Shikun & Binui Ltd.
Directors' Report on the State of the Company's Affairs
For the Period Ended March 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 March 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; investment and operations in the energy industry (especially renewable energy); 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. (outside of Israel) and Shikun & Binui – Solel Boneh (Building and Infrastructure) Ltd. (in Israel).

Shikun & Binui – S.B.I. Infrastructures Ltd. has many 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.

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 quarter 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 will enable the Company to expand its concession projects, 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 the perfect 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 during 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 Tel-Aviv University dormitory project and Seventh Avenue in Beer Sheba, an open shopping mall, 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 and 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 (not yet open to traffic), construction of the water treatment facility in Hadera and its operation (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. (formerly Shikun & Binui Environment 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 in Israel and overseas (the company has solar fields in Spain), with output of up to 12 megawatts. 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.
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 (20%), a company engaged in reducing demand for electricity through smart electronic controllers. The company operates within and outside of Israel.

- **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 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.

At the beginning of the year, the water operations were split from the renewable energy operations, with a view to the company's strategy that the water operations 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 development and carrying out of projects in Israel and overseas.

C. Global economy

The global economy continued its recovery in the first quarter of 2010. The GDP of many countries resumed growth, the increase in unemployment was halted and a sizable increase in local demand was evident. However, the growth rate is not uniform among the different companies. Alongside the rapid growth rate in emerging markets and in the U.S., which benefited from various incentive plans, it is evident that Europe has not succeeded in overcoming the crisis.

The increase in governments' debts and high unemployment rates cause instability in some European countries, to concerns about the ability to repay debts and the downgrading of their credit. Most of the concern has been focused in recent week on Greece, Portugal, Spain and Ireland. However, the effect of the economic situation on these countries has expanded to the entire European Union, and is expressed, inter alia, by the sharp erosion in the euro exchange rates and declines in the stock markets.

In order to deal with the problematic financial situation, the European Union has instituted an aid plan to countries plagued by the crisis as well as measures to stabilize the euro.

Israeli economy and the construction industry

The Israeli economy continued to grow relatively quickly in the first quarter of 2010. According to estimates by the Central Bureau for Statistics, the GDP rose in the first quarter by 3.3% in annual terms. Nonetheless, this rate is lower than the growth rate that characterized the third and fourth quarters of 2009. First quarter growth was impacted by growth in public and private consumption, stability in investments and a decline in exports.

Alongside the continued economic growth, there was also improvement in employment data. The unemployment rate fell in February 2010 to 7.3%, slightly lower than the level in February 2009 (7.4%), and from the record level of 7.9% in May 2009.

Despite the return to rapid growth, no inflationary pressures appeared in the first quarter, and inflation decreased by 0.9%, which enabled the Bank of Israel to maintain a low interest environment.

Construction industry

According to estimates by the Central Bureau of Statistics, there was 1% growth in the construction industry in the first quarter of 2010, compared with the first quarter of 2009. The growth resulted from the increase in investment in residential construction and despite the decline in non-residential and infrastructure construction.

Residential construction

According to estimates by the Central Bureau of Statistics, there was a 5% increase in the first quarter in investments in residential construction. Likewise, there was a 7% increase in new home sales (privately initiated, public initiated and independently constructed), compared with Q1 of 2009, and of 10% compared with Q4 2009. Demand for homes was influenced, inter alia, by the low mortgage interest rate, which stood at 2.6% at the end of the first quarter of 2010, compared with 3.5% in the first quarter of 2009.

Alongside demand for homes, partial data indicate a further increase in home prices in the first quarter of 2010 and on an ongoing decrease in the inventory of new homes offered for sale by the private sector.

Non-residential construction

Central Bureau of Statistics' indicators point to a decrease of 4% in investments in non-residential construction, compared with the same period last year. The decrease is the result of the slowdown in domestic business and financial activity that occurred at the end of 2008 and in early 2009. However, 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, investments in infrastructure and roads decreased by 5% in the first quarter of 2010, which was driven by the non-start of large projects, such as: the Tel Aviv light railway project, the tunnels to Jerusalem and Highway 531.

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, based on the Company's issued share capital as of the date of the board of directors' resolution, represented 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 will be 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 4,105 thousand. For additional information, see Note 4.C to the Company's financial statements.

