Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending March 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 March 31 2013.

1. The Corporation and its Business Environment

a. General

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

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

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

b. The Group's Areas of Activity

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

- **Infrastructure** – in the field of infrastructure the group's activity is mainly done by its held companies: Shikun & Binui – SBI Infrastructure Ltd. and through its subsidiaries (outside of Israel) and Shikun & Binui – Solel Boneh (Construction and Infrastructure) Ltd. (in Israel).

  Shikun & Binui – SBI Infrastructure Ltd. has over 54 years of experience in the development of infrastructure abroad, mainly in Africa, Central America, East and Central Europe and West Asia. Shikun & Binui Ltd. – SBI Infrastructures 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.

Shikun & Binui – Solel Boneh Infrastructure Ltd. has for over 89 years focused on civil engineering ventures, such as national projects in the field of transportation and infrastructure and large-scale construction projects in Israel. In addition to its professional capabilities, Shikun & Binui – Solel Boneh Infrastructure Ltd. is engaged in the production of asphalt, the operation of concrete factories, the execution of special bridging work and manufacturing special bridging and construction elements.

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

- **Real estate ventures** – in the field of real estate venture, the Group's activity is mainly done by the held companies Shikun & Binui Real Estate Ltd. (in Israel), Shikun & Binui Real Estate Development B.V., and A.D.O Group Ltd. (abroad), and their subsidiaries.

  Shikun & Binui Real Estate Ltd. (87% stake), which is active in Israel, combines over 56 years of experience in constructing residential apartments while implementing advanced architectural design, innovative work methods and international standards, including and while placing special emphasis on green construction standards to help create a sustainable and advanced living environment. Shikun & Binui Real Estate Ltd. provides an envelope of products and services, guaranteeing a high quality of life and a comfortable living environment. Over recent years it has positioned itself as the leader in the field of construction in Israel and most of the buildings construction of which has started since 2009 are being built under the green Israeli standards, such as a housing project in East Netanya ("Pure") and a housing project in Karkur ("Karkur Dreams") – the first housing project in Israel to receive Green Standard certification. Some of the projects are also submitted for certification under the U.S. LEED standard (Leadership in Energy and Environmental Design). Shikun & Binui Real Estate Ltd. largely operates in high-demand areas, and the company has recently diverted part of its activity to areas such as Ashkelon, Yokneam and Tirat Hacarmel. Furthermore, Shikun & Binui Real Estate Ltd. is active in nonresidential real estate development, particularly in the field of commerce. In this activity as well, the Company places special emphasis on construction in accordance with green construction standards, such as the students' dormitories project being constructed at Tel Aviv University (BOT project), the Seventh Avenue open shopping center in Beersheba, the Ir Yamim Mall in Netanya and the IKEA compound in Kiryat Atta, the design of which also took into account relevant social and environmental factors from the design stage to the project's completion and realization.

Shikun & Binui Real Estate Development B.V. is active in Hungary, Romania, Poland and the Czech Republic in the development of residential and nonresidential projects intended for sale or rental. As part of the Company's preparations for the financial situation around the world and in the countries it operates in particular, the Company has reduced its activity in some of the countries in which it is active that have yet to emerge from the crisis. At the same time, the Company is acting to take advantage of business opportunities and make investments in projects in countries in which the local economy supports real estate projects (primarily in the Czech Republic and Poland). As a result, over the course of 2012 the Group has purchased the full holdings of one of its partners in its Polish activity, so that after the transaction the Company currently holds a 67% stake and is the controlling shareholder in this activity.

The A.D.O Group Ltd. (a public company in which the Company holds a 48.4% stake as of the reporting date) is active in Germany in locating, purchasing and maintaining residential buildings in Berlin, including both residential apartments and commercial spaces intended for rent. As of the reporting date, A.D.O. Group Ltd. was holding some 231,000 m^2 of residential space and some 36,000 m^2 of commercial space.

- **Concession** – the Group's activity in this field includes the financing, construction and operation of large-scale projects ("mega-project") mainly in the field of infrastructure and construction in Israel and abroad. The Group is continuing to expand its concession activity in Israel and abroad, which in the opinion of Company management contains significant growth potential. There has been a trend evident on behalf of the Israeli government and other governments around the world in recent years to continue the use of the PPP (public-private partnership) format for the construction of infrastructure and to grant concessions to external factors for their implementation that allows, among other things, savings in the State's budgets by transferring most of the responsibility for financing, implementing, supervising and controlling the construction and operation of the project to the concession holder. On the other hand, in view of the implications of the ongoing global financial crisis, difficulty exists in receiving underwriting commitments for extensive amounts from financing bodies, an increase is evident in financing costs and difficulty exists in raising very long-term financing from international financing bodies. These difficulties and changes had a particular impact on the ability of concessionaires to secure financing for projects to which they had committed prior to the beginning of the financial crisis and they are taken into account in the new project proposal stage.

  The Company's concession activity includes, among other things, the construction of the Cross-Israel Freeway and its operation, which covers the central portion, including its expansion, and Segment 18 of the road (on September 13, 2011 an agreement was signed for the sale of the project, subject to certain stipulations – for further details see Note 18.a.6 to the Financial Statements), the construction and operation of the Carmel Tunnel project, the construction of the Hadera Desalination Plant, its expansion and operation, establishing and operating a project for restoring and maintaining roads in Northern Israel (the commissioning party's approval for the conclusion of the construction stage was received on April 10, seven months before the planned date), constructing and operating

the Tel Aviv Courthouse and constructing, operating and instructing the Israel Police National Center. On October 3 2011 the Company entered into an agreement for the purchase of rights to a pumped storage project (for further details see Note 31.c.5 to the Company's 2012 Financial Statements). The Company continues to compete for concession projects and in these types of tenders in Israel and abroad.
Note that the passing of the Competition Promotion and Centralization Reduction Law may have a negative impact on the future growth of activity in Israel in this field.

- **Renewable energy** – in the field of renewable energy, the Company's activity is done mainly by Shikun & Binui Renewable Energy Ltd., with emphasis placed on the fields detailed below:

  In the field of thermo-solar power production – initiation, financing, construction and operation of thermo-solar projects including:

  1) Ashalim Tender – in December 2012, the Company, together with Abengoa Ltd., submitted a bid in a tender to erect a thermo-solar power station with a capacity of about 110 MW on Plot A, next to the town of Ashalim in the Negev. The winner of the tender should be announced during the first half of 2013.
  2) Initiation of a project in planning stages with a scope of up to 120 MW on land owned by Kibbutz Tze'elim in the Negev (the Shneor Project). The scope of the project will be determined according to rate arrangements.
  3) The development of independent technological-engineering capabilities in the thermo-solar field. During 2012 an experimental Shikun & Binui Renewable Energy Ltd. thermo-solar facility was inaugurated at Ardom (near Kibbutz Yotvata).

