Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Year Ending December 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 December 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 nonresidential 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 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 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 also developed 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).

- **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 – Solel Boneh (Construction and Infrastructure) Ltd. (in Israel).

  Shikun & Binui – SBI Infrastructure Ltd. has over 54 years of experience in the development of infrastructure abroad, mainly in Africa, Central America, Central Europe and West Asia. Shikun & Binui Ltd. – SBI Infrastructures is currently active in several 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 88 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 and construction 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 Ltd. provides an 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 Ltd. mostly operates in high demand areas in Israel, while placing emphasis on green projects such as its residential project in East Netanya ("Pure") and a residential project in Karkur ("Karkur Dreams"), which was the first residential project in Israel to receive Green Standard approval. Furthermore, Shikun & Binui Real Estate Ltd. is active in nonresidential 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; the Ir Yamim Mall in Netanya; and the IKEA compound in Kiryat Atta, the design of which also took into account 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 Hungary, Romania, Poland and the Czech Republic in the development of residential and nonresidential 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. At the same time, the Company is acting to take advantage of business opportunities and make investments in projects in countries in which the local economy supports real estate projects (primarily in the Czech Republic and Poland). As a result, the Group has purchased the full holdings of one of its 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 48.4% stake as of the reported date) is active in Germany in the purchase and improvement of residential apartments and commercial spaces intended to produce rental income.

- **Concessions** – 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 significant growth potential. There has been a trend evident on behalf of the Israeli government and other governments around the world 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 financing, implementing, supervising and controlling the construction and operation of the project to the concession holder. On the other hand, following the implications of the ongoing 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. 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 Financial Statements), the construction and operation of the Carmel Tunnel project, the construction of the Hadera Desalination Plant, its expansion and operation, establishing

and operating a project for restoring and maintaining roads in Northern Israel, constructing the Tel Aviv Courthouse project and providing operation and construction services and constructing and providing operation, maintenance and instruction services at the Israel Police National Center (financial closing for this project 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. to the Company's 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., with emphasis placed on the fields detailed below:

  Thermo-solar power production field – 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) Ashalim Tender – in February 2011 the Company, along with the Siemens Corporation, submitted a bid for a tender for the construction of a thermo-solar power plant with an output of 110MW on Plot A, near the town of Ashalim in the Negev.

  In September 2012, following an internal Siemens decision, a request was submitted on behalf of the consortium to the tender Committee, to change the structure of the group so that Spanish company Abengoa would replace Siemens in the project.

  The request to change the structure of the group was approved by the tender Committee and in December 2012 the Company, along with Abengoa, submitted a renewed price quote for the tender. The winner of the tender should be announced during the first half of 2013.

  3) The development of independent technological-engineering capabilities in the thermo-solar field. In February an experimental Shikun & Binui Renewable Energy Ltd. 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 on land. The Company also holds a 50% stake in a Spanish company holding photo-voltaic projects on land and rooftops in Spain 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 Plant, 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 natural gas-based private power production project in Ashdod with a combined cycle, at an output of 120 mW.

- **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. Noteworthy Events During and Subsequent to the Reported Period

Issuance of Debentures

On January 1 2012 the Company issued debentures (Series 5) in return for a total of 235 million NIS.

On June 26 2012 the Company issue debentures by way of a Series 5 expansion in return for a total of 155 million NIS.

On October 18 2012 the Company issue debentures by way of a Series 5 expansion in return for a total of 537 million NIS.

For further details see Section 6 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 31.c.7 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 financing of 691 million NIS. For further details see Note 18.a.9 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 23 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, which were paid on October 22 2012.
On November 25, 2012 the Company's Board of Directors decided to distribute dividends to the amount of 80 million NIS, paid on December 20 2012.
On March 21 2012 the Company's Board of Directors decided to distribute dividends to the amount of 50 million NIS, to be paid April 25 2013.
For further details see Note 37h 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.
On September 27 2012 the Company received notice that the joint venture offer was not selected as the winning bid in the tender in question.

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 31.c.9 to the Company's Financial Statements.

Agreement in principle to Finance the Ashdod Power Plant Expansion project:

In August 2012 a subsidiary signed an agreement in principle with Bank Hapoalim Ltd. to finance an expansion project for the Ashdod Power Plant, to the amount of 300 million NIS. For further details see Note 34.a.11 to the Company's Financial Statements.

Agreement to Pave and Expand a Road in Nigeria

In October 2012 a subsidiary entered into an agreement with the Nigerian Government for a paving and expansion project for a road in the Shgamu-Benin region of Nigeria. The contractual scope of the compensation for the project is $390 million US. For further details see Note 31.c.10 to the Company's Financial Statements.

2. Business Activity Results

The following is concise data regarding business activity results.

	For the Year Ending December 31			For the Three-Month Period Ending December 31		
	2012	2011	2010	2012	2011	2010
	Millions of NIS			Millions of NIS		
Revenues from Works and Sales	6,063	5,335	4,871	1,363	1,408	1,245
Cost of works performed and sales	4,883	4,291	3,870	1,110	1,200	963
Gross profit	1,180	1,044	1,001	253	208	282
Proceeds from the sale of investment property	7	51	15	2	40	1
Sales and marketing expenses	(35)	(33)	(22)	(10)	(9)	(9)
General and administrative expenses	(339)	(343)	(316)	(92)	(87)	(96)
Other revenues (expenses), net	(30)	81	223	(21)	5	238
Operating earnings	783	800	901	132	157	416
Net financing expenses	(133)	(167)	(169)	(8)	(50)	(44)
The Company's share of the losses of investees	(34)	(45)	(43)	(11)	(13)	(37)
Profit before taxes on income	616	588	689	113	94	335
Taxes on income	171	(144)	(144)	(36)	(25)	(40)
Profit for the period	445	444	545	77	69	295

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 (Construction and Infrastructure) Ltd. (in Israel).
- 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 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 all of the Company's holdings in activities not part of its core business, most of which have been sold as part of its activity focusing.

For further information see Note 35 to the Company's Financial Statements.

a. **Revenues from Works and Sales**

	For the Year Ending December 31			For the Three Month Period Ending December 31		
	2012	2011	2010	2012	2011	2010
	Millions of NIS			Millions of NIS		
Infrastructure and construction abroad	3,121	2,727	2,500	644	685	581
Infrastructure and construction in Israel	1,725	1,614	1,499	374	464	410
Israeli real estate ventures	1,203	940	827	333	238	232
Foreign real estate ventures	17	5	7	5	1	2
Renewable energy	126	113	7 4	38	40	24
Water	38	3 9	53	9	10	9
Concessions	144	277	127	38	47	55
Adjustments	(311)	(380)	(216)	(78)	(77)	(68)
Total consolidated	6,063	5,335	4,871	1,363	1,408	1,245

Revenues from works and sales for 2012 amounted to a total of 6,063 million NIS compared to a total of 5,335 million NIS in the corresponding period last year, a 728 million NIS increase constituting a 14% increase relative to the corresponding period last year. The main changes that occurred in 2012 compared to last year are as follows: the foreign infrastructure and construction segment saw a 394 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 also have an effect on the growth in foreign revenues. Some of the increase in revenues from this segment relative to last year (221 million NIS) derives from the fact that the average exchange rate of the USD in 2012 increased relative to its average exchange rate in 2011. Furthermore, the Israeli real estate ventures segment noted a 263 million NIS increase. 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. The Company delivered 628 apartments in 2012 companied to 614 apartments in 2011 (our share). The main factor behind the increase in revenues is the increase in the average price per apartment delivered in 2012 compared to the average price per apartment occupied last year. This year, projects were delivered in New Ramat Aviv Gimmel, Givatayim, Kiryat Ono and It Yamim. At the same time, this segment included sales of lots and land during the reported period to the amount of 15 million NIS, while in the same period last year, sales of lots in Kiryat Ono and Tzur Hadassah and land in Ashkelon, Pardes Hannah and Kfar Saba were included at a higher sum of 87 million NIS. The Israeli infrastructure and construction segment saw a 111 million NIS increase in revenues as a result of an increase in implementation by the Construction Division and of the concrete plants. In addition, a 13 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 133 million NIS decrease occurred in concession segment revenues due to work on a BOT project – restoration and maintenance of roads in northern Israel. The revenues of the concessions segment from the road maintenance project in northern Israel in 2012 derived from activity in the construction period. Starting 2013, revenues will derive from the operation period.

Revenues from works and sales in the fourth quarter of the year dropped by 45 million NIS relative to the same quarter last year, amounting to 1,363 million NIS – compared to 1,408 million NIS in the same period last year. The key changes compared to the corresponding period last year are as follows: a 41 million NIS decrease in the foreign infrastructure and construction segment. Note that an 18 million NIS increase derived from the increase in the average exchange rate of the USD in 2012 compared to its average exchange rate in 2011, which means that if the average exchange rate of the USD had not increased relative to last year, a 59 million NIS decrease would have been listed compared to the corresponding quarter last year. Most of the decrease in revenues in this segment derives from the conclusion of two large projects in the third quarter of the year. Furthermore, the Israeli infrastructure and construction segment saw a 90 million NIS decrease, offset by a 95 million NIS increase in revenues in the Israeli Real Estate Ventures segment. The increase in revenues in the Israeli real estate ventures segment largely derives from the fact that the average price of an apartment delivered in the fourth quarter of 2012 was higher compared to the average price per apartment occupied in the fourth quarter of 2011 (in Q4 of the year, the Company performed 177 (our share) apartment occupations compared to 173 (our share) occupations in the corresponding period last year.

Revenues from works and sales increase by 464 million NIS in 2011 (a 9.5% increase), amounting to a total of 5,335 million NIS compared to 4,871 million NIS in 2010. If the dollar’s average exchange rate hadn’t dropped, the Group’s revenues would have amounted to 5.5 billion NIS (a 12% increase) in 2011. The main changes that occurred in 2011 compared to 2010 are as follows: the foreign infrastructure and construction segment saw a 227 million NIS increase in revenues. This increase in revenues derived from the expansion of activities in the countries in which the Company is active, mainly Kenya, Uganda and Nigeria as well as the beginning of activity in Tanzania. Note that the changes in exchange rates between the NIS and the USD have an offsetting effect on the growth in revenues, and if the dollar’s average rate of exchange hadn’t dropped relative to 2010, an additional 123 million NIS growth in revenues would have been listed in this segment. Furthermore, the Israeli infrastructure and construction segment saw a 115 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 sale. Over the course of 2011 the Company performed a higher number of apartment deliveries relative to 2010 (614 housing units compared to 442 housing units for which income was recognized in 2010). On the other hand, there was a decrease in revenues from the sale of lots and land (proceeds to the amount of 87 million NIS from sales in Kiryat Ono, Ashkelon, Kfar Saba, Tzur Hadassah and Pardes Hannah compared to proceeds from the sale of lots and land to the amount of 219 million in Ramat Aviv, Ir Yamim, Beersheba, Tzur Hadassah and Kiryat Ono in 2010), so that in total, a 113 million NIS increase was listed compared to 2010 in the Israeli real estate venture sector. Furthermore, a 150 million NIS increase was also listed in the concession segment due to the expansion of work on the restoration and maintenance of roads in northern Israel.