Negotiations for allotment of shares in Carmelton

Carmelton, a jointly-held company of the Group with a 50% stake, is negotiating for the allotment of 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 signing of the transaction are still subject to various due diligence processes by the 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 significant 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 at an annual output of 100 million cubic meters. Construction of the facility ended earlier than the dates prescribed in the concession agreement, and came in under budget.

Publication of 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.

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. (formerly Shikun & Binui Environment 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 by the Company and through 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 6 to the financial statements of the Company.

A. Revenues from projects and sales

	For the three-month period ended March 31	
	2010	**2009**
	NIS millions	
Infrastructure and construction outside of Israel	617	605
Infrastructure and construction in Israel	306	349
Real estate development in Israel	164	257
Real estate development outside of Israel	1	1
Renewable energy	21	14
Water	12	12
Other	-	1
Adjustments	(33)	(25)
Total consolidated	1,088	1,214

Revenues from projects and sales in the first three months of 2010 totaled NIS 1,088 million, compared with NIS 1,214 million in Q1 2009. The principal changes that occurred in the first three months of the year, compared with Q1 2009, are as follows: a decrease of NIS 93 million originating in real estate development in Israel. The decrease in turnover is due to the fact that in the first three months of 2010, revenues were recognized from 107 housing units, compared with 207 units recognized in revenues last year.

There was also a decrease of NIS 43 million in revenues from the infrastructure and construction in Israel segment, resulting from work on Segment 18 of Highway 6. Contrarily, revenues from the infrastructure and construction segment outside of Israel increased by NIS 12 million.

B. Gross profit

	For the three-month period ended March 31	
	2010	**2009**
	NIS millions	
Infrastructure and construction outside of Israel	132	177
Infrastructure and construction in Israel	16	17
Real estate development in Israel	66	69
Real estate development outside of Israel	-	-
Renewable energy	2	-
Water	2	1
Other	-	1
Adjustments	(1)	(1)
Total consolidated	217	264

Gross profit in the first three months of the year totaled NIS 217 million, compared with NIS 264 million in Q1 2009. IN the first three months of the year, the gross margin fell to 20%, compared with 22% in the first quarter of 2009. The decrease in gross margin was driven mainly by the infrastructure and construction outside of Israel segment, NIS 45 million, due mainly to the receipt of final accounts and approval of exceptional claims that contributed to additional receipts and to high profitability in Q1 2009, and due to the initiated postponement of a project in the first quarter of the year, which put the gross margin at 21% compared with last year's 29%.

C. General and administrative expenses

The Group's general and administrative expenses totaled NIS 72 million in the first quarter of 2010, an increase of NIS 6 million compared with Q1 2009 (NIS 66 million). Most of the growth was due to the recognition of the value of the benefit for employee and manager options (NIS 3 million) and to a marketing campaign (NIS 2 million).

D. Other operating income (expenses), net

These expenses totaled NIS 3.6 million in the first quarter of the year, compared with net expenses of NIS 0.3 million in the same period last year. Presented below are details of the key income and expenses included in this item:

	For the three-month period ended March 31		For the year ended December 31, 2009
	2010	2009	
	NIS millions		NIS millions
Capital gain from realization of fixed assets	0.3	0.4	1.1
Gain from issuance of subsidiary's shares to third party	-	-	130.1
Capital gain from the realization of investments in consolidated companies	-	-	1.7
Impairment loss on assets, net	(1.6)	-	(2.3)
Provisions for balances, realization of which is doubtful	-	-	(1.1)
Expenses of the efficiency plan	-	-	(17.8)
Other, net	(2.3)	(0.7)	(4.8)
	(3.6)	(0.3)	106.9

E. Operating income

	For the three-month period ended March 31	
	2010	2009
	NIS millions	
Infrastructure and construction outside of Israel	103	149
Infrastructure and construction in Israel	1	1
Real estate development in Israel	45	52
Real estate development outside of Israel	(4)	(2)
Renewable energy	2	(3)
Water	(1)	(1)
Other	-	(1)
Adjustments	29	22
Total according to operating segments	175	217
Expenses of all segments	(39)	(25)
Total operating income	136	192

Operating income in the first quarter of 2010 totaled NIS 136 million, a decrease of NIS 56 million, compared with last year, driven mainly by the decrease in operating income expressed in the infrastructure and construction outside of Israel segment, as provided above, and from the increase in the expenses of all segments, totaling NIS 14 million.

