Shikun & Binui Ltd.
Directors' Report on the State of the Company's Affairs
For the Period Ended June 30, 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 June 30, 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; investment and operations in the renewable energy industry; water treatment in facilities to channel and desalinate water and in the concession sector in projects, mainly in the infrastructure contracting field, 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 concept of sustainability, which requires the integration of financial, environmental and social considerations in management and decision-making processes.

The Group's operations in Israel focus on residential and non-residential real estate development, 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 areas of activity are based on the five growth engines 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 through 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 50 years of experience in infrastructure development overseas, mainly in Africa, Central America and Central Europe. Shikun & Binui – S.B.I. Infrastructures is presently operating in more than ten countries in the fields of construction, roadwork and infrastructure 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, and at the end of 2009, an agreement took effect for a road construction project in Azerbaijan, a state in which it has not operated until now. In order to expand its geographic dispersal, it is adapting its organizational structure with the intention of creating additional geographic business units – and the appointment of managers of geographic regions accordingly.

Shikun & Binui – Solel Boneh (Building and Infrastructure) Ltd. ("Solel Boneh") has focused for 85 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 in the first six months of 2010. In addition to its technical abilities, Solel Boneh also has the ability to independently produce temporary components, recycle building waste, produce asphalt, produce cement and build special bridge projects.

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

- **Real estate development in Israel and outside of Israel** – mainly through Shikun & Binui Real Estate Ltd. (in Israel) and Shikun & Binui Real Estate Development B.V. (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, including 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 in the construction industry in Israel, and most of the buildings whose construction was begun since 2009 are being built under Israeli Standard 5281. Shikun & Binui Real Estate is expanding its activities in the key areas of demand, while emphasizing green projects, such as the Pure residential project in eastern Netanya. Shikun & Binui Real Estate also engages in non-residential real estate activities (commercial, tourism, leisure and offices), intended, inter alia, to generate rental income, from the stage of development, design and performance using green construction methods, such as the student dormitory project at Tel-Aviv University and Seventh Avenue in Beer Sheba, an open shopping mall, and the Seas City mall in Netanya (construction is not yet complete), the design of which 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 Czech Republic, in the development of residential and non-residential projects for sale and the purchase and improvement of homes and commercial space designated to generate rental income. As part of the Company's preparations for financial conditions worldwide, and particularly in the countries in which it operates, the Company has reduced to a minimum the activity in those countries that have not yet recovered from the crisis. 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 to traffic in January 2004) and its expansions, and Segment 18 of the highway (which was opened to traffic in July 2009, about eight months ahead of schedule); construction of the Carmel Tunnels (the project has not yet been opened to traffic, with the opening planned before the end of the year), construction of the water treatment facility in Hadera, its expansion and operation (the water treatment facility opened on May 16, 2010). 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:

  1. Production of photo voltaic solar electricity – initiation, financing, construction and operation of projects for the creation of photo voltaic solar electricity on roofs and properties in Israel and overseas. In Israel, the Company operates within 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.
  2. Thermo solar industry – initiation and development of a thermo solar project with capacity of 120 megawatts within Kibbutz Tze'elim in the Negev, participation in tenders to finance and build thermo-solar projects with a total capacity of 220 mega watts in Ashelim and others. Moreover, the Company is working to acquire technological and engineering capabilities in the thermo-solar field.
  3. Production of energy based on natural gas – initiation and development of projects to produce private electricity based on natural gas in the Ashdod industrial area, with capacity of 100 megawatts and in the Beer Tuviah industrial area with capacity of 400 megawatts.
  4. Energy efficiency – The Company has holdings in PowerSines (21.05%), which is engaged within and outside Israel and overseas in reducing demand for electricity through smart electronic controllers.

- **Water**

  In the water and sewage segment, activities include the design, construction, operation and maintenance of facilities to improve Potable water, the operation of municipal and industrial sewage purification plants, recycling water and providing water and sewer infrastructure management services. The municipal and industrial sewage purification operations in Israel were sold via the sale of shares in the company Nitron Chemtech Ltd., to GES of the Granite Hacarmel Group. The sale is subject to suspending conditions. Furthermore, the Company is working to develop additional technological capabilities and expand the water treatment activities, by building facilities to improve residual water and desalinate sea water.

  Until the end of 2009, the renewable energy and water operations were conducted within a single business unit. At the beginning of this year, the water operations were split from the renewable energy operations, with a view to the company's strategy that the water operations will constitute a growth engine for the Group in the coming years, and the operations were classified as a separate business unit. The Company intends to develop the water segment mainly by acquiring companies operating in this segment, with the goal of creating the engineering capabilities that will enable the initiation and carrying out of projects in this field in Israel and overseas.

C. Global economy

There was a slowdown in the growth rate of the global economy, especially striking in the U.S., in some of the European countries and in China. The last quarter of 2009 and the first quarter of 2010 were characterized by relatively rapid growth in the global economy of 5%, mainly due to government incentive plans.

During the second quarter of 2010, global growth stabilized at the annual rate of 3.5%, due to reduced demand by U.S. consumers, extensive cutback programs in Europe and a decrease in budget deficits.

In the U.S. - the growth momentum weakened and the rate of recovery from the recession was slower than in the past. The trend in private consumption is positive, but it is not leading to the creation of new jobs. The real estate market – mainly commercial real estate – has not yet recovered. The second quarter was impacted by incentives, such as building business inventories, mainly equipment, tax benefits for the purchase of new homes.

In the Euro bloc – Economic improvement is evident, mainly in the industrial sector, which is based on growth in exports to emerging countries. The Procurement Managers Index in the Euro bloc shows continued demand for the products exported by the Euro bloc – especially in view of the weakness of the euro against the dollar. The Consumers' Confidence Index of the Euro bloc continues to improve, against the backdrop of improved German economic data and the sense that the credit crisis in Portugal, Ireland, Greece and Span is not expected to pull the European economy into another recession.