  In the field of photo-voltaic power production – initiation, financing, construction and operation of projects for the production of photo-voltaic solar power on rooftops and on land. The Company also holds a 50% stake in photo-voltaic projects in Spain with a total installed capacity of 15 MW.

  The field of conventional energy-based power production – production and sale of power to the Electric Company amounting to some 26 MW, using a power plant in Ashdod, which operates on mazut, acts as a "peaker" and operates on an availability basis, and which is planned to be converted by the Group to the production of power based on natural gas.

  The field of natural gas power production – development of a combined cycle natural gas-based private power production project in Ashdod, with an output of 120 MW. The project has a conditional license from the Electricity Authority.

- **Water**

  In the field of water, the Group's activity is mainly done by Shikun & Binui Water Ltd. and includes the design, construction, operation and maintenance of well improvement facilities, and providing water and sewage infrastructure management services. In addition, the Company is acting to develop additional technological capabilities and to expand its water treatment activity, through the construction of freshwater reclamation facilities as well as the design, construction and operation of salt water desalinization facilities. The

Company intends to develop its water activities mainly by purchasing companies or activities in the field and developing its own capabilities, in order to create engineering capabilities that will allow the initiation and execution of projects in the field in Israel and abroad.

c. The Global Economy

The global economy presented a mixed macroeconomic image this past quarter. In the U.S., macro data continued to be positive, and indicated a continued recovery in the economy, despite the budgetary limits that came into effect at the beginning of the year and in March. At the same time, the implications of these steps, along with the debt ceiling issue, constitute a risk to the continuation of the improvement process, which has already been expressed in the drop in the U.S. consumer confidence index. Marco data in the euro zone continued to be weak and indicated a continuation of the recession.

In emerging markets, the Chinese economy is continuing to gain positive momentum. The Chinese government, which is apparently comfortable with economic developments, allowed the yuan to strengthen to a record level with an exchange rate of 6.20, which was also a part of an extensive reform plan, intended to make the local currency convertible. The situation is not nearly as good in India, which is continuing to struggle with massive deficits in its budget and payment balance, which have been pressing the local currency downward. Data from India indicates the lowest growth levels in a decade, combined with high inflation levels, which limits the ability of decision makers to respond.

In global financial markets, the massive exodus from the financial shelters to venture assets, headed by stock markets, has continued, and in the U.S. the leading indices have been traded at all-time record highs. The key reason for his process is the ultra-expansive monetary policies of central banks alongside streamlining methods, which are reflected in high corporate profitability levels. In light of the fact that the monetary policies are not expected to change in the near and medium terms, these trends are expected to continue, with various corrections.

Japan surprised the world when the commissioner of the central Japanese bank declared that he was doubling the bank's securities purchases, from an average sum of ¥3.4 trillion per month, to ¥7.5 trillion per month ($76 billion). Over the course of the quarter, the Japanese yen weakened compared to the leading currencies. So far, the actions of the Japanese prime minister and central bank have gone over relatively quietly at the international level, with the two most important economies, the U.S. and China, avoiding declaring Japan a currency manipulator.

In 2013 and 2013 the global GDP is expected to grow at rates of 3.5% and 4.1%, respectively, and the volume of trade, which increased by 2.8% in 2012, is expected to increase by 3.8% and 5.5%, respectively, in 2013 and 2014. The price of oil increased slightly in the start of the first quarter of 2013, and later on in the quarter its price went down to a level similar to that of the previous quarter ($111 per Brent barrel). The price of goods, not including energy, dropped by 3% over the course of the quarter.

Global inflation rates are expected to remain low, in spite of the expansive monetary policy employed by central banks in Japan, Europe, China, Australia, South America and Israel. Interest rates in leading economies remained low. The markets are not pricing an interest rate increase for the coming year by any of the central banks of the large developed countries.

The Euro Zone

Most of the macro data is negative and indicates that the recession is continuing. The European Central Bank updated its growth and inflation data downward, predicting a continued negative growth rate in 2013. According to the official data of the European Central Bureau of Statistics, the EU economy shrunk by 0.6% in 2012, and is expected to shrink by 0.4% in 2013, with a return to growth expected to begin toward 2014.

There had actually been a drop in uncertainty evident in the financial arena, with the yields of debentures of peripheral countries and particularly of Spain and Italy dropping to a level allowing the continued rolling and recycling of debts. At the same time, two prominent events recently raised concerns – the elections in Italy, which concluded with no clear decision, which will make it harder for the country to deal with the complex problems it faces and continue implementing reforms, and the collapse of the Cypriot economy alongside its precedent-setting treatment by the "Troika" (the European Commission, the European Central Bank and the International Monetary Fund). For the first time since the start of the European debt crisis, a debt was financed by private savings instead of taxpayer funds.

European Unemployment Rates

Continued to be very high. The average unemployment rate in the zone at the end of Q1 reached a record 12.1%, with a youth unemployment rate of 24%. Particularly evident are the unemployment levels in Spain and Greece, which reached 26.7% and 24.4%, respectively at the end of the year. The lack of a significant improvement in the labor market, which influences both demand and the state's tax revenues, continues to make it difficult for Euro Zone members.

Inflation rates in the EU have continued to drop, reaching 1.2% in March 2013. Inflation is expected to remain under 2.0% throughout 2013. Changes are expected in the ECB's interest rates in the coming period, with this expected to drop by 25 base points to a level of 0.50%.

U.S.A.

The U.S. economy has evidentially been growing stronger, borne on the back of a recovery in the real estate market, continued improvement in the work market and the renaissance in the high-energy manufacturing sector. These three legs – improvement in real estate, an improving job market and an energy revolution, have carried the world's largest economy to higher than expected growth levels, high above and disconnected from the ruling European dynamic. After 6 years of drops in the U.S. real estate market, the market has turned around over the past year, a fact expressed in a continued increase in construction starts and approvals, an increase in existing and new house sales, a drop in offerings and in inventory and naturally, a prominent 8.1% increase in prices. The strengthening of the real estate market has implications regarding the labor market, with each construction start translated into 3 new jobs.

