an increase in operational profits in the overseas infrastructure and construction segment (25 million NIS) and in the overseas real estate ventures segment (12 million NIS mainly as a result of revenues listed due to the revaluation of an investment in an affiliate holding companies operating in Poland – see also Section 1d of the report) offset by a decrease in operational profits in the Israeli real estate ventures segment (25 million NIS, mainly due to the drop in the sale of lots compared to last year).

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

f. Financing Costs, Net

Net financing costs in Q1 2012 amounted to a total of 34 million NIS compared to a total of 39 million NIS in the corresponding period last year. Financing costs referring to long-term credit amounted to 66 million NIS in Q1 2012 compared to a total of 77 million NIS in the corresponding period last year. Most of the costs due to long-term credit are influenced by the changes in Consumer Price Index's rate of increase. A 0.87% increase was listed in the first quarter last year compared to no change (0%) in the reported period, and as a result a decrease was listed in these expenses. On the other hand, an offsetting influence was listed to the amount of 13 million NIS due to the decrease listed in financing revenues deriving from loans granted to affiliates, which are also mostly influenced by the change in the CPI increase rate.

g. Taxes on Income

Tax expenses amounted to 59 million NIS in the first quarter of 2012 compared to 50 million NIS in the corresponding period last year. Tax expenses abroad increased by 12 million NIS compared to the corresponding period last year, due to the increase in profits abroad and the closing of tax assessments. On the other hand, Israeli tax expenses decreased by 3 million NIS compared to the corresponding period last year, as a result of the decrease in profits in the Israeli real estate ventures segment.

h. Losses of Investees, Net

The Company's share in the expenses of investees the first quarter of 2012 amounted to a loss of 4 million NIS compared to a loss of 31 million NIS listed in the corresponding period last year. The 27 million NIS change derives from losses listed last year by an affiliated company operating in the production of electricity in Spain (our share being 16 million NIS; for further details see Note 18.a.10 to the Company's 2011 Financial Statements), from a drop in losses attributed to the revaluation of the value of state options on the results of Derech Eretz last year (the Company's share being 13 million NIS), as well as due to the results of several affiliates active in the field of concessions.

i. Earnings for the Period

Net earnings for the first quarters of 2012 increased by 36% compared to the corresponding period last year, amounting to 166 million NIS compared to 122 million NIS in the corresponding period last year.

3. Accumulated Orders

The Company's accumulated orders in the field of construction and infrastructure contracting as of March 31 2012 amounts to 8.6 billion NIS, of which 6.9 billion NIS (\$1.8 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.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

4. **Apartment Sales**

Details of sales of an Israeli affiliate (the Company's share – without the share of partners in joint projects) in recent periods are as follows:

	<u>Housing Units Sold</u>	<u>Sales Not Including VAT (In Millions of NIS)</u>	<u>Average Price Per Apartment Without VAT. (In Thousands of NIS)</u>
1-3/2011	238	338	1,423
1-3/2012	187	260	1,393

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

5. **Liquidity and Financing Sources**

- Net cash flow deriving from profits and adjustments to profits amounted to a total of 301 million NIS compared to a total of 303 million NIS in the corresponding period last year. The cash flow used for current activity in the first three months of 2012 amounted to 181 million NIS. The key change compared to last year derives from cash flow originating from changes in asset and liability items. The change in asset and liability items compared to the corresponding period last year derives mainly from a temporary delay in collecting debts of foreign customers. Subsequent to the reported date and as of April 30 2012, the Company received 472 million NIS from overseas customers.
- The cash flow used for investment activity in the first three months of 2012 amounted to 17 million NIS, compared to a total of 160 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 derives from a reduction listed last year in banking deposits (284 million NIS).
- The cash flow deriving from financing activity in the first three months of 2012 amounted to 95 million NIS compared to 352 million NIS used by the Company in the corresponding period last year. In the first three months of 2012 the Company redeemed credit to the amount of 99 million NIS and paid interest to the amount of 67 million NIS. On the other hand, the Company raised 45 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 381 million NIS and paid interest to the amount of 56 million NIS. On the other hand, the Company raised 97 million NIS in credit.