Israeli economy

Economic data continued to indicate expansion in economic activity, although it appears that the rate of expansion has slowed. Industrial exports fell during the second quarter of the year, as did the Procurement Managers' Index, a fact that points to expectations for a slump by the industrial sector.

According to the Bank of Israel's survey of companies, business activity continued to expand during the first half of the year, although in the second quarter, it was slower than in the first quarter. The fact that the economy is in a positive growth surge is also based on the increase in revenues in the trade and services sectors and in the sales of retail chains.

The unemployment rate continued to fall, to a level of 6.5% in May and salaries are rising.

The annual inflation rate, from the June 2009 CPI until the June 2010 CPI returned to the target – an increase of 2.4%.

Construction industry

In the months January – May 2010, there was a gradual recovery in the industry's activity. The number of transactions in homes (including second-hand units) and the sale of new homes rose gradually. The growth was due mainly to the increase in investment in residential construction, net of the decrease in non-residential and infrastructure construction.

Residential construction

According to data published by the Bank of Israel, home prices rose sharply in the last year by 21%, whereas rental prices rose by 5%. The large gap between the two creates the possibility that home rental prices will continue to rise. The effect of the low interest on the real estate market raises the uncertainty and creates a deviation from the Government's inflation target for the next 12 months, which according to the Bank of Israel stands at 2.6%, and according to assessments by the capital market, exceeds 3%.

According to data published by the Ministry of Construction and Housing, in the months January – May 2010, there was an increase in new home sales to the public, although most of the transactions (more than 70%) were effected in the second-hand market.

There was a corresponding increase in the volume of mortgage loans taken by the general public – to which the low interest on linked-mortgages contributed, especially on variable interest mortgages based on prime.

According to data published by the Ministry of Construction and Housing, the directive to banks dated May 24, 2010 regarding the more stringent credit terms instituted for taking a mortgage at a rate exceeding 60% of the home's value, as well as restrictive guidelines related to the issuance of credit to buying groups, contributed to a significant increase in the volume of mortgages taken in May, and even more so in June 2010.

Alongside demand for homes, some data indicate a further increase in home prices in the first half of 2010 and on an ongoing decrease in the inventory of new homes offered for sale by the private sector, due to factors including the level of building starts, which stands at 34,000 units annually, whereas according to the Ministry of Construction and Housing, demand stands at 50,000 units annually, originating mainly in the addition of households (about 40,000) and the addition of homes for investment (about 10,000).

Non-residential construction

Indicators of the Central Bureau of Statistics and the Ministry of Construction and Housing for the months January – May 2010 point to a continuation of the decrease in investments in non-residential construction, compared with the same period last year. The improvement indicated in the state of the economy could lead to a gradual improvement in the future in the price levels and in reducing supply.

Investments in infrastructure and roads

According to Central Bureau of Statistics' estimates, the decline in investments in infrastructure and roads continued in the first half of 2010, which was driven by factors including the non-start of large projects, such as: the Tel Aviv light railway project, the tunnels to Jerusalem, Highway 531 and the City of IDF Training Bases.

D. Significant events during report period and subsequent to balance sheet date

Dividend distribution to shareholders

On May 9, 2010, the Company's board of directors resolved to distribute a dividend totaling NIS 110 million, which 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.

Options to managers

Under the terms of the option plan from 2009, on March 24, 2010 and on May 16, 2010, a total of 750,000 and 250,000 options, respectively, were granted 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 4.C to the Company's financial statements.

Additionally, on August 22, 2010, a total of 250,000 options were allotted to officers in a subsidiary, representing 0.06% of the company's share capital on a fully-diluted basis.

The fair value of the benefit is NIS 1 million. For additional details, see Note 5D to the Company's financial statements.

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.

Negotiations for allotment of shares in Carmelton

Carmelton, a jointly-held company of the Group with a 50% stake, is negotiating to allot 10% of its share capital to a party not related to the Company or to the other shareholders of Carmelton. The conclusion of the negotiations and execution of the transaction are also subject to various due diligence processes by the said third party and there is no certainty that the shares will be allotted and what the terms of the allotment will be. The Company's management assesses that if and to the extent the allotment will be completed, the Company is expected to recognize a gain in its financial statements in respect of a revaluation of its holdings in Carmelton.

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 to sell water as planned. Construction of the facility, including its expansion, ended earlier than the dates prescribed in the concession agreement, and came in under budget.

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.

Issuance of debentures

Subsequent to the reporting date, during August 2010, the Company issued (an expansion) of Series 3 and 4 debentures totaling NIS 250 million – for additional details, see Par. 6 of this Report.

Financial closing of the Northern Highway project

On June 30, 2010, the financial closing of the project awarded to the Company, to rehabilitate, 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. For additional details, see Note 4.G to the Company's financial statements.

Ibadin-Ilorin Highway project in Nigeria

On July 7, 2010, the Company announced that a subsidiary had undertaken with the Nigerian government to build a contracted project, paving a segment of the Ibadan-Ilorin Highway in Nigeria. The duration of the rehabilitation and paving project is expected to last for 4 years, with the proceeds for building the project totaling $290 million.

Acquisition of holdings in Derech Eretz

Subsequent to the reporting date, on August 19, 2010, the Company informed the remaining shareholders in Derech Eretz Highways (1997) Ltd. (an affiliate – "Derech Eretz") about exercise of the right of first refusal granted to it to acquire 25% of the holdings and shareholder loans in Derech Eretz and entered into an agreement in principle to sell half of those holdings acquired (the said 12.5% of the holdings and shareholder loans in Derech Eretz) to a third party, which is not related to the Company, as provided below.