The GDP reading for the first quarter of 2013 indicated a growth rate of 2.5% (in yearly terms). The growth largely derives from a 3.2% increase in private consumption (1.8% in the previous quarter), a 2.1% increase in investments (inventory) and a 2.9% increase in exports.

According to information published by the U.S. Department of Labor, unemployment has dropped since the beginning of the year, and has amounted to 7.5% as of April 2013. Despite the drop in the unemployment rate, the participation rate in the labor market is continuing to drop, reaching 63.3%, compared to 63.65% at the end of the year, and chronic unemployment rates continue to be high, with the average unemployment period being 36.5 weeks. The number of chronically unemployed (unemployed for over 27 weeks) decreased, and they now constitute 37.4% of all unemployed.

Yields on government bonds decrease over the course of the first quarter of 2013. At the end of the quarter, the yield on 10-year debentures was around 1.8%.

Inflation rates in the first quarter of 2013 were estimated at 1.1% compared to 1.6% in the previous quarter, and are expected to remain at a low level over the next two months as well, despite the continued monetary expansion, to the sum of $85 billion per month, on behalf of the Federal Reserve. The Fed Chairman even announced in December 2012 that the bank's policy would be linked to U. S unemployment rates and growth rates, and that he would not raise the interest rate so long as the unemployment rate was over 6.5%.

The Israeli Economy

The GDP, at fixed prices and after deducting seasonal influences, increased by a yearly rate of 2.8% in the first quarter of 2013, after a 2.6% increase in the last quarter of 2012 and a 2.8% increase in the third quarter. The increase in GDP in the first quarter of the year reflects increases in exports of goods and services, in private consumption expenses, a moderate increase in imports of goods and services and a drop in investments in fixed assets and public consumption expenses.

The Bank of Israel 2013 growth forecast, less the expected gas production from the Tamar reservoir, is 2.8%. The growth forecast including the gas flow (this flow is not expected to affect employment and unemployment levels in the near term) is 3.8%.

Since the beginning of the year (until the end of the quarter), the Consumer Price Index remained unchanged, and the CPI without the housing item dropped by 0.1%. Over the past twelve months (March 2013 vs. March 2012), the CPI increased by 1.3%. The CPI without the housing item increased by 0.8%. According to the forecast of the Research Division of the Bank of Israel, the inflation rate over the next four quarters will be 1.7%. Inflation expectations for ranges of two or more years did not undergo any material changes, and amount to 2.4% (in yearly terms). The Bank of Israel interest rate, which amounted to 1.75% when formulating the forecast, dropped surprisingly in mid-May 2013 to 1.50%, contrary to expectations. According to the TELBOR market (after lowering the interest rate), the expected Bank of Israel interest rate in one year is 1.32%.

The NIS is continuing to grow stronger on its own merits and disconnected from global trading trends. This strengthening is threatening the competitiveness of the local economy and will force decision makers to intercede at some point. An examination of exchange rate levels used by decision makers in the past in direct and/or indirect actions leads us to assess that we are approaching this point.

d. Noteworthy Events During and Subsequent to the Reported Period

Payment of balance of a Ramat Gan Municipality debt to a consolidated company for cancellation of a land sale deal

Over the course of the reported period, a profit of 55 million NIS was listed, upon the realization of the municipality of Ramat Gan's right for the full payment of the balance of its debt to a subsidiary for the cancellation of a real estate sales transaction in Ramat Gan. For further details see Note 4 to the Financial Statements.

End of Adaptation Stage in Road Restoration Project in Northern Israel

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

Sale of Derech Eretz

The Company classified its investment in Derech Eretz to the amount of 604 million NIS under assets held for sale. For further details see Note 6 to the Company’s Financial Statements.

Distribution of Dividend

On May 26, 2013 the Company's Board of Directors decided to distribute a dividend of NIS 60 million to be paid on July 4, 2013.

2. Business Activity Results

The following is concise data regarding business activity results.

	For the Three Month Period Ending March 31	
	2013	2012
	Millions of NIS	
Revenues from Works and Sales	1,621	1,708
Cost of works performed and sales	1,305	1,373
Gross Profit	316	335
Proceeds from the sale of investment property	-	4
Sales and marketing expenses	(7)	(8)
Administrative and general expenses	(76)	(81)
Other revenues, net	57	13
Operating earnings	290	263
Financing costs, net	(46)	(34)
Company's share of losses of affiliates	(25)	(4)
Profit before taxes on income	219	225
Taxes on income	(63)	(59)
Profit for the period	156	166

Shikun & Binui's operating segments are:

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

For further information see Note 8 to the Company's Financial Statements.

a. Revenues from Works and Sales

	For the Three Month Period Ending March 31	
	2013	2012
	Millions of NIS	
Infrastructure and construction abroad	783	941
Infrastructure and construction in Israel	451	459
Israeli real estate ventures	322	281
Foreign real estate ventures	4	2
Renewable energy	98	38
Water	8	8
Concessions	69	44
Adjustments	(114)	(65)
Total consolidated	1,621	1,708

Revenues from works and sales in the first three months of 2013 amounted to a total of 1,621 million NIS compared to a total of 1,708 million NIS in the corresponding quarter last year. The main changes that occurred in the first three months of the year compared to the same period last year are as follows: the foreign infrastructure and construction segment saw a 158 million NIS decrease in revenues. The decrease in revenues in this segment derives from the halt in works in the Republic of Benin due to a dispute with the party ordering the work there and due to relatively low performance rates in a project in Azerbaijan. Note that the changes in exchange rates between the NIS and the USD have an effect on the growth in foreign revenues. Some of the decrease in revenues from this segment relative to last year (14 million NIS) derives from the fact that the average exchange rate of the USD during the quarter increased relative to its average exchange rate during the corresponding quarter last year. On the other hand, the Israeli real estate ventures segment increased by 41 million NIS. Most of the increase in this segment derives from works on the student dormitory project, from the sale of rights to the land of a gas station in Beersheba, and from the sale of a commercial center in Ramat Aviv, which were offset by a drop in revenues from apartment sales. In this segment, recognition of income from the sale of apartments occurs upon delivery to the customer and not upon the sale of the apartment in practice. The Company handed over 170 apartments for occupation in the first quarter of the year compared to 143 apartments last year; at the same time, the average price per occupied apartment was lower than in the corresponding period last year, because last year apartments were also handed over for occupation in Givatayim and Kiryat Ono projects, where the average price is high relative to the occupation mix in this segment. For the quarter, a 60 million NIS increase was listed in the renewable energy sector, 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 lands and rooftops. In addition, a 25 million NIS increase was listed in the concession segment, deriving from a road maintenance project in northern Israel.

