Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending September 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 September 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 Israel and elsewhere around the world.

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 and its investees are currently active in a number of countries in the fields of contracting, paving, infrastructure and construction and are acting to deepen and broaden their 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, although it 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, subsequent to the reported date – 37.38%) 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 282,000 m² of offices and 42,000 m² of commercial space. Subsequent to this report, following the Stanham agreement (for details see Note 5a to the Financial Statements) the ADO group holds 347,000 m² of offices and 56,000 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 act 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 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, a desalination plant in Hadera, a project for the renovation and operation of roads in northern Israel (on April 10 2013 the commissioning party's approval for the completion of the project's construction project was received, seven months before the planned date), and is currently constructing the new Tel Aviv Courthouse, the Israel Police Training Center and more. The

Company continues to 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. (hereinafter – Renewable Energy), 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, a company held in equal shares by the renewable Energy and by a member of the Abengoa Group, of Spain, was informed that it was selected as the winning bidder in a BOT tender for the construction of a thermo-solar power plant with an output of 110 MW. The project's franchise agreement was signed on September 30 2013.

2) Initiation of a project in planning stages to the scope up to 120 megawatts on land owned by Kibbutz Tze'elim in the Negev ("the Shneor Project"). The 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 Renewable Energy 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. Renewable Energy also holds a 50% stake in photo-voltaic projects in Spain with a total installed scope of 15 MW. In July 2013 Spain passed a law on changes in rates for local projects and as a result, in terms of legislative influences, an impairment provision was listed for these projects. For further details see Note 4f 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.

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

- **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.

Subsequent to the report date, an agreement was signed by Shikun & Binui Water Ltd. for the purchase of a 30% stake in Elkon Recycling (2003) Ltd. ("Elkon"). Elkon deals in the provision of services for the treatment of industrial waste considered hazardous material for industrial companies in Israel, and intends to expand this activity abroad as well. For further details see Note 5b to the Financial Statements.

c. The Global Economy

In the third quarter of the year, global attention turned once more to the U.S. economy. The consistent, if moderate, improvement seen to the world's largest economy, led to forecasts according to which the U.S. central bank (hereinafter – the Fed) would begin withdrawing from its third quantitative expansion, in which the Fed purchases $85 billion in debentures per month. At the end of the day, these predictions were proven false, as the Fed preferred to wait for additional indications of the acceleration of the economic recovery. The Fed's decision to introduce money to the market earned much criticism, including at home, due to possible implications regarding future inflation, and the risk of creating an asset bubble in the present.

While the Fed was dealing in adapting the financial conditions, it seemed as those the politicians were engaged in messing with fiscal conditions, making the recovery process more difficult. Due to a budgetary disagreement, we saw a shutdown of non-vital government services, which led to an estimated damage of $24 billion. In addition, a return of the infamous debt ceiling crisis from 2011 might have shaken the financial markets once more, while the government faced insolvency. After making financial investors very nervous, the opposing Congressional parties managed to approve the debt ceiling increase. The problem is that the agreement allows the government to borrow money, and in effect to meet its obligations, for just three months. These shocks, needless to say, left an impression, and were expressed, among other things, in a drop in consumer confidence, in retail sales and in the sale of sustainable products.

The implications of the reduced sales on U.S. debentures, which will be accompanied by increased interest, exceed the borders of the United States. Two processes have become evident in emerging markets in recent years: first, as a result of the comfortable interest environment in the developed world, emerging markets received massive inflows of capital. Second, these countries began to establish their grown on local demand, in order to compensate for the weakness in the export markets. The high interest level and local demand led to a decrease in surpluses in current accounts, and in some countries, to deficits. The increase in interest rates in the United States, and in effect in all developed countries, leads to a departure of capital and as a result to devaluation of currency. In addition, the reduction in surplus current accounts in these countries becomes more evident. The countries undergoing a deficit, headed by India, Turkey and South Africa, are in a state of increased risk.

Europe, the economy of which is getting incrementally better, is also troubled by the implications of the interest rate increases. As price indices in the continent continue to drop, the European Central Bank is considering a number of steps to reduce the price of money, including lowering interest rates to under 0.5% new rounds of loans to banks (LTRO) and negative interest on deposits. In more continental news, Angela Merkel was elected to an additional term. In many ways her election constitutes affirmation of the pragmatic line held by the German government, with bankruptcies of Eurozone countries still on the table. In terms of financial data, this still indicate stabilization of peripheral nations, and moderate growth in core countries. At the same, severe credit conditions in peripheral countries are expected to limit improvement, and growth next year is expected to amount to just 1%.

In 2012 and 2013 the global growth rate is expected to grow by 2.9% and 3.6%, respectively.
Global inflation rates are expected to remain low, in spite of the expansive monetary policy employed by many central banks. Interest rates in leading economies remained low. To this we may add the drop in commodity prices due to the slowdown in demand in emerging markets, with emphasis on China. The markets are not pricing an interest rate increase for the coming year by any of the central banks of the large developed countries.

U.S.A.

Q3 macroeconomic data was mixed, with a continuation of a moderate rate of recovery, and growth expected to reach 2% (in yearly terms). The employment market continued to present mixed data and a drop occurred in consumer confidence, in retail sales and in the sale of sustainable products on one hand. The real estate sector and the acquisition managers' index, with an emphasis on the manufacturing sector, remained positive on the other.

U.S. Department of Labor data indicate that an additional decrease occurred in unemployment rates, to 7.2%, compared to 7.4% at the end of the previous quarter, constituting 11.7 million unemployed. This and more, the participation rate in the labor market dropped to its lowest rate since 1978 – 63.2%. The average unemployment time climbed to 36.9 weeks, and the number of chronically unemployed (over 27 weeks) was 36.9%. 7.1 million workers were forced to work part-time. Furthermore, the U.S. economy has difficulty creating new jobs, with 154,000 new jobs on average being added per month in the third quarter.

The price indices continue to indicate a lack of inflationary pressure, in spite of the continued expansionary monetary policy. The Consumer Price Index was 1.2% at the end of the quarter, and the core CPI (after deducting energy and food prices) was 1.7%.

The Fed, based on these two elements, decided to continue assisting the economy by purchasing government debentures at $40 million and mortgage-backed debentures to the sum of $45 million per month. The markets estimate that the Fed will only start reducing its debenture purchases in March 2014. As a result, yields on debentures continued to drop and 10-year government bonds were traded at 2.61% at the end of the quarter, compared to levels approaching 3% during the course of the quarter. The low interest rates continue to support the real estate market, through interest on mortgages, and it seems as though so long as the job creation rates doesn't continue to increase, offsetting the negative impact of the increased interest rate, and so long as inflationary pressure is not evident, the Fed will continue with its expansionary policy. In the meantime, stock markets set new records following the Fed's decision to provide the economy with money: the S&P Index listed a 4.69% increase in the third quarter, while the NASDAQ jumped by 10.82%.