The Company's working capital as of March 31 2012 amounted to 636 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 1,139 million NIS and unused credit frameworks to the amount of 490 million NIS.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

6. **Financial Status**

	<u>Debentures and Credit from Banks and Others</u>	<u>Cash and Cash Equivalents</u>	<u>Deposits and Short and Long-Term Loans</u>	<u>Net</u>
Millions of NIS				
Infrastructure and construction abroad	6	369	83	(446)
Infrastructure and construction in				
Israel	2	91	84	(173)
Israeli real estate ventures	957	192	289	476
Foreign real estate ventures	252	24	16	212
Renewable energy	52	10	11	31
Water	14	-	3	11
Concessions	404	7	29	368
Company HQ	<u>3,247</u>	<u>446</u>	<u>5</u>	<u>2,796</u>
Total consolidated	<u>4,934</u>	<u>1,139</u>	<u>520</u>	<u>3,275</u>
	=====	=====	=====	=====

a. **Equity**

The Company's equity as of March 31 2012 amounts to 1,060 million NIS, compared to 969 million NIS on December 31 2011. The increase in equity largely derives from profits in Q1 2012 (to the amount of 166 million NIS), from a 26 million NIS increase in minority rights (as a result of purchasing the entire holdings of one of the partners in activity in Poland), from 64 million NIS in dividends declared for shareholders and from adjustments due to the translation of the financial statements of overseas subsidiaries (to the amount of 366 million NIS) largely prepared in dollars and euros.

b. **Current Assets**

Total current assets held by the Company amount to 5,182 million NIS as of March 31 2012. The balance of current assets increased by 156 million NIS in the first quarter of the year, compared to the end of the previous year. The key changes are as follows: a 378 million NIS increase in the balance of customer income receivable (304 million NIS abroad). The increase in the foreign customers balance derives mainly from collection delays, among other things due to the elections taking place last year in Nigeria. Subsequent to the reported date and as of April 30 2012, the Company received 472 million NIS from overseas customers. In addition, a 15 million NIS increase was listed in bank deposits. On the other hand, a 117 million decrease was listed in the cash balance (a decrease of 233 million NIS abroad compared to an increase of 116 million NIS from activity in Israel), mostly due to the reason denoted above. A 32 million NIS decrease occurred in the balance of loans and short-term investments deriving from repayments in the Israeli real estate ventures segment. In addition, a 38 million NIS decrease occurred in current tax assets (22 million NIS of which due to the repayment of tax advance payments for 2010). In addition, a 50 million decrease was listed in raw materials inventory (36 million NIS abroad and 14 million originating from activity in Israel).

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

c. **Non-Current Assets**

The Company's long-term investments amount to 4,682 million NIS, a 100 million NIS increase over the end of the previous year. Key changes are as follows: a 113 million NIS increase 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 prior to the transaction held 33% of the rights to that company. Regarding lands in Israel, no changes were listed as 17 million NIS were paid in the reported period for development expenses due to land in Yokneam, which lands to the amount of 18 million NIS in projects in which construction had started in Netanya and Kfar Saba were transferred to current inventory. Furthermore, a 57 million NIS increase occurred in receivables due to concession arrangements following the progress of works in the Northern Lanes Project (50 million NIS) and following progress in the Tel Aviv student dormitory construction project and a project for the construction of a pneumatic garbage removal system in Yavneh (both together 7 million NIS). In addition, a 14 million increase was listed in intangible assets, with 12 million of it constituting goodwill listed pursuant to the purchase of control in a company holding companies operating in Poland. On the other hand, a 24 million NIS decrease was listed in the balance of fixed assets (a 34 million NIS decrease following infrastructure and construction work abroad, with an 8 million NIS increase in investments in leasehold improvements in the new office building to which the Company moved last year). Furthermore, a 40 million NIS decrease was listed in the balance of investments and loans given investees, mainly due to the subtraction of the investment of an investee holding companies operating in Poland, which became consolidated in the Financial Statements following the acquisition of control in this company.

d. **Current Liabilities**

Current liabilities decreased by 9 million NIS in the first quarter of the year, compared to the end of 2011, amounting to 4,546 million NIS. The main changes are a 211 million NIS decrease 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 (188 million NIS) and projects in Israel (a 23 million NIS increase mainly due to advance payments received for a BOT project – the Tel Aviv Courthouse).

