Report of the Board of Directors on the State of Corporate Affairs
For the Year Ending December 31 2013

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 2013.

Part A – General

1. The Company operates through its investees (“**the Shikun & Binui Group**” or “**the Group**”) in and outside of Israel, in seven operating segments: (1) **infrastructure and construction contracting abroad**; (2) **infrastructure and construction contracting in Israel**; (3) **real estate ventures in Israel**; (4) **real estate ventures abroad**; (5) **renewable energy**; (6) **water**; and (7) **concessions.**

   The Company is a global company the activity of which largely consists of large-scale projects, both in monetary terms and in terms of complexity, for both the private and public sectors; activity in the field of infrastructure and real estate, energy and water.

2. The following are the Company’s main areas of activity in the world and in its countries of operation:

3. The Company operates according to existing approaches, which demand integration of economic, environmental and social considerations in the management and decision-making processes. The Group's policy places the implementation of the Group's vision and its values in Israel and abroad at the center of its activities. Accordingly, the country adopts business norms implemented at an ever-growing number of international corporations in order to promote proper business behavior that allows global growth and prosperity, while taking humanity and the environment into consideration. For this purpose the Company has developed, among other things, organizational infrastructures for training human capital with the aim of establishing a strong organizational culture matching the Group's vision.

4. ***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 8.2 of this report).

4.1. **Infrastructure**

Active in this field are mainly the Company's subsidiaries, Shikun & Binui – SBI Infrastructure Ltd. (hereinafter – "**SBI**") and its subsidiaries outside of Israel and Shikun & Binui – Solel Boneh (Construction and Infrastructure) Ltd. (hereinafter: "**Solel Boneh**") in Israel).

SBI has over 55 years of experience in the development of infrastructure abroad, mainly in Africa, Central America and West Asia. SBI is currently active in a number of 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.

Solel Boneh has for over 90 years focused on civil engineering ventures, national projects in the field of transportation and infrastructure and large-scale construction projects in Israel, including extensive activity in large concession projects. In addition, Solel Boneh deals in the manufacture of asphalt, the manufacture of concrete, 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, are large-scale projects, and in particular in BOT and PFI projects.

4.2. **Real Estate Ventures**

In this area the Group mainly acts through Shikun & Binui Real Estate Ltd. (hereinafter: "**Shikun & Binui Real Estate**") in Israel and through Shikun & Binui Real Estate Development B.V. (hereinafter: "**Shikun & Binui Real Estate Abroad**") and the A.D.O Group Ltd. (hereinafter: "**ADO**") abroad.

Shikun & Binui Real Estate (87% stake) combines over 56 years of experience in constructing residential apartments while implementing advanced architectural design, innovative work methods and international standards, including and while placing special emphasis on green construction standards for creating a sustainable and advanced living environment. Shikun & Binui Real Estate provides an envelope of products and services, in order to guarantee a high quality of life and a comfortable living environment. Over recent years Shikun & Binui Real Estate has positioned itself as the leader in the field of residential construction in Israel and most of the buildings it has started constructing since 2009 are being built under the green Israeli Standard, and some are submitted for certification under the U.S. LEED[1] green construction standard. Shikun & Binui Real Estate mostly operates in high demand areas in Israel, while placing emphasis on green projects such as its residential project in East Netanya ("Pure") and the Karkur Dreams Project – which was the first residential project in Israel to receive Green Standard approval. Furthermore, Shikun & Binui Real Estate is active in non-residential real estate development, particularly in the field of commerce. In this activity as well, the Shikun & Binui Real Estate places special emphasis on construction in accordance with green construction standards, such as their implementation in the students' dormitories project being constructed at Tel Aviv University, the Seventh Avenue project 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 through construction and operation.

Shikun & Binui Real Estate Abroad 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 economic 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. 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).

The A.D.O Group Ltd. (a public company traded in Tel Aviv in which the Company holds a 35.4% stake as of the reported date) is active in Germany in the location, purchase and improvement of residential buildings in Berlin, which include both residential apartments and commercial spaces intended for rental. As of this report, the ADO group holds 347,000 m² of offices and 66,000 m² of commercial space.

4.3. **<u>Concessions</u>**

The Group's activity in this field includes the financing, construction and operation of large-scale projects ("mega-projects"), mainly in the field of infrastructure and construction, in Israel and around the world. The Group is continuing to act to expand its concession activity around the world, which in the opinion of Company management offers significant growth

[1] The LEED – Leadership in Energy and Environmental Design standard is a generally accepted American construction standard.

potential. There has been a trend evident on behalf of governments around the world in recent years to continue the use of the PPP (public-private partnership) format for the construction of infrastructure and to grant concessions to private elements 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 a private concession holder. On the other hand, alongside the recovery from the global economic crisis, difficulty exists in receiving underwriting commitments at extensive amounts from financing bodies, an increase is evident in interest margins and difficulty exists in raising very long-term financing from international financing bodies. These difficulties and changes are taken into account in the new project proposal stage.

As part of this area of activity, the Company was involved in constructing major national projects such as the Cross-Israel Highway (the sale of the project was completed on July 4 2013, for further details see Note 18.a.6 to the Financial Statements), the Carmel Tunnels Project, a desalination plant in Hadera, a project for the renovation and operation of roads in northern Israel (on April 10 2013 the commissioning party's approval for the completion of the project's construction project was received, seven months before the planned date), and is currently constructing the new Tel Aviv Courthouse, the Israel Police Training Center and more. The Company continues to take part in tenders for concession projects, in Israel and around the world.

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

4.4. **<u>Renewable Energy</u>**

In the field of renewable energy, the Group's activity is largely carried out by subsidiary Shikun & Binui Renewable Energy Ltd. (hereinafter – Renewable Energy), with emphasis placed on the fields detailed below:

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

4.4.1.1. Ashalim Center – on September 30 2013 a concession agreement was signed between the State of Israel and a company held in equal shares by Renewable Energy and by a member of the Abengoa Group, of Spain, for the construction of a thermo-solar power plant with an output of 110 MW in the Ashalim region of the Negev.

4.4.1.2. Tze'elim project – initiation of a project in planning stages to the scope up to 120 megawatts on land owned by Kibbutz Tze'elim in the Negev ("the Shneor Project"). The basic scope of the project will be determined according to rate arrangements.

4.4.2. 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. Renewable Energy also holds a 50% stake in photo-voltaic projects in Spain with a total production scope of 13 MW. In July 2013 Spain passed a law on changes in rates for local projects. In light of this legislation, an impairment provision was listed for these projects. For further details see Note 18.a.10 to the Financial Statements.

4.4.3. Conventional energy-based power production field – production and sale of power at a total scope of 26 MW, using a power plant in Ashdod, which is powered by mazut. The power plant uses “peaker” and operates on an availability basis.

4.4.4. 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 megawatts.

4.5. **Water**

In the field of water, the Group’s activity is mainly carried out by Shikun & Binui Water Ltd. (hereinafter: “Shikun & Binui Water”) 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 ground water reclamation facilities as well as the design, supply and installation of odor hazard treatment systems.

On October 29 2013 Shikun & Binui signed an agreement to purchase 30% of the shares of Elkon Recycling Center (2003) Ltd. (hereinafter: “Elkon”) Elkon deals in the provision of services for the treatment of industrial waste considered hazardous material for industrial companies in Israel, and intends to expand this activity abroad as well.
The transaction was concluded subsequent to the reported date and 30% of Elkon’s shares were transferred to the possession of Shikun & Binui Water.
For further details see Note 31.c.8 to the Financial Statements.

5. ***Points of Emphasis***[2]

5.1. **Key Financial Data for 2013**

	For the Year Ending December 31		Gap	Change in %
	2013	2012		
	Millions of NIS			
Revenues	6,370	6,063	307	5%
Profit for the period	393	448	(55)	-12%
Equity	1,146	1,139	7	0.6%
Total assets	10,523	10,597	(74)	-
Working Capital	1,402	916	486	53%
Cash flow from current activity	719	558	161	29%
Accumulated Orders	10,417	9,692	725	7%

5.2. **Key Financial Data for Q4 2013**

	For the Three Months Ending December 31		Gap	Change in %
	2013	2012		
	Millions of NIS			
Revenues	1,705	1,363	342	25%
Profit for the period	82	81	1	-
Cash flow from current activity	360	536	(176)	-32%

[2] *For the complete data see 8-11 below (Explanations of the Board of Directors)*

Part B – Disclosure Regarding the Corporation's Financial Reporting

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

6.1. **Payment of Ramat Gan Municipality Debit Balance to Subsidiary due to the Cancellation of Real Estate Sales Transaction**

Over the course of the reported period the City of Ramat Gan paid the balance of its debt to a subsidiary for the cancellation of a real estate sales transaction in Ramat Gan, and as a result, a profit was listed of 55 million NIS. For further details see Note 31.c.5 to the Financial Statements.

6.2. **End of Adaptation Stage in Road Restoration Project in Northern Israel**

On April 10 2013, a subsidiary received notice regarding the conclusion of the adaptation stage in a road restoration project in northern Israel, seven months before the planned date.

6.3. **Winning Shagmo-Ibden Tender in Nigeria**

In June 2013 a subsidiary was informed by the Nigerian Government that it had been selected as the winner in a tender for the implementation of the Shagmo-Ibden Road in Nigeria. The scope of the compensation for the project is $580 million.
For further details see Note 31.c.6 to the Financial Statements.

6.4. **Winning Ashalim Tender**

On June 19 2013, the Company was informed that a company held in equal shares with a third party was selected as the winning bidder in a tender for the construction of a thermo-solar power plant with an output of 110 MW near the town of Ashalim. As of this date, the project costs are estimated at $1.1 billion. The concession agreement was signed on September 30 2013.
For further details see Note 31.c.7 to the Financial Statements.

6.5. **Sale of Derech Eretz Transaction**

On July 4 2013, a transaction was completed for the sale of the Company's investments in Derech Eretz in return for a sum of 683 million NIS. The Company listed a profit of 63 million NIS in its financial statements from the sale in the third quarter of the year.
For further details see Note 18.a.6 to the Financial Statements.

6.6. **Sale of 193 Apartments in the Rosh Ha'ayin Dreams Project**

On July 5 2013 Shikun & Binui Real Estate held a sales conference, in which it offered residential apartments for sale in the Rosh Ha'ayin Dreams project it is developing. Up to and as part of the conference the subsidiary received registration requests subject to the signing of an agreement for the purchase of all of the apartments it offered in the project. The total proceeds expected from the sale of the residential apartments in question amounts to a total of 252 million NIS (including VAT), and is expected to be received by the subsidiary over the course of 2013-2015, in accordance with the projected timetables for the construction of the apartments in question in the project.

6.7. **Rate Changes in the Spanish Power Market**

On July 14 2013 a new law came into effect in Spain, which revoked a previous law that guaranteed the payment of a special rate for electricity sold by thermo-solar parks such as those in which a Company Spanish subsidiary is a partner, through investees treated according to the book value method (hereinafter: “Giltz”). After the new law was passed, drafts of additional new laws were published, the goal of which is to define the mechanisms and parameters for the calculation of the components of the proceeds in accordance with the new law.

In light of the change in legislation and the new draft laws, Giltz estimated the recoverable sum of each of the parks, while calculating the value in use and recognizing the impairment of the parks in question on the basis of a value estimate it made. The value assessment for each of these parks was made by an independent appraiser. The subsidiary’s share of the impairment, amounting to 35 million NIS, was included under “share of the losses of subsidiaries handled according to the book value method” in the Statement of Operations.

On February 3 2014 draft government regulations were published featuring the necessary parameters for calculating the special proceeds. Upon this publication, Giltz re-examined the recoverable sum of the parks and found that the parks’ book value is compatible with their recoverable sum. As the Spanish legislation has not yet been completed and components exist that are still unknown as of this stage, the value assessment of the Spanish parks was based on the draft government regulations, which have yet to be ratified, and on assumptions that may change significantly by the conclusion of the legislation process.

As management’s estimates involve uncertainty, Company management estimates that upon the completion of legislation and the revision of the cash forecast, as required, changes that may occur, which may be material, to the sum of the amortization calculated as noted above. Note that as of December 31 2013, after listing an impairment provision and the Company’s share of the losses, as noted, the Company’s total investment in Giltz amounts to 95 million NIS (for further details see also Note 18.a.10).

6.8. **Rating Increase**

On August 14 2013 the Company received notice from Midroog that it was raising the Company’s rating from A2 to A1 and setting a stable rating outlook for the series of Company debentures in circulation.

On January 6 2014 the Company received notice from Ma’alot that it was raising the Company’s rating from A to A+ and setting a stable rating outlook for the series of Company debentures in circulation.

6.9. **Issuance of Debentures**

On September 9 2013 the Company issued Series 6 and 7 debentures totaling 412 million NIS, net after issuing costs. For further details see Note 27 to the Financial Statements.