Looking toward the fourth quarter and next year, it seems as though the continuation of the strength shown by the real estate market, alongside the increase in overseas demand and the positive corporate sentiment, as evident in the acquisitions managers' index, are expected to support the recovery and lead to improvements in the labor market as well. Additional support is expected to come from the increase in household wealth, easier credit terms and the willingness to lend. Accordingly, as noted above, the Fed is expected to withdraw from its expansionary monetary policy toward the end of the first quarter of next year.

The Eurozone

The situation in Europe continues to pose a central risk to global growth. The European Central Bank (ECB) updated its growth data slightly upward, predicting negative growth rates (but slightly better than the last forecast) in 2013 and positive growth rates in 2014. According to the official data of the European Central Bureau of Statistics, the EU economy shrunk by 0.4% in 2013, and is expected to grow by 1.0% in 2013 (according to early forecasts).

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. In addition, the goal of imposing sober bank unification in the continent, supports conservative bank policies in issuing private and business credit.

The Zone was carefully optimistic, with encouraging data listed in the manufacturing sector and in private consumption over the course of the third quarter. 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 Q3 reached 12.2%, the highest rate since its establishment, with a youth unemployment rate (under 25) of 24.1%. Particularly evident are the unemployment levels in Spain, which reached 26% at the end of the quarter. The lack of a significant improvement in the labor market, which influences both demand and the state's tax revenues, continues to make repeated growth difficult for Eurozone members.

Inflation in the EU continues to be low, and reached 0.7% in September 2013 (over the past 12 months). Such a low inflation rate was last seen in late 2009, when the Zone was undergoing a severe crisis and surging unemployment rates. In light of the accumulation of mixed macro data that did not clearly support the departure of Eurozone states from the crisis, the ECB maintained its interest rates at a low level of 0.5%, and indicated that it may make additional depreciations in the near future.

The Israeli Economy

According to data from the Central Bureau of Statistics, the GDP will increase by 3.4% in 2013 after a similar increase last year as well as a 4.6% increase in 2011. An examination of GDP by half shows that in the first half of 2013, the GDP increased by 3.3% on a yearly basis after increases of 3.5% in the second half of 2012 and 3.2% in the first half.

According to initial estimates, the import of goods and services dropped by 1.8% in 2013, so that total resources at the market's disposal (GDP and imports) increased by 2.1%, after a 3.1% increase last year and a 6.1% increase in 2011. Details of use of resources indicates a 4% increase in private consumption expenses, after a 3.2% increase last year and 3.8% in 2011. In addition, public consumption expenses will increase by 2.3% in 2013, following a 3.2% increase last year as well as a 2.5% increase in 2011.

According to the Tank of Israel, the GDP is expected to increase by 3.6% in 2013. After deducting the influence of the natural gas from the Tamar reservoir on the measurement of the GDP, growth is expected to amount to 2.6%. The projected growth in GDP for 2013 is slightly lower than the previous projection (from late June) which amounted to 3.8%. The amortization largely derives from the moderation in the growth rate of public consumption in 2013. In the previous projection (from June), the prediction was that the government would exceed its total expenses for 2013 by 6.5 billion NIS, while now estimates show that the deviation will be lower (around 2 billion NIS), which means a real growth in public consumption of 5% instead of 8.1% in the previous forecast. In addition, contributing to the 2013 growth projections were also the reduction of the global trade forecast and the possible impact on exports (particularly tourism) in the event that geopolitical tensions increase. On the other hand, the change in the definitions of national accounting made by the Central Bureau of Statistics contributed to an increase in the GDP's calculated growth.

Furthermore, according to the Bank of Israel, the inflation rate over the next four quarters ending Q3 2014 will be 1.9%, above the middle of the inflation goal area. Looking at the past four quarters, inflation is expected to remain in the target zone over the course of the coming year. Main elements contributing to the expected inflation rate over the coming four quarters are an increase in housing prices (rental fees) and an increase in oil prices. On the other hand, the significant revaluation occurring in the past three quarters is expected to act to rein in inflation in the near future.

The Construction Industry

Investment in fixed assets (investments in housing and investments by elements of the economy in construction, equipment and transportation) will drop by 0.6% this year according to early projections, compared to a 3.5% increase in 2012 and a 15.7% increase in 2011. In the first half of 2013, the weight of investment in construction dropped to 9.2% of the GDP (preliminary data), compared to 9.9% in the same quarter last year. This rate increased in 2005-2012 (fluctuating) from 7.5% to 9%, but at the same time, the weight of the industry out of the GDP is lower compared to the beginning of the previous decade, 10.1% in 2000.

A real 3.1% drop occurred in the scope of investments in the construction industry in the first half of 2013 compared to the same quarter last year, with investments in this half amounting to 49.1 billion NIS. In current values (101 billion NIS for all of 2012). This decrease occurred after continuous increases since 2006, and expresses a slight drop both in residential and in non-residential construction.

In September 2013 the number of new apartments wanted was 2,870 units, of which 1,700 new apartments were sold to the general public and 1,170 apartments were not for sale (for the own use of the land owner, purchase groups, rental and more). This can be seen in previous data on construction start surveys and a survey of new apartments under construction via private initiative. In January-September 2013, 48% of the required amount of new apartments (new apartments sold and apartments not for sale) were built on privately-owned land. The amount of new apartments needed in these months was 3.5% higher than the same months in 2012.
Study of trend data regarding the amounts of new apartments wanted in recent years indicates an increase (with fluctuations) from 2,600 apartments a month in 2008 to 3,500 apartments in late 2010 and in the beginning of 2011. A decrease was evident over the course of 2011, but starting September 2012 an increase was also listed to 3,500 apartments per month on average and from May to September 2013, 3,700 apartments were listed per month.

In 12 months, June 2012 to May 2013, the real increase in apartment prices amounted to 7.7%. This is compared to a 0.3% decrease on the 12 months prior to August 2012. The price rate increase is high, but has stabilized in recent months. This rate is low compared to mid-2010, when the real 12-month price increase rate was 17%. The renewed increase in apartment prices, evident in July 2012, was stopped in recent months, as noted above. The increase in apartment prices was influence, among other things, by a certain drop in supply in 2012 and in particular by an ongoing drop, since October 2011, in Bank of Israel interest rates, which influenced the increase in apartment demand. A nominal increase of 9.3% occurred in these months. The final data, published August 15 2013 and referring to May-June 2013, indicates an increase of 0.5% compared to the April-May average.

The balance of the housing debt out of total household debt increased by 2.4 billion NIS in August and amounted to 283.5 billion NIS in late May. In addition, the rate of housing debt out of total household debt amounted to 70.48% in late August 2013.

The latest Construction Input Prices Index published in October 2013 indicates a 1.6% increase in the preceding 12 months (October 2012 – September 2013) as well as an increase of 1.25% from the start of the year.

Residential Construction Investments

Investment in residential construction amounted to 61.8 billion NIS in all of 2012, a real 5.4% increase over the previous year and a 64% increase from 2006. The weight of public construction increased to 7.1% of total residential construction investments in the second quarter of 2013. This rate has been increasing constantly since a low point of 5.6% in 2010. The increase in the weight of publicly-initiated construction since 2011, derives from the increase in the rate and weight of construction starts in this initiative from construction starts in the Israeli economy.