On the other hand, a 51 million NIS increase was listed in dividends payable to shareholders paid after the balance sheet date on April 23 2012, an 11 million NIS increase in the balance of advance payments from customers, mainly from apartment buyers in Israel, an 18 million NIS increase was listed in the balance of provisions, a 99 million NIS increase in subcontractors, suppliers and service providers (83 million NIS of which deriving from abroad), and a 12 million NIS increase in short-term credit from banks and others, on the one hand, with an increase listed 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 on the other hand, classifications of current maturities of long-term credit and redemptions of short-term credit to the amount of 37 million NIS were listed.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

e. **Non-Current Liabilities**

The main component of this item are the debentures and obligations to banking corporations and others, amounting to 4,027 million NIS as of March 31 2012, a 179 million NIS increase compared to the end of the previous year. Most of the net increase derives from raising debentures (Series 5) in January 2012 to a total sum of 233 million NIS (for additional details see also Section 7 of this report (as well as raising additional credit (a total of 45 million NIS). On the other hand, redemptions of the liabilities in question were listed in the first quarter of the year (a total of 52 million NIS), and current maturities of long-term loans were classified to current liabilities (a total of 35 million NIS).

Total other liabilities (due to employee benefits, deferred taxes, long-term provisions and a surplus of losses accumulated in affiliates) amount to 231 million NIS, a drop of 4 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 2007 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
Balance of notational value in circulation as of March 31 2012	600,000,000 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):	703,568,251 NIS
Linked interest	5.2%
Interest accrued as of March 31 2012	16,463,497 NIS
Market value of 1 NIS NV as of March 31 2012	1.246
Fair value as of March 31 2012	762,341,000 NIS
Fair value interest	1.25%
Principal redemption:	4 equal annual payments on each of the years from 2012-2015
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.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

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 March 31 2012:	289,920,000 NIS
Interest 7.9% unlinked, sum of interest accumulated as of 3.31.2012:	1,845,019 NIS
Market value of 1 NIS NV as of March 31 2012	1.0685
Fair value as of March 31 2012	317,345,000 NIS
Fair value interest	4.37%
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 March 31 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):	1,234,602,187 NIS
Linked interest	4.8%
Interest accrued as of March 31 2012	3,292,272 NIS
Market value of 1 NIS NV as of March 31 2012	1.101
Fair value as of March 31 2012	1,374,909,000 NIS
Fair value interest	2.41%
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.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

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):	235,000,000 NIS
Linked interest	5.5%,
Interest accrued as of March 31 2012	3,195,347 NIS
Market value of 1 NIS NV as of March 31 2012	1.0726
Fair value as of March 31 2012	274,633,000 NIS
Fair value interest	3.24%
Principal redemption:	6 equal annual payments on each of the years from 2017-2022
Interest redemption:	21 semiannual payments starting June 2012 Final repayment date (principal and interest): June 2022

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 Blachar, 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 three 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 March 31 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 March 31 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 to 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.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

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	(58,747)	(12,988)	(6,580)	549,749	6,757	13,697	76,667
Long-term loans granted investees	(170,994)	(42,022)	(21,611)	667,133	22,903	47,199	307,301
Long-term loans received	42,372	13,439	6,447	(1,064,014)	(6,532)	(12,512)	(47,424)
Debentures	123,886	25,594	12,850	(3,088,160)	(12,957)	(26,022)	(134,583)
EUR/NIS forward transaction	(2,590)	(519)	(260)	(3,387)	260	519	2,601
USD/NIS forward transaction	(19)	(4)	(2)	(76)	2	4	19
CPI transactions	(35)	(7)	(4)	(1,294)	4	7	35
Total	(66,127)	(16,507)	(9,160)	(2,940,049)	10,437	22,892	204,616

