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# **Koor Industries Ltd.**

## **Part 1**

**Material changes and new items  
that have taken place in the Company's commercial  
operations**

# **Koor Industries Ltd.**

(“Koor”)

**Changes and new items that have taken place in Koor’s business  
in the three months ended September 30, 2008 <sup>1</sup>**

**In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 5730 - 1970**

## **In this section:**

“the Board of Directors' Report” – Koor's Board of Directors' report for the nine, six and three month periods ending September 30, 2008, attached herewith.

“the Financial Statements” – Koor's financial statements for the nine, six and three month periods ending September 30, 2008, attached herewith.

“Periodic report” – Koor's periodic report for the year ending December 31, 2007, which was published on March 17, 2008.

### 1. Investments in Koor’s equity and share transactions

#### **Rights offering to Koor's shareholders**

On July 28, 2008 Koor published a shelf Offering Memorandum (which was amended on August 12, 2008 and on August 24, 2008) ("the Offering Memorandum") under Koor's Shelf Prospectus of May 29, 2008 ("the Prospectus"). The Trading Day of the rights (as amended) offered under the Offering Memorandum was August 28, 2008 and the deadline for exercising such rights (as amended) was September 1, 2008.

On September 1, 2008 Koor published the results of the rights offering under the Offering Memorandum:

1.1 Under the Offering Memorandum, Koor shareholders were offered between 4,753,084 to 4,953,939<sup>2</sup> ordinary shares of NIS 0.001 par value each, in Koor.

1.2 The offered shares were offered by way of rights to the holders of ordinary shares in Koor as registered in its Register of Shareholders (with the exclusion of Koor's US shareholders, as they are defined in Section 2.3.2.1.3 of the Offering Memorandum), so that a shareholder in Koor (with the exclusion of the US shareholders as aforesaid) who hold 4 ordinary shares of NIS 0.001 par value each in Koor at the end of trading

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<sup>1</sup> Including material changes and innovations that took place in Koor's businesses and which should be described in the periodic reports and which do not include updates which were already included in the description of Koor's businesses in the periodic report (as defined above) in Koor's quarterly report for the three month period ended on March 31, 2008 and in Koor's quarterly report for the six and three month periods ended on June 30, 2008. Also see Koor's Prospectus dated May 29, 2008 (Ref. No. 154167-01-2008, 154176-01-2008, 154206-01-2008 and 154233-01-2008) and Koor's shelf Offering Memorandum dated July 28, 2008 (Ref. No. 217722-01-2008).

<sup>2</sup> Under the assumption that all the warrants of Option (Series 2) will be exercised into 799,422 ordinary shares in Koor and all the unregistered options awarded in accordance with the employees' option plan (as set forth in section 3.5.1 of the Prospectus) will be exercised into to 4,000 ordinary shares in Koor, the maximum number of shares that can be derived from the exercise of the options prior to the effective date (August 3, 2008).

on August 3, 2008, would be entitled to purchase one rights unit of NIS 0.001 at the price of NIS 143.

- 1.3 Of the aforesaid rights units, 4,743,939 rights units have been exercised, constituting 99.81% of the offered rights units and 24.9% of Koor's issued share capital.
- 1.4 Pursuant to the Securities Regulations (Manner of Offering Securities to the Public) (Amendment), 5768-2008, the rights offering to the holders of ordinary shares in Koor under the Offering Memorandum was not executed in the United States, and the said rights were not offered to the US shareholders as they are defined in Section 2.3.2.13 of the Offering Memorandum. Pursuant to section 2.3.2.19[c] of the Offering Memorandum, on the Trading Day of the rights on the TASE, the Issue Coordinator sold the rights relating to the US shareholders (total of 209,741 rights) and the proceeds received with respect to their sale totaled an amount of NIS 4.5 million. According to the formula for calculating the uniform and fair compensation, which was determined by an external evaluator (see sections 2.3.2.17 to 2.3.2.19 (inclusive) of the Offering Memorandum), on September 1 Koor paid to its US shareholders an overall amount of NIS 4.6 million (Koor paid the difference between the amount it was required to pay to the US shareholders according to the formula determined by the external evaluator as aforesaid and the proceeds from the said sale of rights, in the amount of about NIS 100,000).
- 1.5 Discount Investment Corporation Ltd. ("DIC") the direct controlling shareholder of Koor and IDB Development Corporation Ltd., ("IDB Development"), the controlling shareholder of DIC (and indirectly also of Koor), and a shareholder in Koor, exercised in full, as part of the issuance under the Offering Memorandum, in accordance with their prior notice (see section 2.3.2.12 of the Offering Memorandum) the rights offered to them under the Offering Memorandum: IDB Development exercised 633,624 rights units to acquire 633,624 ordinary shares of NIS 0.001 nominal value each in Koor and DIC exercised 2,352,775 rights units to acquire 2,352,775 ordinary shares of NIS 0.001 nominal value each in Koor. In addition, DIC exercised an additional 227,500 rights it acquired on the Trading Day of the rights, to acquire 227,500 ordinary shares of NIS 0.001 nominal value each in Koor (also see Koor's Immediate Report of August 28, 2008, Ref. No. 249894-01-2008). So that immediately subsequent to the aforesaid acquisitions, DIC holds 50.48% of Koor's issued share capital (as of the date of this report 51.10%) and IDB Development holds 13.34% of the ordinary issued shares in Koor (as of the date of this report 13.34%).
- 1.6 In return for the total number of rights units exercised as aforesaid, Koor received proceeds in the total amount of about NIS 678.4 million (gross).

Also see Koor's Offering Memorandum dated July 28, 2008 (Ref. No. 217722-01-2008) as amended on August 12, 2008 (Ref. No. 233247-01-2008), on August 13, 2008 (Ref. No. 234330-01-2008) and on August 24, 2008 (Ref. No. 243279-01-2008).

#### **DIC's acquisition of additional Koor shares**

On October 5 and October 6, 2008, DIC acquired, as part of trading on the TASE, a total of 147,804 ordinary shares of NIS 0.001 par value each in Koor in return for about NIS 17.1

million. As aforesaid, as at the date of this report, DIC holds 51.10% of Koor's issued share capital.

2. Financial information concerning Koor's operations

For information relating to financial figures of Koor's segments of operations for the nine, six and three month periods ended September 30, 2008 see Note 10 to the financial statements.

3. General Environment and the impact of External Factors on Koor's Operations

With respect to the worsening of the crisis in the financial markets, its impact and the impact of the changes in exchange rates on Koor, see sections 6.1 and 6.2.1 of the Board of Directors' report and Note 6.1 of the financial statements.

4. Koor's operations by business segment

4.1 Agrochemicals business segment

**Makhteshim Agan Industries Ltd (“Makhteshim Agan”)**

- 4.1.1 On September 18, 2008 Makhteshim Agan gave notice that it is conducting preliminary negotiations to examine the option of acquiring a foreign company operating in its sphere of operations and which will require a significant investment. As of November 4, 2008 Makhteshim Agan gave notice that, *inter alia*, due to the current financial crisis in the global markets, no progress has been made in the aforesaid negotiations and the probability that said negotiations will develop into a transaction is low.
- 4.1.2 Further to the stipulations in section 9.2.6[b] of Part A of the Periodic Report, and to section 5.1.2 of Koor's Q2 quarterly report for 2008, as of November 5, 2008, Makhteshim Agan has acquired 15,006,783 ordinary shares of NIS 1 par value each of Makhteshim Agan at an overall cost of US\$ 100 million, in accordance to Makhteshim Agan's plan to acquire its own shares, which was approved by the Makhteshim Agan board of directors on March 11, 2008.
- 4.1.3 On October 6, 2008, Koor acquired, as part of TASE trading, a total of 400,000 ordinary shares of NIS 1 par value each in Makhteshim Agan in return for about NIS 7 million. Subsequent to the aforesaid acquisition and Makhteshim Agan's self acquisition of shares during the third quarter of 2008 and up until the reporting date, as aforesaid, Koor's holdings in Makhteshim Agan's share capital and voting rights increased by 1% and as of the date of this report, Koor holds 40.93% of the share capital and 41.35% of the voting rights in Makhteshim Agan.
- 4.1.3 Further to the stipulations in section 9.2.13 of Part A of the periodic report and section 3.1.3 of Koor's Q1 2008 report, on October 7, 2008 the Beer Sheva District Labor Court ruled that the declarations of labor disputes by the workers of Makhteshim Chemicals Ltd. ("Makhteshim") on February 4, 2008 and on April 22, 2008 are groundless. On October 28, 2008 the Negev District Histadrut Labor Union filed an appeal with the National Labor Courts with respect to the Beer Sheva District Court's ruling.
- 4.1.4 Following the balance sheet date, on November 4, 2008 Makhteshim Agan's board of directors approved the distribution of a US\$ 50 million dividend to Makhteshim Agan's shareholders which was based on the fact that according to Makhteshim Agan's financial statements for the period ending September 30, 2008, Makhteshim Agan has complied with the profit assessments as set forth in section 302 of the Companies Law, 5759-1999 and that subsequent to a discussion with regard to this matter, to the best of the knowledge of Makhteshim Agan's board members, in light of Makhteshim Agan's requirements and expected cash flows, there are no reasonable concerns that such dividend will prevent Makhteshim Agan from fulfilling its existing and

anticipated liabilities, when the time comes to fulfill them. Koor's share in this dividend is expected to amount to about USD 20.465 million.

## 4.2 Finance

### 4.2.1 **Credit Suisse Group AG ("Credit Suisse")**

4.2.1.1 Further to the resolution by Koor's board of directors to invest in Credit Suisse shares (which was carried out by exploiting buy and sell opportunities while paying attention to the situation of the markets and in accordance with assessments by Koor's management from time to time), Koor acquired, from time to time during the course of the third quarter of 2008, Credit Suisse shares and sold part of these shares from time to time. During the third quarter Koor attained maximum holdings in Credit Suisse of 12.36 million ordinary shares, which constitutes approximately 1.21% of Credit Suisse share capital (less its treasury shares), at an investment of NIS 1.9 billion. Subsequent to the foregoing purchases and sales, as at the end of Q3 2008 Koor held few shares in Credit Suisse. In total, for the sale of its Credit Suisse shares during the course of the third quarter of 2008, Koor recorded a profit in the amount of NIS 535 million.

4.2.1.2 On October 13, 2008, Koor signed a contract with Credit Suisse in Zurich according to which Koor will invest in Credit Suisse an overall amount of CHF 1.2 billion. The transaction was carried out by way of the acquisition from Credit Suisse of 34 million ordinary shares in Credit Suisse (from its treasury shares) which constituted, immediately subsequent to the acquisition, approximately 3% of Credit Suisse share capital.

On October 16, 2008 the foregoing transaction with Credit Suisse was closed.

Most of the finance for said acquisition came from Koor's own resources. Accordingly, an amount of CHF 900 million was financed from Koor's liquid balances and an amount of CHF 300 million was financed as part of the recourse credit facilities extended to Koor by Goldman Sachs, as set forth in section 12.1.4 of the Prospectus (of which CHF 100 million were already taken in the past). Koor and Goldman Sachs have agreed to the release some of the share of Credit Suisse from the lien account, to amend certain ratios and to cancel the stipulation with regard to the value of Koor's assets. It was also agreed that, apart from the aforesaid, no additional credit will be taken from the credit facility (neither recourse nor non recourse) which was granted as aforesaid.

On October 20, 2008 Koor received a cash refund from Credit Suisse in the amount of CHF 16 million for the shares acquired in the aforesaid transaction. This was in accordance with the agreement between the parties and for the sale of shares by Credit Suisse to a

third party at a price slightly lower than the price at which the shares were sold to Koor. On October 23, 2008, Koor reported that it would charge the said refund to the increase in share capital for available-for-sale investments.

In October 2008, the Company acquired and sold additional Credit Suisse shares. For the sale of Credit Suisse shares since the beginning of the fourth quarter 2008 and until the reporting date, the Company recorded a profit of NIS 40 million for Q4 2008.

As of the date of this report, Koor holds 38.16 ordinary shares of Credit Suisse, which constitute some 3.4% of Credit Suisse's share capital, at an accumulated investment of NIS 4.35 billion.

On November 9, 2008 Koor's Board of Directors approved to raise the maximum level of investment in Credit Suisse to NIS 5 billions, which shall be based on Koor's decision from time to time and Koor's assessment with respect to the developments in the markets.

- 4.2.1.3 On October 16 and October 18, 2008, Koor published a copy of a media release published by Credit Suisse on its website headed: "Credit Suisse establishes a robust equity structure", as well as a Hebrew translation and a translation in Arabic (Ref. No. 286608-01-2008 and 287022-01-2008). In addition, Koor enclosed with its report of October 18, 2008 a copy of Credit Suisse's report in English to US Securities and Exchange Commission (SEC) with respect to the said media release published by Credit Suisse.
- 4.2.1.4 On October 23, 2008 Koor announced (Ref. No. 289767-01-2008) that on the same day, Credit Suisse published its Q3 financial statements for 2008. The wording of Credit Suisse media release relating to its Q3 2008 results is attached to the said Immediate Report and a link was published with respect to Credit Suisse quarterly financial statements to its website:  
[http://www.credit-suisse.com/investors/en/reports/2008\\_results\\_q3.jsp](http://www.credit-suisse.com/investors/en/reports/2008_results_q3.jsp).
- 4.2.1.5 On October 24, 2008 Koor published a copy of Credit Suisse report with respect to its third quarter 2008 results as they were submitted to the US Securities and Exchange Commission (SEC) as well as a translation from English into Hebrew of said announcement (Ref. No. 291006-01-2008).
- 4.2.1.6 As at the date of this report, the lowest closing price for Credit Suisse shares on the SWX Swiss Exchange during the course of 2008 was CHF 34.26 per share on October 10, 2008 (as was published by Reuters Trader). As of November 7, 2008, the closing price of Credit Suisse shares on the SWX Swiss Exchange was CHF 38.00 per share.
- 4.2.1.7 During the course of 2008 and up until November 7, 2008: The lowest trading volume of Credit Suisse shares on the SWX Swiss Exchange was about 3.35 million shares on August 25, 2008; the highest trading

volume of Credit Suisse shares on the SWX Swiss Exchange was about 40.40 million shares on September 19, 2008; the average trading volume is about 12.32 million shares.

#### **4.2.2 Investment in Mustang-Mazzanine Limited Partnership investment fund**

On September 16, 2008 Koor signed an agreement by which it undertook to invest an amount of US\$ 20 million in Mustang Mazzanine Limited Partnership, a private investment fund incorporated in Israel (for the purpose of this section – "the Fund"). The Fund focuses on mazzanine financing for mature companies in Israel and abroad operating in various sectors. The overall investment commitment in the Fund, from all Fund investors, is at this stage US\$ 80 million.

### **5. Description of the Corporation's operations – further information**

- 5.1 Financing and Collateral** – further to the provisions of section 15 of Part A of the periodic report and of section 6.1 of Koor's Q2 quarterly report for 2008 (Financing and Collateral section): See section 4.4 of the Board of Directors Report and Note 12(5) of the financial statements with respect to the updated terms and conditions of Koor's credit agreement with Bank Hapoalim, Koor's primary lender, and section 4.2.1.2 above with respect to the updated terms and conditions of the credit extended by Goldman Sachs.
- 5.2 Maalot ratings** – further to the provisions of section 15.10 of Part A of the periodic report and of section 6.2 of the Q2 quarterly report for 2008: See the second paragraph of section 6.1 of the Board of Directors Report.
- 5.3 Information concerning an extraordinary change in Koor's operations:** See Note 12 to the Financial Statements.
- 5.4 Risk Factors – Financial Risks:** Subsequent to the provisions of Sections 20.1 [A] and 20.1 [B] of the Periodic Report and Chapter 6 of the Prospectus, and section 6.5 of the Q2 2008 quarterly report (Risk Factors section – Financial Risks): See the second paragraph of sections 3.8, 6.1 and 6.2.1 of the Board of Directors Report.
- 5.5 Risk Factors – Changes in the Capital Markets in Israel and Worldwide:** Subsequent to and in addition to the stipulations in Section 20.2 of Part A of the Periodic Report and Chapter 6.6 of the Q2 2008 quarterly report (the Risk Factors section – Changes in the Capital Markets in Israel and Worldwide): For details, see section 6.1 of the Board of Directors' Report.
- 5.6 Materiality procedures regarding the requirement to submit an immediate report with respect to the sale of Credit Suisse shares:** Further to the stipulations in section 25 of Chapter 6 of the Prospectus, and further to the materiality procedures with regard to Koor's immediate reports, which were approved by Koor's board of directors on May 27 2008, on November 9, 2008 Koor's board of directors approved a clarification relating to the implementation of Koor's policies for assessing materiality of the requirement to submit an immediate report with respect to the sale of Credit Suisse shares by Koor, as follows:

- 5.6.1. As set forth in the Prospectus, Koor adopted a procedure, which includes guidelines and rules for assessing whether a particular event or incident pertaining to Koor or a Company held by it (“the Event”) is material to Koor for the purposes of the obligation to submit an immediate report under Regulation 36 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (“the Procedure”). These guidelines and rules were set down while taking into account and in accordance with, Koor's character as a holdings company and accordingly every incident will be examined in its own right and a quantitative and qualitative assessment will be performed regarding the relevant event, based on all the information, data, facts of the case and evaluations based on all the circumstances relevant to Koor.
- 5.6.2. Koor's investment in Credit Suisse is characterized by special relevant circumstances, inter alia, the volume and nature of the investment, and the fact that the value of the investment and its outcome on Koor are, to a great extent, derived from the market price of Credit Suisse shares and are not solely impacted from some or other sale of part of Koor's investment in Credit Suisse. By taking into account these special circumstances, Koor adopted the following clarifications with respect to the implementation of the procedure relating to the sale of Credit Suisse shares by Koor. The assessment of whether said sale is material for Koor with respect to its obligation to submit an immediate report thereof under Regulation 36 of the Securities (Periodic and Immediate Reports) Regulations, 5730-1970 is conducted in accordance with these procedures and clarifications.
- 5.6.3 The quantitative assessment of the materiality of the sale of Credit Suisse shares by Koor shall be carried out as set forth hereunder: In the absence of special qualitative considerations which arise from the general circumstances of the case, the sale of shares shall be considered as material from the quantitative aspect if, with respect to said sale, or in accumulation with earlier sales for which an immediate report has not yet been submitted, one or more of the following conditions exist:
- 5.6.3.1. The asset ratio (cost of shares sold in the Company's books divided by the Company's total assets based on the last consolidated financial statements) calculated for the sale is greater than 10%;
- 5.6.3.2. The profit derived from the sale (accumulated with earlier sales for which no immediate report has yet been submitted) exceeds 10% of the potential profit of the Company's investment in Credit Suisse as it is calculated at the time of the sale or during the course of two sequential days of trade at a later time, and provided that the profit derived from the sale exceeds 20% of the average annual profit of the past three years, calculated on the basis of the last 12 quarters for which reviewed or audited financial statements have been published.<sup>3</sup>

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<sup>3</sup> "Profit", "potential profit" and "average annual profit" in this section, include loss, potential loss and average annual loss, accordingly For the purpose of the assessment, the amounts that will be calculated at their absolute value.

For the purpose of this section, the potential profit for any trading day shall be calculated as the difference between the market value (per the closing rate) on the same trading day, of the Company's entire reported holding in Credit Suisse and the cost of the reported investment, in NIS, and the reported holding and reported investment, which shall be considered to be the last updated figures published by the Company (in any immediate, quarterly or annual report) with respect to its investment in Credit Suisse, prior to the date of the sale.

Part I of this report should be read in conjunction with its other parts, including the notes to the financial statements.

Date: November 9, 2008

**Koor Industries Ltd.**

Signatories and positions:

Mr. Raanan Cohen, Chief Executive Officer

Mr. Oren Hillinger, Chief Executive Officer

# K o o r I n d u s t r i e s L t d .

## Board of Directors Report First Nine Months and Third Quarter of 2008

We are pleased to submit the condensed unaudited financial statements of Koor Industries Ltd. for the first nine months and third quarter of 2008, ended September 30, 2008.

Koor Industries Ltd. (the "Company") is a member of the IDB Group and is one of the most prominent holding companies in Israel, investing in companies operating in a variety of business segments. The Company, together with its wholly owned subsidiaries ("Koor") generally invests in companies which operate in the global market and/or international companies and focuses on large-scale investments. Koor examines and makes financial investments and real investments abroad, among others things, as a reflection of market conditions and the opportunities arising in these markets.

Pursuant to a resolution of the Company's Board of Directors to invest in negotiable shares in European financial institutions, during Q3 the Company purchased and sold shares in Credit Suisse Group AG ("Credit Suisse"). During this quarter, Koor's holdings peaked at 1.21% of Credit Suisse shares, at a maximum cost of NIS 1.9 billion. The Company leveraged sale and purchase opportunities with respect to Credit Suisse shares during the quarter, such that at the end of the quarter it sold most of its holdings. The purchase and sale activities brought the Company profit of NIS 535 million in Q3.

Subsequent to the balance sheet date, in October, Koor made additional purchases of Credit Suisse shares through purchase of Credit Suisse treasury shares and purchases on the market. As of the date of this Report, Koor holds 38.16 million Credit Suisse shares, representing approximately 3.4% of Credit Suisse share capital, at a total investment of NIS 4.35 billion.

### **1. Results of operations**

The Company's net earnings for Q3 2008 amounted to NIS 428 million, with basic earnings per share of about NIS 20.0, compared with earnings of about NIS 492 million and basic earnings per share of about NIS 27.6 for Q3 2007.

The Company's net earnings in the first nine months of 2008 amounted to NIS 312 million, with basic earnings per share of about NIS 16.2, compared with earnings of about NIS 771 million and basic earnings per share of about NIS 45.3 in the first nine months of 2007.