Non-Residential Construction

In the first half of 2013, the scope the investment in non-residential construction amounted to 17.7 billion NIS in current values, a real drop of 5.8% compared to the corresponding half last year. In 2012 investments in nonresidential construction amounted to 40 billion NIS. This is a real 6.2% increase over 2011 and 22% increase over 2006 The increase in this framework constitutes a continuation of a trend for 2010 and 2011, albeit at a lower rate. The increase in non-residential construction in 2012 was influenced by a number of factors, including:

1. Additional projects in the field of water desalination.
2. An increase in investment in Israel Railways
3. Netivei Israel projects.
4. Increased in investments in natural gas and oil lines.

Apartments Not for Sale

The number of apartments not for sale (apartments built for own use, purchase groups, rental and more) was 9.2% lower compared to January-September 2012. The share of construction not for sale out of the total wanted amount of new apartments, ranged between 76% in the Northern District and 25% in the Central. Of all apartments not for sale whose construction has started via [private initiative, 2,420 (19%) were constructed in purchasing groups, compared to 2,240 (16%) in the corresponding period in 2011 (an 8% increase). Privately-initiated construction: 50% of new apartments not for sale are built by purchase groups in the Jerusalem District, 48% in the Tel Aviv District, 22% in the Central District, 12% in the Haifa District and 10% in the Southern District.

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

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending September 30 2013

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, paid October 3 2013.

On November 27 2013 the Company's Board of Directors decided to distribute dividends to the amount of 80 million NIS, to be paid on January 6 2014.

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 4c to the Company’s 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. The franchise agreement was signed on September 30 2013

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

Sale of Derech Eretz Transaction

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 listed a profit of 63 million NIS in its financial statements from the sale in the third quarter of the year.

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

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

On July 5 2013 Shikun & Binui Real Estate Ltd. held a sales conference, in which it offered residential apartments for sale in the Rosh Ha’ayin Dreams project it is developing. Up to and as part of the conference the subsidiary received registration requests subject to the signing of an agreement for the purchase of all of the apartments it offered in the project. The total proceeds expected from the sale of the residential apartments in question amounts to a total of 252 million NIS (including VAT), and is expected to be received by the subsidiary over the course of 2013-2015, in accordance with the 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, through investees treated according to the book value method (hereinafter: “Giltz”). After the new law was passed, drafts of additional new laws were published, the goal of which is to define the mechanisms and parameters for the calculation of the components of the proceeds in accordance with the new law.

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

As the Spanish legislation has not yet been completed and components exist that are still unknown as of this stage, the value assessment of the Spanish parks and the impairment provision was based on a bill that has yet to be approved, and based on assumptions that may undergo significant changes. Near the approval date of the Financial Statements, the Spanish government announced its intention to change the bills relied upon in the value assessments with new bills that have yet to be published and no new information has been yet delivered on them. As of the approval of these Financial Statements, new drafts of the law have yet to be published, the value assessment is based on up-to-date estimates existing as of the approval of these Financial Statements, based on drafts published as they were before the announcement of their replacement. As management’s estimates involve uncertainty, Company management estimates that upon the completion of legislation and the revision of the cash forecast, as required, changes that may occur, which may be material, to the sum of the amortization calculated as noted above. Note that as of September 30 2013, after listing an impairment provision and the Company’s share of the losses, as noted, the total investment in Giltz amounts to 101 million NIS.

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.

Issuance of Debentures

On September 3 2013 the Company issued Series 6 and 7 debentures totaling 412 million NIS, net after issuing costs. For further details see Note 4h to the Financial Statements.

Granting of Blocked Shares

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

Furthermore, after the report date, on October 30 2013, the Company Board of Directors decided to grant up to 4,987,458 units of blocked shares to Company employees and executives.
For further details see Note 4i to the Financial Statements.

The Stanham Transaction.

On October 28 2013 a transaction was completed between ADO and corporations from the Stanham Group (together: Stanham) in which ADO purchased shares in Stanham companies holding 48 cash-generating real estate properties in Berlin and additional properties in return for cash and the issue of ADO shares. Following the completion of the transaction, the Company's stake in ADO dropped and amounts to 37.38% of ADO's stock capital. The Company will be listing a profit of 10 million NIS in its Yearly Financial Statements for transaction. For further details see Note 5a to the Financial Statements.

The Elkon Transaction.

On October 29 2013 an agreement was signed between Shikun & Binui water Ltd. and third parties for the purchase a 30% stake in Elkon Recycling Center (2003) Ltd. and Shikun & Binui Water Ltd. was given options to purchase additional shares in Elkon, including an option to purchase the full balance of the shares in Elkon. The options in question may only be exercised one year from the completion of the transaction, and in addition, the current Elkon shareholders were given an option to compel Shikun & Binui Water to purchase from them the balance of the shares in their possession. Elkon deals in the provision of services for the treatment of industrial waste considered hazardous material for industrial companies in Israel, and intends to expand this activity abroad as well; for further details see Note 5b to the Financial Statements.

Debenture Replacement

On November 5 2013 the Company carried out a swap purchase agreement in which 245 million NV Series 2 debentures and 503 million NV Series 4 debentures were replaced by 919 million NV Series 6 debentures, and 124 million NV Series 3 debentures were replaced by 135 million NV Series 7 debentures. On November 12 2013 an additional 19 million NV Series 2 Debentures were replaced by 24 million NV series 6 debentures. For further details see Note 4h to the Financial Statements.

2. Results of Business Activity

The following is concise data regarding business activity results.

	For the Nine Month Period Ending September 30		For the Three Month Period Ending September 30	
	2013	2012	2013	2012
	Millions of NIS		Millions of NIS	
Revenues from works and sales	4,665	4,700	1,289	1,371
Cost of works performed and sales	3,832	3,773	1,078	1,129
Gross Profit	833	927	211	242
Proceeds from the sale of investment property	12	5	12	-
Sales and marketing expenses	(27)	(25)	(11)	(6)
General and administrative expenses	(252)	(247)	(84)	(80)
Other revenues (expenses), net	116	(9)	61	(14)
Operating earnings	682	651	189	142
Financing costs, net	(154)	(125)	(59)	(43)
Company's share of losses of affiliates	(73)	(23)	(45)	(10)
Profit before taxes on income	455	503	85	89
Taxes on income	(144)	(136)	(26)	(19)
Profit for the period	311	367	59	70

Shikun & Binui's operating segments are:

- Infrastructure and construction abroad – 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 abroad – carried out via Shikun & Binui Real Estate Development B.V. and the A.D.O. Group Ltd.
- Renewable Energy – carried out via Shikun & Binui Renewable Energy Ltd.
- Water – carried out via Shikun & Binui Water Ltd.
- Concession activity – includes concession activity in Israel, carried out directly and through 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 the Company's core business.