Derech Eretz is a company engaged in the financing, construction and operation of a toll highway known as "Trans-Israel Highway" or "Highway 6", including the collection of payments from those using the highway, under the terms of its concession contract with the State. Immediately before exercising the right of first refusal, as aforesaid, 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 Canadian Highways Investment Corporation, a Canadian company that is not related to the Company (which holds 25% in Derech Eretz ("CHIC").

For additional details, also see Note 18.A(6) to the annual financial statements as of December 31, 2009.

In July 2010, CHIC entered into an agreement for the sale of its holdings in Derech Eretz (25%) and its rights in shareholder loans to Derech Eretz to Israel Infrastructure Fund, an Israeli partner 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"). As noted previously, 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. The said acquisition of holdings is subject to obtaining the consent of those financing the project, the State and relevant regulatory approvals.

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 that date, an agreement in principle was signed between the Company and the Fund regarding the holdings structure in Derech Eretz. In the agreement in principle it was agreed that the Company is selling 50% of the assets included in the CHIC transaction (i.e. 12.5% of the holdings in Derech Eretz and shareholder loans) to the Fund, in consideration for and at terms similar to those at which the Company is acquiring the same assets from CHIC, and subject to obtaining the consent of those financing the project, the State and the relevant regulatory approvals. It was further agreed in the agreements in principle that the remaining terms of the agreement between the Fund and the Company regarding the holdings in Derech Eretz, the management of Derech Eretz, etc. ("agreement with the Fund"), would be discussed and agreed between the Company and the Fund.

In view of the aforesaid, upon and subject to the closing of the above transactions, the Company and the Israel Infrastructure Fund will each hold 50% in Derech Eretz.

Until the date of the transactions described above, based on its holdings structure in Derech Eretz, the Company exerted significant influence in Derech Eretz. Upon and subject to the closing of the aforementioned transactions, the Company and the Israel Infrastructure Fund will jointly control Derech Eretz (joint control). As a result of 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 based on the price derived from the aforementioned transactions.

Consequently, and subject to the closing of the said transactions and the execution of the agreement with the Israel Infrastructure Fund, the Company is expected (based on a preliminary calculation) to recognize a gain in its financial statements of NIS 150-200 million.

2. Business results

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 – This activity was split from the renewable energy operations, in order to develop the activity as a growth engine. This activity is carried out through Orlev Industries Construction and Projects 2000 Ltd.
- Concessions – includes concession activities in Israel; carried out directly and through affiliates: Derech Eretz Highways (1997) Ltd., Carmelton Group Ltd. and H2ID 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.

For additional information, see Note 7 to the financial statements of the Company.

A. Revenues from projects and sales

	For the six-month period ended June 30		For the three-month period ended June 30	
	2010	2009	2010	2009
	NIS millions		NIS millions	
Infrastructure and construction outside of Israel	1,282	1,208	666	603
Infrastructure and construction in Israel	671	698	365	348
Real estate development in Israel	310	426	146	169
Real estate development outside of Israel	3	4	2	3
Renewable energy	37	26	16	12
Water	27	25	15	14
Other	-	1	-	-
Adjustments	(60)	(50)	(28)	(25)
Total consolidated	2,270	2,338	1,182	1,124

Revenues from projects and sales in the first six months of 2010 totaled NIS 2,270 million, compared with NIS 2,338 million in the same period last year. The principal changes that occurred in the first six months of the year, compared with the same period in 2009, are as follows: a decrease of NIS 116 million originating in real estate development in Israel. The decrease in turnover in this segment is due to the fact that the Company is able to recognize revenues from the sale of homes when they are handed over to the customer – and not when actually sold, and in the first six months of 2010, the Company recognized a lower number of homes being occupied than last year (184 housing units, compared with 278 units recognized in revenues last year).

There was also a decrease of NIS 27 million in revenues from the infrastructure and construction in Israel segment, resulting from completion of the work on Segment 18 of Highway 6. Contrarily, revenues from the infrastructure and construction segment outside of Israel segment increased by NIS 74 million. It should be noted that changes in the shekel/ dollar exchange rate have an offsetting effect against the growth in revenues, and had the dollar rate not decreased in comparison with last year, a further increase in revenues of NIS 105 million would have been posted in this segment.

Revenues from projects and sales in the second quarter of the year increased by NIS 58 million compared with Q2 2009, totaling NIS 1,182 million. The principal changes compared with the same period last year are as follows: an increase of

NIS 63 million in the infrastructure and construction outside of Israel segment, an increase of NIS 17 million in the infrastructure and construction in Israel segment, whereas a decrease of NIS 23 million was posted in the real estate development in Israel segment.

B. Gross profit

	For the six-month period ended June 30		For the three-month period ended June 30	
	2010	2009	2010	2009
	NIS millions		NIS millions	
Infrastructure and construction outside of Israel	277	308	145	131
Infrastructure and construction in Israel	39	34	23	17
Real estate development in Israel	128	138	62	68
Real estate development outside of Israel	-	-	-	-
Renewable energy	7	1	4	1
Water	6	4	4	4
Other	-	1	-	-
Adjustments	(3)	(3)	(1)	(2)
Total consolidated	454	483	237	219
	====	====	====	====

Gross profit in the first six months of the year totaled NIS 454 million, compared with NIS 483 million in the same period last year. In the first six months of the year, the gross margin fell to 20%, compared with 21% in the first six months of 2009. The decrease in gross profit was driven mainly by the infrastructure and construction outside of Israel segment, NIS 31 million, due mainly to the 8% drop in the dollar exchange rate compared with the same period last year. The decrease in gross margin is due mainly to the receipt of final accounts and approval of exceptional claims that contributed to additional receipts and to high profitability in the same period last year, and due to the initiated postponement during the report period of construction of a project, which placed the segment's gross margin at 22% compared with last year's 25%.