6.10. **Granting Blocked Shares**

On September 22 2013 the Company's General Meeting, after receiving the Board of Directors' approval on August 6 2013, approved the issue of 525,281 units of blocked shares to the Company CEO and another 450,240 units of blocked shares to the Chairman of the Board of Directors. Furthermore, it was decided to grant the Chairman of the Board as compensation for past periods 118,807 additional units of blocked Company shares.

The Company Board of Directors decided to grant up to 4,987,458 units of blocked shares to Company employees and executives. For further details see Note 28.c.2 to the Financial Statements.

6.11. **Acquisition of Treasury Shares**

Over the course of December 2013, 2,500,000 Company shares were purchased; these share shall be granted in accordance with the terms of the blocked shares granting program mentioned above, according to eligibility by Company workers and executives.

6.12. **The Stanham Transaction.**

On October 28 2013 a transaction was completed between ADO and corporations from the Stanham Group (together: Stanham) in which ADO purchased shares in Stanham companies holding 48 cash-generating real estate properties in Berlin and additional properties in return for cash and the issue of ADO shares. Following the completion of the transaction and additional issues of capital to the Company and to third parties, the Company's stake in ADO dropped and amounts to 35.4% of ADO's stock capital as of the report date. The Company listed a profit of 23 million NIS in the third quarter of the year for the transactions in question. For further details see Note 18.a.5 to the Financial Statements.

6.13. **The Elkon Transaction.**

On October 29 2013 an agreement was signed between Shikun & Binui water and third parties for the purchase a 30% stake in Elkon and Shikun & Binui Water was given options to purchase additional shares in Elkon, including an option to purchase the full balance of the shares in Elkon. The options in question may only be exercised one year from the completion of the transaction. In addition, the current Elkon shareholders were given an option to compel Shikun & Binui Water to purchase from them the balance of the shares in their possession. Elkon deals in the provision of services for the treatment of industrial waste considered hazardous material for industrial companies in Israel, and intends to expand this activity abroad as well. The transaction was completed on February 6 2014. For further details see Note 31.c.8 to the Financial Statements.

6.14. **Debenture Replacement**

On November 5 2013 the Company carried out a swap purchase agreement in which 245 million NV Series 2 debentures and 503 million NV Series 4 debentures were replaced by 919 million NV Series 6 debentures, and 124 million NV Series 3 debentures were replaced by 135 million NV Series 7 debentures. On November 12 2013 an additional 19 million NV

Series 2 Debentures were replaced by 24 million NV series 6 debentures. For further details see Note 27 to the Financial Statements.

6.15. **Completion of Ma'aleh Gilboa Transaction and Financial Closing for the Project**

On January 2 2014 a transaction was completed for the purchase of rights in a pumped storage project in Ma'aleh Gilboa. On January 5 2014 a system of agreements pertaining to the project and its finance was signed. To be clear, completion of the financial agreements is subject to meeting a number of preconditions including receiving the approval of the Public Services Authority – Electricity.

For further details see Note 31.c.4 to the Company's Financial Statements.

6.16. **Dividend Distribution**

Date on which the Board of Directors Decided to Distribute Dividends	Dividend Payment Date	Total Dividends Distributed in Millions of NIS
21.3.2013	25.4.2013	50
26.5.2013	4.7.2013	60
25.8.2013	3.10.2013	60
27.11.2013	6.1.2014	80
25.3.2014	27.4.2014	60

For further details see Note 37h to the Company's Financial Statements.

7. *Disclosure on Critical Accounting Estimates*

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

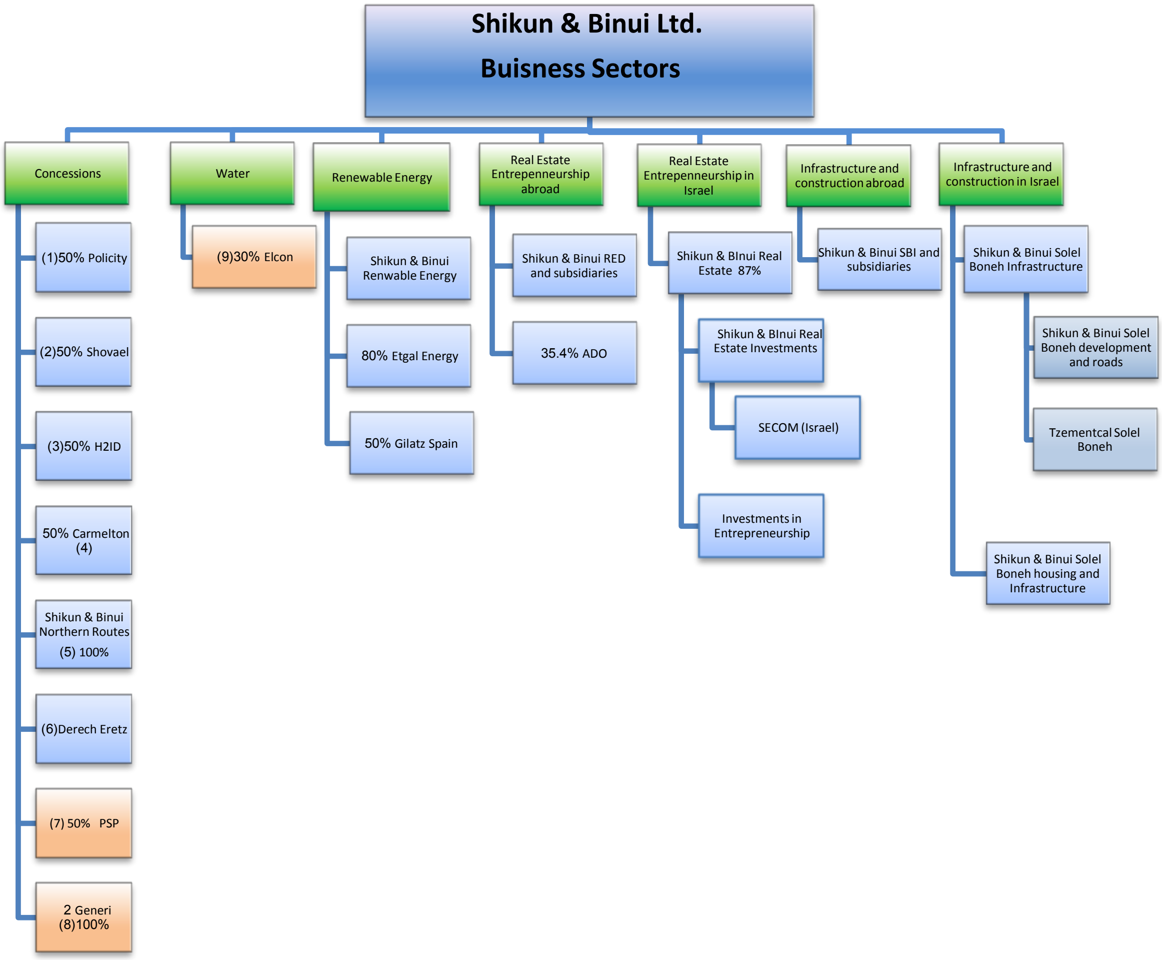
Part C – Explanations of the Board of Directors for the State of the Corporation's Affairs:

8. ***Business Activity Results***

8.1. The following is concise data regarding business activity results.

	For the Year Ending December 31			For the Three Month Period Ending December 31		
	2013	2012	2011	2013	2012	2011
	Millions of NIS			Millions of NIS		
Revenues from works and sales	6,370	6,063	5,335	1,705	1,363	1,408
Cost of works performed and sales	(5,275)	(4,880)	(4,294)	(1,443)	(1,107)	(1,203)
Gross profit	1,095	1,183	1,041	262	256	205
Gross profit rate	17.2%	19.5%	19.5%	15.4%	18.8%	14.5%
Proceeds from the sale of investment property	12	7	51	-	3	40
Sales and marketing expenses	(40)	(35)	(33)	(12)	(10)	(9)
Administrative and general expenses	(349)	(339)	(342)	(97)	(92)	(86)
Other revenues (expenses), net	122	(30)	81	10	(21)	5
Operating earnings	840	786	798	163	136	155
Financing expenses, net	(163)	(133)	(167)	(13)	(8)	(50)
Company's share of losses of affiliates	(86)	(34)	(45)	(13)	(11)	(13)
Profit before taxes on income	591	619	586	137	117	92
Taxes on income	(198)	(171)	(144)	(55)	(36)	(25)
Net profit	393	448	442	82	81	67

8.2. **Shikun & Binui's Operating Segments**



(1) Police training center in Beit Shemesh.

(2) Tel Aviv courthouse.

(3) Hadera desalinization plant.

(4) Carmel Tunnels in Haifa

(5) Road maintenance in northern Israel.

(6) Trans-Israel highway project – sold July 2013.

(7) Pumped storage project in Ma'aleh Gilboa.

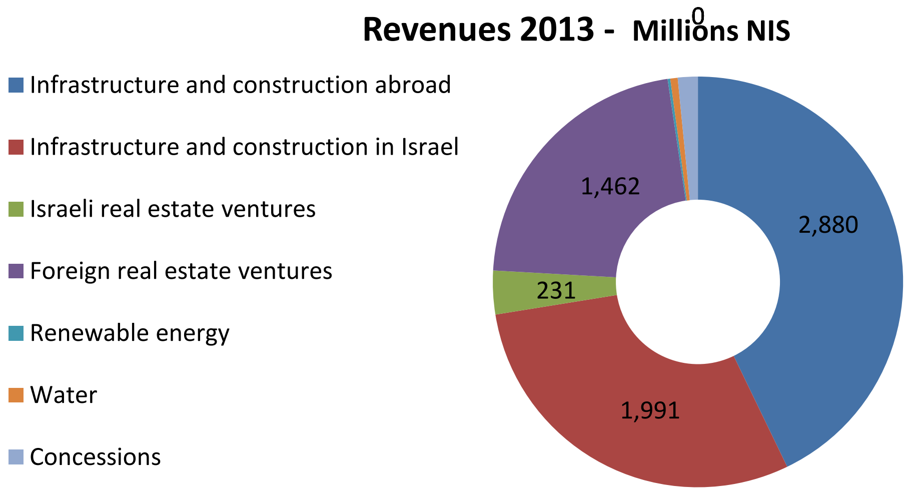
(8) Government buildings' construction project in Jerusalem. The agreement was signed after the reported date.

(9) The completion of the Elkon acquisition took place after the reported date.

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

8.3. **Revenues from Works and Sales**

	For the Year Ending December 31			For the Three Month Period Ending December 31		
	2013	2012	2011	2013	2012	2011
	Millions of NIS			Millions of NIS		
Infrastructure and construction abroad	2,880	3,121	2,727	722	644	685
Infrastructure and construction in Israel	1,991	1,725	1,614	571	374	464
Israeli real estate ventures	1,462	1,203	940	438	333	238
Foreign real estate ventures	14	17	5	4	5	1
Renewable Energy	231	126	113	24	38	40
Water	39	38	39	9	9	10
Concessions	106	144	277	7	38	47
Adjustments	(353)	(311)	(380)	(70)	(78)	(77)
Total revenues	6,370	6,063	5,335	1,705	1,363	1,408



8.3.1. **Analysis of Key Changes Occurring in 2013 Relative to 2012**

Revenues from works and sales for 2013 amounted to a total of 6,370 million NIS compared to a total of 6,063 million NIS in the corresponding period last year, a 307 million NIS increase constituting a 5% increase relative to last year. The key changes that occurred in the sectors in 2013 were as follows:

Foreign infrastructure and construction segment: the 241 million NIS decrease in revenues from this segment largely derives from the fact that the average exchange rate of the dollar dropped 6% in 2013 relative to the exchange rate in 2012 (this influence amounted to a total of 187 million NIS). A slowdown was also noted in projects in Ghana and Guatemala, work in the Republic of Benin was discontinued following a dispute with the work commissioner as well as low performance rates in a project in Azerbaijan. On the other hand, revenues in Nigeria increased.

Israeli real estate ventures segment: the 259 million NIS increase in revenues in this segment included a 111 million NIS increase in revenues from the sale of nonresidential projects as a result of the sale of half of the rights to the Seventh Avenue Mall in Beersheba, the sale of interests in a shopping center in New Ramat Aviv Gimmel and a gas station in Beersheba. In addition, an 87 million NIS increase was listed in revenues from works on the Tel Aviv Student Dormitories project and a 71 million NIS increase in revenues from apartment sales. Recognition of income from the sale of apartments occurs upon delivery to the customer and not upon the sale of the apartment. The Company occupied 807 apartments in 2013 compared to 628 apartments occupied in 2012 (our share). Most of the increase in revenues from the sale of apartments relative to last year derives from an increase in the number of occupations. At the same time, we note that the mixture of apartments occupied has changed, leading to the average price of apartments occupied in 2013 being lower compared to the average price of apartments occupied last year. The apartments occupied in 2013 included the Talmei Menasheh project, Hadera, Rehovot and Tzur Yizthak while in 2012 apartments were occupied in projects in New Ramat Aviv Gimmel, Givatayim, Kiryat Ono and Netanya – Ir Yamim.