Sensitivity to Changes in the USD/NIS Exchange Rate

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
	In the USD Exchange Rate			In the USD Exchange Rate	
	Thousands of NIS				
Cash and cash equivalents	1,065	532	10,647	(532)	(1,065)
Long-term loans and deposits linked to the NIS in assets	4,496	2,248	44,962	(2,248)	(4,496)
Long-term loans to investees	3,198	1,599	31,979	(1,599)	(3,198)
Long-term loans received	(7,430)	(3,715)	(74,300)	3,715	7,430
USD/NIS forward transactions	1,412	706	(76)	(706)	(1,412)
Total	2,741	1,370	13,212	(1,370)	(2,741)

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

Sensitivity to EUR/NIS Exchange Rate

	Gain (Loss) from Changes		Book Value	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	3,274	1,637	32,737	(1,637)	(3,274)
Deposits in banking corporations	192	96	1,917	(96)	(192)
Short-term loans to affiliated companies	9,438	4,719	94,377	(4,719)	(9,438)
Long-term loans to affiliated companies	3,772	1,886	37,723	(1,886)	(3,772)
EUR/NIS forward transaction	(23,194)	(11,597)	(3,387)	11,597	23,194
Total	(6,518)	(3,259)	163,367	3,259	6,518

Sensitivity to Changes in EUR/USD Exchange Rate

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	10% Increase	5% Increase		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	6,285	3,142	62,847	(3,142)	(6,285)
Short-term deposits	580	290	5,795	(290)	(580)
Net customers commissioning work	24,490	12,245	244,904	(12,245)	(24,490)
Subcontractors, suppliers and service providers in liabilities	(655)	(327)	(6,546)	327	655
EUR/USD forward transaction	(5,208)	(2,604)	(2,837)	2,604	5,208
Total	25,492	12,746	304,163	(12,746)	(25,492)

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

Sensitivity to Changes in the Naira/USD Exchange Rate

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	10% Increase	5% Increase		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	3,594	1,797	35,935	(1,797)	(3,594)
Customers commissioning work	45,098	22,549	450,975	(22,549)	(45,098)
Other receivables	369	185	3,693	(185)	(369)
Subcontractors, suppliers and service providers in liabilities	(9,187)	(4,594)	(91,872)	4,594	9,187
Other payables	(1,538)	(769)	(15,376)	769	1,538
Total	38,336	19,168	383,355	(19,168)	(38,336)

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

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	10% Increase	5% Increase		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	4,723	2,361	47,225	(2,361)	(4,723)
Customers commissioning work	22,267	11,134	222,673	(11,134)	(22,267)
Various receivables and debit balances	2,644	1,322	26,440	(1,322)	(2,644)
Short-term loans received	(621)	(310)	(6,208)	310	621
Subcontractors, suppliers and service providers in liabilities	(14,541)	(7,271)	(145,413)	7,271	14,541
Other payables	(2,783)	(1,391)	(27,826)	1,391	2,783
Total	11,689	5,845	116,891	(5,845)	(11,689)

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

Sensitivity to Changes in the Consumer Price Index

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	3% Increase	1% Increase		3% Decrease	1% Decrease
	In the CPI Rate			In the CPI Rate	
	Thousands of NIS				
Linked loans and deposits:					
Short-term CPI-linked assets	1,063	354	35,426	(354)	(1,063)
Long-term CPI-linked loans and deposits in assets	838	279	27,927	(279)	(838)
Receivables due to concession arrangements	11,232	3,744	374,413	(3,744)	(11,232)
Long-term loans given investees	19,820	6,607	660,652	(6,607)	(19,820)
Short-term loans from others:					
Linked to the CPI	(2,045)	(682)	(68,156)	682	2,045
Long-term CPI-linked loans in liabilities	(14,680)	(4,893)	(489,324)	4,893	14,680
Linked debentures	(73,342)	(24,447)	(2,444,747)	24,447	73,342
CPI transactions	3,068	1,023	(1,294)	(1,023)	(3,068)
Total	(54,046)	(18,015)	(1,905,103)	18,015	54,046

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 March 31 2012 – 3.715.