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

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending September 30 2013

a. **Revenues from Works and Sales**

	For the Nine Month Period Ending September 30		For the Three Month Period Ending September 30	
	2013	2012	2013	2012
	Millions of NIS		Millions of NIS	
Infrastructure and construction abroad	2,158	2,477	657	729
Infrastructure and construction in Israel	1,420	1,351	468	434
Israeli real estate ventures	1,024	870	184	228
Foreign real estate ventures	10	12	3	7
Renewable energy	207	88	24	27
Water	30	29	11	12
Concessions	99	106	17	23
Adjustments	(283)	(233)	(75)	(89)
Total consolidated	4,665	4,700	1,289	1,371

Revenues from works and sales in the first nine months of 2013 amounted to a total of 4,665 million NIS compared to a total of 4,700 million NIS in the corresponding period last year, a 35 million NIS decrease relative to the corresponding period last year. The main changes that occurred in the first nine months of the year compared to the same period last year are as follows: the foreign infrastructure and construction segment saw a 319 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 (123 million NIS) derives from the fact that the average exchange rate of the USD during the first nine 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 69 million NIS increase, primarily as a result of the performance of the Roads and Infrastructure Division. Furthermore, the Israeli real estate ventures segment noted a 154 million NIS increase. The increase in revenues in this segment relative to last year largely derives from a listed income from the sale of non-residential projects (a total of 113 million NIS) as a result of 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 Gimmel. In addition, an increase was listed in revenues from works on the Tel Aviv Student Dormitories project relative to last year (a 72 million NIS increase). Opposing that was an offset in revenues in this segment from revenues from the sale of residential apartments, which dropped by 22 million NIS relative to last year. In the Israeli 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 475 apartment occupations in the first nine months of the year compared to 451 apartment occupations in the corresponding period last year. However at an average price per housing unit, lower than last year, in addition, a 119 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 third quarter of the year decreased by 82 million NIS relative to the same quarter last year, amounting to 1,289 million NIS – a 6% decrease. The key changes compared to the corresponding period last year are as follows: a 72 million NIS decrease occurred in the foreign infrastructure and construction segment. The entire decrease in revenues from this segment compared to last year (72 million NIS) derives from the fact that the average exchange rate of the USD during the third quarter of the year decreased relative to its average exchange rate in the corresponding quarter last year. A 44 million NIS decrease occurred in the Israeli real estate ventures segment, largely deriving from the fact that the Company occupied 73 apartments in the third quarter of the year compared to 97 apartments in the corresponding quarter last year. On the other hand, the Israeli infrastructure and construction segment listed a 34 million NIS increase mainly due to increased performance by the Roads and Infrastructure Division).

b. **Gross Profits**

	For the Nine Month Period Ending September 30		For the Three Month Period Ending September 30	
	2013	2012	2013	2012
	Millions of NIS		Millions of NIS	
Infrastructure and construction abroad	434	482	142	123
Infrastructure and construction in Israel	85	85	27	26
Israeli real estate ventures	259	358	33	99
Foreign real estate ventures	(1)	(14)	-	(13)
Renewable energy	42	12	5	5
Water	(4)	1	(2)	1
Concessions	13	(4)	6	(1)
Adjustments	5	7	-	2
Total consolidated	833	927	211	242

Gross profits in the first nine months of the year amounted to a total of 833 million NIS compared to a total of 927 million NIS in the corresponding period last year. The gross profit rate in the first nine months of the year amounted to 17.8% compared to 19.7% in the corresponding period last year. The 94 million NIS drop in gross profits in the first nine months of the year compared to the same period last year largely derives from a 99 million NIS drop was noted in Israeli real estate ventures following a drop in gross profits from the sale of housing units in projects deriving from a drop in the average gross profit per housing unit occupied in the first nine 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). In addition, a drop was listed in gross profits in the overseas infrastructure and construction segment (48 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. 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 31 million NIS decrease in gross profits in the third quarter of the year compared to the corresponding period last year mostly derives from the Israeli real estate ventures segment (a total of 66 million NIS), partially offset by an increase in gross profits in the overseas real estate ventures segment (a total of 19 million NIS) and an increase on gross profits in the overseas infrastructure and construction segment (a total of 13 million NIS).

c. Administrative and General Expenses

Administrative and general expenses in the first nine months of the year amounted to a total of 252 million NIS, a 5 million NIS increase compared to the corresponding period last year (a total of 247 million NIS).

Administrative and general costs amounted to 84 million NIS in the third quarter of the year compared to a total of 80 million NIS in the corresponding quarter.

d. Other Operating Revenues (Expenses), Net

These revenues amounted to 116.3 million NIS in the first nine months of the year compared to net expenses of 9.3 million NIS in the corresponding period last year. The following are details of the key revenues and expenses included in this item:

	For the Nine Month Period Ending September 30		For the Three Month Period Ending September 30	
	2013	2012	2013	2012
	Millions of NIS		Millions of NIS	
Capital gain from the sale of affiliated companies	**(1)** 71.4	0.4	71.1	-
Profit from the revaluation of investment in affiliate	-	**(2)** 12.0	-	-
Profit from the cancellation of a sales transaction	**(3)** 54.8	-	-	-
Capital gain from the sale of fixed assets	1.9	0.6	1.2	0.8
Profit from increase in value (loss from the impairment) of assets, net	**(4)** (20.8)	0.5	(6.8)	-
Profit (loss) due to balances the realization of which is in doubt, net	**(5)** 2.6	(7.2)	(4.8)	(7.2)
Others, net	6.4	(15.6)	-	(7.2)
	116.3	(9.3)	60.7	(13.6)

(1) Including earnings from the sale of investment in Derech Eretz to the sum of 63.3 million NIS (see also Note 4e to the Financial Statements) as well as a total of 8.1 million NIS from the sale of other affiliates.

(2) The revaluation profit in the corresponding period last year 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.

(3) 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 4a to the Financial Statements).

(4) Includes 4.3 million NIS from the impairment of real estate in Hungary and 16.6 million NIS from the impairment of a franchise for the operation, maintenance, improvement and development of the Pardes Hanna Karkur Regional Council water system, carried out due to ongoing losses in this activity, included under intangible assets. The balance of the intangible asset after the provision in question amounts to a total of 2.5 million NIS.