Israeli infrastructure and construction segment: the 266 million NIS increase in revenues in this segment largely derives from an increase in implementation by the Roads Division and the concrete works.

Renewable energy segment: the 105 million NIS increase in this segment was largely due to the construction of photo-voltaic facilities in accordance with the arrangements made by the Israeli Electrical Authority regarding medium facilities installed on land and rooftops.

Concessions segment: the 38 million NIS decrease in revenues in this segment originate from a BOT project – restoration and maintenance of roads in northern Israel. The drop in revenues derives from the conclusion of the construction period and a transition to the project operation stage.

8.3.2. Analysis of Key Changes Occurring in Q4 2013 Relative to Q4 2012

Revenues from works and sales in the fourth quarter of the year increased by 342 million NIS relative to the same quarter last year, amounting to 1,705 million NIS – compared to 1,363 million NIS in the same period last year. The key changes compared to the corresponding period last year are as follows:

Foreign infrastructure and construction segment: most of the 78 million NIS increase in this segment is from an increase in activity in Nigeria. Note that revenues in this segment are influenced by the average exchange rate of the dollar. The average exchange rate of the USD dropped in 2013 compared to 2012, which means that if the average exchange rate of the USD had not increased relative to last year, an additional 64 million NIS increase would have been listed compared to the corresponding quarter last year.

Israeli infrastructure and construction segment: the 197 million NIS increase was largely a result of an increase in implementation by the Roads Division, Construction Division and concrete works.

Israeli real estate ventures segment: the increase in revenues in this segment, amounting to a total of 105 million NIS, largely derived apartment sales revenues. The Company occupied 322 apartments in the fourth quarter of the year compared to 177 apartments occupied in the same quarter last year. Note, however, that the mixture of apartments occupied in the reported period was different from that in the corresponding quarter last year, as the average price of the apartments occupied in the fourth quarter of the year is lower compared to the average price of the apartments occupied in the fourth quarter last year. The apartments occupied in the fourth quarter of the year included apartments in projects in Hadera, Rehovot and Tzur Yitzhak, while in the same quarter last year apartments were occupied in projects in New Ramat Aviv Gimmel, Givatayim, Kiryat Ono and Netanya – Ir Yamim.

8.3.3. Analysis of Key Changes Occurring in 2012 Relative to 2011

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 2011 a 728 million NIS increase constituting a 14% increase relative to 2011. The key changes in 2012 occurred in the following sectors:

Foreign infrastructure and construction segment: the 394 million NIS increase in revenues in this segment derives from the expansion of activities in the countries in which the Company is already active and from entry into new countries, such as Tanzania. The changes in exchange rates between the NIS and the USD also had an effect on the growth in revenues. Some of the increase in question relative to 2011 (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.

Israeli real estate ventures segment: the main reason for the 263 million NIS increase in revenues in this segment is the increase in revenues from apartment sales. Recognition of income from the sale of apartments occurs upon delivery to the customer and not upon the sale of the apartment. The Company occupied 628 apartments in 2012 compared to 614 apartments occupied in 2011 (our share). Note that most of the change derives from the fact that the average price of apartments occupied in 2012 was higher than the average price of apartments occupied in 2011. The change in the average price derives from a different mixture of apartments. The apartments occupied in 2012 included projects in New Ramat Aviv Gimmel, Givatayim, Kiryat Ono and Netanya – Ir Yamim. Furthermore, in 2012 this segment included sales of lots and land during the reported period to the amount of 15 million NIS, while in the 211, sales of lots in Kiryat Ono and Tzur Hadassah and land in Ashkelon, Pardes Hannah and Kfar Saba were higher and amounted to 87 million NIS.

<u>Israeli infrastructure and construction segment</u>: the 111 million NIS increase in revenues in this segment largely derives from an increase in implementation by the Construction Division.

<u>Renewable energy segment</u>: the 13 million NIS increase in revenues in this segment largely derives from increased activity of the Ashdod power plant.

<u>Concessions segment</u>: the revenues in this segment originated from a road restoration and maintenance project in northern Israel. A 133 million NIS decrease in revenues from this segment is due to changes in the scope of activity in the construction period.

8.3.4. <u>Analysis of Key Changes Occurring in Q4 2012 Relative to Q4 2011</u>

Revenues from works and sales in the fourth quarter of the year dropped by 45 million NIS relative to the same quarter of 2011, amounting to 1,363 million NIS – compared to 1,408 million NIS in 2011. The key changes relative to the fourth quarter of 2011 are as follows:

<u>Foreign infrastructure and construction segment</u>: a 41 million NIS decrease. Note that an 18 million NIS increase derived from the increase in the average exchange rate of the USD in the fourth quarter of 2012 compared to its average exchange rate in Q4 2011, which means that if the average exchange rate of the USD had not increased relative to Q4 2011, a 59 million NIS decrease would have been listed compared to Q4 2011. Most of the drop in revenues from this segment derives from the completion of two large projects in the third quarter of 2012.

<u>Israeli infrastructure and construction segment</u>: a 90 million NIS decrease.

<u>Israeli real estate ventures segment</u>: a 95 million NIS increase in revenues largely deriving from the fact that the mixture of apartments occupied in the fourth quarter of 2012 included apartments with a higher average price than in the fourth quarter of 2011. The Company occupied 177 apartments in the fourth quarter of the year (the Company's share) compared to 173 (the Company's share) apartments occupied in the same quarter of 2011.

8.4. **Gross Profit**

	For the Year Ending December 31			For the Three Month Period Ending December 31		
	2013	2012	2011	2013	2012	2011
	Millions of NIS			Millions of NIS		
Infrastructure and construction abroad	602	599	593	168	117	110
Infrastructure and construction in Israel	112	105	101	27	20	25
Israeli real estate ventures	343	478	342	84	120	67
Foreign real estate ventures	(28)	(23)	(18)	(27)	(9)	-
Renewable Energy	50	18	21	8	6	5
Water	(5)	1	5	(1)	-	(1)
Concessions	16	(8)	(2)	3	(4)	(4)
Adjustments	5	13	(1)	-	6	3
Total gross profits	1,095	1,183	1,041	262	256	205
Gross profit rate	17.2%	19.5%	19.5%	15.4%	18.8%	14.5%

8.4.1. **Analysis of Key Changes Occurring in 2013 Relative to 2012**

Gross profits in 2013 amounted to a total of 1,095 million NIS compared to a total of 1,183 million NIS last year. The gross profit rate amounted to 17.2% compared to 19.5% in 2012. The 88 million NIS decrease in gross profits in compared to last year mostly derives from the decrease in gross profits in the Israeli real estate ventures segment and the foreign real estate ventures segment.

Israeli real estate venture segment: the 135 million NIS decrease in gross profits in this segment compared to last year originates from residential projects. The gross profit rate in this segment also decreased compared to last year from 40% to a rate of 23% in 2012, due to a change in the mixture of apartments occupied this year relative to last year. In 2012 occupied apartments 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).

Overseas real estate ventures segment: the 5 million NIS increase in gross loss in this segment largely derives from the sum of the impairment provision for land in Hungary.

Foreign infrastructure and construction segment: this segment saw a 3 million NIS increase in gross profits compared to last year. Note that if the average exchange rate of the USD hadn't dropped by 6% compared to last year, an additional 43 million NIS increase would have been listed in gross profits. The gross profit rate in this segment remained increased from 19% last year to 21%

in 2013. The increase in the gross profit rate in this segment largely derives from projects in Uganda and Tanzania, while on the other hand, a loss was listed in a project in the Republic of Benin due to a dispute regarding the implementation of a road segment. Work was halted, and in accordance with the contract, arbitration proceedings were initiated between the parties.

Renewable energy sector: a 32 million NIS increase was listed in gross profits in this segment due to the implementation and construction of medium photo-voltaic facilities installed on land and rooftops which also contributed to the improvement in gross profit rates in this segment.

Water segment: this segment saw a 6 million NIS decrease in gross profits.

Israeli infrastructure and construction segment: this segment saw a 7 million NIS increase in gross profits.

Concessions segment: a 24 million NIS increase was listed in gross profits deriving from a road maintenance project in northern Israel. The improvement listed in gross profits derives from the conclusion of the construction period and a transition to the project operation stage.

8.4.2. Analysis of Key Changes Occurring in Q4 2013 Relative to Q4 2012

A 6 million NIS increase in the sum of gross profits was listed in the fourth quarter of the year, from 256 million NIS to 262 million NIS. The increase primarily derives from the foreign infrastructure and construction segment (a 51 million NIS increase) largely following the increase in the scope of activity in Nigeria, which also brought about an improvement in the gross profit rate in this segment from 18% to 23%. On the other hand, gross profits in the Israeli real estate ventures segment decreased by 36 million NIS. The drop in total gross profits and in the gross profit rate in the Israeli real estate venture segment compared to the same period last year largely derives from housing projects and originates from changes in the mixture of apartments sold in the reported period compared to the corresponding period last year (see also Section 8.4.1 above). In addition, an increase was also listed in gross loss in the overseas real estate ventures segment (a total of 18 million NIS). The loss in this segment both in the fourth quarter of the year and in the corresponding quarter last year largely derives from impairment provisions due to real estate in Hungary.

8.4.3. Analysis of Key Changes Occurring in 2012 Relative to 2011

Gross profits in 2012 amounted to a total of 1,183 million NIS compared to a total of 1,041 million NIS in 2011. The gross profit rate amounted to 19.5%, unchanged compared to 2011. The 142 million NIS increase in gross profits in compared to 2011 largely derives from the increase in gross profits in the Israeli real estate ventures segment.

Israeli real estate venture segment: the 136 million NIS increase in gross profits in this segment originates from residential projects. Note that the gross profit rate in this segment increased compared to 2011 from 36% to a rate of 40% in 2012, due to the increase in gross profit rates deriving from the sale of housing projects, largely due to the increase in the average price of a housing unit occupied in 2012 relative to 2011.

Overseas real estate ventures segment: a 5 million NIS increase in loss. The gross loss in this 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.

Overseas infrastructure and construction segment: a 6 million NIS increase occurred in gross profits in this segment relative to 2011, with the gross profit rate in this segment dropping from 22% in 2011 to 19% in 2012. The drop in gross profits in this segment largely derives from the reduction in estimated revenues from 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.

Renewable energy segment: a 3 million NIS decrease occurred in gross loss.

Water segment: a 4 million NIS decrease occurred in gross profits.

Israeli infrastructure and construction segment: this segment saw a 4 million NIS increase in gross profits deriving from the increase in the scope of activity in this segment relative to 2011.

Concessions segment: a 6 million NIS increase occurred in gross loss.

8.4.4. Analysis of Key Changes Occurring in Q4 2012 Relative to Q4 2011

The fourth quarter of 2012 saw an increase both in gross profits (51 million NIS) and in the gross profit rate, from 14.5% to 18.8% relative to Q4 2011. The increase largely derives from the Israeli real estate ventures segment (a total of 53 million NIS. In addition, an increase was listed in loss 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 profit rates from 16% to 18%.

8.5. **Administrative and General Expenses**

Administrative and general expenses amounted to 349 million NIS in 2013, a 10 million NIS increase compared to 2012 (a total of 339 million NIS). An increase was listed in salary and associated costs this year largely due to the costs of an executive remuneration program (granting blocked shares), see also 6.10 above. In addition, an increase was listed in consulting costs. On the other hand, a decrease was listed in expenses due to mega-tenders the Company is competing for in Israel and abroad.

Administrative and general costs amounted to 97 million NIS in the fourth quarter of the year compared to a total of 92 million NIS in the corresponding quarter. Most of the change originated from an increase listed in this quarter compared to the corresponding quarter last year, in salary and associated costs this year largely due to the costs of an executive rehabilitation program (granting blocked shares). On the other hand, a decrease was listed in expenses due to mega-tenders the Company is competing for in Israel and abroad.

Administrative and general expenses amounted to 339 million NIS in 2012, a 3 million NIS decrease compared to 2011 (a total of 342 million NIS). An increase was listed in 2012 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 competed for in Israel and abroad.

Administrative and general costs amounted to 92 million NIS in the fourth quarter of 2012 compared to 86 million NIS in the corresponding quarter of 2011. Most of the change derived from an increase in expenses due to mega-tenders the Company competed for in Israel and abroad.

