Shikun & Binui Ltd.
Directors' Report on the State of the Company's Affairs
For the Year Ended December 31, 2010

Translated from the Hebrew Original

The Board of Directors of Shikun & Binui Ltd. ("the Company") is honored to present the financial statements of the Company for the period ended December 31, 2010:

1. The Corporation and its business environment

A. General

The Company and its investees ("Shikun & Binui Ltd. Group") operates in Israel and overseas in the industries of roadwork and infrastructure contracting; construction contracting; different areas of the real estate field, including: purchase, design, improvement and development of property; sale of property, with and without buildings; holdings in and rental of income-producing properties; construction contracting; investment and operations in the fields of renewable energy and water treatment, through facilities to improve water and in the concession sector in projects, mainly in the infrastructure sector, as well as other activities that are connected to or complement the Company's aforementioned areas of activity. In all of its areas of activity, the Company operates according to the sustainability approach, which requires the integration of economic, environmental and social considerations in the management and decision-making processes. The Group's human resources policy supports the business strategy, placing as the focus of its activity the assimilating of the Group's vision (sustainability) and its values by all of the Group's employees in Israel and abroad. New and advanced infrastructures were developed for the assimilation of suitable manpower and training them for the purpose of solidifying and strengthening the new organizational culture.

The Group's operations in Israel focus on development of residential and non-residential real estate, contracted construction and infrastructure projects, as well as infrastructure and construction projects financed by the private sector instead of government financing, as well as renewable energy and water treatment projects. Outside of Israel, the Group operates mainly in western countries and in Eastern Africa, Central America and Central and Eastern Europe, engaged primarily in infrastructure contracting, holding and renting income-producing properties and in residential development. Additionally, the Company has investments in the solar industry in Spain.

B. Company areas of activity

The Company's activities are carried out in five areas of activity provided below (through seven operating segments, as provided in Par. 2 of this Report):

- **Infrastructure** – mainly through Shikun & Binui – S.B.I Infrastructures Ltd. and its subsidiaries (outside of Israel) and Shikun & Binui – Solel Boneh (Building and Infrastructure) Ltd. (in Israel).

Shikun & Binui – S.B.I. Infrastructures Ltd. has more than 52 years of experience in infrastructure development overseas, mainly in Africa, Central America, Central Europe and Western Asia. Shikun & Binui – S.B.I. Infrastructures is presently operating in more than ten countries in the fields of roadwork and infrastructure and construction contracting, and is striving to strengthen and expand its operations in these countries. Likewise, based on the know how aggregated in the different countries, the abilities to manage projects it has developed and the long-standing reputation it has acquired, it is working to broaden its geographic dispersal into neighboring countries and new regions. In order to expand its geographic dispersal, in 2009, Shikun & Binui S.B.I. Infrastructures Ltd. adapted its organizational structure and appointed managers for the geographic regions accordingly. At the end of 2010, an agreement took effect for a road construction project in Tanzania, a country in which the Group has not operated until now.

Shikun & Binui – Solel Boneh (Building and Infrastructure) Ltd. ("Solel Boneh") has focused for more than 80 years on civil engineering initiatives, national transportation and infrastructure projects and large scale construction projects. The Company closed year 2008 with its first net income in six years and Solel Boneh also maintained this profitability trend in 2009 and 2010. In addition to its technical abilities, Solel Boneh also has the ability to independently produce temporary components, recycling building waste, cement enterprises and special bridge project and to produce special bridge elements.

The Group's capabilities within and outside of Israel in the field of infrastructure and the management of large projects constitute a basis for expansion of its concession projects, which are large scale projects, especially significant BOT and PFI infrastructure projects.

- **Real estate development in Israel and outside of Israel**

Shikun & Binui Real Estate Ltd., operating in Israel, combines more than 50 years of experience in the construction of residential housing, with the application of advanced architectural design, innovative work methods and stringent international standards, while placing special emphasis on green construction standards, to create a sustainable and progressive living environment. Shikun & Binui Real Estate provides a complete package of products and services that ensure quality of life and a comfortable residential environment. In the last year, it has positioned itself as a leader of the construction industry in Israel, and construction of most of the buildings that has begun since 2009 complies with Israel Green Standard 5281. Shikun & Binui Real Estate is expanding its activities in the key areas of demand, while emphasizing green projects, such as the residential project in eastern Netanya (Pure). Shikun & Binui Real Estate also engages in non-residential real estate activities (commercial and offices), intended, inter alia, to generate rental income. In these activities as well, the Company places special emphasis on compliance with green construction standards, such as the student dormitories at Tel Aviv University (a BOT project), Seventh Avenue in Beer Sheba, an open shopping mall, the seventh in Beer Sheba, and the Ir Yamim Shopping Mall in Netanya (not yet completed), in which the design took into account the relevant social and environmental factors, from the design stage until completion and sale of the project.

Shikun & Binui Real Estate Development B.V. is engaged in Central and Eastern Europe, mainly in Germany, Hungary, Romania, Poland and the Czech Republic in the development of residential and non-residential projects for sale or rental, as well as the purchase and improvement of homes and commercial space designated to generate rental income. As part of the Company's preparations for the global financial conditions, and particularly in the countries in which it operates, the Company has reduced activity in those countries that have not yet recovered from the crisis, and is focused on the stage of designing the various projects and preparing them for operation, if and when market conditions will improve. The Company regularly evaluates business opportunities in those countries that have recovered from the crisis.

- **Concession** – This area includes finance, construction and operation of "mega" projects, mainly in the fields of infrastructure and construction in Israel and overseas. The Company continues to expand its concession activity in Israel and overseas, which the Company's management believes has significant growth potential. The Company's management assesses (even if there is no certainty that this will be realized, especially in view of the present worldwide difficulties in obtaining financing) that the trend of bringing the private sector into large infrastructure projects will continue and grow in the coming years, and that the extensive experience of the Group companies in these fields could facilitate its winning additional tenders in this area.

  The Company's concession activities include construction and operation of the Trans-Israel Highway Project, including the main segment (which was opened for traffic in January 2004), including its expansions and Segment 18 of the highway (which was opened to traffic on July 20, 2009, about eight months ahead of schedule); construction of the Carmel Tunnels (the project was opened to traffic on November 30, 2010, about 5 months ahead of schedule), construction of the water treatment facility in Hadera and its operation, its expansion and operation (the treatment facility was opened on May 16, 2010), renovation and strengthening of roads in the North and construction of the courthouse in Tel

Aviv. Subsequent to the report date, a subsidiary was awarded a tended to build and provide operating, maintenance and training service in the National Center of the Israeli Police and a concession agreement was signed. The Company continues to participate in this type of tender in Israel and abroad.

- **Renewable energy**

In the fields of renewable energy, the Company operates through the subsidiary Shikun & Binui Renewable Energy Ltd., as below:

Solar-thermal production of electricity – Initiation, financing, construction and operation of thermo-solar projects:

1) 120 megawatt project in Kibbutz Tze'elim in the Negev.
2) On February 13, 2011, the Company, together with Siemens, submitted a bid to a tender by the Israeli Government, to finance, build and operate a 110 megawatt thermo-solar project in Ashelim.
3) The Company is developing technological-engineering capabilities in the thermo-solar field.

Production of solar and photo voltaic electricity – initiation, financing, construction and operation of projects for the creation of solar photo voltaic electricity on roofs and land in Israel and overseas. In Israel, the Company operates within the framework of an arrangement to build small and mid-sized facilities. In Spain, the Company has holdings in a company (50%) that owns a photo voltaic farm with capacity of 15 megawatts.

Production of energy based on natural gas –development of a project to produce private electricity based on natural gas in the Ashdod industrial area, a combined cycle, at a capacity of 120 megawatts.

Production of electricity based on conventional energy – production and sale of high voltage electricity to Israel Electric Corporation totaling 26 megawatts, through a power plant in Ashdod operating on heavy crude, which is used as a "peaker" and operates on the basis of availability.

Energy efficiency – The Company has holdings in PowerSines (21%), a company operating in Israel and overseas engaged in reducing demand for electricity through a unique technology.

Water

In the water and sewage segment, activities include the design, construction and maintenance of facilities to improve residual water, and providing water and sewer infrastructure management services. In October 2010, the Company's municipal and industrial sewage treatment operations in Israel were sold through the sale of shares in Nitron Chemtech Ltd. to GES, from the Granite Hacarmel Group. The

Company is also working to develop additional technological capabilities and to expand the water treatment activities, by building facilities to improve residual water and to plan, build and operate facilities to desalinate sea water.

Until the end of 2009, the renewable energy and water activities operated within a single business unit. In early 2010, the water activities were separated from the renewable energy activities, based on the Company's strategic vision that the water activities will constitute a growth engine for the Group in the coming years, and the activity was defined as a separate business unit. The Company intends to develop the water sector mainly by acquiring companies engaged in the field, in order to create engineering capabilities that will enable the initiation and development of projects in this field, in Israel and abroad.

C. Significant events during report period and subsequent to reporting period

Options to managers

Under the terms of the Options Plan from 2009, on March 24, 2010 and on May 16, 2010, 750,000 and 250,000 options were granted, respectively, to three senior officers, representing 0.24% of the Company's shares on a fully diluted basis. The fair value of the benefit in the said grants is NIS 3,997 thousand. For additional information, see Note 28.C.3 to the Company's financial statements.

Furthermore, on August 22, 2010, 250,000 options were granted to officers in a subsidiary representing 0.06% of the Company's shares on a fully diluted basis. The fair value of the benefit is NIS 1,061 thousand. For additional information, see Note 28.C.4 to the Company's financial statements.

Cancellation of a tender in Montenegro

A consortium of companies (in which the Company is a partner in half of the rights) was chosen as the preferred bidder in a tender to finance, design, build and operate a toll highway project in Montenegro. After discussions between the consortium and the government in Montenegro and various financing entities, a concession agreement was not signed for the project, because the Montenegro government could not guarantee the participation of the European Investment Bank (EIB) in financing the project. Accordingly, the consortium was informed on January 13, 2011, that the Montenegro government had decided to cancel the tender and accordingly, the consortium is no longer the preferred bidder in the project.

Cancellation of the tender is not expected to have a material effect, if any, on the Company's financial results.

Renovation of highway in Kenya

On February 10, 2010, the Company announced that a subsidiary had entered into an undertaking with the government of Kenya in a contracting project to renovate the Mau-Sumit-Kericho-Nyamasaria Highway in Kenya. The project includes renovation and paving a 135-kilometer long highway. The duration of the renovation and paving is expected to be 2.5 years, in consideration for 210 million dollars, which is expected to be received over the work period. The project is financed by the government of Kenya and the World Bank.

Cancellation of tender in Kenya

A consortium of companies (in which the Company is partner in half of the rights) was chosen as the preferred bidder in a tender to finance, design, build and operate a toll highway project in Nairobi, Kenya. After discussions held between the consortium and the Kenyan government and various financing entities, on February 27, 2011 the Kenyan government announced that the tender process would be cancelled, effective in another 3 months, because the Kenyan government could not guarantee the project's financing by the World Bank. Cancellation of the tender process is not expected to have a material effect, if any, on the Company's financial results.

Dividend distribution to shareholders

On May 9, 2010, the Company's board of directors resolved to distribute a dividend totaling NIS 110 million, which, based on the Company's issued share capital as of the date of the board of directors' resolution, represents a dividend of NIS 0.27425 per NIS 1 par value share. The date of record is May 23, 2010 and the ex-date is May 24, 2010. The dividend was paid on June 6, 2010.

On March 28, 2011, subsequent to the reporting period, the Company's board of directors resolved to distribute a dividend totaling NIS 200 million, which, based on the Company's issued share capital as of the date of the board of directors' resolution, represents a dividend of NIS 0.49858 per NIS 1 par value share. The date of record will be April 20, 2011, the ex-date will be April 21, 2011 and the payment date will be May 3, 2011.

Opening of desalination facility in Hadera

On May 16, 2010, the inauguration ceremony for the desalination facility in Hadera was held. The desalination facility in Hadera, in which the Company holds 50% of the rights, successfully completed the State's acceptance tests and began production and the sale of water as planned. Construction of the facility, including its expansion, ended earlier than the dates prescribed in the concession agreement.

For additional details, see Note 18.A.8 to the Company's financial statements.

Shelf prospectus

The Company published a shelf prospectus dated May 26, 2010, for the issue of the securities included in the shelf prospectus as provided in the prospectus published. The securities offering that will be held within the framework of the shelf prospectus, if and to the extent held, will be according to the shelf prospectus in which special details of that offering will be completed.

Renewal of directors' insurance

On June 23, 2010, the Company's board of directors, after obtaining approval of the audit committee, resolved that the Company would enter into an ongoing policy for directors' and officers' liability insurance for a one-year period. The insurance coverage is limited to liability of 70 million dollars.

Financial closing of the Northern Highway project

On June 30, 2010, the financial closing of the project awarded to the Company, to renovate, operate and maintain roads by the P.F.I. method, published by MA'ATZ – the Israel National Roads Company, pursuant to which a series of agreements related to this project and its financing took effect. The completion date of the renovation of the roads is scheduled for March 2013. For additional details, see Note 13.C to the Company's financial statements.

Ibadin-Ilorin Highway project in Nigeria

On July 7, 2010, a subsidiary undertook with the Nigerian government to build a contracted project, paving a segment of the Ibadan-Ilorin Highway in Nigeria. The duration of the renovation and paving project is expected to last for 4 years, with the proceeds for building the project totaling 290 million dollars.

Issuance of debentures

During August 2010, the Company issued (an expansion) of Series 3 and 4 debentures. Total proceeds from the issuance amounted to NIS 250 million – for additional details, see Par. 6 of this Report.

Derech Eretz Transaction

In July 2010, Canadian Highways Investment Corporation, a Canadian company that is not related to the Company ("CHIC") entered into an agreement for the sale of its holdings in Derech Eretz and its rights in shareholder loans to an Israeli partnership that is not related to the Company or its controlling shareholders ("the Fund"), in consideration for a sum equivalent to NIS 300 million ("CHIC transaction").

Immediately before execution of the CHIC transaction, Shikun & Binui holds 37.5% of the share capital of Derech Eretz, with the balance held by third parties that are not related to the Company: Africa Israel Investments Ltd. (which holds 37.5% of Derech Eretz) ("Africa Israel") and CHIC (which holds 25% of Derech Eretz).

On August 19, 2010, the Company informed CHIC and Africa Israel that it wishes to exercise it right of first refusal, given to it under the terms of the agreements among the shareholders in Derech Eretz, and to acquire CHIC's holdings in Derech Eretz and the said shareholder loans, under the terms of the CHIC transaction. On August 19, 2010, the Fund informed the Company that it had entered into an agreement to acquire Africa Israel's holdings in Derech Eretz (37.5%).

On September 22, 2010, the Company entered into an agreement with the Fund, which prescribed, inter alia, provisions related to the holdings in Derech Eretz, including provisions regarding the right of refusal to acquire shares and tag along rights in the sale of shares if sold by the shareholders in Derech Eretz, so that the Company and the Fund will each hold 50% in Derech Eretz. It was further provided that the management of Derech Eretz and its decision making, including decisions by the organs of Derech Eretz, would be reached jointly by Shikun & Binui and the Fund.

On December 30, 2010, the transaction was closed and a series of agreements was signed, relating to the acquisition of the holdings in Derech Eretz by the Company and the Fund, the providing of shareholder loans to Derech Eretz and its management. On December 31, 2010, the transfer of funds in respect of these agreements was completed. Upon the closing of these transactions, the Company became holder of 50% in Derech Eretz, and the Company and the Fund began joint control in Derech Eretz.

Immediately preceding the closing of the transactions, the Company exerted significant influence in Derech Eretz. Upon the closing of the aforementioned transactions, the Company and the Fund will jointly control Derech Eretz (joint control). In accordance with International Financial Reporting Standards IFRS, upon the change from a holding that gave significant influence in Derech Eretz to a holding in which there is joint control in Derech Eretz, the Company will revalue the existing holdings in the shares of Derech Eretz to fair value, based on the price reflected by the transactions described above. Consequently, the Company recognized a gain in its financial statements of NIS 256 million.

For additional details, see Note 6.A.18 to the Company's financial statements.

Opening of Carmel Tunnels for traffic

On November 30, 2010, the Carmel Tunnels were opened for traffic. The Company holds 50% of the rights in the project. Construction was completed about five months ahead of schedule.

For additional details, see Note 18.A.7 to the Company's financial statements.

Project to renovate highway in Tanzania

In December 2010, a subsidiary entered into an agreement with the government of Tanzania to carry out a project for renovation of a highway in Tanzania, covering 120 kilometers ("the Project"). The duration of the roadwork in the Project is expected to be 2.5 years. The total consideration to the subsidiary from the project is 50 million dollars, which is expected to be received over the construction period. Note that this is the first project being carried out by the Group in this country.

Awarding of project to build and operate training center for Israel Police

On January 12, 2011, the bid of a jointly-controlled company ("the concessionaire") was accepted in a BOT tender published by the State of Israel through the Tenders Committee ("the client") to build the Israel Police's national training center ("the Training Center") and to provide operational, maintenance and training services (hereafter respectively: "the Tender" and "the Project").

The Project includes financing, construction, operation and maintenance of the Training Center and providing training services, for a 25-year period ("the concession period"). The concession period includes the construction period, which is expected to last for 3 years. Presently, the construction costs of the project are estimated at NIS 600 million, in addition to the operating costs of the project. Construction of the project is expected to be carried out by another subsidiary. The Project's construction work will begin after the financial closing to finance the Project.

The total payments to which the concessionaire will be entitled is estimated at NIS 1.8 billion. These payments will be linked according to a formula prescribed in the agreement between the concessionaire and the client.

On February 16, 2011, a concession agreement was signed. On February 20, 2011, one of the other bidders in the tender filed an appeal against the State, the concessionaire and others regarding the tender. On March 1, 2011, this bidder and another bidder filed additional appeals against the awarding of the tender to the subsidiary. In view of these appeals, the court decided to issue a temporary order to prevent, for now, the execution of the tender's award and to prevent execution of the undertaking in the agreement related to the tender.

Ashlim tender

On February 13, 2011, a corporation owned equally by a subsidiary and a third party unrelated to the Company, submitted a bid, within the framework of one of the tenders published by the State of Israel, for the financing, design, construction, operation, maintenance and transfer to the State of Israel (after a period of not more than 25 years from the end of construction) of a thermo-solar power plant at the Ashlim site in the Negev ("the Tender").

To the best of the Company's knowledge, this bid was the only one submitted in this Tender.