F. Net financing costs

Net financing expenses totaled NIS 13 million in the first quarter of 2010, a decrease of NIS 26 million compared with Q1 2009 (NIS 39 million). Most of the change in net financing expenses was due to the Group's operations in foreign currency.

The Company executes transactions to hedge part of its foreign currency exposure in its financial statements. In the first quarter of the year, an offsetting effect was posted, which offset almost entirely the effect of the change in exchange rates included in financing expenses. Contrarily, in Q1 2009, the hedge transactions only partially offset the currency exposure. Furthermore, NIS 9 million of the decrease in financing expenses relate to long-term credit (mainly CPI-linked), as a result of the 0.95% decrease in the CPI in the first quarter of the year, compared with a decrease of 0.72% in the first quarter of 2009.

G. Taxes on income

Tax expenses totaled NIS 30 million in the first quarter of 2010, compared with NIS 42 million in Q1 2009. Most of the NIS 12 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 in the first quarter of last year from 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.

H. Income of investees, net

The Company's equity in results of affiliates in the first quarter of 2010 amounted to income of NIS 13 million, compared with a loss of NIS 24 million in the first quarter of last year. The change of NIS 37 million was due mainly to the results of foreign investees (a decrease in the loss of NIS 16 million) 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 (our share is NIS 20 million).

I. Net income for the period

Net income in the first quarter of 2010 rose by 22%, compared with Q1 2009, amounting to NIS 107 million, compared with NIS 87 million in the same period last year.

3. Orders backlog

The Company's orders backlog in the construction and infrastructure contracting area totals NIS 8.4 billion as at March 31, 2010 of which NIS 6.5 billion ($1.7 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 overseas activity.

4. Liquidity and financing sources

Cash flows from operating activities in the first three months of 2010 decreased by 52% compared with Q1 2009, and totaled NIS 53 million, compared with NIS 110 million in the first quarter 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 70 million, to support the expansion of infrastructure activities outside Israel. Cash flows used in investing activities in the first three months of 2010 totaled NIS 7 million, compared with NIS 108 million used by the Company in Q1 2009. The change was driven mainly by less investment in fixed assets than in the same quarter last year, and by the proceeds from settlement of derivatives totaling NIS 49 million, which were received during the quarter.

Cash flows used by the Company in financing activities totaled NIS 83 million in the first three months of 2010, compared with NIS 89 in the same quarter last year. In the first three months of 2010, the Company repaid credit totaling NIS 171 million and paid a total of NIS 23 million in interest. Contrarily, the Company received credit totaling NIS 115 million.

Contrarily, in Q1 2009, the Company repaid NIS 111 million in credit, paid interest of NIS 30 million. Against this, the Company received credit of NIS 53 million.

The Company's working capital totaled NIS 410 million in the first three quarters of 2010, compared with NIS 485 million at the end of 2009.

The Company has balances of cash and cash equivalents of NIS 1,129 million and unutilized credit facilities totaling NIS 831 million.

	Debentures and bank credit	Cash and cash equivalents	Pledged deposits	Net
	NIS millions			
Infrastructure and construction outside of Israel	8	654	25	(671)
Infrastructure and construction in Israel	5	168	37	(200)
Real estate development in Israel	615	153	25	437
Real estate development outside of Israel	550	28	-	522
Renewable energy	46	9	3	34
Water	20	-	4	16
Company headquarters	2,500	117	338	2,045
Total consolidated	3,744	1,129	432	2,183

5. Financial position

A. Shareholders' equity

Shareholders' equity as of March 31, 2010 stands at NIS 616 million, compared with NIS 508 million as at December 31, 2009. The increase in equity is driven mainly by the income of Q1 2010 (NIS 107 million), translation adjustments of the financial statements of foreign subsidiaries (totaling NIS 2 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 6 million, which are offset by a dividend paid to the minority interest of NIS 5 million and by a reserve for hedge transactions of NIS 3 million.

B. Current assets

The balance of the Company's current assets totaled NIS 3,902 million as of March 31, 2010.