b. Gross Profits

	For the Three Month Period Ending March 31 2013	2012
	Millions of NIS	
Infrastructure and construction abroad	155	199
Infrastructure and construction in Israel	35	24
Israeli real estate ventures	110	106
Foreign real estate ventures	-	1
Renewable energy	15	4
Water	(2)	-
Concessions	4	-
Adjustments	(1)	1
Total consolidated	316	335

Gross profits in the first three months of the year amounted to a total of 316 million NIS compared to a total of 335 million NIS in the corresponding period last year. The gross profit rate remained almost unchanged and amounted to 19.5% compared to 19.6% in the corresponding period last year. The 19 million NIS increase in gross profits compared to the corresponding period last year derives from the drop in gross profits in the overseas infrastructure and construction segment (44 million NIS), mainly following the stoppage of works in the Republic of Benin due to a dispute with the client ordering the work there, and because of low performance rates in a project in Azerbaijan.

On the other hand, an 11 million NIS increase was noted in gross profits in the Israeli construction and infrastructure segment, mainly due to projects in the field of paving and infrastructure, among other things due to additional income listed due to timetables being pushed forward in the road restoration project in northern Israel. In addition, an increase of 11 million NIS was recorded in the renewable energy sector due to the construction of medium photo-voltaic facilities installed on land and rooftops. A 4 million NIS increase in the Israeli real estate ventures segment, which largely derived from the sale of rights to the land of a gas station in Beersheba and a commercial center in Ramat Aviv. The gross profit rate in the reported period in the Israeli real estate ventures segment dropped compared to the corresponding quarter last year, as a result of the drop in the average price per housing unit occupied during the reporting period.

c. Administrative and General Expenses

Administrative and general expenses in the first three months of the year amounted to a total of 76 million NIS, a 6 million NIS decrease compared to the corresponding period last year (a total of 82 million NIS).

d. Other Operating Revenues (Expenses), Net

These revenues amounted to 57 million NIS in the first quarter of the year compared to net revenues of 13.6 million NIS in the corresponding period last year. The following are details of the revenues and expenses included in this item:

	For the Three Month Period Ending March 31	
	2013	2012
	Millions of NIS	
Profit from the revaluation of investment in affiliate (1)	-	12.0
Profit from the cancellation of a sales transaction (2)	54.8	-
Capital gain from the sale of fixed assets	0.1	0.1
Profit from increase in value of assets, net	-	0.5
Others, net	2.1	1.0
	57.0	13.6
	=====	=====

(1) The revaluation profit was listed following the acquisition of control in an affiliate and the loss of material influence over it in accordance with the value of the affiliate as reflected in a transaction with third parties.

(2) Profit from the cancellation of the real estate sales agreement signed in 2001 for the purchase of a real estate compound from the city of Ramat Gan; upon the 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 4 to the Financial Statements).

e. Operating Earnings

	For the Three Month Period Ending March 31	
	2013	2012
Infrastructure and construction abroad	125	166
Infrastructure and construction in Israel	21	8
Israeli real estate ventures	144	84
Foreign real estate ventures	(3)	14
Renewable energy	9	(4)
Water	(6)	(3)
Concessions	1	-
Others	-	(1)
Adjustments	36	37
Total by operating segments	327	301
Segment-wide expenses	(37)	(38)
Total operating earnings	290	263
	=====	=====

Operational profits in the first three months of 2013 amounted to 290 million NIS, a 27 million increase (10%) over the corresponding period last year. The main changes that occurred in the first three months of the year compared to the same period last year are as follows: a 60 million NIS increase in operating revenues in the Israeli real estate ventures segment. Most of the increase in this segment derives from revenues listed following the cancellation of a sales agreement signed with the Municipality of Ramat Gan in 2001, as noted in Section D above. Furthermore, a 13 million NIS increase was noted in the Israeli infrastructure and construction segment, mainly due to revenues recorded in view of the pushing forward of timetables in the road restoration project in northern Israel, which also led to an increase in total gross earnings in this segment compared to the corresponding period last year, and a 13 million NIS increase in the renewable energy 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 41 million NIS decrease in operating profits was listed in the overseas infrastructure and construction segment, deriving from a decrease in the total gross profit in this segment, mainly due to the halt of works in the Republic of Benin due to a dispute with the party ordering the works there and low performance rates in a project in Azerbaijan, as well as a drop in the overseas real estate ventures segment (17 million NIS), mainly due to revenues listed due to the revaluation of the investment in an associate that holds companies operating in Poland.

f. **Financing Costs, Net**

Net financing costs in Q1 2013 amounted to a total of 46 million NIS compared to a total of 34 million NIS in the corresponding period last year. Financing costs referring to long-term credit amounted to 72 million NIS in Q1 2012 compared to a total of 67 million NIS in the corresponding period last year. Most of the costs due to long-term credit are influenced by the changes in the rate of increase of the Consumer Price Index. A 0.015% increase was listed in the first quarter the year compared to no change (0%) in the corresponding period last year, and as a result, an increase was listed in these expenses. In additional 5 million NIS increase was listed relative to the corresponding quarter last year in short-term credit costs, commissions and bank guarantees and a 10 million NIS increase in loss as a result of changes in the exchange rate deriving largely from the weakening of the EUR. On the other hand, an offsetting influence was listed to the amount of 5 million NIS due to an increase listed in financing revenues deriving from receivables due to concession agreements and long-term loans granted, which are also mostly influenced by the change in the CPI increase rate.

g. **Taxes on Income**

Tax expenses amounted to 63 million NIS in the first quarter of 2013 compared to 59 million NIS in the corresponding period last year. Tax expenses abroad dropped by 13 million NIS relative to the corresponding period last year, due to the drop in profits overseas, while on the other hand, Israeli tax expenses increased by 17 million NIS compared to the corresponding period last year, as a result of the increase in profits in the Israeli real estate ventures segment.

h. **Losses of Investees, Net**

The Company's share in the expenses of investees the first quarter of 2013 amounted to a loss of 25 million NIS compared to a loss of 4 million NIS listed in the corresponding period last year. The 21 million NIS change largely derives from losses attributed to the influence of changes in the exchange rate of the EUR listed in the financial statements of an associate (in the overseas real estate venture segment), and due to losses listed in associates in this segment.

i. **Earnings for the Period**

Earnings for the first quarters of 2013 increased amounted to 156 million NIS compared to 166 million NIS in the corresponding period last year.