#### **Composition of Koor's financial results:**

	<u>First Nine Months</u>		<u>Third Quarter</u>		<u>Year</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2007</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		<u>Audited</u>
	<u>N I S M i l l i o n s</u>				
Koor's equity in the operating results of investee companies, net	171	231	18	(8)	173
Gain from sale of investments, net of impairment	579	678	537	614	682
Financing, administrative and other expenses,	(438)	(138)	(127)	(114)	(241)
<b>Net earnings attributed to equity holders of the Company</b>	<b>312</b>	<b>771</b>	<b>428</b>	<b>492</b>	<b>614</b>
Basic earnings per share (in NIS)	16.2	45.3	20.0	27.6	33.3

# K o o r I n d u s t r i e s L t d .

## Board of Directors Report First Nine Months and Third Quarter of 2008

### 1.1. Koor's equity in the operating results of investee companies, net

	Koor's equity in the operating results (profit) for the first nine months			Koor's equity in the operating results (loss) for Q3		
	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>2008</u>	<u>2007</u>	<u>Change</u>
	N I S			M i l l i o n s		
Makhteshim Agan Industries Ltd.	297	255	16%	71	46	54%
ECI Telecom Ltd.	-	56	n/a	-	(18)	n/a
Telrad Networks Ltd.	(26)	1	n/a	(6)	-	n/a
ECTel Ltd.	(3)	(6)	n/a	(1)	(1)	n/a
Koor Venture Capital Partnerships	(17)	(6)	n/a	(1)	(7)	n/a
Dekolink Wireless Ltd.	(58)	(14)	n/a	(33)	(13)	n/a
Other companies	3	1	100%	(3)	(2)	n/a
Excess cost and other adjustments	(25)	(56)	n/a	(9)	(13)	n/a
<b>Total</b>	<b>171</b>	<b>231</b>		<b>18</b>	<b>(8)</b>	

### 1.2. Gain from sale of investments, net of impairment

	<u>First Nine Months</u>		<u>Third Quarter</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	N I S			
	M i l l i o n s			
Gain from sale of investments, net of impairment	579	678	537	614

In Q3 2008 this item primarily included: Capital gains from the sale of holdings of Credit Suisse shares in the amount of NIS 535 million. In the first nine months of 2008, this item also included capital gains of NIS 48 million due to additional income from Elbit Systems Ltd. ("Elbit") for the sale of Elisra Electronic Systems Ltd. ("Elisra"), resulting from the receipt of an insurance payment for the fire that occurred at Elisra's consolidated company's plant in 2001.

In Q3 2007 this item primarily included: Capital gains of NIS 615 million from the sale of our holdings in ECI. In the first nine months of 2007, capital gains of NIS 29 million were also recorded for the sale of our holdings in Sheraton Moriah (Israel) Ltd., capital gains of NIS 26 million from the sale of our holdings in Scopus Video Networks Ltd. ("Scopus") and capital gains of NIS 10 million from the sale of our holdings in Knafaim Holdings Ltd.

# K o o r I n d u s t r i e s L t d .

## Board of Directors Report First Nine Months and Third Quarter of 2008

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### 1.3. Financing, administrative and other expenses, net

	First Nine Months		Third Quarter	
	2008	2007	2008	2007
	N I S			
	M i l l i o n s			
Administrative, taxes and other expenses, net	(14)	(16)	(3)	(7)
Financing expenses, net	(424)	(122)	(124)	(107)
<b>Total administrative, financing and other expenses, net</b>	<b>(438)</b>	<b>(138)</b>	<b>(127)</b>	<b>(114)</b>

The primary change in the first nine months of 2008 as compared with the corresponding period in 2007 are attributable to the rise in net financing expenses following the sharp drop in the exchange rates of the shekel against the dollar (particularly in the first half of the year, when the Company held large dollar balances), causing erosion of the dollar financial assets and the increase in the CPI, which caused revaluation of CPI-linked loans and debentures. The main change in Q3 2008 compared to that in 2007 stems from the loss with respect to the revaluation of short-term investments recorded this quarter due to the financial crisis that struck global markets and had an impact on the Israeli capital market.

The financing expenses caused by the erosion of the dollar exchange rate in the first nine months of 2008 (primarily in the first half of the year) and from changes in the exchange rate of the Swiss Franc, beginning in Q3 2008 (when Koor converted most of its foreign currency balances from dollar-linked balances to balances linked to the Swiss Franc) amounted to NIS 254 million, and in Q3 to NIS 36 million. The increase in financing expenses was partially offset by the income from the changes in the fair value of the Option Warrants Series 2 which were issued to institutional investors together with the issue of Debentures Series G.

**K o o r I n d u s t r i e s L t d .**

**Board of Directors Report  
First Nine Months and Third Quarter of 2008**

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**2. Segments of operation**

**2.1. Earnings before financing expenses and income tax, by operating segment (“Contribution of business segment”)**

	<u>First Nine Months</u>		<u>Third Quarter</u>		<u>Year</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2007</u>
	N I S		M i l l i o n s		
Agrochemicals	274	202	62	33	195
Finance	535	-	535	-	-
Telecommunications equipment	(62)	652	(34)	586	612
Venture capital investments	(17)	20	(1)	(7)	14
Other holdings	45	14	(3)	1	17
<b>Total</b>	<b>775</b>	<b>888</b>	<b>559</b>	<b>613</b>	<b>838</b>

**2.1.1. Agrochemicals**

	<u>First Nine Months</u>		<u>Third Quarter</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	N I S		M i l l i o n s	
Contribution of business segment	274	202	62	33

The main change in the results of the segment in the first nine months and Q3 2008 compared to the corresponding period in the previous year were due to the improvement in Makhteshim Agan’s business results (“Makhteshim Agan”).

# K o o r I n d u s t r i e s L t d .

## Board of Directors Report First Nine Months and Third Quarter of 2008

**Makhteshim Agan (held 41%), reported the following business results:**

	First Nine Months			Third Quarter		
	2008	2007	Growth	2008	2007	Growth
	Million USD		%	Million USD		%
Revenues	2,044	1,592	28%	640	497	29%
Gross profit	709	543	31%	210	162	30%
Operating income	333	238	40%	86	70	23%
Financing expenses, net	182	105	73%	60	69	(13%)
Net earnings attributable to the shareholders	210	152	38%	51	27	89%
EBITDA	399	303	32%	109	91	20%

The results of Makhteshim Agan in the first nine months and Q3 2008 compared with the corresponding periods in 2007 were affected by the following trends in the crop protection products market and in the company: (A) During the reporting period, the demand for Makhteshim Agan products increased due to the high price level of most agricultural produce relative to previous years. The high prices of agricultural produce are mainly due to the continuous rise in the standard of living worldwide, especially in developing regions such as China and India, reflecting the changes in the nutritional habits of the population in these regions. In addition, the increase in global demand for fuel substitutes, produced from sugar cane, rape seed and corn contributed to the increase in demand for the company's products; (B) The increase in the average sales price of Makhteshim Agan's products. This trend had a positive impact on the increase in Makhteshim Agan's revenues from the sale of its products and on Makhteshim Agan's profitability; (C) The relatively moderate climatic conditions in most of the geographic regions in which Makhteshim Agan operates, a trend that contributed to an increase in demand for crop protection products; (D) Makhteshim Agan reports its results in US dollars and thus the strengthening of various currencies rates (mainly in Euro) against the dollar, led to an increase in Makhteshim Agan's revenues in dollar terms, notwithstanding the strengthening of the shekel which increased the local expenses in Israel; (E) in contrast, high fuel prices continued to cause an increase in the prices of raw materials (which are distant derivatives of fuel), and an increase in energy prices which together eroded part Makhteshim Agan's improved profitability, which was achieved from the average price increases of Makhteshim Agan's products, as set forth above.

That said, as was reported by Makhteshim Agan, as of about the middle of Q3, and during the period from the balance sheet date and through the approval of the financial statements, there were significant changes in the aforementioned trends, including a drop in the prices of agriculture produce, decline in the price of oil and revaluation of the dollar against the main currencies in which Makhteshim Agan operates (Euro, Real and Shekel). This at the same time as the financial crisis which struck the global markets. The changes in the agricultural produce market and in financial markets did not significantly affect the operating results of Makhteshim Agan in the quarter and during the period, among other reasons, due to the continuing increased demand for its products. Makhteshim Agan estimates, based on currently available market data, that no material changes in long-term trends in the market in which Makhteshim Agan operates and in its activities are expected, although the changes in the trends that marked the agricultural produce market as of the second half of the quarter, as aforementioned, along with the effects of the financial crisis on the global markets, may result in a slowdown in the demand for Makhteshim Agan products and in its rate of growth, and to significant fluctuation in factors that influence its results, such as oil prices, exchange rates, cost and availability of customers' and suppliers' credit in the various markets in which it operates, etc.

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The global uncertainty and lack of stability in the financial markets, particularly in emerging markets in which a large portion of Makhteshim Agan's activity is found, there may be a material impact in the coming period. As of the date of approval of the financial statements, Makhteshim Agan cannot estimate the exact effects of the aforementioned events and the length of the period in which said effects will be felt. However, based on currently available market data, Makhteshim Agan does not believe that significant changes in the trends described in subsection [A] above are expected.

### 2.1.2. Finance

	<u>First Nine Months</u>		<u>Third Quarter</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>N I S M i l l i o n s</u>			
Contribution of business segment	535	-	535	-

According to a resolution passed by the Company's Board of Directors to invest in negotiable shares of European financial institutions, during Q3 the Company conducted activity to purchase and sell Credit Suisse shares, leveraging the opportunities that arose due to market fluctuations. During this quarter, Koor holdings peaked at 1.21% of Credit Suisse shares, at a maximum cost of NIS 1.9 billion. The purchase and sale activities brought the Company profit of NIS 535 million in Q3.

The Company continues to classify its investment in Credit Suisse as an available-for-sale investment and therefore, the investment in said shares is measured at fair value on any cut-off date, with the changes in its fair value being attributed (as long as they are not a sharp and ongoing impairment) directly to shareholders equity as part of the capital fund for available-for-sale assets ("capital fund"). As outlined under accounting principles in the financial statements, the Company will have to recognize a provision for tax in respect of the increase in the fair value in equity, to the extent such is, set off against the capital fund (such that the Company's capital fund will reflect the increase in the fair value after the tax effects). As opposed to said provision, the Company shall record deferred tax assets (up to the amount of the loss balances to be carried forward), through the income statement. In this regard, reducing the capital fund in successive periods will lead to a decrease of the provision and, at the same time, a decrease in the deferred tax asset and recognition of tax expenses in the income statement. Leveraging of the deferred tax asset to be included in the financial statements, as long as the capital fund and provision have a positive balance, is then dependent on the sale of the investment to which the capital fund is applied in the earnings. There is no certainty that this will occur.

### 2.1.3. Telecommunications equipment

	<u>First Nine Months</u>		<u>Third Quarter</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>N I S M i l l i o n s</u>			
Contribution of business segment	(62)	652	(34)	586

The main change in the results of the segment in the first nine months and Q3 2008 compared with the corresponding periods in 2007 were due to the non-inclusion of the 2008 results of ECI Telecom Ltd.

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operations, which was sold during Q3 2007, when capital gains of NIS 615 million were recorded, and a deterioration in the business results of Dekolink Wireless Ltd. (“Dekolink”).

After the end of Q3, Dekolink’s main customer informed it that would no longer be purchasing from it. This notice has a significant negative impact on Dekolink’s situation. In light of the above, Koor is looking into its options with respect to the investment in Dekolink.

### 2.1.4. Venture capital investments

	<u>First Nine Months</u>		<u>Third Quarter</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	N I S M i l l i o n s			
Contribution of business segment	(17)	20	(1)	(7)

The changes in the results of the segment in the first nine months and Q3 2008 as compared with the corresponding period in 2007, stem from the results of the operations of Koor Corporate Venture Capital, which constitutes the segment for the reporting period.

The following is a description of the business activity of Koor Corporate Venture Capital in this business segment during the reporting period:

### **Koor Corporate Venture Capital (100%) reported the following financial results:**

	<u>First Nine Months</u>		<u>Third Quarter</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	N I S M i l l i o n s			
Revenues	-	26	-	-
Operating income (loss)	(17)	20	(1)	(8)
Net profit (loss)	(17)	19	(1)	(8)

The primary contribution of Koor Corporate Venture Capital in the first nine months and Q3 of 2008 is the result of the decline in the fair value of venture capital investments, among other things due to the sharp drop in the dollar exchange rate against the shekel in the first half of the year.

The primary contribution of Koor Corporate Venture Capital in the first nine months of 2007 was attributable to the capital gains for Koor Corporate Venture Capital from the sale of its total holdings in Scopus during Q1 2007.

### 2.1.5. Other holdings

	<u>First Nine Months</u>		<u>Third Quarter</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	N I S M i l l i o n s			
Contribution of business segment	45	14	(3)	1

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The primary change in the results of this segment in the first nine months of 2008 as compared with the corresponding period in 2007 is due to the gains recorded primarily in Q1 2008 with respect to the additional expected income from Elbit for the sale of Elisra, as set forth above. In contrast are the NIS 10 million in capital gains recorded in 2007 with respect to the sale of Koor's holdings in Knafaim Holdings. Ltd.

**3. Main changes in the holdings of the Company and its investees for Q2 2008**

- 3.1.** In July 2008, the Company announced that pursuant to the resolution in March 2008 to invest in negotiable shares of European financial institutions in the total amount of up to NIS 1.5 billion, the Company's Board of Directors resolved to increase the amount of the investment in Credit Suisse shares to a total amount of up to NIS 3 billion. The investment will be made while taking advantage of purchase and sale opportunities, noting the situation of the markets and in accordance with its assessments from time to time.
- 3.2.** According to a resolution of the Company's Board of Directors to invest in negotiable shares of European financial institutions, in Q3 the Company purchased and sold Credit Suisse shares. During this quarter, Koor's holdings peaked at 1.21% of Credit Suisse shares, at a maximum cost of NIS 1.9 billion. The Company took advantage of purchase and sale opportunities of Credit Suisse shares during the quarter, such that at the end it sold most of its holdings. The purchase and sale activity brought the Company profit of NIS 535 million in Q3. As of September 30, 2008, Koor held approximately 420 thousand Credit Suisse shares, constituting about 0.04% of Credit Suisse share capital (less treasury shares), for a total investment of about NIS 64 million.
- 3.3.** In July 2008, the rating company, Standard & Poor's Maalot Ltd. ("Maalot") notified in a public announcement that due to the change in the composition of the Company's portfolio following its notification with respect to its investment in Credit Suisse, Maalot would continue to monitor the developments with respect to this matter and examine the impact of the change in the composition of the portfolio on the Company's financial risk and its security rating. Maalot's announcement states that the capital the Company raised by way of rights issue in June 2008 and the publication of the shelf prospectus that allows the Company to raise additional capital.
- 3.4.** In July 2008, the Company issued a Shelf Offering Memorandum for an issue by way of rights under the Shelf Prospectus published in May 2008, as part of which up to 4,953,939 ordinary shares (of NIS 0.001 par value each) were offered to Koor's shareholders, by way of rights to the holders of the Company's ordinary shares (with the exclusion of the US shareholders, who were excluded under an amendment to the regulations). In September 2008, the Company announced the results of the issue by way of rights to shares under the Shelf Prospectus, including information regarding utilization of rights as part of said issue by IDB Development Corp. Ltd., the controlling shareholder in the investment company Discount Ltd. (and indirectly also of the Company) and a shareholder in the Company, and by Discount Investment Ltd. Of the rights units offered under the Shelf Prospectus, 4,743,939 rights units were used to purchase 4,743,939 ordinary shares of NIS 0.001 par value each in the Company, constituting approximately 99.81% of all of the rights units allocated under the Shelf Prospectus and approximately 24.95% of the Company's issued capital (on the date of the issue), and in consideration for the rights units used as aforementioned, the Company received a total of NIS 678 million (gross). In accordance with the stipulations in the amendment to the regulations, the Company compensated the American shareholders with uniform and fair compensation, which was determined by an external evaluator and approved by the Company's Audit Committee and Board of Directors, totaling NIS 4.6 million, most of which is attributable

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to receipts from the sale of the rights not allocated to the American shareholders by the Company on the day on which the rights were traded.

- 3.5. In July 2008, the Company reported that its Board of Directors resolved to revise the annual remuneration and participation fee for Koor's external directors, such that they would be entitled to the maximum amounts under Regulations 4 and 5 (respectively) of the Companies Regulations (Rules concerning Remuneration and Reimbursement of Expenses of External Directors) 5760-2000 (the "Remuneration Regulations"), as they were updated in the amendment to the Remuneration Regulations. The revision of the remuneration paid to Koor's directors (including external directors) took effect as of the date of the amendment to the Remuneration Regulations, i.e. as of March 6, 2008.
- 3.6. Solely for the sake of caution, in September 2008, Makhteshim Agan announced that it was in advanced negotiations for the possibility of purchasing a foreign company in its area activity, for a large amount. As of the date on which Makhteshim Agan's financial statements were approved, and among other things, due to the worsening financial crisis in global markets, said negotiations have not moved forward and the probability that they will lead to a deal is low.
- 3.7. In September 2008, the Company entered into an agreement under which it undertook to invest approximately \$20 million in the Mustang Mezzanine Fund, a limited partnership that focuses on providing mezzanine funding for appropriate mature companies in Israel and abroad that operate in various segments, including industry, trade, telecommunications, services and real estate. As of shortly prior to the date of this report, the Company had invested \$260 thousand in the fund.
- 3.8. As of the reporting date, the Company has a balance on a loan in Swiss Francs in the amount of NIS 978 million and a balance of liquid dollar assets of NIS 26 million. The impact of the change in the exchange rate of the dollar against the shekel and the change in the exchange rate of the Swiss Franc against the shekel, as of the beginning of Q4, is not material. The foregoing information includes initial assessments and to date Koor only has partial information in its possession. This data has not yet been processed, has not yet been finally examined and has not been reviewed by Koor's accountants, and is therefore subject to additional changes in the exchange rates of the Swiss Franc and the dollar. For this reason, their impact on the Company's Q4 results will be different than that set out above. In addition, the changes in the dollar exchange rate have impact on the profitability of the investees which operate or report in dollars, as well as an impact on Koor's profits from the results of investees which hold dollar assets, and an impact on Koor's equity due to the foreign currency translation adjustments capital fund (in particular Makhteshim Agan). Furthermore, changes in the Swiss Franc exchange rate impact the value of Credit Suisse shares presented in the balance sheet as available-for-sale assets and on Koor's equity because of the available-for-sale assets capital fund.

#### **4. Main events subsequent to the balance sheet date**

- 4.1. In October 2008, the Company entered into an agreement with Credit Suisse, under which it would invest a total of approximately CHF 1.2 billion in Credit Suisse. The transaction was conducted through the purchase of 34 million regular shares from Credit Suisse (of the treasury shares), constituting, immediately after purchase, about 3% of Credit Suisse share capital. The purchase was primarily financed through the Company's independent sources. Accordingly, approximately CHF 900 million was financed through the Company's liquid balances, and approximately CHF 300 million was financed through recourse credit facilities, provided by Goldman Sachs ("Goldman Sachs"), as specified in Section 12.1.4 of the Company's Prospectus dated May 29, 2008 (of which, approximately CHF 100 million had already been taken). The

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parties agreed to release part of the Credit Suisse shares from the pledged account, to change several ratios, and to cancel the covenant with respect to the Company's net asset value. It was further agreed that beyond the aforementioned, no additional credit from the credit facilities (recourse and non-recourse) will be taken. The Company additionally announced that it intends to invest an additional amount in Credit Suisse shares, even beyond the purchase. On October 20, 2008, the Company received a refund from Credit Suisse in the amount of approximately CHF 16 million for the shares purchased in the transaction. This, in accordance with the agreement between the parties and in respect of the sale of the shares by Credit Suisse to a third party at a price slightly lower than that at which the shares were sold to the Company. Said refund was allocated to increase the capital fund for available-for-sale assets.

- 4.2.** For the sale of part of its holdings in Credit Suisse in October 2008, Koor will record earnings of NIS 40 million in Q4 2008. Close to the reporting date, after the purchases of Credit Suisse shares (less sales), Koor holds about 38.16 million Credit Suisse shares, constituting approximately 3.4% of Credit Suisse share capital, at a total investment of about NIS 4.35 billion. On November 9, 2008, Koor's Board of Directors resolved to increase the amount of the investment in Credit Suisse shares to a total amount of up to NIS 5 billion, in accordance with the Company's resolution from time to time, and its assessment regarding the situation of the markets.
- 4.3.** In October 2008, Koor purchased 400 thousand ordinary shares of NIS 1 par value each in Makhteshim Agan for NIS 7 million. Following this purchase and following Makhteshim Agan's independent purchase, amounting to approximately \$100 million, shortly prior to the reporting date, Koor holds shortly prior to the reporting date approximately 40.93% of capital and about 41.35% of the voting rights in Makhteshim Agan.

In November 2008, the Makhteshim Agan Board of Directors approved the payment of \$50 million as a dividend to the Company's shareholders.

- 4.4.** In October 2008, Koor and one of the banks, which is the bank that provides Koor with most of its credit ("Bank"), agreed in changes to the terms of the credit the Bank extends to the Company, including the following:

[A] Koor's equity<sup>1</sup> shall not fall below NIS 1.1 billion (linked to the Israeli Consumer Price Index of June 2008).

[B] Should Koor's equity fall below NIS 2 billion (linked to the Consumer Price Index of June 2008), Koor shall not pay a dividend to its shareholders, without receiving the Bank's prior written approval.

[C] Koor shall remain the controlling shareholder and the largest shareholder, directly or indirectly (at a rate of holding that shall not, at any time, fall below 26% of the paid-up and issued share capital) in Makhteshim Agan.

[D] The maximum amount of debt as part of the financing extended and/or to be extended to Koor solely in order to purchase Credit Suisse shares, shall not exceed \$1 billion. Said amount of financing shall have the right of recourse to Koor and shall not exceed \$455 million.