It is emphasized that notwithstanding the aforesaid, there is no certainty that a concession agreement will be signed between the State and the said corporation, or that the concession agreement, if signed, will take effect.

ADO transaction

On February 20, 2011, an agreement was signed between the Company and the A.D.O. Group ("ADO") to purchase shares in ADO through an allotment that involves and is combined with the sale of the assets of a foreign company held by ADO. After the completion of this allotment, the Company will hold 48% of the shares of ADO (excludes options and not fully diluted).

ADO is a company whose shares are listed for trading on the Tel Aviv Stock Exchange.

The transactions described above are subject to several suspending conditions which have not yet been fulfilled as of the approval date of the financial statements. If all the suspending conditions are not fulfilled by June 30, 2011, the agreement will be cancelled. Upon and subject to the closing of the said transactions, the Company is expected to recognize a gain in its financial statements estimated, in a preliminary calculation, at NIS 50-75 million.

For additional details, see Note 36.D to the Company's financial statements.

2. Business results

Presented below are condensed data on business results

	For the year ended December 31		For the three-month period ended December 31	
	2010	2009	2010	2009
	NIS millions		NIS millions	
	Actual		Actual	
Revenues from projects and sales	4,871	4,454	1,245	1,094
Cost of projects and sales	3,865	3,571	962	884
Gross profit	1,006	883	283	210
Gain from sale of investment property	15	11	1	3
Selling and marketing expenses	(27)	(25)	(10)	(7)
General and administrative and marketing expenses	(316)	(269)	(96)	(81)
Other income, net	223	107	238	108
Operating income	901	707	416	233
Financing expenses, net	(169)	(261)	(44)	(37)
Equity in losses of investees	(43)	(67)	(37)	(20)
Income before taxes on income	689	379	335	176
Taxes on income	(144)	(147)	(40)	(43)
Net income for the period	545	232	295	133
	=====	=====	=====	=====

Operating segments of Shikun & Binui are:

- Infrastructure and construction outside of Israel – includes construction, roadwork and infrastructure contracting outside of Israel; is carried out through Shikun & Binui S.B.I. Infrastructures Ltd.
- Infrastructure and construction in Israel – includes construction, roadwork and infrastructure contracting in Israel; is carried out through Shikun & Binui Solel Boneh (Building and Infrastructure) Ltd.
- Real estate development in Israel – carried out through Shikun & Binui Real Estate Ltd.
- Real estate development outside of Israel – carried out through Shikun & Binui Real Estate Development B.V.
- Renewable energy – carried out mainly through Shikun & Binui Renewable Energy Ltd.
- Water – In early 2010, this activity was separated from the renewable energy activity, with the intention of developing this activity as a growth engine. This

activity is carried out by Shikun & Binui Water Ltd. (formerly Orlev Industries Construction and Projects 2000 Ltd.)

- Concessions – includes concession activities in Israel; carried out directly by the affiliates Derech Eretz Highways (1997) Ltd., Carmelton Group Ltd. and H2ID Ltd., as well as a group of operational companies engaged in concession projects. The activities are also carried out through Shikun & Binui – Northern Routes Ltd.
- Other – includes the Company's holdings in operations that are not its core activities; most were sold as part of the process of focusing on core operations.

A. Revenues from projects and sales

	For the year ended December 31			For the three-month period ended December 31		
	2010	2009	2008	2010	2009	2008
	NIS millions			NIS millions		
Infrastructure and construction outside of Israel	2,500	2,200	1,985	581	500	492
Infrastructure and construction in Israel	1,499	1,436	1,476	410	347	369
Real estate development in Israel	827	813	841	232	241	249
Real estate development outside of Israel	7	7	17	2	3	3
Renewable energy	74	76	72	24	28	16
Water	53	50	58	9	11	15
Concession	127	-	-	55	-	-
Other	-	-	101	-	-	(4)
Adjustments	(216)	(128)	(103)	(68)	(36)	(14)
Total consolidated	4,871	4,454	4,447	1,245	1,094	1,126

Revenues from projects and sales in 2010 increased by NIS 417 million over last year (growth of 9.4%), to a total of NIS 4,871 million, compared with NIS 4,454 million in 2009. Were it not for the decrease in the dollar exchange rate, the Group's revenues would have totaled NIS 5 billion (an increase of 12.5%). The principal changes that occurred in 2010, compared with last year, are as follows: an increase of NIS 300 million originating in the infrastructure and construction outside of Israel segment. The increase in revenues was driven by expansion of activities in countries in which the Company already operates and from the start of activity in Azerbaijan. Note that changes in the shekel/dollar exchange rate have an offsetting effect on the revenue growth, and were it not for the decrease in the dollar rate compared with last year, there would have been a further increase in revenues of NIS 138 million in this segment. There was also an increase of NIS 63 million in revenues from the infrastructure and construction in Israel segment. In the real estate development in Israel segment, the recognition of gains from the sale of homes occurs when they are conveyed to the customer – not when sold. During 2010, there was a lower level of occupancy in the Company's projects than last year (442 units compared with 475 units for which revenues were recognized last year). Contrarily, sales of lots and properties increased, so that overall, there was an increase of NIS 14 million in the real estate development in Israel segment, as well as an increase of NIS 127 million in the concessions segment, due to the start of work in a BOT project – renovation and maintenance of highways in the North.

Revenues from projects and sales in the fourth quarter of the year increased by NIS 151 million compared with the same quarter last year, and totaled NIS 1,245 million. The principal changes compared with the fourth quarter last year are as follows: an increase of NIS 81 million in the infrastructure and construction outside of Israeli, due mainly to the start of activity in Azerbaijan. Note that changes in the shekel/dollar exchange rate has an offsetting effect on revenue growth, and if the dollar rate had not fallen compared with last year, a further increase in revenues of NIS 25 million would have been posted in this segment.

Furthermore, the infrastructure and construction in Israel segment increased by NIS 63 million, and the concessions segment posted growth of NIS 55 million due to the start of work in the BOT project – renovation and maintenance of highways in the North.

Revenues from projects and sales in 2009 increased by NIS 7 million over 2008, to a total of NIS 4,454 million. The principal changes that occurred in 2009, compared with 2008, are as follows: an increase of NIS 215 million (10.8%) originating in the infrastructure and construction outside of Israel segment, driven by the growth in the volume of activity abroad and the increase in the average exchange rate of the dollar. Contrarily, revenues from the other segment decreased by NIS 101 million, due mainly to the sale of the electromechanical operations. There was also a decrease of NIS 40 million in revenues from the infrastructure and construction in Israel segment, as well as a decrease of NIS 28 million in revenues from real estate development in Israel. Revenues from projects and sales in the fourth quarter of 2009 totaled NIS 1,094 million, compared with NIS 1,126 million in the fourth quarter of 2008.

B. Gross profit

	For the year ended December 31			For the three-month period ended December 31		
	2010	2009	2008	2010	2009	2008
	NIS millions			NIS millions		
Infrastructure and construction outside of Israel	572	517	391	167	110	99
Infrastructure and construction in Israel	92	87	75	28	21	16
Real estate development in Israel	316	275	235	83	80	43
Real estate development outside of Israel	-	(4)	(1)	-	(3)	-
Renewable energy	16	6	2	5	2	-
Water	11	8	3	(1)	2	(4)
Concession	2	-	-	1		-
Other	-	1	(22)	-	-	(17)
Adjustments	(3)	(7)	(15)	-	(2)	1
Total consolidated	1,006	883	668	283	210	138

Gross profit in 2010 totaled NIS 1,006 million, an increase of NIS 123 million (14%) compared with last year. In 2010, the gross margin increased to 21%, compared with 20% last year. The increase in gross margin was driven mainly by the infrastructure and construction outside of Israel segment, NIS 55 million, due mainly to the increase in the volume of activity and completion of the accountings for projects that were completed. Note that were it not for the decrease in the dollar exchange rate compared with last year, gross profit would have increased by another NIS 36 million. Gross profit in the real estate development in Israel also posted growth of NIS 41 million compared with last year. The increase in gross profit in this segment was due to sales of properties and lots (also see Note 31.C.5 to the financial statements).

Gross profit in the fourth quarter of the year totaled NIS 283 million, an increase of NIS 73 million compared with the fourth quarter in 2008. The increase in gross profit compared with the fourth quarter last year was driven mainly by the real estate development outside of Israel segment (NIS 57 million) and is due to the expansion of activity in countries in which the Company was already operating and from the entry into new countries, such as Azerbaijan. An increase was also posted in the gross profit of the real estate development in Israel segment and in the infrastructure and construction in Israel segment of NIS 3 million and NIS 5 million, respectively.

Gross profit in 2009 totaled NIS 883 million, an increase of NIS 215 million (a 32% increase) compared with 2008. In 2009, the gross margin increased to 20%, compared with 15% in 2008. Gross margin in 2009 increased in most of the Company's operating segments. Gross profit increased by NIS 215 million, of which NIS 126 million was driven by the infrastructure and construction outside of Israel segment, due mainly to the increase in volume of activity and the completion of the accountings for projects that were completed. Gross profit in the real estate development in Israel segment also posted growth of NIS 40 million compared with 2008. The increase in gross profit in this segment was driven mainly by sales of properties and lots (also see Note 31.C.6 to the financial statements for 2009).

Gross profit in the fourth quarter of 2009 totaled NIS 210 million, an increase of NIS 72 million compared with the fourth quarter in 2008. The increase in gross profit compared with the fourth quarter last year was driven mainly by the real estate development in Israel segment. This increase (NIS 37 million) was driven mainly by the sale of properties and lots. An increase was also posted in the infrastructure and construction outside of Israel segment (NIS 11 million), as well as in the gross profit of the infrastructure and construction in Israel segment (NIS 5 million), and 2008 included NIS 17 million for losses of the electrochemical operations that were sold.

C. General and administrative expenses

The Group's general and administrative expenses totaled NIS 316 million in 2010, an increase of NIS 47 million compared with last year (NIS 269 million). Most of the change was due to the increase in salaries (NIS 35 million), originating in the recognition of the value of the benefit for options to employees and officers (NIS 14 million) and from the expansion of activity in renewable energy and adapting the organizational structure for the expanding volume of activity overseas, including the entry into new countries. Moreover, an increase was posted in the provision for bonuses deduced from business results. Another increase was due to expenses for marketing activities (NIS 7 million).

General and administrative expenses increased in the fourth quarter of the year by NIS 16 million compared with the same quarter in 2009, totaling NIS 96 million. Most of the change was driven by the same factors discussed previously.

The Group's general and administrative expenses totaled NIS 269 million in 2009, an increase of NIS 15 million compared with 2008 (NIS 254 million). Most of the growth was due to the expenses for tenders in which the Company bid in Israel and overseas, relating to concessions and infrastructure (an increase of NIS 13 million compared with 2008). In addition, an increase of NIS 4 million was posted for salaries and related payroll expenses. Contrarily, a decrease of NIS 6 million was posted in professional salary expenses, due to the decrease in legal expenses, in view of the fact that during 2009, several significant legal proceedings were concluded.

In the fourth quarter of 2009, general and administrative expenses totaled NIS 81 million, an increase of NIS 9 million over the same period last year, in which these expenses totaled NIS 72 million. Most of the change was due to expenses for tenders in which the Company bid in Israel and overseas.

D. Other operating income (expenses), net

These expenses totaled NIS 223 million in 2010, compared with net other operating income of NIS 107 million last year.

Presented below are details of the key income and expenses included in this item:

	For the year ended December 31	
	2010	2009
	NIS millions	
Capital gain from realization of fixed assets	2	1
Income from revaluation of investment in investee – see Note 18.A.6 to the financial statements	256	-
Gain from issuance of subsidiary's shares to institutional investors	-	130
Capital gain from sale of investment in affiliates	1	-
Capital gain (loss) from the realization of investments in consolidated companies	(11)	2
Impairment loss on assets	(1)	(2)
Provisions for balances, realization of which is doubtful	(2)	(1)
Expenses of the efficiency plan	(16)	(18)
Other, net	(6)	(5)
	223	107

E. Operating income

	For the year ended December 31			For the three-month period ended December 31		
	2010	2009	2008	2010	2009	2008
	NIS millions			NIS millions		
Infrastructure and construction outside of Israel	449	409	311	135	80	75
Infrastructure and construction in Israel	14	-	7	(3)	(17)	(6)
Real estate development in Israel	247	215	132	60	63	14
Real estate development outside of Israel	(13)	(20)	(13)	(4)	(10)	(1)
Renewable energy	(13)	(10)	5	(6)	(4)	(3)
Water	(12)	(2)	(7)	(7)	(4)	(8)
Concession	(5)	(6)	(2)	(4)	(2)	(2)
Other	(4)	(5)	(59)	-	-	(21)
Adjustments	118	84	65	30	21	18
Total according to operating segments	781	665	439	201	127	66
Income (expenses) of all segments	120	42	(41)	215	106	(10)
Total operating income	901	707	398	416	233	56

Operating income in the 2010 totaled NIS 901 million, an increase of NIS 194 million, compared with last year. The increase was driven mainly by the increase in operating income in the infrastructure and construction in Israel segment (NIS 32 million) and the increase in operating income in the infrastructure and construction outside of Israel segment of NIS 40 million, mainly to the expansion of the volume of activity that was offset by a provision of NIS 16 million for an efficiency plan in Solel Boneh and a loss of NIS 11 million from the sale of the sewage treatment plants. In addition, the year includes NIS 256 million in "income of all segments" deriving from the revaluation of the investment in an investee – also see Note 18.A.6 to the financial statements (last year this item included income of NIS 130 million from the allotment of shares in Shikun & Binui Real Estate).

Operating income in the fourth quarter of the year increased by NIS 183 million compared with the same quarter in 2009, and amounted to NIS 416 million. Most of the increase derived from the infrastructure and construction outside of Israel segment (NIS 55 million) and from the increase in "income of all segments", mainly due to income from the revaluation of the investment in an investee, as above.

Operating income in 2009 totaled NIS 707 million, an increase of NIS 309 million, compared with 2008. The increase was driven mainly by the increase in gross profit, expressed in the infrastructure and construction outside of Israel segment, totaling NIS 98 million and in the real estate development in Israel segment, totaling NIS 83 million.

Operating income in the fourth quarter of 2009 totaled NIS 233 million, compared with NIS 56 million in 2008. Most of the increase was driven by the real estate development in Israel segment (growth of NIS 49 million). Additionally, 2009 includes NIS 130 million in income of all segments deriving from the issue of a subsidiary's share to institutional investors.

F. Net financing costs

Net financing expenses totaled NIS 169 million in 2010, compared with NIS 261 million last year. NIS 54 million of the decrease in net financing expenses (which totaled NIS 92 million) was due to foreign exchange hedging activity. The Company executes hedges for some of the foreign currency exposure in its financial statements. In 2010, there was an offsetting effect of the hedge transactions, offsetting most of the effect of the change in exchange rates included in financing expense. However, last year, the hedges only had a partial offsetting effect on the currency erosion. There was also a NIS 46 million decrease in financing expenses related to long-term credit (mostly CPI-linked), mainly due to the increase of 2.28% in the CPI in 2010, compared with an increase of 3.8% in 2009.

Financing costs increased by NIS 7 million in the fourth quarter of the year, compared with the same quarter last year, amounting to NIS 44 million, compared with NIS 37 million last year. Most of the change is due to the fact that in the fourth quarter of the year, the CPI increased by 0.65%, compared with an increase of 2% in the fourth quarter of 2009.

G. Taxes on income

Tax expenses totaled NIS 144 million in 2010, compared with NIS 147 million last year and NIS 81 million in 2008. Most of the change with respect to last year is due to the decrease in tax expenses overseas (NIS 31 million), since last year, one-off tax expenses were recognized for a foreign subsidiary that distributed a dividend of 224 million Swiss francs (NIS 812 million), on which a tax of 5% was imposed – also see Note 39.C to the financial statements. Contrarily, there was an increase in tax expenses for income from development activity in Israel (NIS 10 million). A further increase in tax expenses was due to the fact that last year, there was an offsetting effect on tax expenses due to the recognition of a NIS 19 million tax asset on the tax loss carryforwards of a subsidiary that are expected to be utilized in the next few years. For additional information also see Note 29.E to the financial statements of the Company.

H. Income of investees, net

The Company's equity in results of affiliates in 2010 amounted to a loss of NIS 43 million, compared with a loss of NIS 67 million last year. The main change in this item is due to the inclusion this year of a loss totaling NIS 21 million (our share) attributable to the effect of the revaluation of the State's option on the results of Derech Eretz (holder of concession for Trans-Israel Highway). In comparison, a loss of NIS 57 million (Company's share) was posted last year.

I. Net income for the period

Net income in 2010 rose by NIS 313 million, compared with last year, amounting to NIS 545 million, compared with NIS 232 million last year, and compared with NIS 90 million in 2008.

In the fourth quarter of the year, income of NIS 295 million was posted, compared with NIS 133 million in 2009 and compared with income of NIS 11 million in the same quarter in 2008. Most of the increase in 2010 was driven by the revaluation of the investment in investee. Also see Note 18.A.6 to the financial statements. Most of the increase in 2009 was due to the issue of shares of a subsidiary to institutional investors. Also see Par. 2.D of this report.

3. Orders backlog

The Company's orders backlog in the construction and infrastructure contracting area totals NIS 8.7 billion as at December 31, 2010, of which NIS 6.6 billion (1.8 billion dollars) is for overseas activity. This orders backlog reflects growth of 12% compared with the Company's orders backlog as of December 31, 2009, which totaled NIS 7.8 billion, of which NIS 6.2 billion (1.6 billion dollars) was for overseas activity.

4. Liquidity and financing sources

Cash flows from operating activities increased by 18% compared with last year, and totaled NIS 733 million in 2010, compared with NIS 618 million last year. Cash flows from operating activities were provided mainly by current income, after neutralizing capital gains and depreciation expenses.

Cash flows from investing activities were used by the Company mainly in investments in fixed assets, which totaled NIS 299 million, to support the expansion of infrastructure activities outside Israel. Cash flows provided by investing activities in 2010 totaled NIS 389 million, compared with NIS 242 million used by the Company last year. The change was driven mainly by the additional investment in Derech Eretz. See Note 18.A.6 to the financial statements.

Cash flows used by the Company in financing activities totaled NIS 125 million in 2010, compared with NIS 574 million provided by financing activities last year. In 2010, the Company repaid credit totaling NIS 836 million and paid a total of NIS 195 million in interest, and paid a dividend to shareholders of NIS 108 million (see Note 37.H to the financial statements). Contrarily, the Company received credit totaling NIS 1,061 million. In contrast, in 2009, the Company repaid NIS 1,181 million in credit, paid interest of NIS 220 million and paid a dividend to its shareholders totaling NIS 98 million, against the Company's receipt of credit totaling NIS 639 million.