3. Accumulated Orders

The Company's accumulated orders in the field of construction and infrastructure contracting as of March 31 2013 amounts to 10.3 billion NIS, of which 7.6 billion NIS ($2.1 billion) is for overseas activity. At the end of last year, the Company's accumulated orders in this field amounted to 9.7 billion NIS, of which 7.1 billion NIS ($1.9 billion) was for overseas activity.

4. Apartment Sales

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

	Housing Units Sold	Total Sales Excluding VAT (In Millions of NIS)	Average Price Per Apartment Excluding VAT. (In Thousands of NIS)
1-3/2012	125	190	1,521
1-3/2013	195	267	1,367

5. Liquidity and Financing Sources

- The net cash flow deriving from profits and adjustments to profits amounted to a total of 327 million NIS compared to a total of 301 million NIS in the corresponding period last year. The cash flow deriving from current activity in the first three months of 2013 amounted to 74 million NIS, compared to 183 million NIS used for current activity in the corresponding period last year. The key change compared to last year derives from cash flow originating from changes in asset and liability items. The change in asset and liability items compared to the corresponding period last year derives mainly from a delay last year in collecting debts of foreign customers.
- The cash flow used for investment activity in the first three months of 2013 amounted to 52 million NIS, compared to a total of 15 million NIS in the corresponding period last year. The key differences compared to the same period last year in cash flows used for investment activity largely derive from investments in investment property.
- The cash flow used for financing activity in the first three months of 2013 amounted to a total of 150 million NIS compared to 95 million NIS deriving from financing activity in the corresponding period last year. In the first three months of 2013 the Company redeemed credit to the amount of 227 million NIS and paid interest to the amount of 67 million NIS. On the other hand, the Company raised 145 million NIS in short-term and long-term credit. In comparison, in the corresponding period last year the Company redeemed short-term and long-term credit to the amount of 102 million NIS and paid interest in the amount of 67 million NIS. On the other hand, the Company raised 45 million NIS in credit and issued debentures to the amount of 233 million NIS.

The Company's working capital as of March 31 2013 amounted to 1,446 million NIS compared to 916 million NIS at the end of 2012. The Company has balances of cash and cash equivalents to the amount of 1,327 million NIS and unused credit frameworks to the amount of 1,201 million NIS.

6. Financial Status

	Debentures and Credit from Banks and Others	Cash and Cash Equivalents	Deposits and Short and Long-Term Loans	Net
	Millions of NIS			
Infrastructure and construction abroad	3	758	79	(834)
Infrastructure and construction in Israel	-	177	35	(212)
Israeli real estate ventures	919	82	353	484
Foreign real estate ventures	232	15	3	214
Renewable energy	63	29	(1) 73	(39)
Water	11	3	4	4
Concessions	475	1	150	324
Company HQ	3,726	262	105	3,359
Total consolidated	5,429	1,327	802	3,300

(1) After neutralizing receivables due to projects underway.

a. Equity

The Company's equity as of March 31 2013 amounts to 1,197 million NIS, compared to 1,139 million NIS on December 31 2012. The increase in equity largely derives from profits in Q1 2013 (to the amount of 156 million NIS), with this increase partially offset by dividends declared for shareholders to the sum of 49 million NIS and by adjustments due to the translation of the financial statements of overseas subsidiaries (to the amount of 54 million NIS) largely prepared in dollars and euros.

b. Current Assets

Total current assets held by the Company amount to 6,359 million NIS as of March 31 2013. The balance of current assets increased by 626 million NIS in the first quarter of the year, compared to the end of the previous year. The key changes are as follows: a 604 million NIS increase in the balance of assets held for sale as a result of the classification of the investment in an associate – Derech Eretz Highways (1997) Ltd. - for further details see also Note 6 to the Financial Statements. A 104 million NIS increase occurred in the balance of customer income receivable (114 million NIS abroad). The increase in the foreign customers balance derives mainly from collection delays in a project in Uganda – these debts are expected to be collected in the coming months alongside the approval of the budget by the Ugandan government. A 46 million NIS increase occurred in the balance of loans and short-term investments largely deriving from loans granted for the purpose of payment of taxes to the Israel Land Administration for land that is expected to be used for projects in the field of photo-voltaic energy in the renewable energy segment. There was a 54 million NIS increase in the balance of receivables and others due to advance payments to suppliers for the purchase of materials for projects in Israel as well as advance payments to a subcontractor in an overseas project. Furthermore, a 24 million NIS increase occurred in the balance of loans to short-term investees deriving from the classification of current maturities of loans given to associates (a company in the field of desalination and a company in the field of photo-voltaic energy). A 151 million decrease was listed in the balance of cash originating from activity in Israel). A 19 million NIS decrease occurred in the balance of other investments, including derivatives (on the one hand, financial assets available for sale were sold to the amount of 30 million NIS, and on the other hand, an 11 million NIS increase was listed in the value of derivatives not used for hedging purposes. In addition, a 21 million decrease was listed in raw materials inventory (a 23 million NIS decrease abroad and a 2 million NIS increase from activity in Israel).

c. **Non-Current Assets**

The Company's long-term investments amount to 4,259 million NIS, a 606 million NIS decrease over the end of the previous year. The key changes are as follows: a 436 million NIS decrease in the balance of loans to investees (392 million NIS) deriving from the classification of loans given Derech Eretz Highways (1997) Ltd. to the balance of assets held for sale (see also Note 6 to the Financial Statements). In addition, a 44 million NIS decrease was listed in this section deriving from the redemption and classification to maturities of these loans. A 222 million NIS decrease was listed in the balance of investments in investees, with 212 million NIS deriving from the classification of an investment in Derech Eretz Highways (1997) Ltd. to the balance of assets held for sale, as above. A 92 million decrease was listed in the balance of lands (18 million NIS abroad and 73 million originating from activity in Israel). Regarding land abroad, an 18 million NIS decrease was listed due to translation adjustments of a foreign subsidiary prepared in EUR. Regarding land in Israel, a 65 million NIS decrease was listed as part of the cancellation of a sales agreement between a subsidiary and the City of Ramat Gan (see Section 2d above) and in addition, land to the sum of 30 million NIS in projects for which construction had started in Tzur Yitzhak and Rehovot were moved to current inventory, while on the other hand, development costs and other payments were pad totaling 22 million NIS, mostly due to lands in Tirat Hacarmel and Rosh Ha'ayin. In addition, a 36 million NIS decrease was listed in the balance of fixed assets (a 38 million NIS decrease abroad, and a 2 million NIS increase in from Israeli activity), with a 12 million NIS decrease in the valance of deferred tax assets due to Israeli activity. On the other hand, a 71 million NIS increase occurred in receivables due to concession arrangements following the progress of works in the Northern Lanes Project (43 million NIS) and following progress in the Tel Aviv student dormitory construction project (28 million NIS). A 86 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.