The balance of current assets fell by NIS 187 million in the first quarter of 2010, compared with the end of last year. The main changes derive from a decrease of NIS 158 million in short-term loans given to affiliates (NIS 130 million of the loans given to an affiliate in Spain were repaid during Q1 2010), a decrease of NIS 123 million in trade receivables (NIS 73 million overseas) and a decrease in cash of NIS 52 million. Contrarily, inventory of buildings for sale increased by NIS 95 million, of which NIS 30 million was for placing properties in service, NIS 17 million was posted for investment in the Netanya City of the Seas mall, NIS 13 million was invested in a shopping and entertainment center in Beer Sheba and NIS 13 million was invested in the new Project C and in other projects. Likewise, an increase of NIS 39 million was posted in other receivables.

C. Non-current assets

The Company's non-current investments total NIS 3,366 million, an increase of NIS 82 million compared with the end of 2009. Most of the change occurred in loans to investees, for NIS 117 million in loans given to an affiliate in the water desalination field.

In the report period, fixed assets increased by NIS 22 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 7 million, as a result of the progress in the student dormitory project. Contrarily, a decrease of NIS 38 million was posted in inventory of properties – NIS 28 million in Israel and NIS 10 million overseas. The decrease in properties in Israel was due mainly to the placing in service of properties totaling NIS 23 million for the Netanya East project and another property, amounting to NIS 6 million, for the Beer Yakov project. Likewise, a decrease of NIS 24 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 111 million in the first quarter of 2010 compared with the end of 2009, totaling NIS 3,492 million. The principal changes are: a decrease of NIS 123 million in the balance of payables – customers who ordered projects (mainly overseas), due to the decrease in total advances received in the projects in Nigeria, a decrease of NIS 22 million in payables (NIS 15 million overseas), a decrease of NIS 32 million in subcontractors, suppliers and service providers and a decrease of NIS 17 million in short-term credit – against which an increase of NIS 48 million was posted in the balance of customer advances – mainly home buyers in Israel. An increase of NIS 40 million was posted in the provisions balance (mainly for overseas projects).

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 2,937 million as of March 31, 2010, a decrease of NIS 104 million compared with the end of 2009. Most of the net increase is due to the current early repayment of the aforementioned liabilities (a total of NIS 173 million) which was offset by the receipt of additional credit (NIS 92 million).

Total other liabilities (for employee benefits, deferred taxes, long-term provisions and surplus losses accrued in affiliates) total NIS 223 million, a decrease of NIS 3 million compared with the end of 2009.

6. Information on debentures

Series 2 - debentures

Issue date	April 18, 2008
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 664,393,539
Linked interest 5.2%, accrued interest amount as of 31/03/2010	NIS 15,546,809
Market value of NIS 1 par value as of 31/03/2010:	1.2312

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).

To secure the Company's liabilities for the said 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.

Until the balance sheet date, as of the balance sheet date and as of the approval date of this Report, none of the aforementioned events occurred.

Issue of debentures - Series 4

Issue date	March 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:	NIS 492,000,000
Balance of par value outstanding, revalued according to linkage terms:	NIS 490,587,560
Unlinked interest 4%, accrued interest amount as of 31/3/2010	NIS 1,700,704
Market value of NIS 1 par value as of 31/3/2010	1.0206

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). 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.

Issue of debentures - Series 3

Issue date	September 29, 2009
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:	NIS 200,000,000
Unlinked interest 4%, accrued interest amount as of 31/3/2010	NIS 1,316,667
Market value of NIS 1 par value as of 31/3/2010	1.0915

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). 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.

To secure the Company's liabilities for the said 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 three 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 31.3.10 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 March 31, 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	(28,743)	(14,822)	450,025	15,801	32,413
Long-term loans received	5,649	2,839	(557,913)	(2,749)	(5,570)
Debentures	33,985	17,113	(2,380,658)	(17,358)	(34,967)

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	5,951	2,976	(518)	(2,975)	(5,951)
Raw materials forward	55	28	555	(28)	(55)

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	4	1	1	(504)	-	(1)	(4)
Dollar/NIS forward	83	25	13	(518)	(11)	(23)	(82)

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	(88)	(12)	(6)	(518)	6	12	87

On 25.12.2001, there was a daily change of 35% in the base NIS interest rate – the most extreme change occurring in the last 10 years.