(5) 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 a 4.8 million NIS provision due to a debt the realization of which is doubtful and less an 11 million NIS provision 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 Nine Month Period Ending June 30		For the Three-Month Period Ending June 30	
	2013	2012	2013	2012
Infrastructure and construction abroad	329	370	112	84
Infrastructure and construction in Israel	41	31	11	8
Israeli real estate ventures	263	290	30	82
Foreign real estate ventures	(11)	(8)	(4)	(18)
Renewable energy	17	(13)	(4)	(3)
Water	(31)	(8)	(11)	(2)
Concessions	5	(6)	4	(1)
Others	3	(2)	-	(1)
Adjustments	100	106	26	29
Total by operating segments	716	760	164	178
Segment-wide revenues (expenses)	(34)	(109)	25	(36)
Total operating earnings	682	651	189	142

Operational profits in the first nine months of 2013 amounted to 681 million NIS, a 30 million increase over the corresponding period last year. The increase largely derives from capital gains from the sale of the investment in Derech Eretz to the sum of 63 million NIS, which contributed to a decrease in segment-wide results compared to last year. In addition, an increase in operating profits was listed in the renewable energy segment (30 million NIS), mainly due to the increase in total gross earnings in this segment compared to the corresponding period last year. On the other hand, a drop was listed in operating profits in the overseas infrastructure and construction segment (41 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, 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 was listed in operating profits in the water segment (23 million NIS) mainly due to an impairment provision listed due to an operation, maintenance and development franchise of the Pardes Hanna Karkur Local Council, a drop in operating profits in the Israeli Real Estate Ventures segment (27 million NIS) as a result of a 99 million NIS drop in gross profits as noted in b. above partially offset following a profit of 55 million NIS listed following the cancellation of a sales agreement signed with the City of Ramat Gan in 2001, as noted in d. above.

Operational profits in the third quarter of the year amounted to a total of 189 million NIS compared to a total of 143 million NIS in the corresponding quarter last year. Most of the change derives from 63 million NIS in capital gains from the sale of the investment in Derech Eretz, which contributed to the drop in segment-wide expenses compared to last year and a 28 million NIS increase in the overseas infrastructure and construction segment, which was offset by a 52 million NIS drop in the Israeli real estate ventures segment.

f. Financing Costs, Net

Net financing costs in the first nine months of 2013 amounted to a total of 154 million NIS compared to a total of 125 million NIS in the corresponding period last year. Financing costs referring to long-term credit in the first nine months of the year amounted to a total of 276 million NIS compared to a total of 263 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 2.00% increase was listed in the first nine months of the year compared to 2.12% in the corresponding period last year, and therefore, a decrease was noted in credit linkage costs (a total of 4 million NIS). On the other hand, an increase was listed in interest expenses on long-term credit (a total of 17 million NIS) due to the increase in credit volume. Furthermore, a 15 million NIS decrease was listed in financing revenues from loans given affiliates, mainly as a result of the sale of the investment in Derech Eretz.

Net financing expenses in the third quarter of the year amounted to a total of 59 million NIS compared to 43 million NIS in the corresponding quarter last year. A 15 million NIS increase was listed in the third quarter of the year in financing costs due to long-term credit deriving both from an increase in the CPI increase rate (1.29% in the third quarter of the year compared to 0.85% in the corresponding quarter last year) and as a result of an increase in the volume of credit. Additionally, a 15 million NIS decrease was listed in financing revenues from loans given affiliates, mainly as a result of the sale of the investment in Derech Eretz. On the other hand, a 7 million NIS increase was listed in financing expenses deriving from changes in exchange rates.

g. Taxes on Income

Tax expenses amounted to 144 million NIS in the first nine months of 2013 compared to 136 million NIS in the corresponding period last year. Tax expenses abroad increased by 18 million NIS relative to the corresponding period last year, while on the other hand, Israeli tax expenses decreased by 10 million NIS compared to the corresponding period last year, as a result of the decrease in profits in the Israeli real estate ventures segment.

Tax expenses amounted to 26 million NIS in the third quarter of the year compared to a total of 19 million NIS in the corresponding quarter.

h. Losses of Investees, Net

The Company's share in the expenses of investees the first nine months of 2013 amounted to a loss of 73 million NIS compared to a loss of 23 million NIS listed in the corresponding period last year. The 47 million NIS change largely derives for losses listed in the statements of an affiliate holding solar parks operating in Spain, as a result of a 35 million NIS impairment provision listed due to the introduction of new legislation in Spain that influences the payment of a new rate for power sold by solar parks (see also Note 41f to the Financial Statements). In addition, 11 million NIS in losses were listed, largely 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).

The Company's share of the results of investees in the third quarter of the year amounted to a loss of 45 million NIS, compared to a 10 million NIS loss in the same quarter last year. The change primarily derives from the losses of an affiliate operating in Spain as noted above.

i. Earnings for the Period

Earnings for the first nine months of 2013 decreased by 56 million NIS compared to the corresponding period last year, amounting to 311 million NIS compared to 367 million NIS.

Profits in the third quarter of the year amounted to a total of 59 million NIS compared 70 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 September 30 2013 amounts to 10.4 billion NIS, of which 8.1 billion NIS ($2.3 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 nine months of the year the Company (the Company's share – not including the share of partners in joint projects) sold 724 housing units in Israel in return for 923 million NIS compared to 554 housing units in return for 794 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)
1-9/2013	724	923	1,275
7-9/2013	321	385	1,199
1-9/2012	554	794	1,433
7-9/2012	236	343	1,453

Over the course of October 2013 the Company sold 63 housing units in return for 80 million NIS.

5. Liquidity and Financing Sources

- The net cash flow deriving from profits and adjustments to profits amounted to a total of 782 million NIS compared to a total of 801 million NIS in the corresponding period last year. The cash flow deriving from current activity in the first nine months of 2013 amounted to 359 million NIS, compared to a total of 22 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 deriving from investment activity in the first nine months of 2013 amounted to 584 million NIS, compared to a total of 192 million NIS used for investment activity in the corresponding period last year. The key differences compared to the same period last year in cash

flows deriving from investment activity largely derives from the payment received as part of the Derech Eretz sales transaction. For further details see Note 4e to the Financial Statements.

- The cash flow used for financing activity in the first nine months of 2013 amounted to a total of 472 million NIS compared to 29 million NIS in the corresponding period last year. In the first nine months of 2013 the Company redeemed loans to the amount of 730 million NIS, redeemed debentures to the amount of 587 million NIS and paid interest to the amount of 206 million NIS. On the other hand, the Company raised 758 million NIS in loans and issued debentures to the amount of 412 million NIS. On the other hand, in the corresponding period last year, the Company redeemed loans to the amount of 292 million NIS, redeemed debentures to the amount of 177 million NIS and paid interest to the amount of 215 million NIS. Versus that, the Company raised 413 million NIS in loans and issued debentures to the amount of 387 million NIS last year.