Revenues from works and sales in the fourth quarter of 2011 increased by 163 million NIS relative to the same quarter in 2010, amounting to 1,408 million NIS. The key changes compared to the 2010 are as follows: a 104 million NIS increase in the foreign infrastructure and construction segment, deriving mainly from the beginning of activity in Tanzania and the expansion of activity in Kenya and Uganda. Furthermore, the Israeli infrastructure and construction segment saw a 54 million NIS increase.

b. Gross Profits

	For the Year Ending December 31			For the Three Month Period Ending December 31		
	2012	2011	2010	2012	2011	2010
	Millions of NIS			Millions of NIS		
Infrastructure and construction abroad	596	596	572	114	113	167
Infrastructure and construction in Israel	105	101	9 2	20	25	28
Israeli real estate ventures	478	342	311	120	67	82
Foreign real estate ventures	(23)	(18)	-	(9)	-	-
Renewable energy	18	21	16	6	5	5
Water	1	5	11	-	(1)	(1)
Concessions	(8)	(2)	2	(4)	(4)	1
Adjustments	13	(1)	(3)	6	3	-
Total consolidated	1,180	1,044	1,001	253	208	282

Gross profits in 2012 amounted to a total of 1,180 million NIS compared to a total of 1,044 million NIS last year. The gross profit rate amounted to 19.5% compared to 19.6% in 2011. The 136 million NIS increase in gross profits in compared to last year mostly derives from the increase in gross profits in the Israeli real estate ventures segment. The increase in revenues in this segment, amounting to a total of 136 million NIS, derived from the occupation of apartments in housing projects. Note that the gross profit rate in this segment increased compared to last year from 36% to a rate of 40% in 2012, due to the increase in gross profit rates deriving from the sale of housing projects due to the increase in the average price of a housing unit occupied this year compared to the corresponding period last year (mainly due to a different mixture of apartments occupied this year). This year’s high gross profit rate also derived from the fact that profits included the sale of apartments in projects that were largely constructed on historical lands listed in the books at low costs, creating relatively high gross profit rates for the Company (regarding the gross profit rates of projects carried out by the Company, see also Section 7.2.1.b of the Description of the Corporation’s Business). In addition, an increase was noted in gross profit deriving from the increase in the scope of activity of the Israeli infrastructure and construction segment (4 million NIS), while on the other hand, a decrease occurred in gross profits as a result of a 6 million drop in the concessions segment, and a 5 million NIS drop in the overseas real estate ventures segment, a 3 million NIS drop in the renewable energy segment and a 4 million NIS drop in the water segment. Note that the gross loss in the overseas real estate ventures segment derived from the fact that a provision was included in 2012 for the impairment of land in Hungary to the amount of 21 million NIS, and an 18 million NIS impairment provision was included in 2011. The total gross profits in the overseas infrastructure and construction segment remained unchanged relative to last year, but the gross profit rate in this segment dropped from 22% last year to 19%. The drop in gross profits in this segment largely derives from a reduction in estimated revenues for a project in Kenya in which bills approved in the past were not paid, and are now being disputed by the party commissioning the work.

The fourth quarter of the year saw an increase both in gross profits (45 million NIS) and in the gross profit rate, from 14.7% to 18.6% relative to last year. The increase largely derives from the Israeli real estate ventures segment (a total of 53 million NIS), and the increase in gross profits also derives from this segment. In addition, a drop was listed in gross profits in the overseas real estate ventures segment (a total of 9 million NIS). The loss in this segment largely derives from the impairment provision due to land in Hungary. In addition, a drop was also listed in the Israeli construction and infrastructure segment (a total of 5 million NIS). The overseas infrastructure and construction segment saw an improvement in gross profits from 17% to 18%.

Gross profits in 2011 amounted to a total of 1,044 million NIS compared to a total of 1,001 million NIS in 2010. Gross profits dropped to 19.6% in 2011 compared to 20.5% in 2010. Total gross profits increased by 43 million compared to 2010, mainly due to the increase in the overseas infrastructure and construction segment (24 million NIS), mainly as a result of the increase in the scope of activity and the conclusion of accounting for completed projects. Note that the changes in exchange rates between the NIS and the USD have an offsetting effect on total gross revenues, and if the dollar’s average rate of exchange hadn’t dropped relative to the corresponding quarter in 2010, an additional 24 million NIS growth in revenues would have been listed in 2011. The Israeli real estate venture segment saw a 31 million NIS increase in gross profits compared to 2010. The increase in gross profits in this segment derives mainly from the increase in the scope of revenues in this segment and from the continuous increase in the price of apartments compared to 2010 (in practice, over the course of 2011 the Company performed a higher number of apartment deliveries, 614 housing units compared to 442 housing units for which income was recognized in 2010). On the other hand, an impairment provision was listed for land for the construction of a residential project in Hungary, which led to an 18 million NIS drop in gross profits in the foreign real estate ventures segment.

Gross profits in the fourth quarter of 2011 amounted to 208 million NIS, a 74 million NIS drop relative to the same quarter in 2010. The decrease in gross profits derives mainly from the overseas infrastructure and construction segment (54 million NIS). The drop in gross profits in this segment derives among other things from a provision listed for riot and looting damages in the Cote D'Ivore project as well as result of the fact that a number of new projects were included in Q4 2011 for which no gross profit was listed for their performance in the period; on the other hand, the receipt of final accounts and the approval of claims had added to additional receipts and to a high level of profitability in the corresponding quarter in 2010. The Israeli real estate ventures segment dropped by 15 million NIS compared to the corresponding quarter in 2010. Despite the fact that over the course of the fourth quarter of 2011 the Company performed a higher number of apartment deliveries compared to the corresponding period in 2010 (173 housing units compared to 122 housing units for which income was recognized last year), this segment listed an offsetting influence of profits from the sale of land and lots that led to a drop in gross profits compared to the same quarter in 2010. In addition, a drop was listed in gross profits in the Israeli construction and infrastructure segment (3 million NIS).

c. **Administrative and General Expenses**

Administrative and general expenses amounted to 339 million NIS in 2012, a 4 million NIS decrease compared to 2011 (a total of 343 million NIS). An increase was listed this year in office maintenance expenses, which include rental expenses for the new office building to which the Company moved in June 2011; 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 92 million NIS in the fourth quarter of the year compared to a total of 86 million NIS in the corresponding quarter. Most of the change derived from an increase listed in this quarter compared to the corresponding quarter last year, in expenses due to mega-tenders the Company is competing for in Israel and abroad.

Administrative and general expenses amounted to 343 million NIS in 2011, a 27 million NIS increase compared to 2010 (a total of 316 million NIS). Most of the growth derives from an increase in expenses due to the tenders the Company is contending for in Israel and abroad in the fields of concession and infrastructure (an 18 million NIS increase compared to 2010). In addition, a 8 million NIS increase was listed, mainly due to office maintenance expenses, which include rental expenses for the new office building to which the Company moved over the course of 2011 (in 2010 the offices were in a building owned by the Company).

Administrative and general expenses amounted to 87 million NIS in the fourth quarter of 2011, compared to the corresponding period in 2011 when these expenses amounted to 96 million NIS; the 9 million NIS drop compared to the corresponding quarter in 2010 derived from reduced salary expenses deriving from charging the value of a bonus for the issue of options to workers and executives.

d. Other Operating Revenues (Expenses), Net

These net expenses amounted to 30 million NIS in 2012, compared to net revenues of 81 million NIS in 2011 and compared to net revenues of 223 million NIS in 2010. The following are details of the key revenues and expenses included in this item:

	For the Year Ending December 31		
	2012	2011	2010
		Millions of NIS	
Profit from the revaluation of investment in affiliate **(1)**	12	82	256
Loss from the issue of an affiliate to a third party **(2)**	(6)	-	-
Provision due to balances the realization of which is in doubt	(22)	(3)	(3)
Commitment to pay investors **(3)**	(7)	-	-
Retirement compensation and budgetary pension	(1)	-	(16)
Asset impairment provision	(5)	(2)	(6)
Capital loss from the realization of consolidated companies.	-	-	(5)
Others, net	(1)	4	(3)
	(30)	81	223

(1) The revaluation profit in 2012 was listed following the acquisition of control in a Polish affiliate (the Ashbod deal), 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 1c of this report. The revaluation profit last year was due to the revaluation of investments in German associates, see also Note 18.a.5. to the Company’s Financial Statements. The revaluation profit in 2010 is due to the revaluation of the investment in Derech Eretz Highways; see also Note 18.a.6 to the Company’s Financial Statements.

(2) An affiliate also issued additional shares to institutional investors so that he Company’s stake in the affiliate dropped after the conclusion of the transaction. As a result of the drop in holding rates, a 6 million NIS loss was listed.

(3) A provision listed for compensation due to the obligations of a subsidiary – Shikun & Binui Real Estate Ltd., according to a December 31 2009 allocation agreement to a number of classified investors, to act to list its shares for trade on the stock exchange no later than December 31 2012. The allocation agreement stated that failure to list the share would not be considered a violation of the agreement, but would award the investors with monetary compensation that sum of which will increase in accordance with the timing of the listing for trade of Shikun & Binui Real Estate shares (for details see also Section 22.1 of the Company’s 2012 Description of Corporate Business). In accordance with the agreement signed by Shikun & Binui Real Estate with the institutional investors in question, for the purpose of postponing the last date of registry for trade as noted, and in accordance with Shikun & Binui's estimate regarding the date of listing for trade of the Company’s shares (over the course of Q2 204), a 7.5 million NIS provision was listed for the entire period until June 30 2014.

e. Operating Earnings

	For the Year Ending December 31			For the Three Month Period Ending December 31		
	2012	2011	2010	2012	2011	2010
	Millions of NIS			Millions of NIS		
Infrastructure and construction abroad	438	462	449	68	77	135
Infrastructure and construction in Israel	29	37	14	(1)	11	(3)
Israeli real estate ventures	384	307	247	94	83	60
Foreign real estate ventures	(19)	52	(13)	(11)	(3)	(4)
Renewable energy	(20)	(20)	(13)	(8)	(6)	(6)
Water	(12)	(6)	(12)	(4)	4	(7)
Concessions	(14)	(13)	(5)	(8)	(5)	(4)
Others	(2)	(1)	(4)	-	(1)	-
Adjustments	144	115	118	38	32	30
Total by operating segments	928	933	781	168	192	201
Segment-wide revenues (expenses)	(145)	(133)	120	(36)	(35)	215
Total operating earnings	783	800	901	132	157	416

Operating earnings in 2012 amounted to 783 million NIS, a 17 million NIS decrease relative to a total of 800 million last year. The decrease derives mostly from a decrease in operational profits in the overseas real estate ventures segment (71 million), mainly due to 82 million NIS in 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 last year. In addition, a 24 million NIS decrease was listed in the operational earnings of the overseas construction and infrastructure segment (22 million NIS from the decrease in question derives from the listing of a provision for balances the realization of which is in doubt due to discontinued works). On the other hand, operating earnings of the Israeli real estate ventures segment increased by 77 million NIS. Operating earnings in the fourth quarter of the year amounted to a total of 132 million NIS compared to a total of 157 million NIS in the corresponding quarter last year. Most of the change derives from a 9 million NIS decrease in the overseas infrastructure and construction segment (among other things, due to a provision listed for balances the realization of which is in doubt, as noted above), a 12 million NIS decrease in the Israeli infrastructure and construction segment (among other things, due to listing a provision to the impairment of assets), an 8 million decrease in the water segment and an 8 million NIS decrease in overseas real estate ventures. In addition, the Israeli real estate ventures segment increased by 11 million NIS.

Operating earnings in 2011 amounted to 800 million NIS, compared to a total of 901 million in 2010. Most of the decrease in operating earnings derives from segment-wide expenses, which amounted to 133 million NIS compared to 120 million NIS in revenues in 2010; this decrease largely derives from non-recurring events listed in 2010 such as revenues from revaluation in an affiliate to the amount of 256 million NIS (see Note 18.a.6 to the Financial Statements). On the other hand, in 2011 a 65 million increase was listed in the overseas real estate ventures segment deriving from income listed for the revaluation of in investment in affiliates (to the amount of 82 million NIS) , offset by an impairment provision due to land in Hungary (18 million NIS). Furthermore, an increase was also listed to the amount of 60 million NIS in the Israeli real estate venture segment deriving among other things as a result of increased in apartment prices and in the number of apartments delivered and from the realization of investment property creating profits to the amount of 50 million mostly from the sale of real estate in Kiryat Atta to the company operating IKEA stores in Israel, a 13 million NIS increase in the overseas infrastructure and construction segment and a 23 million NIS increase in the Israeli infrastructure and construction segment.

