Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending June 30 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 June 30 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 carried out by investees Shikun & Binui – SBI Infrastructure Ltd. and through its subsidiaries (outside of Israel) and Shikun & Binui – Solel Boneh 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, 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. deals in the manufacture of asphalt, concrete factories, special bridging works and the manufacture of special bridging and construction elements.

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

- **Real estate ventures** – in the field of real estate ventures, the Group's activities are mainly carried out through investees 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 for creating a sustainable and advanced living environment. Shikun & Binui Real Estate Ltd. provides an envelope of products and services, guaranteeing a high quality of life and a comfortable living environment. Over recent years it has positioned itself as the leader in the field of construction in Israel and most of the buildings construction of which has started since 2009 are being built under the green Israeli 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 (Leadership in Energy and Environmental Design) standard. Shikun & Binui Real Estate Ltd. largely operates in high-demand areas, and Shikun & Binui Real Estate Ltd. 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. 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 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 272,000 m² of offices and 40,000 m² of commercial space.

- **Concession** – 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 expand its concession activity in Israel and around the world, 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, following the implications of the ongoing global financial crisis, difficulty exists in receiving underwriting commitments at extensive amounts from financing bodies, an increase is evident in financing costs and difficulty exists in raising very long-term financing from international financing bodies. These difficulties and changes had a particular impact on the ability of concessionaires to secure financing for projects to which they had committed prior to the beginning of the financial crisis and they are taken into account in the new project proposal stage.

  As part of this area of activity, the Company was involved in constructing major national projects such as the Cross-Israel Highway (the project was sold on July 4 2013, for further details see Note 7 to the Financial Statements), the Carmel Tunnels Project, the Hadera Desalination Plant, 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 contend in these types of concession projects and 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 Group's activity is largely carried out by Shikun & Binui Renewable Energy Ltd., with emphasis placed on the fields detailed below:

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

  1) Ashalim Center – on June 19 2013, the Company was informed that Negev Energy Ltd. ("the Concessionaire"), a company held inn equal shares by the Company and by a member of the Abengoa Group, of Spain, was selected as the winning bidder in a BOT tender published by the State of Israel, for the construction of a thermo-solar power plant with an output of 110 MW near the town of Ashalim in the Negev. The project will include the financing, construction and operation of the power plant in question for a period of 25 years, after a three-year construction period. The franchise agreement has yet to be signed and is expected to be signed in the coming months.
  2) Initiation of a project in planning stages to the scope up to 120 MW on land owned by Kibbutz Tze'elim in the Negev ("the Shneor Project"). The scope of the project will be determined according to rate arrangements.
  3) The development of independent technological-engineering capabilities in the thermo-solar field. Over the course of 2012 an experimental Shikun & Binui Renewable Energy Ltd. thermo-solar facility was inaugurated at Ardom (near Kibbutz Yotvata).

  Photo-voltaic power production field – initiation, financing, construction and operation of projects for the production of photo-voltaic solar power on rooftops and on land. The Company also holds a 50% stake in photo-voltaic projects in Spain with a total installed scope of 15 MW. For details regarding the announcement of the Spanish Government see Note 5b to the Financial Statements.

  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, and is planned to be converted by the Group to the production of power on a natural gas basis.

  Natural gas power production field – development of a natural gas-based private power production project in Ashdod with a combined cycle, at an output of 120 MW.

- **Water**

  In the field of water, the Group's activity is mainly carried out 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

While in the past, when the global economic crisis started, the question was asked whether emerging markets will be able to continue to grow strongly despite the shrinking and/or slow growth of the developed markets, the situation has reversed, and the question now is whether the U.S. economy will be able to maintain its positive momentum, despite the prominent weakness in emerging markets and the ongoing downturn in Europe. As a rule, the global growth projects are constantly being adjusted downward, primarily in light of the weakness of emerging markets, and while raising the growth forecasts for the U.S. and Japan.

In-depth analysis of the data reveals that the U.S. economy is continuing to show relatively good performance, and is expected to grow at a rate of 1.7% in 2013, accelerating the growth rate to 2.7% in 2014.

European data continues to indicate a recession, but it seems as if the low point is behind us. In 2013, according to official IMF data, the European economy is expected to shrink by 0.6% and the unemployment rate is expected to stabilize at a peak level exceeding 12%. Very low growth rates are expected for coming years, and the challenges Europe is facing are large and complicated, and further involvement will be required by decision makers, headed by the Central bank (ECB). The conceptual change that began in recent months among EU decision makers, that its austerity policies have led the European economy to a deal end, has not yet lead to any significant operative actions, with the sole body to truly internalize the magnitude of the problem being the ECB, which is expected to continue managing an expansive monetary policy in the foreseeable future.

The global economy's weak link is China, although emerging markets are all experiencing weaknesses of one form or another. After successfully surviving the start of the crisis, the emerging economies are encountering ever-increasing difficulties, deriving from the tightening of credit conditions. The strengthening of emerging currencies in the past few years, in light of the massive influx of funds into these markets, was accompanied by massive amounts of credit and excessive liquidity. Now, when conditions are changing and foreign capital is flowing outward and credit conditions are tightening, the economies must undergo a quick and painful withdrawal process. China’s successful attempt at moving from an export and investment based economy to an economy driven by internal demand alongside its transition from a manufacturing economy to a service economy is a long and complicated problem, involving myriad upheavals. The problem is that China is so big, that the shockwaves created by these adjustments are felt in the global economy as a whole, particularly the major goods manufacturers such as Australia and Brazil.

In global financial markets, the massive exodus from the financial shelters to venture assets, headed by stock markets, 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 is continuing to carry out the largest economic experiment in history. The Japanese central bank is continuing to purchase $75 billion per month in government bonds, in order to end the extended recession the local economy has been suffering from for over two decades. It's too early to tell whether this experiment will work, with data currently being mixed. An inflation goal of 2% set by the decision makers is still far away. The most recent data published indicates a yearly growth rate of 0%, but at the same time, the economy grew 3.8% in the first quarter, 2.6% in the second quarter (in yearly terms), and the level of optimism among small businesses has risen, alongside that of the major corporations, for whom a weakened yen has proven beneficial.