The Company's working capital as of September 30 2013 amounted to 1,588 million NIS compared to 848 million NIS at the end of 2012. The Company has balances of cash and cash equivalents to the amount of 1,905 million NIS and unused credit frameworks to the amount of 1,277 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	14	902	147	(1,035)
Infrastructure and construction in Israel	-	246	29	(275)
Israeli real estate ventures	1,045	51	319	675
Foreign real estate ventures	182	16	4	162
Renewable energy	174	35	(*) 21	118
Water	10	-	4	6
Concessions	468	1	106	361
Company HQ	3,551	653	-	2,898
Others	2	1	-	1
Total consolidated	5,446	1,905	630	2,911

(*) After neutralizing receivables due to projects underway.

a. Equity

The Company's equity as of September 30 2013 amounts to 1,183 million NIS, compared to 1,139 million NIS on December 31 2012. The increase in equity largely derives from profits in the first nine months of 2013 (totaling 311 million NIS). This increase was partially offset by dividends to the amount of 167 million NIS declared for shareholders, and by adjustments from the translation of the Financial Statements of overseas subsidiaries largely prepared in USD and in EUR (to the amount of 103 million NIS).

b. Current Assets

Total current assets held by the Company amount to 5,951 million NIS as of September 30 2013. The balance of current assets increased by 218 million NIS in the first nine months of the year, compared to the end of the previous year. The primary changes are as flows: a 427 million increase was listed in the cash balance, 284 million NIS of which originated in Israeli activity and 143 million NIS from overseas activity. The increase in cash balances in Israel derives, among other things, from the sale of the investment in Derech Eretz (a total of 683 million NIS) from the issue of Series 6 and 7 debentures (412 million NIS) offset by debenture redemptions (586 million NIS) and redemptions of short-term credit (212 million NIS). A 40 million NIS increase was listed in the balance of customer revenues receivable, 64 million NIS from the Israeli infrastructure and construction segment, offset by a 24 million decrease in the balance of customers and work orders abroad. Subsequent to the reported date and by the end of October 2013, the Company received 327 million NIS from overseas customers. Furthermore, a 24 million NIS increase was listed in the balance of other receivables mainly due to the payment of advance payments to suppliers for the purchase of materials for projects in Israel, and a 6 million increase was listed in current tax assets (2 million NIS from activity in Israel and 4 million NIS from activity abroad). On the other hand, a 152 million NIS decrease occurred in the balance of deposits in bank corporations, which were mostly used to redeem credit from banking corporations. A 52 million NIS decrease was listed in the balance of the inventory of buildings for sale, primarily due to the delivery of apartments (531 million NIS), realization of one half of the rights to the Seventh Avenue Mall in Beersheba and classifying the balance of the rights in the mall under investment real estate (148 million NIS). On the other hand, 472 million NIS were listed in investments (mainly in the Hadera Dreams, Shmura Cliffs, Hod Hasharon Dreams and Talmei Menashe Dreams projects), and lands totaling 109 million NIS were transferred to the inventory of buildings for sale (mainly in Rosh Ha'ayin and Tzur Yitzhak). 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. In addition, a 37 million decrease was listed in raw materials inventory (a 36 million NIS decrease from activity abroad and a 1 million NIS increase from activity in Israel). Furthermore, a 17 million NIS decrease occurred in the balance of loans and short-term investments deriving both from the decrease in current maturities of loans given (10 million NIS) and from redemptions (a total of 7 million NIS).

c. <u>Non-Current Assets</u>

The Company's long-term investments amount to 4,676 million NIS, a 188 million NIS decrease over the end of the previous year. The key changes are as follows: a 434 million NIS decrease in the balance of loans to investees (403 million NIS deriving from the sale of the investment in Derech Eretz Highways (1997) Ltd.; see also Note 4 to the Financial Statements). In addition, a 19 million NIS decrease was listed in this section deriving from the redemption and classification to maturities of loans to investees. Furthermore A 233 million NIS decrease was listed in the balance of investments in investees, with 212 million NIS deriving from the sale of Derech Eretz Highways (1997) Ltd., as noted above, and an additional 35 million NIS originating from the impairment provision listed in the statements of a Spanish affiliate holding solar parks (for more details see Note 4f to the Financial Statements). A 57 million decrease was listed in the balance of land (11 million NIS abroad and 46 million originating from activity in Israel). Most of the decrease in the balance of lands abroad derives from the translation adjustments of the financial statements of a foreign subsidiary prepared in EUR (a total of 10 million NIS). Regarding land in Israel, most of the decrease derives from the cancellation of a sales agreement between a subsidiary and the City of Ramat Gan (see 2.d.2 above – a 65 million NIS decrease) and in addition, land to the sum of 109 million NIS in projects for which construction had started in Tzur Yitzhak and Rehovot was moved to current inventory. O the other hand, development costs and other payments were paid totaling 130 million NIS, mostly due to lands in Petach Tikva, Rosh Ha'ayin and Tirat Hacarmel. In addition, a 37 million NIS decrease was listed in the balance of fixed assets (a 39 million NIS decrease abroad, and a 2 million NIS increase in from Israeli activity), with a 9 million NIS decrease in the valance of deferred tax assets due to Israeli activity. On the other hand, a 166 million NIS increase was listed in receivables due to concession arrangements following the progress of works in the Northern Lanes Project (65 million NIS) and following progress in the Tel Aviv student dormitory project (101 million NIS). A 245 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 172 million NIS) and from an increase in long-term pledged deposits abroad amounting to 70 million NIS. In addition, a 189 million NIS increase was listed in the balance of investment property, with most of the change deriving from the payment of fees and excises, due to investments in the construction of the Ikea compound in Kiryat Atta (122 million NIS) and from the classification of one half of the rights to the Seventh Avenue Mall in Beersheba, 74 million NIS from current assets to investment property. On the other hand, a 4 million NIS impairment provision was listed due to investment property abroad.

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

Current liabilities decreased by 454 million NIS in the first nine months of the year, compared to the end of 2012, amounting to 4,363 million NIS. The main changes are a 528 million NIS decrease in short-term credit from banking corporations and others deriving largely as a result of the repayment of short-term credit (a total of 212 million NIS) and from the drop in scope of current maturities of long-term credit (a total of 328 million NIS), a 157 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 (71 million NIS) and projects in Israel (a 86 million NIS increase mainly due to advance payments received for a BOT project – the Tel Aviv Courthouse and the Trans-Israel Highway). In addition, an 81 million NIS decrease was listed in payables and credit balances, a 20 million NIS drop in short-term employee benefits, a 7 million NIS drop in the balance of current tax liabilities (a 11 million NIS decrease abroad, offset by a 4 million NIS increase in from Israeli activity), and a 8 million NIS decrease in the balance of provisions. On the other hand, a 153 million NIS increase was listed in subcontractors, suppliers and service providers (48 million NIS of which deriving from works abroad), a 135 million NIS increase in the balance of advance payments from apartment buyers, net, after deducting advance payments from apartment buyers charged to gain/loss to the sum of 750 million NIS primarily due to the population of projects such as Ramat Rachel, Talmei Menashe, Rehovot Dreams, Netanya - Kiryat Hasharon, and Hod Hashalom Dreams. A 59 million NIS increase was listed in dividends payable to shareholders paid subsequent to the report date.

e. Non-Current Liabilities

The main component of this item are the debentures and obligations to banking corporations and others, amounting to 4,782 million NIS as of September 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 nine months of the year (a total of 1,105 million NIS). On the other hand, the Company raised additional credit from banking corporations in the first nine months of the year (a total of 1,170 million NIS), and current maturities of long-term loans were classified to current liabilities (a total of 328 million NIS).