Operating earnings in the fourth quarter of 2011 amounted to 157 million NIS compared to 416 million NIS in 2010. Most of the decrease derives from the fact that in the corresponding quarter in 2010 revenue from the revaluation of an investment in an affiliate to the amount of 256 million NIS was included under segment-wide revenues. After neutralizing this profit, the operational profit remains similar to the corresponding quarter in 2010. Furthermore, a 58 million NIS decrease was listed in the foreign infrastructure and construction segment. On the other hand, a 23 million NIS increase was listed in the Israeli real estate ventures segment and a 14 million increase was listed in the Israeli infrastructure and construction segment compared to the same quarter in 2010

f. **Financing Costs, Net**

Net financing costs in 2012 amounted to a total of 133 million NIS compared to a total of 167 million NIS last year. Financing costs referring to long-term credit amounted to a total of 316 million NIS this year compared to a total of 298 million NIS 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. A 1.44% increase was noted in 2012 compared to a 2.55% increase in the corresponding period last year. The drop in inflation relative to the corresponding period last year brought about a decrease 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 (mainly due to the issue of debentures and the receipt of long-term bank loans). In addition, a 17 million NIS decrease was listed in financing revenues deriving from loans granted to affiliates, which are also mostly influenced by the change in the CPI increase rate. An 8 million NIS decrease occurred in financing costs referring to short-term credit. Financing revenues were included in the reported period from franchise arrangements (primarily due to the Northern Lanes project) at sums 25 million higher than last year.

Net financing costs amounted to 8 million NIS in the fourth quarter of the year compared to 50 million NIS in the corresponding quarter last year, with the 42 million NIS decrease compared to the corresponding period last year largely deriving from the 20 million NIS loss deriving from changes in exchange rates as well as a 10 million NIS increase in financing revenues from concession agreements in the matter of these revenues in the corresponding period last year.

Net financing costs amounted to a total of 167 million in 2011 NIS compared to a total of 169 million NIS in the 2010. Net financing costs referring to long-term credit amounted to a total of 298 million NIS in 2011 compared to a total of 259 million NIS in 2010. Most of the costs due to long-term credit are influenced by the changes in the rate of increase of the Consumer Price Index. 2010 saw an increase of 2.28% compared to a 2.55% increase in 2011, which led to a 7 million NIS increase in these expenses. The expansion of debentures and added credit led to an additional increase in financing expenses referring to long-term credit to the amount of 33 million NIS. On the other hand, an offsetting influence was listed to the amount of 14 million NIS due to the increase listed in financing revenues deriving from loans granted to affiliates, which are also mostly influenced by the change in the CPI increase rate, as well as as a result of the fact that revenues from concession arrangements were included in 2011 (mainly due to the Northern Lanes Project) at rates higher by some 21 million NIS than in 2010.

Net financing costs in the fourth quarter of 2011 amounted to 50 million NIS compared to a total of 44 million NIS in the same quarter in 2010. The increase in net financing costs in the fourth quarter of 2011 derived mainly from raising short-term loans. At the same time, financing expenses due to long-term credit decreased by some 13 million NIS relative to the corresponding quarter in 2010 as a result of the fact that the CPI increase was low in the fourth quarter of 2011 (a 0.2% decrease) compared to 2010 (a 0.65% increase). The CPI influence in question (to the amount of 21 million NIS) was offset from the increase in interest expenses (to the amount of 8 million NIS), due to the expansion of debentures and raising additional credit.

g. **Taxes on Income**

Tax expenses amounted to 171 million NIS in 2012, compared to a total of 144 million NIS in 2011 and 2010.

Tax expenses in 2012 increased by 27 million NIS relative to 2011, primarily due to the increase in profits in the Israeli real estate ventures segment, following which Israeli tax expenses also increased by 37 million NIS. On the other hand, a 5 million NIS decrease occurred in tax expenses in the Israeli infrastructure and construction segment, following the revision of deferred tax assets. A 5 million NIS decrease occurred in overseas tax expenses relative to the corresponding period last year, largely due to the cancellation of provisions as a result of the closing of assessments of an overseas subsidiary for 2007-2011.

Tax expenses amounted to 36 million NIS in the fourth quarter of the year compared to a total of 25 million NIS in the corresponding quarter. The increase in tax expenses largely derives an increase in tax expenses in Israel, primarily due to the increase in profits in the Israeli real estate ventures segment.

Note that tax revenues to the amount of 9 million NIS were listed in 2011 as a result of updates to deferred taxes the use of which is expected in coming years as a result of changes in tax rates. Israeli tax expenses amounted to 56 million NIS in 2011 (identical to 2010) while overseas tax expenses amounted to 88 million NIS in 2011 (identical to 2010).

h. Profits of Investees, Net

The Company's share of the results of investees in 2012 amounted to a loss of 34 million NIS, compared to a 44 million NIS loss listed last year. The 10 million NIS change derives from losses to the amount of 26 million NIS in investees in Europe operating in the field of residential development listed in 2011, offset by a drop in the Company's share of the results of Derech Eretz (the Cross -Israel Highway concessionaire), due to tax revenues listed in 2011 at Derech Eretz due to the influence of the change in tax rates.

The Company's share of the results of investees in the fourth quarter of the year amounted to a loss of 11 million NIS, compared to a 13 million NIS loss in the same quarter last year. A 26 million NIS was listed last year in European investees operating in the field of residential development, while on the other hand a 15 million NIS profit was listed for the Company's share of the results of Derech Eretz due to the above.

The Company's share of the results of investees in 2011 amounted to a loss of 44 million NIS, compared to a 43 million NIS loss in 2010. 2011 included losses listed by an affiliate dealing in the construction and operation of the Carmel Tunnels as well as losses due to an impairment provision listed by an affiliate acting to rent residential structures in Germany; the Company's share of these losses amounted to a total of 26 million NIS.

The Company's share of the results of investees in the fourth quarter of 2011 amounted to a loss of 13 million NIS, compared to a 37 million NIS loss in the same quarter in 2010. The primary change derives from the fact that earnings were listed in the fourth quarter of 2011 for the Company's share of the results of Derech Eretz (the Cross-Israel highway concessionaire), compared to a loss included in this activity in 2010 (the change in the results of Derech Eretz derives mainly from tax revenues listed due to the influence of the expected change to the tax rate). Furthermore, the fourth quarter of 2011 included an impairment loss listed by an affiliate operating in the rental of residential structures in Germany (the Company's share being 26 NIS), as noted above, while in 2010 an impairment provision was listed by an affiliate operating in the production of electric power in Spain (the Company's share being 11 million NIS).

i. Earnings for the Period

Earnings in 2012 amounted to 445 million NIS compared to 444 million NIS in 2011, and compared to 545 million NIS in 2010. Note that the net profit in 2011 includes an 82 million NIS profit from the revaluation of the investment in ADO, and the net profit in 2010 includes a profit from the revaluation of the investment in Derech Eretz to the sum of 256 million NIS.0

A 77 million NIS profit was listed in the fourth quarter of the year compared to 69 million NIS in the corresponding quarter of 2011 and compared to a profit of 295 million NIS in the corresponding quarter of 2010. Revenue was included in the fourth quarter of 2010 from the revaluation of an investment in Derech Eretz to the amount of 256 million NIS as noted above.

3. a. Accumulated Orders

The Company's accumulated orders in the field of building and construction contracting as of December 31 2012 amounts to 9.7 billion NIS, of which 7.1 billion NIS ($1.9 billion) is for overseas activity. The Company's accumulated orders as of December 31 2011 in this field amounted to 9.6 billion NIS, of which 7.8 billion NIS ($2.1 billion) was for overseas activity.

b. Apartment Sales

In 2012 an Israeli subsidiary (the Company's consolidated share – not including the share of partners in joint projects) sold 722 housing units in Israel in return for 1050 million NIS compared to 671 housing units in return for 892 million NIS last year.

Details of recent sales are as follows:

	Housing Units Sold	Sales Not Including VAT (In Millions of NIS)	Average Price Per Apartment Without VAT. (In Thousands of NIS)
1-12/2012	722	1,050	1,454
1-12/2011	671	892	1,329

4. Liquidity and Financing Sources

- The net cash flow deriving from profits and adjustments to profits amounted to a total of 1,001 million NIS in 2012 compared to a total of 828 million NIS last year. The cash flow deriving from current activity amounted to 558 million NIS in 2012 compared to 37 million NIS last year. The primary change compared to last year derives largely from a drop in the purchase of land inventory (141 million NIS), from a drop in adjustments deriving from an increase in payables due to franchise arrangements (202 million NIS) and from the collection of debts from customers and work commissioners (263 million NIS).
- The cash flow used for investment activity amounted to 458 million NIS in 2012 compared to 50 million NIS last year. The key change compared to the same period last year in cash flow used for investment activity largely derives from a reduction listed last year in banking deposits compared to an increase listed this year. In addition, a decrease occurred in the purchase of fixed assets, which was offset by the purchase of investment property and investments in investees.
- The cash flow deriving from financing activity in 2012 amounted to a total of 155 million NIS compared to 135 million NIS used for financing activity last year. In 2012 the Company redeemed credit to the amount of 608 million NIS and paid interest to the amount of 301 million NIS. On the other hand, the Company raised 413 million NIS in credit, issued debentures to the amount of 919

million NIS and paid dividends to shareholders to the amount of 246 million NIS. At the same time, last year the Company redeemed credit to the amount of 576 million NIS and paid interest to the amount of 234 million NIS, as well as paying dividends to shareholders to the amount of 379 million NIS. On the other hand, the Company raised 943 million NIS in credit and issued debentures to the amount of 192 million NIS.

The Company's working capital as of December 31 2012 amounted to 848 million NIS compared to 510 million NIS at the end of 2011.
The Company has balances of cash and cash equivalents as of December 31 2012 to the amount of 1,479 million NIS and unused credit frameworks of 1,100 million NIS.

	Debentures and Credit from Banks and Others (1)	Cash and Cash Equivalents	Deposits and Short and Long-Term Loans	Net
	Millions of NIS			
Infrastructure and construction abroad	8	759	83	(834)
Infrastructure and construction in Israel	-	305	47	(352)
Israeli real estate ventures	960	81	313	566
Foreign real estate ventures	246	17	4	225
Renewable energy	54	24	96	(66)
Water	12	2	3	7
Concessions (Netivei Hatzafon)	482	1	150	331
Company HQ	3,765	290	105	3,370
Total consolidated	5,527	1,479	801	3,247

(1) In segments in which the operational cycle exceeds one year (see Note 2d to the Company's Financial Statements), the liabilities taken specifically to finance activities in these segments intended and expected to be realized during the operational cycle, are classified as current liabilities.
The remaining liabilities (including Company HQ liabilities) are attributed to activity in which the operational cycle is one year.

5. Financial Status

a. Equity

The Company's equity as of December 31 2012 amounts to 1,139 million NIS, compared to 969 million NIS on December 31 2011. The 170 million NIS increase in equity largely derives from profits in 2012 (to the amount of 444 million NIS), from a 26 million NIS increase in non-controlling interests as a result of purchasing the full holdings of one of the partners in the activity in Poland. This increase was partially offset by dividends to the amount of 246 million NIS declared for shareholders, and by adjustments from the translation of the Financial Statements of overseas subsidiaries (to the amount of 37 million NIS), largely prepared in USD and in EUR, dividends to the amount of 9 million distributed by a subsidiary to minority shareholders and from a 17 million NIS hedge fund.

b. Current Assets

Total current assets held by the Company amount to 5,733 million NIS as of December 31 2012. The balance of current assets increased by 707 million NIS in 2012, compared to the end of the previous year. The key changes are as follows: a 114 million NIS increase occurred in the balance of customer income receivable (of which 49 million were NIS abroad). Note that after a period featuring delays in collection, a subsidiary received significant amounts of money from overseas customers during the fourth quarter of 2012, in such a manner that the balance of overseas customers was reduced by 250 million NIS in the fourth quarter. In addition, a 210 million NIS increase was listed in the inventory of buildings for sale (some 26 million NIS abroad. Most of the change comes 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 holding 33% of the rights to that company), a 223 million NIS increase in cash balances (a total of 100 million NIS originating from debentures raised in October 2012 and a total of 157 million NIS of these abroad, mainly due to money the Company received from overseas customers), a 245 million NIS increase in deposits in banking corporations (110 million NIS of them due to receipts in the Netivei Hatzafon project), and a 69 million NIS increase in other receivables. On the other hand, a 129 million decrease was listed in short-term loans to investees, as a result of 47 million NIS in repayments of loans to investees (of which 12 million NIS was for loans to overseas investees) and as a result of the classification of 71 million NIS to long-term loans to overseas investees. In addition, a 44 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 4,865 million NIS, a 322 million NIS increase over the end of the previous year. Key changes are as follows: a 60 million NIS increase occurred over the end of last year in the balance of real estate inventories. Regarding the inventory of overseas real estate, a 103 million NIS increase was listed originating from real estate venture activity abroad, which includes a 107 million NIS increase 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 holding 33% of the rights to that company prior to the transaction and the purchase of land in the Czech Republic to the sum of 25 million NIS. On the other hand, a 21 million NIS impairment provision was listed due to three compounds in Hungary. Regarding lands in Israel, a net 42 million NIS decrease was listed, as 31 million NIS were paid in the reported period for development expenses for 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, On the other hand, lands to the amount of 91 million NIS in projects in which construction had started in Netanya and Kfar Saba were transferred to current inventory. A 87 million NIS increase occurred in the balance of investment real estate as a result of an increase in the balance of investment property in Israel to the amount of 105 million NIS deriving from the purchase of land on a project in Hadera to the amount of 70 million NIS, from payments of taxes and fees and investment in the construction of the IKEA Kiryat Atta compound.