[E] The ratio of market value to debt shall not fall below 1.4 at any time. The ratio of market value to debt is the ratio between the cumulative market value of Makhteshim Agan shares held by Koor, plus the following assets: (1) Credit Suisse shares, the investment in which was derived from the debt with respect to the recourse financing; (2) Credit Suisse shares that are free of all liens and held by Koor; (3) Credit Suisse shares that are free of all liens, held by a

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<sup>1</sup> Meaning, the equity attributed to the owners of capital rights in Koor (i.e., with the exception of the equity attributed to those with minority rights).

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wholly owned subsidiary of Koor and are not deposited with any financier whatsoever of the financing for the purchase of Credit Suisse shares, and the net financial debt (as defined in the agreement) to which there is a recourse right to Koor on a solo basis.<sup>2</sup> Should the ratio of market value to debt fall below 1.3, the Bank shall be entitled to immediately call in payment of the credit or any part thereof. In any event in which the ratio of market value to debt falls below 1.4, and provided that the Bank did not call in the credit or any part thereof for immediate repayment, and as long as the ratio of market value to debt was not fixed, such that Koor meets the required ratio, the spread on the credit shall increase by 1%.

[F] Change in the control of Koor gives the Bank the right to immediately call in payment of the loan.

[G] Koor has the right, through December 31, 2009, to push forward the date for repayment of the credit given to it by the Bank, which is scheduled for repayment between 2008-2010 (amount of about NIS 1.1 billion), for repayment between 2014-2016. In addition, Koor is working to adjust the covenants for loans it took from additional banks.

### **5. The financial situation and sources of finance**

#### **5.1.**

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
	<u>NIS Millions</u>	
Total assets in the consolidated balance sheet	6,892	5,371
Investments in investee companies in the consolidated balance sheet	2,499	2,566
Total equity attributed to the Company's shareholders	3,133	2,029
Surplus of current assets over current liabilities in the consolidated balance sheet	3,098	1,923
Koor's financial liabilities	3,402	3,020
Surplus of financial assets over Koor's liabilities assets (financial liabilities over financial assets)	404*	(650)

\* This balance does not include payment of approximately NIS 62 million in respect of Credit Suisse shares purchased antecedent to the balance sheet date.

**5.2.** Shortly prior to the reporting date and after the purchases of Credit Suisse shares as set out in Sections 4.1 and 4.2 above, surplus financial liabilities over Koor's financial assets are NIS 3.9 billion.

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<sup>2</sup> "Koor Solo" – Koor's financial data that only consolidates M.A.G.M, as long as M.A.G.M. remains wholly owned by Koor.

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### 5.3.

	<u>First Nine Months</u>		<u>Third Quarter</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	NIS Millions			
Consideration from sale of investments in Koor	4,295	*1,791	4,294	1,504
Dividends to Koor from investees	167	22	-	5
Investments in associated companies and others in Koor	3,921	71	3,622	51

\*Including a total of about NIS 33 million in respect of considerations presented in the financial statements under cash and cash equivalents from terminated activity.

As stated, in Q3 2008, the Company conducted purchase and sale transactions of Credit Suisse shares. Koor's holdings peaked at 1.21% of Credit Suisse shares, at a maximum cost of approximately NIS 1.9 billion. The consideration from the sale of investments amounting to approximately NIS 4,294 million, was primarily attributable to the sale of Credit Suisse shares. During this period, Koor invested a total of approximately NIS 3,594 million in Credit Suisse shares. In the corresponding period in 2007, the consideration from sale of investments amounted to approximately NIS 1,504 million, primarily in respect of the sale of the Company's holdings in ECI.

- 5.4. In Q3 2008, Koor took a total of approximately NIS 315 million in short-term loans from banks.
- 5.5. With respect to raising of approximately NIS 678 million through the rights issue conducted in Q3 2008, see Section 3.4 above.

## **6. Report on changes in the economic environment, implications of the crisis for the capital markets, exposure and management of market risks**

### **6.1. Worsening of the crisis in the financial markets (further to Section 8, Part A of Koor's periodic report)**

In September 2008, global financial markets were shaken badly once again, with the collapse of several very large financial organizations in the US and other countries, and due to the worsening of the crisis in the sub-prime mortgage market, which involved other financial segments. The worsening of the crisis led, among other things, to serious damage to the global capital markets, very large declines and fluctuations in the stock market in Israel and around the world, including large declines and fluctuations in the prices of securities of certain Koor investees, and to a worsening of the credit crunch, the crisis in liquidity in the market and even a decline in the prices of commodities. Following said events, several countries took different steps to promote stabilization and prevent lowering of interest rates. However, there is no certainty that these steps will halt the crisis or prevent it from getting worse. It would seem that the direct economic implications of said crisis have not all appeared, and there is a fear that the US and global economy will enter a recession.

Declines and fluctuations in the prices of the securities of Koor holdings (and particularly Credit Suisse and Makhteshim Agan), on the one hand, and the increased debt by Koor, on the other hand, may impact on Koor's credit rating as well as its compliance with the ratios set for certain covenants. With respect to the credit rating, the Maalot rating published in May 2007 is based on various parameters, including the ratio of the adjusted value of holdings plus liquid portfolio to gross debt,

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which may not fall below 2.7 in the long term and 2.5 in the short term. As of November 6, 2008, said ratio is approximately 1.9. An increase in the value of the assets will lead to an increase in the ratio, and assumption of additional financial debt by Koor will lead to a decrease in said ratio.

However, the fluctuations in the financial markets along with the large differences in the prices of Credit Suisse shares enabled Koor to conduct purchases and sales of Credit Suisse shares, as the result of which Koor recorded profit this quarter of NIS 535 million, and with respect to the period from the balance sheet date and shortly prior to the reporting date, Koor will record in Q4, as the result of purchases and sales of Credit Suisse shares to date, profit of approximately NIS 40 million.

In addition to said global financial crisis, in recent months there have been several additional developments in the Israeli economy, including significant fluctuations in the main foreign currencies against the shekel, and an increase in the rate of inflation in the local economy. The increase in the Israeli Consumer Price Index in recent months, as aforementioned, contributed NIS 61 million to financing costs in Q3 2008 (for information regarding Koor's financing expenses, see also Section 1.3 of this report).

Said developments and shocks to the markets, as aforementioned, may have negative impacts on the business results of Koor and its investees, their liquidity, value of assets, ability to sell assets, business situation, financial covenants, credit rating, ability to pay dividends, and ability to raise financing for their current activity and long-term activity as well as on the terms of their financing.

## **6.2. Koor's exposure**

Koor is directly exposed to market risks as a result of changes in currency exchange rates and in the inflation rate in Israel, as well as market variables that impact the markets in which its holdings are traded and as a result, the value of these holdings. Furthermore, Koor is indirectly exposed to various market risks that affect the performance of its investees.

Koor's exposure to inflation in Israel stems from the fact that a major part of Koor's debt is shekel denominated, CPI linked, fixed interest debt whose fair value is affected by changes in market interest rates.

### **6.2.1. Exposure to the impact of foreign currency fluctuations**

In Q2 2008, the Company converted most of its dollar-denominated cash balances to Swiss Francs following the purchases of Credit Suisse shares and the receipt of proceeds in CHF following sales of Credit Suisse shares. As of the date of this report, Koor has debt balances (of NIS 978 million) that are exposed to fluctuations in the Swiss Franc exchange rate against the shekel, and cash balances of NIS 26 million denominated in USD. The fair shekel value of the liquid assets and debt balances is affected by changes in the exchange rates of the shekel against these currencies.

Furthermore, Koor is affected by the exchange rates of the shekel against the dollar on its shekel investment balances in investee companies operating abroad and/or whose primary operations are in foreign currency, and by the affects of the shekel exchange rates against the Swiss Franc on the shekel value of its investments in available-for-sale assets (Credit Suisse shares, which as of the reporting date amounted to approximately NIS 4.35 billion). These impacts are presented as part of the shareholders equity.

As of the date of this report, Koor does not take steps to hedge exposure relating to the shekel value of foreign currency holdings and/or indirect exposure that impacts the performance of investees. Nonetheless, Koor may take steps to hedge such exposures.

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The Company's policies regarding investment of cash balances and protection against financial exposure are carried out by the Company's management and the board's investment committee, which is made up of the Chief Financial Officer and capital market consultants. In November 2007, the Board of Directors appointed the board's investment committee, which includes four directors of which two are external directors. The management reported to the Board of Director's Investment Committee regarding its investment policy for cash balances and protection against exposures, and the Investment Committee examined and approved this policy. Furthermore, at every Audit Committee meeting and at every Board of Directors meeting, the Company's management reports to the Audit Committee and to the Board of Directors regarding Koor's exposure to changes in the exchange rates and Koor's linkage balance is discussed.

### **6.2.2. Report of linkage bases**

A. The Company does not manage the risks of its investee companies. The following is the linkage balance sheet and positions of Koor's derivatives and its wholly-owned subsidiaries, as at September 30, 2008.

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B. Koor's linkage balances as of September 30, 2008 (in NIS millions):

	<u>CPI linked</u>	<u>Dollar or dollar linked</u>	<u>Swiss Franc or linked thereto</u>	<u>Unlinked</u>	<u>Non- monetary item</u>	<u>Negotiable assets</u>	<u>Total</u>
<b><u>Assets</u></b>							
Current assets	188	439	1,400	1,899	-	47	3,973
Investment in associate companies (including loans)	144	70	-	17	2,288	-	2,519
Investments and other debts due	-	10	-	-	109	66	185
Fixed assets, other assets and investment property	-	-	-	-	81	-	81
<b>Total assets</b>	<b>332</b>	<b>519</b>	<b>1,400</b>	<b>1,916</b>	<b>2,478</b>	<b>113</b>	<b>6,758</b>
<b><u>Liabilities</u></b>							
Current liabilities (incl. current maturities)	(324)	(8)	(439)	(82)	-	-	(853)
Long-term liabilities (not incl. current maturities)	(2,762)	(10)	-	-	-	-	(3,772)
<b>Total liabilities</b>	<b>(3,086)</b>	<b>(18)</b>	<b>(439)</b>	<b>(82)</b>	<b>-</b>	<b>-</b>	<b>(3,625)</b>
<b>Assets less liabilities, net</b>	<b>(2,754)</b>	<b>501</b>	<b>961</b>	<b>1,834</b>	<b>2,478</b>	<b>113</b>	<b>3,133</b>

Subsequent to the balance sheet date and following the purchase of Credit Suisse shares as set out in Sections 4.2 and 4.3 above, Koor's linkage balance changed significantly. Shortly prior to the reporting date, Koor had CHF-linked current liabilities of approximately NIS 978 million. In addition, Koor's current assets declined significantly, and most of it is not linked. In contrast, Koor holds Credit Suisse shares (at a cost of NIS 4.35 billion) that are classified as a CHF-denominated negotiable asset for the purpose of the linkage balance.

C. Koor derivative positions as of September 30, 2008 (in NIS millions):

	<u>CPI / NIS</u>			
	<u>Nominal</u>	<u>Fair value</u>	<u>Nominal</u>	<u>Fair</u>
	<u>value</u>	<u>to receive</u>	<u>value</u>	<u>value to</u>
	<u>Up to one year</u>	<u>Above one year</u>	<u>LONG</u>	<u>LONG</u>
Forward contracts for hedging – not recognized for accounting (1)	850	25	-	-

(1) These contracts are intended to hedge Koor's Israeli CPI-linked liabilities, so that in the event that the actual CPI rises above the index level stipulated in the contract, Koor will receive the difference, and if the opposite occurs Koor will pay the difference.

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D. Consolidated linkage balance to September 30, 2008 (in NIS millions):

	<u>CPI linked</u>	<u>Dollar or dollar linked</u>	<u>Other currency or linked thereto</u>	<u>Unlinked</u>	<u>Non- monetary item</u>	<u>Negotiable assets</u>	<u>Total</u>
<b><u>Assets</u></b>							
Current assets	188	483	1,400	1,902	58	47	4,078
Investment in associate companies (incl. loans)	39	57	-	-	2,404	-	2,500
Long-term deposits and loans (incl. maturities)	-	10	-	-	109	66	185
Fixed assets, other assets and investment property	-	-	-	-	129	-	129
<b>Total assets</b>	<b>227</b>	<b>550</b>	<b>1,400</b>	<b>1,902</b>	<b>2,700</b>	<b>113</b>	<b>6,892</b>
<b><u>Liabilities</u></b>							
Current liabilities (incl. current maturities)	(338)	(97)	(439)	(96)	(4)	-	(974)
Long-term liabilities (not incl. current maturities)	(2,762)	(21)	-	-	(2)	-	(2,785)
<b>Total liabilities</b>	<b>(3,100)</b>	<b>(118)</b>	<b>(439)</b>	<b>(96)</b>	<b>(6)</b>	<b>-</b>	<b>(3,759)</b>
<b>Assets less liabilities, net</b>	<b>(2,873)</b>	<b>432</b>	<b>961</b>	<b>1,806</b>	<b>2,694</b>	<b>113</b>	<b>3,133</b>

For changes subsequent to the balance sheet date, see Section 6.2.2 (B) above.

E. Koor's linkage balances as of September 30, 2007 (in NIS millions):

	<u>CPI linked</u>	<u>Dollar or dollar linked</u>	<u>Other currency or linked thereto</u>	<u>Unlinked</u>	<u>Non- monetary item</u>	<u>Negotiable assets</u>	<u>Total</u>
<b><u>Assets</u></b>							
Current assets	197	1,977	-	676	1	91	2,942
Investment in associate companies (including loans)	64	55	-	14	2,529	-	2,662
Long-term deposits and loans (incl. maturities)	-	9	-	-	112	-	121
Fixed assets, other assets and investment property	-	-	-	-	78	-	78
<b>Total assets</b>	<b>261</b>	<b>2,041</b>	<b>-</b>	<b>690</b>	<b>2,719</b>	<b>91</b>	<b>5,803</b>
<b><u>Liabilities</u></b>							
Current liabilities (incl. current maturities)	(181)	(10)	(3)	(66)	(15)	-	(275)
Long-term liabilities (not incl. current maturities)	(2,860)	(8)	-	-	-	-	(2,868)
<b>Total liabilities</b>	<b>(3,041)</b>	<b>(18)</b>	<b>(3)</b>	<b>(66)</b>	<b>(15)</b>	<b>-</b>	<b>(3,143)</b>
<b>Assets less liabilities, net</b>	<b>(2,780)</b>	<b>2,023</b>	<b>(3)</b>	<b>624</b>	<b>2,704</b>	<b>91</b>	<b>2,659</b>

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## Board of Directors Report First Nine Months and Third Quarter of 2008

F. Koor derivative positions as of September 30, 2007 (in NIS millions):

	CPI / NIS			
	Nominal	<u>Fair</u>	Nominal	<u>Fair</u>
	<u>value</u>	value to	<u>value</u>	value to
	<u>Up to one year</u>	<u>pay</u>	<u>Above one year</u>	<u>pay</u>
	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>
Forward contracts for hedging – not recognized for accounting (1)	500	4	400	6

(1) These contracts are intended to hedge Koor's index-linked liabilities, so that in the event that the actual CPI rises above the index level stipulated in the contract, Koor will receive the difference, and if the opposite occurs Koor will pay the difference.

G. Consolidated linkage balance to June 30, 2007 (in NIS millions):

	<u>CPI</u>	<u>Dollar or</u>	<u>Other</u>	<u>Unlinked</u>	<u>Non-</u>	<u>Negotiable</u>	<u>Total</u>
	<u>linked</u>	<u>dollar</u>	<u>currency</u>		<u>monetary</u>	<u>assets</u>	
		<u>linked</u>	<u>or linked</u>		<u>item</u>		
			<u>thereto</u>				
<b><u>Assets</u></b>							
Current assets	164	2,020	2	676	81	91	3,034
Investment in associate companies (including loans)	28	56	-	-	2,592	-	2,676
Long-term deposits and loans	-	13	-	-	112	-	125
Fixed assets, other assets and investment property	-	-	-	-	132	-	132
<b>Total assets</b>	<b>192</b>	<b>2,089</b>	<b>2</b>	<b>676</b>	<b>2,916</b>	<b>91</b>	<b>5,967</b>
<b><u>Liabilities</u></b>							
Current liabilities (incl. current maturities)	(181)	(101)	(3)	(101)	(20)	-	(406)
Long-term liabilities (not incl. current maturities)	(2,867)	(25)	-	-	(8)	-	(2,900)
<b>Total liabilities</b>	<b>(3,048)</b>	<b>(126)</b>	<b>(3)</b>	<b>(101)</b>	<b>(28)</b>	<b>-</b>	<b>(3,306)</b>
<b>Assets less liabilities, net</b>	<b>(2,856)</b>	<b>1,963</b>	<b>(1)</b>	<b>575</b>	<b>2,888</b>	<b>91</b>	<b>2,660</b>

### 6.3. Investees

No material changes occurred during the reporting period in the exposure of the Company's investee companies to exposure and management of market risk as compared with the Company's Directors' Report for 2007, dated March 17, 2008.

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**6.4. Sensitivity test tables for sensitive financial instruments included in the consolidated financial statements for the period ended September 30, 2008, in accordance with changes in market factors**

**Sensitivity analysis to changes in Israeli CPI-linked interest rates**

Item	Profit (Loss) from Changes in Interest Rate				
	Fair value	R i s e o f		F a l l o f	
		10%	5%	10%	5%
N I S	M i l l	l i o n	s		
Long-term Israeli CPI-linked deposits and loans (incl. current maturities)	20	(2)	(1)	2	1
Index-linked debentures	(1,623)	40	20	(40)	(20)
Index-linked bank loans	(1,365)	8	4	(8)	(4)
	<u>(2,968)</u>	<u>46</u>	<u>23</u>	<u>(46)</u>	<u>(23)</u>

**Sensitivity analysis on changes in the exchange rate of the US dollar**

Item	Profit (Loss) from Changes to the Dollar Exchange Rate				
	Fair value	R i s e o f		F a l l o f	
		10%	5%	10%	5%
N I S	M i l l	l i o n	s		
Long-term loans to associated companies	57	6	3	(6)	(3)
Other investments	10	1	1	(1)	(1)
Short-term deposits and loans	10	1	-	(1)	-
Debtors, receivables and short-term debit balances	47	5	2	(5)	(2)
Cash and cash equivalents	426	43	22	(43)	(22)
Long-term loans from banks	(7)	(1)	-	1	-
Other long term financial liabilities	(14)	(2)	(1)	2	1
Short-term financial liabilities	(36)	(4)	(2)	4	2
Trade and other accounts payable and credit balances	(61)	(6)	(3)	6	3
	<u>432</u>	<u>43</u>	<u>22</u>	<u>(43)</u>	<u>(22)</u>

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**Sensitivity analysis on changes in the exchange rate of the Swiss Franc**

Item	Fair value	Profit (Loss) from Changes to the Swiss Franc Exchange Rate			
		R i s e o f		F a l l o f	
		10%	5%	10%	5%
N I S	M i l l	i o n	s		
Long-term debtors	65	6	3	(6)	(3)
Cash and cash equivalents	1,337	133	67	(133)	(67)
Long-term trade receivables	(125)	(12)	(6)	12	6
Short-term financial liabilities	(135)	(31)	(16)	31	16
	961	96	48	(96)	(48)

**Sensitivity analysis on changes in negotiable securities prices**

Item	Fair value	Profit (Loss) from Changes to the Prices of Negotiable Securities			
		R i s e o f		F a l l o f	
		10%	5%	10%	5%
N I S	M i l l	i o n	s		
Short-term negotiable securities	384	38	19	(38)	(19)
Long-term negotiable investments	66	7	3	(7)	(3)
	450	45	22	(45)	(22)

**Sensitivity analysis to changes in the Israeli CPI – on derivative positions**

Forward contract	Fair value	Profit (Loss) from Changes in the Israeli CPI			
		R i s e o f		F a l l o f	
		2%	1%	2%	1%
N I S	M i l l	i o n	s		
Not recognized as accounting protection	24	11	5	(11)	(5)

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**6.5. Sensitivity test tables for sensitive financial instruments included in the consolidated financial statements to September 30, 2007, in accordance with changes in market factors**

**Sensitivity analysis to changes in Israeli CPI-linked interest rates**

Item	Profit (Loss) from Changes in Interest Rate				
	Fair value	R i s e o f		F a l l o f	
		10%	5%	10%	5%
N I S	M i l	l i o	n s		
Long-term Israeli CPI-linked deposits and loans (incl. current maturities)	18	(2)	(1)	2	1
Index-linked debentures	(1,599)	40	20	(40)	(20)
Index-linked bank loans	(1,348)	15	8	(15)	(8)
	<u>(2,929)</u>	<u>53</u>	<u>26</u>	<u>(53)</u>	<u>(26)</u>

**Sensitivity analysis on changes in the exchange rate of the US dollar**

Item	Profit (Loss) from Changes to the Dollar Exchange Rate				
	Fair value	R i s e o f		F a l l o f	
		10%	5%	10%	5%
N I S	M i l	l i o	n s		
Long-term loans to affiliated companies	56	6	3	(6)	(3)
Long-term deposits and loans (incl. current maturities)	13	1	-	(1)	-
Debtors and short-term debit balances	11	1	-	(1)	-
Trade receivables	37	4	2	(4)	(2)
Short-term deposits and loans	7	1	-	(1)	-
Cash and cash equivalents	1,965	196	98	(196)	(98)
Long-term loans from banks	(26)	(3)	(1)	3	1
Other long-term liabilities	(5)	(1)	-	1	-
Trade and other accounts payable and credit balances	(61)	(6)	(3)	6	3
Short-term bank credit	(34)	(3)	(1)	3	1
	<u>1,963</u>	<u>196</u>	<u>98</u>	<u>(196)</u>	<u>(98)</u>

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## Board of Directors Report First Nine Months and Third Quarter of 2008

### Sensitivity analysis on changes in negotiable securities prices

Item	Fair value	Profit (Loss) from Changes to the Prices of Negotiable Securities			
		R i s e o f		F a l l o f	
		10%	5%	10%	5%
N I S	M	i l l	i o n	s	
Investment in negotiable securities	426	43	21	(43)	(21)

### Sensitivity analysis to changes in the Israeli CPI – on derivative positions

Forward contract	Fair value	Profit (Loss) from Changes in the Israeli CPI			
		R i s e o f		F a l l o f	
		2%	1%	2%	1%
N I S	M	i l l	i o n	s	
Not recognized as accounting protection	10	13	7	(13)	(7)

## **7. IFRS**

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 – Adoption of International Financial Reporting Standards (IFRS). The standard stipulates that entities subject to the provisions of the Securities Law, 5728-1968, and which are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008, whereby the transition date for initial adoption is January 1, 2007 ("Transition Date").