On 16.12.2008, there was a daily change of 75% in the base dollar interest rate– the most extreme change occurring in the last 10 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	938	469	(504)	(469)	(938)

Sensitivity to changes in euro interest rate

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 23%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 23%
	in interest rate				in interest rate		
	NIS thousands						
Euro/NIS forwards	(2)	(1)	-	(504)	-	1	2

On 4.12.2008, there was a daily change of 23% in the euro base interest – the most extreme daily change occurring in the last 10 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	1,721	1,230	615	555	(615)	(1,230)	(1,721)

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 0.152%-3.972% were taken into account and NIS interest rates of 0.327%-5.333% based on the settlement dates of the different transactions.
2. For the purpose of sensitivity tests on euro/NIS forwards, euro interest rates of 0.28%-3.338% were taken into account and NIS interest rates of 0.578%-5.126% based on the settlement dates of the different transactions.

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 interest rate			in interest rate	
	NIS thousands				
Euro/dollar forward	(13,797)	(6,899)	3,108	6,899	13,797

Sensitivity to changes in dollar interest rate

	Gain (loss) from changes			Fair value	Gain (loss) from changes		
	Increase of 15%	Increase of 10%	Increase of 5%		Decrease of 5%	Decrease of 10%	Decrease of 15%
	in interest rate				in interest rate		
	NIS thousands						
Euro/dollar forward	(81)	(54)	(27)	3,108	27	54	81

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	51	26	3,108	(26)	(51)

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	(643)	(536)	(268)	1,652	268	536	643

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	356	178	1,652	(178)	(357)

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	(45,845)	(22,922)	1,652	22,922	45,845

Additional data:

1. The sensitivity analyses are based on the representative dollar exchange rate as of 31.3.10 – NIS 3.713.
2. The sensitivity analyses are based on the representative euro exchange rate as of 31.3.10 – NIS 4.9905.

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 quarter of 2010, the Company continues to implement many processes in its activities:

Site management standard – The subsidiaries implement the standard in the newly opened sites and in some of the existing sites.

- Purchasing policy document – The sustainability forum continues its work in writing internal standards for the Company. During the quarter, Company management approved the purchasing policy document.
- As part of the Company's decision to aspire to meet international indices and adopt *best practices* as relates to sustainability, the international SAM Company (http://sam-group.com) was chosen to serve as the rating company for the Group's sustainability activities. SAM is an asset management company that carries out the sustainability index of Dow Jones (Dow Jones Sustainability Index – DJSI). The Company is in the process of formulating internal reporting for its subsidiaries on this matter.
- Implementation has begun of the process of bringing in stakeholders to the project for development of a power plant operating on natural gas in the Beer Tuviah industrial zone. This process will facilitate the project's progressing, while assuring collaboration with the stakeholders in the project and the formulation of solutions for the significant issues they face.

- Employee seminars – All of the Group's employees in Israel attended a sustainability seminar and the Company is continuing to hold seminars for new employees hired by the Company and employees of subcontractors that work with the Company on a regular basis.
- The Company continues to guide select real estate and infrastructure projects in order to ensure that the key elements of sustainability (transparency, accountability, collaboration with stakeholders, "transition to compliance" and implementation of high ethical norms) are implemented properly.

11. Social involvement and contribution to the community

As part of the sustainability vision of Shikun & Binui, the Company specified a policy of promoting community involvement activities, mainly in the fields of sustainability with children and youth.

Shikun & Binui is developing and promoting 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.

Active employee involvement –

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 the Group and its employees to select activities that also express the added professional value of the Group.

In order to bring about a change facilitated by the added value of the Shikun & Binui employees and managers, the Group is now engaged in several activities on behalf of the community:

- Collection and purchase of hundreds of parcels of food, clothing and various consumer goods for needy families and associations on a regular basis, and especially during the holidays.
- Adoption of a school 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, including 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, Dan Dankner, 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

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.

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-President of Human Resources.

14. Financial statement approval process

The Company organ responsible for ultimate control 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.

Eight 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. Dan Dankner, Mr. Nir Zichlinskey, Mr. Shmuel Berkovitz, Mr. Israel (Izzy) Tapoohi and Mr. Joseph Alshech. Seven 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

May 24, 2010