The Company's working capital totaled NIS 954 million in 2010, compared with NIS 506 million at the end of 2009.

The Company has balances of cash and cash equivalents of NIS 1,358 million and unutilized credit facilities totaling NIS 673 million.

	Debentures and credit from banks and others	Cash and cash equivalents	Pledged deposits	Net
	NIS millions			
Infrastructure and construction outside of Israel	12	715	7	(710)
Infrastructure and construction in Israel	39	330	36	(327)
Real estate development in Israel	610	141	183	286
Real estate development outside of Israel	557	4	5	548
Renewable energy	62	19	6	37
Water	19	2	5	12
Concession (Netivei Hatzafon)	126	3	-	123
Company headquarters	2,697	143	320	2,234
Total consolidated	4,122	1,357	562	2,203

5. Financial position

A. Equity

Equity as of December 31, 2010 stands at NIS 875 million, compared with NIS 508 million as at December 31, 2009. The increase in equity is driven mainly by the income of 2010 (NIS 545 million), the recognition of the benefit from the issuance of options to employees and officers totaling NIS 21 million, offset by a dividend paid to shareholders totaling NIS 108 million, translation adjustments of the financial statements of foreign subsidiaries (totaling NIS 45 million), which are prepared mainly in the dollar and euro, and a dividend paid to the minority shareholders of NIS 43 million and by the reserve for hedge transactions of NIS 6 million.

B. Current assets

The balance of the Company's current assets totaled NIS 4,886 million as of December 31, 2010. The balance of current assets increased by NIS 797 million in 2010, compared with the end of last year. The main changes derive from an increase in the inventory of buildings for sale, due to the recognition of a combination transaction's consideration to property owners in the Dairies Project, totaling NIS 90 million, due to work begun on properties totaling NIS 112 million (of which the key properties are in Eastern Netanya, totaling NIS 45 million, Kiryat Ono, totaling NIS 30 million and Talmei Menashe totaling NIS 20 million), and due to investment during the period totaling NIS 87 million in commercial centers, such as the Ir Yamim shopping mall in Netanya and "Seventh Avenue" (shopping and entertainment center in Beer Sheba). An increase of NIS 177 million was posted in the cash balance, NIS 109 million of which was provided by activities in Israel and NIS 68 million overseas. An increase of NIS 251 million was posted in bank deposits, since in 2010, these deposits are renewed for short periods, and last year they were included in long-term deposits. An increase was also posted in receivables and other current assets totaling NIS 125 million. Most of this increase is due to the increase in the balances of advances paid to suppliers (NIS 105 million), resulting from a subsidiary entering into transactions to purchase raw materials intended for construction and infrastructure projects in Israel, which it was awarded – this policy was designed to facilitate a reduction in exposure to risks deriving from rising commodity prices. The advances are backed by bank guarantees from the advance recipients. An increase was also posted in inventory, totaling NIS 39 million.

Contrarily, short-term loans given to investees decreased by NIS 79 million. NIS 136 million of the loans that were given to an affiliate in Spain, which were repaid during the first quarter of the year, were offset by the increase of NIS 76 million in long-term loans overseas that were included last year in investments and were reclassified in these financial statements to short-term, because as from 2010, the deposits are renewed for short periods. A decrease was also posted in income receivable from customers of NIS 96 million (NIS 45 million overseas).

C. Non-current assets

The Company's non-current investments total NIS 3,668 million, an increase of NIS 386 million compared with the end of 2009. Most of the change was posted in loans and investments in investees (NIS 504 million). NIS 412 million of the total increase was due to the increased holdings in Derech Eretz (cost of NIS 156 million, as well as the revaluation of the investment in Derech Eretz totaling NIS 256 million). Loans totaling NIS 180 million were given to affiliates.

In the report period, the net fixed assets balance increased by NIS 102 million compared with the end of last year, stemming mainly from the purchase of machinery and equipment overseas, to support the Company's infrastructure activities outside of Israel. Likewise, there was an increase in receivable for concession arrangements of NIS 151 million, due to the start of work on the Netivei Hatzafon Project (NIS 124 million) and as a result of the progress in the student dormitory project in Tel Aviv and the project to build a pneumatic waste removal project in Yavneh (together NIS 27 million). Contrarily, a decrease of NIS 266 million was posted in the long-term receivables, loans and deposits item, attributable to a long-term pledge deposit that is being renewed in 2010 for short periods, and therefore was classified as a current asset. A decrease was also posted in the inventory of properties, amounting to NIS 68 million – NIS 48 million in Israel and NIS 20 million overseas (overseas, the entire decrease derives from erosion in the euro exchange rate). The decrease in properties in Israel is due mainly to the placing into service of the properties (transfer of the properties to current inventory – homes under construction) totaling NIS 112 million – for the Kiryat Ono Project (NIS 30 million), for the Eastern Netanya Project (NIS 45 million) and in Talmei Menashe (NIS 20 million), and due to the sale of properties with a total cost of NIS 14 million in the Ir Yamim project in Netanya. Contrarily, investments totaling NIS 48 million were posted, including payments of NIS 34 million for the purpose of property in Pardess Chana and a further increase of NIS 31 million was posted for a combination transaction for the construction of residential units in the moshav Galya.

D. <u>Current liabilities</u>

Current liabilities increased by NIS 350 million in 2010 compared with the end of 2009, totaling NIS 3,932 million. The principal changes are: a decrease of NIS 231 million in short-term credit from banks and other lenders, due to the repayment of NIS 75 million (NIS 156 million is due to a decrease in current maturities) and a decrease of NIS 32 million in the balance of payables to clients who ordered projects, as a result of progress in the projects and utilization of the advances received in projects overseas (NIS 143 million). In Israel, growth of NIS 111 million was posted, mainly due to advances received in a BOT project – Courthouse in Tel Aviv. Contrarily, an increase of NIS 305 million was posted in the balance of customer advances from home buyers in Israel, of which NIS 40 million is advances for properties that were sold in Kiryat Ono and Catron Mountain. Also posted as an increase of NIS 185 million in other payables, including derivatives, totaling NIS 106 million, of which NIS 90 million derives from the recognition of a liability to provide construction services in a combination transaction in the Dairies Project (the balance in projects in Rehovot and Hod Hasharon).

E. Non-current liabilities

The main element of this item is debentures that were issued to institutional investors and loans from banks and other lenders, which totaled NIS 3,474 million as of December 31, 2010, an increase of NIS 432 million compared with the end of 2009. Most of the net increase is due to the raising of additional long-term liabilities (NIS 1,061 million), which was offset by the current repayment of the said liabilities (NIS 761 million.

The credit raised in 2010 includes NIS 250 million from the issuance of debentures by the Company in August, under the terms of which two previous debentures series were expanded (also see Par. 6 of this Report).

Total other liabilities (for employee benefits, deferred taxes, long-term provisions and surplus losses accrued in affiliates) total NIS 273 million, an increase of NIS 35 million compared with the end of 2009.

6. Information on debentures

Series 2 - debentures

Issue date	April 18, 2007
Trustee:	Union Bank Trust Company Ltd. 6 Ahuzat Bayit, Tel Aviv The Company was given notices by the Union Bank Trust Company, whereby it had undertaken with Clal Trust Finance 2007 Ltd. in an agreement, whereby Clal Trust 2007 Ltd. assumed the role of trustee of this series.
Par value on issue date:	NIS 1,000,000,000
Balance of par value outstanding:	NIS 600,000,000 (in March 2010, 400,000 par value from Series 4 was replaced)
Balance of par value outstanding, revalued according to linkage terms:	NIS 686,072,396
Linked interest 5.2%, accrued interest amount as of 31/12/2010	NIS 7,135,153
Market value of NIS 1 par value as of 31/12/2010:	1.2601

Principal payments in 4 equal installments on April 18th of each of the years 2012 through 2015 (inclusive).

Interest is paid twice a year, on April 18th and October 18th of each year, until the final repayment of the debentures (18.4.2015).

Debentures (Series 2) were rated A2 by Midroog and were classified as long-term.

Interest and principal are linked to the consumer price index of March 2007, which was published on 15.4.2007 (98.9).

Under the terms of the debentures, several instances were specified in which the trustee will be able to call the unsettled balance of the debentures for immediate repayment. These include: non-payment of any amount within 7 business days after its payment date, the appointment of a receiver for the Company, which will not be cancelled within 30 business days, the downgrading of the debentures below an A3 rating by Midroog or (A-) by Maalot, the Company's becoming a private company, an instance in which the Company will cease to be the controlling shareholder in Shikun & Binui Real Estate or the Arison Group will cease being the controlling shareholder in the Company and filing of a motion to freeze proceedings against the Company, which was not cancelled within 45 days.

As of the reporting date, as of the reporting period and as of the approval date of this Report, none of the aforementioned events occurred.

Issue of debentures - Series 3

Issue date	September 29, 2009 (the Series was expanded pursuant to a shelf offering dated August 4, 2010).
Trustee:	Clal Finance Trusts 2007 Ltd. 37 Menachem Begin St., Tel Aviv
Par value on issue date:	NIS 200,000,000
Balance of par value outstanding as of 31/12/2010:	NIS 289,920,000
Unlinked interest 7.9%, accrued interest amount as of 31/12/2010	NIS 7,570,939
Market value of NIS 1 par value as of 31/12/2010:	1.1148

On September 29, 2009, the Company held a private placement offering to institutional investors of 200 million debentures, NIS 1 par value each (Series 3). The offering proceeds totaled NIS 200 million (net proceeds after issue costs – NIS 197 million).

In August 2010, the Company had an offering (expansion) of additional Series 3 debentures totaling NIS 89,206 thousand par value of NIS 1 par value debentures each (expansion of Series 3). The offering proceeds totaled NIS 101 million (net proceeds after issue expenses totaled NIS 100 million). The expansion of the Series 3 debentures was executed pursuant to a shelf offering issued on August 4, 2010, based on the shelf prospectus issued by the Company on May 26, 2010.

The debentures (Series 3) will be repaid in 8 equal semi-annual installments, in each of the years 2013 through 2016. The debentures are unlinked and bear interest at the effective annual rate of 8.4% (stated interest is 7.9%). The interest will be paid every six months. The said debentures were issued pursuant to a shelf offering report published on September 23, 2009, based on a shelf prospectus published by the Company on May 19, 2008 (including an amendment published on July 23, 2009).

The said debentures were rated "A2" by Midroog and were classified as long-term.

Under the terms of the debentures, several instances were prescribed for which the trustee is allowed to call the unsettled balance of the debentures for immediate payment. These instances include: non-payment of any amount within 60 business days after its due date, the appointment of a liquidator for the Company, the appointment of which will not be cancelled within 60 business days, the imposition of a material attachment on the Company or on its material assets that was not removed within 60 days, issuance of an execution against material assets of the Company that will not be cancelled within 60 days, the appointment of a permanent receiver for the Company, the Company's announcement that it was halting payment of its debentures, discontinuation of the Company's operations, the calling of another series of the Company's debentures for immediate payment, the delisting of the Company or the occurrence of any other event that constitutes a material impairment of the rights of the debenture holders.

As of the reporting date and the report approval date, none of the above events have occurred.

Series 4 - debentures

Issue date	March 4, 2010 (expanded pursuant to shelf offering dated August 4, 2010)
Trustee:	Hermatic Trust (1975) Ltd. 113 Hayarkon Street, Tel Aviv
Par value on issue date:	NIS 492,000,000
Balance of par value outstanding 31/12/10:	NIS 993,216,065
Balance of par value outstanding, revalued according to linkage terms:	NIS 1,022,679,891
Linked interest 4.8%, accrued interest amount as of 31/12/2010	NIS 14,999,306
Market value of NIS 1 par value as of 31/12/2010:	1.1089

On March 3, 2010 the Company executed a tender offer exchange for NIS 400 million par value (NIS 447 million of the balance of debentures as of December 31, 2009) of Series 2 debentures against an allotment of NIS 492 million Series 4 debentures, at an exchange ratio of 1.23 – in other words, NIS 100 par value of Series 2 debentures for NIS 123 par value of Series 4 debentures.

In August 2010, the Company issued additional Series 4 debentures totaling NIS 137,868 thousand par value of NIS 1 par value debentures each (expansion of Series 4). The offering proceeds totaled NIS 150 million (net proceeds after issue expenses totaled NIS 149 million). The expansion of the Series 4 debentures was executed pursuant to a shelf offering issued on August 4, 2010, based on the shelf prospectus issued by the Company on May 26, 2010.

The debentures (Series 4) are linked to the CPI for January 2010 (principal and interest) and bear interest at the effective annual rate of 6.46% (stated interest rate is 4.8%). The debentures (Series 4) are to be repaid (principal) in 5 annual payments, to be paid on March 10 of each of the years 2015-2019 (inclusive). The interest is paid in two equal semi-annual payments on September 10 and March 10 of every year, through March 2019, inclusive. The said debentures (Series 4) were rated "A2" by Midroog.

On December 13, 2010, the Company accepted the offer of holders of the Series 1 debentures of the Company ("the holders"), to purchase Series 1 debentures having total par value of NIS 303,390,054 (92.75% of the Series 1 debentures outstanding).

In consideration for the allotment of Series 3 and Series 4 debentures of the Company, through an expansion of existing series, as provided below: orders were filled for the sale of NIS 600,000 par value of Series 1 debentures of the Company against an allotment of NIS 714,000 par value of Series 3 debentures of the Company, at an exchange ratio of 1:1.19. Orders were filled for the sale of NIS 302,790,054 par value of Series 1 debentures of the Company against the allotment of NIS 363,348,065 par value of Series 4 debentures of the Company, at an exchange ratio of 1:1.2.

Series 3 and Series 4 debentures that were issued to holders of Series 1 debentures constitute part of one series in all matters with Series 3 or Series 4 debentures, as applicable, outstanding, so that their terms are the same as the terms of the outstanding Series 3 and Series 4 debentures, respectively.

Series 1 debentures bought back by the Company were cancelled upon purchase. Accordingly, the number of Series 1 debentures outstanding after the buy-back by the Company totaled NIS 23,697,761 par value. Likewise, the number of Series 3 debentures outstanding after the issuance of the Series 3 debentures, as aforesaid, total NIS 289,920,000 par value and the number of Series 4 debentures outstanding after the issuance of the Series 4 debentures, as aforesaid, total NIS 993,216,065 par value.

The Series 3 and Series 4 debentures that were issued, as aforesaid (totaling NIS 380.4 million par value) were rated A2 by Midroog, the same as the rating given to the outstanding Series 3 and Series 4 debentures of the Company.

According to the tax arrangement approved by the Tax Authority on December 27, 2010 relating to the private offering that is the subject of this report, the provisions regarding taxation of investors who participated in the private offering were applied, and it was also provided that the debentures (Series 3 and Series 4) were issued without a discount.

The balance of the debentures (Series 1) as of December 31, 2010 totals NIS 23.6 million (net balance after amortization of the balance of issue costs of NIS 0.9 million).

7. Sustainability

Since 2008, the Shikun & Binui Group has operated according to the Sustainability Approach, in order to realize the Group's vision of creating a sustainable environment in Israel in particular and worldwide. The Sustainability Approach requires the integration of economic, environmental and social considerations in management and decision-making. In its decision to adopt this approach, Shikun & Binui elected to join a growing number of the world's advanced companies, aspiring to promote fair business conduct that enables global growth and prosperity without harming mankind and the environment.

If in the past, such conduct was especially critical for a company operating in the international sphere, presently, after Israel joined the OECD in May 2010, it is also critical for Israeli companies, which are required to conduct themselves in a manner that is consistent with the world's advanced trends.

A key challenge in sustainability management derives from the lack of agreed-upon management tools. Therefore, there is a need for the development of unique management tools that are appropriate for the needs of the Group and its subsidiaries.

The Shikun & Binui Group is dealing with this challenge, while mobilizing all of its resources out of a commitment to build proper management tools that will enable it to meet the highest standards of sustainability management.

During 2010, the Group took several measures designed to achieve a significant upgrade in the integration of sustainability. These include the following:

- In 2010, added to the sustainability policy formulated and adopted in 2009 are two new policy documents: purchasing policy and environmental policy.

  The Group's purchasing policy is intended to minimize economic, environmental and social risks related to the Company's supply chain, and to encourage vendors and its business partners to adopt and promote the principles of sustainability in their conduct. The environmental policy expresses the Group's commitment to sustainability management in all of its activities and their environmental consequences, as well as to encourage proper environmental conduct of its stakeholders, including vendors and subcontractors. The significant environmental consequences of the Group's activity derive from all of its operating segments – construction, roadwork, energy and water.

- In order to manage the environmental, social and economic influences of its activities in an initiated and controlled manner, the Group continues to formulate internal standards and procedures deriving from the different policy documents, including:
  - Procedure for selecting architects and design consultants, intended to identify top-level professionals whose work provides reasonable solutions for protecting the environment and the community.
  - Internal standard for management of sites, which was approved in 2010, with the objective of bringing about sustainability management of construction and roadwork sites, while minimizing the impact on the natural and human environment, encouraging recycling of building waste, etc.

- In order to assure advanced sustainability management, in 2010, the Group began to measure its operations by using two main indices:
  - SAM index – In 2010, the Group companies measured themselves by the process of SAM (http://www.sam-group.com), which carries out the sustainability index of the Dow Jones (DJSI- Dow Jones Sustainability Index).
  - Internal index – According to internal indices formulated by the Sustainability Department, based on the needs of the subsidiaries. The Group companies began to produce periodic sustainability reports, enabling the measurement of their operations in the different sustainability areas, including: management of business partnerships, site management, collaboration of stakeholders, safety and hygiene, management of human resources and assessment of suppliers.
- In 2010, the Group began initiated management of the stakeholder subject, considered one of the foundations of sustainability management and this subject was defined as a major goal for 2011.

The integration of sustainability principles in the subsidiaries' operations:

Shikun & Binui Real Estate:

- All of the projects designed in 2010, which are wholly-owned by Shikun & Binui Real Estate, were designed according to Standard 5281. Of the 668 residential units owned by the Company, 628 units, construction of which was begun in 2010, were designed according to this standard.
- During 2010, two buildings in Carcour were occupied with a grade of 70 in Standard 5281 (the first in Israel).
- The student dormitory project is the Company's first designed according to the LEED Standard for sustainable construction (American Standard) – in the field of.
- Choosing architects on the basis of sustainability principles.
- The Company has been guided by a Vice President of Design and Sustainability in all that relates to several main city building plans, including the Science Park in Netanya, an office-commercial complex in Beer Sheba and a residential project in Kiryat Ata.
- Business partners were invited and accepted participation in the Group's Sustainability Workshop.