The sensitivity analyses are based on the euro's representative rate of exchange as of March 31 2012 – 4.953.

Known CPI (in 2011 terms) – 104

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. To establish the management of sustainability, 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

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

goals and implement best practices in the fields of sustainability, in congruence with the behavior of leading world companies.

For this purpose the group performs 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 an in-depth learning process, alongside new goals to achieve, thus challenging the companies and giving them the opportunity to improve their grades accordingly.

Over the course of the past year the Group has begun to apply in-depth study of the SAM report and to take required actions in order to provide the best possible response to the report that is supposed to take place in the end of 2012; 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. SAM indices provide details on matters pertaining to aspects of the Group's management as a whole, in economic, social and environmental fields.

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 appropriate 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 subsidiaries in the Group subordinate 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:

- A Group ethical code was approved, and enforcement and assimilation plans are currently being written.
- The process of improving project management tools according to the sustainability principle in the three degrees of sustainability, society, environment and economy, has continued. Development includes a multi-dimensional approach and also requires the examination of partners and the examination of the project's management.
- A purchasing procedure was laid out for the Group, which requires activity in accordance with norms in engagements with suppliers and service providers. All of the subsidiaries are preparing to implement the procedure in accordance with the nature of their activity.
- The implementation of interested party participation principles in the Group's activities continued.
- 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 characterizes mapping data to fixed sites in Israel for the purposes of establishing an environmental management system.
- 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 are currently being established to set multi-year reduction goals of the group's various activities.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

- The subject of compliance to environmental law in the Group is being studied in light of legislative changes such as the Clean Air Law, the Polluted Lands Law, the Energy Preservation Regulations Amendment and an examination of the meanings of the Group's various activities.

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 400,000 NIS in Q1 2012 in various social and educational activities, 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, planting activity in Tu Bishvat in schools throughout the country with the participation of LOTAR soldiers and more.

Beyond the economic investment, the Group allows its workers to take an active part in volunteer activity, and over the course of Q1 2012 invested 600 hours of volunteerism by employees in lieu of work hours.

The group harnesses 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.

The Arison Group Good Deeds Day – this year some 150 Group workers take part, for the sixth time in a row. Activity consisted of harnessing the capabilities, creativity and work of the employees for the welfare of children in Israel and around the world; painting walls and decorating them with beautiful drawings and constructing playgrounds for an after-school center for at-risk youth, setting up drawing boards and putting together an interactive game in the yard of a school for special-needs children in Southern Israel, constructing a playground and performing painting works in conjunction with the children of an ORT school in northern Israel, renovating a playground in an ADO structure in Berlin, mobilizing the LOTAR soldiers (a unit adopted by the Group as part of "Adopt a Warrior") to paint the apartment of children from a school in central Israel 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 Izacson, Shmuel Berkovitz, Nir Zichlinsky, Efrat Peled, Joseph Alshech and Moshe Luhmany.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

13. The Board of Directors and Company Management

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

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

14. Financial Statement Approval Process

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. Joseph Alshech, Chair of the Committee – external director.
- b. Mr. Itzhak (Khaki) Harel – external director (Mr. Harel replaced Mr. Izzy Tapoohi on the Committee starting April 3 2012)
- c. Mr. Shmuel Berkovitz (note that over the course of the period between March 7 2012 and March 22 2012, Mr. Moshe Luhmany served on the Committee in lieu of Mr. Berkovitz).

All members of the Committee possess 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 basis, 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 May 24 2012, with Mr. Joseph Alshech and Mr. Itzhak (Khaki) Harel attending. The following senior executives took part in the meetings of the Finance and Financial Statements Examination Committee held on May 24 2012 – Ofer Kotler (CEO), Amit Segev (Deputy CEO), Doron Blachar (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 also 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.

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 31 2012

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 passed on 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 faults or problems 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.

Ofer Kotler
Chief Executive Officer

Ravit Barniv
Chairman of the Board of Directors

May 28 2012