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

Net revenues amounted to 122 million NIS in 2013, compared to net expenses of 30 million NIS in 2012 and compared to net revenues of 81 million NIS in 2011. The following are details of the key revenues and expenses included in this item:

	For the Year Ending December 31		
	2013	2012	2011
	Millions of NIS		
Capital gain from the sale of affiliated companies	71	-	-
Profit from the revaluation of investment in affiliate	-	12	82
Profit (loss) from the issue of shares of an affiliate to a third party	23	(6)	-
Profit from the cancellation of a sales transaction	55	-	-
Provision due to balances the realization of which is in doubt	(5)	(22)	(3)
Commitment to pay investors	-	(7)	-
Retirement compensation and budgetary pension	(2)	(1)	-
Asset impairment provision	(28)	(5)	(2)
Others, net	8	(1)	4
Total	122	(30)	81

8.6.1. Capital gain from the sale of affiliated companies

2013 includes 63 million NIS in earnings from the sale of investment in Derech Eretz (see also Note 18.a.6 to the Financial Statements) as well as a total of 8 million NIS from the sale of holdings in KBI (an investee in the field of Israeli real estate ventures).

8.6.2. Profit from the Revaluation of Investment in Affiliate

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 and transition to control, in accordance with the value of the affiliate as reflected in a transaction with third parties.

The revaluation profit in 2011 was due to the revaluation of investments in German associates.

8.6.3. Profit from the Issue of an Affiliate to a Third Party

In 2013 ADO issued stock capital to the Company and to third parties in a number of transactions in which a profit of 23 million NIS was listed. For further details see Note 18.a.5 to the Financial Statements.

8.6.4. Profit from the Cancellation of a Sales Transaction

A profit of 55 million NIS was listed in 2013 from the cancellation of a transaction to purchase real estate from the city of Ramat Gan signed in 2011. Upon cancellation of the agreement, the municipality repaid a subsidiary sums paid by it for the purchase of the real estate and various costs pertaining to the sales agreement plus linkage and interest differences (see also Note 31.c.5 to the Financial Statements).

8.6.5. Commitment to Pay Investors

A provision was listed in 2012 for compensation due to the obligations of a subsidiary – Shikun & Binui Real Estate, according to a December 31 2009 allocation agreement to a number of 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. The provision was listed in accordance with the agreement in question and in accordance with Shikun & Binui Real Estate's estimate regarding the date the shares of Shikun & Binui real Estate were listed for trade (by June 30 2014).

8.6.6. Provision due to Balances the Realization of which is in Doubt

Regarding foreign activity, 2013 included an 11 million NIS provision pertaining to the discontinuation of a contract as a result of a dispute with a party ordering work abroad (the government of Benin) in the matter of works carried out on one road segment following which the ordering party decided to discontinue the engagement with an overseas subsidiary (the 11 million NIS provision derives from the fact that the Company gave 54 millon NIS in provisions to doubtful debt during the reported period, offset in party by the cancellation of a repairs provisions made in the past to the sum of 43 million NIS. According to the contract, an arbitration process is supposed to start over the next few months). Additionally, an 8 million NIS provision was listed due to old debts for projects in Nigeria.

Regarding activity in Israel, a 5 million NIS provision was listed due to a doubtful debt, while on the other hand, a 19 million NIS revenue was listed due to the cancellation of a provision of balances the realization of which is doubtful, upon their collection in practice.

8.6.7. Asset Impairment Provision

In 2013 included 5 million NIS from the impairment of investment property in Hungary, a 6 million NIS provision due to the impairment of licenses in projects in the field of photo-voltaic energy and a 17 million NIS provision from the impairment of a concession for the operation, maintenance, improvement and development of the Pardes Hanna Karkur Regional Council water system.

8.7. Operating Earnings

	For the Year Ending December 31			For the Three Month Period Ending December 31		
	2013	2012	2011	2013	2012	2011
	Millions of NIS			Millions of NIS		
Infrastructure and construction abroad	455	441	459	126	71	74
Infrastructure and construction in Israel	50	29	38	10	(1)	12
Israeli real estate ventures	321	384	307	58	94	83
Foreign real estate ventures	(49)	(19)	52	(33)	(11)	(3)
Renewable Energy	11	(20)	(20)	(6)	(8)	(6)
Water	(33)	(12)	(6)	(2)	(4)	4
Concessions	3	(14)	(13)	(2)	(8)	(5)
Others	3	(2)	(1)	(2)	-	(1)
Adjustments	132	144	115	33	38	32
Total by operating segments	893	931	931	182	171	190
Segment-wide expenses	(53)	(145)	(133)	(19)	(35)	(35)
Total operating earnings	840	786	798	163	136	155

8.7.1. Analysis of Key Changes Occurring in 2013 Relative to 2012

Operating earnings in 2013 amounted to 840 million NIS, a 54 million NIS increase relative to a total of 786 million last year. The increase largely derives from segment-wide revenues and expenses originating from capital gains from the sale of the investment in Derech Eretz to the sum of 63 million NIS, and a 23 million profit was a result of a drop in the holding rate in an associate (ADO). In addition, a 31 million NIS increase in operating profits was listed in the renewable energy segment, mainly due to the increase in total gross earnings in this segment compared to the corresponding period last year. A 21 million NIS increase was also listed in operating profits in the Israeli real estate ventures segment and a 14 million increase was listed in operating profits in the foreign infrastructure and construction segment. On the other hand, a 63 million NIS drop was listed in operating profits in the Israeli Real Estate Ventures segment as a result of a 135 million NIS drop in gross profits in this segment, as noted in Section 8.4.1 of this report, partially offset following a profit of 55 million NIS listed following the cancellation of a sales agreement signed with the City of Ramat Gan in 2011, as noted in 8.6.4 above. The water segment listed a 21 million NIS increase in operating loss mainly due to an impairment provision listed due to an operation, maintenance and development concession of the Pardes Hanna Karkur Local Council. In addition, an increase was listed in the total operating loss of the overseas real estate venture segment (30 million NIS) primarily due to an impairment provision for lands in Hungary.

8.7.2. **<u>Analysis of Key Changes Occurring in Q4 2013 Relative to Q4 2012</u>**

Operating earnings in the fourth quarter of the year amounted to a total of 163 million NIS compared to a total of 136 million NIS in the corresponding quarter last year. Most of the change derives from a 55 million NIS increase in the foreign infrastructure and construction segment, mainly due to the increase in total gross earnings in this segment compared to the corresponding period last year. On the other hand, a 22 million NIS increase was listed in loss in the foreign real estate ventures segment, mainly due to listing an impairment provision for land and investment property in Hungary and a 36 million NIS drop in the Israeli real estate ventures segment, primarily due to the drop in gross profits compared to the corresponding quarter last year.

8.7.3. **<u>Analysis of Key Changes Occurring in 2012 Relative to 2011</u>**

Operating earnings in 2012 amounted to 786 million NIS, a 12 million NIS decrease relative to a total of 798 million in 2011. 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 or 2011 originating from the revaluation of an investment in German associates, which brought about a particularly high operational profit. In addition, an 18 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 a dispute with the commissioning party). On the other hand, operating earnings of the Israeli real estate ventures segment increased by 77 million NIS.

8.7.4. Analysis of Key Changes Occurring in Q4 2012 Relative to Q4 2011

Operating earnings in the fourth quarter of 2012 amounted to a total of 136 million NIS compared to a total of 155 million NIS in the corresponding quarter of 2011 Most of the change derives from a 3 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 in 8.7.3 above), a 13 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 14 million NIS decrease in overseas real estate ventures. In addition, the Israeli real estate ventures segment increased by 11 million NIS.

8.8. **Financing Costs, Net**

8.8.1. Analysis of Key Changes Occurring in 2013 Relative to 2012

Net financing costs in 2013 amounted to a total of 163 million NIS compared to a total of 133 million NIS last year.

Financing costs referring to long-term credit amounted to a total of 335 million NIS this year compared to a total of 316 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. There was a 1.9% increase in the CPI in 2013, compared to 1.44% in 2012. Therefore, a 24 million NIS increase was listed in indexing costs of CPI-linked credit. The increase in credit volume (raising debentures and the receipt of long-term bank loans) also brought about an increase in financing cross over long-term credit to the sum of 15 million NIS. On the other hand, a 20 million NIS decrease was listed in financing costs of unlinked long-term credit, as a result of the drop in Prime interest rates. 35 million NIS in financing revenues were included in the reported period deriving from significant changes in terms in loans received from an overseas bank. Financing revenues deriving from loans given affiliates decreased by 20 million NIS compared to last year, mainly as a result of the sale of the investment in Derech Eretz. In addition, a 10 million NIS decrease occurred in financing revenues due to concession arrangements deriving from non-recurring revenues included last year in the Netivei Hatzafon project originating from interest adjustment.

8.8.2. Analysis of Key Changes Occurring in Q4 2013 Relative to Q4 2012

Net financing costs amounted to 13 million NIS in the fourth quarter of 2013 compared to 8 million NIS in the corresponding quarter last year, with the 5 million NIS decrease compared to the corresponding period last year largely deriving from the 7 million NIS in financing expenses on long-term credit, a 7 million NIS increase in financing expenses on short-term credit, a decrease in financing revenues deriving from long-term loans given to associates that decreased by 10 million NIS compared to the corresponding period last year, mainly as a result of the sale of the investment in Derech Eretz and an 11 million NIS decrease in financing revenues from concession agreements compared to these revenues in the corresponding period last year. On the other hand, 31 million NIS in financing revenues were included in the fourth quarter of the year deriving from significant changes in terms in loans received from an overseas bank.

8.8.3. Analysis of Key Changes Occurring in 2012 Relative to 2011

Net financing costs in 2012 amounted to a total of 133 million NIS compared to a total of 167 million NIS in the 2011.

Net financing costs referring to long-term credit amounted to a total of 316 million NIS in 2012 compared to a total of 298 million NIS in 2011. The increase in credit volume (raising of debentures and the receipt of long-term bank loans) brought about an increase in interest expenses on long-term credit. On the other hand, a decrease was listed in long-term financing costs as a result of a drop in the rate of increase of the Consumer Price Index relative to 2011. Most of these costs are influenced by the change in the rate of increase of the CPI – a 1.44% increase in 2012 compared to a 2.55% increase in 2011. In addition, a 17 million NIS decrease was listed in financing revenues compared to 2011 deriving from loans granted to affiliates, which are 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 2012 from concession arrangements (primarily due to the Northern Lanes project) at sums 25 million higher than in 2011.

8.8.4. Analysis of Key Changes Occurring in Q4 2012 Relative to Q4 2011

Net financing costs in the fourth quarter of 2012 amounted to 8 million NIS compared to 50 million NIS in the same quarter in 2011. The 42 million NIS decrease compared to Q4 2011 largely derived from the 20 million NIS loss listed in Q4 2011 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 Q4 2011.

8.9. **Taxes on Income**

8.9.1. Analysis of Key Changes Occurring in 2013 Relative to 2012

Tax expenses amounted to 198 million NIS in 2013, compared to a total of 171 million NIS in 2012 and 2010. A 27 million NIS increase. Tax expenses in the foreign infrastructure and construction segment increased by 40 million NIS compared to the corresponding period last year, of which 29 million NIS originate from the cancellation of provisions as a result of closing assessments for 2007-2011 of a foreign subsidiary listed in 2012. In addition, a 6 million NIS decrease occurred in tax expenses in the Israeli infrastructure and construction segment, following the revision of deferred tax assets. On the other hand, a decrease was listed in profits in the Israeli real estate ventures segment, following which tax expenses in this segment also decreased by 17 million NIS.

8.9.2. Analysis of Key Changes Occurring in Q4 2013 Relative to Q4 2012

Tax expenses amounted to 55 million NIS in the fourth quarter of 2013 compared to a total of 36 million NIS in the corresponding quarter. The increase in tax expenses largely derives as a result of an increase in overseas tax expenses, due to the fact that in the same quarter last year an improvement was listed in profitability, mainly in Nigeria, Kenya and Uganda, following which tax expenses increased.

8.9.3. Analysis of Key Changes Occurring in 2012 Relative to 2011

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

Tax expenses in 2012 increased by 27 million NIS relative to 2011, primarily due to an 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. Likewise, a decrease occurred in tax expenses in the foreign infrastructure and construction segment relative to 2011, largely due to the cancellation of provisions as a result of the closing of assessments of an overseas subsidiary for 2007-2011.

8.9.4. Analysis of Key Changes Occurring in Q4 2012 Relative to Q4 2011

Tax expenses amounted to 36 million NIS in the fourth quarter of 2012 compared to a total of 25 million NIS in the corresponding quarter of 2011. 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.

8.10. **Losses of Investees, Net**

8.10.1. Analysis of Key Changes Occurring in 2013 Relative to 2012

The Company's share of the results of investees in 2013 amounted to a loss of 86 million NIS, compared to a 34 million NIS loss listed last year. The 52 million NIS increase largely derives from losses listed this year in the statements of an affiliate holding thermo-solar parks operating in Spain, as a result of a 35 million NIS impairment provision. The provision in question was listed due to the introduction of new legislation in Spain that influences the payment of a new rate for power sold by thermo-solar parks (see also Note 18.a.10 to the Financial Statements). In addition, a 31 million NIS increase was listed in loss in affiliates operating in the foreign real estate ventures segment.