Shikun & Binui Solel Boneh (Building and Infrastructure) Ltd.

- Site Management Standard was instituted in all of the company's new sites.

- Project managers of the company studied in a specialized professional course, prepared by the company, which integrated sustainability principles in the comprehensive training program for project management.
- Stakeholder collaboration processes were carried out the projects in Givatayim, Ichilov and Netanya.
- In 2010, a green asphalt plant was acquired, which creates a sustainable mixture from recycled materials. The plant will enable energy savings and will lead to a reduction in noise and dust pollution.
- Various measures were taken in the cement factories, with the goal of minimizing the ecological footprints of the activity. These include water recycling, use of coal ash slags in cement, grinding concrete residue in a pre-fab plant, sale of shredded waste as base coarse, etc.

o Shikun & Binui Renewable Energy Ltd:

- In addition to instituting the process of collaboration of stakeholders in the IPM project, a stakeholder process was carried out in the CDM process of the Tze'elim project. This process was carried out according to the UN's instructions, for the purpose of obtaining recognition for the project within the framework of the mechanism for trading in carbon, and approval was obtained from the National CDM Authority.
- Stakeholder collaboration processes were carried out extensively in the Tze'elim project, for the purpose of obtaining agreement on various issues related to the project.

o Shikun & Binui Water Ltd:

- Measures were carried out for collaboration of stakeholders in the Kfar Masryk project, for the purpose of improving cooperation with different parties involved in the project.
- Measures were carried out for collaboration of stakeholders regarding Well E in Nes Tziona, located in the heart of a residential neighborhood. These measures facilitated obtaining the consent of the residents for building the well, after a long period of opposition.

o Shikun & Binui Real Estate Development BV:

- Extensive guidance was provided for the process of collaboration with stakeholders in the Club Aliga project on the shore of Lake Balaton in Hungary. The guidance will also continue in 2011, and the process includes working with various local officials, in order to solve various social challenges and to promote the development of the project in a sustainable manner.

8. Social involvement and contribution to the community

In 2010, the Company took as a goal for itself the promotion of environmental education, especially to the youth, through adoption of projects with significant, ongoing influence. The activity included promoting the concept of sustainability in schools, as well as to encourage the Group's involvement in volunteer activities in environmental fields.

The Group's community relations activities in 2010 included:

- Environmental education and enrichment in the ORT network of schools – includes the creation of "green" technology projects with the students.
- Building 2 classrooms in a school in the center of the country, and adoption of the school, including a variety of renovation projects in the schoolyard for the benefit of the students.
- Activities in the framework of the "Young Business Leadership" project – guidance and funding of annual seminars for children from the periphery.
- Guidance, consulting and funding of projects in school, for special-needs children in Givatayim, includes renovation of a petting zoo and funding environmental studies on an agricultural farm in Ramat-Gan.
- Assistance in preparation of plans to renovate the gymnasium in the School for At-risk Youth in South Tel Aviv, according to green construction principles.
- "Good Deeds Day" – Running arts and crafts workshops with the participation of employee volunteers in schools in weak neighborhoods.
- Granting scholarships in institutions of higher education for environmental studies and research.
- Support and assistance to an IDF unit through the "Adopt a Fighter" program.
- Financing the training of and scholarships for mentors from the "Wings of Crembo" Foundation.
- Carrying out diverse activities with more than 30 institutions and foundations.

During 2010, about one-quarter of the Company's employees in Israel participated in community relations activities (about 250), who invested more than 1,000 volunteer hours. In addition, the Company made financial contributions totaling NIS 2.4 million.

The Company intends to continue and expand its community activities and those of its employees in 2011.

9. Reporting on market exposure and risks and their management

A. Corporate official responsible for management of market risks

The official responsible for risks management in the Company is Doron Blachar, the CFO, a senior executive in the corporation (see Regulation 26A in the Report on Supplementary Information).

B. Description of market risks to which Company is exposed

1. Risks of industries and of the economy

   - Slowdown and recession and economic uncertainty – activities in the real estate industry and in the infrastructure contracting industry are impacted considerably by the economic situation prevailing in the countries in which the Group operates, including in Israel. The slowdown and recession and economic uncertainty could lead to a decrease in demand and in orders for projects, which could reduce the Group's revenues and its profitability. There is still a deep global economic crisis, including in the Euro bloc countries (Portugal, Ireland, Greece, Spain and even beginning in Italy). Certain countries are in a business and financing freeze, some of which impact the Company's results. There is still concern about the stability of countries, and for the need for the IMF to intervene, a fact that affects financing capabilities, exchange rates, funding of projects by large entities, such as the World Bank, and particularly, winning and funding BOT projects.
   - State budget – The forecast of projects built by the contracting and manufacturing companies in Israel and overseas, especially Solel Boneh Infrastructures and Shikun &Binui SBI Infrastructures is based mainly on the Company's existing projects and less on the receipt of new projects that will be offered in tenders in the years 2011-2012. If there are cuts in the development budgets of the ministries of transportation in Israel and in the countries in which Shikun & Binui SBI operates, and by government companies and other vendors depending on government budgets, the Company's volume of activity and profitability of the Company could reduced. The effect in this case is multi-year.
   - Political instability in foreign countries in which the Group operates – A substantial part of the Group's infrastructure contracting activities are concentrated in Africa and Central America and Third World countries, which are exposed to frequent political and governmental changes. These changes could have effects, including on the economic situation in these countries and lead to a lack of economic, fiscal and monetary stability; to frequent changes

in economic legislation; to the expropriation or nationalization of assets; to disrupting or halting the receipt of financing from national financing bodies, etc. Consequently, the Group's activities in these countries could be negatively impacted, including the ability to continue operating in these countries, its ability to collect amounts due for the work done, the possibility of removing equipment and tools from these countries, etc. The instability that characterizes the third world and emerging markets where the Group operates could also lead to changes in the exchange rates of the local currency against the dollar or euro (customer receivables are denominated in the local currency, which is subject to the danger of changes in the exchange rate); the imposition of limits on foreign currency transfers or other limitations on foreign companies, which could prevent or limit the withdrawal of earnings from the local company to the Company; etc.

Additionally, most of the countries in Africa where the Group operates depend on a single commodity export (oil, cocoa beans, etc.), and volatility in its international prices have an immediate and considerable effect on the country's economy.

- Security situation - A deteriorating global security situation, including in Israel and the countries in which the Group operates, which are characterized by unstable regimes, could have an effect on the Group's operations, expressed, inter alia, by the inability to operate in the countries where it has activities, a manpower shortage in its areas of activity, a shortage of raw materials, rising costs to build the project, etc.

- Employees- The ability to hire a sufficient number of skilled employees and a management team constitutes a threat on the ability of contracting companies to build projects and expand their operations. The price of an hour of labor and output vary depending on the type of employee or labor group, government legislation , type of work and supply and demand.

  The Israeli Government adopts a multi-year policy of reducing the number of foreign workers in the economy overall, and in the construction industry in particular. This policy has caused a reduction in recent years in the number of skilled employees, to an increase in the labor costs of workers and to lengthening the duration of the projects. This change is barely expressed in the residential construction inputs index.

  If there should be a serious manpower shortage as a result of further cuts in the number of foreign workers by the Government, or if the cost of employing a foreign worker should rise beyond what was taken into account when pricing projects, this could hurt the results of the projects.

Moreover, the ability to build projects in Israel and overseas, as well as the potential for expanding operations is limited to the size of the managerial team that can be hired – project managers, project engineers and work managers. If the contracting companies are unable to identify suitable managers in the amounts needed, this could hurt the ability to carry out projects and reduce their profitability, as well as the ability of the companies to continue growing at a sufficient pace.

- Property management – Regulatory processes existing in Israel in the areas of improvement and rezoning of properties have repeatedly led to lengthy delays in development plans and create uncertainty regarding the date on which requisite planning board approvals will be received. This situation could cause delays, harm projects and non-achievement of the Group's goals. Additionally, a decline in the value of properties, due to reasons including the security situation, a financial crisis, etc., could affect the feasibility of projects and profit forecasts. Likewise, the expropriation of properties for public purposes could also lead to a decline in the value of properties and impair the ability to utilize them.
- Partners – The Group is a party to joint ventures with other parties in the construction industry, in general, and in the concession and infrastructure industries in particular. Financial and other problems of the partners, as well as conflicts of interest between the partners and the Group, could cause delays in the joint projects, to increasing project costs, to the halt or non-maximization of the profit potential of these projects. Likewise, the choice of strategic partners has influence from the image aspect, and could be a problem when joining up with a partner whose image is contrary to the Group's sustainability values.
- Winning tenders and increasing the orders backlog- The Company's ability to win tenders and increase the orders backlog is a critical element in its ability to increase the volume of its activity and its profits, especially in the concession and infrastructure segments. If the Company is unsuccessful in tenders and in receiving the necessary volume of projects, due to reasons including numerous competitors, its ability to expand its operations could be hurt, and could even hurt its profitability and its cash flows.

- Acquisition of companies – As part of its strategic plan, from time to time, the Company evaluates the acquisition of companies, including in the fields of renewable energy and water, in order to enter new operating segments while realizing growth and profitability forecasts. A lack of success in integrating the acquired operations and the non-realization of the said forecasts, could lead to non-achievement of the added value expected from these acquisitions and event to the impairment of intangible assets that were included in the said acquisitions. Moreover, the acquisition of companies requires additional financing sources, which could increase the Company's leverage ratios, hurt its financial stability and even harm its credit rating by rating companies.

- Entering new countries - As part of the expansion of its activities, the Company is striving to enter operations in new countries. The entry into new countries involves, inter alia, the investment of extensive managerial and financial resources and contending with risks, some of which are unfamiliar to the Company, including all that relates to characteristics of the local market, regulation and business culture, in a manner that could hurt the Group's profitability and cash flows.

- Changes in capital markets – within and outside Israel – A slump in the capital markets within and outside Israel could have a negative effect on the prices of the marketable securities held by the Group and by its investees, influence its ability to generate capital gains from selling its holdings, hurt its ability to hold offerings in stock exchanges in Israel and abroad, and hurt the rating of the debt repayment ability of the Group and its investees by rating bodies. Additionally, a worsening in market conditions could make it difficult to find financing sources if needed by the Group for its investees, to finance their operating activities, recycle existing loans and debentures and raise financing costs.

- Concession projects

  The Company – itself and through subsidiaries – is engaged in several BOT/PFI projects ("**concession projects**"), as a partner in the concession and as a partner in the building contractor (and as carrying out subcontracting work for the building contractor), and as partner in the operations and maintenance contractor, as provided above. Concession projects, by their nature, are based on the division of risks between the ordering party (mainly the state) and the concessionaire, between the concessionaire and the financing parties, and between the concessionaire and the building and operations contractors. The division of risks differs, to some extent, in each project, but there are several key material risks that are generally imposed on the concessionaire, building contractor or operations and maintenance contractor, as applicable. Note, that under the terms of the concession agreements signed in connection with these projects, the state assumed some of the said risks and some were imposed on the concessionaire, in accordance with the risk-dividing mechanisms prescribed in the concession agreements. Most of the risks derive from the need to make the long-term estimates and assessments that characterize concession projects.

Provided below are partial details of the material risks that the Company bears part of, within the framework of its participation in the above projects:

- Demand risks – This risk is usually divided between the ordering party and the concessionaire, with the concessionaire bearing partial risk. If the risk is realized (i.e. – decline in demand), the yield on the shareholders' investment in the concessionaire will be reduced, and in extreme cases, shareholders could even lose their investment in the concessionaire – in part or full.
- Financial risks – Most of the financial risk in projects is assumed by the state, including indexation and exchange rate risks, and risks of interest rate changes. However, not all of the risk is transferred to the state, and the concessionaire is also exposed to these risks. Until the financial closing, there is exposure to possible changes in the condition of the financial markets, which could influence the concessionaire's ability to obtain the loans needed to finance the projects and the prices of debt capital, in this context, there is also some exposure to the influence of the political-security situation in the State of Israel on the condition of the financial markets in Israel and the willingness to lend to projects in Israel.
- Construction risks – Generally, these risks are imposed fully on the building contractor, who assumes construction of the project "back to back", to the concessionaire's liabilities pursuant to the concession agreement, in a turnkey agreement. The main construction risks are: licensing and design, timetables, quality of performance and exceeding construction costs. It should be noted that in all the projects, the construction price is linked to an index or a basket of relevant indices, according to the indexation mechanisms stipulated in the concession agreements. Under the terms of the concession agreements, the state bears the risk of indexation changes. However, this mechanism confers only partial protection to the building contractor, since in most cases, the actual inputs differs from the composition of the relevant index. The Company takes various measures to reduce the exposure to changes in input prices, but is unable to fully neutralize the effect of a change in input prices.

- Operations and maintenance risks – These risks are imposed, generally, on the operations and maintenance contractor, subject to the mechanisms for adjusting the price based on the increase in the relevant indices and other arrangement prescribed in the concession agreements.

For their exposure to the risks deriving from undertakings in concession agreements, construction and operation agreements and financing agreements, the Company and its subsidiaries furnish performance and quality guarantees to secure their obligations pursuant to these agreements, and the realization of the said risks could lead to the forfeiture of these guarantees.

- Availability of manpower – In the real estate industry in Israel, there is a shortage of skilled manpower at low cost, mainly due to the security events that prevent the regular entry of workers from the Palestinian Authority into the State of Israel, and due to the government's policy of reducing the employment of foreign workers. Contrarily, the infrastructure contracting outside of Israel segment is having constant relative difficulty in identifying, hiring and training sector and project managers for work in the countries of operation, including due to the possible instability in these countries and concerns over the physical safety of workers.
- Availability of raw materials – Disruptions in the supply of various raw materials, including imported products, as a result of a strike in the ports or products produced in the countries of operation, as a result of strikes in certain industries, could lead to a delay or halt in projects by the Group.
- Exposure to government policies and regulations of the real estate industry – The Group is exposed to the government policies in Israel and in countries of operation outside of Israel, such as the policy of assisting home buyers; tax policies; rezoning and marketing properties; design policies. Likewise, changes in the laws and regulations relevant for the Group's activities within and outside Israel could have some effect on the Group's profitability and cash flows.
- Exposure to changes in government budgets and in international financial institutions – The Group's activities, mainly in infrastructure contracting, are exposed to changes in government budgets and in international financial institutions (such as the World Bank) and the willingness of international financial institutions to operate in the country of operation, and in accordance with the setting of their policy of preference for goals and regions in which the projects they finance are carried out, and with respect to the amount of financing available for these needs. A reduction in the budgets directed to

infrastructure projects could lead to a reduction in the projects offered and the actual performance of the projects (since the lack of means of payment cause delays in their performance) and even to a freeze of the project – and correspondingly, to reduce the volume of the Group's activities.

2. Basis risks

- Price volatility in commodity markets – Oil, metals and other commodities, whose products constitute a significant component in the raw materials used by the Group, are commodities whose prices are subject to market price volatility, which are sometimes extreme. An increase in the prices of commodities and the products produced from them that are used by the Company could impact the profitability and feasibility of the projects carried out or initiated by the Company.
- Financing difficulties and recycling of loans – Against the backdrop of the global economic crisis and the liquidity crunch, banks in the world reduced the credit given in general, and particularly, credit to the construction and real estate industries. Furthermore, banks increased their requirements for collateral from contractors (mainly performance guarantees) and from developers (equity required for a project). The toughening of banks' credit policies could impact the Company's ability to recycle existing loans, obtain new loans and the costs and terms of taking out loans.
- Increase in financing expenses and exposure to changes in interest rates – An increase in interest rates on variable-interest loans taken by the Company could cause an increase in the Company's financing expenses and harm its profitability and cash flows. An increase in the interest rate on new loans that the Company will obtain, alongside the repayment of existing loans that matured, which had a lower interest rate, could cause an increase in the Company's financing expenses and hurt its profitability and cash flows.
- Exposure to changes in the Consumer Price Index (CPI) and changes in exchange rates – The Group is exposed to an increase in the CPI, to a change in the exchange rates of foreign currencies (mainly the U.S. dollar, euro and Nigerian niera). As of 31.12.2010, the Company has CPI-linked liabilities that are NIS 1.1 billion higher than its CPI-linked assets. An increase in the CPI of a high rate is expected, therefore, to cause high financing costs and hurt the Group's profitability and cash flows. An increase in the exchange rate relative to the NIS of the foreign currencies in which the Company has liabilities that

exceed the amount of assets, or a decrease in the exchange rate of currencies relative to the NIS in which the Company has assets that exceed the liabilities is expected to cause a decrease in the value of the assets or an increase in the liabilities, and, accordingly, reduce profitability and cash flows of the Group. Appreciation of the exchange rate of the currencies relative to the shekel, in which the Company has liabilities that exceed the assets, or a decrease in the exchange rate of currencies relative to the shekel in which the Company's assets exceed the liabilities, is expected to cause a reduction in the value of the assets or an increase in liabilities, and accordingly hurting profitability and cash flows of the Group.

The Company has foreign subsidiaries, whose functional currency is the US dollar and the euro, respectively.

Appreciation of the shekel against the US dollar will adversely affect the results of the subsidiary S.B.I. Infrastructures, which constitutes a significant part of the Company's earnings and cash flows, and will have a direct negative effect on the Company's results.

Likewise, the Group is exposed to risks for changes in exchange rates, since most of the Group's large infrastructure contracting projects are carried out overseas, in foreign currencies (mainly the US dollar, the euro and the niera). The proceeds from the ordering parties in these countries are in foreign currencies that do not fully overlap the currencies in which the expenses of these projects are paid. Moreover, a change in the exchange rate has an effect on demand for new homes and raises the costs of inputs.

- Rising raw material and building input prices and non-receipt of full and adequate expression in the CPI – Rising prices of the main inputs, including oil and its derivatives, the price of steel and other metals, prices of cement, stone and labor, push up the building and roadwork inputs index. Most of the Company's projects are linked to indices that protect the Company form rising prices of inputs, on a partial or full basis.

  The Group is exposed in the event the composition of inputs in a project differs significantly from the composition of the index to which the receipts are linked, and in cases in which a sharp increase in the price of inputs is not expressed fully and sufficiently in the relevant index.

  In most home sales, there is linkage to the consumer price index, whereas some of the costs are linked to the construction inputs index. A significant difference between the indices could have an effect on the sales' profitability.

3. Credit risks

Credit to an ordering party, raw material buyers and partners – The Group gives parties ordering projects and raw material buyers credit, most of which is not secured, and is exposed to the risk of its default. Likewise, the Group could have exposure in a joint venture, in which the Group has guaranteed joint debts – jointly and severally.