In 2013 and 2014 the global GDP is expected to grow at rates of 3.1% and 3.8%, respectively, and the volume of trade, which increased by 2.5% in 2012, is expected to increase by 3.1% and 5.4%, respectively, in 2013 and 2014.

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 Eurozone

The situation in Europe continues to pose a central risk to global growth. The European Central Bank updated its growth 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.

The key causes of the slowdown in activity in the Eurozone are the fiscal restraints imposed in order to limit debt, and the low levels of bank credit available. The banking system may have become more stable during the first half of the year, but the improvement largely derived from a reduction of debt in the business sector, and from increased purchases of government bonds.

The uncertainty regarding the stability of the Eurozone came once more to the forefront during the quarter with the crisis in the Cypriot banking system, however, the European response to the crisis helped restore calm to financial markets. As a rule, the risk of extreme scenarios in the European market has dropped significantly in the reviewed period, which has been reflected in the drop of CDC margins on government bonds in debt-ridden countries.

European unemployment rates continue to be very high. The average unemployment rate in the Zone at the end of Q2 reached 12.1%, with a youth unemployment rate of 23.9%. Particularly evident are the unemployment levels in Spain, which reached 26.3% 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 matters difficult for Eurozone members.

Inflation in the EU continues to be low, and reached 1.6% in June 2013 (over the past 12 months). Inflation is expected to remain under 2.0% throughout 2013. In light of the accumulation of negative macro data, in May the ECB lowered its interest rates to a new low of 0.5%.

The United States.

The recovery in activity in the United States continued in the first half of 2013, with the housing and auto markets balancing out the weakness created following cuts in government budgets and increased taxes. Even though growth in the first quarter of 2013 was lower than projected, most macro data indicated an improvement in activity. Most prominent were employment, housing and credit data and a drop in fiscal debt. The credit market showed relied in credit terms for businesses alongside increased demand for credit. In light of the cuts and higher than projected tax receipts, the Congressional Budget Office revised its 2013 deficit projection downward from 5.3% to just 4%. The American economy’s recovery and the expansionary monetary policy has had a positive impact on the performance of major companies, and most of these presented higher than projected profits in the first half of the year.

The GDP reading for the second quarter of 2013 indicated a growth rate of 1.7% (in yearly terms). The growth largely derives from a 1.8% increase in private consumption (2.3% in the previous quarter), a 4.6% increase in investments (inventory) and a 5.4% increase in exports (compared to a 1.3% drop in exports in the previous quarter). Note that the Bureau of Economic Analysis has revised its method of calculating GDP. Following the change, growth for the first quarter of 2013 was revised to 1.1%, compared to a previous reading of 2.5%.

According to information published by the U.S. Department of Labor, unemployment has dropped since the beginning of the year, and has amounted to 7.4% as of July 2013. Despite the drop in the unemployment rate, the participation rate in the labor market is continuing to drop, reaching 63.4%, compared to 63.6% at the end of the year, and chronic unemployment rates continue to be high, with the average unemployment period being 36.6 weeks. The number of chronically unemployed (unemployed for over 27 weeks) decreased, and they now constitute 37.0% of all unemployed.

Yields on government bonds increased during the quarter, in light of the projected reduction in quantitative relief by the Federal Reserve. At the end of the second quarter, the yield on 10-year debentures was around 2.6%.

Inflation rates at the end of June 2013 were estimated at 1.8% (for the first 12 months) and are expected to remain at a low level over coming months as well, despite the continued monetary expansion on behalf of the Federal Reserve. We remind you that the bank's policy is linked to U. S unemployment rates and growth rates, and that the Fed would not raise interest rates so long as the unemployment rate was over 6.5%.

The Israeli Economy

The GDP increased 3.4% during the first half of 2013 in fixed prices (yearly calculation) after deducting seasonal influences. This is after a 3.5% increase in the previous half and a 3.1% increase in the first half of 2012. Examination of development by quarters shows that in the second quarter of 2013 the GDP increased by 5.1% by a yearly calculation, after increases of 2.7% in the first quarter and 3.1% in the last quarter of 2012.

The increase in GDP in the second quarter reflects increases in private consumption expenses (6.7%), in exports of goods and services (1.2%) and in public consumption expenses (8.3%), and a drop in investments in fixed assets (6.3%), calculated on a yearly basis. The leap in private consumption – due to the increase in VAT, which lead to a rush to buy apartments, cars and consumption items.

The Bank of Israel’s 2013 growth forecast, which includes gas from the Tamar reservoir, remained unchanged at 3.8%. The key growth factors are the expected growth in public consumption and savings in the Israeli economy's expenses on imported energy materials to the local production of natural gas. On the other hand, a slowdown is expected in exports, in private consumption and in investments. The 2014 forecast was revised downward to 3.2%, largely due to the restraining influence of the budgetary plan and the revision downward of the global forecast.

From the start of the year (until the end of the half) the general CPI increased by 1.3%, and the CPI without housing increased by 1.2%. In the past twelve months (June 2013 vs. June 2012), the general CPI increased by 1.9%. The CPI without housing increased by 1.7%. The projections and inflation expectations for the next 12 months, as they are measured from the capital market, moved a bit below the middle of the target (2%) throughout the period. In the first half of 2013, the Central Bank lowered interest rates by 0.75%, to 1.25%.

The Construction Industry

Investment in fixed assets (investments in housing and investments by elements of the economy in construction, equipment and transportation) dropped by 6.5% in the first half of 2013 on a yearly level, following a 7.7% drop in the previous half and a 4.1% increase in the corresponding half of 2012. Investments in residential housing dropped 2.1% in the first half, following a 1.2% drop in the previous half.