8.10.2. Analysis of Key Changes Occurring in Q4 2013 Relative to Q4 2012

The Company's share of the results of investees in the fourth quarter of the year amounted to a loss of 13 million NIS, compared to an 11 million NIS loss in the same quarter last year.

8.10.3. Analysis of Key Changes Occurring in 2012 Relative to 2011

The Company's share of the results of investees in 2012 amounted to a loss of 34 million NIS, compared to a 45 million NIS loss listed in 2011. The 11 million NIS change derives from the fact that in 2011 losses were included to the sum of 26 million NIS win European investees operating in the field of residential development. While on the other hand a decrease was listed in the Company's share of the results of Derech Eretz (Trans-Israel Highway concession holder). This decrease derives from tax revenues listed in 2011 in Derech Eretz (due to the influence of changes in tax rates).

8.10.4. Analysis of Key Changes Occurring in Q4 2012 Relative to Q4 2011

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 of 2011. A loss to the sum of 26 million NIS in European investees operating in the field of residential development was listed in Q4 2011. On the other hand, a 15 million NIS profit was listed in 2011 due to the Company's share of the results of Derech Eretz as detailed above.

8.11. **Profit for the Period**

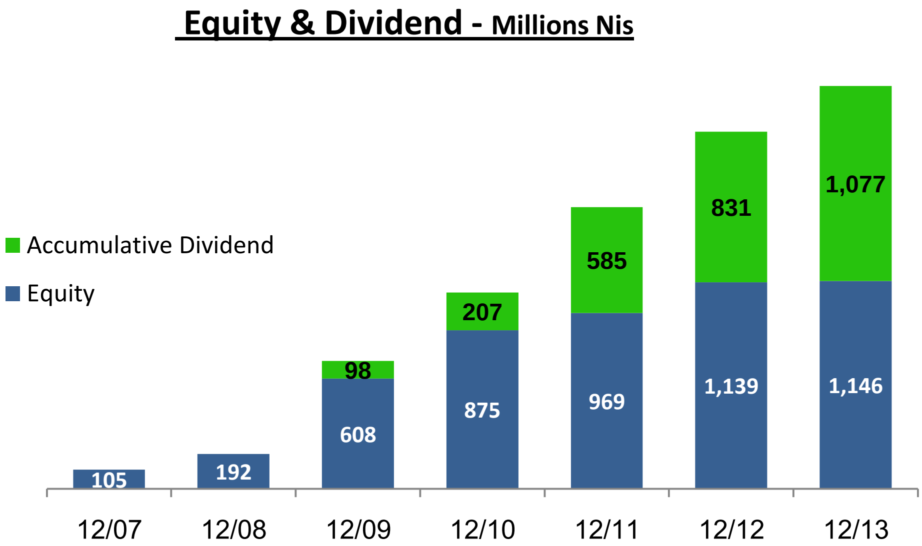
Earnings in 2013 amounted to 393 million NIS compared to 448 million NIS in 2012, and compared to 442 million NIS in 2011.

An 82 million NIS profit was listed in the fourth quarter of the year compared to 81 million NIS in the corresponding quarter of 2012 and compared to a profit of 67 million NIS in the corresponding quarter of 2011.

9. *Financial Status*

9.1. Equity

The Company's equity as of December 31 2013 amounts to 1,146 million NIS, compared to 1,139 million NIS on December 31 2012. The 7 million increase in equity largely derives from profits in 2013 (to the amount of 393 million NIS), from the principal of hedging agreements to the sum of 14 million NIS as well as from the attribution of a benefit from the issue of 9 million NIS of options to employees and officers. This increase was partially offset by dividends to the amount of 246 million NIS declared for shareholders, by adjustments from the translation of the financial statements of overseas subsidiaries (to the amount of 136 million NIS), largely prepared in USD and in EUR, from the purchase of treasury shares to the sum of 21 million NIS intended for a remuneration program for Company executives and employees (granting blocked units for Company shares) and from dividends to the amount of 9 million distributed by a subsidiary to minority shareholders.



9.2. Current Assets

Total current assets held by the Company amount to 5,734 million NIS as of December 31 2013. This is almost completely unchanged from the end of last year. Most of the sections in which changes occurred are, as follows:

A 303 million increase was listed in the balance of cash and cash equivalents, 219 million NIS of which originated in Israeli activity and 84 million NIS from overseas activity. The increase in cash balances in Israel derives, among other things, from the sale of the investment in Derech Eretz (a total of 683 million NIS) and from the issue of debentures (412 million NIS) offset by redemptions of long-term liabilities (1,181 million NIS) and in addition, a 20 million NIS increase was listed in the balance of bank deposits and a 11 million NIS increase was listed in the balance of assets held for sale.

On the other hand, decreases were noted in other items, including a 122 million decrease in the balance of customers – revenues receivable, a decrease of 136 million NIS due to activity abroad offset by an increase of 14 million NIS from activity in Israel. Note that after a long period featuring delays in collection, during Q4 2013 a foreign subsidiary received significant amounts of money from customers, in such a manner that the balance of overseas customers was reduced by 112 million NIS in that quarter, and in addition, an additional 294 million NIS was received subsequent to the report date. A 138 million decrease was listed in the balance of buildings for sale, a 156 million NIS decrease due to activity in Israel offset by an increase of 18 million NIS from activity abroad. In addition, the decrease in the inventory of buildings for sale in Israel primarily derives from the delivery of apartments (804 million NIS), realization of one half of the rights to the Seventh Avenue Mall in Beersheba and classifying the balance of the rights in the mall under investment real estate (148 million NIS). On the other hand, 623 million NIS were listed in investments (mainly in the Hadera Dreams, Shmura Cliffs, Hod Hasharon Dreams and Talmei Menasheh Dreams projects), and lands totaling 156 million NIS were added to the inventory of buildings for sale (mainly in Rosh Ha’ayin and Tzur Yitzhak). A 36 million decrease occurred in the raw materials inventory, primarily due to overseas activity. Furthermore, a 31 million NIS decrease occurred in the balance of loans and short-term investments from the redemption of 8 million NIS and from long-term reclassification to the sum of 24 million NIS).

9.3. **Non-Current Assets**

The Company’s long-term investments as of December 31 2013 amounted to 4,789 million NIS, a 76 million NIS decrease over the end of the previous year. The key changes are as follows:

A decrease was listed in the balance of loans to investees to the sum of 479 million NIS compared to the end of last year. 403 million NIS decrease deriving from the sale of the investment in Derech Eretz Highways (1997) Ltd.; see also Note 18.a.6 to the Financial Statements. An additional 74 million NIS decrease listed in this section derived from the redemption and classification to maturities of loans to investees. In addition, a decrease was listed in the balance of loans to investees to the sum of 201 million NIS. 212 million NIS derive from the sale of Derech Eretz, as noted above, an additional 35 million NIS originate from the impairment provision listed in the statements of a Spanish affiliate holding solar parks (for more details see Note 18.a.10 to the Financial Statements), while on the other hand an additional investment was listed in ADO to the sum of 40 million NIS (see also Note 18.a.5 to the Financial Statements) and in addition, a 101 million decrease was listed in the balance of land (36 million NIS abroad and 65 million originating from activity in Israel). Most of the decrease in the balance of land abroad derives a provision for the impairment of land in Hungary to the sum of 26 million NIS and from translation adjustments of the financial statements of a foreign subsidiary prepared in EUR (a total of 8 million NIS). Regarding land in Israel, most of the decrease derives from the cancellation of a sales agreement between a subsidiary and the City of Ramat Gan (see Note 31.c.5 to the Financial Statements – a 55 million NIS decrease) and in addition, land to the sum of 156 million NIS in projects for which construction had started in Rosh Ha’ayin, Yokneam, Tirat Hacarmel, Tzur Yitzhak and

Rehovot was moved to current inventory. O the other hand, development costs and other payments were paid totaling 158 million NIS, mostly due to lands in Petach Tikva, Rosh Ha'ayin, Hod Hasharom and Tirat Hacarmel. In addition, a 20 million NIS decrease was listed in the balance of fixed assets (a 23 million NIS decrease abroad, and a 3 million NIS increase in from Israeli activity). In addition, a 13 million decrease was listed in the balance of intangible assets deriving from a 17 million NIS provision due to a concession to operate and maintain the water system at Pardes Hanna-Karkur, a 6 million NIS provision due to the impairment of licenses in projects in the field of photo-voltaic energy and ongoing amortizations. Against that, a 21 million NIS investment was listed in a BOT project – the student dormitories in Tel Aviv University. On the other hand, increases were listed in other items including a 209 million NIS increase in receivables due to concession arrangements as a result of the progress of works and as a result of the accumulation of interest on the financial asset in BOT projects such as restoring and maintaining roads in northern Israel (50 million NIS) and the Tel Aviv student dormitory project (135 million NIS). A 286 million NIS increase was listed in the in the balance of receivables, loans and deposits, mainly due to the construction of photo-voltaic facilities in accordance with the arrangements made by the Israeli Electrical Authority regarding medium facilities installed on land and rooftops in Israel (a total of 165 million NIS) and from an increase in long-term pledged deposits abroad amounting to 67 million NIS. In addition, a 240 million NIS increase was listed in the balance of investment property, with most of the change deriving from investments in the construction of the IKEA compound in Kiryat Atta (177 million NIS) and from the classification of one half of the rights to the Seventh Avenue Mall in Beersheba, 74 million NIS from current assets to investment property. On the other hand, a 5 million NIS provision was listed for the impairment of investment property abroad.

9.4. **<u>Current Liabilities</u>**

Current liabilities as of December 31 2013 amounted to 4,332 million NIS, a 485 million NIS decrease from December 31 2012.

A 452 million NIS decrease was listed in in short-term credit from banking corporations and others deriving largely as a result of a drop in scope of current maturities of long-term credit (a total of 481 million NIS), as well as the repayment of short-term credit (a total of 138 million NIS). Against that, 172 million NIS in long-term loans were reclassified to short-term. A 199 million NIS decrease occurred in payables ordering works, as a result of progress in projects and the use of advance payments received in projects abroad (87 million NIS) and projects in Israel (112 million NIS), primarily due to advance payments received in the Tel Aviv courthouse project and Trans-Israel Highway South project. Furthermore, an 86 million NIS decrease was listed payables and credit balances including derivatives due to a decrease in construction services obligations and a decrease in partner balances in shared transaction. A 7 million decrease was also listed in short-term employee benefits. On the other hand, increases were listed in other items. This includes a 92 million NIS increase in the balance of subcontractors, suppliers and service providers. Of these, 78 million NIS was in Israel and 14 million NIS was abroad. A 13 million NIS increase was listed in the balance of advance payments from apartment buyers, net, after deducting advance payments from apartment buyers charged to gain/loss to the sum of 1,130 million NIS primarily due to the occupation of projects in Ramat Rachel, Netanya, Talmei Menasheh, Rehovot, Hadera, Karkur and Hod Hasharon. A 62 million NIS increase was also listed in the balance of provisions, almost entirely deriving from activity in Israel. The main increase in provisions derives from provisions to repairs in other periods and originating from a number of pacing and infrastructure projects the warranty period for which is longer than that common in similar projects. A 14 million NIS increase was listed in current tax liabilities, an 11 million NIS increase from activity in Israel and an additional 3 million NIS from foreign activity. A 79 million NIS increase occurred in dividends payable to shareholders paid subsequent to the report date.

9.5. **Non-Current Liabilities**

Non-current liabilities as of December 31 2013 amounted to 5,045 million NIS, a 404 million NIS increase from December 31 2012. The main component of this item are the debentures and obligations to banking corporations and others, which amounted to 4,725 million NIS as of December 31 2013, compared to a total of 4,334 million NIS at the end of the previous year, a 391 million NIS increase.

The key changes in the balances of debentures and obligations to banking corporations derive, among other things, from the fact that in 2013 the Company raised debentures (Series 6 and Series 7) to the sum of 412 million NIS. In addition, the Company raised 770 million NIS in long-term loans. An additional 481 million NIS increase in the balance of long-term credit derives from a drop in the current maturities of these loans. Against that, redemptions were made to the sum of 1,181 million NIS.

Total other liabilities, employee benefits, deferred taxes, provisions and a surplus of losses accumulated in investees) amount to 320 million NIS, an increase of 13 million NIS from the end of 2012.

10. ***Liquidity and Financing Sources***

	For the Year Ending December 31			For the Three Month Period Ending December 31		
	2013	2012	2011	2013	2012	2011
	Millions of NIS			Millions of NIS		
Cash flow from current activity	719	558	37	360	536	235
Cash flow from investment activity	249	(458)	(50)	(335)	(266)	39
Cash flow from financing activity	(602)	155	(135)	(130)	184	(34)
Influence of exchange rate volatility	(63)	(32)	46	(19)	(35)	16
Change in cash and cash equivalents	303	223	(102)	(124)	419	256

10.1. Cash Flow

10.1.1. Analysis of Key Changes Occurring in 2013 Relative to 2012

The cash flow deriving from current activity amounted to 719 million NIS in 2013 compared to 558 million NIS last year, a 161 million NIS increase. The change compared to last year largely derives from higher collection from customers than in the corresponding period last year.