Total other liabilities (due to employee benefits, deferred taxes, long-term provisions and a surplus of losses accumulated in affiliates) amount to 300 million NIS, a drop of 6 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 on the date of issue	1,000,000,000 NIS
The balance of notational value in circulation as of September 30 2013	300,000,000 NIS (in March 2010 a total of 400,000,000 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):	364,028,000 NIS
Linked interest	5.2%
Sum of interest accrued as of September 30 2013	8,518,000 NIS
Market value of 1 NIS NV as of September 30 2013	1.3045
Fair value as of September 30 2013	391,157,000 NIS
Fair value interest	0.32%
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 .4.27.b and 4.27.d to the Company's 2012 Financial Statements.

For further details regarding the replacement of Series 2 debentures subsequent to the report date, see Note 4h to the 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 on the date of issue	200,000,000 NIS
Balance of notational value in circulation as of September 30 2013:	217,440,000 NIS
Interest 7.9% unlinked, sum of interest accumulated as of September 30 2013:	1,384,000 NIS
Market value of 1 NIS NV as of September 30 2012	1.1002
Fair value as of September 30 2013	239,889,000 NIS
Fair value interest	1.96%
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 4.27.c. to the Company's 2012 Financial Statements.

For further details regarding the replacement of Series 3 debentures subsequent to the report date, see Note 4h to the 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 date of issue	492,000,000 NIS
Balance of notational value in circulation as of September 30 2013:	1,169,216,000 NIS`

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

(Linked to the January 2010 Consumer Price Index):	1,277,572,000 NIS
Linked interest	4.8%
Sum of interest accrued as of June 30 2013	3,407,000 NIS
Market value of 1 NIS NV as of September 30 2013	1.2152
Fair value as of September 30 2013	1,441,221,000 NIS
Fair value interest	1.07%
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 4.27.d, 4.27.e and 4.27g to the Company's 2012 Financial Statements.

For further details regarding the replacement of Series 4 debentures subsequent to the report date, see Note 4h to the 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 September 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):	914,422,000 NIS
Linked interest	5.5%
Market value of 1 NIS NV as of September 30 2012	1.2119
Fair value as of September 30 2013	1,117,747,000 NIS
Fair value interest	1.93%
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 4.27.h to the Company's 2012 Financial Statements.

Debentures – Series 6

Date of Issue	September 9 2013
Trustee:	Mishmeret Trust Services Ltd. 46 Menachem Begin Rd. Tel Aviv
NV on issue date: September 9 2013	190,848,000 NIS
Balance of notational value in circulation as of September 30 2013:	190,848,000 NIS
The balance of the notational value in circulation is revalued according to the linkage terms (Linked to the July 2013 Consumer Price Index):	191,222,000 NIS
Linked interest	4.09%
Market value of 1 NIS NV as of September 30 2011:	1.0328.
Fair value as of September 30 2013	211,342,000 NIS
Fair value interest	2.76%
Principal redemption:	10 unequal payments in such a manner that each of the 4 payments paid on April 1 of each of the years from 2016 to 2019 shall be at 4% of the notational value of the debenture principal, each of the 3 payments paid on April 1 of each year from 2020 to 2022 shall be at 8% of the notational value of the debenture principal, and each of the 3 last payments paid on April 1 of each of the years from 2023 to 2025 shall be at 20% of the notational value of the debenture principal.
Interest repayment:	Interest shall be paid on April 1 and October 1 of each of the years from 2014 to 2024 and on April 1 2025. Final repayment date (principal and interest) April 1 2025

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

Subsequent to the report date, on November 5 2013 the Company carried out a swap purchase agreement in which 245 million NV Series 2 debentures and 503 million NV Series 4 debentures were replaced by 919 million NV Series 6 debentures.

On November 12 2013 an additional 19 million NV Series 2 Debentures were replaced by 24 million NV series 6 debentures.

Debentures – Series 7

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending September 30 2013

Date of Issue	September 9 2013 (series expanded on September 29 2013)
Trustee:	Mishmeret Trust Services Company Ltd. 46 Menachem Begin Rd. Tel Aviv
NV on the issue date:	209,148,000,000 NIS.
Balance of notational value in circulation as of September 30 2013:	225,148,000 NIS
Interest 5.98% unlinked, sum of interest accumulated as of September 30 2013:	738,000 NIS
Market value of 1 NIS NV as of September 30 2013:	1.0287
Fair value as of September 30 2013	245,603,000 NIS
Fair value interest	4.67%
Principal redemption:	12 unequal payments in such a manner that each of the 6 payments paid on April 1 of each of the years from 2014 to 2019 shall be at 4% of the notational value of the debenture principal, each of the 3 payments paid on April 1 of each year from 2020 to 2022 shall be at 8% of the notational value of the debenture principal, one payment made on April 1 2023 shall be at 18% of the notational value of the debenture principal and each of the last 2 payments paid on April 1 of each of the years from 2024 to 2025 shall be at 17% of the notational value of the debenture principal.
Interest repayment:	Interest shall be paid on April 1 2013 and October 1 of each of the years from 2014 to 2024 and on April 1 2025. Final repayment date (principal and interest) April 1 2025.

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

Subsequent to the report date, on November 5 2013 the Company carried out a swap purchase agreement in which 124 million NV Series 3 debentures were replaced by 135 million NV Series 7 debentures.

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 September 30 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 September 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		
	Increase of 50%	Increase of 10%	Increase of 5%		Decrease of 5%	10% Decrease	50% Decrease
	In Interest Rate				In Interest Rate		
	Thousands of NIS						
Receivables due to concession arrangements	(97,759)	(21,612)	(11,358)	836,337	11,243	22,791	127,568
Long-term loans granted investees	(20,112)	(4,199)	(2,112)	374,804	2,136	4,299	22,668
Long-term loans received	61,944	12,943	6,508	(1,276,684)	(6,580)	(13,230)	(69,170)
Debentures	135,958	28,306	14,226	(3,650,351)	(14,375)	(28,903)	(150,928)
EUR/NIS forward transaction	(146)	(29)	(14)	9,202	14	29	146
USD/NIS forward transaction	(3)	(1)	-	676	-	1	3
CPI transactions	542	2,042	1,024	1,281	(1,027)	(2,057)	(10,430)
Total	**80,424**	**17,450**	**8,274**	**(3,704,735)**	**(8,589)**	**(17,070)**	**(80,143)**

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	309	155	3,093	(155)	(309)
Other receivables	43	22	432	(22)	(43)
Short-term loans to affiliated companies	859	430	8,592	(430)	(859)
Long-term loans to affiliated companies	8,560	4,280	85,601	(4,280)	(8,560)
EUR/NIS forward transaction	(14,065)	(7,033)	9,202	7,033	14,065
Total	**(4,294)**	**(2,146)**	**106,920**	**2,146**	**4,294**

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	11,626	5,813	116,257	(5,813)	(11,626)
Short-term deposits	559	279	5,588	(279)	(559)
Net customers commissioning work	8,230	4,115	82,298	(4,115)	(8,230)
Other payables	(4)	(2)	(39)	2	4
Total	**20,411**	**10,205**	**204,104**	**(10,205)**	**(20,411)**