Gross profit in the second quarter of the year increased by NIS 18 million compared with Q2 2009, amounting to NIS 237 million. Most of the change in gross profit was driven by the infrastructure and construction outside of Israel segment, but the gross margin in this segment remained unchanged compared with Q2 of last year, at 22%.

C. General and administrative expenses

General and administrative expenses totaled NIS 145 million in the first six months of the year, an increase of NIS 21 million compared with the same period last year (NIS 124 million). Most of the change was driven by the increase in salaries, which originated in the recognition of the value of the benefit for employee and manager options (NIS 7 million) and to the further expansion of the renewable energy segment and the adapting of the organizational structure to the expanding volumes of activity outside of Israel, including the entry into new countries. Additional growth originated in the expenses of a marketing campaign (NIS 3 million).

General and administrative expenses rose in the second quarter of the year by NIS 14 million compared with Q2 2009, totaling NIS 73 million.

D. Other operating income (expenses), net

These expenses totaled NIS 14.6 million in the first six months of the year, compared with net expenses of NIS 1 million in the same period last year. Presented below are details of the key income and expenses included in this item:

	For the six-month period ended June 30		For the three-month period ended June 30	
	2010	2009	2010	2009
	NIS millions		NIS millions	
Capital gain (loss) from realization of fixed assets	(0.3)	0.5	(0.6)	0.1
Provisions for loss expected from sale of shares in subsidiary	(5.6)	-	(5.6)	-
Capital gain from the realization of investments in consolidated companies	-	0.8	-	0.8
Impairment loss on assets, net	(1.6)	-	-	-
Provisions for balances, realization of which is doubtful	(3.6)	-	(3.6)	-
Expenses of the efficiency plan	(0.6)	(1.6)	(0.6)	(1.6)
Other, net	(2.9)	(0.7)	(0.6)	-
	(14.6)	(1)	(11)	(0.7)

E. Operating income

	For the six-month period ended June 30		For the three-month period ended June 30	
	2010	2009	2010	2009
	NIS millions		NIS millions	
Infrastructure and construction outside of Israel	216	254	113	105
Infrastructure and construction in Israel	7	2	6	1
Real estate development in Israel	96	113	51	61
Real estate development outside of Israel	(6)	(6)	(2)	(4)
Renewable energy	(5)	(4)	(1)	(2)
Water	(7)	1	(6)	1
Other	(3)	(4)	(2)	(2)
Adjustments	56	45	26	24
Total according to operating segments	354	401	185	184
Expenses of all segments	(64)	(46)	(31)	(22)
Total operating income	290	355	154	162

Operating income in the first six months of 2010 totaled NIS 290 million, a decrease of NIS 65 million, compared with the same period last year, driven mainly by the NIS 38 million decrease in operating income expressed in the infrastructure and construction outside of Israel segment, mainly due to the expansion of volumes of activity outside of Israel, including the entry into new countries, and by the increase in the expenses of all segments, totaling NIS 18 million.

Operating income in Q2 2010 fell by NIS 8 million compared with the same quarter last year, amounting to NIS 154 million.

F. Net financing costs

Net financing expenses totaled NIS 61 million in the first six months of 2010, compared with NIS 127 million in the same period last year. NIS 41 million of the decrease in net financing expenses (which totaled NIS 66 million) was driven mainly by the hedging of foreign currency transactions. The Company executes transactions to hedge part of its foreign currency exposure in its financial statements. In the first six months of the year, there was an offsetting effect – offsetting almost the entire effect of the change in exchange rates included in financing expenses. Contrarily, in the same period last year, the hedge transactions only partially offset the currency exposure. Furthermore, there was a NIS 27 million decrease in financing expenses related to long-term credit (mainly CPI-linked), as a result of the decrease in the volume of credit and the 0.4%

increase in the CPI in the first six months of the year, compared with an increase of 1.15% in the same period last year.

Net financing expenses in the second quarter of the year fell by NIS 40 million compared with Q2 2009, amounting to NIS 48 million. NIS 20 million of the decrease in net financing expenses was due mainly to hedging of foreign currency transactions and additional NIS 18 million originated in the decrease in financing expenses attributable to long-term credit.

G. Taxes on income

Tax expenses totaled NIS 66 million in the first six months of 2010, compared with NIS 77 million in the same period last year. Most of the NIS 11 million decrease in tax expenses was due to the fact that last year, a foreign subsidiary declared a dividend which generated a tax liability at the rate of 5% (NIS 32 million). Contrarily, there was an offsetting effect that reduced tax expenses in the same period last year, due to the recognition of a tax asset of NIS 20 million on the accrued losses of a subsidiary, the utilization of which is expected in the coming years.

Tax expenses in the second quarter of the year totaled NIS 36 million, compared with NIS 35 million in Q2 2009.

H. Income of investees, net

The Company's equity in results of affiliates in the first six months of 2010 amounted to income of NIS 9 million, compared with a loss of NIS 23 million in the same period last year. The change of NIS 32 million was due mainly to the fact that last year, losses were posted related to the effect of the revaluation of the State's option on the results of Derech Eretz (Company's share of NIS 10 million), to the results of foreign investees (a NIS 6 million decrease in the loss) and to the results of an affiliate engaged as a concessionaire, which recognized financing income in the first quarter of the year as a result of the erosion of the euro exchange rate (Company's share is NIS 20 million).

The Company's equity in the results of affiliates in the second quarter of the year amounted to a loss of NIS 5 million, compared with income of NIS 1 million in Q2 2009.

I. Net income for the period

Net income in the first six months of 2010 rose by 34%, compared with the same period last year, amounting to NIS 172 million, compared with NIS 128 million in the same period last year.