Ministry of Construction and Housing data indicates that in the first quarter of 2013, investments in the construction industry dropped 2.1% compared to the corresponding quarter last year. The weight of investment in construction dropped to 8.3% of the GDP (preliminary data), compared to 8.7% in the corresponding quarter last year. Taking the long view, this rate has been increasing since 2005, when it reached 7.5% of the GDP. The increase in the rate of the construction industry compared to the total GDP is largely an expression of the increase in residential construction starts in recent years. In total, the scope of investments was estimated at 22.3 billion NIS in current values.

Residential Construction

In the first quarter of 2013, the scope of the investment in residential construction amounted to 14.2 billion NIS, in current values (according to preliminary data), a real drop of 1.4% compared to the corresponding quarter. The scope of investments in residential construction in 2012 amounted to 56.2 billion NIS (ion current prices), 5.8% higher than the previous year (real) and 64% over 2006.

The weight of public construction increased to 7.8% of total residential construction investments in the first quarter of 2013. This rate has been increasing constantly since a low point of 6.2% in 2010 (at the same time, it’s still much lower than 2005, when it reached 12.2%). The increase in the weight of publicly-initiated construction, which began in 2011, derives from the increase in the rate and weight of construction starts in this initiative from construction starts in the Israeli economy.

The construction of 10,300 new apartments were started in the first quarter of 2013, of which 29% are being constructed in 1 and 2 apartment buildings (private homes and two-family homes). The number of new apartment starts in this period was 3.4% lower compared to the corresponding period last year, and 4.9% lower than the first quarter of 2011. It seems as though recent data indicates a slowdown in the growth in construction starts that began in 2008.

For 2011, a record number of construction starts was listed – 45,615 housing units. The construction starts in recent years are higher than in previous years and are derived, among other things, from the increase in demand, low interest rates and a reduced supply of new apartments.

The number of apartments under active construction amounted to circa 86,100 apartments by the end of March, and was 2% higher than the number of apartments under active construction in the end of March 2012.
Construction for 9,480 apartments was completed in the first quarter of 2013, 5 % higher than the corresponding period in 2012. The largest number of apartments to finish construction are in the Central District – 34% of all apartments, with just 7% in Jerusalem District.

According to data from the Central Bureau of Statistics, the number of new apartments remaining for sale in late June 2013 (22,080 apartments) was 1.1% lower than that listed in late June 2012.

In the first half of 2013, land was sold for 20,899 apartments, of which 12,385 new apartments were sold to the general public and 8,514 apartments were not sold (for the own use of the apartment owner, purchase groups, rental and more). In the first half of 2012, land was sold for 20,748 apartments, of which 10,383 new apartments were sold to the general public and 10,365 apartments were not sold. While total sales of new apartments saw a minor 0.7% increase, total new apartments sold to the general public increased by 19.3% between the periods and total unsold apartments (used by the land owner, purchase groups, rentals and more) dropped by 17.9%.

Housing prices: according to the Bank of Israel, in January-February the increase in apartment prices continued, alongside a slowdown in construction starts and an increase in the number of transactions and the scopes of the mortgages. March-April saw a slight drop in apartment prices, but it's still too early to tell whether a turnaround has taken place in the housing market. In light of the accelerated growth, alongside the increase in risk that has occurred in recent years in housing credit, in February the Banks Supervisor instructed that the capital cushions and the provisions required for the risks embodied in the housing credit portfolio be increased.

According to Ministry of Construction and Housing data, the increase in apartment prices has continued, and reached a real level of 9.1% in the last 12 months measured (March 2012 – February 2013). The increase was renewed in the end of 2012, after a yearly decrease of 0.3% in April-July 2012.

The balance of the housing debt out of total household debt increased by 3 billion NIS in May (1.1%) over the previous month, and amounted to 279 billion NIS in late May 2013. It's possible that the increase is partially due to the rush to take out mortgages before the increase in VAT in the start of June. At the end of 2012, the housing debit balance amounted to a sum of 265.5 billion NIS.

The Residential Construction Input Prices Index increased by 0.2% in June 2013, at 105.1 points (on the basis of July 2011 = 100.0 points). This index has increased by 1.0% since the beginning of the year.

Nonresidential Construction

According to Ministry of Construction and Housing Data, in the first quarter of 2013, the scope the investment in nonresidential construction amounted to 8 billion NIS in current values, a drop of 3.3% compared to the corresponding quarter last year. The General Bureau of Statistics found that the first quarter saw a moderate drop in nonresidential construction and other construction works – 2.3% on a yearly basis.
2012 saw an increase in nonresidential construction investments from a number of factors, including new projects in the field of water desalination, an increase in investments in Israel Railways, Netivei Israel projects and an increase in investments in gas and oil pipelines.

d. Noteworthy Events During and Subsequent to the Reported Period

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 of 55 million NIS was listed. For further details see Note 4a to the Financial Statements.

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.

Dividend Distribution

On May 26, 2013, the Company's Board of Directors decided to distribute dividends to the amount of 60 million NIS, which were paid on July 4 2013.
On August 25 2013 the Company's Board of Directors decided to distribute dividends to the amount of 60 million NIS, to be paid October 3 2013.

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 3a to the Financial Statements.

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.

For further details see Note 4d to the Financial Statements.

Sale of Derech Eretz Transaction

Subsequent to the report date, on July 4 2013, the 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 will be listing a profit of 63 million NIS in its financial statements for the third quarter of the year.

For further details see Note 7 to the Financial Statements.

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

On July 5 2013 a subsidiary 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 193 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 timetables set for the construction of the apartments in question in the project.

Rate Changes in the Spanish Power Market

On July 14 2013 a new law came into effect in Spain, which revoked the previous law that guaranteed the payment of a special rate for electricity sold by solar parks (such as those in which a Company Spanish subsidiary is a partner) 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. However, the mechanisms and parameters published are incomplete, and cannot be used to calculate the proceeds in accordance with the new law. The Group's total investment in solar projects in Spain as of June 30 2014 amounts to a total of 141 million NIS.