In addition, a 33 million NIS increase was listed in the balance of investment property, with most of the change deriving from the payment of fees, excises and investments in the construction of the Ikea compound in Kiryat Atta.

d. Current Liabilities

Current liabilities increased by 96 million NIS in the first quarter of the year, compared to the end of 2012, amounting to 4,913 million NIS. The main changes are: a 94 million NIS increase in subcontractors, suppliers and service providers (50 million NIS of which derives from abroad), a 49 million NIS increase in dividends payable to shareholders paid after the balance sheet date on April 25 2013, a 16 million NIS increase in the balance of advance payments from customers, mainly from apartment buyers in Israel, a 12 million NIS increase in the balance of provisions, and a 36 million NIS increase in short-term credit from banks and others, most of which derives from the receipt of short-term loans for the construction of the Ikea compound in Kiryat Atta. On the other hand, a 60 million NIS decrease was listed in the balance of payables and credit balances and a 38 million NIS decrease in the balance of payables – parties ordering works, as a result of progress in projects and the use of advance payments received in projects abroad (6 million NIS) and projects in Israel (a 32 million NIS increase mainly due to advance payments received for a BOT project – the Tel Aviv Courthouse).

e. Non-Current Liabilities

The main component of this item are the debentures and obligations to banking corporations and others, amounting to 4,200 million NIS as of March 31 2013, a 134 million NIS decrease compared to the end of the previous year. Most of the net decrease derives from the repayment of the liabilities in question (a total of 227 million NIS). On the other hand, 80 million NIS were raised.
Total other liabilities (due to employee benefits, deferred taxes, long-term provisions and a surplus of losses accumulated in affiliates) amount to 307 million NIS, an increase of 1 million NIS from the end of 2012.

7. Details Regarding Bonds (Debentures)

Debentures – Series 2

Issue date	April 18 2007
Trustee:	Reznik Paz Nevo Trusts Ltd. 14 Yad Harutzim St. Tel Aviv.
NV Upon issue:	1,000,000,000 NIS
The balance of notational value in circulation as of March 31 2013	450,000,000 NIS (in March 2010 a total of 400,000 NV of the series was replaced with Series 4).
The balance of the notational value in circulation is revalued according to the linkage terms (linked to the March 2007 Consumer Price Index):	535,366,000 NIS
Linked interest	5.2%
Sum of interest accrued as of March 31 2013	12,528,000 NIS
Market value of 1 NIS NV as of March 31 2013	1.2716
Fair value as of March 31 2012	570,882,000 NIS

Fair value interest	1.07%
Principal redemption:	4 equal annual payments on each of the years 2012-2015
Interest redemption:	16 semiannual payments starting October 2007

Final repayment date (principal and interest) in April 2015

For further details see Note 27.4.b and 24.4.d to the Company's 2012 Financial Statements.

Debentures – Series 3

Issue date:	September 29 2009 (the series was expanded according to the August 4 2010 shelf offering).
Trustee:	Reznik Paz Nevo Trusts Ltd. 14 Yad Harutzim St. Tel Aviv.
NV Upon issue:	200,000,000 NIS
Balance of notational value in circulation as of March 31 2013:	253,680,000 NIS
Interest 7.9% unlinked, sum of interest accumulated as of March 31 2013:	1,614,000 NIS
Market value of 1 NIS NV as of March 31 2013	1.100
Fair value as of March 31 2013	274,526,000 NIS
Fair value interest	3.76%
Principal redemption:	8 equal semiannual payments starting March 2013
Interest redemption:	14 semiannual payments starting March 2010
Final repayment date (principal and interest):	September 2016

For further details see Note 27.4.c. to the Company's 2012 Financial Statements.

Debentures – Series 4

Issue date:	March 4 2010 (the series was expanded according to the August 4 2010 shelf offering).
Trustee:	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon Tel Aviv.
NV on the issue date:	492,000,000 NIS.
Balance of notational value in circulation as of March 31 2013:	1,169,216,065 NIS

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

January 2010 Consumer Price Index):	1,252,593,000 NIS
Linked interest	4.8%,
Sum of interest accrued as of March 31 2013	3,340,000 NIS
Market value of 1 NIS NV as of March 31 2013	1.1865
Fair value as of March 31 2012	1,376,027,000 NIS
Fair value interest	2.24%

Principal redemption:	5 equal annual payments starting March 2015.
Interest redemption:	16 semiannual payments starting
September 2010	
Final repayment date (principal and interest):	March 2019

For further details see Notes 27.4.d, 27.4.e and 27.4.g to the Company's 2012 Financial Statements.

Debentures – Series 5

Issue date	January 1 2012
Trustee:	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon Tel Aviv
NV on issue date: January 1, 2012	235,000,000 NIS
Balance of notational value in circulation as of March 31 2013:	883,667 NIS

The balance of the notational value in circulation is revalued according to the linkage terms (linked to the November 2011 Consumer Price Index): 896,544,000 NIS

Linked interest	5.5%,
Market value of 1 NIS NV as of March 31 2013	1.1600
Fair value as of March 31 2013	1,241,714,000 NIS
Fair value interest	3.05%
Principal redemption:	6 equal annual payments on each of the years from 2017-2022
Interest redemption:	21 semiannual payments starting June 2012

Final repayment date (principal and interest): June 2022

For further details see Note 27.4.h to the Company's 2012 Financial Statements.

8. Reporting on Exposure and Market Risk and Management Thereof

The Party Responsible for Market Risk Management at the Corporation

The party responsible for risk management at the Company is Tal Raz, the Chief Financial Officer, a senior Company executive (see Regulation 26a in the 2012 periodic report).