For transition purposes, the Company applied the provisions of the IFRS1 for its Q1 2008 Financial Statements and presented an opening balance as of January 1, 2007, balance as at December 31, 2007 and Statement of Income for the year ended on said date, which were prepared in accordance with the IFRS. In addition, the Company presented in its Financial Statements as of September 30, 2008, adjustments between the statements according to Israeli GAAP and according to IFRS for the transition data, as of December 31, 2007 and for the year ended on said date, applied in retrospect (historically) (subject to irregularities).

For further information relating to this matter, see Notes 2, 3 and 13 to the financial statements.

## **8. Disclosure concerning approval of the Company's financial statements**

**8.1.** Identity of the Company's bodies that are responsible for supervision:  
the Company's Board of Directors and Audit Committee.

**8.2.** Details of the steps taken by the bodies responsible for supervision of the Company, prior to approval of the Company's financial reports:

The Company's Board of Directors has appointed the Company's Audit Committee to act as a Balance Sheet Committee, which presents it with the main points of the detailed discussion held on issues related to the financial statements and recommends that it approve them. The financial statements are approved by the Board of Directors. The members of the Balance Sheet Committee are Mr. Gidon Lahav, Mr. Avraham Asheri, Mrs. Ayelet Ben Ezer and Mr. Shlomo Risman. Three members of the Audit Committee have financial expertise. The Company's internal auditor is invited to and attends the

# K o o r I n d u s t r i e s L t d .

## **Board of Directors Report First Nine Months and Third Quarter of 2008**

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Balance Sheet Committee meetings. The Company's auditing accountant is invited to and attends the Balance Sheet Committee meetings and those of the Board of Directors at which the financial statements are discussed and approved, and he is required to explain the material findings, if any, which arose during the audit or the review.

The Balance Sheet Committee carries out its verifications based upon detailed presentations made by the Company's officers and others, including the Company's Chief Executive Officer, Mr. Raanan Cohen, and the Chief Financial Officer, Mr. Oren Hillinger, and the Corporate Comptroller, Mrs. Avishag Perets, concerning material issues in the financial statements, including transactions not in the normal course of business, if such exist, the material assessments and critical estimations implemented in the financial statements, the reasonableness of the data, the accounting principles employed and changes that have occurred therein, and the implementation of the principle of full disclosure in respect of the financial statements and the accompanying information. The Balance Sheet Committee also examines various aspects of control and risk management, both those which are reflected in the financial statements (such as the reporting on financial risks) and those that affect the reliability of the financial statements. Where necessary, the Balance Sheet Committee requests a comprehensive review for matters with particularly significant implications.

To approve the financial statements, the Audit Committee holds a meeting prior to the date of the Board meeting for a fundamental and comprehensive discussion of the material issues reported and an in-depth discussion of the draft financial statements.

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Raanan Cohen  
CEO

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Ami Erel  
Chairman of the Board

Tel Aviv, November 9, 2008

**Koor Industries Ltd.**

**Condensed Consolidated Interim  
Financial Statements  
As at September 30, 2008  
(unaudited)**

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**The Board of Directors**  
**Koor Industries Limited.**

**Re: Auditors' review report of unaudited condensed consolidated interim financial statements for the nine-month and three-month periods ended September 30, 2008**

At your request, we have reviewed the condensed consolidated interim balance sheet of Koor Industries Ltd. and its subsidiaries as at September 30, 2008, and the related condensed consolidated interim statements of operations, the condensed consolidated interim statement of recognized income and expenses, and the condensed consolidated interim statements of cash flows for the nine-month and three-month period then ended.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel and included, inter alia, reading the said financial statements, reading the minutes of shareholders' meetings and of the meetings of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

We were provided with the reports of other auditors, regarding the review of the interim financial statements of subsidiaries, whose assets included in the consolidation constitute 4% of the total assets included in the condensed consolidated interim balance sheet as at September 30, 2008 and whose revenues included in the consolidation constitute 14% and 8% of the total revenues included in the condensed consolidated interim statement of operations for the nine-month and three-month periods then ended, respectively. We were also provided with the reports of other auditors of affiliates, the investment in which totaled NIS 187,104 thousand as at September 30, 2008, and the Company's share in their earnings (losses) were NIS 9,010 thousand and NIS (298) thousand for the nine-month and three-month periods then ended, respectively.

Since the review performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said condensed consolidated interim financial statements.

In the course of our review, including reading the review reports of other auditors, as stated above, nothing came to our attention which would indicate the necessity of making material modifications to the said interim financial statements, in order for them to be in conformity with International Financial Reporting Standard IAS 34, *Financial Reporting for Interim Periods*, and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

We draw attention to Note 5(a)7 to the financial statements regarding a claim and motion for its recognition as a class action that was served against one of the Company's affiliates.

Somekh Chaikin  
Certified Public Accountants (Isr.)  
Member Firm of KPMG International

November 9, 2008  
Tel Aviv, Israel

## Condensed Consolidated Interim Balance Sheets

	September 30 2008	September 30 2007	December 31 2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3,476,420	1,080,201	1,917,412
Short-term deposits and investments	397,569	1,771,406	457,590
Trade receivables	45,596	39,391	40,236
Other receivables	101,821	65,917	67,887
Inventories	57,385	77,503	57,628
	<u>4,078,791</u>	<u>3,034,418</u>	<u>2,540,753</u>
<b>Investments and long-term receivables</b>			
Investments in investees	2,499,159	2,675,969	2,566,151
Other investments and receivables	185,810	125,038	128,654
	<u>2,684,969</u>	<u>2,801,007</u>	<u>2,694,805</u>
<b>Investment property</b>	<u>111,880</u>	<u>108,280</u>	<u>111,880</u>
<b>Fixed assets, net</b>	<u>6,562</u>	<u>7,934</u>	<u>7,851</u>
<b>Intangible assets</b>	<u>10,140</u>	<u>15,495</u>	<u>16,126</u>
	<u>6,892,342</u>	<u>5,967,134</u>	<u>5,371,415</u>
<b>Total assets</b>	<u><u>6,892,342</u></u>	<u><u>5,967,134</u></u>	<u><u>5,371,415</u></u>

The accompanying notes are an integral part of the financial statements.

	September 30 2008	September 30 2007	December 31 2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Credit from banks and others	658,010	173,015	330,460
Trade payables	49,840	50,395	54,515
Other payables	235,570	101,622	140,977
Provisions	28,078	27,282	23,534
Customer advances	4,023	4,667	6,015
Liability for options to investors	5,405	49,084	62,324
	<u>980,926</u>	<u>406,065</u>	<u>617,825</u>
<b>Long-term liabilities</b>			
Liabilities from banks	1,055,322	1,247,900	1,076,901
Liabilities from others	5,132	15,589	14,618
Debentures	1,716,900	1,631,985	1,632,841
Deferred taxes	-	2,183	-
Liability for employee termination benefits, net	352	2,504	267
	<u>2,777,706</u>	<u>2,900,161</u>	<u>2,724,627</u>
<b>Equity Capital</b>			
Share capital	571,630	564,515	564,515
Premium on shares net of treasury shares	3,292,458	2,238,778	2,238,951
Reserves	(478,337)	(116,265)	(211,395)
Accumulated loss	(252,660)	(26,799)	(563,225)
	<u>3,133,091</u>	<u>2,660,229</u>	<u>2,028,846</u>
<b>Total equity attributed to holders of capital rights in the Company</b>	<b>3,133,091</b>	<b>2,660,229</b>	<b>2,028,846</b>
<b>Minority interest</b>	<b>619</b>	<b>679</b>	<b>117</b>
	<u>3,133,710</u>	<u>2,660,908</u>	<u>2,028,963</u>
<b>Total equity capital</b>	<b>3,133,710</b>	<b>2,660,908</b>	<b>2,028,963</b>
	<u>6,892,342</u>	<u>5,967,134</u>	<u>5,371,415</u>
<b>Total liabilities and equity capital</b>	<b>6,892,342</b>	<b>5,967,134</b>	<b>5,371,415</b>

Approval date of financial statements: November 9, 2008

Ami Erel  
Chairman of the Board of Directors

Raanan Cohen  
Chief Executive Officer

Oren Hillinger  
Chief Financial Officer

## Condensed Consolidated Interim Statements of Operations

	For the nine-month period ended		For the three-month period ended		For the year ended
	September 30	September 30	September 30	September 30	December 31
	2008	2007	2008	2007	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
<b>Revenues</b>					
Revenues from sales and projects	166,443	164,730	53,499	46,441	218,702
Koor Group's equity in results of affiliates, net	236,323	258,142	46,584	15,935	246,877
Gains from sale of securities available for sale	535,116	-	535,116	-	-
Other income	50,311	652,411	2,448	614,518	655,583
Financing income	110,399	74,043	51,181	1,667	71,695
	<u>1,098,592</u>	<u>1,149,326</u>	<u>688,828</u>	<u>678,561</u>	<u>1,192,857</u>
<b>Expenses</b>					
Cost of sales and projects	155,857	126,638	66,425	39,769	192,302
Selling and marketing expenses	25,797	32,949	7,917	10,053	44,481
General and administrative expenses	33,266	35,278	10,400	13,794	53,882
Other expenses	21,543	7,489	633	7,489	15,305
Financing expenses	549,644	204,377	175,844	117,670	301,311
	<u>786,107</u>	<u>406,731</u>	<u>261,219</u>	<u>188,775</u>	<u>607,281</u>
<b>Earnings before income taxes</b>	<b>312,485</b>	<b>742,595</b>	<b>427,609</b>	<b>489,786</b>	<b>585,576</b>
Income taxes	(12)	258	80	(659)	109
Earnings from continuing operations	312,473	742,853	427,689	489,127	585,685
Earnings, net of tax, from discontinued operations	-	24,099	-	-	24,099
<b>Net earnings for the period</b>	<b>312,473</b>	<b>766,952</b>	<b>427,689</b>	<b>489,127</b>	<b>609,784</b>
Attributed to:	312,040	771,491	427,689	491,549	614,323
Holders of the Company's capital rights	433	(4,539)	-	(2,422)	(4,539)
Minority shareholders	-	-	-	-	-
<b>Net earnings for the period</b>	<b>312,473</b>	<b>766,952</b>	<b>427,689</b>	<b>489,127</b>	<b>609,784</b>
	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
<b>Earnings per share</b>					
Basic earnings per share	16.174	45.278	20.027	27.616	33.318
Diluted earnings per share	16.174	41.871	20.027	27.566	33.184
<b>From continuing operations</b>					
Basic earnings per share	16.174	43.945	20.027	27.616	31.985
Diluted earnings per share	16.174	40.540	20.027	27.566	31.853
<b>From discontinued operations</b>					
Basic earnings per share	-	1.333	-	-	1.333
Diluted earnings per share	-	1.331	-	-	1.331

The accompanying notes are an integral part of the financial statements.

## Condensed Consolidated Interim Statements of Recognized Earnings and Expenses

	For the nine-month period ended		For the three-month period ended		For the year ended
	September 30 2008 (Unaudited) NIS thousands	September 30 2007 (Unaudited) NIS thousands	September 30 2008 (Unaudited) NIS thousands	September 30 2007 (Unaudited) NIS thousands	December 31 2007 (Audited) NIS thousands
Foreign currency translation differences from foreign operations	(271,942)	(123,628)	43,329	(147,115)	(222,203)
Foreign currency translation differences from foreign operations recognized in gain/loss	800	-	-	-	-
Net change in fair value of financial assets classified as available for sale	537,511	3,793	534,728	(1,187)	3,411
Net change in fair value of financial assets classified as available for sale recognized in gain/loss	(535,116)	-	(535,116)	-	752
Actuarial gains from defined benefits plan	-	-	-	-	305
Koor's equity in revenues/expenses recognized directly to equity in affiliates	399	11,321	(18,563)	6,870	14,555
Earnings for the period	312,473	766,952	427,689	489,127	609,784
<b>Total revenues for the period</b>	<b>44,125</b>	<b>658,438</b>	<b>452,067</b>	<b>347,695</b>	<b>406,604</b>
<b>Attributed to:</b>					
Holders of equity rights in the Company	43,623	663,232	452,033	350,094	411,680
Minority interest	502	(4,794)	34	(2,399)	(5,076)
<b>Total revenues for the period</b>	<b>44,125</b>	<b>658,438</b>	<b>452,067</b>	<b>347,695</b>	<b>406,604</b>

The accompanying notes are an integral part of the financial statements.

## Condensed Consolidated Interim Statements of Cash Flows

	For the nine-month period ended		For the three-month period ended		For the year ended
	September 30	September 30	September 30	September 30	December 31
	2008	2007	2008	2007	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
<b>Cash flows generated by operating activities</b>					
<b>Earnings (loss) for the period</b>	<b>312,040</b>	771,491	<b>427,689</b>	491,549	614,323
Adjustments:					
Minority interest in results of subsidiaries, net	433	(4,539)	-	(2,422)	(4,539)
Financing costs, net	326,621	88,417	71,763	44,374	211,254
Income tax expenses (savings)	12	(258)	(80)	659	(109)
Revaluation of securities available for sale	4,462	-	(462)	-	3,464
Koor's equity in results of affiliates, net	(236,323)	(258,142)	(46,584)	(15,935)	(246,877)
Dividend received from affiliates	167,317	8,000	-	1,400	9,160
Depreciation and amortization	11,554	4,008	8,634	1,156	7,076
Increase (decrease) in employee termination benefits, net	85	(531)	(74)	66	(2,476)
Reduction of salary expenses for employee options	-	654	-	142	245
Earnings from discontinued operations	-	(24,099)	-	-	(24,099)
Revaluation of investment property	-	-	-	-	(3,600)
Capital losses (gains), net, from realization of:					
Fixed assets and other assets	(51)	(2)	3	32	(74)
Investments in investees	-	(644,486)	-	(616,809)	(636,285)
Investment in other companies and securities available for sale	(582,971)	(8,805)	(536,782)	3,622	(13,809)
Linkage and amortization of debenture discounts and revaluation of liability from options	27,140	55,979	23,172	34,146	70,075
Linkage of loan principals and other long-term liabilities	66,315	30,979	28,860	29,634	33,935
Revaluation of investments, deposits and loans receivable	41,496	(50,614)	21,741	4,682	(13,357)
Impairment of assets and investments (mainly in value of venture capital investments)	16,546	6,331	1,033	7,521	11,715
Decrease (increase) in trade and other receivables	(27,123)	(17,603)	(12,143)	21,202	(33,801)
Decrease (increase) in inventories and customer advances	(8,474)	(13,021)	2,737	(1,090)	5,769
Increase (decrease) in trade and other payables	(8,572)	44,528	2,274	8,084	34,357
Income tax received (paid)	(195)	63	(176)	104	64
<b>Net cash inflows (outflows) generated by continuing operating activities</b>	<b>110,312</b>	(11,650)	<b>(8,395)</b>	12,117	22,411
<b>Net cash inflows (outflows) generated by discontinued operations</b>	<b>-</b>	9,006	<b>-</b>	-	9,006
<b>Net cash inflows (outflows) generated by operating activities</b>	<b>110,312</b>	(2,644)	<b>(8,395)</b>	12,117	31,417

The accompanying notes are an integral part of the financial statements.

## Condensed Consolidated Interim Statements of Cash Flows

	For the nine-month period ended		For the three-month period ended		For the year ended
	September 30 2008 (Unaudited) NIS thousands	September 30 2007 (Unaudited) NIS thousands	September 30 2008 (Unaudited) NIS thousands	September 30 2007 (Unaudited) NIS thousands	December 31 2007 (Audited) NIS thousands
<b>Cash flows generated by investing activities</b>					
Purchase of fixed assets	(1,267)	(1,194)	(477)	(383)	(2,220)
Amounts recognized as intangible assets	(5,612)	(17,128)	-	(4,495)	(20,815)
Proceeds from realization of investments in investees and other	4,295,215	1,760,681	4,293,768	1,504,385	1,761,363
Proceeds from sale of fixed assets	277	57	173	57	270
Investment in affiliates and other	(3,863,855)	(40,588)	(3,601,066)	(30,395)	(53,451)
Investment in venture capital companies	(4,182)	(4,635)	-	(1,073)	(4,635)
Decrease (increase) in short-term deposits and investments, net	24,468	(1,233,694)	26,026	(1,339,200)	42,832
Interest received	51,949	39,131	14,987	11,950	62,476
<b>Net cash inflows (outflows) generated by continuing investing activities</b>	<b>496,993</b>	<b>502,630</b>	<b>733,411</b>	<b>140,846</b>	<b>1,785,820</b>
<b>Net cash inflows (outflows) generated by discontinued investing activities</b>	<b>35,560</b>	<b>(5,541)</b>	<b>-</b>	<b>-</b>	<b>(5,541)</b>
<b>Net cash inflows generated by investing activities</b>	<b>532,553</b>	<b>497,089</b>	<b>733,411</b>	<b>140,846</b>	<b>1,780,279</b>
<b>Cash flows generated by financing activities</b>					
Net proceeds from issuance of debentures	-	640,789	-	-	640,789
Net proceeds from issuance of shares	1,060,622	-	677,625	-	-
Dividend distribution	-	(149,857)	-	(149,857)	(529,884)
Interest paid	(121,863)	(125,073)	(80,883)	(84,076)	(150,076)
Proceeds from exercise of options granted to investors	-	-	-	-	159
Long-term loans and other liabilities received	50,000	3,187	-	-	3,187
Long-term loans, debentures and other liabilities repaid	(129,201)	(23,814)	-	(21,944)	(28,891)
Cash flows from settlement of derivatives	3,748	(12,012)	-	(3,111)	(7,671)
Increase in credit from banks and others, net	315,002	6,543	313,711	1,655	13,824
<b>Net cash inflows (outflows) generated by continuing financing activities</b>	<b>1,178,308</b>	<b>339,763</b>	<b>910,453</b>	<b>(257,333)</b>	<b>(58,563)</b>
<b>Net cash outflows generated by discontinued financing activities</b>	<b>-</b>	<b>(5,647)</b>	<b>-</b>	<b>-</b>	<b>(5,647)</b>
<b>Net cash inflows (outflows) generated by financing activities</b>	<b>1,178,308</b>	<b>334,116</b>	<b>910,453</b>	<b>(257,333)</b>	<b>(64,210)</b>
<b>Change in cash and cash equivalents</b>	<b>1,821,173</b>	<b>828,561</b>	<b>1,635,469</b>	<b>(104,370)</b>	<b>1,747,486</b>
<b>Change in cash from discontinued operations</b>	<b>-</b>	<b>35,612</b>	<b>-</b>	<b>-</b>	<b>35,612</b>
<b>Change in cash and cash equivalents from continuing operations</b>	<b>1,821,173</b>	<b>864,173</b>	<b>1,635,469</b>	<b>(104,370)</b>	<b>1,783,098</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>1,917,412</b>	<b>241,586</b>	<b>1,887,498</b>	<b>1,206,289</b>	<b>241,586</b>
<b>Effect of fluctuations in exchange rate on balances of cash and cash equivalents</b>	<b>(262,165)</b>	<b>(25,558)</b>	<b>(46,547)</b>	<b>(21,718)</b>	<b>(107,272)</b>
<b>Cash and cash equivalents – end of period</b>	<b>3,476,420</b>	<b>1,080,201</b>	<b>3,476,420</b>	<b>1,080,201</b>	<b>1,917,412</b>

The accompanying notes are an integral part of the financial statements.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 1 - General**

Koor Industries Ltd. ("the Company") is an Israel-domiciled company. The Company's consolidated financial statements as at September 30, 2008 include the financial statements of the Company and the financial statements of its subsidiaries, as well as the Group's rights in affiliates (together – "the Group"). The Company is a holding company engaged mainly in the fields of agrochemicals, telecommunications equipment and venture capital and financial investments, through its subsidiaries and affiliates. I.D.B. Development Ltd., which is the controlling shareholder in the Company, and its ultimate parent company, holds 63.85% of the Company's shares as at September 30, 2008, directly and indirectly through Discount Investment Corporation Ltd. The Company's securities are listed for trading on the Tel Aviv Stock Exchange.

**Note 2 – Basis for preparation of financial statements****A. Declaration of compliance with International Financial Reporting Standards**

The condensed consolidated interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). These are the first condensed consolidated interim financial statements prepared by the Group for part of the period included in the first annual IFRS financial statements, and in them, it applied IFRS 1, First-time Adoption of IFRS Standards.

The condensed consolidated interim financial statements were prepared in accordance with IAS 34 – *Interim Financial Statements* – and do not include all the information required in the full annual financial statements. The condensed interim financial statements should be read together with the financial statements for the year ended December 31, 2007.

The effect of the transition to IFRS on the Company's financial position and its operating results are provided in the notes.

The condensed consolidated interim financial statements were approved for issuance by the Koor's board of directors on November 9, 2008.

The financial statements are prepared in accordance with Section D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

**B. Functional currency and presentation currency**

The condensed financial statements are presented in NIS, which is the Company's functional currency, and are rounded to the nearest thousand.

The NIS is the currency that represents the main economic environment in which the Company operates.

**C. Measurement basis**

The financial statements were prepared on the basis of historical cost, except for the following assets and liabilities that are stated at fair value: derivative financial instruments, financial instruments at fair value through gain/loss, financial instruments classified as available for sale, the liability for options to investors, where the exercise price is linked to the CPI and investment property.