It's likely that the new law will have a negative impact on revenues from parks in Spain and may lead to a drop in the investment's book value. So long as the legislation is not completed in Spain, the implications of the new law on the group cannot be property estimated.

Increase in Midroog Rating

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, and that it was approving an identical rating for debentures raised at a scope of up to 450 million NIS NV.

2. Business Activity Results

The following is concise data regarding business activity results.

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30	
	2013	2012	2013	2012
	Millions of NIS		Millions of NIS	
Revenues from works and sales	3,376	3,329	1,755	1,621
Cost of works performed and sales	2,754	2,645	1,449	1,271
Gross Profit	622	684	306	350
Proceeds from the sale of investment property	-	5	-	-
Sales and marketing expenses	(17)	(18)	(10)	(11)
General and administrative expenses	(168)	(167)	(92)	(85)
Other revenues (expenses), net	56	4	(1)	(9)
Operating earnings	493	508	203	245
Financing costs, net	(95)	(82)	(49)	(48)
Company's share of losses of affiliates	(28)	(13)	(3)	(9)
Profit before taxes on income	370	413	151	188
Taxes on income	(117)	(116)	(55)	(58)
Profit for the period	253	297	96	130

Shikun & Binui's operating segments are:

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

For further information see Note 9 to the Company's Financial Statements.

a. Revenues from Works and Sales

	For the Six Month Period Ending June 30		For the Three Month Period Ending June 30	
	2013	2012	2013	2012
	Millions of NIS		Millions of NIS	
Infrastructure and construction outside of Israel	1,501	1,748	718	807
Infrastructure and construction in Israel	952	917	501	458
Real estate development in Israel	840	642	518	361
Real estate development outside of Israel	7	5	3	3
Renewable energy	183	61	85	23
Water	19	17	11	9
Concessions	82	83	13	39
Adjustments	(208)	(144)	(94)	(79)
Total consolidated	3,376	3,329	1,755	1,621

Revenues from works and sales in the first six months of 2013 amounted to a total of 3,376 million NIS compared to a total of 3,329 million NIS in the corresponding period last year, a 47 million NIS increase relative to the corresponding period last year. The main changes that occurred in the first six months of the year compared to the same period last year are as follows: the foreign infrastructure and construction segment saw a 247 million NIS decrease in revenues. The drop in revenues from this segment largely derives from the fact that large projects in Ghana and Guatemala were completed last year, and due to the relatively low performance levels in the project in Azerbaijan. Note that the changes in exchange rates between the NIS and the USD have an effect on the drop in foreign revenues. Some of the decrease in revenues from this segment relative to the corresponding period last year (53 million NIS) derives from the fact that the average exchange rate of the USD during the first six months of the year decreased relative to its average exchange rate during the corresponding period last year. The Israeli infrastructure and construction segment saw a 35 million NIS increase from the expansion of activity. Furthermore, the Israeli real estate ventures segment noted a 198 million NIS increase. In the real estate venture sector, recognition of income from the sale of apartments occurs upon delivery to the customer and not upon the apartments' sale in practice. The Company performed 402 apartment occupations in the first six months of the year compared to 354 apartment occupations in the corresponding period last year. In addition, income was listed from the sale of non-residential projects (a total of 111 million NIS) deriving from the sale of half of the rights to the Seventh Avenue Mall in Beersheba and from the sale of interests in a shopping center in New Ramat Aviv Gimel. In addition, an increase was listed in revenues from works on the Tel Aviv Student Dormitories project relative to last year (a 62 million NIS increase). In addition, a 122 million NIS increase was listed in revenues in the renewable energy sector, 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.

Revenues from works and sales in the second quarter of the year increased by 134 million NIS relative to the same quarter last year, amounting to 1,755 million NIS – a 8% increase. The key changes compared to the corresponding period last year are as follows: a 157 million NIS increase in the Israeli real estate development segment, primarily deriving from the sale of one half of the interest in the Seventh Avenue Mall in Beersheba (a total of 89 million NIS). Furthermore, the Company occupied 232 apartments in the second quarter of the year compared to 211 apartments in the corresponding quarter last year, and a 43 million NIS increase was listed in the Israeli infrastructure and construction segment (mainly from increased performance of the construction division) and a 62 million NIS increase in the renewable energy sector 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. An 89 million NIS decrease occurred in the foreign infrastructure and construction segment. Some of the decrease in revenues from this segment compared to last year (39 million NIS) derives from the fact that the average exchange rate of the USD during the second quarter of the year decreased relative to its average exchange rate in the corresponding quarter last year.

b. Gross Profits

	For the Six-Month Period Ending June 30		For the Three-Month Period Ending June 30	
	2013	2012	2013	2012
	Millions of NIS		Millions of NIS	
Infrastructure and construction outside of Israel	292	359	137	160
Infrastructure and construction in Israel	58	59	23	35
Real estate development in Israel	226	259	116	153
Real estate development outside of Israel	(1)	(1)	(1)	(2)
Renewable energy	37	7	22	3
Water	(2)	-	-	-
Concessions	7	(3)	3	(3)
Adjustments	5	4	6	4
Total consolidated	622	684	306	350

Gross profits in the first six months of the year amounted to a total of 622 million NIS compared to a total of 684 million NIS in the corresponding period last year. The gross profit rate in this half of the year amounted to 18.4% compared to 20.6% in the corresponding period last year. The 62 million NIS decrease in gross profits in the first six months of the year relative to the corresponding period last year primarily derives from the drop in gross profits in the overseas infrastructure and construction segment (67 million NIS), due to the halt of works in the Republic of Benin due to a dispute with the party commissioning the work and due to the completion of large projects in Ghana and Guatemala last year. Furthermore, a 33 million NIS drop was noted in gross profits in the Israeli real estate ventures segment following a drop in gross profits from the sale of housing projects deriving from a drop in the average price of housing units occupied in the first six months of the year compared to the corresponding period last year. This drop was partially offset as a result of the sale of non-residential projects (sale of one half of the rights to the Seventh Avenue Mall in Beersheba). On the other hand, an increase in gross profits was listed in the renewable energy sector (a total of 30 million NIS) due to the implementation and construction of medium photo-voltaic facilities installed on land and rooftops which also contributed to the increase in gross profits in this segment.