The Company performs supervision on the subject of exposure to market risk. No material changes have occurred in these risks and in the linkage basis report in the first three months of 2013 compared to that detailed in the December 2012 yearly report (see also Note 33 to the Yearly Financial Statements).

9. Sensitivity Tests

a. Sensitivity Analyses as of March 31 2013 that Constitute a Material Change from the December 31 2012 Sensitivity Analyses

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

Sensitivity to Changes in NIS Interest Rate

	Gain (Loss) from Changes			Fair Value	Gain (Loss) from Changes		
	50% increase	10% Increase	5% Increase		5% Decrease	10% Decrease	50% Decrease
	In Interest Rate				In Interest Rate		
	Thousands of NIS						
Receivables due to concession arrangements	(66,694)	(14,592)	(7,381)	627,956	7,557	15,294	84,394
Long-term loans granted investees	(144,024)	(33,608)	(17,156)	789,324	17,899	36,584	220,694
Long-term loans received	67,482	13,439	7,094	(1,217,752)	(7,205)	(12,512)	(75,577)
Debentures	149,694	31,004	15,571	(3,611,213)	(15,711)	(31,562)	(163,672)
EUR/NIS forward transaction	(1,141)	(229)	(114)	11,104	114	229	1,145
USD/NIS forward transaction	(23)	(4)	(2)	(515)	2	4	24
CPI transactions	220	45	22	293	(22)	(45)	(225)
Total	**5,514**	**(3,945)**	**(1,966)**	**(3,400,803)**	**2,634**	**7,992**	**66,783**

Sensitivity to Changes in the USD/NIS Exchange Rate

	Gain (Loss) from Changes		Value in the Books	Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
	In the USD Exchange Rate			In the USD Exchange Rate	
	Thousands of NIS				
Cash and cash equivalents	128	64	1,278	(64)	(128)
Short-term deposits	64	32	641	(32)	(64)
Other receivables	88	44	878	(44)	(88)
Long-term loans and deposits linked to the NIS in assets	4,763	2,381	47,627	(2,381)	(4,763)
Long-term loans to investees	3,353	1,677	33,532	(1,677)	(3,353)
USD/NIS forward transactions	1,602	801	(515)	(801)	(1,602)
Total	**9,998**	**4,999**	**83,441**	**(4,999)**	**(9,998)**

Sensitivity to EUR/NIS Exchange Rate

	Gain (Loss) from Changes		Value in the Books	Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
	In the EUR Exchange Rate			In the EUR Exchange Rate	
	Thousands of NIS				
Cash and cash equivalents	141	70	1,408	(70)	(141)
Deposits in banking corporations	10	5	95	(5)	(10)
Short-term loans to affiliated companies	1,726	863	17,256	(863)	(1,726)
Long-term loans to affiliated companies	9,315	4,658	93,151	(4,658)	(9,315)
EUR/NIS forward transaction	(14,439)	(7,220)	10,310	7,220	14,439
Total	**(3,247)**	**(1,624)**	**122,220**	**1,624**	**3,247**

Sensitivity to Changes in EUR/USD Exchange Rate

	Gain (Loss) from Changes		Value in the Books	Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
	In the EUR Exchange Rate vs. the USD			In the EUR Exchange Rate vs. the USD	
	Thousands of NIS				
Cash and cash equivalents	9,382	4,691	93,819	(4,691)	(9,382)
Short-term deposits	547	273	5,468	(273)	(547)
Net customers commissioning work	16,157	8,078	161,566	(8,078)	(16,157)
Subcontractors, suppliers and service providers in liabilities	(1,476)	(738)	(14,756)	738	1,476
Other payables	(4)	(2)	(40)	2	4
Total	**24,606**	**12,302**	**246,057**	**(12,302)**	**(24,606)**

Sensitivity to Changes in the Naira/USD Exchange Rate

	Gain (Loss) from Changes		Value	Gain (Loss) from Changes	
	10% Increase	5% Increase	in the Books	5% Decrease	10% Decrease
	In the Rate of the Naira vs. the USD			In the Rate of the Naira vs. the USD	
	Thousands of NIS				
Cash and cash equivalents	18,365	9,183	183,651	(9,183)	(18,365)
Customers commissioning work	25,308	12,654	253,080	(12,654)	(25,308)
Other receivables	1,284	642	12,841	(642)	(1,284)
Subcontractors, suppliers and service providers in liabilities	(6,399)	(3,200)	(63,993)	3,200	6,399
Other payables	(789)	(395)	(7,894)	395	789
Total	**37,769**	**18,884**	**377,685**	**(18,884)**	**(37,769)**

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

	Gain (Loss) from Changes		Value in the Books	Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
	In Rates of Other Currencies vs. USD			In Rates of Other Currencies vs. the USD	
	Thousands of NIS				
Cash and cash equivalents	2,633	1,317	26,331	(1,317)	(2,633)
Customers commissioning work	27,462	13,731	274,618	(13,731)	(27,462)
Various receivables and debit balances	2,171	1,086	21,713	(1,086)	(2,171)
Short-term loans received	(342)	(171)	(3,422)	171	342
Subcontractors, suppliers and service providers in liabilities	(11,082)	(5,541)	(110,819)	5,541	11,082
Other payables	(125)	(63)	(1,251)	63	125
Total	**20,717**	**10,359**	**207,170**	**(10,359)**	**(20,717)**

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	4,261	1,420	142,017	(1,420)	(4,261)
Accounts receivable	290	97	9,668	(97)	(290)
Long-term CPI-linked loans and deposits in assets	904	301	30,124	(301)	(904)
Receivables due to concession arrangements	10,209	3,403	340,316	3,403	(10,209)
Long-term loans given investees	21,797	7,266	726,559	(7,266)	(21,797)
Other payables	(3,303)	(1,101)	(110,088)	1,101	3,303
Long-term CPI-linked loans in liabilities	(28,468)	(9,489)	(948,929)	9,489	28,468
Linked debentures	(89,504)	(29,835)	(2,983,471)	29,835	89,504
CPI transactions	4,608	1,536	273	(1,536)	(4,608)
Total	**(79,206)**	**(26,402)**	**(2,793,531)**	**26,402**	**79,206**

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

Additional data:

The sensitivity analyses are based on the dollar's representative rate of exchange as of March 31 2013 – 3.648.