On the other hand, an 18 million NIS decrease was listed in the balance of overseas investment properties due to a lot sold in Hungary. A 34 million NIS increase occurred in the balance of payables loans and deposits, of which 16 million NIS was given to the owners of the land in the Hadera project. A 147 million NIS increase was listed in the balance of loans to investees, with 71 million NIS deriving from the classification of loans from short to long-term due to overseas investees and a total of 85 million NIS constituting interest and linkage accumulated due to these loans. Furthermore, a 98 million NIS increase occurred in receivables due to concession arrangements following the progress of works in BOT projects: 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 37 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, 28 million NIS constituting surplus cost attributed to photo-voltaic projects purchased from Paz Industries Ltd. and 8 million NIS constituting an investment in the Tel Aviv University student housing project. A 100 million NIS decrease was listed in the balance of fixed assets (a 119 million NIS decrease abroad, contrasted by a 14 million NIS increase in Israel, with 9 million NIS of which being additions in leasehold improvements in the new office building to which the Company moved last year).

d. **Current Liabilities**

Current liabilities increased by 368 million NIS in 2012, compared to the end of 2011, amounting to 4,884 million NIS. The main changes are: a 296 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 362 million NIS. On the other hand, 100 million NIS in redemptions were carried out in short-term credit. A 98 million NIS increase was listed in the balance of provisions, with 81 million NIS of these deriving from overseas activity (mainly due to the continued increase in overseas activity, as well as due to the increase in scopes of projects that led to the extension of the implementation period and a postponement in the reduction to the provision for liability due to them. In addition, a provision was made over the course of the year to the amount of 24 million NIS for repairs needed for a project carried out in Africa), and 17 million NIS derive from activity in Israel. In addition, a 143 million NIS increase occurred in the balance of payables and credit balances, including derivatives, with 57 million of this deriving from liabilities due to proceeds combination transactions (Israeli transactions). On the other hand, a 14 million decrease was listed in advance payments received from apartment buyers in Israel, mainly due to advance payments received for apartments sold with the revenue not yet listed, less the occupation of apartments in projects in Kiryat Ono, Netanya, Givatayim, Karkur and Tzur Yitzhak. In addition, a 49 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 (144 million NIS) offset by the receipt of advance payments in projects in Israel (95 million NIS mainly due to advance payments received for the Route 6 South contractors project, the Tel Aviv Courthouse planning and development project and the Police Training Center project). Furthermore, a 18 million NIS decrease occurred in short-term employee benefits, mainly due to the fact that as part of salary agreements signed in Nigeria, employees there were paid the balances of accumulated compensation (within the framework of salary agreements signed, with these salary components are paid employees on a regular basis), a 31 million NIS decrease occurred in current tax liabilities deriving from the cancellation of tax provisions as result of the closure of assessments of an overseas subsidiary, a 13 million NIS drop occurred in dividends payable to shareholders and a 44 million NIS decrease occurred in subcontractors, suppliers and service providers.

e. **Non-Current Liabilities**

The main component of this item are the debentures and obligations to banking corporations and others, which increased by 486 million NIS, amounting to 4,334 million NIS as of December 31 2012, compared to a total of 3,848 million NIS at the end of the previous year. The main changes in debentures and liabilities to banking corporations derive from the act that repayments of the liabilities in question were carried out in 2012 (totaling 508 million NIS), a reduction was listed deriving from the transfer of current liabilities of long-term loans (totaling 362 million NIS); on the other hand, the Company issued debentures (Series 5) amounting to 919 million NIS (of these, a total of 233 million NIS in January 2012, a total of 154 million NIS in July 2012 and an additional 532 million NIS in October 532 (for additional details see Section 6 of this report), and in addition, the Company raised long-term loans to the amount of 413 million NIS.

Total other liabilities (due to employee benefits, deferred taxes, provisions and a surplus of losses accumulated in investees) amount to 239 million NIS, an increase of 4 million NIS from the end of 2011.

6. Details Regarding Bonds (Debentures)

Debentures – Series 2

Issue date	April 18 2007
Trustee:	Reznik Paz Nevo Trusts Ltd. 14 Yad Harutzim St. Tel Aviv.
NV Upon issue:	1,000,000,000 NIS
The balance of notational value in circulation as of December 31 2012	450,000,000 NIS (in March 2010 a total of 400,000 NV of the series was replaced with Series 4).

The balance of the notational value in circulation is revalued according to the linkage terms

(linked to the March 2007 Consumer Price Index):	535,287,000 NIS
Linked interest	5.2%
Sum of interest accrued as of December 31 2012	5,565,000 NIS
Market value of 1 NIS NV as of December 31 2012	1.2594
Fair value as of December 31 2012	564,508,000 NIS
Fair value interest	1.74%
Principal redemption:	4 equal annual payments on each of the years from 2012-2015
Interest redemption:	16 semiannual payments starting October 2007

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 Financial Statements.

Debentures – Series 3

Issue date:	September 29 2009 (the series was expanded according to the August 4 2010 shelf offering)
Trustee:	Reznik Paz Nevo Trusts Ltd. 14 Yad Harutzim St. Tel Aviv.
NV Upon issue:	200,000,000 NIS

Balance of notational value in circulation as of December 31 2012: 289,920,000 NIS

Interest 7.9% unlinked, sum of interest accumulated as of December 31 2012: 7,571,000 NIS

Market value of 1 NIS NV as of December 31 2012	1.115
Fair value as of December 31 2012	318,970,000 NIS
Fair value interest	3.85%
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 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 December 31 2012: 1,169,216,065 NIS

The balance of the notational value in circulation is revalued according to the linkage terms

(Linked to the January 2010 Consumer Price Index):	1,252,409,000 NIS
Linked interest	4.8%,
Sum of interest accrued as of December 31 2012	18,369,000 NIS
Market value of 1 NIS NV as of December 31 2012	1.178
Fair value as of December 31 2012	1,377,436,000 NIS
Fair value interest	2.65%
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 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 is revalued according to the linkage terms

(Linked to the November 2011 Consumer Price Index):	883,667,000 NIS
Linked interest	5.5%,
Market value of 1 NIS NV as of December 31 2012	1.1084
Fair value as of December 31 2012	1,019,179,000 NIS
Fair value interest	3.31%
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 Financial Statements.

7. 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 and in the world. The sustainability principle emphasizes the importance of the implementation of economic, environmental and social considerations in management and decision-making processes, and in deciding to adopt this approach in its vision, the Group chose to join an ever-growing number of select world companies seeking to promote proper business behavior, which will permit global growth and prosperity while taking humanity, the environment and the needs of future generations into account.

As the field of sustainability is still coming into being, the Group has chosen to develop unique management tools suitable to the Group's needs, including characterizing existing processes, defining points for the examination of aspects of sustainability and establishing procedures and assembling management systems for reporting. In addition, in order to establish and deepen capabilities in the field of sustainability, the Group decided to appoint a sustainability supervisor in each of the primary subsidiaries and in the concessions department in the Group subordinate, in professional terms, to the Company's 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, implemented by the acquisitions departments of the group companies.
- The implementation of principles for the participation of interested parties in Group activities continued and the circle of collaborations with interested parties such as the Society for the Protection of Nature, the Jerusalem Institute, the Engineers' Union, the Ministry of Industry, the Nature and Parks Authority and so on was expanded
- Activity to implement sustainable design principles by accompanying projects through the variety of planning stages continued.
- Active participation in a number of committees in the Standards Institute to promote advanced standardization in the field of sustainability, both in technical committees and in management standards committees.
- Sustainability workshops were held for workers in Israel, Kenya, Guatemala, the Czech Republic and Germany, for workers from these countries and from other countries in Africa and Eastern Europe.
- 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.
- A mapping was made of CO2 emissions as a result of the Group's activity in Israel. The main sources of emissions were detected, and recommendations were put together for the posting of multi-year reduction goals according to the Group's various activities.
- In order to promote environmental management, environmental management (IS 14001) and safety (IS 18001) systems are being implemented, with Solel Boneh and Shikun & Binui Real Estate having already partially

adopted these standards in their activity (and are continuing to expand the adoption of the standards), and the other Group companies have begun the process of examining the implementation of these standards.

- Over the course of 2012, the Group continued to promote studies and surveys in the fields of green construction and construction material recycling, in order to lead and promote the implementation of these studies while contributing professional experience.
- Over the course of the year, the Group examined the SAM (Sustainability Asset Management) Report – an index verified by Dow Jones as the index for sustainability activity. Examination of the report allows the Company to test itself according to leading global criteria, estimate its sustainability, and derive future challenges in the field of sustainability accordingly.
- Key subjects examined were also embodied as tasks in the 2013 work plan. The SAM results the Company received in November showed a significant improvement in the assessment of SAM data for Group companies.
- Upon completing the five year period from the adoption of the sustainability approach, work stated on a new multi-year plan encompassing strategic aspects in the field of sustainability.

8. 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 in various projects, with an emphasis on projects promoting sustainability and sustainability education. The Group believes in nurturing and supporting the communities in which it conducts its business activity.

The Group's community relations and donation activity in 2012 included:

- Direct monetary donations, in Israel and around the world, to the amount of 1,516,000 NIS. These donations included: adopting schools from the ORT network, accompanying nature schools, accompanying the Young Business Leadership project in northern Israel, establishing a library for at-risk children and supporting activity with at-risk youth in Israel’s peripheral regions, adopting the IDF unit LOTAR as part of the Adopt a Warrior project, donation to Variety children, cooperation with the Karbo Wings Foundations, supporting some 70 non-profits and more.
- Paving a 5 km bike trail in the Megiddo Regional Council – a paved route, the first in the country, intended for competitive bike riding.
- Dedicating 700 hours of volunteer work by Group workers, in Israel and abroad, on account of work hours, while recruiting the Group’s unique professional knowledge for the purpose of social activity, including repair and carpentry work, consulting on the subject of green construction and so on.
- Participation in the Good Deeds Day – in 2012 150 Group workers, in Israel and elsewhere, took part in a Good Deeds Day in conjunction with the Good Spirit Foundation. On this day, activity focused on children’s welfare, and featured a variety of volunteer activities including building gardens, renovating and painting children's educational facilities around the world (from clubs for at-risk children in Israel to a preschool in Berlin, in conjunction with IDO), as well as setting up drawing boards and assembling an interactive game in a school for children with special needs.

9. Reporting on Exposure and Market Risk and Management Thereof

For details regarding other risk factors that are not market risks see Section 26 of the Description of the Corporation's Business.

a. 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 26 in the Report on Additional Information on the Corporation).

b. Description of the Market Risks to which the Company is Exposed

- Price fluctuations in commodity markets – oil, metals and other commodities, the products of which constitute a material component of the raw materials employed by the Group, are commodities the prices of which are subject to market price fluctuations, which are often severe. The increase in the prices of commodities and products manufactured from them employed by the Company may have an impact on the profitability and feasibility of the projects carried out or initiated by the Company.