The 44 million NIS decrease in gross profits in the second quarter of the year compared to the corresponding period last year mostly derives from the Israeli real estate ventures segment (a total of 37 million NIS) the overseas real estate ventures segment (a total of 23 million NIS) and the Israeli infrastructure and construction segment (a total of 12 million NIS) offset by an increase in gross profits in the renewable energy segment (a total of 19 million NIS).

c. Administrative and General Expenses

Administrative and general expenses in the first six months of the year amounted to a total of 168 million NIS, a 1 million NIS increase compared to the corresponding period last year (a total of 167 million NIS).

Administrative and general costs amounted to 92 million NIS in the second quarter of the year compared to a total of 85 million NIS in the corresponding quarter.

d. Other Operating Revenues (Expenses), Net

These revenues amounted to 55.7 million NIS in the first six months of the year compared to net revenues of 4.3 million NIS in the corresponding period last year. The following are details of the key revenues and expenses included in this item:

	For the Six-Month Period Ending June 30		For the Three-Month Period Ending June 30	
	2013	2012	2013	2012
	Millions of NIS		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 (loss) from the sale of fixed assets	0.7	(0.3)	0.6	(0.2)
Profit from increase in value (loss from the impairment) of assets, net (3)	(14.3)	0.5	(14.3)	-
Provision due to balances the realization of which is in doubt, net (4)	7.4	-	7.4	-
Others, net	7.1	(7.9)	5.0	(9.1)
	55.7	4.3	(1.3)	(9.3)

(1) The revaluation profit was listed following the acquisition of control in an affiliate, with 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 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 4b to the Financial Statements).

(3) Includes 4.3 million NIS from the impairment of real estate in Hungary and 10 million NIS from the impairment of a franchise for the operation, maintenance, improvement and development of the Pardes Hanna Karkur Regional Council water system, included under intangible assets.

(4) Includes 18.4 million NIS in revenues from the cancellations of a provision of balances the realization of which is doubtful, upon their collection in practice, less an 11 million NIS provisions pertaining to the discontinuation of a contract as a result of a dispute with a party ordering work abroad 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 54.5 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 43.4 million NIS. According to the contract, an arbitration process is supposed to start over the next few months).

e. **Operating Earnings**

	For the Six-Month Period Ending June 30		For the Three-Month Period Ending June 30	
	2013	2012	2013	2012
Infrastructure and construction outside of Israel	217	286	92	120
Infrastructure and construction in Israel	30	23	9	15
Real estate development in Israel	233	208	89	124
Real estate development outside of Israel	(7)	10	(4)	(4)
Renewable energy	21	(10)	12	(6)
Water	(20)	(6)	(14)	(3)
Concessions	1	(5)	-	(5)
Others	3	(1)	3	-
Adjustments	74	77	38	40
Total by operating segments	552	582	225	281
Segment-wide expenses	(59)	(74)	(22)	(36)
Total operating earnings	493	508	203	245

Operational profits in the first six months of 2013 amounted to 493 million NIS, a 15 million decrease from the corresponding period last year. This decrease primarily derives from the drop in gross profits in the overseas infrastructure and construction segment (69 million NIS), due to the halt of works in the Republic of Benin as a result of a dispute with the party commissioning the work, in light of poor performance levels deriving from the conclusion of major projects in Ghana and Guatemala and due to the revaluation of the exchange rate of the USD, which has a negative impact on results in shekels. In addition, a drop occurred in the overseas real estate ventures segment (17 million NIS), mainly due to revenues listed last due to the revaluation of the investment in an associate holding companies operating in Poland. On the other hand, an increase was listed in operating profits in the Israeli real estate ventures segment (25 million NIS) following the cancellation of a sales agreement signed with the City of Ramat Gan in 2001, as noted in Section D above. In addition, an increase in operating profits was listed in the renewable energy segment (31 million NIS), mainly due to the increase in total gross earnings in this segment compared to the corresponding period last year.

Operational profits in the second quarter of the year amounted to a total of 203 million NIS compared to a total of 245 million NIS in the corresponding quarter last year. Most of the change derives from a 28 million NIS decrease in the overseas infrastructure and construction segment and a 35 million NIS decrease in the Israeli real estate ventures segment, offset by an 18 million NIS increase renewable energies segment.

f. **Financing Costs, Net**

Net financing costs amounted to a total of 95 million NIS in the first six months of 2013 compared to a total of 82 million NIS in the corresponding period last year. Financing costs referring to long-term credit in the first six months of the year amounted to a total of 166 million NIS compared to a total of 161 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 0.7% increase was listed in the first six months of the year compared to 1.25% in the corresponding period last year, and therefore, a decrease was noted in credit linkage costs (a total of 8 million NIS), but on the other hand, an increase was listed in interest expenses on long-term credit (a total of 13 million NIS) due to the increase in credit volume. In addition, a 7 million NIS increase occurred in financing costs deriving from changes in exchange rates deriving from the weakening of the euro.

Net financing costs amounted to 49 million NIS in the second quarter of the year compared to 48 million NIS in the corresponding quarter last year.

g. **Taxes on Income**

Tax expenses amounted to 117 million NIS in the first six months of 2013 compared to 116 million NIS in the corresponding period last year. Tax expenses abroad decreased by 5 million NIS compared to the corresponding period last year, due to a drop in the scope of profits abroad. On the other hand, Israeli tax expenses increased by 6 million NIS compared to the corresponding period last year, mainly as a result of the increase in profits in the Israeli real estate ventures segment.