The sensitivity analyses are based on the euro's representative rate of exchange as of March 31 2013 – 4.6612.

Known CPI (in 2011 terms) – 105.5156

10. Sustainability

Since 2008 the Group has managed its activity in a structured manner according to the sustainability principle, with the aim of realizing the Group's vision of creating a sustainable living environment in Israel and in the world. The sustainability principle emphasizes the importance of implementing economic, environmental and social considerations in management and decision-making processes, and in deciding to adopt this approach in its vision, the Group chose to join an ever-growing number of select world companies seeking to promote proper business behavior, which will permit global growth and prosperity while taking humanity, the environment and the needs of future generations into account.

As the field of sustainability is still coming into being, the Group has chosen to develop unique management tools suitable to the Group's needs, including characterizing existing processes, defining points for the examination of aspects of sustainability and establishing procedures and assembling management systems for reporting. In addition, in order to establish and deepen capabilities in the field of sustainability, the Group decided to appoint a sustainability supervisor in each of the primary subsidiaries and in the concessions department in the Group subordinate, in professional terms, to the Company's VP of Sustainability, in order to implement these tools.

The Group continued to deepen sustainability management processes in 2013, and the following steps were taken according to the work plan:

- The process of improving project management tools according to the sustainability principle in the three degrees of sustainability, society, environment and economy, in the development, planning, implementation and operation contexts has continued.
- Purchasing procedures were laid out for the Group that compel activity in accordance with norms in engagements with suppliers and service providers, assimilated in ratings by the acquisitions personnel of the Group companies.
- The implementation of principles for the participation of interested parties in Group activities continued and the circle of collaborations with interested parties such as the Society for the Protection of Nature, the Jerusalem Institute, the Engineers' Union, the Ministry of Industry and Life and Environment was expanded.
- Activity to implement sustainable design principles in projects through the variety of planning stages continued.
- Active participation in a number of committees in the Standards Institute to promote advanced standardization in the field of sustainability.
- In order to reduce the Group's environmental footprint, a process of mapping and analyzing environmental influences was carried out, focusing on carbon emissions and fuel consumption, electricity, water and aggregates. The Group characterized mapping data to sites fixed in Israel for the purpose of establishing an environmental management system, which is currently in initial implementation stages at group sites
- In order to promote environmental management, environmental management (IS 14001) and safety (IS 18001) systems are being implemented, with Solel Boneh and Shikun & Binui Real Estate having already partially

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

- The Group continued to promote studies and surveys in the fields of green construction and construction material recycling, in order to lead and promote the implementation of these studies while contributing professional experience.
- The Group won the 2013 Green Globe Award, granted by the Life and Environment umbrella organization.
- Upon completing the five year period from the adoption of the sustainability approach, work stated on a new multi-year plan encompassing strategic aspects in the field of sustainability.

11. Social Involvement and Contribution to the Community

In 2013, the Group continued to expand its community links activity, in Israel and worldwide, with the emphasis on the Group's commitment to future generations by investment, among other things, in projects that promote education for sustainability, contributions and activities in the fields of welfare, mainly in outlying areas. The Group believes it has a responsibility – not only to build and develop the country in a way that avoids harming the environment and the future, but also to nurture and support the society in which its business activities take place.

In the first quarter of 2013 the Group invested about NIS 562,000 in contributions and in a range of social and educational activities, including: adopting 22 schools in the ORT chain, assisting projects such as "Young Business Leadership", assisting a school in nature, adopting the IDF Anti-Terror Unit as part of the "Adopt a Fighter" project, support for some 50 associations, Tu Bishvat tree planting activity in schools all over the country, and more.

Apart from the financial investment, the Group facilitates volunteering by its employees during work hours, and in the first quarter of 2013, employees gave about 200 hours of volunteer work.

The Group brings to its activities on behalf of the community the professional skills, knowledge, experience and abilities that it has acquired over the years, for example in the performance of renovation and carpentry work by Group employees, advice and planning on the subject of green construction, and more.

This year, about 280 Group employees participated, for the sixth year running, in the "Good Deeds Day" initiative. Activities included setting up therapeutic gardens and gardens in schools, renovating and painting club rooms for youths and the old, distributing food, and more.

12. Board Members with Accounting and Financial Capabilities

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

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

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

Moshe Lahmani (chairman of the Board), Irit Izacson, Shmuel Berkovitz, Nir Zichlinskey, Efrat Peled and Joseph Alshech.

For additional information regarding the Board members in question see Regulation 26 in the 2012 Report on Additional Information on the Corporation.

13. The Board of Directors and Company Management

Mr. Doron Belchar concluded his duties as Company CFO on March 31 2013.
Mr. Tal Raz had been appointed Company CFO on April 1 2013.

14. Financial Statement Approval Process

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

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

a) Mr. Joseph Alshech, Chair of the Committee – external director.
b) Mr. Itzhak (Khaki) Harel – external director
c) Mr. Shmuel Berkovitz

All members of the Committee possess the ability to read and understand financial statements and most of the committee members are external directors, most of whom have financial and accounting capabilities. For additional information regarding the Committee members see Regulation 26 in the 2012 Additional Information on the Corporation report.

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

The meeting of the Finance and Financial Statements Examination Committee on the matter of the approval of the Financial Statements was held on May 23 2013, with Mr. Joseph Alshech, Mr. Shmuel Berkovitz and Mr. Itzhak (Khaki) Harel attending. The following senior executives took part in the this meeting – Moshe Lahmani (chairman of the Board), Ofer Kotler (CEO), Amit Segev (Deputy CEO), Tal Raz (CFO), Ronit Rosenzweig (Deputy CFO and Head of Financial Reporting) and Ronit Biran (Internal Auditor). Also taking part in the meeting of the Finance and Financial Statements Examination Committee and in the meeting of the Board of Directors discussing the approval of the Financial Statements was the Company's external auditor, who attended to the issues arising in the discussions of the Finance and Financial Statements Examination Committee and those of the Board of Directors and presented key subjects that arose over the course of the audit or the review of the Financial Statements.

The Board of Directors meeting to approve the Financial Statements was held on May 26 2013. At this meeting, the Board of Directors discussed the Financial Statements and the recommendations of the Finance and Financial Statements Examination Committee, and approved the Financial Statements.

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

Moshe Lahmani	Ofer Kotler
Chairman of the Board of Directors	CEO

May 26 2013