Shikun & Binui Ltd.
Report of the Board of Directors on the State of Corporate Affairs
For the Period Ending September 30 2013

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	9,799	4,900	97,992	(4,900)	(9,799)
Customers commissioning work	14,451	7,225	144,508	(7,225)	(14,451)
Other receivables	1,359	679	13,586	(679)	(1,359)
Subcontractors, suppliers and service providers in liabilities	(4,892)	(2,446)	(48,924)	2,446	4,892
Other payables	(1,149)	(574)	(11,485)	574	1,149
Total	**19,568**	**9,784**	**195,677**	**(9,784)**	**(19,568)**

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

	Gain (Loss) from Changes		Book Value	Gain (Loss) from Changes	
	10% increase	5% Increase		5% Decrease	10% Decrease
	In the Rates of Other Currencies vs. the USD			In the Rates of Other Currencies vs. the USD	
	Thousands of NIS				
Cash and cash equivalents	4,891	2,445	48,906	(2,445)	(4,891)
Customers commissioning work	15,014	7,507	150,135	(7,507)	(15,014)
Short-term loans received	(1,428)	(714)	(14,282)	714	1,428
Subcontractors, suppliers and service providers in liabilities	(10,681)	(5,341)	(106,810)	5,341	10,681
Other payables	(166)	(83)	(1,658)	83	166
Total	**7,630**	**3,814**	**76,291**	**(3,814)**	**(7,630)**

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	1,815	605	60,502	(605)	(1,815)
Customers and accounts receivable	149	50	4,965	(50)	(149)
Loans and long-term CPI-linked loans and deposits in assets	736	245	24,542	(245)	(736)
Receivables due to concession arrangements	22,609	7,536	753,642	(7,536)	(22,609)
Long-term loans given investees	9,233	3,078	07,760	(3,078)	(9,233)
Other payables	(3,675)	(1,225)	(122,516)	1,225	3,675
Long-term CPI-linked loans in liabilities	(31,474)	(10,491)	(1,049,146)	10,491	31,474
Linked debentures	(81,498)	(27,166)	(2,716,613)	27,166	81,498
CPI transactions	20,494	6,831	1,281	(6,831)	(20,494)
Total	**(61,611)**	**(20,537)**	**(2,735,583)**	**20,537**	**61,611**

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 September 30 2013 – 3.537.

The sensitivity analyses are based on the euro's representative rate of exchange as of September 30 2013 – 4.7734.

Known CPI (in 2011 terms) – 107.6196

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 Group members 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, with the following steps taken, among others:

- A strategic sustainability management plan was prepared in the Group for the coming years.
- A computerized data system for the collection of environmental data was completed, which allows the collection, management and control of data regarding certain influences at the Group members; fixed sites and the examination and implementation of data collection in existing data systems at Group members in various projects has begun.
- An environmental checklist was prepared, for the use of managers at key decision points.
- The implementation of interested party participation principles in the Group's activities continued.
- Activity to implement sustainable design principles in projects through the variety of planning stages continued.
- The IS 10,000 test for corporate responsibility and its adaptation to the Group's activity was begun.
- Environmental management (IS 14001) and safety (IS 18001) were implemented, at certain Group members, and the other Group companies have begun a process of examining the implementation of these standards.
- Activity took place for the advancement studies and surveys in the fields of green construction and construction material recycling, in order to lead and promote the implementation of these subjects.
- A sustainability kit was prepared for instruction.
- an ethical code was distributed to Group members.
- Writing began of a corporate responsibility report. The report is currently undergoing advanced stages of preparation.

11. Social Involvement and Contribution to the Community

The Group continued its community relations activities, in Israel and around the world, in the first nine months 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 limit 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 nine months of 2013 the Group invested 2,652,000 NIS in contributions in various social and education activities, including: adopting dozens of schools in the ORT network through monetary contributions to various organization projects, among other things building community gardens, financing student projects for community volunteer work with the elderly, enrichment classes, financing coordinators for the advancement of green regulation at schools, financing food, infrastructure and equipment and contributions to 100 non-profits and social organizations.

Beyond its monetary investments, the Group harasses the professional skills, knowledge and capabilities it has acquired over the years in favor of social activity, among other ways through paving, renovation, construction and planning in social and community activities in Israel and around the world. The Group allows its employees to perform volunteer work on the clock. Over the course of the first nine months of 2013, it invested 350 hours of volunteer work by employees.

In addition, on the Good Deeds Day held in March 2013, 280 Company employees in Israel and around the world took part in activities on behalf of the Group at 14 centers of activity. The activities included renovating and painting a maternity ward in an African hospital, renovating orphanages, distributing food in 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 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 Blachar 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.

On November 25 2013 the Company announced the departure of Mr. Shmuel Berkovitz from his position as Company director. His departure shall come into effect starting December 10 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 September 7 2013 a General Meeting of the Company's shareholder convened and ratified the Company's remuneration policy. In addition, the terms of service and employment of the serving Company CEO were approved, including fixed remuneration and associated benefits as well as a yearly bonus and capital remuneration plan and for the approval of the terms of services and employment, which include a yearly bonus and capital remuneration for the serving Chairman of the Company's Board of Directors, Mr. Moshe Lahmany. For further details see also the immediate report regarding the convening of the meeting, and its appendices, published August 7 2013 (ref. no. 2013-01-111138) and an immediate report on the results of the meeting published on September 22 2013 (ref. no. 2013-01-149826).

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 four Board members (who are also members of the Company’s Audit Committee):

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

All members of the Committee posses the ability to read and understand financial statements and most of the committee members are external directors, most of whom have financial and accounting capabilities. For additional 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 meetings of the Finance and Financial Statements Examination Committee on the matter of the approval of the Financial Statements were held on November 21 2013 and November 27 2013. Attending the November 21 2013 meeting were Mr. Joseph Alshech, Shmuel Berkovitz and Mr. Itzhak (Khaki) Harel and Mr. Shalom Simhon. The following senior executives took part in the this meeting – Moshe Lahmany (Chairman), Ofer Kotler (CEO), Amit Segev (Deputy CEO), Tal Raz (CFO), Hezzi Kattan (VP – Legal Counsel), Ronit Rosenzweig (Deputy CFO and Head of Financial Reporting) and Ronit Biran (Internal Auditor). Taking part in the November 27 2013 meeting were Josef Alshech, Ytzhak (Hezzi) Harel, and

Shalom Simhon. The following senior executives took part in the meeting – Ofer Kotler (CEO), Amit Segev (Deputy CEO), Tal Raz, (CFO), Hezzi Kattan (VP and Legal Counsel), Ronit Rosenzweig (Head of Financial Reporting Array and Deputy CFO) 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 met to discuss the Financial Statements on November 24 2013. On November 27 2013 a Board of Directors meeting was held for the approval of the Financial Statements. At these meetings, 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 CEO

November 27 2013