Non-current assets that are designated for sale are stated at the lower of carrying amount and fair value net of sale costs.

The value of non-monetary assets and shareholders' equity items that were measured based on historical cost was adjusted for changes in the CPI until December 31, 2003, since until such date, the Israeli economy was considered a hyperinflationary economy.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 2 – Basis for preparation of financial statements (cont.)****D. Use of estimates and judgment**

Preparation of the financial statements in conformity with IFRS requires management to use judgment, assessments, estimates and assumptions, which influence the implementation of policy and the amounts of assets, liabilities, revenues, expenses. It should be clarified that actual results may differ from such estimates.

The estimates and assumptions are reviewed regularly. Changes in accounting estimates are recognized during the period in which the estimates were corrected and in all future affected periods.

During formulation of the accounting estimates used in the preparation of the Company's financial statements, management is required to make assumptions regarding circumstances and events that involve significant uncertainty. The Company's management bases its judgment in determining estimates on past experience, various facts, external factors and reasonable assumptions corresponding with the circumstances appropriate for each estimate.

**Note 3 - Significant Accounting Policies**

The condensed consolidated interim financial statements were prepared on the basis of International Financial Reporting Standards and their interpretations ("IFRS"), which were published and took effect, or may be adopted early, on the Group's first annual IFRS reporting date, December 31, 2008, on the basis of which the Company's accounting policies were prescribed.

IFRS that will be in effect or that can be adopted early in the annual financial statements for the year ended December 31, 2008 could be subject to changes and the publication of additional interpretations, and therefore, it is not possible to prescribe them with certainty. Accordingly, the accounting policies for this year, which are relevant to this interim information, will be prescribed conclusively only upon preparation of the first IFRS financial statements as at December 31, 2008.

Preparation of the condensed consolidated interim financial statements according to IAS 34 has led to changes in accounting policy compared with the last annual financial statements, which were prepared according to generally accepted accounting principles in Israel ("Israeli GAAP"). The accounting principles provided below were applied consistently throughout the periods presented in these condensed consolidated interim financial statements. They were also applied in the preparation of the opening balance sheet according to IFRS as at January 1, 2007, for the purpose of the transition to IFRS, as is required in IFRS 1. The effect of the transition from Israel GAAP to IFRS is explained in Note 13.

The accounting policy according to IFRS is applied consistently by the Group companies.

**A. Basis of consolidation****(1) Subsidiaries**

Subsidiaries are entities in which the Group holds more than 50% and are controlled by the Group. Control exists when the Group has the power to govern the entity's financial and operating policies so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements commencing from the date control is achieved until the date control ceases.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 3 - Significant Accounting Policies****A. Basis of consolidation (cont.)****(2) Affiliates and jointly-controlled entities ventures (accounted for by the equity method)**

Affiliates are entities in which the Group has significant influence, but not control, over the financial and operating policies. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement that requires joint consent for strategic financial and operating decisions. Affiliates and jointly-controlled entities are accounted for by the equity method. The consolidated financial statements include the Group's equity in the revenues and expenses of the held entities, which are accounted for by the equity method, from the date significant influence or joint control commences, until the date significant influence or joint control ceases. When the Group's equity in losses exceeds the value of the Group's rights in the equity-accounted entity, the carrying value of those rights (including any long-term investment) is written-down to zero, and the Group does not recognize additional losses, unless the Group has an obligation to support the held entity or has made payments on behalf of the entity.

**(3) Transactions eliminated in consolidation**

The Group's reciprocal balances and unrealized revenues and expenses deriving from reciprocal transactions were eliminated in preparation of the condensed consolidated financial statements. Unrealized income deriving from transactions with affiliates and jointly-controlled entities were eliminated against the investment based on the Group's rights in these investments.

**B. Foreign currency****(1) Foreign currency transactions**

Transactions in foreign currency are translated to the Group's functional currency at the exchange rate prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency on the reporting date are re-translated to the functional currency at the exchange rate prevailing on that date. Exchange rate differences from monetary items are the differences between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are re-translated to the functional currency at the exchange rate prevailing on the date fair value was determined. Exchange rate differences deriving from the re-translation are recognized in gain/loss, except for differences deriving from the re-translation of non-monetary capital instruments that are classified as available for sale.

**(2) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments created upon acquisition, are translated to NIS at the exchange rate prevailing on the balance sheet date. The revenues and expenses of foreign operations were translated to NIS at the exchange rates prevailing on the transaction dates.

Exchange rate differences on translation were recognized directly in equity as from January 1, 2007, the transition date to IFRS. According to the provisions of IFRS 1, the Group elected to zero-out the accrued translation differences for all the foreign operations on the transition date to IFRS.

When the foreign operations are realized, in part or full – the appropriate amount in the foreign currency translation reserve is transferred to the statement of operations.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 3 - Significant Accounting Policies (cont.)****C. Financial instruments****(1) Non-derivative financial instruments**

Non-derivative financial instruments include investments in shares and debt instruments, trade and other receivables, cash and cash equivalents, loans and credit received and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through gain/loss, any directly attributable transactions costs. Following initial recognition, non-derivative financial instruments are measured as provided below.

A financial instrument is recognized when the Group assumes the contractual terms of the instrument. Financial assets are deducted when the Group's contractual rights to cash flows deriving from the financial assets are expiring, or when the Group transfers the financial assets to other parties, without retaining control in the asset, or essentially transfers all the risks and rewards deriving from the asset. Purchases and sales of financial assets which are effected in the regular manner are recognized on the date the transaction is undertaken. The date the transaction is undertaken is the date on which the Group undertakes to purchase or sell the financial asset. Financial liabilities are deducted when the Group's obligations, as provided in the agreement, expire or when settled or cancelled.

*Cash and cash equivalents*

Cash include balances of cash for immediate use and demand deposits. Cash equivalents include highly liquid short-term investments that may be converted easily to known amounts of cash, and which are exposed to an insignificant risk of changes in value.

*Investments held to redemption*

When the Group has the explicit intention and ability to hold the debt instruments until their redemption, the debt instruments are classified as held to redemption. Investments held to redemption are measured at amortized cost by the effective interest method, net of impairment losses.

*Financial assets available for sale*

The Group's investments in certain shares are classified as financial assets available for sale. After the initial recognition, these investments are measured at fair value, with the changes in them recognized directly in equity, aside from impairment losses and gains or losses from changes in the exchange rate and the accrual of effective interest in monetary items (such as: debt instruments) classified as available for sale. When the investment is disposed of, the gains or losses accrued in equity are transferred to the statement of operations.

*Investments stated at fair value through gain/loss*

A financial instrument is classified as measured at fair value through gain/loss if it is held for trading or if it is designated as such upon initial recognition. Financial instruments are designated as measured at fair value through gain/loss, if the Group manages this type of investment and makes buy and sell decisions based on their fair value, according to the manner in which the Company documented the management of the risks or the investment strategy. Upon initial recognition, attributable transaction costs are charged to the statement of operations when incurred. These financial instruments are measured at fair value and the changes in them are recorded to gain/loss.

*Loans and other receivables*

Loans and other receivables are non-derivative financial instruments with fixed payments, or for which it is possible to determine that they are not traded in an active market. After initial recognition, the loans and other receivables are measured at amortized cost by the effective interest method, while considering transaction costs and net of impairment provisions.

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**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**


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**Note 3 - Significant Accounting Policies (cont.)****C. Financial instruments (cont.)****(2) Derivative financial instruments**

The Group holds derivative financial instruments for the purpose of hedging foreign currency risks, interest risks and/or indexation risks. The hedge is a cash flows hedge. Embedded derivatives are separated from the hosting contract and accounted for separately if: (a) there is no close connection between the economic characteristics and risks of the hosting contract and of the embedded derivative, (b) a separate instrument having the same terms as the embedded derivative would fulfill the definition of a derivative and (c) the hybrid instrument is not measured at fair value against gain/loss.

Derivatives are recognized initially at fair value; attributable transaction costs are expensed when incurred. After the initial recognition, changes in fair value of derivatives used to hedge cash flows for the part that is the effective hedge are recognized directly in shareholders' equity. For the part that is not effective, the changes in fair value are recognized in the statement of operations. If the hedging instrument does not meet all the criteria for an accounting hedge, or expires or is sold, is terminated or realized, then hedge accounting discontinues. The gain or loss accrued previously in equity remains in equity, until the expected transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset, when recognized. In other cases, the amount recognized in equity is transferred to gain/loss in the period in which the hedged item affects gain/loss.

*Hedge not meeting criteria for accounting hedge*

The changes in fair value of derivatives not qualifying as accounting hedges are recognized immediately in gain/loss.

In this rule, the Group applies accounting treatment, as noted, for changes in the fair value of options for which the exercise price is not fixed.

*Separable embedded derivatives*

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

**(3) CPI-linked assets and liabilities that are not measured at fair value**

The Company has balances of CPI-linked financial assets and liabilities that are not measured at fair value, which are revalued in every period, according to the actual rate of increase in the CPI.

**(4) Share capital***Ordinary shares*

Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity.

When share capital that has been recognized in equity is bought back by the Group, the consideration paid, including direct costs net of tax effect, will be deducted from equity. The bought back shares are classified as treasury shares and presented as a deduction from equity.

**(5) Issuance of security unit**

(a) When issuing security units, the issue proceeds are attributed first to the financial liabilities that are measured periodically at fair value through gain/loss, later to financial liabilities measured at fair value only on the initial recognition date, and the value attributed to the equity element is calculated as residual value.

(b) Direct issue costs are attributed specifically to the securities with which they are identified. Joint issue costs are allocated to the security on a pro rata basis, on the same basis as the proceeds from the issuance of the unit were attributed, as described in Par. (a) above.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)****Note 3 - Significant Accounting Policies (cont.)****D. Fixed assets****(1) Recognition and measurement**

Fixed asset items are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of purchased software, which constitutes an integral part of the functionality of the related equipment, is recognized as part of the cost of that equipment. When significant parts of fixed assets (including major periodic tests costs) have different useful lives, they are accounted for as separate items (major components) of fixed assets.

**(2) Subsequent costs**

The cost of replacing part of a fixed asset item is recognized as part of the carrying amount of that item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. Day-to-day maintenance costs are expensed as incurred.

**(3) Depreciation**

Depreciation is expensed on a straight-line basis over the estimated useful lives of each part of fixed asset items. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

	<u>Year</u>	
Machinery, equipment and fixtures	5-20	(Mainly 10)
Vehicles	5-10	(Mainly 7)
Furniture and office equipment	3-17	(Mainly 17 and 4)
Computers and ancillary equipment	3-5	
Leasehold improvements	*	

\* Leasehold improvements are depreciated over the rental period, which does not exceed the asset's economic life.

Estimates in respect of depreciation methods, useful lives and residual values are assessed at the end of each reporting period.

**E. Intangible assets****(1) Goodwill**

Goodwill arises from the acquisition of affiliates (including the purchases of additional rights in affiliates).

*Acquisitions prior to January 1, 2007*

As part of its transition to IFRS, the Group elected to restate only those business combinations that occurred on or after January 1, 2007. In respect of acquisitions prior to January 1, 2007, goodwill represents the amount recognized under Israeli GAAP. Regarding these acquisitions, the classification and accounting treatment were not adjusted to IFRS for the purpose of preparing the Group's opening balance sheet.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 3 - Significant Accounting Policies (cont.)**

**E. Intangible assets (cont'd)**

**(1) Goodwill (cont'd)**

*Acquisitions after January 1, 2007*

For acquisitions on or after January 1, 2007, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

*Subsequent measurement*

Goodwill in respect of equity accounted investees is included in the carrying amount of the investment.

**(2) Research and development**

Expenditures related to research activities, undertaken to gain new scientific or technical know-how and understanding are expensed when incurred.

Development activities related to a plan for design of new products or processes or for the significant improvement of existing products and processes - expenses for development activities are recognized as an intangible asset only if: development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits from the product is probable, and the Group has the intention and sufficient resources to complete development and to use or sell the asset. The costs recognized as an intangible asset include the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Other development costs are expensed as incurred.

Capitalized development costs are measured at cost less accumulated amortization and accumulated impairment losses.

**(3) Other intangible assets**

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

**(4) Subsequent costs**

Subsequent costs are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other costs, including costs related to goodwill, are expensed as incurred.

**(5) Amortization**

Amortization is expensed on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and assets that have indefinite lives, from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

Patents	5 years
Development costs that were recognized as intangible assets	3 years

Estimates in respect of depreciation methods and useful lives values are assessed at the end of each reporting year.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 3 - Significant Accounting Policies (cont.)****F. Investment property**

Investment property is property (land or building – or part of a building – or both) held either to earn rental income or for capital appreciation or for both, but not for:

1. use in the production or supply of goods or services or for administrative purposes; or
2. sale in the ordinary course of business.

Likewise, rented investment property, leased by the Company in operating leases are classified and accounted for as investment property.

Investment property is measured initially at cost plus transaction costs. In subsequent periods, the investment property is measured at fair value, with changes in fair value recognized as gain/loss.

**G. Leased property**

Leases are classified as operating leases, aside from those classified as investment property, and the leased properties are not recognized on the Group's balance sheet. Investment property held under an operating lease classified by the Group as investment property is recognized in the Group's balance sheet at fair value, and the lease is accounted for as a financing lease.

Land leased from the Israel Lands Administration ("ILA"), which is not accounted for as investment property, is an operating lease. Prepaid lease fees to the ILA are included in the balance sheet, and are amortized over the lease period.

The Group applies the provisions of IFRIC 4, *Determining Whether the Arrangement Contains a Lease*, which prescribes criteria for determining, at the beginning of the arrangement, whether the usage right to the asset constitutes a lease arrangement.

**H. Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined by the "moving average" or "first-in first-out" (FIFO) method, and includes costs incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. In the case of work in progress and finished goods inventories, cost includes an attributed share of production overhead, based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated closing costs and selling costs.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 3 - Significant Accounting Policies (cont.)****I. Impairment****(1) Financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

In examining for the impairment of available-for-sale financial assets that are capital instruments, the Company also examines the difference between the asset's fair value and its original cost, while relating to the standard deviation of the instrument's price, for the duration of the time in which the fair value of the asset is less than its original cost, and to changes in the technological, economic or legal environment or in the market environment in which the Company that issued the instrument operates.

All impairment losses are recognized in the statement of operations. Any cumulative loss on an available-for-sale financial asset recognized previously in equity is transferred to statement of operations when impairment has occurred.

**(2) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is calculated. On January 1, 2007, the transition date to IFRS, the Group examined for the impairment of investments in affiliates for which goodwill was recognized in the investment account.

The recoverable amount of an asset or cash-generating unit is the greater of its usage value and its net selling price (fair value less selling expenses). In assessing usage value, the Group's estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use, which are largely independent of other assets or groups of assets (the "cash-generating unit").

Impairment losses recognized in prior periods are re-assessed on every reporting date for any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount only, and to the extent that the asset's carrying amount does not exceed the carrying amount after reversal of the impairment loss, net of depreciation or amortization, that would have been determined if no impairment loss had been recognized.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 3 - Significant Accounting Policies (cont.)****J. Employee benefits**

The Group has several post-employment benefit plans. The plans are generally funded by deposits with insurance companies or in funds managed by a trustee, and they are classified as defined contribution plans and defined benefit plans.

**(1) Defined contribution plan**

The Group's obligation to deposit fixed contributions into a defined benefit plan is expensed on the date the obligation arises.

**(2) Defined benefit plan**

The Group's net obligation in respect of a defined benefit pension plan for post-retirement benefits, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. This benefit is stated at present value net of the fair value of the plan's assets. The discount rate is the yield at the reporting date on government bonds, having maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Regarding the use of the discount rate derived from government bonds as known to the Company, the issue of the discount rate for the purpose of actuarial calculations is being examined, and it is possible that a decision will eventually be reached that the appropriate discount rate is based on corporate bonds. The data included in the financial statements will change, the actuarial liability will decrease and the current financial expenses on these liabilities will increase.

When the calculation results in an asset to the Group, the recognized asset is limited to the present value of the economic benefits available in the form of refunds or reductions in future contributions to the plan. The economic benefit in the form of refunds or reductions in future contributions will be deemed available when it can be realized during the life of the plan or after the liability is discharged.

When there is an obligation for a minimum contribution, for the payment of additional benefits relating to past service, the Company recognizes the additional obligation (increase in the net liability or a decrease in the net asset) if the amounts will not be available as an economic benefit in the form of a refund from the plan or a reduction in future contributions.

The Group recognizes all actuarial gains and losses arising from defined benefit plans directly in retained earnings immediately.

Insurance policies for employee termination benefits, which were issued by a related party, do not constitute plan assets and are stated as a separate asset in the balance sheet.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 3 - Significant Accounting Policies (cont.)****J. Employee benefits (cont.)****(3) Other long-term employee benefits**

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is based on the yield at the reporting date on government bonds that are denominated in a currency and have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognized in the period in which they arise.

Regarding the use of the discount rate derived from government bonds as known to the Company, the issue of the discount rate for the purpose of actuarial calculations is being examined, and it is possible that a decision will eventually be reached that the appropriate discount rate is based on corporate bonds. In this case, the data included in the financial statements will change, the actuarial liability will decrease and the current financial expenses on these liabilities will increase.

**(4) Termination benefits**

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of cancellation, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary retirement are recognized as an expense if the Group has made an offer encouraging voluntary retirement, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

**(5) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognized for the amount expected to be paid for short-term cash bonus when the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(6) Share-based payment transactions**

The grant date fair value of options granted to employees is recognized as salary expense, with a corresponding increase in retained earnings over the period that the employees become entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**K. Provisions**

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**Lawsuits:**

The provision for lawsuits is recognized when the Group has a current legal or constructive obligation as a result of an event that occurred in the past, and it is more likely than not that the Group will require financial resources to settle the obligation, which can be reliably estimated. When the time-value effect is material, the provision is measured based on its present value.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 3 - Significant Accounting Policies (cont.)****L. Revenues****(1) Sale of goods**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. When the credit period is short-term and constitutes the credit terms customary in the market, the future consideration is not discounted. The Group recognizes revenue when the significant risks and rewards of ownership of the goods have been transferred to the buyer, collection of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the sales contract.

**(2) Services**

Revenue from services rendered is recognized in the statement of operations in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

**(3) Rental income**

Rental income from investment property is recognized in the statement of operations on a straight-line basis over the term of the lease.

**(4) Government grants**

Grants from the Chief Scientist for research and development projects are accounted for as forgivable loans, in accordance with the provisions of IAS 20. Accordingly, Chief Scientist grants received are recognized at fair value on the grant date, unless on that date, it is reasonably certain that the received amount will not be repaid. The liability amount is assessed in each period, and any changes in the present value of the discounted cash flows at the original interest of the grant are recognized in the statement of operations.

**M. Financing income and expenses**

Finance income includes interest income on amounts invested (including available-for-sale financial assets), dividend income, changes in the fair value of financial assets at fair value through gain or loss, net foreign currency gains and gains on hedging instruments that are recognized through gain or loss. Interest income is recognized as it accrues, using the effective interest method. Dividend income is recognized on the date that the Group's right to receive payment is granted, which in the case of quoted securities is the ex-dividend date.

Finance expenses include interest expenses on borrowings, changes in the time value of provisions, changes in the fair value of financial assets at fair value through gain or loss, losses on hedging instruments that are recognized in statement of operations, and net foreign currency losses. Undiscounted borrowing costs are expensed using the effective interest method.

Gains and losses from foreign currency translation differences are reported net.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 3 - Significant Accounting Policies (cont.)****N. Income tax expense**

Income tax expense includes current and deferred tax. Income tax expense is recognized in the statement of operations unless it relates to a transaction or event recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable relating to prior years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income, and differences relating to investments in subsidiaries, jointly controlled entities and affiliates to the extent that it is probable that they will not reverse in the foreseeable future. Not taken into account in the calculation of deferred taxes are the taxes that would be imposed in the event of the realization of investments in investee companies, since the Company intends to hold these investments and not sell them. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted as at the balance sheet date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized when it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**O. Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business that has been realized. Classification as a discontinued operation occurs upon realization or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the earliest comparative period.

**P. Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the income or loss attributable to the Group's ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the income or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which include share options.

The calculations of basic and diluted EPS are calculated retroactively for all the periods presented, for the benefit element in the issuance of rights to the shareholders.

## Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)

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### Note 3 - Significant Accounting Policies (cont.)

#### Q. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services that could be interrelated (business segment), or in providing products or services within a defined economic environment (geographical segment), which is subject to risks and rewards that differ from those of other segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are comprised mainly of investments and revenue attributed to them, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and general and administrative costs, and income tax assets and liabilities and tax expenses.

Segment capital expenditures are the total costs incurred during the period to acquire fixed assets and intangible assets other than goodwill.

#### R. New Standards and Interpretations not yet adopted

- IFRS 8 *Operating Segments* ("the Standard") introduces the "management approach" to segment reporting, in other words, according to the format of internal reports for the entity's decision makers. Currently the entity presents segment information based on business segments, which is the "management approach"

The Standard will apply to annual periods commencing on or after January 1, 2009.

The first-time application of Standard 8 is not expected to have a significant effect on the operating results and financial position of the Company.

- IAS 1, *Financial Statement Presentation*, ("Amended") ("the Standard"). The Standard requires the grouping of financial statement information on the basis of common characteristics and the presentation of a statement of total income. The Standard allows the presentation of income and expense items and other total income items in a single statement of total income, which includes subtotals or alternatively, to present two separate statements (statement of income and then a statement of total income). The names of some of the statements have been changed, in order to clarify their purpose (for example, the balance sheet will be called the statement of financial position). The Standard will apply to annual periods commencing on or after January 1, 2009. Early adoption is possible.

The first-time application of Standard 1 is not expected to have a significant effect on the operating results and financial position of the Company.

- IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (Amended) ("the Standards") – The main changes in the new Standards are: inclusion of business combinations involving only mutual entities or executed solely through a contract, a certain change in the definitions of a business and of a business combination, a change in the way items transferred in a business combination are measured, the providing of two alternatives for the measurement of rights that do not grant control, a change in the accounting for transaction costs, the accounting for a staged acquisition, the attribution of total income among all the shareholders, the accounting treatment as a capital transaction in acquisitions or sales of rights while retaining control, accounting treatment at full fair value in transactions leading to a loss of, or establishment of control, so that the remaining holdings after loss of control will be revalued through gain/loss, whereas the original investment in establishing control is also revalued at fair value through gain/loss and a broadening of the disclosure requirements.

## Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)

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### Note 3 - Significant Accounting Policies (cont.)

#### R. New Standards and Interpretations not yet adopted (cont.)

The new Standards will apply to annual periods commencing on or after July 1, 2009. They may be applied early (only together). IFRS 3 will apply to business combinations that occur as from its effective date. IAS 27 will be applied retroactively, except for the allocation of total income to shareholders, the accounting for changes in the interest in a subsidiary after establishing control, and the accounting for the loss of control in a subsidiary, which will be applied as from its effective date.

The said changes will have an effect on the operating results and financial position of the Company, from the date of their application.

- IFRS 2, *Share-based Payment*, Amended ("the Standards"). The Standard provides that the vesting terms are the terms that determine whether the Company receives the services which entitle the other party to share-based payments, and they are limited to the terms of the service and performance. Terms that are not vesting terms will be expressed at the fair value of the grant on the grant date, while after the grant date, the Company will not update the fair value for these terms. Likewise, the Standard provides the accounting for non-compliance with terms that are not vesting terms. The Standard will be applied retroactively for annual periods commencing on or after January 1, 2009. Early adoption is possible, upon providing disclosure.

The first-time application of Standard 2 is not expected to have a significant effect on the operating results and financial position of the Company.

- IAS 32, *Financial Instruments: Presentation* and IAS 1, *Financial Statement Presentation*, Amended ("the Standards"). According to the Standards, certain financial instruments that are puttable and liabilities created incidental to liquidation are to be classified as equity, to the extent that several criteria are met. Likewise, appropriate disclosure is required regarding the puttable instruments classified as equity. The new Standards will apply to the annual periods commencing on or after January 1, 2009. Early adoption is allowed.

The first-time application of Standard 32 is not expected to have a significant effect on the operating results and financial position of the Company.

- IAS 27, *Consolidated and Separate Financial Statements* and IFRS 1, *First-time Adoption of International Financial Reporting Standards* (Amended) ("the Standards"). Pursuant to the Standards after their amendment, a company that elects the cost method for the measurement of its investments in subsidiaries, jointly-controlled companies and affiliated companies, within the framework of the separate financial statements (solo financial statements), may measure the said investments on the transition date to IFRS according to fair value, in accordance with IAS 39 or at their carrying value according to the previous GAAP. Likewise, a dividend received from subsidiaries, jointly-controlled companies and affiliated companies will be recognized as income in the separate financial statements of the holding company. It was further stipulated that, in certain instances, the receipt of a dividend constitutes a decline in the value of the held investment.

These new standards will apply to annual periods commencing on or after January 1, 2009. Early application is possible for each standard separately, while providing disclosure. The changes attributed to IAS 27 were applied prospectively.

- Within the scope of the project for amending the international standards, Improvements to IFRS, the IASB published and approved, in May 2008, 35 different international standards in a wide range of accounting issues. The standards are divided in two: (1) standards on presentation, recognition and measurement, which have accounting implications; and (2) amendments relating to the terms and preparation of the international standards, which are expected to have minimal effect, if any, on the accounting aspect.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 3 - Significant Accounting Policies (cont.)****R. New Standards and Interpretations not yet adopted (cont.)**

Most of the amendments will apply to periods commencing on or after January 1, 2009, with the possibility of early adoption, subject to the conditions provided for each amendment and subject to the transitional provisions related to the first-time adoption of IFRS1.

- IFRIC 15, *Agreements regarding Construction of Real Estate Properties* ("the Interpretation"). The Interpretation provides guidelines for assessing whether transactions for the construction of real estate properties fall within the purview of IAS 18, *Revenues*, whereby revenues from the construction of real estate properties will be recognized in timing and manner similar to revenue from the sale of a product or service, or the applicability of IAS 11, *construction contract*, whereby the revenue will be recognized corresponding with the stage of completion of the real estate property.

The Interpretation is to be applied for the annual periods commencing on or after January 1, 2009, retroactively. Early application is possible, upon providing disclosure.

The first-time application of the Interpretation is not expected to have a significant effect on the operating results and financial position of the Company.

- IFRIC 16, *Net Investment Hedge in Foreign Operations* ("the Interpretation"). The Interpretation refers to cases in which there is an investment in foreign operations, and provides guidelines regarding the hedge of the said investment. The Interpretation refers, inter alia, to the nature of the hedged risk and the amount of the hedged item for which the hedge relationship is intended, to the location of the hedged item in the group of companies and to the accounting for the capital reserve on the disposition date of the foreign operations.

The Interpretation will apply to annual periods commencing on or after October 1, 2008. Early application is possible, upon providing disclosure.

The first-time application of the Interpretation is not expected to have a significant effect on the operating results and financial position of the Company.

- *Items Qualified for Hedging, Amendment to IAS 139, Financial Instruments: Recognition and Measurement* ("the Amendment") clarifies that one can designate as a hedged item changes in the cash flows or changes in the fair value of a one-sided risk - in other words, a risk that will be designated as a risk of exposure to fluctuations of more or less than a certain price or a defined variable. The Amendment further clarifies that one can designate an inflationary element as a separate risk, provided that it is contractually specified in the cash flows of a CPI-linked debenture, so that it can be identified separately and measured reliably, to the extent that the instrument's other cash flows are not influenced by the indexed element. The Amendment is to be applied retroactively for annual periods commencing on or after July 1, 2009. Early application is possible, upon providing disclosure. The first-time application of the Amendment is not expected to have a significant effect on the operating results and financial position of the Company.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)****Note 4 – Rates of Change in the CPI and Dollar Exchange Rates**

Presented below are the rates of change that occurred in the Consumer Price Index (CPI) and the US dollar in the report periods:

	<b>Israeli CPI*</b>	<b>Exchange rate</b>
	<b>Points</b>	<b>of one Dollar</b>
	<b>NIS</b>	
As at September 30, 2008	<b>199.54</b>	<b>3.421</b>
As at September 30, 2007	189.1	4.013
As at December 31, 2007	191.15	3.846
	<b>%</b>	<b>%</b>
For the nine months ended September 30, 2008	<b>4.40</b>	<b>(11.05)</b>
For the nine months ended September 30, 2007	2.30	(5.02)
For the three months ended September 30, 2008	<b>2.00</b>	<b>2.06</b>
For the three months ended September 30, 2007	1.30	(5.55)
For the year ended December 31, 2007	3.40	(8.97)

(\*) According to the CPI for the month of the balance sheet date (1993 average basis = 100).

## Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)

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### Note 5 - Information Regarding Certain Investees

#### A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate

1. On March 11, 2008, the board of directors of Makhteshim-Agan approved a dividend distribution of \$120 million. The dividend amount, net of the dividend on shares held by a subsidiary of Makhteshim-Agan, is \$119 million. Koor's share totaled NIS166 million. On April 10, 2008, Makhteshim-Agan paid this dividend.
2. During the first nine months of 2008, 4,401 thousand employee options were exercised for 909 thousand ordinary shares, NIS 1 par value, of Makhteshim-Agan. As a result, the Company recognized a gain in the said period of NIS 4.6 million, which is included in the Koor Group's equity in the operating results of affiliates, net".
3. During the first quarter of 2008, the Company acquired 4,119,093 ordinary shares, NIS 1 par value of Makhteshim-Agan (0.9% of shares) for an aggregate amount of NIS 126 million. The acquisition created excess cost of NIS 80 million, which was attributed based on management's assessment.
4. In March 2008, the board of directors of Makhteshim-Agan resolved to buy-back its shares in an aggregate not to exceed \$100 million. As at September 30, 2008, 10.3 million shares were bought back by the Company at a cost of NIS 257.4 million, and excess cost was created of NIS 58 million, which was attributed according to management's assessment.
5. Koor's holding percentage in the voting rights in Makhteshim-Agan as at September 30, 2008 is 40.8%.
6. In March 2007, two claims were filed in Beer Sheba District Court against the Ramat Hovav Local Industrial Council and against the State of Israel. One claim was filed by 54 Bedouins dispersed in the northern Negev and the second claim was filed by 9 residents of Omer and Beer Sheba, in June 2007, third claim was filed by 19 Bedouins dispersed (together, for this paragraph – "**the Plaintiffs**"). The Plaintiffs allege that they suffered from various diseases and defects, and claim a causal relationship between their diseases and the toxic materials emitted by or seeped from the Ramat Hovav industrial area.  
 The Plaintiffs allege that two main sources of contamination were identified: the sewage treatment plant and the evaporation pools (owned by the Ramat Hovav Local Industrial Council, which operates it) and the plants located at the Ramat Hovav Industrial Site, including the Makhteshim-Agan facility, which the Plaintiffs allege significantly exceeded the allowed contamination levels.  
 The Plaintiffs further alleged that the Ramat Hovav Industrial Council and the State of Israel were negligent, inter alia, in the supervision, enforcement and initiation of measures to prevent the Plaintiffs' exposure to contamination that originated in the Ramat Hovav Industrial Site. The Plaintiffs stipulated the claim amounts at NIS 242 million. On June 1, 2008, third party notice was filed against Makhteshim Chemical Enterprises Lt. ("Makhteshim"), a wholly-owned subsidiary of M-A Industries, and against thirty-five corporations and other people for the purpose of adding them as a party to the proceedings by the Ramat Hovav Industrial Council, within the scope of the above claims. In the estimation of Makhteshim's legal counsel, in view of the early stages of the proceedings, the prospects of the claim cannot be assessed.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 5 - Information Regarding Certain Investees (cont.)****A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (cont.)**

7. In October 2007, a monetary claim and motion for recognition as a class action under the Class Action Law, 2006, was filed against a subsidiary of Makhteshim-Agan in Beer Sheba District Court by three residents of the town of Wadi-el-Naim, alleging that their health was damaged, allegedly caused by the subsidiary's plant in Ramat Hovav, due to various causes of action related to air pollution. To the extent the claim is recognized as a class action, the Plaintiffs estimate the amount being claimed from the subsidiary is NIS 1 billion. On August 4, 2008, Makhteshim filed a statement of response to the motion for class action recognition. As at the report date, based on the opinion of its legal counsel, after examining the Plaintiffs' allegations as presented in the claim and in the motion for class action approval, and the substance of the claim, in view of the early stage of the claim, the information and data that Makhteshim-Agan has, and noting that there are no precedents of this kind regarding the level of damages, the subsidiary's legal counsel believes that there is great difficulty in assessing the prospects for approval of the claim as a class action, and there is great difficulty in assessing the outcome of the claim, if approved, in particular.

## 8. Seasonal factors

Sales of agrochemicals depend directly on the agricultural seasons and the crop cycles. Therefore, the revenues of Makhteshim-Agan are not divided equally over the year. The countries of the northern hemisphere are characterized by similar timing of agricultural seasons, and therefore, these countries generally have the highest sales in the first half of the year. In the southern hemisphere, the seasons are opposite, and most of the domestic sales are effected in the second half of the year, except in Australia, where most of the sales are effected in April to July. The global operations of Makhteshim-Agan facilitate the balancing of seasonal factors, although Makhteshim-Agan has more sales in the northern hemisphere.

**B. Sheraton-Moriah (Israel) Ltd. ("Sheraton-Moriah") – former subsidiary**

Further to the closing of the sale of the Company's entire holdings in Sheraton-Moriah on April 26, 2007, on March 27, 2008, the Company received NIS 35,560 thousand, representing the final payment pursuant to the sales agreement.

**C. Koor Venture Capital – consolidated partnership**

In the nine month period ended September 30, 2008, the fair value of the investments of Koor Venture Capital fell by NIS 16.5 million, due mainly to the weakness of the exchange rate of the dollar during the period.

**D. Dekolink Wireless Ltd. ("Dekolink") - subsidiary**

Subsequent to the end of the third quarter, a major customer of Dekolink informed this company that it was halting its purchases from it. The notice had a material negative effect on the condition of Dekolink. Accordingly, Koor is evaluating its measures with respect to its investment in Dekolink.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 6 – Significant Events in the Report Period**

1. During the first half of 2008, the exchange rate of the dollar fell by 12.8%, from NIS 3.846 to NIS 3.352 to the dollar. The decline in this period caused a cumulative loss, for the net balances of the Company's financial assets and liabilities denominated in or linked to the U.S. dollar, of NIS 218 million. During the third quarter, the Company converted most of its cash balances denominated in the U.S. dollar into Swiss Francs, following the purchase of shares of Credit Suisse, and also received the proceeds from the sale of Credit Suisse shares in Swiss Francs. Consequently, expenses were recorded for exchange rate differences in the third quarter of 2008 totaling NIS 36 million.
2. Pursuant to the agreement signed in 2005 between Elbit Systems Ltd. ("Elbit") for the sale of 70% of Koor's holdings in Elisra Electronic Systems Ltd. ("Elisra") to Elbit, Elbit committed to pay additional proceeds to Koor, in the event Elisra would collect insurance for a fire that occurred in the plants of subsidiaries of Elisra in 2001. In connection with the aforesaid, in March 2008, Tel Aviv District Court approved a compromise arrangement, whereby Elisra will receive insurance proceeds of \$37.75 million for the said fire. In March 2008, Elbit informed Koor that it will pay to Koor additional consideration in respect of the agreement amounting to no less than NIS 46 million. On July 21, 2008, the Company received a total of NIS 48 million, which was recorded as other income.
3. In the framework of a private placement to Israeli institutional investors, 800,000 option warrants were issued on April 10, 2005. Each option warrant is exercisable until April 30, 2010 for 1.0893 share of the Company of a par value of NIS 0.001 (after adjustment for benefit components embedded in the issuance of the rights), at an exercise price of NIS 300 linked to the CPI, and adjustable for the distribution of a stock dividend and rights (as at September 30, 2008 – NIS 305.6 after the adjustment for a dividend distribution). Since the exercise price is linked to the CPI, the options are classified as a financial liability, measured each period at fair value through profit/loss. As a result of the decline in the market value of the Company's shares during the nine months of 2008, the fair value of the said options (calculated using the Black & Scholes model) fell by NIS 56.9 million, which recorded as financing income in the nine-month period ended September 30, 2008.
4. In May 2008, the Company invested \$2.55 million in a private investment fund, Indivision, which invests in the retail sector in India. The Company's investment commitment in the fund is \$15 million. After the said investment, the Company's cumulative investments in the Fund totaled \$10.8 million, and the balance of the Company's investment commitment in the Fund is \$4.2 million.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 6 – Significant Events in the Report Period (cont'd)**

5. In March, April and May 2008, the Company announced that due to the situation in the international markets and the considerable business opportunities that could arise in them, the Company's board of directors had authorized its management to make financial investments in the marketable shares of the Credit Suisse Group AG ("Credit Suisse") and Barclays Bank. The shares will be purchased from time to time, at the discretion of the Company's management, up to a total of NIS 1.5 billion. On July 21, 2008, the Company's board of directors approved an increase in the amount of the investment in the shares of Credit Suisse, up to a total of NIS 3 billion, while utilizing buy and sell opportunities, noting the condition of the markets, and based on the Company's assessments from time to time. The Company's board of directors could, in the future, consider increasing the investment amount, and regarding investment in the shares of other European financial institutions. In connection with the said purchases, the Company entered into a recourse credit agreement with Goldman Sachs Investment Bank ("Goldman Sachs"), and a foreign limited partnership wholly-owned and controlled by the Company entered into a non-recourse credit facility agreement, which at the request of Goldman Sachs was carried out through a transaction in financial derivatives, which complements the first, recourse credit facility agreement. The terms in each of the arrangements are different. The overall framework of the two credit arrangements is up to \$1.5 billion. As at September 30, 2008, a recourse loan was provided to the Company totaling NIS 315 million (CHF 100 million). Subsequent to the balance sheet date, the Company was provided with another recourse loan, so that the total of recourse loans provided to the Company is CHF 300 million, for the purpose of purchasing shares of Credit Suisse, and it was agreed that no additional credit would be drawn from the said credit facilities. See Note 12(3).

From the end of June 2008 through September 30, 2008, the Company executed purchases and sales of shares of Credit Suisse. A gain of NIS 535 million was recorded on the sale of Credit Suisse shares in the third quarter. The investment is accounted for in the balance sheet as an available for sale asset, and is included in investments and other receivables. As at September 30, 2008, the balance of the investment in Credit Suisse shares stands at NIS 66 million (in accordance with the settlement process on the overseas stock exchange, it was paid only at the beginning of October 2008).

Also see Note 12(4) regarding subsequent events.

6. On May 29, 2008, the Company published a prospectus for an issuance through rights, pursuant to which Koor's shareholders were offered up to 2,377,311 ordinary shares (NIS 0.001 par value each) of the Company through ordinary shareholder rights of the Company (except for the American shareholders, which were excluded pursuant to the Securities Regulations (Manner of Presentation of Securities to the Public (Amendment), 2008 ("Amendment to Regulations")), whereby a shareholder holding 7 ordinary shares was entitled to purchase one right unit containing 1 ordinary share, at a price of NIS 162 at the close of June 4, 2008. Of the rights units offered pursuant to the prospectus, 2,371,158 right units were utilized for the purchase of 2,371,158 ordinary shares. In consideration for the rights units utilized, the Company received a total of NIS 384.16 million. The issue costs totaled NIS 1,047 thousand.

As a result of the exclusion of the American shareholders, and pursuant to the wording stipulated in the opinion of the independent appraiser, the Company was required to pay compensation to the American shareholders for their exception the

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 6 – Significant Events in the Report Period (cont'd)**

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amount of NIS 10,144 thousand. Most of the amount was paid out of the proceeds from the sale of the rights allotted in respect of the American shareholders of NIS 10,036 thousand, and the difference of NIS 109 thousand was paid by the Company.

7. On June 30, 2008, a general meeting of the Company (in accordance with the provisions of the Company's previous by-laws, as were in effect at the time of the meeting) approved the distribution of an interim dividend, which had been recommended and declared by the Company's board of directors, in the amount of NIS 150 million (which was paid in September 2007) and the sum of NIS 380 million (which was paid in December 2007).

8. Pursuant to a shelf prospectus published on May 29, 2008, the Company published a prospectus for an issuance through rights on July 28, 2008, pursuant to which Koor's shareholders were offered up to 4,753,084 ordinary shares (NIS 0.001 par value each) of the Company through rights to ordinary shareholders of the Company (except for the American shareholders, which were excluded pursuant to the Securities Regulations Amendment, whereby a shareholder holding 4 ordinary shares was entitled to purchase one right unit containing 1 ordinary share, at a price of NIS 143, registered to bearer, at the close trading on September 1, 2008. Of the rights units offered pursuant to the prospectus, 4,743,939 right units were utilized for the purchase of 4,743,939 ordinary shares. Koor's issued capital as at September 30, 2008 stands at 23,756,274 ordinary shares. In consideration for the rights units utilized, the Company received a total of NIS 678.4 million. The issue costs totaled NIS 725 thousand.

As a result of the exclusion of the American shareholders, and pursuant to the wording stipulated in the opinion of the independent appraiser, the Company was required to pay compensation to the American shareholders for their exception the amount of NIS 4,599 thousand. Most of the amount was paid out of the proceeds from the sale of the rights allotted in respect of the American shareholders of NIS 4,477 thousand, and the difference of NIS 122 thousand was paid by the Company.

9. On July 23, 2008, the Company reported that its board of directors had resolved to update the annual participation remuneration to the outside directors of Koor, so they will be entitled to the maximum sums under Regulations 4 and 5 (respectively) of the Companies Regulations (Rules Regarding Remuneration and Expenses to Outside Director), 2000 ("Remuneration Regulations"), as updated in the Amendment to the Remuneration Regulations. The update of the remuneration amounts paid to directors in Koor (including outside directors) commences on the amendment date of the remuneration regulations, i.e. March 6, 2008

10. In September 2008, the Company signed an agreement pursuant to which it has undertaken to invest \$20 million in the Mustang Mezzanine Fund ("Mustang Fund"), an Israeli limited partnership. The Mustang Fund is to focus on providing mezzanine financing to suitable mature companies in Israel or overseas, operating in the fields of industry, trade, communications, services and real estate. As at the report date, the Company had invested \$260 thousand in the Mustang Fund.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 7 – Income Taxes**

On February 26, 2008, the Knesset passed the Income Tax (Inflationary Adjustments) Law (Amendment No. 20) (Limitation of Effective Period), 2008 ("the Amendment"). Pursuant to the Amendment, the effective period of the Adjustments Law will end in the 2007 tax year, and commencing in the 2008 tax year, the provisions of the law will no longer be in effect, except for the transitional provisions, the purpose of which is to prevent distortions in the tax calculations.

Pursuant to the Amendment, in the 2008 tax year and henceforth, taxable income will no longer be adjusted to a real measurement basis. Likewise, the linkage to the CPI of depreciation of fixed assets and of carryforward tax losses, in a manner that these amounts will be adjusted to the CPI of the end of 2007, and their linkage to the CPI, will cease from this date henceforth.

**Note 8 – Contingent Liabilities**

- A. On September 21, 2004 a suit was filed with the Tel Aviv District Court against the Company, Bezeq - the Israel Telecommunications Company Ltd. ("Bezeq"), Tadiran Ltd. (a subsidiary of Koor – "Tadiran"), Tadiran Telecommunications Ltd. (a former subsidiary of Koor which was merged with ECI Telecom – "Telecommunications"), Tadiran Public Switching Ltd., (a former subsidiary of Telecommunications), and Telrad Networks Ltd. (an affiliate of Koor – "Telrad Networks") in connection with the public switches. A motion for recognition of the suit as a class action was filed together with the suit in accordance with the Anti-Trust Law, 1988 ("the Anti-Trust Law"), and according to Civil Procedure regulations. In the Statement of Claim, the plaintiff alleges that during the 1980's and 1990's, the defendants had engaged in activities in violation of the Anti-Trust Law, which resulted in damages to Bezeq's customers. In respect of the actions alleged by the Plaintiff, the Plaintiff is asking for damages for the group that he is seeking to represent in the amount of NIS 1.7 billion.