The cash flow deriving from investment activity amounted to 249 million NIS in 2013 compared to 458 million NIS used for investment activity last year, a 707 million NIS increase. The change compared to last year largely derives from payments received at the Company from the Derech Eretz sales agreement. For further details see Note 18.a.6 to the Financial Statements.

The cash flow used for financing activity in 2013 amounted to a total of 602 million NIS compared to a total of 155 million NIS deriving from financing activity last year, a 757 million NIS decrease, mainly from an increase in credit repayments.

10.1.2. Analysis of Key Changes Occurring in Q4 2013 Relative to Q4 2012

The 176 million NIS drop in cash flow from current activity between the fourth quarter of 2013 and the fourth quarter of 2012 also derives from changes in the customers item. Collection from customers in the fourth quarter of 2013 was lower than collection from customers in the corresponding period last year.

In the fourth quarter of 2013, an increase occurred in the cash flow used for investment activity compared to Q4 2014 to the sum of 69 million NIS, originating from the Company's investments in fixed assets, primarily for its foreign activity.

A 314 million NIS increase occurred in the fourth quarter of 2013 in cash flow used for financing activity. Most of the change derives from the act that debentures were raised in the same quarter last year.

10.1.3. Analysis of Key Changes Occurring in 2012 Relative to 2011

The cash flow deriving from current activity amounted to 558 million NIS in 2012 compared to 37 million NIS in 2011. The primary change compared to 2011 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 concession 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 in 2011. The key change compared to 2011 in cash flow used for investment activity largely derives from a reduction listed in 2011 on banking deposits compared to an increase listed in 2012. 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 in 2011. 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, in 2011 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.

10.2. **Working Capital**

The Company's working capital as of December 31 2013 amounted to 1,402 million NIS compared to 916 million NIS at the end of 2012.

The Company has balances of cash and cash equivalents as of December 31 2013 to the amount of 1,781 million NIS and unused credit frameworks of 1,475 million NIS.

10.3. **Net Financial Debt**

	Debentures and Credit from Banks and Others (*)	Cash and cash equivalents	Deposits and Short and Long-Term Loans	Net
	Millions of NIS			
Infrastructure and construction abroad	10	848	335	(1,173)
Infrastructure and construction in Israel	-	647	22	(669)
Israeli real estate ventures	1,128	47	112	969
Foreign real estate ventures	161	13	5	143
Renewable Energy	183	32	23	128
Water	9	-	4	5
Concessions (Netivei Hatzafon)	468	1	107	360
Company HQ	3,507	193	-	3,314
Total	5,466	1,781	608	3,077

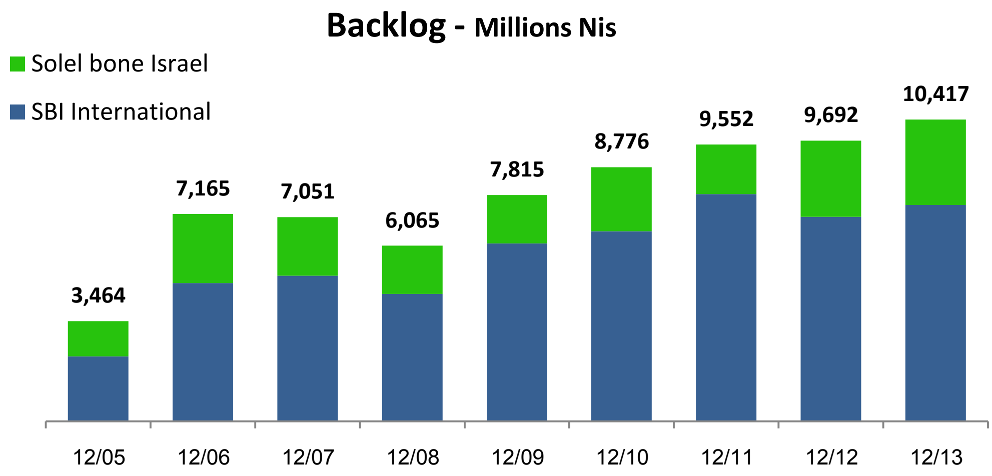
(*) In segments in which the operational cycle exceeds one year (see Note 2d to the Company's Financial Statements), the liabilities taken specifically to finance activities in these segments intended and expected to be realized during the operational cycle, are classified as current liabilities.

The remaining liabilities (including Company HQ liabilities) are attributed to activity in which the operational cycle is one year.

11. ***Accumulated Orders and Apartment Sales***

11.1. **Accumulated Orders**

The Company's accumulated orders in the field of construction and infrastructure contracting as of December 31 2013 amounts to 10.4 billion NIS, a 7.5% increase, of which 7.5 billion NIS ($2.2 billion) is for overseas activity. The Company's accumulated orders as of December 31 2012 n this field amounted to 9.7 billion NIS, of which 7.1 billion NIS ($1.9 billion) was for overseas activity.



11.2. **Apartment Sales**

In 2013 an Israeli subsidiary (the Company's consolidated share – not including the share of partners in joint projects) sold 935 housing units in Israel in return for 1,177 million NIS compared to 722 housing units in return for 1,050 million NIS last year.

Details of recent sales (without VAT) are as follows:

	For the Year Ending December 31			For the Three Month Period Ending December 31		
	2013	2012	2011	2013	2012	2011
Number of housing units sold	935	722	671	211	179	151
Sales – in Millions of NIS	1,177	1,050	892	256	268	182
Average price per apartment – in thousands of NIS.	1,259	1,454	1,329	1,213	1,497	1,205

The change in the average price derives from a different mixture of apartments sold.

Recognition of income from the sale of apartments occurs upon delivery to the customer and not upon their sale.

Part D – Exposure to Market Risk, Management Thereof and Sensitivity Tests

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

12. ***The Party Responsible for Market Risk Management at the Corporation***

The party responsible for risk management at the Company is Tal Raz, the Chief Financial Officer, a senior Company executive (See Regulation 26A in the Report on Additional Information on the Corporation).

13. ***Description of the Market Risks to which the Company is Exposed***

13.1. 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.

13.2. Financing and loan recycling difficulties – alongside the recovery from the global financial crisis, difficulties exist in raising credit from banks around the world, in particular credit provided the construction and real estate industries. In addition, banks have increased the guarantee requirements from contractors (generally performance guarantees) and from developers (equity required for a project). This 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.

13.3. 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.

13.4. 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 or 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.

13.5. 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.

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

14.1. 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.

14.2. 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.

15. ***Means of Policy Implementation Supervision***

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

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

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

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

15.4. 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.

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

16. **December 31 2013 Linkage Basis Report**

	Non-Linked	CPI-Linked	Dollars	Euros	Naira	Other Foreign Currencies	Others	Total
	Thousands of NIS							
Cash and cash equivalents	916,509	-	511,373	195,456	91,218	66,813	-	1,781,369
Deposits in banking corporations	211,252	-	191,515	5,693	-	5,066	-	413,526
Loans and short-term investments	2,079	45,027	-	-	-	-	-	47,106
Short-term loans to investees	-	1,210	-	16,297	-	-	-	17,507
Customers – income receivable	439,578	4,459	410,652	153,572	145,161	49,506	-	1,202,928
Inventory of buildings for sale	-	-	-	-	-	-	1,600,924	1,600,924
Receivables and others	119,545	-	5,224	430	-	2,001	199,152	326,352
Other investments including derivatives	13,352	12,333	1,994	-	-	-	-	27,679
Current tax assets	871	18,190	-	-	-	5,759	8,382	33,202
Inventories	-	-	-	-	-	-	272,865	272,865
Assets held for sale	-	-	-	28,672	-	-	(17,818)	10,854
Receivables due to concession arrangements	24,496	776,708	-	-	-	-	-	801,204
Non-current inventory of owned lands	-	-	-	-	-	-	430,913	430,913
Non-current inventory of leased lands	-	-	-	-	-	-	269,226	269,226
Investment property, net	-	-	-	-	-	-	637,226	637,226
Interests in land	-	-	-	-	-	-	15,836	15,836
Accounts receivable, loans and deposits	393,382	53,474	187,441	347	-	-	2,777	637,421
Investments in associates handled using the book value method	-	-	-	-	-	-	286,641	286,641
Loans to investees	170,324	333,007	26,236	289,802	-	1,458	(347,174)	473,653
Deferred tax assets	-	-	-	-	-	-	92,256	92,256
Fixed assets, net	-	-	-	-	-	-	1,013,904	1,013,904
Intangible assets, net	-	-	-	-	-	-	130,314	130,314
Total assets	**2,291,388**	**1,244,408**	**1,334,435**	**690,269**	**236,379**	**130,603**	**4,595,424**	**10,522,906**
Short-term credit from banking and other corporations	497,018	111,818	-	96,176	-	35,996	-	741,008
Subcontractors, suppliers and service providers	777,262	2,412	40,295	14,601	40,017	109,981	-	984,568
Short-term employee benefits	92,341	1,311	17,160	889	-	26,392	-	138,093
Accounts payable including derivatives	147,740	96,692	9,827	418	25,408	6,033	113,357	399,475
Current tax liabilities	10,804	9,749	17,105	-	2,829	48,281	-	88,768
Provisions	138,960	63,006	42,280	2,625	120,940	87,463	-	455,274
Payables – parties commissioning work	74,593	-	38,810	-	424,916	7,219	-	545,538
Unearned revenue	-	-	-	-	-	-	900,435	900,435
Dividends payable	78,718	-	-	-	-	-	-	78,718
Liabilities to banking corporations and others	469,828	973,892	138,840	37,423	-	1,590	-	1,621,573
Debentures	397,411	2,705,706	-	-	-	-	-	3,103,117
Employee benefits	48,504	3,434	2,566	-	2,874	15,831	-	73,209
Deferred tax liabilities	-	-	-	-	-	-	56,821	56,821
Provisions	-	-	-	-	-	-	159,941	159,941
Surplus of losses accumulated over the cost of the investment and deferred credit balance in investees	-	-	-	-	-	-	30,279	30,279
Equity	-	-	-	-	-	-	1,146,089	1,146,089
Total liabilities and equity	**2,733,179**	**3,968,020**	**306,883**	**152,132**	**616,984**	**338,786**	**2,406,922**	**10,522,906**
Assets less liabilities	**(441,791)**	**(2,723,612)**	**1,027,552**	**538,137**	**(380,605)**	**(208,183)**	**2,188,502**	**-**

17. **December 31 2012 Linkage Basis Report**

	Non-linked	CPI-Linked	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	(*) 282,406	332,323
Other investments including derivatives	32,524	-	-	-	-	-	-	32,524
Current tax assets	2,350	16,225	-	-	-	15,375	-	33,950
Inventories	-	-	-	- -	-	-	309,248	309,248
Receivables due to concession arrangements	(*) -	472,912	-	-	-	-	119,715	592,627
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 prepaid expenses	-	-	-	-	-	-	-	-
Accounts receivable, loans and deposits	(*) 170,933	56,379	122,477	246	-	1,206	422	351,663
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	(*) 702,773	-	48,760	5,231	34,336	101,661	-	892,761
Short-term employee benefits	(*) 101,292	-	(*) 30,011	3,154	(*) 4,315	(*) 6,576	-	145,348
Accounts payable including derivatives	(*) 161,374	92,659	(*) 7,276	1,872	(*) 627	(*) 1,895	219,150	484,853
Current tax liabilities	2,133	4,800	12,718	-	8,347	47,699	-	75,697
Provisions	(*) 80,082	61,823	56,040	518	95,098	100,186	-	393,747
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	(*) 59,896	-	6,115	-	-	16,131	-	82,142
Deferred tax liabilities	-	-	-	-	-	-	60,723	60,723
Provisions	-	-	-	-	-	-	(*) 126,230	126,230
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	2,972,007	3,672,938	274,691	330,003	569,322	301,314	2,477,112	10,597,387
Assets less liabilities	(1,143,554)	(2,237,560)	546,835	353,691	(211,771)	22,543	2,669,816	-

(*) Reclassified.

18. *Sensitivity Tests*

18.1. Sensitivity Analyses as of December 31 2013

The following is a sensitivity table for sensitive instruments in accordance with changes in market factors as of December 31 2013, 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 2013. Comparison data as of December 31 2012 was not presented, as the trends are not materially different from the data for this year.