4. Credit rating

During 2010, the Company improved its credit rating.

Downgrades in the rating of debentures issued by the Company by two rating levels could cause the Company to be called for immediate repayment, and to affect the interest rates that the Company will be required to pay on the debentures, its credit sources and its ability to recycle the loans.

5. Credit limits

The Group is subject to limits on the receipt of credit from Bank Hapoalim Ltd., by virtue of the directives of the Bank of Israel on a "related person" in a company – "the Arison Group" controls Bank Hapoalim. As of the report date, to the best of the Company's knowledge, Bank Hapoalim is allowed, within the framework of the said limits, to provide credit to the Group in material amounts.

The allocation of the credit amount among people related to the controlling shareholders in the bank is at the discretion of the bank. Additionally, the Group is considered, for the whole banking system, according to the directives of the Bank of Israel, as a "borrowers group" under the control of the Arison Group. Accordingly, it is subject to the limits applicable to a borrowers group. The credit amounts that the Group is allowed to receive from the various banks is dependent on the amount of equity of each bank and the credit amounts provided, at the bank's discretion, from time to time, to the other companies in the borrowers group. Accordingly, the Group is exposed to credit limits due to the provisions of the relevant legislation.

6. Damage from natural disasters

Physical conditions, that cannot be predicted, could hurt the success of a construction and infrastructure project, mainly: weather disasters – heat, cold, storms and floods could lead to the halt, delay or destruction of work done; earthquakes – could cause damage to properties and projects. According to the prevailing insurance policies, the Group companies are obligated for co-payments in the event of earthquake damage. Therefore, if extensive damage will be caused to the Group's properties due to earthquake, the Group could sustain significant exposure, which cannot be estimated.

7. Exposure to non-compliance with environmental standards

   In its activities, the Group is subject to the requirements of environmental standards, which in the event of non-compliance, exposes the Group to lawsuits that could negatively impact its image, revocation of a business license the closing of the polluting activity and to financial losses.

8. Construction defects and inspection warranty

   Large scale construction defects in projects carried out by the Group, to which the Group is committed to perform repairs and supplements in accordance with the inspection warranty, could impact the Group's profitability.

9. Tax liabilities

   The calculation of the Group's tax liability entails interpretations and the implementation of diverse tax laws and treaties from different sources. The Group's activities are subject to several different legal systems that overlap simultaneously. The Group's understanding of the tax laws, and accordingly, the Group's estimations, may not fully conform to the tax estimates and liabilities that will be imposed by the local tax authorities in the country of the Group's operation. Hence, it is possible that the Group will be demanded to make additional payments and or liabilities.

C. Description of corporation's market risks management policies

1. Linkage basis

   - The Company works to match, to the extent possible and according to market conditions, the Company's revenues and inputs in Israel and overseas.
   - The Company regularly examines the matching of linkage bases between the assets and liabilities of the Company in Israel and overseas.
   - In order to reduce to the extent possible the exposure to exchange rate volatility and erosion in the value of the local currencies in countries with sharp volatility, it is the Company's practice to convert some of the cash balance in local currency to foreign currency (mainly dollars), and deposit them outside the country of operation. Likewise, the Company finances its activities in these countries by taking credit through local companies, in local currencies, from banks in the countries of operation, against a lien on equipment and/or revenues of the project.

- The Group companies evaluate the feasibility of hedging and accordingly, hedge through derivative financial instruments against exposure to current and indexation risk.
- The Group companies periodically hedge key raw material prices that are linked to the prices in global markets.

2. Interest risks

- In order to reduce the exposure to changes in the rate of increase in the consumer price index existing in the Company at that time, the Company's policy is to prefer taking fixed-interest credit on long-term linked credit.

D. Means of control for policy compliance

Below are the means of monitoring compliance with policies adopted by the Company:

1. Performing a risk survey periodically, and defining managerial responsibility for management of significant risks.
2. Reporting risk management to the board of directors.
3. Regular reporting to the board of directors about deviations in Israel and overseas.
4. The use of derivative instruments to reduce the exposure to changes in exchange rates and in commodity prices. The Company's trades in derivatives are executed only through banks and stock exchanges that are obliged to comply with capital adequacy requirements or maintain a level of collateral according to different scenarios. The Company retains internal documentation regarding the designation of the financial instruments to the exposure, indicating the connection between the instrument and the exposure. The Company's board of directors periodically discusses the Company's exposures to market risks and the measures taken by the Company to reduce these exposures.
5. Regular monitoring by the Company's Finance Department of the examination for currency exposure opposite the management of subsidiaries, supported by an independent consulting firm with expertise in the field.

E. **Linkage bases 31/12/2010**	**Unlinked**	**CPI-linked**	**Dollar**	**Euro**	**Niera**	**Other currencies**	**Other**	**Total**
					NIS thousands			
Cash and cash equivalents	420,018	203,098	452,347	70,040	194,024	18,086	-	1,357,613
Bank deposits	90,410	-	4,630	317,804	-	8,093	-	420,937
Short-term loans and investments	1,886	77,990	-	-	-	-	2,805	82,681
Short-term loans to investees	-	22,052	-	324,934	-	1,421	(95,703)	252,704
Trade receivables – accrued income	331,076	3,710	127,256	65,789	79,231	169,083	-	776,145
Receivables and debit balances	152,168	3,121	3,194	2,166	6,225	24,846	100,083	291,803
Other investments including derivatives	784	-	-	-	-	-		784
Current tax assets	1,800	49,656	64	937	-	8,974		61,431
Inventory	-	-	-	-	-	-	238,015	238,015
Inventory of buildings for sale	-	-	-	-	-	-	1,390,397	1,390,397
Assets classified as held for sale	-	-	-	-	-	-	13,478	13,478
Receivables in respect of concession arrangements	-	154,849	-	-	-	-	68,732	223,581
Non–current inventory of land (freehold)	-	-	-	-	-	-	443,956	443,956
Non–current inventory of land (leasehold)	-	-	-	-	-	-	164,672	164,672
Investment properties, net	-	-	-	-	-	-	286,936	286,936
Land rights	-	-	-	-	-	-	17,163	17,163
Long-term prepaid expenses	-	-	-	-	-	-	4,798	4,798
Receivables, loans and deposits	60,347	41,289	39,085	-	-	-	-	140,721
Investment in equity-accounted investees	-	-	-	-	-	-	399,311	399,311
Loans to investees	792	761,643	27,961	104,315	-	-	(32,632)	862,079
Deferred tax assets	-	-	-	-	-	-	103,201	103,201
Property, plant and equipment, net	-	-	-	-	-	-	923,617	923,617
Intangible assets, net	-	-	-	-	-	-	97,964	97,964
Total assets	**1,059,281**	**1,317,408**	**654,537**	**885,985**	**279,480**	**230,503**	**4,126,793**	**8,553,987**
Short-term credit from banks and others	128,546	150,799	1,660	345,364	-	22,421	-	648,790
Subcontractors and trade payables	654,192	-	70,407	40,196	18,632	60,636	-	844,063
Short-term employee benefits	32,699	1,416	-	-	1,462	2,790	-	38,367
Payables and credit balances including derivatives	230,274	1,055	48,803	1,714	15,719	20,207	172,798	490,570
Current tax liabilities	677	906	7,226	-	5,643	65,741	-	80,193
Provisions	52,008	40,038	122,287	-	5,153	19,376	-	238,862
Payables – customer work orders	130,082	-	169,898	37,282	381,326	-	-	718,588
Advances received from customers	-	-	-	-	-	-	872,999	872,999
Liabilities to banks and others	798,116	279,130	-	181,026	-	18,807	-	1,277,079
Debentures	294,203	1,902,299	-	-	-	-	-	2,196,502
Employee benefits	77,351	9,586	14,760	-	32,483	14,190	-	148,370
Deferred tax liabilities	-	-	-	-	-	-	33,682	33,682
Provisions	36,372	-	-	-	-	-	-	36,372
Excess of cost of accumulated losses over cost of investment and deferred credit balance in affiliates	(6,483)	(2,924)	-	(10,106)	-	-	73,780	54,267
Equity	-	-	-	-	-	-	875,283	875,283
Total liabilities and equity	**2,428,037**	**2,382,305**	**435,041**	**595,476**	**460,418**	**224,168**	**2,028,542**	**8,553,987**
Assets net of liabilities	**(1,368,756)**	**(1,064,897)**	**219,496**	**290,509**	**(180,938)**	**6,335**	**2,098,251**	**-**

E. Linkage bases 31/12/2009

	Unlinked	CPI-linked	Dollar	Euro	Niera	Other currencies	Other	Total
	NIS thousands							
Cash and cash equivalents	507,442	-	303,298	147,642	190,879	31,256	-	1,180,517
Bank deposits	54,939	-	30,307	84,071	-	909	-	170,226
Short-term loans and investments	985	58,435	-	4,495	-	-	-	63,915
Short-term loans to investees	-	15,373	-	336,942	-	-	(21,011)	331,304
Trade receivables – accrued income	362,133	23,846	119,083	1,970	71,355	294,283	-	872,670
Receivables and debit balances	**(1)** 60,451	2,797	833	1,257	13,443	26,719	**(1)** 61,244	166,744
Other investments including derivatives	2,608	11	-	-	-	-	-	2,619
Current tax assets	744	61,235	751	-	-	9,377	-	72,107
Inventory	-	-	-	-	-	-	199,234	199,234
Inventory of buildings for sale	-	-	-	-	-	-	1,021,668	1,021,668
Assets classified as held for sale						-	8,065	8,065
Receivables in respect of concession arrangements	-	**(*)** 72,814	-	-	-	-	-	72,814
Non–current inventory of land (freehold)	-	-	-	-	-	-	478,425	478,425
Non–current inventory of land (leasehold)	-	-	-	-	-	-	198,620	198,620
Investment properties, net	-	-	-	-	-	-	**(1)** 317,574	317,574
Land rights	-	-	-	-	-	-	**(1)** 16,553	16,553
Long-term prepaid expenses	-	-	-	-	-	-	**(1)** 2,868	2,868
Receivables, loans and deposits	72,873	31,358	34,033	261,571	-	6,818	-	406,653
Investment in equity-accounted investees	-	-	-	-	-	-	138,572	138,572
Loans to investees	6,201	456,845	20,304	330,146	-	8,641	(203,867)	618,270
Deferred tax assets	-	-	-	-	-	-	116,498	116,498
Property, plant and equipment, net	-	-	-	-	-	-	**(1)** 820,789	820,789
Intangible assets, net	-	-	-	-	-	-	**(*)** 94,356	94,356
Total assets	**1,068,376**	**722,714**	**508,609**	**1,168,094**	**275,677**	**378,003**	**3,249,588**	**7,371,061**
Short-term credit from banks and others	199,798	421,744	10,876	214,844	-	32,324	-	879,586
Subcontractors and trade payables	535,052	-	35,779	1,726	**(*)** 51,551	**(*)** 93,828	-	717,936
Short-term employee benefits	**(*)** 30,327	**(*)** 2,677	-	-	1,238	1,740	-	35,982
Payables and credit balances including derivatives	**(*)** 208,549	**(*)** 6,557	32,307	1,997	**(*)** 6,282	**(*)** 31,808	18,436	305,936
Current tax liabilities	1,205	8,609	3,020	22	7,433	**(*)** 56,689	-	76,978
Provisions	38,674	47,053	103,522	-	24,915	**(*)** 32,983	-	247,147
Payables – customer work orders	19,314	-	142,586	92,133	342,476	154,449	-	750,958
Advances received from customers	-	-	-	-	-	-	**(*)** 568,243	568,243
Liabilities to banks and others	591,610	134,848	6,525	377,534	-	19,304	-	1,129,821
Debentures	197,130	1,715,030	-	-	-	-	-	1,912,160
Employee benefits	93,651	-	3,828	-	30,593	12,631	-	140,703
Deferred tax liabilities	-	-	-	-	-	-	**(*)** 33,766	33,766
Provisions	24,654	-	-	-	-	-	-	24,654
Excess of cost of accumulated losses over cost of investment and deferred credit balance in affiliates	-	(7,236)	-	-	-	-	46,292	39,056
Shareholders' equity	-	-	-	-	-	-	508,135	508,135
Total liabilities and shareholders' equity	**1,939,964**	**2,329,282**	**338,443**	**688,256**	**464,488**	**435,756**	**1,174,872**	**7,371,061**
Assets net of liabilities	**(871,588)**	**(1,606,568)**	**170,166**	**479,838**	**(188,811)**	**(57,753)**	**2,074,716**	**-**

(*) Reclassified – see Note 2.G to the Company's financial statements.
(1) Retroactive application – see Note 2H2 to the Company's financial statements.

10. Sensitivity tests

Hedging instruments recognized as accounting hedge

Sensitivity analyses as of 31.12.10

Presented below is a sensitivity table for sensitive instruments based on the changes in market factors as of December 31, 2010 relevant for the Company, based on the risks described previously. The sensitivity analyses were performed for financial instruments whose sensitivity to changes in the different risk factors is material.

Sensitivity to changes in NIS interest rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in interest rate			in interest rate	
	NIS thousands				
Long-term loans given to investees	(41,675)	(21,397)	683,835	22,593	46,471
Long-term loans received	10,028	5,057	(623,524)	(5,165)	(10,314)
Debentures	33,030	16,608	(2,568,323)	(16,798)	(33,943)

Sensitivity to changes in euro interest rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in interest rate			in interest rate	
	NIS thousands				
Long-term loans received	421	211	44,230	(213)	(427)

Risk from changes in dollar/NIS exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in dollar/NIS exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In dollar rate			In dollar rate	
	NIS thousands				
Cash and cash equivalents	200	100	2,002	(100)	(200)
Bank deposits	463	232	4,630	(232)	(463)
Short-term loans and deposits in assets	3,909	1,954	39,085	(1,954)	(3,909)
Long-term loans to investees	2,796	1,398	27,961	(1,398)	(2,796)

Risk in euro/NIS exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in euro/NIS exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In euro rate			In euro rate	
	NIS thousands				
Cash and cash equivalents	1,362	681	13,621	(681)	(1,362)
Bank deposits	31,431	15,715	314,308	(15,715)	(31,431)
Short-term loans to affiliates	11,808	5,904	118,077	(5,904)	(11,808)
Long-term loans to affiliates	2,507	1,254	25,074	(1,254)	(2,507)
Long-term bank deposits	-	-	-	-	-

Risk from changes in euro/dollar exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in euro/dollar exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In euro/dollar rate			In euro/dollar rate	
	NIS thousands				
Cash and cash equivalents	(5,221)	(2,610)	52,206	2,610	5,221
Payables – customer work orders	(6,298)	(3,149)	62,984	3,149	6,298
Other receivables and debit balances	(207)	(103)	2,066	103	207
Subcontractors, suppliers and service providers payable	3,983	1,992	(39,834)	(1,992)	(3,983)
Payables for forwards	3,728	1,864	(37,282)	(1,864)	(3,728)

Risk from changes in niera/dollar exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in niera/dollar exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In niera/dollar rate			In niera/dollar rate	
	NIS thousands				
Cash and cash equivalents	(19,402)	(9,701)	194,024	9,701	19,402
Trade receivables	(7,923)	(3,962)	79,231	3,932	7,923
Receivables and debit balances	(623)	(311)	6,225	311	623
Subcontractors, suppliers and service providers payable	1,863	932	(18,632)	(932)	(1,863)
Payables for forwards	38,133	19,066	(381,326)	(19,066)	(38,133)
Payables and credit balances	1,572	786	(15,719)	(786)	(1,572)

Risk from changes in other currencies/dollar exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in other currencies/dollar exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In other currencies/dollar rate			In other currencies/dollar rate	
	NIS thousands				
Cash and cash equivalents	(1,760)	(880)	17,603	880	1,760
Trade receivables	(16,867)	(8,434)	168,670	8,434	16,867
Short-term deposits	(673)	(337)	6,732	337	673
Long-term loans and deposits in assets	(2,401)	(1,201)	24,013	1,201	2,401
Short-term loans received	1,022	511	(10,221)	(511)	(1,022)
Subcontractors, suppliers and service providers payable	5,978	2,989	(59,783)	(2,989)	(5,978)
Payables and credit balances	1,733	867	(17,330)	(867)	(1,733)

Risk from changes in other currencies/euro exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in other currencies/euro exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In other currencies/euro rate			In other currencies/euro rate	
	NIS thousands				
Cash and cash equivalents	(48)	(24)	484	24	48
Short-term deposits	(136)	(68)	1,361	68	136
Trade receivables, net	(41)	(21)	411	21	41
Accounts receivable and other	(83)	(42)	835	42	83
Long-term loans to affiliates	(1,832)	(916)	18,320	916	1,832
Short-term loans received	(1,220)	(610)	(12,202)	610	1,220
Service providers and subcontractors payable	(85)	(43)	(852)	43	85
Payables and credit balances	(278)	(139)	(2,775)	139	278

Effect on book income (loss) as a result of cash flows risk due to changes in CPI

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 3%	Increase of 1%		Decrease of 1%	Decrease of 3%
	In CPI			In CPI	
	NIS thousands				
Cash	6,093	2,031	203,098	(2,031)	(6,093)
Short-term CPI-linked loans and deposits in assets	1,875	625	62,495	(625)	(1,875)
Long-term CPI-linked loans and deposits in assets	1,564	521	52,134	(521)	(1,564)
Short-term loans given to investees	662	221	22,053	(221)	(662)
Receivables in respect of concession arrangements	4,645	1,548	154,849	(1,548)	(4,645)
Long-term loans given to investees	23,474	7,825	782,483	(7,825)	(23,474)
Long-term CPI-linked loans in liabilities	(10,081)	(3,360)	(336,028)	3,360	10,081
Linked debentures	(59,886)	(19,962)	(1,996,189)	19,962	59,886

Since an analysis of a change that is an increase (decrease) at a rate of 5% in the CPI does not add relevant information, we performed the sensitivity test at the rate of 1%-3%.

Sensitivity to changes in dollar/NIS exchange rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In exchange rate			In exchange rate	
	NIS thousands				
Dollar/NIS forward	1,879	940	(398)	(940)	(1,879)
Raw material forwards	82	41	822	(41)	(82)

Sensitivity to changes in euro/NIS exchange rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In exchange rate			In exchange rate	
	NIS thousands				
Euro/NIS forward	284	142	(77)	(142)	(284)

Sensitivity to changes in NIS interest rate

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 16%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 16%
	in interest rate				in interest rate		
	NIS thousands						
Euro/NIS forward	-	-	-	(77)	-	-	-
Dollar/NIS forward	7	5	2	(398)	(2)	(5)	(7)

The sensitivity analysis of shekel interest includes an additional scenario (16% higher and 16% lower), which examines the most extreme daily change that occurred in the last ten years.