Net income in Q2 2010 increased by 60% over the same period last year, amounting to NIS 66 million, compared with NIS 41 million last year.

3. Orders backlog

The Company's orders backlog in construction and infrastructure contracting totals NIS 9.4 billion as at June 30, 2010 of which NIS 7.5 billion ($1.9 billion) is for overseas activity. At the end of last year, the Company's orders backlog in this area totaled NIS 7.8 billion, of which NIS 6.1 billion ($1.6 billion) is for activity outside of Israel. The orders backlog has increased by 20% since the beginning of the year.

4. Liquidity and financing sources

- Cash flows from operating activities in the first six months of 2010 increased by 81% compared with the same period last year, and totaled NIS 271 million, compared with NIS 150 million in the same period last year. Cash flows from operating activities were provided mainly by current income, after neutralizing depreciation expenses and changes in working capital.
- Cash flows from investing activities were used by the Company mainly in investments in fixed assets, which totaled NIS 171 million, to support the expansion of infrastructure activities outside Israel. Cash flows used in investing activities in the first six months of 2010 totaled NIS 139 million, compared with NIS 200 million used by the Company in the same period last year. The change was driven mainly by the proceeds from settlement of derivatives (execution of hedge transactions) totaling NIS 49 million, which were received during the quarter.
- Cash flows used by the Company in financing activities totaled NIS 181 million in the first six months of 2010, compared with NIS 240 in the same period last year. In the first six months of 2010, the Company repaid credit totaling NIS 315 million and paid a total of NIS 83 million in interest. The Company also paid a dividend to shareholders totaling NIS 108 million (see Par. 1.D of the Report). Contrarily, the Company received credit totaling NIS 332 million.
- In contrast, in the same period last year, the Company repaid NIS 214 million in credit and paid interest of NIS 112 million. Against this, the Company received credit of NIS 86 million.

The Company's working capital totaled NIS 541 million in the first six months of 2010, compared with NIS 485 million at the end of 2009.

The Company has balances of cash and cash equivalents of NIS 1,147 million and unutilized credit facilities totaling NIS 725 million.

	Debentures and bank credit	Cash and cash equivalents	Pledged deposits	Net
	NIS millions			
Infrastructure and construction outside of Israel	9	714	20	(725)
Infrastructure and construction in Israel	7	72	57	(122)
Real estate development in Israel	631	270	29	332
Real estate development outside of Israel	528	25	5	498
Renewable energy	45	8	5	32
Water	20	1	4	15
Company headquarters	2,584	57	316	2,211
Total consolidated	3,824	1,147	436	2,241

5. Financial position

A. Shareholders' equity

Shareholders' equity as of June 30, 2010 stands at NIS 609 million, compared with NIS 508 million as at December 31, 2009. The increase in equity is driven mainly by the income of the first six months of 2010 (NIS 172 million), translation adjustments of the financial statements of foreign subsidiaries (totaling NIS 34 million), which are prepared mainly in the dollar and euro, the recognition of the benefit from issuance of options to employees and executives totaling NIS 10 million, which are offset by a dividend paid to shareholders of NIS 108 million, a dividend paid to the minority interest of NIS 5 million and by a reserve for hedge transactions of NIS 4 million.

B. Current assets

The balance of the Company's current assets totaled NIS 4,138 million as of June 30, 2010.

The balance of current assets increased by NIS 49 million in the first six months of 2010, compared with the end of last year. The main changes derive from an increase of NIS 188 million in the inventory of buildings for sale, of which NIS 64 million was for placing properties in service, NIS 50 million for investment in commercial centers, such as Netanya City of the Seas mall and "Seventh Avenue" (a shopping and entertainment center in Beer Sheba), and investments in projects under construction. An increase was also posted in accounts receivable and other debit balances of NIS 52 million, an increase of NIS 23 million in deposits and companies and an increase in investments and derivatives of NIS 33 million, as well as an increase in assets held for sale totaling NIS 19 million, due to the sale of the sewage purification facilities. Contrarily, a decrease of NIS 162 million was posted in short-term loans given to affiliates (NIS 136 million of the loans given to an affiliate in Spain were repaid in the first quarter of the year) and a further decrease of NIS 26 million originating in the decrease in the euro exchange rate, which eroded the value of the said loan, since the Company had executed a hedge payable in the euro currency. Against this, there was an increase in other investments and derivatives, of which an increase of NIS 26 million was due to the hedge transactions on the euro, a decrease of NIS 86 million in trade receivables (NIS 50 million outside of Israel), and a decrease of NIS 33 million in cash.

C. Non-current assets

The Company's non-current investments total NIS 3,449 million, an increase of NIS 165 million compared with the end of 2009. Most of the change occurred in loans to investees, due to the NIS 130 million in loans given to an affiliate in the water desalination field.

In the report period, fixed assets increased by NIS 117 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 receivables for concession agreements of NIS 9 million, as a result of the progress in the student dormitory project in Tel-Aviv. Contrarily, a decrease of NIS 59 million was posted in inventory of properties – NIS 36 million in Israel and NIS 23 million overseas. The entire decrease was due to the eroding euro exchange rate. The decrease in properties in Israel was due mainly to the placing in service of properties totaling NIS 64 million for the project in Kiryat Ono (NIS 30 million) and for the Netanya East project (NIS 23 million). Payments totaling NIS 26 million were posted for the purchase of property. Likewise, a decrease of NIS 29 million was posted in long-term receivables, loans and deposits, due to erosion from changes in the euro exchange rate.