18.2. 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	(115,737)	(25,850)	(13,113)	875,310	14,806	26,113	155,370
Long-term loans granted investees	(17,361)	(3,618)	(1,819)	378,498	1,841	3,703	19,514
Long-term loans received	62,614	13,169	6,629	(1,232,558)	(6,714)	(13,513)	(71,268)
Debentures	218,308	45,757	23,016	(3,802,806)	(23,296)	(46,876)	(246,370)
EUR/NIS forward transaction	(601)	(120)	(60)	794	60	120	601
USD/NIS forward transaction	10	2	1	(97)	(1)	(2)	(10)
CPI transactions	5,306	1,077	539	(420)	(542)	(1,085)	(5,509)
Total	**152,539**	**30,417**	**15,193**	**(3,781,279)**	**(13,846)**	**(31,540)**	**(146,672)**

18.3. Sensitivity to EUR/NIS Exchange Rate

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	10% increase	5% Increase		5% Decrease	10% Decrease
	In the EUR Exchange Rate			In the EUR Exchange Rate	
	Thousands of NIS				
Cash and cash equivalents	220	110	2,199	(110)	(220)
Deposits in banking corporations	10	5	98	(5)	(10)
Short-term loans to affiliated companies	1,630	815	16,297	(815)	(1,630)
Long-term loans to affiliated companies	6,999	3,499	69,988	(3,499)	(6,999)
EUR/NIS forward transaction	(13,095)	(6,547)	794	(6,547)	13,095
Total	**(4,236)**	**(2,118)**	**89,376**	**2,118**	**4,236**

18.4. Sensitivity to Changes in EUR/USD Exchange Rate

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	10% increase	5% Increase		5% Decrease	10% Decrease
	In the EUR Exchange Rate vs. the USD			In the EUR Exchange Rate vs. the USD	
	Thousands of NIS				
Cash and cash equivalents	18,527	9,264	185,272	(9,264)	(18,527)
Short-term deposits	560	280	5,595	(280)	(560)
Net customers commissioning work	15,274	7,637	152,742	(7,637)	(15,274)
Subcontractors, suppliers and service providers in liabilities	(1,439)	(720)	(14,391)	720	1,439
Other payables	(4)	(2)	(38)	2	4
Total	**32,918**	**16,459**	**392,180**	**(16,459)**	**(32,918)**

18.5. 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	Decrease of 10%
	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	9,122	4,561	91,218	(4,561)	(9,122)
Customers commissioning work	14,516	7,258	145,161	(7,258)	(14,516)
Other receivables	272	136	2,721	(136)	(272)
Subcontractors, suppliers and service providers in liabilities	(4,002)	(2,001)	(40,017)	2,001	4,002
Other payables	(2,547)	(1,273)	(25,467)	1,273	2,547
Total	**17,361**	**8,681**	**173,616**	**(8,681)**	**(17,361)**

18.6. 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	6,239	3,120	62,391	(3,120)	(6,239)
Customers commissioning work	4,888	2,444	48,875	(2,444)	(4,888)
Short-term loans received	(984)	(492)	(9,844)	492	984
Subcontractors, suppliers and service providers in liabilities	(10,571)	(5,285)	(105,709)	5,285	10,571
Other payables	(485)	(243)	(4,853)	243	485
Total	**(913)**	**(456)**	**(9,140)**	**456**	**913**

18.7. Sensitivity to Changes in the Consumer Price Index

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	3% Increase	1% Increase		1% \Decrease	3% Decrease
	In the CPI Rate			In the CPI Rate	
	Thousands of NIS				
Linked loans and deposits Short-term CPI-linked in assets	1,387	462	46,238	(462)	(1,387)
Long-term CPI-linked loans and deposits in assets	1,604	535	53,474	(535)	(1,604)
Receivables due to concession arrangements	23,301	7,767	776,708	(7,767)	(23,301)
Accounts receivable	134	45	4,459	(45)	(134)
Long-term loans given investees	9,912	3,304	330,401	(3,304)	(9,912)
Payables	(3,668)	(1,223)	(122,282)	1,223	3,668
Long-term CPI-linked loans in liabilities	(31,114)	(10,371)	(1,037,136)	10,371	31,114
Linked debentures	(81,399)	(27,133)	(2,713,295)	27,133	81,399
CPI transactions	20,342	6,781	(420)	(6,781)	(20,342)
Total	**(59,501)**	**(19,833)**	**(2,661,853)**	**19,833**	**59,501**

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

18.8 Additional data

The sensitivity analyses are based on the dollar's representative rate of exchange as of December 31 2013 – 3.471.
The sensitivity analyses are based on the euro's representative rate of exchange as of December 31 2013 – 4.7819.

Known CPI (in 2013 terms) – 102.2

Part E – Dedicated Disclosure to Debenture Holders

19. ***Details Regarding Bonds (Debentures)***

	Debentures – Series 2	Debentures – Series 3	Debentures – Series 4
Date of Issue	April 18 2007	November 29 2009 Expanded on August 4 2010	March 4 2010 Expanded on August 4 2010
Trustee	Reznik Paz Nevo Trusts Ltd. 14 Yad Harutzim Tel Aviv	Reznik Paz Nevo Trusts Ltd. 14 Yad Harutzim Tel Aviv	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon St., Tel Aviv
NV On the Date of Issue in Thousands of NIS	1,000,000	200,000	492,000
NV balance In circulation as of December 31 2013 in thousands of NIS	35,467	93,223	665,734
The balance of the notational value in circulation in thousands of NIS is revalued according to the linkage terms (by month)	For March 2007 42,994	Unlinked 93,223	For January 2010 726,717
Interest	5.2% linked	7.9%	4.8% linked
Sum of interest accrued as of December 31 2013 in thousands of NIS	447	2,434	10,659
Market value of 1 NIS NV As of December 31 2013	1.2708	1.1066	1.2371
Fair Value as of March 31 2013 in Thousands of NIS	45,217	103,514	829,177
Fair value interest	0.037%	1.84%	0.78%
Principal repayment	4 equal annual payments on each of the years from 2012 to 2015	8 equal semiannual payments starting March 2013	5 equal annual payments starting March 2015.
Interest repayment	16 semiannual payments starting October 2007; final repayment date (principal and interest) in April 2015	14 semiannual payments starting March 2010; final repayment date (principal and interest) in September 2016	16 semiannual payments starting September 2010; final repayment date (principal and interest) in March 2019
Additional details in the Company's Financial Statements.	Note 4.27.	Note 4.27.	Note 4.27.

	Debentures – Series 5	Debentures – Series 6	Debentures – Series 7
Date of Issue	January 1 2012	September 9 2013	September 9 2013
Trustee	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon St., Tel Aviv	Mishmeret Trust Services Ltd. 46 Menachem Begin Road	Mishmeret Trust Services Ltd. 46 Menachem Begin Road
NV On the Date of Issue in Thousands of NIS	235,000	190,848	209,148
NV balance in circulation as of December 31 2013 in thousands of NIS	883,662	11,133,111	360,545
The balance of the notational value in circulation in thousands of NIS is revalued according to the linkage terms (by month)	For November 2011 913,526	1,134,221	Unlinked 360,545
Interest	5.5% linked	4.09 linked	5.98 unlinked
Sum of interest accrued as of December 31 2013 in thousands of NIS	-	14,235	6,616
Market value of 1 NIS NV As of December 31 2013	1.1957	1.039	1.0594
Fair Value as of March 31 2013 in Thousands of NIS	1,104,747	1,279,943	402,395
Fair value interest	1.79%	2.56%	4.47%
Principal repayment	6 equal annual payments on each of the years from 2012 to 2015	10 unequal payments in such a manner that each of the 4 payments paid on April 1 of each of the years from 2016 to 2019 shall be at 4% of the notational value of the debenture principal, each of the 3 payments paid on April 1 of each year from 2020 to 2022 shall be at 8% of the notational value of the debenture principal, and each of the 3 last payments paid on April 1 of each of the years from 2023 to 2025 shall be at 20% of the notational value of the debenture principal.	12 unequal payments in such a manner that each of the 6 payments paid on April 1 of each of the years from 2014 to 2019 shall be at 4% of the notational value of the debenture principal, each of the 3 payments paid on April 1 of each year from 2020 to 2022 shall be at 8% of the notational value of the debenture principal, one payment made on April 1 2023 shall be at 18% of the notational value of the debenture principal and each of the last 2 payments paid on April 1 of each of the years from 2024 to 2025 shall be at 17% of the notational value of the debenture principal.
Interest repayment	21 semiannual payments starting June 2012; final repayment date (principal and interest) in June 2022.	Interest shall be paid on April 1 and October 1 of each of the years from 2014 to 2024 and on April 1 2025. Final repayment date (principal and interest) April 1 2025.	Interest shall be paid on April 1 and October 1 of each of the years from 2014 to 2024 and on April 1 2025. Final repayment date (principal and interest) April 1 2025.
Additional details in the Financial Statements.	Note 4.27.	Note 4.27.	Note 4.27.

Part F – Corporate Governance

20. ***Social Involvement and Contribution to the Community***

The Group continued its community relations activities in 2013, in Israel and around the world, while emphasizing the Group's commitment to future generations by investing, *inter alia*, in projects promoting sustainability education, contributions and welfare activities, particularly in peripheral areas of Israel, collaborations with educational institutions, social organizations and associations benefitting the community and society. Shikun & Binui sees itself as responsible not only for building and developing in such a way so as to limit harm to the environment and to the future, but also to nurture the human society in which its business activity takes place.

In 2013 the Group invested 4,003,000 NIS in contributions in various social and education activities, including: adopting dozens of schools in the ORT network through monetary contributions to various organization projects, such as building community gardens, financing student projects for volunteer work with students, with the elderly, enrichment classes, financing coordinators for the advancement of green regulation at schools, financing food, infrastructure and equipment. Donations and monetary support were given to 100 associations and social organizations in 2013.

Beyond its monetary investments, the Group harasses the professional skills, knowledge and capabilities it has acquired over the years in favor of social activity, among other ways through paving, renovation, construction and planning in social and community activities in Israel and around the world, and providing consultation and accompaniment to projects in areas in which the Company has knowledge.

The Group allows its employees to perform volunteer work on the clock. Over the course of 2013, the Group invested 400 hours of volunteer work by employees.

In addition, on the Good Deeds Day held in March 2013, 280 Company employees in Israel and around the world took part in activities on behalf of the Group at 14 centers of activity. The activities included renovating and painting a maternity ward in an African hospital, renovating orphanages, distributing food in African communities, building therapeutic gardens and financing welfare activity for children in Israel and around the world, renovating and painting youth and senior citizen social centers and more.

21. ***Sustainability***

The Group manages 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, in order 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 is developing unique management tools suitable to the Group's needs, including characterizing existing processes, establishing procedures and setting up management systems for reporting.

The following two main steps were taken in 2013:

A corporate responsibility report in accordance with the GRI 3.1 standard was written for the first time. The report describes the Group's sustainability activities and describes its performance in 2012 in a qualitative and quantitative manner.

A comprehensive plan was carried out that included mapping, defining organizational goals and multi-year targets, defining the duties of the Sustainability Department and relationships with subsidiaries. The plan's products were assimilated in the 2014 work plan.

An environmental information system was implemented in the group's fixed sites, including the determination of the manner of treatment of safety and environmental issues.

Collaborations were carried out with entities such as the Society for the Protection of Nature in Israel, Netivei Israel, the Nature and Parks Authority, the Green Construction Council and the Electric Company. In addition, tools were made to make information in the field of sustainability accessible to Group workers and to the general public in the internal site and on the internet.

In recognition of its activity in the field of sustainability, in 2013 the Shikun & Binui Group was granted the Green Globe Award by the umbrella organization of Israeli green organizations, Life and Environment.

22. ***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.

On September 22 2013, the Company's general meeting approved the remuneration policy for Company officers as per Section 267a of the Companies Law ("**the Remuneration Policy**"). Prior to the approval of the 2013 Financial Statements, the Board of Directors examined, regarding the Company's officers, whether the remuneration each such Company officer received in 2013 was compatible with the Company's remuneration policy. Regarding these Company officers and the remaining Executives who are officers at subsidiaries and to whom the remuneration policy does not apply, the Company Board of Directors held an in-depth discussion, in which the relationship between the remuneration each of the Company officers in question had received in 2013 and the each one's contribution that year was studied, as was the feasibility and fairness of the remuneration; this was subsequent to the Company's Remuneration Committee holding detailed discussions on the matter of officer and other executive remuneration. The committee's recommendations as well as relevant background material used for their 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 officers and other executives in 2013 was examined.

Regarding the officers, the Board of Directors ruled that the remuneration for 2013 given them taking into account their positions and their contribution to the Company and the group, was fair and reasonable, as it was compatible with the remuneration policy. Regarding the officers and other executives the remuneration policy does not apply to or does not arrange their entire remuneration, the information required for the purposes of the examination in question included: a summary of the terms of employment of each of the officers and other executives, 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 2013, as well as concise data regarding each of the officers and other executives, in order to test the following criteria: their education, professional experience, achievements and contribution to the Company, the executive's position and the Company's results.