Sensitivity to changes in dollar interest rate

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 26%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 26%
	in interest rate				in interest rate		
	NIS thousands						
Dollar/NIS forward	(6)	(2)	(1)	(398)	1	2	6

The sensitivity analysis of shekel interest includes an additional scenario (26% higher and 26% lower), which examines the most extreme daily change that occurred in the last ten years.

Sensitivity to changes in raw material prices

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 14%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 14%
	in raw material prices				in raw material prices		
	NIS thousands				NIS thousands		
Forward	661	472	236	882	(236)	(472)	(661)

On 31.12.2008, there was a daily change of 14% in raw material prices.

Additional data:

NIS interest rates: 0.753%-1.547%.

Dollar interest rates: 0.362%-1.606%.

Euro interest rates: 0.405%-1.163%.

The sensitivity analyses are based on the representative dollar exchange rate as of 31.12.10 – NIS 3.549 and the representative euro rate as of 31.12.10 – NIS 4.7379.

Instruments for hedges recognized for accounting purposes

Sensitivity to changes in dollar/shekel exchange rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in exchange rate			in exchange rate	
	NIS thousands				
Dollar/NIS forward	1,471	736	(402)	(736)	(1,471)

Sensitivity to changes in nominal NIS interest rate

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 26%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 26%
	in interest rate				in interest rate		
	NIS thousands						
Dollar/NIS forward	9	6	3	(402)	(3)	(6)	(9)

Sensitivity to changes in dollar interest rate

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 26%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 26%
	in interest rate				in interest rate		
	NIS thousands						
Dollar/NIS forward	(8)	(3)	(1)	(402)	1	3	8

The sensitivity analysis of shekel interest includes an additional scenario (26% higher and 26% lower), which examines the most extreme daily change that occurred in the last ten years.

Sensitivity to changes in euro/dollar exchange rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in exchange rate			in exchange rate	
	NIS thousands				
Euro/dollar forward	(19,923)	(9,961)	(6,635)	9,961	19,923

Sensitivity to changes in dollar interest rate

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 26%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 26%
	in interest rate				in interest rate		
	NIS thousands						
Euro/dollar forward	(401)	(154)	(77)	(6,635)	77	154	401

Sensitivity to changes in euro interest rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in exchange rate			in exchange rate	
	NIS thousands				
Euro/dollar forward	181	91	(6,635)	(91)	(182)

Sensitivity to changes in nominal shekel interest rate

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 16%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 16%
	in interest rate				in interest rate		
	NIS thousands						
Euro/NIS forward	(320)	(200)	(101)	(2,030)	101	200	320
Euro/NIS option	(10)	(6)	(3)	(33)	3	6	10

The sensitivity analysis of shekel interest includes an additional scenario (16% higher and 16% lower), which examines the most extreme daily change that occurred in the last ten years.

Sensitivity to changes in euro interest rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in interest rate			in interest rate	
	NIS thousands				
Euro/NIS forward	150	76	(2,030)	(76)	(151)
Euro/NIS option	4	2	(33)	(2)	(4)

Sensitivity to changes in euro/NIS exchange rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in exchange rate			in exchange rate	
	NIS thousands				
Euro/NIS forward	(44,216)	(22,109)	(2,030)	22,109	44,216
Euro/NIS option	(3,109)	(1,153)	(33)	1,169	3,663

Sensitivity to changes in standard deviation

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in standard deviation			in standard deviation	
	NIS thousands				
Euro/NIS option	(3)	(1)	(33)	1	1

Additional data:

The sensitivity analysis is based on the representative dollar exchange rate at 31/12/10 – 3.549.
The sensitivity analysis is based on the representative euro exchange rate at 31/12/10 – 4.7379.

Sensitivity analyses

Hedging instruments recognized as accounting hedge

Sensitivity analyses as of 31.12.09

Presented below is a sensitivity table for sensitive instruments based on the changes in market factors as of December 31, 2009 relevant for the Company, based on the risks described previously. The sensitivity analyses were performed for financial instruments whose sensitivity to changes in the different risk factors is material.

Sensitivity to changes in NIS interest rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in interest rate			in interest rate	
	NIS thousands				
Long-term loans given to investees	(24,868)	(12,821)	354,715	13,657	28,219
Long-term loans received	6,037	3,039	(620,418)	(2,862)	(5,881)
Debentures	32,155	16,180	(2,317,057)	(16,389)	(32,993)

Sensitivity to changes in euro interest rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in interest rate			in interest rate	
	NIS thousands				
Long-term loans received	398	44	24,283	(203)	(407)

Sensitivity to changes in value of marketable securities

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In marketable securities prices			In marketable securities prices	
	NIS thousands				
Certificates of participation in mutual funds	1.1	0.55	11	(0.55)	(1.1)

Risk from changes in dollar/NIS exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in dollar/NIS exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In dollar rate			In dollar rate	
	NIS thousands				
Cash and cash equivalents	515	257	5,145	(257)	(515)
Bank deposits	473	237	4,731	(237)	(473)
Short-term loans and deposits in assets	3,403	1,702	34,034	(1,702)	(3,403)
Long-term loans in investees	2,030	1,015	20,304	(1,015)	(2,030)
Long-term loans received	(1,269)	(635)	(12,694)	635	1,269

Risk in euro/NIS exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in euro/NIS exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In euro rate			In euro rate	
	NIS thousands				
Cash and cash equivalents	1,597	798	15,966	(798)	(1,597)
Bank deposits	8,243	4,122	82,431	(4,122)	(8,243)
Short-term loans to affiliates	27,992	13,996	279,918	(13,996)	(27,992)
Long-term loans to affiliates	7,244	3,622	72,438	(3,622)	(7,244)
Long-term bank deposits	26,157	13,079	261,571	(13,079)	(26,157)

Risk from changes in euro/dollar exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in euro/dollar exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In euro/dollar rate			In euro/dollar rate	
	NIS thousands				
Cash and cash equivalents	(10,960)	(5,480)	109,598	5,480	10,960
Subcontractors, suppliers and service providers payable	154	77	(1,536)	(77)	(154)

Risk from changes in niera/dollar exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in niera/dollar exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In niera/dollar rate			In niera/dollar rate	
	NIS thousands				
Cash and cash equivalents	(19,088)	(9,544)	190,879	9,544	19,088
Trade receivables	(7,136)	(3,568)	71,355	3,568	7,136
Receivables and debit balances	(1,819)	(909)	18,188	909	1,819
Subcontractors and trade payables	2,698	1,349	(26,976)	(1,349)	(2,698)
Payables and credit balances	481	241	(4,813)	(241)	(481)

Risk from changes in other currencies/dollar exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in other currencies/dollar exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In other currencies/dollar rate			In other currencies/dollar rate	
	NIS thousands				
Cash and cash equivalents	(3,021)	(1,510)	30,208	1,510	3,021
Trade receivables	(29,365)	(14,682)	293,646	14,682	29,365
Receivables and debit balances	(6,603)	(3,302)	66,032	3,302	6,603
Long-term loans and deposits in assets	(682)	(341)	6,818	341	682
Short-term loans received	1,784	892	(17,844)	(892)	(1,784)
Subcontractors, suppliers and service providers payable	8,261	4,130	(82,608)	(4,130)	(8,261)
Payables and credit balances	760	380	(7,603)	(380)	(760)

Risk from changes in dollar/euro exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in dollar/euro exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In dollar/euro rate			In dollar/euro rate	
	NIS thousands				
Cash and cash equivalents	(57)	(29)	570	29	57

Risk from changes in other currencies/euro exchange rate

Effect on book income (loss) as a result of cash flows risk due to changes in other currencies/euro exchange rate

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In other currencies/euro rate			In other currencies/euro rate	
	NIS thousands				
Cash and cash equivalents	(58)	(29)	578	29	58
Short-term deposits	(91)	(45)	909	45	31
Receivables and other	(120)	(60)	1,204	60	120
Long-term loans to affiliates	(864)	(432)	8,641	432	864
Short-term loans received	1,448	724	(14,481)	(724)	(1,448)
Payables and credit balances	90	45	(896)	(45)	(90)

Effect on book income (loss) as a result of cash flows risk due to changes in CPI

	Gain (loss) from changes		Carrying value	Gain (loss) from changes	
	Increase of 3%	Increase of 1%		Decrease of 1%	Decrease of 3%
	In CPI			In CPI	
	NIS thousands				
Short-term CPI linked loans and deposits in assets	1,679	560	55,967	(560)	(1,679)
Long-term CPI-linked loans and deposits in assets	953	318	31,762	(318)	(953)
Short-term loans given to investees	461	154	15,372	(154)	(461)
Long-term loans given to investees	13,731	4,577	457,689	(4,577)	(13,731)
Receivables for concession arrangements	2,043	681	68,109	(681)	(2,043)
Long-term CPI-linked loans in liabilities	(10,753)	(3,584)	(358,440)	3,584	10,753
Linked debentures	(59,184)	(19,728)	(1,972,792)	19,728	59,184

Since an analysis of a change that is an increase (decrease) at a rate of 5% in the CPI does not add relevant information, we performed the sensitivity test at the rate of 1%-3%.

Sensitivity to changes in dollar/NIS exchange rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In exchange rate			In exchange rate	
	NIS thousands				
Dollar/NIS forward	3,511	1,755	496	(1,755)	(3,511)

Sensitivity to changes in euro/NIS exchange rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	In exchange rate			In exchange rate	
	NIS thousands				
Euro/NIS forward	566	283	(22)	(283)	(566)

Sensitivity to changes in NIS interest rate

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 35%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 35%
	in interest rate				in interest rate		
	NIS thousands						
Euro/NIS forward	5	1	1	(22)	(1)	(1)	(5)
Dollar/NIS forward	67	19	9	496	(10)	(19)	(64)

Sensitivity to changes in dollar interest rate

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 75%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 75%
	in interest rate				in interest rate		
	NIS thousands						
Dollar/NIS forward	(108)	(15)	(7)	496	7	14	109

On 25.12.2001, there was a daily change of 35% in the base NIS rate.

On 16.12.2008, there was a daily change of 75% in the base dollar rate.

Sensitivity to changes in raw material prices

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 14%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 14%
	in raw material prices				in raw material prices		
	NIS thousands				NIS thousands		
Raw materials inventory		931	566	9,311	(466)	(931)	(1,241)
Forward	1,241	887	443	(61)	(443)	(887)	

On 31.12.2008, there was a daily change of 14% in forward trades on raw material prices.

Additional data:

1. For the purpose of sensitivity tests on dollar/NIS forwards, dollar interest rates of 0.155% -1.433% were taken into account and NIS interest rates of 0.302%-1.909% based on the settlement dates of the different transactions.
2. For the purpose of sensitivity tests on euro/NIS forwards, euro interest rates of 0.30% - 1.52% were taken into account and NIS interest rates of 0.449%-1.786% based on the settlement dates of the different transactions.
3. The sensitivity analyses are based on the representative dollar exchange rate as of 31.12.09 – NIS 3.7750 and the representative euro exchange rate as of 31.12.09 – NIS 5.4417.

Instruments for hedges recognized for accounting purposes

Sensitivity to changes in euro/dollar exchange rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in exchange rate			in exchange rate	
	NIS thousands				
Euro/dollar forward	(21,611)	(10,805)	(7,539)	10,805	21,611

Sensitivity to changes in dollar interest rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in interest rate			in interest rate	
	NIS thousands				
Euro/dollar forward	(106)	(53)	(7,539)	53	106

Sensitivity to changes in euro interest rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in interest rate			in interest rate	
	NIS thousands				
Euro/dollar forward	119	60	(7,539)	(60)	(120)

Sensitivity to changes in nominal NIS interest rate

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 12%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 12%
	in interest rate				in interest rate		
	NIS thousands						
Euro/NIS forward	(127)	(106)	(53)	1,703	53	106	127

Sensitivity to changes in euro interest rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in interest rate			in interest rate	
	NIS thousands				
Euro/NIS forward	95	47	1,703	(48)	(95)

Sensitivity to changes in euro/NIS exchange rate

	Gain (loss) from changes		Fair value	Gain (loss) from changes	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	in exchange rate			in exchange rate	
	NIS thousands				
Euro/NIS forward	(60,686)	(30,343)	1,703	30,343	60,686

Additional data:

1. The sensitivity analyses are based on the representative dollar exchange rate as of 31.12.09 – NIS 3.775.
2. The sensitivity analyses are based on the representative euro exchange rate as of 31.12.09 – NIS 5.4417.

11. Disclosure about critical accounting estimates

The Company's financial statements are prepared in conformity with International Financial Reporting Standards (IFRS). Application of these standards requires management to make estimates and assumptions that affect the reported amounts in the accompanying financial statements.

Presented below is a description of the critical accounting estimates used in preparation of the Company's financial statements, which, when formulated, required the Company's management to use judgment in the assessments and make assumptions regarding circumstances and events that involve considerable uncertainty. Company management's judgment when making estimates is based on past experience, various facts, external factors, and reasonable assumptions according to the pertinent circumstances of each estimate. The actual results could differ from management's estimates.

Regarding all accounting estimates, see Note 2.F to the financial statements.

(1) Impairment of assets

In accordance with the provisions of IAS 36, at each reporting date, the Group examines the carrying amount of its tangible and intangible assets for purposes of determining whether there are any signs indicating the existence of losses from impairment of the value of these assets. If any such signs exist, the recoverable amount of the asset is estimated for purposes of determining the amount of the impairment loss, if any. To the extent it is not possible to determine the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Joint assets are also allocated to individual cash-generating units to the extent that a reasonable and consistent basis can be identified for such allocation. If allocation of the joint assets to the individual cash-generating units on the above basis is not feasible, the joint assets are allocated to the smallest groups of cash-generating units for which a reasonable and consistent basis for allocation can be identified.

Intangible assets with an indefinite useful life are examined for impairment of value once each year or more frequently, should there be signs indicating a possible impairment of value.

The recoverable amount is the greater of the asset’s sales price net of selling costs and its usage value. In estimating usage value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimated future cash flows have not been adjusted.

If the recoverable amount of the asset (or of the cash-generating unit) is estimated to be lower than the carrying amount, the carrying amount of the asset (or of the cash-generating unit) is written-down to its recoverable amount. The impairment loss is recognized immediately as an expense in profit or loss.

If an impairment loss that was recognized in prior periods is reversed, the carrying amount of the asset (or of the cash-generating unit) is to be restored back to the estimate of the up-to-date recoverable amount but not in excess of the carrying amount of the asset (or of the cash-generating unit) that would have existed, had an impairment loss not been recognized for it in prior periods. The reversal of the loss from impairment of value is recognized immediately in profit or loss.

(2) Project contracts

In accordance with IAS 11, the Company recognizes revenues from projects contracts on the basis of the “percentage of completion” method when all the following conditions are met: the revenues are known or can be reliably estimated, collection of the revenues is expected, the costs for completing the contract are known or can be reliably estimated and there is no significant uncertainty with respect to the ability to complete the contract and meet the conditions of the contract with the customer.
The percentage of completion is estimated on the basis of actual costs compared to total forecasted costs. For construction works, the Company estimates that income can be recognized as from a minimum percentage of completion of 25%. Regarding the roadwork and infrastructure works, the Company recognizes profit from projects as from the date the costs associated with the project can be reliably estimated.

As long as all the conditions specified above are not met, revenue is recognized at the amount of the costs incurred that are expected to be recoverable (“zero margin”). As regards contracts that are expected to incur a loss, a provision is immediately recognized in the full amount of the expected loss.
The consideration relating to the part already performed is determined according to the average expected gross profit rate of the entire contract. Changes in sale and cost estimates by management will be reflected by changing the estimate of the project's gross margin on a prospective basis (the prospective method).
A reliable estimate of project costs is made on the basis of detailed calculations prepared for each project. These calculations are based on, inter alia, agreements that were signed or are expected to be signed with subcontractors, the salaries known at the time of the calculation, changes that occur from time to time in prices of raw materials and the estimated time required to complete the contract on the basis of past experience and contractual obligations.

A reliable estimate of project revenues is made on the basis of the provisions in the contract with the ordering party. Company management examines these estimates on a quarterly basis.

(3) Contingent liabilities

The Company has contingent liabilities in amounts for which the possible maximum exposure is material. The Company periodically assesses the potential liabilities related to each claim and demand. It is naturally very difficult to determine the outcome of the claims and demands. The Company uses its best judgment and the assessments of its legal counsel in order to determine whether it is reasonable that the Company will incur costs to settle the claims and demands and whether they can be reasonably estimated.

Considering the inherent uncertainty that exists in legal claims, it is possible that all or some of them will result in the Company being required to pay various amounts. See Note 31.A to the financial statements for details of contingent liabilities.

(4) Deferred taxes

The deferred taxes are calculated according to the tax rates that are expected to apply at the time they are realized. The tax benefit is included in the financial statements since according to the business plans of the Company its realization is expected. Actual business results may naturally differ from the business plans, which may affect the future realization of the tax benefit.

(5) Provisions for doubtful debts

The provision for doubtful and bad debts is calculated specifically for debts, the collection of which management believes is doubtful. Management bases the determination of the appropriateness of the provision on assessments of the risk based on information it has regarding the financial condition of the debtors, the volume of their activity and a valuation of the collateral received from them.

(6) Loss of material influence or joint control

Commencing on the date the Group loses material influence or joint control in an investee, the investment in which is treated as a financial asset or an investee, or a jointly-controlled company or a subsidiary, the Group must estimate the fair value of its original investment in the investee and recognize a gain or loss, which is the difference between the fair value of its original investment and its carrying value.

12. Remuneration of interested parties and senior officers

Pursuant to the provisions of Regulation 10(B)(4) to the Securities Regulations (Periodic and Immediate Reports) – 1970 ("**Reporting Regulations**"), the Company's board of directors is required to explain in the directors' report accompanying the annual periodic report the connection between compensation to senior officers and interested parties in the Company, which was given under Regulation 21 of the Report Regulations ("**Officers**"), and between each one's contribution to the Company during the report period. The board of directors must also cite whether the compensation to the senior officers is fair and reasonable.