- Financing and loan recycling difficulties – in light of the global financial crisis and the liquidity crisis, banks around the world have reduced the credit provided in general and the credit provided the construction and real estate industries in particular. In addition, the banks increased the guarantee requirements from contractors (generally performance guarantees) and from developers (equity required for a project). The toughening of bank policies in granting credit may have an impact on the Company's ability to recycle existing loans, raise new loans as well as the costs and terms involved in taking the loans.

- Increase in financing costs and exposure to changes in interest rates – for a description of the interest rates to which the group is exposed see Note 33. 1.c to the Financial Statements.

- Exposure to changes in the Consumer Price Index and changes in exchange rates – for a description of currency risks and linkage risks to which the Group is exposed, see Note 33. 1.d and 33.1.e.

  In addition to that stated in the Financial Statements in the matter of currency risks and linkage risks, the Company has foreign subsidiaries the functional currency of which is the USD and the euro.

  Strengthening of the NIS vs. the USD will have a negative effect on the results of subsidiary S.B.A. Infrastructures, which constitute a significant portion of the Company's profits and cash flow and will have a direct negative impact on the Company's results.

  Furthermore, the Group is exposed to risks as a result of changes in exchange rates, as most of the Group's large projects in the field of infrastructure contracting are carried out outside of Israel in foreign currencies (mainly USD, euro and naira). The yield from parties commissioning work in these countries are in foreign currency that does not fully overlap the currencies in which the expenses for these works are paid. In addition, the change in exchange rates has an impact on the demand for new apartments and on raised input prices.

- Increased prices of raw materials and construction input and failure to receive full and satisfying expression in the index – an increase in the price of key inputs including the price of oil and its derivatives, the price of iron and various metal products, the price of concrete, stone and the price of working wages leads to an increase in the construction and paving inputs index. Most of the Company's implementation projects are linked to indices that fully or partially protect the Company from input price increases. The Group is exposed in the event that the composition of the inputs in a project is materially different from the composition of the index to which the receipts are linked, and in cases in which a sharp increase in the price of inputs does not receive a full and satisfying expression in the relevant index.

  In most apartment sales transactions a linkage exists to the CPI while some of the costs are not linked to the construction inputs index. A material gap between the indices may have an impact on the transactions' profitability.

c. Description of the Corporation's Policy for Management of Market Risk

1. Linkage Bases
   - The Company acts to create a correspondence, when possible and in accordance with market conditions, between the Company's revenues and inputs in Israel and abroad.
   - The Company regularly examines the correspondence of linkage bases between the Company's assets and liabilities in Israel and abroad.
   - In order to reduce as much as possible exposure to fluctuations in exchange rates and the erosion of value of local currencies in countries with extreme exchange rate fluctuations, the Company tends to convert some of its cash balances in local currencies to foreign currency (mostly to USD) and deposit them outside of the countries of operation. Furthermore, the Company finances its activity in these countries by taking credit through local companies, in local currencies, from banks in the countries of operation, in return for encumbering equipment and/or revenues from projects.
   - The Group members test the feasibility of the protection and perform protections accordingly using derivative financial instruments in return for currency and CPI risk exposure.
   - From time to time Group members place protections on the prices of key raw materials linked to prices in global markets.

2. Interest Risks

- The Company's interest risk mainly derives from an increase in the interest rate in variable-interest loans received by the Company. An increase in the interest rates in question may lead to an increase in the Company's financing expenses and impact the Company's profitability and cash flow. The increase in the interest rates of new loans raised by the Company alongside the repayment of existing loans the redemption date of which has arrived that were at lower interest rates may also lead to an increase in the Company's financing expenses and impact its profitability and cash flow.

d. Means of Supervision for Implementation of Policies

The following are means of supervision for the implementation of policies applied by the Company:

1. Performing a periodic risk survey and defining managerial responsibility for management of significant risks.

2. Reporting to the Board of Directors regarding risk management.

3. Providing regular reports to the Board of Directors on unusual developments in Israel and abroad.

4. Use of derivative instruments in order to reduce the exposure to changes in exchange rates and exposure to tradability prices. The Company's derivative transactions are carried out through banking corporations and securities exchanges that are required to meet capital adequacy requirements or observe a level of securities in accordance with various scenarios. The Company keeps internal documentation on the designation of the financial instruments to exposures indicating the link between the devices and the exposures. From time to time the Company's Board of Directors discusses the Company's exposure to market risks and the actions the Company takes in order to reduce these risks.

5. Keeping regular track of foreign currency exposures, accompanied by an outside consulting firm specializing in this area.

e. **Linkage Basis Report – December 31 2012**	Non-Linked	Linked to CPI	Dollars	Euros	Naira	Other Foreign Currencies	Others	Total
	Thousands of NIS							
Cash and cash equivalents	697,894	-	409,715	184,851	146,670	39,507	-	1,478,637
Deposits in banking corporations	283,579	99,401	3,134	7,498	-	35	-	393,647
Loans and short-term investments	2,010	63,238	-	691	-	-	11,824	77,763
Short-term loans to investees	-	333	-	9,437	-	-	-	9,770
Customers – income receivable	426,615	2,878	252,129	168,837	210,881	263,973	-	1,325,313
Inventory of buildings for sale	-	-	-	-	-	-	1,739,430	1,739,430
Receivables and others	46,526	521	295	394	-	2,181	280,080	329,997
Other investments including derivatives	32,524	-	-	-	-	-	-	32,524
Current tax assets	2,350	16,225	-	-	-	15,375	-	33,950
Inventory	-	-	-	- -	-	-	309,248	309,248
Assets held for sale	-	-	-	-	-	-	2,326	2,326
Receivables due to concession arrangements	21,603	472,912	-	-	-	-	119,715	614,230
Non-current inventory of owned lands	-	-	-	-	-	-	449,650	449,650
Non-current inventory of leased lands	-	-	-	-	-	-	351,485	351,485
Investment property, net	-	-	-	-	-	-	397,154	397,154
Interests in land	-	-	-	-	-	-	15,850	15,850
Long-term pre-paid expenses	-	-	-	-	-	-	-	-
Accounts receivable, loans and deposits	149,330	56,379	122,477	246	-	1,206	422	330,060
Investments in associates handled using the book value method	-	-	-	-	-	-	487,395	487,395
Loans to investees	166,022	723,491	33,776	311,740	-	1,580	(283,122)	953,487
Deferred tax assets	-	-	-	-	-	-	88,892	88,892
Fixed assets, net	-	-	-	-	-	-	1,033,513	1,033,513
Intangible assets, net	-	-	-	-	-	-	143,066	143,066
Total assets	**1,828,453**	**1,435,378**	**821,526**	**683,694**	**357,551**	**323,857**	**5,146,928**	**10,597,387**
Short-term credit from banking and other corporations	453,483	567,690	-	162,884	-	8,414	-	1,192,471
Subcontractors, suppliers and service providers	792,773	-	48,760	5,231	34,336	101,661	-	982,761
Short-term employee benefits	39,220	-	-	3,154	-	3,576	-	45,950
Accounts payable including derivatives	215,688	92,659	37,287	1,872	4,942	4,895	219,150	576,493
Current tax liabilities	2,133	4,800	12,718	-	8,347	47,699	-	75,697
Provisions	65,082	61,823	56,040	518	95,098	100,186	-	378,747
Payables – parties commissioning work	186,913	-	39,111	87,042	426,599	5,331	-	744,996
Unearned revenue	-	-	-	-	-	-	887,220	887,220
Liabilities to banking corporations and others	1,012,430	466,439	74,660	69,302	-	13,421	-	1,636,252
Debentures	218,644	2,479,527	-	-	-	-	-	2,698,171
Employee benefits	67,654	-	6,115	-	-	16,131	-	89,900
Deferred tax liabilities	-	-	-	-	-	-	60,723	60,723
Provisions	-	-	-	-	-	-	51,230	51,230
Surplus of losses accumulated over the cost of the investment and deferred credit balance in investees	(7,013)	-	-	-	-	-	44,502	37,489
Equity	-		-	-	-	-	1,139,287	1,139,287
Total liabilities and equity	**3,047,007**	**3,672,938**	**274,691**	**330,003**	**569,322**	**301,314**	**2,402,112**	**10,597,387**
Assets less liabilities	**(1,218,554)**	**(2,237,560)**	**546,835**	**353,691**	**(211,771)**	**22,543**	**2,744,816**	**-**

e. Linkage Basis Report – December 31 2011

	Non-Linked	Linked to CPI	Dollars	Euros	Naira	Other Foreign Currencies	Others	Total
	Thousands of NIS							
Cash and cash equivalents	551,882	-	347,730	102,459	206,617	46,788	-	1,255,476
Deposits in banking corporations	131,993	-	3,618	11,424	-	1,285	-	148,320
Loans and short-term investments	31,971	53,901	-	8,286	-	-	12,903	107,061
Short-term loans to investees	-	35,000	-	104,266	-	-	-	139,266
Customers – income receivable	361,411	3,524	97,595	195,180	340,027	213,101	-	1,210,838
Inventory of buildings for sale	-	-	-	-	-	-	1,529,088	1,529,088
Receivables and others	31,475	-	2,063	98	-	96	227,597	261,329
Other investments including derivatives	1,375	-	-	-	-	-	-	1,375
Current tax assets	2,766	59,299	902	34	-	15,359	-	78,360
Inventory	-	-	-	-	-	-	292,549	292,549
Assets held for sale	-	-	-	-	-	-	2,326	2,326
Receivables due to concession arrangements	-	337,780	-	-	-	-	178,818	516,598
Non-current inventory of owned lands	-	-	-	-	-	-	406,788	406,788
Non-current inventory of leased lands	-	-	-	-	-	-	334,090	334,090
Investment property, net	-	-	-	-	-	-	310,291	310,291
Interests in land	-	-	-	-	-	-	16,096	16,096
Accounts receivable, loans and deposits	140,803 **(*)**	27,425	121,794	-	-	-	5,884 **(*)**	295,906
Investments in associates handled using the book value method	-	-	-	-	-	-	523,086 **(*)**	523,086
Loans to investees	161,496	640,469	32,335	202,519	-	11,530	(242,142)	806,207
Deferred tax assets	-	-	-	-	-	-	93,518	93,518
Fixed assets, net	-	-	-	-	-	-	1,133,305**(*)**	1,133,305
Intangible assets, net	-	-	-	-	-	-	106,419	106,419
Total assets	**1,415,172**	**1,157,398**	**606,037**	**624,266**	**546,644**	**288,159**	**4,930,616**	**9,568,292**
Short-term credit from banks and others	352,409	397,831	-	122,896	-	22,727	-	895,863
Subcontractors, suppliers and service providers	793,677	-	41,202	7,892	52,420	131,382 **(*)**	-	1,026,573
Short-term employee benefits	33,040	-	2,763	-	24,703	3,446	-	63,952
Accounts payable including derivatives	220,627 **(*)**	3,476	35,192	2,566	16,713	12,030 **(*)**	142,497	433,101
Current tax liabilities	853	4,418	6,052	-	18,070	77,811	-	107,204
Provisions	64,836 **(*)**	46,548	33,980	-	75,900	59,865	-	281,129
Payables – parties commissioning work	92,640	-	50,951	175,208	449,124	26,402	-	794,325
Unearned revenue	-	-	-	-	-	-	901,049	901,049
Dividends payable	12,947	-	-	-	-	-	-	12,947
Liabilities to banking corporations and others	979,259	436,499	76,420	89,750	-	18,566	-	1,600,494
Debentures	292,070	1,955,156	-	-	-	-	-	2,247,226
Employee benefits	77,574	-	-	-	17,741	16,690	-	112,005
Deferred tax liabilities	-	-	-	-	-	-	43,896	43,896
Provisions	-	-	-	-	-	-	43,756	43,756
Surplus of losses accumulated over the cost of the investment and deferred credit balance in investees	(6,721)	-	-	-	-	-	42,109	35,388
Equity	-	-	-	-	-	-	969,384	969,384
Total liabilities and equity	**2,913,211**	**2,843,928**	**246,560**	**398,312**	**654,671**	**368,919**	**2,142,691**	**9,568,292**
Assets less liabilities	**(1,498,039)**	**(1,686,530)**	**359,477**	**225,954**	**(108,027)**	**(80,760)**	**2,787,925**	**-**

(*) Reclassified

10. Sensitivity Tests

Hedging Instruments Recognized for Accounting Purposes

Sensitivity Analyses as of December 31 2012

The following is a sensitivity table for sensitive instruments in accordance with changes in market factors as of December 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 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.