Tax expenses amounted to 55 million NIS in the second quarter of the year compared to a total of 58 million NIS in the corresponding quarter.

h. Losses of Investees, Net

The Company's share in the expenses of investees the first six months of 2013 amounted to a loss of 28 million NIS compared to a loss of 13 million NIS listed in the corresponding period last year. The 15 million NIS change largely derives from losses attributed to the influence of changes in the exchange rate of the EUR listed in the statements of an associate (in the overseas real estate venture segment) and due to losses listed in associates in this segment.

The Company's share of the results of associates in the second quarter of the year amounted to a total loss of 3 million NIS, compared to a 9 million NIS loss in the corresponding quarter last year.

i. Earnings for the Period

Earnings for the first six months of 2013 decreased by 44 million NIS compared to the corresponding period last year, amounting to 253 million NIS compared to 297 million NIS.

Profits in the second quarter of the year amounted to a total of 96 million NIS compared 130 million NIS in the corresponding quarter last year.

3. Accumulated Orders

The Company's accumulated orders in the field of construction and infrastructure contracting as of June 30 2013 amounts to 11.5 billion NIS, of which 8.9 billion NIS ($2.5 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

In the first six months of the year the Company (the Company's share – not including the share of partners in joint projects) sold 403 housing units in Israel in return for 538 million NIS compared to 306 housing units in return for 440 million NIS in the corresponding period last year.

	Housing Units Sold	Sales Not Including VAT (In Millions of NIS)	Average Price Per Apartment Without VAT. (In Thousands of NIS)
1-6/2013	403	538	1,335
4-6/2013	208	272	1,306
1-6/2012	306	440	1,437
4-6/2012	184	256	1,394

In the period from the start of July until the publication of the report the Company sold 236 housing units in return for 267 million NIS.

5. Liquidity and Financing Sources

- The net cash flow deriving from profits and adjustments to profits amounted to a total of 602 million NIS compared to a total of 599 million NIS in the corresponding period last year. The cash flow deriving from current activity in the first six months of 2013 amounted to 15 million NIS, compared to a total of 107 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 six months of 2013 amounted to 111 million NIS, compared to a total of 177 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 increase in interest and dividends received compared to the corresponding period last year and cash paid last year due to first-time consolidation.
- The cash flow used for financing activity in the first six months of 2013 amounted to a total of 548 million NIS compared to 106 million NIS in the corresponding period last year. In the first six months of 2013 the Company redeemed credit to the amount of 843 million NIS and paid interest to the amount of 140 million NIS. On the other hand, the Company raised 493 million NIS in credit. In comparison, in the corresponding period last year the Company redeemed credit to the amount of 449 million NIS and paid interest to the amount of 115 million NIS. On the other hand, the Company raised 302 million NIS in credit last year and issued debentures to the amount of 233 million NIS last year.

The Company's working capital as of June 30 2013 amounted to 1,160 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 809 million NIS and unused credit frameworks to the amount of 1,132 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 outside of Israel	13	511	224	(722)
Infrastructure and construction in Israel	-	161	36	(197)
Real estate development in Israel	990	26	311	653
Real estate development outside of Israel	231	19	2	210
Renewable energy	142	30	**(1)** 23	89
Water	12	-	4	8
Concessions	478	1	102	375
Company HQ	3,325	59	5	3,261
Others	3	2	-	1
Total consolidated	5,194	809	707	3,678

(1) After neutralizing receivables due to projects underway.

a. Equity

The Company's equity as of June 30 2013 amounts to 1,216 million NIS, compared to 1,139 million NIS on December 31 2012. The increase in equity largely derives from profits in the first six months of 2013 (totaling 252 million NIS). This increase was partially offset by dividends to the amount of 108 million NIS declared for shareholders, and by adjustments from the translation of the Financial Statements of overseas subsidiaries (to the amount of 68 million NIS), largely prepared in USD and in EUR.

b. Current Assets

Total current assets held by the Company amount to 5,563 million NIS as of June 30 2013. The balance of current assets decreased by 169 million NIS in the first six months of the year, compared to the end of the previous year. The primary changes are as flows: a 670 million decrease was listed in the cash balance, 424 million NIS of which originated in Israeli activity used mainly to redeem debentures, and 246 million NIS from overseas activity, mostly due to investments in long-term bank deposits (140 million NIS) and due to the delay in collection due to overseas projects. A 161 million NIS decrease occurred in the balance of deposits in bank corporations, which were mostly used to redeem debentures and credit from banking corporations. A 205 million NIS decrease was listed in the balance of the inventory of buildings for sale, primarily due to the delivery of apartments totaling 420 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 (144 million NIS). On the other hand, investments totaling 360 million NIS were listed from projects under construction. A 20 million NIS decrease was listed 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 10 million NIS increase was listed in the value of derivatives not used for hedging purposes. A 9 million decrease was also listed in current tax assets (6 million NIS from activity in Israel and 3 million NIS from activity abroad). In addition, a 46 million decrease was listed in raw materials inventory (a 43 million NIS decrease from activity abroad and a 3 million NIS increase from activity in Israel). On the other hand, a 615 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 7 to the Financial Statements. A 280 million NIS increase occurred in the balance of customer revenues receivable, with 99 million NIS of the increase deriving from receivables due to the purchase of one half of the rights to the Seventh Avenue Mall in Beersheba (83 million NIS of these debts were redeemed subsequent to the balance sheet date), and a total of 163 million NIS originated in the increase in customers and parties ordering works abroad. The increase in the foreign customers balance derives mainly from collection delays. Subsequent to the reported date and as of the approval of the Financial Statements, the Company received 520 million NIS from overseas customers. A 38 million NIS increase occurred in in the balance of receivables and others due to advance payments to suppliers for the purchase of materials for projects in Israel. Furthermore, a 16 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 (companies in the field of photo-voltaic energy).

c. Non-Current Assets

The Company's long-term investments amount to 4,707 million NIS, a 158 million NIS decrease over the end of the previous year. The key changes are as follows: a 435 million NIS decrease in the balance of loans to investees (403 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 7 to the Financial Statements). In addition, a 32 million NIS decrease was listed in this section deriving from the redemption and classification to maturities of these loans. A 207 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 44 million decrease occurred in the balance of land (16 million NIS abroad and 28 million originating from activity in Israel). Regarding land abroad, a 15 million NIS decrease was listed due to translation adjustments of the financial statements 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 2.d.2 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 66 million NIS, mostly due to lands in Tirat Hacarmel and Rosh Ha'ayin. In addition, a 44 million NIS decrease was listed in the balance of fixed assets (a 47 million NIS decrease abroad, and a 3 million NIS increase in from Israeli activity), with an 11 million NIS decrease in the valance of deferred tax assets due to Israeli activity.