D. Current liabilities

Current liabilities decreased by NIS 6 million in the first six months of 2010 compared with the end of 2009, totaling NIS 3,597 million. The principal changes are: a decrease of NIS 141 million in the balance of payables – customers who ordered projects (NIS 139 million outside of Israel), due to the progress in projects and utilization of the advances received in the projects in Nigeria, a decrease of NIS 157 million in short-term credit, due to erosion of NIS 30 million in euro credit, a change in the terms of short-term credit, totaling NIS 40 million and its becoming long-term credit, and current repayments. Posted against this was an increase of NIS 178 million in the balance of customer advances, mainly home buyers in Israel. Furthermore, an increase of NIS 77 million was posted in the balance of provisions (mainly due to projects outside of Israel) as well as an increase of NIS 22 million in other payables and credit balances.

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 3,156 million as of June 30, 2010, an increase of NIS 114 million compared with the end of 2009. Most of the net increase is due to the receipt of additional credit (NIS 332 million), which was offset by the current repayment of the aforementioned liabilities (a total of NIS 270 million).

Other liabilities (due to employee benefits, deferred taxes, long-term provisions and surplus losses accrued in affiliates) total NIS 224 million, an increase of NIS 5 million compared with the end of 2009.

Information on debentures

Series 2 - debentures

Issue date	April 18, 2008 (in March 2010, the series was replaced by Series 4)
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
Balance of par value outstanding, revalued according to linkage terms:	NIS 673,320,121
Linked interest 5.2%, accrued interest amount as of 30/06/2010	NIS 7,002,529
Market value of NIS 1 par value as of 30/06/2010:	1.2234

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

Interest is paid twice a year, on April 18^{th} and October 18^{th} 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).

According to 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 liquidator for the Company, which will not be cancelled within 30 business days, the downgrading of the debentures below an A3 rating by Midroog (a debenture rating company), 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 balance sheet date and as of the approval date of this Report, none of the aforementioned events occurred.

Series 4 - debentures

Issue date	March 4, 2010 (the series was expanded according to the shelf offering dated August 4, 2010)
Trustee:	Hermetic Trust (1975) Ltd. 113 Hayarkon Street, Tel Aviv
Par value on issue date:	NIS 492,000,000
Balance of par value outstanding as of 30/6/2010:	NIS 492,000,000
Balance of par value outstanding, revalued according to linkage terms:	NIS 497,178,947
Linked interest 4%, accrued interest amount as of 30/6/2010	NIS 7,689,701
Market value of NIS 1 par value as of 30/6/2010	1.0766

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

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

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

Series 3 - debentures

Issue date	September 29, 2009 (the series was expanded according to the shelf offering dated August 4, 2010)
Trustee:	Clal Finance Trust (2007) Ltd. 37 Menachem Begin Street, Tel Aviv
Par value on issue date:	NIS 200,000,000
Balance of par value outstanding as of 30/6/2010:	NIS 200,000,000
Unlinked interest 7.9%, accrued interest amount as of 30/6/2010	NIS 5,266,667
Market value of NIS 1 par value as of 30/6/2010	1.1153

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 issued (an expansion) additional debentures (Series 3) totaling NIS 89,206 thousand par value of debentures, NIS 1 par value each (expansion of Series 3). The offering proceeds totaled NIS 101 million (net proceeds after issue costs total NIS 100 million). The expansion of the series (Series 3) was executed according to a shelf offering report 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.

Pursuant to 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 balance sheet date and the report approval date, none of the above events have occurred.

7. First-time application of accounting standards

A. As from January 1, 2010, the Group applies IFRS 3 (2008) Business Combinations and IAS 27 (2008) Consolidated and Separate Financial Statements. For additional information, see Note 3.A.1 to the Company's financial statements.

B. As from January 1, 2010, the Group applies the Amendment to IAS 17, Leases, Classification of Leases of Land and Buildings ("the Amendment"). Adoption of the Amendment was retroactive. For additional information, see Note 3.A.2 to the Company's financial statements.

8. Reporting on market exposure and risks and their management

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 Periodic Report).

The Company maintains controls over the exposure to market risks. No material change has occurred in these risks and in the report according to linkage basis in the first six months of 2010, compared with that provided in the annual report as of December 2009 (also see Note 33 to the annual financial statements).

9. Sensitivity tests

Sensitivity analyses as of 30.6.10 constituting a material change compared with sensitivity analysis as of 31.12.09

Presented below is a sensitivity table for sensitive instruments based on the changes in market factors as of June 30, 2010 relevant for the Company, based on the risks to which it is exposed. The sensitivity analyses were performed for financial instruments whose sensitivity to changes in the different risk factors is material, relative to the sensitivity analyses performed as of December 31, 2009.

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	(28,569)	(14,728)	457,402	15,692	32,410
Long-term loans received	5,321	2,642	(517,504)	(2,690)	(5,382)
Debentures	33,528	16,883	(2,388,245)	(17,126)	(34,498)

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 dollar rate			In dollar rate	
	NIS thousands				
Dollar/NIS forward	5,260	2,631	1,990	(2,631)	(5,260)
Raw materials forward	(54)	(27)	(540)	27	54

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	4	2	2	(899)	(2)	(2)	(4)
Dollar/NIS forward	13	9	4	1,990	(4)	(9)	(13)

The sensitivity analysis of shekel interest includes an additional scenario (16% higher and 16% lower), which tests 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	(14)	(6)	(4)	1,990	4	6	14

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

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	2,188	1,094	(899)	(1,094)	(2,188)

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/NIS forward	(2)	-	(899)	-	2

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%	Decreas e of 14%
	in raw material prices				in raw material prices		
	NIS thousands				NIS thousands		
Forward	1,595	1,139	570	(540)	570	(1,139)	(1,595)

On 31.12.2008, there was a daily change of 14% in raw material prices – the most extreme daily change occurring in the last 10 years.