The sensitivity tests were performed on the balance of financial instruments as of December 31 2012. Comparison data as of December 31 2011 was not presented, as the trends are not materially different from the data for this year.

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	(58,576)	(12,753)	(6,447)	537,511	6,592	13,333	73,191
Long-term loans granted investees	(144,690)	(33,944)	(17,339)	812,037	18,119	37,062	225,085
Long-term loans received	46,116	13,439	4,845	(1,183,861)	(4,895)	(12,512)	(51,398)
Debentures	174,909	36,351	18,264	(3,625,844)	(18,445)	(37,072)	(192,958)
EUR/NIS forward transaction	(1,576)	(315)	(158)	1,157	158	315	1,575
USD/NIS forward transaction	(9,616)	(1,729)	(853)	1,127	832	1,643	7,467
CPI transactions	1,418	286	143	(550)	(144)	287	(1,451)
Total	**7,985**	**1,355**	**(1,545)**	**(3,458,423)**	**2,217**	**2,482**	**61,511**

Sensitivity to EUR/NIS Exchange Rate

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	10% Increase of	5% Increase		5% Decrease	10% Decrease
	In the EUR Exchange Rate			In the EUR Exchange Rate	
	Thousands of NIS				
Cash and cash equivalents	118	59	1,178	(59)	(118)
Deposits in banking corporations	10	5	101	(5)	(10)
Short-term loans to affiliated companies	944	472	9,438	(472)	(944)
Long-term loans to affiliated companies	10,619	5,310	106,192	(5,310)	(10,619)
EUR/NIS forward transaction	(17,453)	(8,727)	1,157	8,727	17,453
Total	**(5,762)**	**(2,881)**	**118,066**	**2,881**	**5,762**

Sensitivity to Changes in EUR/USD Exchange Rate

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	10% Increase of	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	17,314	8,657	173,140	(8,657)	(17,314)
Short-term deposits	576	288	5,764	(288)	(576)
Net customers commissioning work	16,731	8,366	167,313	(8,366)	(16,731)
Subcontractors, suppliers and service providers in liabilities	(392)	(196)	(3,920)	196	392
Other payables	(4)	(2)	(37)	2	4
Total	**34,225**	**17,113**	**342,260**	**(17,113)**	**(34,225)**

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	14,667	7,334	146,670	(7,334)	(14,667)
Customers commissioning work	21,088	10,544	210,881	(10,544)	(21,088)
Other receivables	1,258	629	12,576	(629)	(1,258)
Subcontractors, suppliers and service providers in liabilities	(3,434)	(1,717)	(34,336)	1,717	3,434
Other payables	(494)	(247)	(4,942)	247	494
Total	**33,085**	**16,543**	**(330,849)**	**(16,543)**	**(33,085)**

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	3,278	1,639	32,783	(1,639)	(3,278)
Customers commissioning work	26,362	13,181	263,619	(13,181)	(26,362)
Various receivables and debit balances	1,820	910	18,202	(910)	(1,820)
Short-term loans received	(841)	(421)	(8,414)	421	841
Subcontractors, suppliers and service providers in liabilities	(10,003)	(5,002)	(100,033)	5,002	10,003
Other payables	(411)	(206)	(4,112)	206	411
Total	**20,205**	**10,101**	**202,045**	**(10,101)**	**(20,205)**

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				
Short-term CPI-linked loans and deposits in assets	4,889	1,630	162,971	(1,630)	(4,889)
Long-term CPI-linked loans and deposits in assets	1,691	564	56,379	(564)	(1,691)
Receivables due to concession arrangements	14,187	4,729	472,912	(4,729)	(14,187)
Accounts receivable	102	34	3,399	(34)	(102)
Long-term loans given investees	21,705	7,235	723,491	(7,235)	(21,705)
Payables	(2,779)	(926)	(92,647)	926	2,779
Long-term CPI-linked loans in liabilities	(15,975)	(5,325)	(532,513)	5,325	15,975
Linked debentures	(89,434)	(29,811)	(2,981,140)	29,811	89,434
CPI transactions	4,556	1,519	(550)	(1,519)	(4,556)
Total	**(61,058)**	**(20,351)**	**(2,187,698)**	**20,351**	**61,058**

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 December 31 2012 – 3.733.

The sensitivity analyses are based on the euro's representative rate of exchange as of December 31 2012 – 4.9206.

Known CPI (in 2012 terms) – 105.5

11. Disclosure on Critical Accounting Estimates

See Note 2f to the Company's Financial Statements.

12. Remuneration of Interested Parties and Senior Executives

In accordance with Regulation 10(b)(4) of the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Reporting Regulations"), the Company's Board of Directors must explain, in the Board of Directors' Report attached to the yearly periodic report, the relationship between remunerations to senior management and Company interested parties given in accordance with Regulation 21 of the Reporting Regulations ("the Executives") and the contribution each had made to the Company over the course of the reported period, and the Board of Directors is also required to note whether the remuneration for the executives was fair and reasonable.

Prior to the ratification of the 2012 Financial Statements, the Company Board of Directors held detailed discussions on each of the Company’s executives, in which the relationship between the remuneration each of the Company executives in question had received in 2012 and the executives’ contribution that year was studied, as was the feasibility and fairness of the remuneration; this was subsequent to the Company's Remuneration Committee and Audit Committee holding detailed discussions on the matter of executive remuneration, while reviewing the information provided on each of them. The committees' recommendations as well as relevant background material used for its examination was presented to the members of the Company's Board of Directors, and based on them, the Board held a discussion in which the full array of salary payments and bonuses paid each of these executives in 2012 was examined.

In order to prepare the Company for the examination of the subject of executive remuneration, the Board of Directors established the information required by the Board on each of the executives for the purpose of the examination in question, and the criteria according to which the connection between the remuneration and the executive's contribution will be examined, and in light of which it will be decided whether the remuneration given the executive was fair and reasonable, as detailed below. The information defined as being required for the purposes of the examination in question included: a summary of the terms of employment of each of the executives in question (in accordance with the format listed in Regulation 21 of Chapter D of the Periodic Report), comparative data regarding the remuneration of executives of similar rank or in similar positions in other companies, data regarding the results of the Company’s activities in 2012, as well as concise data regarding each of the executives, in order to test the following criteria: the executive’s education, skills, expertise, experience and professional achievements; the executive's position, areas of responsibility and previous salary arrangements signed with them; a comparison between the terms of employment and service of the executive to the salaries of other Company workers and of contract workers employed by the Company. In addition, remuneration is studied in light of criteria of the Company's results, and the executive's contribution to the advancement of the Company’s goals, its work plan and its long-term policy; in light of the consideration for the creation of worthwhile incentives for Company executives, taking into account, among other things, the Company’s risk management policy; in light of the size of the Company, the nature of its activities and the remuneration received by employees at various levels; and in light of the executive's contribution to the achievement of the Company’s goals and the improvement of its profits, all taking the long-term view in mind and in accordance with the executive's position. Regarding Ms. Ravit Barniv, the Chairwoman of the Board of Directors who has completed her term in office in 2012, the Board of Directors attended to the remuneration terms pertaining to the conclusion of her service in light of the amount of time the executive was in office, the terms of her employment and service during the period, the Company's performance in the period in question, the executive's contribution to the achievement of the Company's goals and the improvement of its profits and the circumstances of her retirement.

Regarding the serving Chairman of the Board, the previous Chairwoman of the Board and the CEO, the Board of Directors also studied comparison numbers using an analysis prepared by PriceWaterhouseCooper Ltd. (PWC), which also included information regarding the accepted levels of remuneration for the positions of Chairman of the Board and CEOs of Israeli companies comparable to the Company. Regarding the other executives, the Board of Directors also studied comparison numbers using a data analysis prepared by Professor Moshe Tzabiran, which also included information regarding the accepted levels of remuneration for the positions of VP and CEO of companies in Israel comparable to the Company and Shikun & Binui Real Estate Ltd. and Shikun & Binui SBI, as the case may be, in terms of scope, among companies comparable to the Company.

The Board of Directors believes that the remuneration of each of the executives detailed in accordance with Regulation 21 of the Reporting Regulations reflects their contribution to the Company and is fair and reasonable, as detailed in the following summary:

1. Ofer Kotler – Company CEO

   The Board of Directors examined and found that under the management, leadership and involvement of the CEO, the Company has continued to show stable results in spite of the challenges it faced. The CEO's activities and involvement in the management of the Company and its subsidiaries, including his service as the Chairman of its subsidiaries, have contributed to the improvement, throughout his time in office, in the Company's profitability and its equity. The Board of Directors also noted that under the management of the CEO, the Company showed an increase in its accumulated works and focused on the field of franchise and the development of its activity in the United States and Colombia, in accordance with the Group's strategy. The Board of Directors referred to the CEO's leadership of strategic processes and the CEO's contribution to the designing strategy as well as to the fact that the CEO led processes to create synergy between Group members. The Board of Directors also referred to the Company's capital market position and to processes of raising debentures from the institutional market carried out successfully by the Company in 2012.

   The Board of Directors also referred to the fact that in 2012 the CEO continued to lead the sustainability management process, by leading processes for the examination of measurement and reporting tools in the Company, and increasing the Company's preparedness for dealing with changes occurring around it while maintaining high levels of standards for the management of sustainability in Group companies. This management was also expressed in the public perception of the Group as a leading sustainable company, in which sustainability constitutes a considerable consideration ion its business approach.

   The Board of Directors found that in terms of the terms of the service of the Company CEO in 2012 the total salary of the Company CEO was within the upper range of comparison data from relevant companies presented to the Board of Directors as part of the analysis of remuneration levels prepared by the consulting company in question. Based on the above the Company's Board of Directors found the array of remuneration terms given the CEO in 2012 reflects his contribution to the Company, and that the remuneration paid him in 2012 in accordance with the terms of his employment was fair and reasonable taking into account the terms of his employment, the size of the Company, the scope and complexity of its activity and business, the competitive environment in which it operates, the duties and scope of responsibility of the CEO and his contribution to the development of its business. The Board of Directors also noted that the CEO's remuneration was calculated in accordance with the terms of his employment agreement.

The yearly bonus for the Company CEO for 2012 was calculated in accordance with the engagement agreement with him approved in the past, according to which the CEO is entitled to a yearly bonus equal to 1% of the Company's net earnings (with the exception of earnings from special activities, as defined in the engagement agreement); as well as a yearly bonus equal to 1% of the Company's earnings from special activities, to a ceiling equal to the sum of the CEO's monthly payment times 12.

The Remuneration Committee is currently formulating a remuneration policy and a new remuneration plan for Company managers and executives (including the CEO), among other things, in light of the expected conclusion of the engagement agreement with the CEO in May 2013, and in light of Amendment 20 to the Companies Law, within the framework of which possibilities are being considered for changes in remunerations awarded at the Company, in terms of its determination, deployment and so on.

2. Ravit Barniv – Former Chairwoman of the Company's Board of Directors

The Board of Directors examined and found that during her term of service the Company, led by the former Chairwoman, the Company continued to show stable results in spite of the challenges it faced. In addition, the Board of Directors noted the Company's continued efforts under the leadership of the former Chairwoman of the Board of Directors to achieve its goals, to establish its sustainability approach and to establish its leadership in the field of sustainability and to integrate management, control and reporting mechanisms in this field in general and in the field of the environment in particular. The Chairwoman's actions in establishing the Company's leadership also led to increase awareness of the subject of sustainability in the Company both inward and outward.

The Board of Directors also attended to the remuneration terms pertaining to the conclusion of her service, also to the executive's term in office, the terms of her employment and service during the period, the Company's performance in the period in question, the former Chairwoman's contribution to the achievement of the Company's goals and the improvement of its profits and the circumstances of her retirement.