On the other hand, a 134 million NIS increase occurred in receivables due to concession arrangements following the progress of works in the Northern Lanes Project (64 million NIS) and following progress in the Tel Aviv student dormitory construction project (70 million NIS). A 322 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 162 million NIS) and from an increase in long-term pledged deposits abroad amounting to 142 million NIS. In addition, a 145 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 (76 million NIS) and from the classification of one half of the rights to the Seventh Avenue Mall in Beersheba, 72 million NIS from current assets to investment property.

d. Current Liabilities

Current liabilities decreased by 414 million NIS in the first six months of the year, compared to the end of 2012, amounting to 4,404 million NIS. The main changes are a 351 million NIS decrease in short-term credit from banking corporations and others deriving largely as a result of the drop in scope of current maturities of long-term credit, and a 217 million NIS drop 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 (161 million NIS) and projects in Israel (a 56 million NIS increase mainly due to advance payments received for a BOT project – the Tel Aviv Courthouse and the Trans-Israel Highway). Furthermore, a 70 million NIS decrease was listed payables and credit balances On the other hand, a 156 million NIS increase was listed in subcontractors, suppliers and service providers (51 million NIS of which derives from abroad), a 59 million NIS increase in dividends payable to shareholders paid after the balance sheet date on July 4 2013, a 17 million NIS increase in current tax liabilities, mainly in Israel and a 4 million NIS increase in the balance of provisions.

e. **Non-Current Liabilities**

The main component of this item are the debentures and obligations to banking corporations and others, amounting to 4,353 million NIS as of June 30 2013, compared to a total of 4,334 million NIS at the end of the previous year. Redemptions of the liabilities in question were listed in the first six months of the year (a total of 843 million NIS), and current maturities of long-term loans were classified to current liabilities (a total of 359 million NIS). On the other hand, during the first six months of the year the Company raised additional credit from banking corporations (a total of 470 million NIS).

Total other liabilities (due to employee benefits, deferred taxes, long-term provisions and a surplus of losses accumulated in affiliates) amount to 297 million NIS, a drop of 9 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 June 30 2013	300,000,000 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):	359,402,000 NIS
Linked interest	5.2%
Sum of interest accrued as of June 30 2013	3,738,000 NIS
Market value of 1 NIS NV as of June 30 2013	1.2817
Fair value as of June 30 2013	381,842,000 NIS
Fair value interest	1.15%

Principal redemption:	4 equal annual payments on each of the years from 2012-2015
Interest redemption:	16 semiannual payments starting October 2007

Final repayment date (principal and interest) in April 2015

For further details see Note 27.4.b and 24.4.d to the Company's 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 June 30 2013:	253,680,000 NIS

Interest 7.9% unlinked, sum of interest accumulated as of June 30 2013: 6,625,000 NIS

Market value of 1 NIS NV as of June 30 2013	1.113
Fair value as of June 30 2012	280,009,000 NIS
Fair value interest	3.06%
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 June 30 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): 1,261,337,000 NIS

Linked interest	4.8%
Sum of interest accrued as of June 30 2013	18,500,000 NIS
Market value of 1 NIS NV as of June 30 2013	1.2108
Fair value as of June 30 2013	1,406,887,000 NIS
Fair value interest	1.95%

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 June 30 2013:	883,667,000 NIS
The balance of the notational value in circulation is revalued according to the linkage terms (linked to the November 2011 Consumer Price Index):	902,802,000 NIS
Linked interest	5.5%
Market value of 1 NIS NV as of June 30 2013	1.1607
Fair value as of June 30 2013	1,049,351,000 NIS
Fair value interest	2.76%
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 Tests as of June 31 2013 that Constitute a Material Change from the December 31 2012 Sensitivity Tests

The following is a sensitivity table for sensitive instruments in accordance with changes in market factors as of June 30 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	(101,429)	(22,530)	(11,421)	823,485	11,744	23,824	134,208
Long-term loans granted investees	(21,478)	(4,443)	(2,231)	753,020	2,251	4,521	23,405
Long-term loans received	74,392	15,649	7,874	(1,290,025)	(7,975)	(16,053)	(84,600)
Debentures	129,625	26,740	13,423	(3,121,319)	(13,529)	(27,165)	(140,264)
EUR/NIS forward transaction	(432)	(87)	(43)	10,978	43	87	433
USD/NIS forward transaction	(11)	(2)	(1)	633	1	2	11
CPI transactions	11,136	2,264	1,134	(850)	(1,138)	(2,282)	(11,597)
Total	**91,803**	**17,591**	**8,735**	**(2,824,078)**	**(8,603)**	**(17,066)**	**(78,404)**

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	289	144	2,888	(144)	(289)
Short-term loans to affiliated companies	2,454	1,227	24,542	(1,227)	(2,454)
Long-term loans to affiliated companies	8,806	4,403	88,059	(4,403)	(8,806)
EUR/NIS forward transaction	(18,002)	(9,001)	10,978	9,001	18,002
Total	**(6,453)**	**(3,227)**	**126,467**	**3,227**	**6,453**

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	7,765	3,883	77,650	(3,883)	(7,765)
Short-term deposits	550	275	5,503	(275)	(550)
Net customers commissioning work	15,911	7,955	159,105	(7,955)	(15,911)
Other receivables	42	21	423	(21)	(42)
Subcontractors, suppliers and service providers in liabilities	(1,391)	(695)	(13,908)	695	1,391
Other payables	(4)	(2)	(40)	2	4
Total	**22,873**	**11,437**	**228,733**	**(11,437)**	**(22,873)**