Prior to approval of the financial statements for 2010, the Company's board held a detailed discussion with respect to each officer, in the scope of which the connection between the compensation received by each officer, as noted, in 2010 and that officer's contribution during that year, and the reasonableness and appropriateness of the compensation was also examined. The Company's compensation committee and audit committee held preliminary and detailed discussions on the subject of officers' compensation, while reviewing the information sent to it for each of them. The committees' recommendations, as well as the relevant background material used for their evaluation, were presented to the members of the Company's board of directors, on the basis of which the board of directors conducted a discussion in which the range of salary and bonuses paid to each of the officers during 2010 was evaluated.

For the purpose of the Company's preparations for evaluating officers' compensation, on 17.3.2011, the board of directors determined what information is needed by the board of directors for each officer for the purpose of such evaluation, and what criteria will serve as the basis for examining the connection between the compensation and the contribution of the officer, in view of which it will be determined whether the compensation to the officer was fair and reasonable. The information defined as necessary for such evaluation included: summarized employment terms for each of the officers (based on the format provided in Regulation 21 in Section D of the Periodic Report), comparative data on compensation of officers of comparable ranking or jobs in other companies, data on the Company's operating results in 2010, as well as summarized data on each of the officers (his status and function, seniority in the organization, his managerial and professional skills, the degree to which he has fulfilled his undertaking with the Company, the contribution made to the operations and progress of the Company in 2010 and an assessment of the fulfillment of the goals set for him). This information was sent to the members of the board of directors and its subcommittees, who discussed this matter previously.

The board of directors also examined comparative data, assisted by an analysis prepared by Professor Moshe Zviran, which also included information on the acceptable compensation levels for the positions of chairman of the board, CEO, Deputy CEO and DEO's of companies in Israel similar in size to the Company and to Shikun & Binui Real Estate Ltd., Shikun & Binui SBI, as applicable, among companies that are comparable to the Company. Moreover, comparative data presented by Prof. Zviran was examined with respect to jobholders at the level and ranking similar to CEO of Shikun & Binui SBI in the companies managed from Switzerland (as is Shikun & Binui), which have similar volumes and types of activity as that of Shikun & Binui SBI. The Company's board of directors and compensation committee also heard the explanations and clarifications of Prof. Zviran regarding the data he presented.

The board of directors assesses that the compensation of each of the officers presented according to Regulation 21 of the Reporting Regulations reflects his contribution to the Company and is fair and reasonable, as provided in the summary below:

1. Ravit Barniv – Chairman of the Company

   The Company's board of directors examined and found that the Chairman of the Board let the Company to a constant increase in its financial and operating results. The actions and oversight of the Chairman has contributed to a continuous increase, over the years of her tenure in general, and in 2010 in particular, to the Company's profitability, its equity and financial strength, according to the strategic plan that she outlined when she assumed her position.

   In 2010, the Company's achievements under the Chairman's leadership surpassed the Company's work plan – illustrated in the orders backlog growth, in revenues, net income and EBITDA. The board of directors assesses that these achievements are, inter alia, the result of the actions of the Chairman during 2010. Moreover, we cite the continued operations of the Company under the Chairman's leadership, toward realization of its goals, to change its sustainability approach and solidify its leadership in the field of sustainability and the integration of management, control and reporting mechanisms in this area in general, and as relates to the environment in particular.

   The Company's board of directors found it appropriate to emphasize the Chairman's personal contribution to the transaction in which the Company acquired 12.5% of Derech Eretz (which led the Company to a 50% stake in Derech Eretz) and signed with Israel Infrastructures Fund, which holds the balance of the shares in Derech Eretz, an agreement for joint control in Derech Eretz ("**Derech Eretz transaction**"). The Derech Eretz Transaction conforms to the Company's vision, is consistent with its strategic goals and infuses value to the Company's holdings in Derech Eretz, increases its equity base and lays the foundation for additional contracting work in the project.

Moreover, during 2010, the Chairman continued to lead the implementation of strategic changes in the Company and in its organizational culture. In this context, one can mention the changes in the Company's strategic culture, efficiency measures instituted in the Group in general and in Solel Boneh in particular.

Finally, the board of directors determined that an examination of all the terms of the Chairman's tenure in 2010, the total salary of the Chairman is at market terms and within the acceptable range compared with similar companies. Moreover, the audit committee, and subsequently also the Company's board of directors, determined that although the amount of the annual bonus to be paid to the Chairman is indeed above the compensation range presented in the survey of comparative data prepared by Prof. Moshe Zviran, it is reasonable and fair in the circumstances of the specific case of the Company's Chairman and her personal contribution to the Company's earnings; this is mainly in view of the fact that the Chairman was personally a partner in the decision making process and the guiding of the Company's management in all that relates to the Derech Eretz transaction. The board of directors and its committees also found it appropriate to site the significant growth in the Company's earnings compared with 2009, whether or not the income from extraordinary activities is neutralized.

Based on the aforesaid, the Company's board of directors found that the compensation package given to the Chairman in 2010 reflects her contribution to the Company, and that the compensation paid to her during 2010 is fair and reasonable noting the size of the Company, noting the size of the Company, the scale and complexity of its operations and businesses, the competitive environment in which it operates, the assignments and scope of responsibility of the Chairman and her contribution to the development of its businesses.

Pursuant to the employment agreement with the Chairman, which was approved by a general meeting of shareholders on 27.12.2007, the Chairman is entitled to an annual bonus equal to 1% of the Company's net income (except for income from extraordinary activities, as defined in the employment agreement); and to an annual bonus of 1% of the Company's income from extraordinary activities, up to a ceiling of the monthly payment to the Chairman multiplied by 12 (with the board of directors having the possibility of increasing the said bonus amount up to the monthly payment amount multiplied by 24, in the event the Chairman made a special contribution to the Company's earnings). The Company's audit committee and board of directors determined that the Chairman did indeed make a special contribution to the Company's profitability in 2010, and decided to approve for the Chairman an annual bonus for the special activities of NIS 2,234 thousand (in addition to the bonus of NIS 3,217 thousand to be paid to the Chairman for income not from extraordinary activities). The Company's audit committee and board of directors decided that the amount of the bonus from extraordinary activities exceeding the monthly payment multiplied by 12 (NIS 950 thousand) would be paid to the Chairman as a deferred bonus (in this section – "**the deferred bonus**"), spread out until the end of her employment period, in twelve equal payments. Subsequent to publication of the Company's annual financial statements for the years 2011 and 2012, if and when impairment will be recognized in those years in the Company's financial statements on the carrying value of the investment in Derech Eretz in those years, deducted from the balance of the deferred bonus will be the pro rata share of the said impairment (as distinguished from the amortization required by the passage of time) that will be recognized in those years in the value of the Company's holdings in Derech Eretz. The audit committee and board of directors decided that the deferral of the deferred bonus, spreading out the amount and making it dependent on maintaining the value of the Company's holdings in Derech Eretz, strengthens the link between the bonus to be paid to the Chairman and the business results.

2. Ofer Kotler – Company CEO

The Company's board of directors examined and found that under the management, leadership and involvement of the CEO, the Company presented a constant increase in its financial and operating results. The Activities of the CEO contributed to a continuous increase in the Company's profitability, equity and financial strength.

The board of directors cited the Company's achievements and that under the CEO's management, they surpassed the Company's work plan – illustrated in the orders backlog growth, in revenues, net income and EBITDA. The board of directors also cited the CEO's actions in leading to the creation of synergy between the Group companies in an attempt to maximize the Shikun & Binui Group's earnings, continuation of the CEO's leadership in the focus on its core activities and the activities that lead to integration of the improved control and measurement mechanisms in the Group companies.

Moreover, during 2010, the Company's CEO continued to lead in instituting the strategic changes in the Company, in its organizational culture and sustainability approach. In this context, we cite the changes in the Company's organizational structure, efficiency measures implemented by the Group, and in Solel Boneh in particular. The Company's board of directors found it appropriate to emphasize the CEO's personal contribution to the transaction for acquisition of control in Derech Eretz (for additional details on the transaction and its contribution to the Company, see above in the explanations regarding the Company's Chairman).

Finally, the board of directors decided in an examination of all the terms of the tenure of the Company's CEO in 2010 that the total salary of the Company's CEO was at market terms and within the acceptable range compared with similar companies.

Based on the aforesaid, the Company's board of directors found that the compensation package given to the Company's CEO in 2010 reflects his contribution to the Company and that the remuneration paid to him during 2010 is fair and reasonable noting the size of the Company, the volume and complexity of its activities and businesses, the competitive environment in which it operates, the assignments and scope of responsibility of the CEO and his contribution to the Company's development.

Similar to the Company's Chairman, the Company's CEO, based on the employment agreement with him, is entitled to an annual bonus at the rate of 1% of the Company's net income (except for income from extraordinary activities, as defined in the agreement); as well as to an annual bonus at the rate of 1% of the Company's income from extraordinary activities, up to a ceiling of the monthly payment to the CEO multiplied by 12 (with the Company's board of directors having the possibility of increasing the bonus amount up to the monthly payment multiplied by 24, in the event the CEO made a special contribution to the Company's profitability). The Company's board of directors determined that the CEO did indeed make a special contribution to the Company's profitability in 2010, and decided to approve an annual bonus to the CEO for extraordinary activities totaling NIS 2,234 thousand for income from extraordinary activities (in addition to the bonus of NIS 3,217 thousand to be paid to the CEO for earnings that are not extraordinary). The Company's board of directors decided that the bonus amount from extraordinary activities that exceeds the monthly payment multiplied by 12 (NIS 590 thousand), will be paid to the Company's CEO as a deferred bonus (in this paragraph: "**the deferred bonus**"), spread out until the end of the period of the agreement with him, in three equal annual payments, after publication of the Company's financial statements for 2011, 2012 and 2013. If and when impairment will be recognized in the Company's financial statements on the carrying value of the investment in Derech Eretz in those years, deducted from the bonus amount will be the proportionate amount of the said impairment (as distinguished from the deduction required by the passage of time), that will be recognized in those years in the value of the Company's holdings in Derech Eretz. The board of directors decided that by means of the deferral of the deferred bonus, spreading out its payment and making its amount dependent on maintaining the value of the Company's holdings in Derech Eretz, the link between the bonus paid to the Company's CEO and the business results will be strengthened.

3. Amit Segev – Deputy CEO

The Company's board of directors examined and found that the compensation to the Company's Deputy CEO reflects his contribution to the Company's achievements in 2010, which surpassed the goals of the work plan, from the standpoint of net income and EBITDA. The board of directors assesses that these achievements are, inter alia, a result of the actions of the Deputy CEO in the period of his tenure in general and in 2010 in particular.

Regarding the contribution on the Deputy CEO, the Company's board of directors cited the focus on the concessions segment, establishment of the division for designated and unique concessions, and concurrent leadership of 7 projects in this segment in 2010 (compared with only 3 projects in this segment in 2008). The board of directors cited that these projects, that the Deputy CEO guided and led, also constitute embodiment of the realization of the Company's vision of creating an environment of sustainability. The board of directors further determined that the actions of the Deputy CEO assisted, and essentially supported, enabled and led to the realization of breakthrough processes in the concessions segment and generally. The board of directors further stated that within the scope of his tenure, the Deputy CEO has and continues to work to guide the growth processes in the water and energy segment.

The Company's audit committee and board of directors decided that the granting of the annual bonus to the Deputy CEO falls within the range of compensation amounts presented in the comparison prepared by Prof. Zviran regarding the accepted compensation levels for similar positions in similar companies, and are at market terms; however, since the bonus amount exceeds that acceptable in the Company according to its policy as relates to payment of executive bonuses, it was approved as an exceptional transaction in which a Company officer has a personal interest.

Finally, the Company's board of directors resolved that the compensation of the Deputy CEO is not exceptional and is at market conditions, within the acceptable range compared with similar companies.

Based on the aforesaid, the Company's board of directors found that the compensation package given to the Deputy CEO in 2010 reflects his contribution to the Company, and that the remuneration paid to him during 2010 is fair and reasonable, noting the size of the Company, the volume and complexity of its activities and businesses, the competitive environment in which it operates, the assignments and scope of responsibility of the Deputy CEO and his contribution to the development of its businesses.

4. Yehuda Elimelech – CEO of SBI

The Company's board of directors examined and found that under the management, leadership and involvement of its CEO, SBI showed accelerated growth in its financial and operating results. The board of directors also found that SBI's CEO made a decisive contribution in maintaining its position as the main growth engine of the Shikun & Binui Group and one of its major assets.

The Company's board of directors emphasized that SBI's CEO leads global operations, which he manages at stringent international standards, while achieving results that significantly surpass the results that are acceptable worldwide. The board of directors found that the management of SBI's CEO led to its accelerated growth, having special significance in view of the performance and operational challenges and risks in the countries of operation and in view of the fact that SBI aspires to bring progress to the developing countries in which it operates. When examining the activities of SBI and its CEO, the board of directors cited the work environment, including the difficulty in identifying the high-level managerial manpower needed to operate in the countries of operation, especially when involving the most senior management ranks in SBI.

It is the assessment of the board of directors that the compensation to CEO's SBI reflects the achievement of SBI in 2010, which surpassed the goals of the Company's work plan, in terms of the growth in orders backlog, in operating income and net income as well as in the management and contribution of SBI''s CEO for achieving and surpassing them. In its determination, the board of directors cited that the actions and management of SBI's CEO led it to meeting the major goals set for it in its work plan, including the revenues goal, profitability goal and gross profitability goal.

The Company's compensation committee and board of directors examined comparative data between the compensation terms for SBI's CEO and the compensation terms for holders of similar positions in international companies managed from Switzerland (similar to SBI), which have similar activities, in volume and substance, to that of SBI; and found that the compensation terms to SBI's CEO are within the range of compensation amounts presented in the comparison prepared by Prof. Zviran regarding the accepted compensation levels in similar positions in similar companies, and are at market terms.

Based on the aforesaid, the Company's board of directors found that the compensation package given to SBI's CEO in 2010 reflects his contribution to it, and that the remuneration paid to him during 2010 is fair and reasonable, noting the size, volume and complexity of its activities and businesses, the competitive environment in which it operates, the assignments and scope of responsibility of SBI's CEO and his contribution to the development of its businesses.

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

   The Company's board of directors examined and found that under the management of the CEO of Shikun & Binui Real Estate (SBRE), SBRE showed a constant increase in its financial and operational results and that the activities of the CEO of SBRE contributed to maintaining SBRE's position as one of the growth engines of the Shikun & Binui Group and one of its major assets.

   The board of directors assesses that the compensation of SBRE's CEO reflects the activities of SBRE's CEO, contributing to the achievements of SBRE, leading it to prosperity and earnings growth, by means of the expanded volume of activity and initiation of new projects. In its determination, the board of directors cited that the activities and management of SBI's CEO led it to meeting the major goals set for it in its work plan, including profitability goal, EBITDA goal, building starts target, sales target, etc.

   Furthermore, the board of directors found it appropriate to cite key events during the report period in the operations of SBRE in the leadership of its CEO, including the opening of the Seventh Avenue Shopping Mall in Beer Sheba and progress in the construction of the Ir Yamim Shopping Mall in Netanya, leading a different construction culture will insisting on green construction and compliance with green standards, as well as integration of a service approach among the Company and its management.

   Finally, the board of directors determined that the compensation levels of SBRE's CEO are within the range of the compensation amounts presented in the comparison prepared by Prof. Zviran regarding the acceptable compensation levels for similar positions in similar companies and that they are at market conditions.

   Based on the aforesaid, the Company's board of directors found that the compensation package given to SBRE's CEO in 2010 reflected his contribution to the Company and the remuneration paid to him during 2010 is fair and reasonable noting the size, volume and complexity of its activities and businesses, the competitive environment in which it operates, the assignments and scope of responsibility of SBRE's CEO and his contribution to the development of its businesses.

For additional information on officers' compensation, see Regulation 21 in Section D of the Periodic Report (chapter on additional details).

13. Directors with accounting and finance capabilities

In accordance with the instructions of the Securities Authority regarding reporting on directors with accounting and finance capabilities, the board of directors decided that the minimum number of such directors will be three directors.

In the opinion of the board of directors, considering the Company is a holding company in companies operating mainly in the same industry, this number of directors with accounting and finance capabilities will enable the board of directors to meet the obligations imposed on it, especially with respect to examining the financial position of the Company and preparing and approving the financial statements.

Below is a list of seven directors with accounting and finance capabilities, who are not employed in additional positions in the Company:

(1) Irit Izakson – Holds a BA in economics and an MSc in operational research from Tel Aviv University. Serves as a director in the Company since 19.2.04 and is a member of the finance and financial statements examination committees (until 8.3.11). Is a member of the board of directors of Bank Hapoalim Ltd. since 27.12.99 and on its subcommittees: credit committee, audit committee, business and budget committee, chairman of balance sheet committee, chairman of expense control and efficiency committee, chairman of the risks management committee and examination of implementation of Basel 2. Likewise, serves as chairman of Isracard Ltd., chairman of Europay (Eurocard) Ltd., chairman of Aminit Ltd., chairman of Poalim Express Ltd., director in Arison Investments Ltd., Arison Holdings (1998) Ltd., I.D.B. Development Ltd., is a member of the new management committee of the Friends of Ben-Gurion University and a member of the trustees of the Van Leer Institute.

In recent years, the director also served in the following companies: The Israel Corporation Ltd., Eurocom Communications Ltd., Nisco Industries Ltd., Israel Chemicals Ltd., Koor Industries Ltd., Meshulam Levenstein Ltd., Dead Sea Bromine Ltd., Bromine Compounds Ltd.

Likewise, in the past, has filled a series of positions in Bank Leumi Le'Israel Ltd. for 17 years. Inter alia, she served as asset and liability manager for Israeli currency. In her last post at bank Leumi Le'Israel Ltd., served has head of the industry sector in the business division.

(2) Samuel Berkowitz – Has served as a director of the Company since 31.12.96 and is member of the following subcommittees: finance and financial statements examination committee, audit committee, sustainability committee. In the last five years, has served as chairman of "Nir Shitufi" National Association for Settlement of Hebrew Workers in Israel, treasurer of the Moshav Movement, CEO of Brit Siuah.

Likewise, has served as deputy chairman of CAL – Cargo Airlines Ltd, and chairman of the management committee of the Achva Academic College.

(3) **Nir Zichlinski –** As from 26.11.06 has serve as a director of the Company. In addition, serves as a director of Bank Hapoalim Ltd., Shikun & Binui Real Estate Ltd., Shikun & Binui S.B.I. Infrastructures Ltd., Shikun & Binui Renewable Energy Ltd., Shikun & Binui Solel Boneh Building and Infrastructure Ltd., Shikun & Binui Solel Boneh Infrastructures Ltd., Shikun & Binui Water Ltd.