The Board of Directors found that after examining the variety of conditions of the service of the former Chairwoman over the course of 2012, the total remuneration given the Chairwoman of the Board (without the compensation paid for the conclusion of her employment) is comparable with the relevant companies included in the analysis conducted by the external consulting company, but the total remuneration, including payments for the conclusion of her work, is higher than the remuneration data in the relevant companies included in the analysis in question. The Company's Board of Directors determined, particularly in light of the terms of the agreement with the former Chairwoman and in light of the discontinuation of her service in 2012, that the array of remuneration conditions given the Chairwoman of the Board in 2012 reflects her contribution to the Company, and that the remuneration paid her in 2012 (including within the framework of retirement pay, according to the terms of her employment contract) is fair and reasonable taking into account the size of the Company, the scope and complexity of its activity and business, the competitive environment in which it operates, the duties and scope of responsibility of the Chairwoman of the Board and her contribution to the development of its business. The Board of Directors also noted that the remuneration paid the former Chairwoman of the Board of Directors was calculated in accordance with the terms of her employment agreement.

Like the Company CEO, in accordance with the engagement agreement with the previous Chairwoman, the former Chairwoman is entitled to a yearly bonus equal to 1% of the Company's net earnings (with the exception of earnings from special activities, as defined in the engagement agreement); as well as a yearly bonus equal to 1% of the Company's earnings from special activities, to a ceiling equal to the sum of the Chairwoman's monthly payment times 12. Upon her retirement, the previous Chairwoman of the Board is entitled, in accordance with the terms of her employment, to the payment of advance notice fees for a period of 12 months.

3. Tamir Dagan – CEO of Shikun & Binui Real Estate

The Company's Board of Directors has studied the matter and found that under the management of the CEO of Shikun & Binui Real Estate Shikun & Binui Real Estate showed a constant increase in its results and that the activity of the CEO of Shikun & Binui Real Estate contributed to retaining the status of Shikun & Binui Real Estate as one of the Shikun & Binui Group's growth engines and one of its key assets. The Board of Directors found that the CEO of Shikun & Binui Real Estate was able to lead it, both during prosperous periods in the real estate market and during slowdowns to dealing with the challenges posed by the market and providing them with an effective and timely response, and thus the Company adapted the scopes of its marketing and construction starts to market conditions.

The Board of Directors believes that the remuneration to the CEO of Shikun & Binui Real Estate reflects the activity of the CEO of Shikun & Binui Real Estate, which contributed to the achievements of Shikun & Binui Real Estate, and led it to meeting the primary goals set for it in its work plan. In addition, the Board of Directors saw fit to note key events in the reported period in the activity of Shikun & Binui Real Estate under the leadership of its CEO, including its activity in the field of non-residential real estate.

Finally, The Company's Board of Directors determined that the total remuneration given the CEO of Shikun & Binui Real Estate were within the range of total remuneration sums presented in the comparison work prepared by Professor Tzabiran regarding the level of remuneration acceptable for similar positions in similar companies, and are compatible with market conditions.

Based on the above the Company's Board of Directors found the sum total of the remuneration given the CEO of Shikun & Binui Real Estate in 2012 reflects his contribution to it, and that the remuneration paid him in 2012 was fair and reasonable taking into account the fact that it was set in accordance with the terms of his employment and its size, the scope and complexity of its activity and business, the competitive environment in which it operates, the duties and scope of responsibility of the CEO of Shikun & Binui Real Estate and his contribution to the development of its business. The Board of Directors also noted that the remuneration paid the CEO of Shikun & Binui Real Estate was calculated in accordance with the terms of his employment agreement.

The Remuneration Committee is currently formulating a remuneration policy and a new remuneration plan for Company managers and executives (including the CEO of Shikun & Binui Real Estate), among other things, in light of Amendment 20 to the Companies Law, within the framework of which possibilities are being considered for changes in remunerations awarded at the Company, in terms of its determination, deployment and so on.

4. Ronny Ploch, CEO of Shikun & Binui SBI

The Company Board of Directors studied the matter and found that under the management, leadership and involvement of the CEO of Shikun & Binui Real Estate, who started serving in the position in late 2011, Shikun & Binui SBI continued to grow and increase its revenues, increase its net profits and increase its EBITDA. The Board of Directors also found that the CEO of Shikun & Binui SBI made a vital contribution to the continued conservation of its status as the Shikun & Binui Group’s primary growth engine and one of its key assets.

The Company’s Board of Directors noted that the outgoing CEO of Shikun & Binui SBI led a global operation, administered according to severe international standards, achieving results exceeding those generally accepted. The Board of Directors found that these points are particularly significant in light of the operational challenges and risks in the countries in which it operates and in light of the fact that Shikun & Binui SBI aims to bring progress to the developing countries in which it operates, while investing in employee safety and in actions in the field of sustainability.

The Board of Director believes that the remuneration for the outgoing CEO of Shikun & Binui SBI reflects Shikun & Binui SBI’s achievements in 2012 both in terms of revenues and on the net profit level, and the management and contribution of the CEO of Shikun & Binui SBI in 2012 to achieving them and more.

Finally, the Board of Directors determined that in terms of the terms of the service of the CEO of Shikun & Binui SBI the total salary of the CEO of Shikun & Binui SBI meets market conditions and is comparable to similar companies. Based on the above the Company’s Board of Directors found the sum total of the remuneration given the CEO of Shikun & Binui SBI in 2012 reflects his contribution to it, and that the remuneration paid him in 2012 was fair and reasonable taking into account its size, the scope and complexity of its activity and business, the competitive environment in which it operates, the duties and scope of responsibility of the CEO of Shikun & Binui SBI and his contribution to the development of its business.

5. Amit Segev – Deputy Company CEO

Regarding the Deputy CEO’s contribution, the Company’s Board of Directors noted that the remuneration for the Company’s Deputy CEO reflects his unique contribution to the Company’s achievements in 2012. The Board of Directors estimates that the remuneration paid the CEO reflects the Deputy CEO's unique knowledge and experience, which the Company considers to be unique in the Israeli economy as a whole and in the Company’s area of activity in particular. The Board of Directors also noted that the involvement of the Deputy CEO in the activity of all of the subsidiaries, his direction and activity helped the companies improve their activity and deal as best as possible with the risks involved in their activity.

In addition, the Board of Directors studied the involvement of the Deputy CEO in the fields of the various mega-projects and found that his activity and involvement assisted and brought about the realization of processes, including the process of selling holdings in Derech Eretz (which has yet to be completed), while preserving the status of Solel Boneh in the performance of future works in the project. In addition, the Board of Directors noted that the Deputy CEO acted and continues to act to accompany growth processes in the field of water and energy, and promotes activity with the Group's key partners.

Finally, the Board of Directors determined that in terms of the terms of the service of the Company Deputy CEO in 2012 the total salary of the Company Deputy CEO meets market conditions and is comparable to similar companies comparable to the Company. Based on the above the Company's Board of Directors found the sum total of the remuneration given the Deputy CEO in 2012 reflects his contribution to the Company, and that the remuneration paid him in 2012 was fair and reasonable taking into account the size of the Company, the scope and complexity of its activity and business, the competitive environment in which it operates, the duties and scope of responsibility of the Deputy CEO and his contribution to the development of its business.

6. <u>Moshe Lahmani – Chairman of the Board of Directors</u>

On March 21 2013 the Board of Directors approved, after a discussion and the approval of the Remuneration Committee, and recommended to the General Meeting to ratify, the Company's engagement in the matter of the terms of the employment and service of the Chairman of the Board of Directors. The Company's engagement in the agreement is subject to the ratification of the General Meeting, in accordance with the law.

The terms of the remuneration offered the Chairman of the Board of Directors were determined, among other things, taking into account the education, skills, expertise, professional experience and achievements of the Chairman of the Board of Directors. The Chairman of the Board has extensive and varied administrative, business and financial experience. Furthermore, prior to being appointed Chairman of the Board, Mr. Lahmani served as a Company director, and is deeply familiar with its business and organizational culture. The Remuneration Committee and Board of Directors believed that Mr. Lahmani will contribute greatly to the Company in activities required to complete the tasks and challenges it faces. The terms of the remuneration offered the Chairman of the Board of Directors were determined, among other things, in light of the size of the Company, its complexity and the nature of its activity.

The Board of Directors believed that terms of the Chairman's remuneration are appropriate to the scope and complexity of the duties of the Chairman of the Board who's serving as Acting Chairman at 75% employment. The Chairman of the Board of Directors has many areas of responsibility, taking into account the complexity of the Company's activity, requiring that the Chairman of the Board invest must in his work, which will express his skills, expertise, and experience, as well as dedication to duty as Acting Chairman. The duration of the agreement was determined taking into account the promotion of the Company's goals, its strategy, its work plan and its policy in the long term.

The sum of the proposed bonus for 2012 was determined by the Remuneration Committee, taking into account the Chairman of the Board's ability in achieving the Company's goals and improving its profits in min-2012 when he entered office, taking into account the long-term view and in accordance with his duties. The Remuneration Committee based its decision on the determination of the size of the bonus offered for 2012, among other things, on measurable criteria as well as on other criteria taking the contribution of the Chairman of the Board of the Company into account. Within this framework, the Board of Directors and Remuneration Committee established their decision, among other things, on criteria referring to the key goals the Company set in its 2012 work plan, which are relevant to the activity of the Chairman of the Board, including the following criteria: improving and advancing corporate governance at the Company, the Company's business results including its net profits, deepening and implementing sustainability values in the Group's activity in Israel and abroad, updating strategy and focusing on growth engines, marketing and branding the Company and investor relations activity. Also considered were additional criteria, in which his considerable contribution was evident, and which pertained to the development of business relationships in the field of infrastructure and concessions in Israel and abroad; to promoting renewable energy projects; to guidance and supervision in the field of finance, in the field of auditing and in the field of risk management, and to leading and promoting the work of the Board of Directors.

The proposed terms of remuneration pertain to the end of the employment of the Chairman of the Board of Directors, including the advance notice period, the Chairman's rights pursuant to it and the compensation pay he will be entitled to at the conclusion of his employment, were determined taking into account the term of employment and service of the Chairman of the Board – with the duration of the agreement period set at five years, and the fact that as of the General Meeting the Chairman of the Board will be completing 10 months in office; referring to the terms of his employment during period, the Company's performance in the period in question, the executive's contribution to achieving the Company's goals and increasing its profits and the circumstances of his retirement. The remuneration conditions in question pertaining to the discontinuation of the Chairman's employment include a ceiling as part of their terms.

The Remuneration Committee and the Board of Directors reached the conclusion, after the discussion and decision of the Audit Committee on the matter, that the remuneration conditions offered the Chairman of the Board of Directors are reasonable under the circumstances, also in light of the remuneration conditions of the former Chairwoman of the Board and those of the CEO.

According to the comparative analysis of remuneration plan data conducted by the external consulting company, the remuneration offered the Chairman of the Board is above the median and does not exceed the range of remuneration conditions given Chairmen of Board of Directors of comparison companies. In light of the complexity of the duties of the Company's Board of Directors, among other things taking into account its global activity, its varied areas of activity, and its organizational structure, as well as the scope of tasks borne by the Chairman of the Board, as Acting Chairman at a significant scope of employment, and in light of the high coefficient the Remuneration Committee and Board of Directors believe likely to exist between the remuneration conditions of the Company's Chairman and CEO, he Remuneration Committee saw fit, as noted above, to commission from the external consulting company a comparative analysis of remuneration plans of CEOs as well. Accordingly, according to the comparative analysis of CEO remuneration plan data conducted by the external consulting company, the total remuneration offered the Chairman of the Board is below the median and does not exceed the range of remuneration conditions given CEOs comparison companies.

After the Audit Committee studied the proposed remuneration conditions and taking into account the comparative analysis data in question, it found that the proposed remuneration conditions to be in accordance with market conditions, that the employment of the Chairman of the Board of Directors was carried out as part of the Company's normal course of business, and that the approval of the remuneration conditions should not have a material impact on the Company's profitability, its property or its liabilities, and therefore the approval of the remuneration conditions does not constitute an exceptional transaction. In light of the above, the Remuneration Committee and the Board of Directors believed that the proposed remuneration conditions and various components are in accordance with market conditions, are reasonable and fair under the circumstances, and reflect his contribution to the Company, and approval of the remuneration conditions are to the Company's benefit.

