Millenium Tower, 17 Ha'Arba'a St.
Tel Aviv, Israel 6473917
Tel +972-3-6844700, Fax +972-3-6855002
www.midroog.co.il

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Shikun & Binui Ltd.

Issuer Comment | December 2015

This credit rating report is a translation of a report that was written in Hebrew for a debt issued in Israel. The binding version is the one in the origin language.

Contacts:

Boaz Ben Shitrit – Analyst

boazb@midroog.co.il

Ran Goldstein, Attorney, Accountant - VP, Real Estate Sector

rang@midroog.co.il

Shikun & Binui Ltd.

Series rating (issue)	A1.il	Rating outlook: Stable

On November 25, 2015, Shikun & Binui Ltd. (hereinafter: "Shikun & Binui" or "the Company") reported that its partner in the "Ashalim" project, Abengoa, had announced its intention to seek a stay of proceedings under Spanish law. Abengoa indirectly holds 50% of the shares of the project's concessionaire, construction contractor and operation and maintenance contractor (with the Company holding the remaining shares).

Shikun & Binui and Abengoa have provided various guarantees to secure the obligations of the aforementioned entities in relation to the project and to banks which provide financing for the project construction. The initiation of insolvency proceedings by Abengoa could result in breach of various agreements in the project and impact its ability to guarantee its share of the project. We note that currently, there is significant uncertainty with regard to the potential impact of the foregoing on the Company. As reported to Midroog, as of today, the full amount of equity has been injected into the project company, using closed financing, and on-site construction work has commenced. Note that Abengoa may continue its operations. In a scenario where Abengoa would cease its operations, the Company has several alternative actions it may take, such as finding an alternative partner that is a construction contractor knowledgeable in the thermo-solar field.

Given that the Company and its partner have injected the full amount of equity for the project, including through closed project financing, and considering the possible alternatives for continuing the project, the rating of the Company series is currently unchanged. Midroog will continue to monitor developments in this project, and it will review the rating in the event of any change in circumstances which would affect the rating considerations.

About the Company

Shikun & Binui Group operates in Israel and overseas in the real estate, infrastructure and environment sectors. Shikun & Binui, directly and through entities controlled by it, operates in Israel and overseas in five major operating segments: infrastructure and construction, real estate, concessions, energy and water. The Company is controlled by the Arison Group, which owns 47% of Company shares.

Major operations include:

- **Road and infrastructure construction work in Israel and major construction projects** in Israel (by Shikun & Binui – Solel Boneh – Infrastructure Ltd.) and overseas (by Shikun & Binui SBI Ltd. and investees thereof, mostly operating in Africa).

- **Real estate development, construction and sale of real estate and income-producing properties** in Israel and overseas, mostly for residential use and some – for non-residential use. Operations in this area are carried out in Israel mainly by Shikun & Binui Real Estate Ltd. In addition, such operations are carried out overseas by Shikun & Binui Real Estate Development**.** The Company also holds a 39.19% stake in ADO Group Ltd., a public company.
- **Concessions,** including participation in tenders and construction, financing, design and operation of major national projects, financed by the private sector in lieu of government financing.
- Operations related to renewable energy, in particular energy generation and supply.
- Operations related to water.

Methodology reports:

Analysis of real estate companies – Methodology report – August 2009.

Real estate companies – Methodology, November 2008.

Analysis of residential real estate companies – Methodology report – January 2012.

These reports are available on Midroog's website at: *www.midroog.co.il*

Date of most recent rating report: June 2, 2015

Report date: December 3, 2015

Key financial terminology:

Interest expenses	Financing expenses reported on the income statement.
Cash interest expenses	Financing expenses reported on the income statement, after adjustments for non-cash financing expenses on the cash flow statement.
EBIT	Earnings before interest, tax and non-recurring expenses / gain.
EBITA	EBIT + amortization of intangible assets.
EBITDA	EBIT + depreciation + amortization of intangible assets.
EBITDAR	EBIT + depreciation + amortization of intangible assets + rent + operating lease fee.
Assets	Total company assets on balance sheet.
Financial debt	Short-term debt + current maturities of long-term loans + long-term debt + liabilities with respect to operating lease.
Net financial debt	Financial debt – cash and cash equivalents – short-term investments.
Capitalization (CAP)	Debt + total shareholder equity on balance sheet (including non-controlling interest) + long-term deferred taxes on balance sheet.
Capital Expenditure (CapEx)	Gross investment in equipment, machinery and intangible assets.
Funds from operation (FFO)*	Operating cash flow before changes in working capital and before changes in other asset and liability items.
Cash flow from operations (CFO)*	Operating cash flow according to consolidated cash flow statements.
Retained cash flow (RCF)*	FFO less dividends paid to shareholders.
Free cash flow (FCF)*	CFO – CapEx – dividends.

* Note that on IFRS financial statements, payment and receipt of interest, tax and dividends received from investees are included in operating cash flow, even if not recorded under operating cash flow.

Local Long-Term Rating Scale

Aaa.il	**Issuers or issues rated Aaa.il demonstrate, in Midroog's judgment, the strongest creditworthiness relative to other domestic issuers.**
Aa.il	**Issuers or issues rated Aa.il demonstrate, in Midroog's judgment, very strong creditworthiness relative to other domestic issuers.**
A.il	**Issuers or issues rated A.il demonstrate, in Midroog's judgment, above-average creditworthiness relative to other domestic issuers.**
Baa.il	**Issuers or issues rated Baa.il demonstrate, in Midroog's judgment, average creditworthiness relative to other domestic issuers and may possess certain speculative characteristics.**
Ba.il	**Issuers or issues rated Ba.il demonstrate, in Midroog's judgment, below-average creditworthiness relative to other domestic issuers and may possess speculative characteristics.**
B.il	**Issuers or issues rated Ba.il demonstrate, in Midroog's judgment, weak creditworthiness relative to other domestic issuers and possess speculative characteristics.**
Caa.il	**Issuers or issues rated Caa.il demonstrate, in Midroog's judgment, very weak creditworthiness relative to other domestic issuers and possess very significant speculative characteristics.**
Ca.il	**Issuers or issues rated Ca.il demonstrate, in Midroog's judgment, extremely weak creditworthiness and are very near default, with some prospect for recovery of principal or interest.**
C.il	**Issuers or issues rated C.il demonstrate, in Midroog's judgment, the weakest creditworthiness and are typically in default, with little prospect for recovery of principal or interest.**

Note: Midroog appends numerical modifiers 1, 2, and 3 to each rating category from Aa.il to Caa.il. The modifier 1 indicates that the bond ranks in the higher end of its rating category, which is denoted by letters; the modifier 2 indicates that it ranks in the middle of its rating category, and the modifier 3 indicates that the bond ranks in the lower end of its rating category, which is denoted by letters.

Moreover, the indication "hyb" would be added to any rating of hybrid instruments issued by banks and insurers. In conformity with terms and conditions thereof, hybrid instruments allow for non-payment of dividend, principal or interest payments which may result in debt becoming impaired[1]. In case of such non-payment, hybrid instruments may be subject to principal write-off according to the terms and conditions thereof. The long-term rating with the "hyb" indication reflects the relative credit risk of such obligations.

1 For definition of impaired debt, please refer to "Rating Scales and Definitions" on the Midroog website.

Caveat regarding the limitations of the rating and the risks of relying on a rating, and caveat regarding limitations relating to the activity of Midroog and the information appearing on its website.

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