Sensitivity to Changes in the Naira/USD Exchange Rate

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	10% increase	5% Increase		5% Decrease	10% Decrease
	In the Rate of the Naira vs. the USD			In the Rate of the Naira vs. the USD	
	Thousands of NIS				
Cash and cash equivalents	9,611	4,805	96,105	(4,805)	(9,611)
Customers commissioning work	24,111	12,056	241,114	(12,056)	(24,111)
Other receivables	1,242	621	12,421	(621)	(1,242)
Subcontractors, suppliers and service providers in liabilities	(5,370)	(2,685)	(53,698)	2,685	5,370
Other payables	(1,707)	(853)	(17,066)	853	1,707
Total	**27,887**	**13,944**	**278,876**	**(13,944)**	**(27,887)**

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	982	491	9,823	(491)	(982)
Short-term deposits	32	16	318	(16)	(32)
Customers commissioning work	28,587	14,293	285,866	(14,293)	(28,587)
Various receivables and debit balances	2,549	1,275	25,492	(1,275)	(2,549)
Short-term loans received	(1,283)	(641)	(12,829)	641	1,283
Subcontractors, suppliers and service providers in liabilities	(10,375)	(5,187)	(103,746)	5,187	10,375
Other payables	(414)	(207)	(4,135)	207	414
Total	**20,078**	**10,040**	**200,789**	**(10,040)**	**(20,078)**

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				
Loans and short-term CPI-linked loans and deposits in assets	2,067	689	68,888	(689)	(2,067)
Customers and accounts receivable	129	43	4,295	(43)	(129)
Loans and long-term CPI-linked loans and deposits in assets	862	287	28,739	(287)	(862)
Receivables due to concession arrangements	21,792	7,264	726,389	(7,264)	(21,792)
Long-term loans given investees	8,995	2,998	299,834	(2,998)	(8,995)
Other payables	(3,617)	(1,206)	(120,571)	1,206	3,617
Long-term CPI-linked loans in liabilities	(31,493)	(10,498)	(1,049,780)	10,498	31,493
Linked debentures	(74,767)	(24,922)	(2,492,237)	24,922	74,767
CPI transactions	19,678	6,559	(850)	(6,559)	(19,678)
Total	**(56,354)**	**(18,786)**	**(2,535,293)**	**18,786**	**56,354**

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 – 3.618.

The sensitivity analyses are based on the euro's representative rate of exchange as of March 30 2013 – 4.7197.

Known CPI (in 2011 terms) – 106.252

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

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

a. The Group continued to deepen sustainability management processes in 2013, with the following steps taken, among others:

- The process of improving project management tools according to the sustainability principle in the three degrees of sustainability, society, environment and economy, in the development, planning, implementation and operation contexts was completed.
- The computerized data collection system for environmental data, allowing the collection, management and control of certain environmental influences of Group members was completed.
- An environmental checklist was prepared, for the use of managers at key decision points.
- 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 interested party participation principles in the Group's activities continued, definitions were sharpened and expectations were coordinated at the Group.
- Activity to implement sustainable design principles in projects through the variety of planning stages continued.
- Active participation continued in committees in the Standards Institute to promote advanced standardization in the field of sustainability, such as IS 10,000 on corporate responsibility.
- Environmental management (IS 14001) and safety (IS 18001) systems are being implemented, with Solel Boneh and Shikun & Binui Real Estate beginning the adoption process in their units, and the other Group companies have begun a 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 subjects.
- As part of the expansion of the group's training circles in the various countries in which we are active, a sustainability kit was prepared for training, as a complementary tool for the training plan accompanying the Group for the past four years.
- An ethical code was approved by the Board of Directors in the first quarter; the code was translated to nine languages and is currently being implemented.
- Writing of a corporate responsibility report began. The draft of the report is currently being processed.
- Upon completing the five year period from the adoption of the sustainability approach, work stated on a new multi-year plan in the field of sustainability.

b. The Group won the 2013 Green Globe Award, granted by the Life and Environment umbrella organization.

11. Social Involvement and Contribution to the Community

The Group continued to expand its community relations activities, in Israel and around the world, in the first half of 2013, 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. The Company sees itself as responsible not only for building and developing in such a way so as to prevent harm to the environment and to the future, but also to nurture the human society in which its business activity takes place.

In the first half of 2013 the Group invested 1,264,000 NIS in contributions in various social and education activities, including adopting dozens of schools in the ORT network by monetary contributions to various network projects, contributions to 70 non-profits, supporting social organizations and more.

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 activities in Israel and around the world. The Group allows its employees to perform volunteer work on the clock. Over the course of the first half of 2013, it invested 300 hours of volunteer work by employees.

In addition, on the Good Deeds Day, 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 poor 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.

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 Lahmany (Chairman of the Board of Directors), Irit Izacson, Shmuel Berkowitz, Nir Zichlinsky, Efrat Peled and Yosef 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.

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

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

14. 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 August 7 2013 a General Meeting of the Company's shareholders was summoned, on the agenda of which was the ratification of the Company’s remuneration policy, to convene on September 12 2013. In addition, also on the agenda of the General Meeting in question are decisions regarding the approval of the terms of service and employment of the serving Company CEO, 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).

15. Financial Statement Approval Process

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

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

a) Mr. Yosef Alshech, Chair of the Committee – external director.
b) Mr. Yitzhak (Khaki) Harel – external director
c) Mr. Shmuel Berkowitz

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 Additional Information on the Corporation report for 2012.

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

The meeting of the Finance and Financial Statements Examination Committee on the matter of the approval of the Financial Statements was held on August 22 2013, with Mr. Yosef Alshech, Shmuel Berkowitz and Mr. Yitzhak (Khaki) Harel attending. The following senior executives took part in the this meeting – 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 August 25 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 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.

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

August 25 2013