Zichlinski, an accountant holding an MBA in finance from Ben-Gurion University and a BA in business administration from the College of Management in Rishon LeZion. Within the scope of his previous positions, interned in the Somekh Chaikin (KPMG) accounting firm and also served as manager of the technical department. Later, served as senior partner and management team of Ziv Haft (BDO) and served as head of the technical department, department of corporate social responsibility and social-environmental reporting, training department and director of business development.

Serves as president and CEO of SRI Global Group, a leading business group in Israel in the field of socially responsible investment (SRI). The group has four operating segments: SRI Investment, SRI Funds, SRI Consulting and SRI Training.

Formerly deputy CEO and director of business development of companies in the controlling shareholder group: Arison Investments Ltd., Arison Holdings (1998) Ltd., Arison Sustainability Ltd., Arzaf Ltd., Arzaf B (97) Ltd., Arzaf C Ltd., Arzaf D Ltd. and Arshav Holdings Ltd.

Zichlinski has a comprehensive financial understanding in practice and methodology which he conveys to the public at large, which is reflected in the writing and editing of dozens of books, research and articles in the fields of economy-business, accounting, legal, auditing and social and environmental responsibility of businesses. Additionally, Zichlinski has served for more than 18 years as a senior lecturer in universities and academic colleges in Israel, is a member of committees of the Institute of Certified Public Accountants in Israel, the Israel Standards Board and serves as chairman of the Israeli team for writing Israeli Standard 10000.

(4) **Efrat Peled –** has served as a director in the Company since 26.11.06. Serves in her present position as chairman of Arison Holdings (1998) Ltd. and Arison Investments Ltd. and SAFO LLC.

Peled, an accountant with an executive MBA from the international Kellogg-Recanati Program in Tel Aviv University, a BA in economics and accounting from Tel Aviv University and a certificate in the real estate appraisal and property management faculty of Tel Aviv University.

Serves as a director in the following companies: Bank Hapoalim Ltd., Salt Industries Israel Ltd., Av-Ar Capital Investments (1997) Ltd., Miya S.a.r.l Arison Sustainability Ltd., Arison Investments Ltd., Arison Holdings (1998) Ltd., Arzaf Ltd., Arzaf B (97) Ltd., Arzaf C Ltd., Arzaf D Ltd. and SAFO LLC.

In her previous positions, she served as CEO of Arison Holdings (1998) Ltd. and Arison Investments Ltd., bookkeeper of the Ted Arison Family Foundation (U.S.), Ted Arison Family Foundation (Israel) and the Meaning of Life – of the Arison Group, bookkeeper in "Sargad" – chain of roadside convenience stores "Movenpik Marsha", and interned in accounting in the firm of Somekh Chaikin (KPMG) and in the field of property appraisal in the firm of "Danus – Cohen Ltd.".

Efrat has extensive managerial experience that she gained in the Arison Group, in the fields of business and philanthropy in the Israeli and international markets, including management in a range of financial and operative fields. Peled specialized in the management of global pension funds sized at billions of dollars, investment portfolios, financial and operative holdings, Israeli and international taxation, real estate and extensive work with the world's leading international investment banks and financial institutions.

(5) **Israel (Izzy) Tapoohi –** Serves as director from the public in the Company since 19.08.07 (his tenure was renewed on 19.08.2010 for three additional years) and chairman of the audit committee and member of the finance and financial statements examination committee and the sustainability committee. Graduate of Melbourne University in economics, business administration and accounting and is a certified accountant in Israel Australia and Israel.

Upon his immigration to Israel in 1980, worked as an accountant in the firm of Liboshitz, Kassierer & Co. In 1984, was appointed controller and secretary of Pioneer (Israel), and served as vice president and director in the company. In addition, Mr. Tapoohi filled positions with the parent company, Pioneer International – an international construction products company. This company was involved in international financing transactions, dividend planning and international acquisitions.

In 1996, Mr. Tapoohi served as the chairman of Africa-Israel Investments Ltd. In 1997, he was appointed chairman of Bezeq Telecommunication Services Company and the largest corporation in Israel. Likewise, he served as director in Pelephone Communications Ltd, Bezeq International Ltd., D.B.S. Satellite Services (1998) Ltd. (YES) and Pioneer Israel Ltd.

Until 2004, served as CEO of Inqusoft Ltd., a hi-tech company. Presently, Mr. Tapoohi continues to serve as a consultant and investor in the hi-tech industry and is involved in business consulting and in real estate investing.

Mr. Tapoohi serves as a director in Paz Oil Company Ltd., director in Paz Refinery Ashdod Ltd., director in Menora Mivtachim Holdings Ltd., director in Menora Mivtachim Insurance Ltd., director in Strauss Group Ltd. until September 2008 and director in Harel Insurance Investments Ltd. until January 2009, director in Mor Group International Real Estate Ltd., director in Tel Aviv Hameah Properties Ltd., director in Tafi Investment Ltd., director in Belbreeze Holdings Ltd. Within the scope of his position at Strauss-Elite, he guided the largest and most complex merger in the Israeli economy in the last decade.

Mr. Tapoohi is a member of the Israel-Britain Business Council and of several trade office executives. In the past, was a member of the council and advisory committee of the Bank of Israel, the operating committee of the Association of Public Companies listed on the stock exchange.

(6) **Joseph Alshich –** Serves as director from the public since 11.02.08 (on 21.02.2011, his tenure was renewed for three additional years) and is a member of the following board of directors subcommittees: audit committee, finance and financial statements examination committee and human resources committee.

Financial economic analyst, certified mediator, serves as director and chairman of the board in private and public companies. Presently serves as a director of FIBI Holdings Ltd., Lachish Industries Ltd., Netvision Ltd., Harel Investments and Finance Ltd., Mega Retail Ltd., Whitewater Ltd. Also served in the past as chairman of the investment committee of Migdal Insurance Company Ltd., chairman of the board of directors of Na'an Irrigation Enterprises Ltd., Pladot Ltd., Gemel Sarid Ltd., Log Plastic Products Ltd., Mr. Alshich has a BA in economics from the New School of Social Research N.Y.

(7) **Moshe Lahman**y **–** Serves as a director of the Company since 20/06/2010 and is a member of the human resources committee.

Has a degree (with honors) in accounting and economics from Haifa University and is a licensed CPA. Mr. Lahmany serves as deputy CEO of Arison Investments Ltd. and as CFO. In the past, served as Vice-President Global Operations in Amdocs and VP of Finance in 3DV Systems and as a senior manager in the Somekh Chaikin KPMG accounting firm.

Mr. Lahmany also serves as a director in Salt Industries Israel Ltd.

14. Board of directors and management of the Company

A. Below are the changes in the composition of the Corporation's board of directors during the report period

On June 20, 2010, Mr. Moshe Lahmany was appointed a director in the Company.

On June 29, 2010, Mr. Dan Dankner ended his tenure as a director in the Company.

On August 4, 2010, a general meeting resolved to reappoint Mr. Israel Tapoohi as an outside director in the Company.

B. Below are the changes in the composition of the Corporation's senior officers during the report period

On April 27, 2010, Mr. Amy Landau was appointed Director of Concessions Division in the Construction and Roadworks Segment. His term of office actually began on May 23, 2010.

On April 27, 2010, Mr. Amit Segev, Vice CEO was appointed Deputy CEO.

On April 27, 2010, Mrs. Limor Shako, Human Resources Director was appointed Vice President of Human Resources.

15. Insignificant transactions

On March 30, 2010, the Company's board of directors decided to adopt guidelines and rules for the classification of a transaction as an "insignificant transaction", in the meaning provided in Regulation 41(A)(6) to the Securities Regulations (Annual Financial Statements), 2010. These rules and guidelines will also be used to examine the scope of disclosure regarding a Company transaction with a controlling shareholder or for which a controlling shareholder requires its approval for a personal matter as provided in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 ("**Periodic and Immediate Reports")** and in Regulation 54 of the Securities Regulations (Prospectus Details and Draft Prospectus – Structure and Form), 1969, and to evaluate the need for immediate reporting of said transaction of the Company, as provided in Regulation 37A(6) of the Periodic and Immediate Reports Regulations.

In the ordinary course of its business, the Company or its subsidiary may effect transactions with interested parties and undertake to effect transactions with interested parties in connection with the purchase of products or services, including, but not only, transactions of the types and having the characteristics as follows: purchase of banking services, transactions related to the management of monies deposited in provident funds and continuing education funds, communication transactions, purchasing, purchase of insurance (including officers' liability insurance, employee loyalty insurance, insurance of assets and property and managers' insurance), rental transactions, purchases of goods, purchases of services, purchases of consulting services, undertakings in underwriting agreements, etc.

Transactions to which the Company and or its subsidiary is a party, and which meet all of the terms provided below, will be deemed "insignificant transactions":

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

B. The transaction is not classified by the Company as an event requiring reporting under the provisions of Regulation 36 of the Periodic and Immediate Report Regulations;

C. The effect of the expected results of a transaction will not exceed 0.25% (one-quarter of a percent) of the Company's total assets, 1% (one percent of the Company's revenues) and 1% (one percent) of the Company's net income; in this context, the "Company's assets", the "Company's liabilities", the "Company's revenues" and the "Company's net income" – all as provided in the audited annual financial statements (on a consolidated basis) of the Company – the latest ones approved by the Company.

   If the transaction constitutes a stage, unit or part of other transactions that were and/or will be effected by the Company during the 12 months preceding the undertaking in it or the subsequent 12 months – one examination will be made for all such transactions, combined.

D. The amount of the transaction does not exceed NIS 8 million.

The condition included in Par. D. above will be in effect for transactions approved until March 31, 2012. This condition will be examined annually by the board of directors, proximate to the approval date of the Company's annual financial statements.

In cases in which it is the Company's judgment that none of the quantitative parameters mentioned above are relevant to examine the insignificance of an interested party transaction, the transaction will be deemed insignificant, according to another relevant parameter, to be determined by the Company, provided that the relevant parameter calculated for the transaction will be less than one percent (1%) of the relevant parameter.

In examining the insignificance of a transaction that should occur in the future, an examination should be made, inter alia, of the likelihood of its occurrence and the realization of its effect.

An examination of the qualitative considerations of an interested party transaction could lead to a contradiction of the position regarding the insignificance of the transaction, as noted above. For example, and only for illustrative purposes, a transaction will not generally be deemed insignificant if it is viewed as a significant event by the Company's management.

16. Independent directors

The Company did not adopt in its bylaws the provisions regarding the percentage of independent directors, as defined in Section 219(E) of the Companies Law, 1999.

17. Financial statement approval process

The Company organ responsible for approval of financial statements is the board of directors. The financial statements are brought for discussion and approval by the Company's board of directors after the finance and financial statements examination committee of the board of directors discussed them at its meetings and recommended to the board of directors to approve the financial statements before their approval in the board of directors.

There are three directors on the finance and financial statements examination committee (who are also members of the Company's audit committee):

(a) Mr. Joseph Alshich, Chairman of the committee – outside director

(b) Mr. Israeli (Izzy) Tapoohi – outside director

(c) Mr. Samuel Berkovitz

All members of the committee have accounting and finance expertise. For additional information on members of the committee, see Par. 13 to this Report.

A detailed presentation is made before the finance and financial statements examination committee as well as before the board of directors (which discusses the subject after the detailed discussion held in the finance and financial statements examination committee) by officers and others in the Company regarding highlights of the financial statements, significant financial reporting issues, including with respect to transactions that are not in the ordinary course of business, if any, material assessments, critical estimates applied in the financial statements, a discussion on the reasonableness of the data, accounting principles and policies applied and changes in them, including changes deriving from the first time application of new standards, and application of the proper disclosure principle in the financial statements, and for all of these, a discussion was held in the committee and/or the board of directors.

Meetings of the finance and financial statements examination committee to discuss approval of the financial statements were held on 8.3.2011, 13.3.2011 and 24.3.2011. Present at all of these meetings were all members of the committee (Messrs. Joseph Alshich, Izzy Tapoohi and Samuel Berkovitz). Participating in the meetings of the finance and financial statements examination committee on 8.3.2011 and 13.3.2011 were the following senior officers – Ofer Kotler (CEO), Amit Segev (Deputy CEO), Doron Blachar (CFO), Ronit Rosensweig (Controller) and Ronit Biran (Internal Auditor). Participating in the meeting of the finance and financial statements examination committee on 8.3.2011 were the following senior officers – Ofer Kotler, Amit Segev, Doron Blachar and Ronit Rosensweig. Also participating in the meetings of the finance and financial statements examination committee and the board of directors (held on 10.3.2011 and 28.3.2011) dealing with approval of the financial statements were the Company's independent auditor, as relates to the issues arising in discussions of the finance and financial statements examination committee and in board of directors' discussions who presents key matters that arose during the audit or review of the financial statements.

Within the scope of the process of approving the Company's financial statements by the board of directors, several days before the meeting scheduled for financial statement approval, a draft of the Company's financial statements, including the report of the board of directors, is sent for the review of the members of the finance and financial statements examination committee and the other members of the board of directors. Before the meeting of the board of directors, the finance and financial statements examination committee send its recommendations regarding approval of the financial statements and reports to it about any deficiency or problem found in that examination (if any). The board of directors determined that the transfer of the recommendations at least 48 hours before the meeting constitutes a reasonable period of time. To the satisfaction of the board of directors, the committee's recommendations were sent a reasonable amount of time before the discussion by the board of directors, in view of the scope and complexity of the recommendations.

18. Disclosure about auditors' fees

Below are details on auditors' fee broken down as follows:

Fees for audit services, audit-related services and tax services – in NIS thousands.

Other fees – for other services rendered by the auditor – in NIS thousands.

Company	Auditor	2010				2009			
		No. of audit hours	Audit fees	No. hours other fees	Other fees	No. of audit hours	Audit fees	No. hours other fees	Other fees
The Company - Shikun & Binui Ltd.	Somekh Chaikin & Co.	5,996	1,279	1,549	500	4,380	890	1,678	810
Shikun & Binui - Solel Boneh Building and Infrastructure Ltd. and subsidiaries	Somekh Chaikin & Co.	5,457	905	731	259	5,860	946	584	129
Shikun & Binui Real Estate Ltd. and subsidiaries	Somekh Chaikin & Co.	7,143	1,344	445	131	6,650	1,323	-	-
Shikun & Binui SBI Infrastructures Ltd. and subsidiaries	Ziv Haft	2,400	724	1,250	368	2,700	643	1,480	390
	Local auditors overseas	2,817	804	140	110	2,977	919	20	7
Shikun & Binui Real Estate Development B.V.	KPMG Hungary	1,550	853	-	-	1,250	675	-	-
Shikun & Binui Renewable Energy Ltd. and subsidiaries	Fahn Kane					1,720	164	-	-
	Brightman Almagor					200	50	-	-
	Somekh Chaikin	2,044	366	846	313	563	118	40	16
Shikun & Binui Water Ltd. (1) (formerly Orlev Construction Industries and Projects 2000 Ltd.) and its subsidiaries	Fahn Kane	1,200	170	42	20	-	-	-	-

(1) In 2009, included in Shikun & Binui Renewable Energy.

19. Disclosure about internal auditor

A. Name of auditor: Ronit Biran

Start of tenure: 1/3/2007

Capabilities: Accountant, B.A. in economics and accounting, member of the Institute of Internal Auditors. The internal auditor meets the conditions prescribed in Section 3(A) of the Internal Audit Law, 1992 ("Internal Audit Law"), and the provisions of Section 146(B) of the Companies Law and Provision 8 to the Internal Audit Law. To the best of the Company's knowledge, the auditor does not hold any of the Company's securities. The internal auditor is a Company employee and serves as the internal auditor of other Group companies.

B. The auditor was appointed by the board of directors, following the recommendation of the audit committee. The appointment was approved against the backdrop of here education, capabilities, vast experience in internal audit, including as head internal auditor.

C. The organization official in-charge of the internal auditor is the chairman of the board of directors.

D. The Company prepared a multi-year audit program for a 4-year period, in order to encompass most of the activities of the Company and subsidiaries, and the annual program is derived from it. Determination of the work program is based on an assessment of the risks in the activities of the Company and subsidiaries. Likewise, the program considered the existence of reasonable controls and the audit findings of prior years, while consulting with the CEO's of the subsidiaries. The audit program is sent to the CEO and the chairman for review, and is brought for the approval of the audit committee. A significant deviation from the work program is brought for approval of the audit committee.

E. During the audit period, the internal auditor examined interested party transactions, including their approval process.

F. The audit program also relates to the material investees of the Company in Israel and overseas.

For one of the investees (S.B.I. Infrastructures), there is an internal auditor who is a Group employee. Determination of the annual audit program is done in collaboration with the Company's internal auditor. The internal auditor receives the audit reports and also participates in the audit committees of those corporations.

G. The internal auditor is employed on a full-time basis and is also responsible for the internal controls of the Company's investees. The audit in the Company and subsidiaries is performed by the Audit Department, which numbers 4 auditors (including the head auditor) and outsourcing.

Below is a breakdown of the hours invested in internal audits of the Group in 2010:

In the Company	970
In subsidiaries in Israel	3,940
In foreign subsidiaries	2,390
Total	7,300

The scope of the internal auditor's work was reduced by 4% from the last reporting period.

H. The audit was performed according to accepted professional standards and in conformity with the professional guidelines as adopted and published by the Institute of Internal Auditors in Israel, and in conformity with the provisions of the relevant law for each group company, as applicable. The board of directors, through its audit committee, supervises the work of the internal auditor.

I. The internal auditor is given and she has free access in the Company and the subsidiaries to all sources of information, including documents, regular or computerized data based and financial data.

J. The internal audit reports are submitted in writing, after discussions are held with the audited parties on the draft audit reports. The audit reports are distributed to the CEO, the chairman of the board, the chairman of the audit committee and the members of the audit committee, and later, are discussed by the audit committee.

Meetings of the Company's audit committee, in which discussions were held on the audit's findings, were held on the following dates: 28.2.10, 14.4.10, 30.6.10, 22.8.10, 6.10.10, 25.11.10.

Furthermore, 19 discussions were held by the audit committees of the subsidiaries on the audited areas.

K. In the estimation of the audit committee and the board of directors, the scope of the audit work, the manner of work and continuousness of the activity of the work program of the internal auditor are reasonable and enable the achievement of the internal audit objectives of the corporation.

L. The internal auditor receives a monthly salary, including social benefits and related expenses, and, according to a resolution by the board of directors, options were granted to the internal auditor as part of an allotment of options to Company managers according to an outline published in 9/2009. In the board of directors' opinion, the amount of salary and compensation has no effect on the internal auditor's judgment.

Ravit Barniv
Chairman of the Board
of Directors

Ofer Kotler
Chief Executive Officer

March 28, 2011