On March 10, 2005, the Company and the other defendants submitted to the District Court their clarified objection to the plaintiff's motion to recognize the claim as a class action. On December 5, 2005, the Plaintiff filed his response to the said objection.

On February 16, 2006, the Plaintiff filed a motion in court to order the defendants to provide discovery of certain documents. In early February 2007, the Tel-Aviv District Court Registrar accepted the Company's position and dismissed the defendants' motion for discovery of documents. This appeal was dismissed by the District Court.

After two preliminary hearings were held on the case, and after the plaintiff concluded that there is no longer a reason to continue the proceedings, since the prospects for class action recognition were not strong, a motion was filed (with the consent of the Company and the other defendants in the action) to abandon the action. The court has not yet ruled on the motion for abandonment of the action.

In the Company's estimation, based on the opinion of its legal counsel, the Court will approve the motion for abandonment. No provision was recorded for the claim.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 8 – Contingent Liabilities (cont.)**

- B. In February, 2007, a suit was filed with the Tel Aviv District Court against the Company and several directors and officers of the Company and of United Steel Mills Ltd. (in liquidation) ("Steel Mills") and various other parties. A motion for recognition of the suit as a class action was filed together with the suit.

Steel Mills issued a series of convertible bonds by means of a prospectus to the public in February 1993. The bonds were to be repaid in three installments on January 31, 1999, 2000 and 2001. The first installment was repaid by Steel Mills, but the other two installments have not been repaid. In March 2000 Steel Mills began to be managed under a stay of proceedings supervised by the court, which was later altered to a liquidation order. Since the convertible bonds were unsecured and the assets of the company were insufficient, the last two installments of the bonds were not repaid.

The plaintiff alleges that the defendants are responsible for false representations made by them and for which they are responsible, and upon which he acted.

In the event that the suit will be recognized as a class action, the Plaintiff is asking for damages for the class that he is seeking to represent in the amount of NIS 25 million.

On June 25, 2007, the Company's attorneys filed a response to the motion for class action recognition on behalf of the Company, directors and officers and Steel Mills. At the same time, a response was also filed on behalf of the accountants of Steel Mills. These responses raised serious arguments against recognition of the suit as a class action.

The Plaintiff filed his response on December 2, 2007.

In the estimation of the Company's management, based on the opinion of its legal counsel, the prospects that the motion for approval as a class action will be recognized is remote. Therefore, no provision was recorded in the financial statements.

- C. See Note 5(A)6 and Note 5(A)7 in connection with contingent claims against an affiliate.

## Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)

## Note 9 – Capital and Reserves

## Information and additional changes in shareholders' equity

	Attributed to holders of Company's capital									Minority interest	Total capital
	Number of ordinary shares	Share capital	Premium on shares	Translation reserve from foreign activity	Hedge reserve	Reserve for available-for-sale assets	Treasury shares	Retained earnings (accumulated loss)	Total		
	NIS thousands										
<b>For the nine-month period ended September 30, 2008 (unaudited)</b>											
Balance as at January 1, 2008 (audited)	16,624,669	564,515	2,245,022	(210,751)	-	(644)	(6,071)	(563,225)	2,028,846	117	2,028,963
Issuance of shares	7,115,097	7,115	1,053,507	-	-	-	-	-	1,060,622	-	1,060,622
Exercise of employee options	678	(*)-	-	-	-	-	-	-	-	-	-
Exercise of options granted to investors	31	(*)-	-	-	-	-	-	-	-	-	-
Total income (expense) for the period	-	-	-	(276,886)	7,493	2,451	-	310,565	43,623	502	44,125
<b>Balance as at September 30, 2008 (unaudited)</b>	<b>23,740,475</b>	<b>571,630</b>	<b>3,298,529</b>	<b>(487,637)</b>	<b>7,493</b>	<b>1,807</b>	<b>(6,071)</b>	<b>(252,660)</b>	<b>3,133,091</b>	<b>619</b>	<b>3,133,710</b>
<b>For the nine-month period ended September 30, 2007 (unaudited)</b>											
Balance as at January 1, 2007 (audited)	16,567,070	564,515	2,244,849	-	734	(4,275)	(6,071)	(653,023)	2,146,729	69,648	2,216,377
Dividend paid	-	-	-	-	-	-	-	(149,857)	(149,857)	-	(149,857)
Benefit expenses for employee options	-	-	-	-	-	-	-	125	125	-	125
Exercise of employee options	24,474	-	-	-	-	-	-	-	-	-	-
Sale of subsidiary	-	-	-	-	-	-	-	-	-	(64,175)	(64,175)
Total income (expense) for the period	-	-	-	(114,803)	(687)	2,766	-	775,956	663,232	(4,794)	658,438
<b>Balance as at September 30, 2007 (unaudited)</b>	<b>16,591,544</b>	<b>564,515</b>	<b>2,244,849</b>	<b>(114,803)</b>	<b>47</b>	<b>(1,509)</b>	<b>(6,071)</b>	<b>(26,799)</b>	<b>2,660,229</b>	<b>679</b>	<b>2,660,908</b>

\* Represents a sum of less than NIS 1 thousand.

## Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)

## Note 9 – Capital and Reserves (con't)

## Information and additional changes in shareholders' equity

	Attributed to holders of Company's capital									Minority interest	Total capital
	Number of ordinary shares	Share capital	Premium on shares	Translation reserve from foreign activity	Hedge reserve	Reserve for available-for-sale assets	Treasury shares	Retained earnings (accumulated loss)	Total		
	NIS thousands										
<b>For the three-month period ended September 30, 2008 (unaudited)</b>											
Balance as at July 1, 2008 (unaudited)	18,996,536	566,886	2,625,648	(515,823)	10,448	2,650	(6,071)	(680,305)	2,003,433	585	2,004,018
Issuance of shares	4,743,939	4,744	672,881	-	-	-	-	-	677,625	-	677,625
Total income (expense) for the period	-	-	-	28,186	(2,955)	(843)	-	427,645	452,033	34	452,067
<b>Balance as at September 30, 2008 (unaudited)</b>	<b>23,740,475</b>	<b>571,630</b>	<b>3,298,529</b>	<b>(487,637)</b>	<b>7,493</b>	<b>1,807</b>	<b>(6,071)</b>	<b>(252,660)</b>	<b>3,133,091</b>	<b>619</b>	<b>3,133,710</b>
<b>For the three-month period ended September 30, 2007 (unaudited)</b>											
Balance as at July 1, 2007 (unaudited)	16,570,625	564,515	2,244,849	29,773	(210)	912	(6,071)	(373,799)	2,459,969	3,112	2,463,081
Dividend paid	-	-	-	-	-	-	-	(149,857)	(149,857)	-	(149,857)
Benefit expenses for employee options	-	-	-	-	-	-	-	23	23	-	23
Exercise of employee options	20,919	-	-	-	-	-	-	-	-	-	-
Sale of subsidiary	-	-	-	-	-	-	-	-	-	(34)	(34)
Total income (expense) for the period	-	-	-	(144,576)	257	(2,421)	-	496,834	350,094	(2,399)	347,695
<b>Balance as at September 30, 2007 (unaudited)</b>	<b>16,591,544</b>	<b>564,515</b>	<b>2,244,849</b>	<b>(114,803)</b>	<b>47</b>	<b>(1,509)</b>	<b>(6,071)</b>	<b>(26,799)</b>	<b>2,660,229</b>	<b>679</b>	<b>2,660,908</b>

\* Represents a sum of less than NIS 1 thousand.

## Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)

## Note 9 – Capital and Reserves (cont.)

## Information and additional changes in shareholders' equity

	Attributed to holders of Company's capital								Minority interest	Total capital	
	Number of ordinary shares	Share capital	Premium on shares	Translation reserve from foreign activity	Hedge reserve	Reserve for available-for-sale assets	Treasury shares	Retained earnings (accumulated loss)			Total
<b>For the year ended December 31, 2007</b>											
<b>Balance as at January 1, 2007 (audited)</b>	16,567,070	564,515	2,244,849	-	734	(4,275)	(6,071)	(653,023)	2,146,729	69,648	2,216,377
Benefit expenses for employee options	-	-	-	-	-	-	-	148	148	-	148
Exercise of employee options	547	(*)	173	-	-	-	-	-	173	-	173
Exercise of options granted to investors	57,052	(*)	-	-	-	-	-	-	-	-	-
Dividend to holders of capital	-	-	-	-	-	-	-	(529,884)	(529,884)	-	(529,884)
Sale of subsidiary	-	-	-	-	-	-	-	-	-	(64,455)	(64,455)
Total income (expense) for the period	-	-	-	(210,751)	(734)	3,631	-	619,534	411,680	(5,076)	406,604
<b>Balance as at December 31, 2007 (audited)</b>	<b>16,624,669</b>	<b>564,515</b>	<b>2,245,022</b>	<b>(210,751)</b>	<b>-</b>	<b>(644)</b>	<b>(6,071)</b>	<b>(563,225)</b>	<b>2,028,846</b>	<b>117</b>	<b>2,028,963</b>

\* Represents a sum of less than NIS 1 thousand.

## Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)

### Note 10 – Business segments

The segment information is presented according to the Group's business segments.

The Group operates in the following business segments:

- Agrochemicals: to produce and market agrochemicals such as herbicides and fungicides through an affiliate.
- Finance: investment in the shares of a company that provides global financial services, such as: banking services.
- Telecommunications equipment: mainly the production and marketing of telecom equipment.
- Venture capital investments – investments in venture capital funds and companies with growth potential.

#### Information related to the business segments of the Koor Group – consolidated:

	For the nine-month period ended		For the three-month period ended		For the year ended
	September 30 2008	September 30 2007	September 30 2008	September 30 2007	December 31 2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
<b>From sales and services</b>					
Telecommunications equipment	159,630	158,903	51,299	44,429	209,198
Other	6,813	5,827	2,200	2,012	9,504
	<b>166,443</b>	164,730	<b>53,499</b>	46,441	218,702
<b>Koor Group's equity in results of affiliates, net:</b>					
Agrochemicals	273,540	201,484	62,429	33,378	195,311
Telecommunications equipment	(29,969)	49,960	(7,547)	(19,556)	40,282
Other	(7,248)	6,698	(8,298)	2,113	11,284
	<b>236,323</b>	258,142	<b>46,584</b>	15,935	246,877
<b>Earnings before income tax</b>					
	273,540	201,484	62,429	33,378	195,311
Agrochemicals	535,116	-	535,116	-	-
Finance	(61,844)	652,476	(33,861)	586,164	611,689
Telecommunications equipment	(16,573)	19,963	(1,006)	(7,286)	14,300
Venture capital investments	44,816	14,180	(3,313)	593	16,756
Other	775,055	888,103	559,365	612,849	838,056
Joint general expenses	(23,325)	(15,176)	(7,093)	(7,060)	(22,864)
Financing expenses, net	(439,245)	(130,332)	(124,663)	(116,003)	(229,616)
Earnings before income tax	<b>312,485</b>	742,595	<b>427,609</b>	489,786	585,576

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**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**


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**Note 11 – Discontinued operations****Sheraton-Moriah (Israel) Ltd.**

On April 26, 2007 the Company completed the sale of its entire 56.5% shareholding in Sheraton-Moriah to Azorim Tourism Ltd.

Following are the results of operations of the discontinued operation, as included in the financial statements for the:

	<b>Nine months ended September 30 2007 (Unaudited) NIS thousands</b>	<b>Three months ended September 30 2007 (Unaudited) NIS thousands</b>	<b>Year ended December 31 2007 (Audited) NIS thousands</b>
<b>Revenues</b>			
Revenue from sales and services	69,690	-	69,690
Company's equity in the results of investees, net	360	-	360
Other income	29,945	-	29,945
	<u>99,995</u>	<u>-</u>	<u>99,995</u>
<b>Expenses</b>			
Cost of sales and services	56,373	-	56,373
Selling and marketing expenses	3,553	-	3,553
General and administrative expenses	10,112	-	10,112
Other expenses	102	-	102
Finance expenses, net	5,188	-	5,188
	<u>75,328</u>	<u>-</u>	<u>75,328</u>
<b>Earnings before income taxes</b>	24,667	-	24,667
Income taxes	(568)	-	(568)
<b>Net earnings for the period</b>	<u>24,099</u>	<u>-</u>	<u>24,099</u>

## Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)

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### Note 12 – Subsequent events

1. In early October 2008, the Company acquired 400,000 ordinary shares, NIS 1 par value, of Makhteshim-Agan, for total consideration of NIS 7 million. Additionally, Makhteshim-Agan completed the buy-back plan for its shares, at a cost of NIS 92 million. Thus, Koor's holdings in the voting rights of Makhteshim-Agan after the aforesaid, is 41.35%.
2. Subsequent to the balance sheet date, the board of directors of Makhteshim-Agan resolved to distribute a dividend totaling \$50,000 thousand. The Company's share in the distribution will be \$20,467 thousand.
3. In accordance with the approval of the Company's board of directors, an agreement was signed on October 13, 2008 with Credit Suisse, whereby the Company will invest a total of CHF 1.2 billion in Credit Suisse. The transaction was executed through a purchase from Credit Suisse of 34,000,000 of its ordinary shares (out of treasury shares), representing, immediately after their purchase, approximately 3% of the share capital of Credit Suisse. The purchase was financed mainly by the Company's intrinsic sources. Accordingly, the sum of CHF 900 million was financed out of the Company's liquid balances and CHF 300 million was financed from a recourse credit facility provided to the Company by Goldman Sachs.

It was also agreed that beyond the aforesaid, no additional credit will be drawn from the recourse and non-recourse facilities provided, as discussed above.

On October 20, 2008, the Company received a refund from Credit Suisse of CHF 16 million, in respect of the shares purchased in the transaction. This conformed to the agreement between the parties, and in respect of the sale of shares by Credit Suisse to third parties, at a price slightly lower than the price at which the shares were sold to the Company.

4. In October 2008, the Company executed additional purchases and sales of shares of Credit Suisse. On the sales of Credit Suisse shares until the publication date of the financial statements, the Company will post a gain in the fourth quarter of NIS 40 million. As at the date of these statements, the Company holds 38.2 million shares of Credit Suisse, representing 3.4% of the shares of Credit Suisse, at a cumulative cost of NIS 4.35 billion.

Also see Note 6(5).

5. In October 2008, it was agreed between Koor and one of the banks that is the primary provider of bank credit to Koor ("the Bank"), on updates to the terms of the credit provided by the Bank to the Company, including but not limited to the following:
  - (a) The equity attributed to the holders of equity rights in Koor shall not be less than NIS 1.1 billion (linked to the CPI of June 2008);
  - (b) If Koor's equity falls below NIS 2 billion (linked to the CPI of June 2008), Koor will not distribute a dividend to its shareholders, without the Bank's prior written consent;
  - (c) Koor will continue to be the controlling shareholder and largest shareholder, directly or indirectly (at a holding percentage that will at all times be at least 26% of issued and paid-up share capital), in Makhteshim-Agan;
  - (d) The maximum amount of debt in the financing facility that was and/or will be provided to Koor solely for the purchase of Credit Suisse shares will not exceed \$1 billion. The amount of the said recourse financing to Koor will not exceed \$455 million;

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 12 – Subsequent events (cont.)**

5. cont.

- (e) The ratio of market value to debt will not be less than 1.4 at any time. The ratio of market value to debt is the ratio between the cumulative market value of the Makhteshim-Agan shares held by Koor, plus the following assets: (1) shares of Credit Suisse, the investment in which is derived from the recourse facility; (2) Credit Suisse shares free of any pledge, held by Koor; (3) Credit Suisse shares, free of any pledge, held by a wholly-owned subsidiary of Koor and not deposited with any provider of financing for the purchase of Credit Suisse shares, and between the net financial debt (as defined in the agreement) for which there is a recourse right to Koor, on the basis of the financial data of Koor that consolidates M.A.G.M. Chemical Holdings Ltd. alone, as long as M.A.G.M. is wholly-owned by Koor. If the ratio of market value to debt falls below 1.3, the Bank will be permitted to immediately call the credit, or any part of it, for repayment. If the ratio of market value to debt falls below 1.4, provided that the Bank did not call the credit or any part of it for immediate repayment, and as long as the ratio of market value to debt is not modified, in a manner that Koor will comply with the required ratio, the margin on the credit will increase by 1%.
- (f) A change in the control of Koor gives the Bank the right of immediate repayment of the loan.
- (g) Koor was given the right, effective until December 31, 2009, to defer the repayment date of the credit given to it by the Bank, which is to be repaid in the years 2008-2010 (in the amount of NIS 1.1 billion), until 2014-2016.

Additionally, Koor is working to adjust the financial covenants for the loans it has taken from other banks.

**Note 13 – Explanation Regarding the Effect of the Change to IFRS****a. General**

As stated in Note 2(A), the condensed consolidated interim financial statements prepared by the Group constitute part of the first consolidated annual financial statements according to IFRS.

The accounting policy provided in Note 3 was applied in preparation of the condensed consolidated interim financial statements for the nine-month and three-months periods ended September 30, 2008, the comparative figures for the nine-month and three-month periods ended September 30, 2007, the comparative figures for the year ended December 31, 2007 and the opening IFRS balance sheet as at January 1, 2007 ("the transition date").

This Note was prepared on the basis of the IFRS presently known, which were published and will take effect, or may be adopted early, on the Group's first annual IFRS reporting date, December 31, 2008, on the basis of which the Company's accounting policy was prescribed. The IFRS that were in effect or which may be adopted in the annual financial statements for the year ended December 31, 2008 are subject to changes and the publication of additional interpretations, and therefore, cannot be prescribed with certainty.

Accordingly, the accounting policy prescribed for application for the presented periods will be final only when the first IFRS financial statements are prepared, as at December 31, 2008.

The explanation about the effect of the change from generally accepted accounting principles in Israel ("Israeli GAAP") to IFRS on the financial position of the Company, its operating results and cash flows, are presented in the tables and notes below.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)****b. Details of exceptions elected**

Presented below are the exceptions elected by the Company according to IFRS 1, for which the Company does not retroactively apply the change to IFRS reporting:

**(1) Business combinations**

The Company applies the provisions of IFRS 3 only for business combinations that occurred after January 1, 2007.

Therefore, goodwill and excess cost created in business combinations (including jointly controlled business combinations) that occurred prior to such date, with respect to the acquisition of subsidiaries, affiliates and proportionately consolidated subsidiaries and the purchase of minority interest, were not accounted for according to IFRS 3, but were presented as though accounted for under Israeli GAAP.

**(2) Accumulated translation differences**

The Company recognized in retained earnings, on the transition date to IFRS, a capital reserve for accumulated translation differences for foreign operations.

**(3) Compound financial instruments**

The Company elected not to separate compound financial instruments into the equity element and the liability element in the event that the liability does not exist as at the transition date.

**(4) Designation of financial instruments recognized in the past**

The Company designated financial assets to the category of financial assets measured at fair value through gain or loss on the transition date to IFRS, January 1, 2007, since no such designation was made on their initial recognition date.

**(5) Share-based payment transactions**

Share-based payments granted before November 7, 2002 or that vested by January 1, 2007, are not accounted for retroactively, according to IFRS 2. Additionally, in the absence of specific provisions in IFRS, the Company elected to recognize the increase in equity from recognition of share-based payment expenses to retained earnings.

## Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)

## Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)

## c. Effects of change to IFRS

## Balance sheet adjustment

	Israeli GAAP	Effect of change to IFRS		IFRS	Israeli GAAP	Effect of change to IFRS	IFRS	Israeli GAAP	Effect of change to IFRS	IFRS
		Effects expressed in adoption of new accounting standards in Israel in 2007	Other effects							
	January 1, 2007			December 31, 2007			September 30, 2007			
	(Audited)			(Audited)			(Unaudited)			
Note*	NIS thousands									
<b>Assets</b>										
Cash and cash equivalents	241,586	-	-	241,586	1,917,412	-	1,917,412	1,080,201	-	1,080,201
Short-term deposits and investments	(m) 695,931	-	(201,159)	494,772	457,590	-	457,590	1,771,406	-	1,771,406
Trade receivables	33,010	-	-	33,010	40,236	-	40,236	39,391	-	39,391
Other receivables	(m) 64,280	-	239,340	303,620	63,713	4,174	67,887	67,664	(1,747)	65,917
Inventories	62,319	-	-	62,319	57,628	-	57,628	77,503	-	77,503
Current income tax assets	241	-	(241)	-	2,385	(2,385)	-	-	-	-
<b>Total current assets</b>	<b>1,097,367</b>	<b>-</b>	<b>37,940</b>	<b>1,135,307</b>	<b>2,538,964</b>	<b>1,789</b>	<b>2,540,753</b>	<b>3,036,165</b>	<b>(1,747)</b>	<b>3,034,418</b>
Investments and long-term receivables	179,488	-	(4,458)	175,030	128,712	(58)	128,654	124,485	553	125,038
Intangible assets	546	-	-	546	16,126	-	16,126	15,495	-	15,495
Investment property	(a) -	108,280	-	108,280	111,880	-	111,880	108,280	-	108,280
Investment in affiliates accounted for by the equity method	3,322,177	33,424	(92,477)	3,263,124	2,610,375	(44,224)	2,566,151	2,690,163	(14,194)	2,675,969
Fixed assets	(a) 89,608	(80,080)	-	9,528	7,851	-	7,851	7,934	-	7,934
Deferred tax assets	-	-	207	207	-	-	-	-	-	-
Assets attributed to discontinued operations	814,645	-	(12,115)	802,530	-	-	-	-	-	-
<b>Total non-current assets</b>	<b>4,406,464</b>	<b>61,624</b>	<b>(108,843)</b>	<b>4,359,245</b>	<b>2,874,944</b>	<b>(44,282)</b>	<b>2,830,662</b>	<b>2,946,357</b>	<b>(13,641)</b>	<b>2,932,716</b>
<b>Total assets</b>	<b>5,503,831</b>	<b>61,624</b>	<b>(70,903)</b>	<b>5,494,552</b>	<b>5,413,908</b>	<b>(42,493)</b>	<b>5,371,415</b>	<b>5,982,522</b>	<b>(15,388)</b>	<b>5,967,134</b>

\* Refer to main explanations.

## Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)

## Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)

## C. Effects of change to IFRS (cont.)

## Balance sheet adjustment (cont.)

Note*	Israeli GAAP	Effect of change to IFRS		IFRS	Israeli GAAP	Effect of change to IFRS	IFRS	Israeli GAAP	Effect of change to IFRS	IFRS	
		Effects	Other effects								
		expressed in adoption of new accounting standards in Israel in 2007									
		January 1, 2007			December 31, 2007			September 30, 2007			
	(Audited)			(Audited)			(Unaudited)				
	NIS thousands										
<b>Liabilities</b>											
	Credit from banks and others	(33,800)	-	-	(33,800)	(330,460)	-	(330,460)	(173,015)	-	(173,015)
	Trade payables	(40,473)	-	-	(40,473)	(54,515)	-	(54,515)	(50,395)	-	(50,395)
	Other payables, including derivatives	(148,811)	-	(2,958)	(151,769)	(140,725)	(252)	(140,977)	(128,567)	26,945	(101,622)
	Provisions	(12,417)	-	-	(12,417)	(23,534)	-	(23,534)	-	(27,282)	(27,282)
	Customer advances	(1,779)	-	-	(1,779)	(6,015)	-	(6,015)	(4,667)	-	(4,667)
	Receipts on account of options	-	-	(20,278)	(20,278)	-	(62,324)	(62,324)	-	(49,084)	(49,084)
	<b>Total current liabilities</b>	<b>(237,280)</b>	<b>-</b>	<b>(23,236)</b>	<b>(260,516)</b>	<b>(555,249)</b>	<b>(62,576)</b>	<b>(617,825)</b>	<b>(356,644)</b>	<b>(49,421)</b>	<b>(406,065)</b>
<b>Long-term liabilities</b>											
	Financial liabilities	(2,335,123)	-	2,693	(2,332,430)	(2,726,294)	1,934	(2,724,360)	(2,897,606)	2,132	(2,895,474)
	Employee benefits	(2,137)	-	(868)	(3,005)	-	(267)	(267)	(1,527)	(977)	(2,504)
	Deferred tax liabilities	(34)	-	34	-	(2,385)	2,385	-	(2,183)	-	(2,183)
	Liabilities attributed to discontinued operations	(737,721)	-	55,497	(682,224)	-	-	-	-	-	-
	<b>Total non-current liabilities</b>	<b>(3,075,015)</b>	<b>-</b>	<b>57,356</b>	<b>(3,017,659)</b>	<b>(2,728,679)</b>	<b>4,052</b>	<b>(2,724,627)</b>	<b>(2,901,316)</b>	<b>1,155</b>	<b>(2,900,161)</b>
	<b>Total liabilities</b>	<b>(3,312,295)</b>	<b>-</b>	<b>34,120</b>	<b>(3,278,175)</b>	<b>(3,283,928)</b>	<b>(58,524)</b>	<b>(3,342,452)</b>	<b>(3,257,960)</b>	<b>(48,266)</b>	<b>(3,306,226)</b>

\* Refer to main explanations.

## Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)

## Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)

## C. Effects of change to IFRS (cont.)

## Balance sheet adjustment (cont.)

	Note*	Israeli	Effect of change to IFRS		IFRS	Israeli	Effect of	IFRS	Israeli	Effect of	IFRS
		GAAP	Effects	Other effects	expressed	GAAP	change to		GAAP	change to	
			expressed		in adoption		IFRS			IFRS	
			of new		of new						
			accounting		standards						
			in Israel		in Israel						
			in 2007		in 2007						
			January 1, 2007		December 31, 2007						September 30, 2007
			(audited)		(audited)						(unaudited)
			NIS thousands								
<b>Equity</b>											
Share capital		(564,515)	-	-	(564,515)	(564,515)	-	(564,515)	(564,515)	-	(564,515)
Premium on shares net of treasury shares		(2,254,701)	-	15,923	(2,238,778)	(2,254,860)	15,909	(2,238,951)	(2,254,826)	16,048	(2,238,778)
Translation differences reserve	(c)	233,851	-	(233,851)	-	437,866	(227,115)	210,751	340,393	(225,590)	114,803
Hedge reserves		-	-	(734)	(734)	-	-	-	-	(47)	(47)
Capital reserve for share-based payment	(i)	(2,625)	-	2,625	-	(2,773)	2,773	-	(2,625)	2,625	-
Capital reserve for available-for-sale assets		-	-	4,275	4,275	-	644	644	-	1,509	1,509
Other reserves	(c)	(325,042)	-	325,042	-	(325,042)	325,042	-	(325,042)	325,042	-
Accumulated loss		723,844	(53,974)	(16,847)	653,023	579,461	(16,236)	563,225	82,732	(55,933)	26,799
Total equity allocated to equity rights holders of Company		(2,189,188)	(53,974)	96,433	(2,146,729)	(2,129,863)	101,017	(2,028,846)	(2,723,883)	63,654	(2,660,229)
Minority interest		(2,348)	(7,650)	(59,650)	(69,648)	(117)	-	(117)	(679)	-	(679)
Total equity		(2,191,536)	(61,624)	36,783	(2,216,377)	(2,129,980)	101,017	(2,028,963)	(2,724,562)	63,654	(2,660,908)
Total liabilities and equity		(5,503,831)	(61,624)	70,903	(5,494,552)	(5,413,908)	42,493	(5,371,415)	(5,982,522)	15,388	(5,967,134)

\* Refer to main explanations.

## Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)

	Note*	For the year ended December 31, 2007			For the nine-month period ended September 30, 2007			For three-month period ended September 30, 2007		
		Israeli GAAP	Effect of change To IFRS (audited)	IFRS	Israeli GAAP	Effect of change To IFRS (unaudited)	IFRS	Israeli GAAP	Effect of change To IFRS (unaudited)	IFRS
		NIS thousands			NIS thousands			NIS thousands		
<b>Revenues</b>										
Revenues from sales and projects		218,535	167	218,702	164,617	113	164,730	46,404	37	46,441
Koor Group's equity in results of affiliates, nets		295,159	(48,282)	246,877	272,368	(14,226)	258,142	38,379	(22,444)	15,935
Other income	(m)	592,268	63,315	655,583	590,554	61,857	652,411	531,916	82,602	614,518
Financing income	(h)	64,982	6,713	71,695	73,211	832	74,043	10,457	(8,790)	1,667
<b>Revenues</b>		<u>1,170,944</u>	<u>21,913</u>	<u>1,192,857</u>	<u>1,100,750</u>	<u>48,576</u>	<u>1,149,326</u>	<u>627,156</u>	<u>51,405</u>	<u>678,561</u>
<b>Expenses</b>										
Cost of sales and projects		192,302	-	192,302	126,638	-	126,638	39,769	-	39,769
Selling and marketing expenses		44,481	-	44,481	32,949	-	32,949	10,053	-	10,053
General and administrative expenses		53,708	174	53,882	35,299	(21)	35,278	13,794	-	13,794
Other expenses		15,305	-	15,305	8,676	(1,187)	7,489		7,489	7,489
Financing expenses	(h)	257,335	43,976	301,311	172,822	31,555	204,377	103,539	14,131	117,670
		<u>563,131</u>	<u>44,150</u>	<u>607,281</u>	<u>376,384</u>	<u>30,347</u>	<u>406,731</u>	<u>167,155</u>	<u>21,620</u>	<u>188,775</u>
<b>Earnings (loss) before income taxes</b>		<u>607,813</u>	<u>(22,237)</u>	<u>585,576</u>	<u>724,366</u>	<u>18,229</u>	<u>742,595</u>	<u>460,001</u>	<u>29,785</u>	<u>489,786</u>
Income taxes		109	-	109	258	-	258	(659)	-	(659)
Earnings (loss) from continuing operations		607,922	(22,237)	585,685	724,624	18,229	742,853	459,342	29,785	489,127
Earnings from discontinued operations, after tax		10,355	13,744	24,099	10,355	13,744	24,099	-	-	-
<b>Earnings for the period</b>		<u>618,277</u>	<u>(8,493)</u>	<u>609,784</u>	<u>734,979</u>	<u>31,793</u>	<u>766,952</u>	<u>459,342</u>	<u>29,785</u>	<u>489,127</u>
Attributed to:										
Holders of the Company's capital rights		620,293	(5,970)	614,323	736,995	34,496	771,491	461,764	29,785	491,549
Minority shareholders		(2,016)	(2,523)	(4,539)	(2,016)	(2,523)	(4,539)	(2,422)	-	(2,422)
<b>Earnings for the period</b>		<u>618,277</u>	<u>(8,493)</u>	<u>609,784</u>	<u>734,979</u>	<u>31,793</u>	<u>766,952</u>	<u>459,342</u>	<u>29,785</u>	<u>489,127</u>

\* Refer to main explanations.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)**

**C. Effects of change to IFRS (cont.)**

**Accounting effects expressed in adoption of new accounting standards in Israel commencing January 1, 2007:**

- (a) **Investment property** – According to Israeli GAAP, until December 31, 2006, investment property was stated at its depreciated cost, as part of fixed assets. According to IFRS, investment property is stated separately in the balance sheet – at its fair value – according to the Company's election. Fair value changes in any reporting period are recognized in gain/loss in that period. The effect of this item is expressed in the adoption of Accounting Standard No. 16 in Israel, commencing January 1, 2007. Therefore, with the change to IFRS, the carrying value as at January 1, 2007 of NIS 80 million was reclassified from fixed assets to investment property and recorded were an increase for the revaluation of investment property of NIS 28.2 million, an increase in investments in equity-accounted affiliates of NIS 31.6 million, and an increase in retained earnings of NIS 52.2 million and an increase in minority interest of NIS 7.6 million.
- (b) **Recognition at fair value of research and development projects acquired within the framework of a business combination**– According to Israeli GAAP, until December 31, 2006, the Group recognized as an expense, the costs of research and development projects acquired within the framework of a business combination. According to IFRS, these projects meet the definition of an intangible asset and are amortized over their useful lives. This effect was expressed in the adoption of Standard No. 30, regarding intangible assets, commencing January 1, 2007.

**Additional accounting effects:**

- (c) **Capital reserves from translation differences and other capital reserves** – As discussed in Par. B.2, according to the exception of IFRS 1, the Company elected the possibility of recognizing in retained earnings the balance of the reserves, positive and negative, from the translation of financial statements of investees at the transition date, and other capital reserves that are not required according to IFRS. Therefore, with the change to IFRS, the Company recognized the balance of the capital reserve for foreign currency translation at January 1, 2007 totaling NIS 233.8 million in retained earnings. Measurement differences between Israeli GAAP and IFRS in foreign operations are also affected by the accumulations in the capital reserves and on their realization when the holding percentage in these operations decreases.
- According to Israeli GAAP, until the end of 1994, the Company was required to capitalize earnings to its capital reserves, if such capitalization was effected in the books of the investee. According to IFRS, the Company is not required to such capitalization in the said case. Therefore, with the change to IFRS, the Company recognized earnings of NIS 325 million to retained earnings.
- (d) **Employee benefits** – According to Israeli GAAP, liabilities for employee termination benefits are recognized by the full liability method, assuming that all the employees will be terminated at terms that entitled them to full termination benefits, without considering discount rates, future salary increase percentages and future retirements. Likewise, the liabilities for vacation and sick pay were calculated based on estimated utilization and redemption, respectively. According to IFRS, all the net liabilities for post-retirement employee benefits and other long-term benefit plans are measured according to IAS 19 regarding employee benefits. Post-retirement benefits in defined benefit plans are measured, inter alia, based on actuarial estimates and discounted amounts. The liability is measured at discounted value based on the yields on government bonds.

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**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**


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**Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)****C. Effects of change to IFRS (cont.)****(d) Employee benefits (cont.)**

As far as the Company knows, the issue of discounted interest is being examined, and a decision may eventually be reached, that the appropriate discount rate in Israel is based on corporate bonds. In this case, the data included in the above note will change, the actuarial liabilities will decrease and current financing expenses for these liabilities will increase.

Additionally, the funded termination benefits deposited with a related party are stated according to Israeli GAAP as a deduction from the liability. According to IFRS, these funded provisions do not constitute assets of the plan and are stated as a separate asset.

The Company elected to recognize the actuarial gains and losses directly in equity, according to the alternative in IAS 19. The Company elected to apply the alternative, whereby the actuarial gains or losses will be recognized in retained earnings, since according to this alternative, the balance sheet reflects the proper fair value of the net liabilities to employees at the cut off date. Moreover, according to this alternative the statement of operations better reflects the Company's operating results, so that fluctuations from actuarial gains and losses are prevented.

- (e) Financial instruments available for sale** – According to Israeli GAAP, the Company classified its investments in non-marketable shares as non-current investments measured at cost, net of declines in value that are not temporary. According to IFRS, the Company classifies these investments as available-for-sale financial assets, and they will be measured at their fair value on every balance sheet date. Fair value changes will be recognized in a capital reserve, except for ongoing or significant declines in value that will be recognized in the statement of operations.

**(f) Derivative financial instruments and hedge accounting –**

According to the accepted practice in Israel, the terms for application of hedge accounting are based mainly on economic criteria. Likewise, financial instruments are not necessarily measured at fair value. Under IFRS, in order for a transaction in financial instruments to be deemed an accounting hedge, it must meet several criteria, including with respect to the instrument's purpose, meeting stringent designation requirements and a high degree of effectiveness from the beginning and throughout the hedge.

Some of the transactions executed by the Group in financial instruments, to reduce exposures to currency risks or interest risks, do not meet the criteria for in hedge accounting, and therefore, are measured under IFRS at fair value, with changes in fair value recognized immediately in gain/loss.

Regarding financial instruments that meet the requirements for hedge accounting, these instruments are stated at fair value, and the change in fair value is recognized in equity "hedge reserve".

According to Israeli GAAP, separation of embedded derivatives out of hybrid contracts is not required. Under IFRS, in certain cases, embedded derivatives are to be separated from hybrid instruments, and are to be presented at fair value on every balance sheet date, with the changes in fair value each reporting period recognized in gain/loss in that period.

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**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**


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**Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)****C. Effects of change to IFRS (cont.)**

(g) **Deferred tax from intercompany sales** – According to Israeli GAAP, intercompany transactions are eliminated in the consolidated statements and deferred tax is recorded at the corporate tax rate of the seller company for the temporary differences in recognition of the earnings, between the financial statements and the tax payments. According to IFRS, deferred tax on intercompany transactions in the consolidated statements will be recorded at the corporate tax rate of the buyer.

(h) **Dividing issued units containing equity instruments and measurement of options with CPI-linked exercise price at fair value** – According to Israeli GAAP, options issued to investors with a CPI-linked exercise price are classified as equity. Such options that were issued in a unit comprised of options and debentures were separated from the debentures proportionate to the fair value of the unit's components. According to IFRS, this kind of option is classified as a liability and measured at fair value on each balance sheet date, with the changes in fair value recognized to gain/loss each period. Additionally, according to IFRS, the proceeds from the issuance of a unit including a liability component measured by the effective interest rate (debentures) and a liability measured at fair value are attributed first to the fair-value measured liability and the remainder of the proceeds is attributed to the liability component measured by the effective interest method.

Therefore, with the change to IFRS, the carrying value as at January 1, 2007, September 30, 2007 and December 31, 2007 totaling NIS 22 million, was reclassified from "premium" to liability for options to investors. An increase/(decrease) was recorded in the said liabilities due to the change in fair value of the options totaling NIS (1.4) million, NIS 27 million and NIS 41 million as at January 1, 2007, September 30, 2007 and December 31, 2007, respectively.

(i) **Share-based payment transactions** – According to Israeli GAAP, the Company recognized as share-based payment transactions commencing January 1, 2006, grants made after March 15, 2005, provided that they did not vest by January 1, 2006. According to an exception of IFRS 1, share-based payment transactions granted after November 7, 2002, which did not vest by January 1, 2007 are accounted for retroactively, according to the provisions of IFRS 2. Additionally, under IFRS, in the absence of a specific provision, the Company elected to present the benefit in retained earnings instead of in a reserve.

(j) **Land leased from the Israel Lands Administration ("ILA")** – According to Israeli GAAP, they were classified as fixed assets and therefore, accounted for as land that is not depreciated. According to IFRS, in cases in which this land is not deemed freehold land, the Group classifies the land leased from the ILA as operating leases. Therefore, lease fees paid in advance to the ILA are presented as deferred expenses and are amortized over the lease term including the option for extending the lease period to the extent that on the lease date, it was reasonably certain that the option would be exercised.

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**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**


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**Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)****C. Effects of change to IFRS (cont.)**

(k) **Minority interest** – According to Israeli GAAP, minority interest is classified in a separate item between long-term liabilities and equity. According to IFRS, minority interest in subsidiaries is classified as a separate item in the Company's equity.

(l) **Liability to Chief Scientist for government grants** – According to Israeli GAAP, grants from the Chief Scientist for research and development projects were recognized upon receipt as revenues presented as a deduction from the related research and development expenses. The expectation for repayment of the grant is not assessed regularly, and when the grant is repaid, the expense is recognized as a cost of sales within royalty payments to the Chief Scientist.

Under IFRS, these grants are accounted for as forgivable loans, under the provisions of IAS 20. Accordingly, the Chief Scientist grants are recognized as a liability at its fair value on the grant receipt date, unless on that date, it is reasonably certain that the amount received will not be repaid. The liability amount is assessed in every period, and the changes in fair value of the grant – if any – are recognized as gain/loss.

(m) **Timing of the recognition of gain from sale of shares** – According to Israeli GAAP, the sale of financial assets will occur when control in the financial assets is transferred. Under IFRS, a decision regarding the disposition of financial assets is based on the transfer of the risks and rewards of ownership of the assets. According to Israeli GAAP, control of all the shares had not been transferred to the buyer in 2006, and therefore, only in 2007 did the Company dispose of the investment in these shares and recognize the gain generated by the sale. Consequently, according to IFRS, since all of the risks and rewards were transferred to the buyer, the Company disposed of the entire balance of its investment in the shares of Elbit, totaling NIS 201 million and NIS 151 million, as at January 1, 2007. The Company recorded an increase in other receivables of NIS 239 million as at January 1, 2007, and an increase in the balance of retained earnings of NIS 38 million as at January 1, 2007. In the nine months ended September 30, 2007, the Company reversed a capital gain that had been recognized under Israeli GAAP of NIS 37 million. As at December 31, 2007, the entire investment in the shares of Elbit was sold.

(n) **Functional currency** - Israeli GAAP allowed companies to designate a functional currency other than the NIS, when most revenues are received and most assets are purchased in that currency, although companies were not required to report based on a foreign currency other than the NIS. Under IFRS, the Company must assess the functional currency and measure its operating result according to the designated functional currency.

An investee designated the NIS as its functional currency under Israeli GAAP, according to the aforesaid. Under IFRS, the functional currency of the investee is the U.S. dollar.

Moreover, the functional currency of a subsidiary of an affiliate, which according to Israeli GAAP was designated an "integrated unit" (and therefore its functional currency is the US dollar), was changed to the local currency under IFRS.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)**

- C. Effects of change to IFRS (cont.)**
- (o) **Deferred taxes for land purchased in a business combination** - According to Israeli GAAP, a deferred tax liability was not recognized for temporary differences related to land that was purchased in a business combination prior to January 1, 2005. Under IFRS, a deferred tax liability is to be created for temporary differences in respect of land that was purchased in a business combination.
- (p) **Fixed assets** – Under IFRS, the measurement of fixed asset items is a choice between the cost method and the revaluation method as accounting policy. Consistent with the Company's choice of the cost method as the accounting policy for the measurement of fixed assets according to Israeli GAAP as part of the application of Standard No. 27, the Company elected the same method under IFRS.
- (q) **Equity value of companies in which there is joint control** – According to Israeli GAAP, corporations in which the Company has joint control are presented by the proportionate consolidation method. Under IFRS, one may elect to present the investments in corporations by the proportionate consolidation method or the equity method. The Company elected to present its investments in jointly-held corporations by the equity method, since the proportionate consolidation method is expected to be cancelled in the future.
- (r) **Non-consolidation in the event of effective control** – On the IFRS transition date, the Company elected to account for the investees in which it has effective control by the equity method, since the consolidation of financial statements under circumstances of effective control that is not legal control does not contribute to the relevance of the financial statements of the holding company. Additionally, the Company chose this alternative in order to maintain consistency in the presentation it used under Israeli GAAP.

**Notes to the Interim Financial Statements as at September 30, 2008 (unaudited)**

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**Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)****D. Explanation of material reconciliations to the statement of cash flows for the periods of nine months and three months ended September 30, 2007 and for the year ended December 31, 2007****(1) Interest received**

According to Israeli GAAP, interest received was classified as cash flows from operating activities. According to IFRS, and based on the accounting policy adopted by the Company, the interest received was classified as cash flows from investing activities. According to the Group's policy, the Company continued to classify dividends received in operating activities.

**(2) Interest paid**

According to Israeli GAAP, interest paid was classified as cash flows from operating activities. According to IFRS, and based on the accounting policy adopted by the Company, the interest paid was classified as cash flows from financing activities. According to the Group's policy, the Company continued to classify dividends paid in operating activities.

**(3) Exchange rate differences**

According to Israeli GAAP, the effect of exchange rate fluctuations on cash balances was presented as cash flows from operating activities. According to IFRS, the effects of the exchange rate fluctuations on the cash balances were classified as a separate item.