Additional data:

1. For the purpose of sensitivity tests on dollar/NIS forwards, dollar interest rates of 0.355%-1.258% were taken into account and NIS interest rates of 0.53%-1.511%.
2. For the purpose of sensitivity tests on euro/NIS forwards, euro interest rates of 0.5%-0.966% were taken into account and NIS interest rates of 0.735%-1.46%.

Instruments for hedges not 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	(10,680)	(5,340)	13,885	5,340	10,680

Sensitivity to changes in dollar interest rate

	Gain (loss) from changes in interest rate			Fair value	Gain (loss) from changes in interest rate		
	Increase of 15%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 15%
	NIS thousands						
Euro/dollar forward	(77)	(51)	(26)	13,885	26	51	77

The sensitivity analysis of dollar interest includes an additional scenario (15% higher and 15% lower), which tests the most extreme daily change that occurred in the last ten years.

Sensitivity to changes in euro interest rate

	Gain (loss) from changes in interest rate		Fair value	Gain (loss) from changes in interest rate	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	NIS thousands				
Euro/dollar forward	42	21	13,885	(21)	(42)

Sensitivity to changes in nominal NIS interest rate

	Gain (loss) from changes in interest rate			Fair value	Gain (loss) from changes in interest rate		
	Increase of 16%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 16%
	NIS thousands						
Euro/NIS forward	(504)	(315)	(157)	21,013	157	315	504
Euro/NIS option	(73)	(46)	(23)	(367)	23	46	73

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

Sensitivity to changes in euro interest rate

	Gain (loss) from changes in interest rate		Fair value	Gain (loss) from changes in interest rate	
	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%
	NIS thousands				
Euro/NIS forward	212	106	21,013	(106)	(212)
Euro/NIS option	24	17	(367)	(17)	(24)

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	(43,474)	(21,737)	20,013	21,737	43,474
Euro/NIS option	(3,915)	(1,864)	(367)	1,902	4,364

Sensitivity to changes in the 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	(34)	(17)	(367)	18	37

Additional data:

1. The sensitivity analyses are based on the representative dollar exchange rate as of 30.6.10 – NIS 3.875.
2. The sensitivity analyses are based on the representative euro exchange rate as of 31.6.10 – NIS 4.7575.

10. Sustainability

The Group has championed the vision of creating a sustainable and progressive living environment within and outside Israel, and promotes it in the industries in which it is engaged worldwide and particularly in the Israeli economy. Sustainability is a concept that requires the integration of economic, environmental and social considerations in the management and decision-making processes. The basic assumption is that conduct according to the sustainability approach will assure the Company's long-term business sustainability, and will enable the Company to be more competitive, relevant and attractive to its customers than its competitors.

Conforming to the principles of sustainability assures that the Company will not only have thought-out risk management and monetary savings, but will also have the creation of economic value, deriving from the identification of new solutions for existing challenges.

The Group is in the ongoing process of implementation of new modes of operation, in accordance with the principles of sustainability, inter alia, in its approach to solving challenges in the areas of human resources, in the sustained development of projects and challenges and in the treatment of construction waste. During the first half of 2010, the Company continues to implement many processes in its activities that reflect this approach, including:

- Implementation of Site Management standard according to sustainability principles – The subsidiaries implement the standard in the newly opened sites and in some of the existing sites.
- Prescribing policy documents – Formulating the sustainability policy documents, including in purchasing and environmental policies.
- Measurement of sustainability activities – Examining the activities of the Group companies as relates to implementation and integration of sustainability by using two main indices:
    - SAM Index – During the second quarter of 2010, the Group companies measured themselves according to the SAM measurement process (http://sam-group.com), the company that carries out the sustainability index of Dow Jones (Dow Jones Sustainability Index – DJSI). The measurement was done as part of the Company's decision to aspire to conform to international indices and adopt *best practices* as relates to sustainability. Presently, the Company is in the process of formulating a plan to institute those actions necessary to improve the grades it will achieve in future measurements according to this index.

- Internal measurement – As from the second quarter of 2010, the Company's management has begun to also evaluate the sustainability reporting in the activities of the Group companies. The reports enable the measurement of the activities of each of the Group companies, in different aspects of sustainability, such as: management of business partnerships, site management, collaboration with stakeholders, management of safety and hygiene, management of human resources and evaluation of vendors.

- Collaboration of stakeholders – The Company continues to prepare procedures to bringing stakeholders into its projects, which will facilitate the advancement of projects while assuring collaboration with stakeholders in the projects and formulation of solutions for significant issues they face.
- Assimilation of sustainability principles with employees –All Group employees in Israel have attended sustainability seminars in order to assimilate the values of sustainability and the Company is continuing to hold seminars for new employees hired by the Company.

11. Social involvement and contribution to the community

As part of the sustainability vision of Shikun & Binui, the Company works to advance activities on behalf of the community – mainly in activities with children and youth.

Correspondingly, the Company focuses on green environmental education, with the objective of creating environmental awareness and loyalty among the younger generation.

The Shikun & Binui Group strives to realize the power of the Group – its size, resiliency and broad national dispersal, in adopting projects having significant impact.

The Group has chosen a principle of action that includes strengthening the value of giving and channeling human capital to action in the wide range of the Group's unique fields of knowledge, thereby enabling its employees to take part in activities that give expression to the added professional value of the Group, in order to bring about change, facilitated by the added value of Shikun & Binui's employees and managers.

The Group is now engaged in several activities on behalf of the community, including:

- Collection and purchase of hundreds of parcels of food, clothing and various consumer goods for needy families and associations.

- Adoption of three schools in the central region to strengthen education in the field of sustainability, by financing activities/tours and professional content, which contribute to enriching the knowledge of the children and teachers about sustainability.
- Scholarships for students of environmental studies.
- Activities on behalf of IDF servicemen, including the adoption of a brigade as part of the "Adopt a Combat Soldier" project, and the contribution of equipment.
- Funding and carrying out activities to advance education, culture and health in specific communities, working with associations that promote values of environmental protection.
- Participation in "Good Deed Days", led by the Good Spirit Association, with the participation annually of employees in welfare activities with children from low socioeconomic backgrounds.