7. Director Compensation

The Board of Directors believes that the remuneration conditions of its members reflect a proper and reasonable level of compensation in light of the scope and complexity of the Company's business and activity, the effort required from the directors to carry out their duties and in light of the responsibility involved in the duty they perform.

Director compensation (with the exception of that of the Chairman of the Board) did not exceed the maximum sum of remuneration that can be paid external directors in companies like the Company in accordance with the Companies Regulations (Rules Regarding Compensation and Expenses for External Directors), 2000 and does not exceed market standards, among other things, taking the Company's size and activity into account.

The Company Board of Directors believes, in light of the various consideration detailed above as well as taking into account their efforts and the responsibility borne by the directors, their experience and their contribution to the Company in the reported period, that the directors' remuneration in the reported period is fair and reasonable relative to the directors' contribution within the framework of their duties in the period in question.

For further details regarding executive remuneration see Regulation 21 in Chapter D of the Periodic Report (Additional Details Chapter).

13 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 Lahmani (serving as Chairman of the Board of Directors as of July 1 2012).

For additional information regarding the Board members in question see Regulation 26 in the Report on Additional Information on the Corporation.

14. 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 2012 she concluded here duties as Company director.

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

On December 24 2012 Mr. Doron Belshar announced that he would be concluding his duties as Company CFO on March 31 2013.

On March 17 2013 the Company announced that Mr. Tal Raz had been appointed Company CFO. He will begin serving in his position starting April 1 2013.

15. Negligible Transactions

On March 30 2010 the Company's Board of Directors decided to adopt guidelines and rules for the classification of a transaction as a "negligible transaction" as the term is defined in Regulation 41(a)(6) of the Securities Regulations (Yearly Financial Statements), 2010. These rules and guidelines are also used to determine the extent of disclosure as regards transactions on behalf of the Company with controlling shareholders or in which controlling shareholders have personal interest as defined in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "**Periodic and Immediate Reports**") and Regulation 54 of the Securities Regulations (Prospectus Details and Prospectus Draft – Structure and Form), 1969, as well as to determine the need to submit an immediate report for such a Company transaction, as set in Regulation 37(a)(6) of the Immediate and Periodic Reports Regulations.

Over its normal course of business, the Company or its subsidiaries may conduct transactions with interested parties as well as enter into commitments to conduct transactions with interested parties in relation to the purchase of goods or services, including, but not limited to, transactions of the following types and featuring the following characteristics: purchasing banking services, transactions related to the management of funds deposited in provident and education funds, communications transactions, purchasing, insurance acquisitions (including executive liability insurance, employee loyalty insurance, asset and property insurance and manager's insurance), rental transactions, purchase of goods, acquisition of services, consulting services acquisitions, entering into underwriting agreements and more.

Transactions to which the Company or a subsidiary are a party, and which meet the following conditions, will be considered "negligible transactions":

a. The transaction is not an "exceptional transactions" as defined in Section 1 of the Companies Law, 1999;

b. The transaction is not defined by the Company as a reportable event in accordance with Regulation 36 of the Periodic and Immediate Reports Regulations;

The influence of the transactions expected results will not exceed 0.25% (one quarter of one percent) of the Company's assets, 1% (one percent) of the Company's total revenues and 1% (one percent) of the Company's net profits; in this regard "the Company's profits", "the Company's liabilities", "the Company's revenues" and "the Company's net profits" – as determined in the Company's audited Yearly Financial Statements (on a consolidated basis), the latest approved by the Company.

If the transactions constitutes a stage, complex or part of other transactions carried out and/or which will be carried out by the Company over the course of the 12 months preceding engagement with it or the subsequent 12 months – a single examination shall be carried out for all of the transactions in question, jointly.

d. The scope of the transaction does not exceed 8 million NIS.

The condition noted in Section (d) above shall apply to transactions approved as of March 31 2013. This condition will be examined by the Board of Directors on a yearly basis, near the approval dates of the Company's Yearly Financial Statements.

In cases in which, according to the Company's judgment, all of the aforementioned quantitative criteria are irrelevant for the determination of the negligibility of the interested party transaction, the transaction shall be considered negligible, in accordance with a different relevant criterion, determined by the Company, so long as the relevant criterion calculated for this transaction shall be at least one percent (1%) of the relevant parameter.

In examining the negligibility of a transaction that is supposed to occur in the future, examination must be carried out, among other things, of the likelihood of its realization and the realization of its influences.

Examination of the quantitative considerations of an interested party transaction may lead to the contradiction of the aforementioned presumption of the transaction's negligibility, as noted above. Thus, for instance, and merely as an example, a transaction shall not generally be considered negligible if it is considered a significant event by Company management.

16. Independent Directors

The Company has not adopted the directive regarding the rate of independent directors, as defined in Section 219 (e) of the Companies Law, 1999, in its bylaws.

17. 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. Yosef Alsheikh, Chair of the Committee – external director.

b) Mr. Yitzhak (Khaki) Harel – external director (Mr. Harel replaced Mr. Israel (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 Lahmani 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 whom have financial and accounting capabilities. For additional details regarding the committee members see Section 13 of this report.

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.

Meetings of the Finance and Financial Statements Examination Committee on the matter of the approval of the Financial Statements were held on May 24 2012, August 23 2012, November 22 2012 and March 19 2013. All of the committee’s members, Mr. Yosef Alsheikh, Yitzhak (Khaki) Harel and Shmuel Berkowitz, were present at all of the meetings. The following senior executives took part in the meetings of the Finance and Financial Statements Examination Committee held on May 24 2012, August 23 2012, November 22 2012 and March 19 2013 – Ofer Kotler (CEO), Amit Segev (Deputy CEO), Doron Belshar (CFO), Ronit Rosenzweig (Deputy CFO and Head of Financial Reporting) 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.

The Board of Directors meeting to approve the Financial Statements was held on March 21 2013. At this meeting, the Board of Directors discussed the Financial Statements and the recommendations of the Financial Statements Examination Committee, and approved 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 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 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.

18. Disclosure Regarding the Auditing Accountant's Fee

The following are the details of the auditing accountant's fees divided as follows:

Salary for auditing services, auditing-related services and for tax services – in thousands of NIS.

Other salary – for other services provided by the accountant – in thousands of NIS.

Company	Certified Public Accountant	2012				2011			
		Number of Auditing Hours	Auditing Salary	Number of Other Salary Hours	Other Salary	Number of Auditing Hours	Auditing Salary	Number of Other Salary Hours	Other Salary
The Company – Shikun & Binui Ltd.	Somekh Chaikin & Co.	5,150	1,032	998	332	5,650	1,109	1,993	619
Shikun & Binui – Solel Boneh (Construction and Infrastructure) Ltd. and its subsidiaries	Somekh Chaikin & Co.	6,204	1,110	353	124	5,503	911	681	251
Shikun & Binui Real Estate Ltd. and its subsidiaries	Somekh Chaikin & Co.	6,500	1,173	70	28	6,324	1,034	1,026	262
Shikun & Binui SBI Infrastructures Ltd. and its subsidiaries	Ziv Haft	3,600	972	276	130	3400	944	150	53
	Local accountants abroad	3,783	805	260	139	3,837	904	640	515
Shikun & Binui Real Estate Development B.V	KPMG Hungary	3,400	870	-	-	2,500	878	-	-
Shikun & Binui Renewable Energy Ltd. and its subsidiaries	Somekh Chaikin	2,900	288	270	89	1,750	326	727	280
	Ziv Haft	-	-	-	-	-	-	120	23
Shikun & Binui Water Ltd. (formerly Orlev Industries Construction and Works 2000 Ltd.) and its subsidiaries	Somekh Chaikin	1,174	142	75	28	480	111	-	-
	Fahn Kanne	-	-	-	-	288	67	85	20

.

19 Disclosure with Regard to the Internal Auditor

a. Name of Auditor: Ronit Biran

Start of Term in Office: March 1 2007

Qualifications: accountant, B.A. in economics and accounting, member of the Organization of Internal Auditors, member of the IIA Conferences and Educational Committee. The internal auditor meets the terms set in Section 3(a) of the Internal Auditing Law, 1992 ("the Internal Auditing Law") as well as Section 146 (b) of the Companies Law and Directive 8 of the Internal Auditing Law. To the best of the Company's knowledge, the internal auditor does not hold securities of the Company. The internal auditor is a Company employee and serves as internal auditor for other Group members, including public company IDO Group (since November 16 2011).

b. The auditor was appointed by the Board of Directors following the recommendation of the Audit Committee. The appointment was approved based on her education, skills and extensive experience in internal auditing, including as chief internal auditor.

c. The organizational supervisor of the internal auditor is the Chairman of the Board of Directors

d. The Company has a multi-year auditing plan for a 4-year period, with the aim of encompassing most of the activities of the Company and its subsidiaries, and the yearly plan has been derived from it. Establishment of the work plan is based on an evaluation of the risks in the activities of the Company and its subsidiaries. Furthermore, the plan took into account the existence of proper controls and auditing findings in previous years, after consulting with the companies' CEOs. The audit plan is sent to the CEO and the Chairman of the Board for study and presented to the Audit Committee for approval. Material deviations from the work plan are brought before the Audit Committee for approval. Furthermore, the work plan includes the allocation of resources for ad-hoc audits.

e. Over the course of the reported period, the internal auditor examined transactions with interested parties.

f. The audit committee also deals with material investee corporations of the Company in Israel and abroad.

One of the investees (SBI Infrastructures) has an internal auditor who is a Group employee. The determination of the yearly audit plan for this corporation is carried out by him in conjunction with the internal auditor. The Company's internal auditor receives this corporation's audit reports and also takes part in this corporation's auditing committees.

g. The internal auditor is a full-time employee and is also responsible for the field of internal auditing at the Company's investees.

Auditing in the Company and in its subsidiaries is carried out by the Audit Department which is made up of 4 auditors (including the internal auditor) and outsourcing.

The following are details of work hours spent on internal auditing in the Group in 2012:

At the Company	1,540
In domestic subsidiaries	3,710
In foreign subsidiaries	2,250
Total	7,500

The audit plan does not include auditing for 4 affiliates, the auditing for which is performed by an external auditor that they have appointed with the involvement of the internal auditor. Total auditing hours in these companies amounted to some 1,020 in 2012.

h. The audit was carried out in accordance with generally accepted Israeli and global professional standards and in light of professional guidelines as adopted and published by the Organization of Internal Auditors as well as in accordance with the relevant legal requirements of each Group member, respectively The Board of Directors, through its audit committee, supervises the internal auditing work.

i. The internal auditor is given and receives free access to the Company and subsidiaries in Israel and abroad for any source of information, including documents, to regular or computerized databases and to financial data.

j. The internal auditor's reports are submitted in writing, after holding discussions with the audited parties on the audit report drafts. The audit reports are distributed to the CEO, the Chairman of the Board, the Chair of the Audit Committee and the members of the Audit Committee, and are discussed by the Audit Committee within one week and two months.

Meetings of the Company's Audit Committee in which a discussion was held on the auditor's findings were held on the following dates: March 18 2012, May 13 2012, July 8 2012, October 9 2012, December 16 2012.

Furthermore, 27 discussions were held at the audit committees of the corporation's subsidiaries/investees on the audited subjects.

k. The Audit Committee and Board of Directors estimates that the scope of the auditing work, the character and continuity of the auditor's work plan activities are reasonable under the circumstances and allow the achievement of the goals of the corporate audit.

l. The internal auditor receives a monthly salary including social and other benefits as generally accepted at the Company, and in accordance with the Board of Director's decision the internal auditor was granted options pursuant to the allocation of options to Company executives in accordance with an outline published in September 2009. The Board of Directors believes that the scope of the remuneration has not impact on the internal auditor's professional judgment.

Moshe Lahmani	Ofer Kotler
Chairman of the Board of Directors	CEO

March 21 2013