Taking the above into account, the Board of Directors believes that the remuneration of each of the officers 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:

22.1 Ofer Kotler – Company CEO

As a rule the remuneration received by the Company CEO in 2013 is compatible with the Company’s Remuneration Policy. On September 22 2013, the Company’s general meeting approved the CEO's new service and employment conditions in accordance with the remuneration policy, including the preparation of a new bonus plan and share-based remuneration. At the same time, note that for the period between January 1 2013 and May 15 2013, the CEO is entitled to a bonus in accordance with the previous engagement agreement with them approved in the past (for details regarding the bonus mechanism in accordance with the previous engagement agreement see Regulation 21 of Chapter D of the periodic report (Additional Details Chapter)).

Note that 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 infrastructure in new areas abroad, 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 2013.
The Board of Directors also referred to the fact that in 2013 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 2013 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 in comparable companies. Based on the above the Company’s Board of Directors found that the array of remuneration terms given the CEO in 2013 reflects his contribution to the Company, and that the remuneration paid him in 2013 in accordance with the terms of the previous employment agreement and the terms of the new agreement 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 remuneration for the CEO for the period from the start of the year until the conclusion of the previous engagement with him was calculated according to the provisions of the previous employment agreement and that the remuneration for the period from the end of the previous engagement with him until the end of 2013 was in accordance with the remuneration policy.

22.2 Moshe Lahmany – Chairman of the Company's Board of Directors

The Company Board of Directors studied the matter and found that the Chairman of the Board of Directors makes a crucial contribution to the achievement of the Company's goals and to increasing its profits, while taking a long-term view and in accordance with his duties, and taking into account his unique contribution to the strategic direction of the Company's activity, its business results, the assimilation of sustainability values in activity in Israel and abroad, to improving and promoting corporate governance in the Company and leading and advancing the Board of Directors' work, in the field of internal auditing and processes in the field of risk management at the Company and investor relations activity. In addition, the Board of Directors found that the Chairman's extensive contribution also pertains to the development of business relationships in the field of infrastructure and concessions in Israel and abroad and the advancement of mega-projects and agreements, particularly in the Company's key areas of growth .

The Board of Directors examined and found that in total, the benefits received by the Chairman of the Board of Directors, who serves as active Chairman at a significant rate (75%), are compatible with the scope and complexity of his duties and his many areas of activity, taking into account the complexity of the Company's activity, and the fact that the remuneration in question is compatible with the Company's remuneration policy. The Company's Board of Directors found that the array of remuneration terms given the Chairman of the Board of Directors in 2013 reflects his contribution to the Company, and that the remuneration paid him in accordance with the terms of his employment agreement 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 Chairman of the Board of Directors and his contribution to the development of its business and the Company's profitability in 2013.

22.3 Tamir Dagan – CEO of Shikun & Binui Real Estate

The Company Board of Directors studied the matter and found 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 centers 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.

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.

Note that for the period between January 1 2013 and June 30 2013, the CEO of Shikun and Binui Real Estate is entitled to a bonus in accordance with the previous engagement agreement with them approved in the past (for details regarding the bonus mechanism in accordance with the previous engagement agreement see Regulation 21 of Chapter D of the periodic report (Additional Details Chapter)). Starting July 1 2013, the yearly bonus given the CEO of Shikun & Binui Real Estate is in accordance with the principles of the Group's senior executive remuneration plan approved by the Remuneration Committee and Board of Directors in October 2013, with his yearly bonus ceiling amounting to 2 million NIS. In addition, in 2013 the CEO of Shikun & Binui Real Estate was issued restricted stock units (RSU) in accordance with the outline published by the Company in

December 2013.

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 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 that the sum total of the remuneration given the CEO of Shikun & Binui Real Estate in 2013 reflects his contribution to it, and that the remuneration paid him in 2013 was fair and reasonable taking into account the fact that it was set in accordance with the terms of his previous employment agreement, the size of Shikun & Binui Real Estate, 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 for the first half of 2013 was calculated in accordance with the terms of his previous employment agreement.

22.4 Ronny Ploch, CEO of Shikun & Binui SBI

The Company Board of Directors studied the matter and found that under the management and leadership of the CEO of Shikun & Binui SBI, Shikun & Binui SBI continued to grow.

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 a Shikun & Binui Group primary growth center 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, training a management reserve 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 2013 both in terms of revenues and on the net profit level, and the management and contribution of the CEO of Shikun & Binui SBI in 2013 to achieving them and more. The yearly bonus given the CEO of Shikun & Binui SBI is in accordance with the principles of the Group's senior executive remuneration plan approved by the Remuneration Committee and Board of Directors in October 2013, with his yearly bonus ceiling amounting to 2.4 million NIS. In addition, in 2013 the CEO of Shikun & Binui SBI was issued restricted stock units (RSU) in accordance with the outline published by the Company in December 2013.

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 companies with similar levels of activity (despite the fact that as a global company the center of the activity of which is outside of Israel, and the CEO does not reside in Israel, methodological difficulty exists in comparing remuneration to Israeli remuneration levels). Based on the above the Company's Board of Directors found the that sum total of the remuneration given the CEO of Shikun & Binui SBI in 2013 reflects his contribution to it, and that the remuneration paid him in 2013 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.

22.5 Amit Segev – Deputy Company CEO

The Company's Board of Directors studied the matter and found that the remuneration for the Company's Deputy CEO reflects his unique contribution to the Company's achievements in 2013. 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 Company and its subsidiaries to improve and promote their activity, particularly in the Company's growth areas.

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 the Company's holdings in Derech Eretz and the advancement of the thermo-solar project in Ashalim. 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 renewable energy, including through the purchase of activity and its strategic advancement.

Finally, the Board of Directors determined that in terms of the terms of the service of the Company Deputy CEO in 2013 the total salary of the 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 that the sum total of the remuneration given the Deputy CEO in 2013 reflects his contribution to the Company, and that the remuneration paid him in 2013 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, and seeing as the remuneration given the Deputy CEO is compatible with the Company's remuneration policy.

22.6 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).

23. ***Directors 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:

Moshe Lahmany (Chairman of the Board of Directors), Irit Isaacson, Shmuel Berkowitz (left office on December 10 2013), Nir Zichlinsky, Efrat Peled and Yossi Alsheikh.

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

24. ***The Board of Directors and Company Management***

Mr. Doron Blachav concluded his duties as Company CFO on March 31 2013.

Mr. Tal Raz had been appointed Company CFO on April 1 2013.

Mr. Yechezkel (Hezzi) Kattan was appointed VP, Legal Counsel and Company Officer on June 18 2013.

Mr. Shalom Simhun was appointed Company director on June 26 2013.

On December 10 2013 Mr. Shmuel Berkovitz concluded his service on the Company Board of Directors.

On February 6 2014 the Company reported the departure of Ms. Ofra Rahav from, her position as Company VP. Here departure will come into effect on May 7 2014.

On February 11 2014 the general meeting of the Company's shareholders decided to reappoint serving Company eternal director, Mr. Jossi Alshech, for an additional term in office (his third) of 3 years starting February 11 2014.

25. ***Negligible Transactions***

25.1. 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.

25.2. 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.

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

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

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

25.3.3. 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;

25.3.4. If the transaction 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.

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

25.4. The condition noted in 25.3.5 above shall apply to transactions approved as of March 31 2015. 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.

25.5. In cases in which, according to the Company's judgment, all of the aforementioned quantitative criteria are irrelevant to 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.

25.6. 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.

25.7. 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.

26. ***Independent Board Members***

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.

27. ***Remuneration Policy***

Following the introduction of the 20th Amendment to the Companies Law, the Company has acted to adopt a remuneration policy meeting the terms of the amendment. The various aspects of the remuneration policy were discussed in a number of meetings of the Remuneration Committee, the Human Resources Committee and the Board of Directors, which also discussed the recommendations of the Remuneration Committee. On August 6 2013 the Board of Directors approved, and recommended that the General Meeting ratify, the remuneration policy, after receiving the recommendation of the Remuneration Committee to approve the remuneration policy, and accordingly, on September 7 2013 a General Meeting of the Company's shareholder convened and ratified the Company's remuneration policy. In addition, the terms of service and employment of the serving Company CEO were approved, including fixed remuneration and associated benefits as well as a yearly bonus and capital remuneration plan and for the approval of the terms of services and employment, which include a yearly bonus and capital remuneration for the serving Chairman of the Company's Board of Directors, Mr. Moshe Lahmany. For further details see also the immediate report regarding the convening of the meeting, and its appendices, published August 7 2013 (ref. no. 2013-01-111138) and an immediate report on the results of the meeting published on September 22 2013 (ref. no. 2013-01-149826).

28. ***Financial Statement Approval Process***

28.1. 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.

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

a) Mr. Jossi Alshech, Chair of the Committee – external director.
b) Mr. Itzhak (Khaki) Harel – external director
c) Mr. Shmuel Berkovitz (left office on December 10 2013)
d) Mr. Shalom Simhon

28.3. All members of the Committee possess the ability to read and understand financial statements and a majority of the committee members are external directors. For additional information regarding the Committee members see Regulation 26 in the Additional Information on the Corporation report for 2013.

28.4. 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.

28.5. The meetings of the Finance and Financial Statements Examination Committee on the matter of the approval of the Financial Statements was held on May 23 2013, August 22 2013, November 21 2013 and March 20 2014; attending the meetings held May 23 and August 22 2013 were Mr. . Jossi Alshech Shmuel Berkovitz and Mr. Itzhak (Khaki) Harel, and attending the meeting dated November 21 2013 were Mr. Jossi Alshech, Mr. Itzhak (Khaki) Harel, Shmuel Berkovitz and Shalom Simhon. Attending the November 27 2013 meeting and the March 20 2014 meeting were Jossi Alshech, Itzhak Harel and Shalom Simhon, with the following senior executives taking part in the these meetings –Ofer Kotler (CEO), Amit Segev (Deputy CEO), Tal Raz (CFO), Yechezkel Kattan (VP – Legal Counsel), Ronit Rosenzweig (Deputy CFO and Head of Financial Reporting) and Ronit Biran (Internal Auditor). 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.

28.6. 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.

On March 23 2014 and March 25 2014 Board meetings were held for the approval of the Financial Statements, at these meetings the Board of Directors discussed the Financial Statements and the recommendations in question of the Finance and Financial Statements Examination Committee, and approved the Financial Statements.

28.7. 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 to the Board 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.

29. ***Disclosure Regarding Independent Auditor's Fees***

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

Company	Certified Public Accountant	2013				2012			
		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.	5,360	1,050	1,296	302	5,150	1,032	998	332
Shikun & Binui – Solel Boneh (Construction and Infrastructure) Ltd. and its subsidiaries	Somekh Chaikin & Co.	6,661	1,170	1,221	319	6,204	1,110	353	124
Shikun & Binui Real Estate Ltd. and its subsidiaries	Somekh Chaikin & Co.	6,992	1,227	461	152	6,500	1,173	70	28
Shikun & Binui SBI Infrastructures Ltd. and its subsidiaries	Ziv Haft	3,410	956	50	36	3,600	972	276	130
	Local accountants abroad	3,537	700	110	72	3,783	805	260	139
Shikun & Binui Real Estate Development B.V	KPMG Hungary	4,801	771	-	-	3,400	870	-	-
Shikun & Binui Renewable Energy Ltd. and its subsidiaries	Somekh Chaikin & Co.	2,900	315	257	78	2,900	288	270	89
Shikun & Binui Water Ltd. (formerly Orlev Industries Construction and Works 2000 Ltd.) and its subsidiaries	Somekh Chaikin & Co.	1,405	215	819	137	1,174	142	75	28

30. ***Disclosure with Regard to the Internal Auditor***

30.1. Name of Auditor: Ronit Biran

30.2. Start of Term in Office: March 1 2007

30.3. Qualifications: accountant, B.A. in economics and accounting, CRMA, member of the Organization of Internal Auditors, member of the Conferences and Educational Committee at the Organization of Internal Auditors. 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 Company securities (except for options and blocked shares granted by 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).

30.4. 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.

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

30.6. 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 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 Chairman 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.

30.7. 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.

30.8. 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 2013:

	Hours
At the Company	1,380
In domestic subsidiaries	3,500
In foreign subsidiaries	2,130
Total	7,010

The audit plan does not include auditing for 4 affiliates, the auditing for which is performed by external auditors that they have appointed with the involvement of the internal auditor. Total auditing hours in these companies amounted to some 1,000 in 2013.

30.9. The audit was carried out in accordance with generally accepted Israeli and global professional standards 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.

30.10. 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.

30.11. 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 Chairwoman 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: February 25 2013, March 19 2013, June 10 2013, October 6 2013, December 30 2013.

Furthermore, 22 discussions were held at the audit committees of the corporation’s subsidiaries/investees on the audited subjects.

30.12. 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.

30.13. 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 as well as blocked shares (RSU) as part of their allocation to senior Company executives in accordance with the outline published on December 3 2013. The Board of Directors believes that the scope of the remuneration has not impact on the internal auditor's professional judgment.

Moshe Lahmany	Ofer Kotler
Chairman of the Board of Directors	Chief Executive Officer

March 25 2014