12. 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, 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: Irit Izacson, Shmuel Berkovitz, Nir Zichlinskey, Efrat Peled, Moshe Luhmany, Israel (Izzy) Tapoohi and Joseph Alshech.

13. Board of directors and management of the Company

Below are the changes in the composition of the Corporation's board of directors during the report period and subsequent to the report date

On April 27, 2010, Mr. Amy Landau was appointed Director of Concessions Division in the Construction and Roadwork Sector. His tenure actually began on May 23, 2010.

On June 20, 2010, Mr. Moshe Luhmany was appointed a director of the Company.

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

Appointments among the corporation's officers

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

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

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

14. Company preparations for reporting on internal controls on financial reporting and disclosure

On November 24, 2009, the Finance Committee of the Knesset approved the proposal by the Securities Authority to adopt regulations dealing with the internal control system on financial reporting and disclosure in a corporation, so they will provide a reasonable degree of assurance on the propriety of the financial statements and their compliance with the provisions of the law (Securities Regulations (Periodic and Immediate Reports) (Amendment No. 3), 2009) (**"the Amendment"**). The Amendment was published in the Gazette in December 2009.

The objective of the Amendment is to improve the quality of financial reporting and disclosure in corporations reporting through three main elements:

A. Providing a report to the board of directors and management of the Company on the effectiveness of internal controls on financial reporting and disclosure, in order to strengthen the Company's internal control system.

B. Providing declarations by managers (Company's CEO and most senior finance executive) that will include, inter alia, an assessment of the effectiveness of the internal controls on financial reporting and disclosure.

C. Attaching to the periodic report an opinion by the Company's auditor, regarding the effectiveness of the internal controls on financial reporting in the Company, and on the material weaknesses identified in this control.

The initial full application of the regulations will take effect in the periodic report as of December 31, 2010 (**"the effective date"**). Notwithstanding the aforesaid, according to the Amendment's provisions, in the period from the publication date of the Amendment until its effective date, details will be brought before the board of directors regarding the stages of preparation and progress of the Company in applying the provisions of the Amendment ("**implementation of the project").**

Disclosure regarding actions taken by the Company for implementation of the project:

A. The Company official responsible for implementation of the project is the Deputy CFO and Company Controller – Mrs. Ronit Rosensweig.

B. The Company is prepared to implement the regulations as follows: a steering committee was set up, including representatives of all the major subsidiaries, whose function is to oversee implementation of the project in the Company, including meeting the milestones according to the timetables set.

C. The Company mapped and planned implementation of the project, based on qualitative and quantitative criteria, which include dealing with significant matters related to the preparation and disclosure process in the Company's consolidated financial statements.

D. The Company's board of directors held a discussion on the subject and received an update about preparations for implementation of the provisions of the regulations.

E. Taken into account within the scope of the planning of the project are quantitative considerations based on the level of the balances together with a relative weighting of the balances and the monetary movements in the most recent annual financial statements published with respect to the balances and movements in these statements. Also taken into account were qualitative considerations like the complexity of the process being evaluated, the complexity of the IT systems supporting the process, the degree of judgment required in measuring the balance, past experience, the potential for existence of errors and the level of risk of possible influences on the process.

F. Of all the processes examined, the processes characterized as very significant for the required financial reporting and disclosure are:

1. Inventory of buildings for sale – within the real estate development in Israel segment.

2. Contracted projects in progress – within the infrastructure and construction in Israel and outside of Israel segments.

3. Long-term and short-term credit.

As of the date of this report, the following actions had been taken:

1. A risk assessment of internal controls has been performed.
2. The business processes and the risks and the internal controls on financial reporting and disclosure have been documented.
3. An analysis of gaps existing in the planning of internal control on the financial reporting and disclosure has been performed.
4. The plan of action to correct gaps has been prescribed.
5. The Company continues its actions to prepare for meeting the milestones as stated in the regulations for 2010.

15. Financial statement approval process

The Company organ responsible for financial statement approval is the board of directors. The Company's board of directors approves the financial statements after the finance and balance sheet committee of the board of directors recommends that it approve the financial statements before their approval in the board of directors.

Seven directors are members of the finance and balance sheet committee: Chairperson of the board of directors, Mrs. Ravit Barniv, Mrs. Irit Izacson, Mrs. Efrat Peled, Mr. Nir Zichlinskey, Mr. Shmuel Berkovitz, Mr. Israel (Izzy) Tapoohi and Mr. Joseph Alshech. Six members of the committee have accounting and finance capabilities.

A detailed presentation is made before the finance and balance sheet committee as well as before the board of directors (which discusses the subject after the detailed discussion held in the finance and balance sheet committee) by officers and others in the Company, including the Chief Executive Officer Ofer Kotler, Chief Financial Officer Doron Blachar and the Controller Ronit Rosenzweig 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 principles in the financial statements, and for all of these, a discussion was held in the committee and/or the board of directors.

Participating in meetings of the finance and balance sheet committee and of the board of directors that discuss approval of the financial statements is the independent auditor of the Company, who also refers to the issues arising in the finance and balance sheet committee meetings and in the board of directors meetings, and presents the 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 balance sheet committee and the other members of the board of directors.

Approval of the financial statements involves one or a number of meetings, as necessary: in the finance and balance sheet committee, several days before the approval date of the financial statements, and later in the board of directors itself, for discussing and approving the financial statements.

Ravit Barniv Chairman of the Board of Directors	Ofer Kotler Chief Executive Officer

August 22, 2010