

*Translated from the Hebrew Original*

**Koor Industries Limited**

**Condensed Consolidated Interim**  
**Financial Statements**  
**As at June 30, 2010**  
**(unaudited)**

The information contained in these financial statements constitutes an unofficial translation translation of the financial statements published by the Company in Hebrew. The Hebrew version is the binding version. This translation was prepared for convenience purposes only.

**Condensed Interim Financial Statements as at June 30, 2010 (Unaudited)**

---

**Table of Contents**

|   | <u>Page</u> |
|---|-------------|
| Auditors' Review Report   | 2           |
| <b>Condensed Consolidated Interim Financial Statements as at June 30, 2010 (unaudited):</b> |             |
| Condensed Consolidated Interim Statements of Financial Position                             | 3-4         |
| Condensed Consolidated Interim Statements of Income   | 5           |
| Condensed Consolidated Interim Statements of Comprehensive Income                           | 6           |
| Condensed Consolidated Interim Statements of Changes in Equity                              | 7-9         |
| Condensed Consolidated Interim Statements of Cash Flows                                     | 10-11       |
| Notes to the Condensed Consolidated Interim Financial Statements                            | 12-27       |



**Somekh Chaikin**  
KPMG Millennium Tower  
17 Ha'arba'a Street, PO Box 609  
Tel Aviv 61006 Israel

Telephone 972 3 684 8000  
Fax 972 3 684 8444  
Internet [www.kpmg.co.il](http://www.kpmg.co.il)

## **Review Report to the Shareholders of Koor Industries Ltd**

### Introduction

We have reviewed the accompanying financial information of Koor Industries Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of June 30, 2010 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six and three month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries whose assets constitute 1% of the total consolidated assets as at June 30, 2010, and whose revenues constitute 8% and 6% of the total consolidated revenues for the six and three month periods then ended, respectively. Furthermore, we did not review the condensed interim financial information of equity accounted investees the investment in which amounted to NIS 536,517 thousand as at June 30, 2010, and the Group’s share in their profits amounted to NIS 83,807 thousand and NIS 74,656 thousand for the six and three month periods then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

### Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Somekh Chaikin  
Certified Public Accountants (Isr.)

August 11, 2010

**Condensed Consolidated Interim Statements of Financial Position as at**

|   | <b>June 30, 2010</b><br><b>(Unaudited)</b> | <b>June 30, 2009</b><br><b>(Unaudited)</b> | <b>December 31,</b><br><b>2009</b><br><b>(Audited)</b> |
|---|--|--|--|
|   | <b>NIS thousands</b><br><b>(Unaudited)</b> | <b>NIS thousands</b><br><b>(Unaudited)</b> | <b>NIS thousands</b><br><b>(Audited)</b>               |
| <b>Assets</b>   |  |  |  |
| <b>Current assets</b>   |  |  |  |
| Cash and cash equivalents   | <b>470,045</b>                             | 3,094,609                                  | 1,612,343  |
| Short-term deposits and investments, including<br>financial derivatives | <b>99,933</b>                              | 36,234                                     | 63,945   |
| Trade receivables   | <b>12,953</b>                              | 23,367                                     | 19,513   |
| Other receivables   | <b>91,359</b>                              | 28,775                                     | 11,880   |
| Inventories   | <b>32,314</b>                              | 42,859                                     | 34,670   |
| Assets held for sale  | <b>-</b>                                   | 65,123                                     | 16,655   |
|   | <b>706,604</b>                             | 3,290,967                                  | 1,759,006  |
| <b>Long-term investments</b>  |  |  |  |
| Investments in investees  | <b>3,445,149</b>                           | 2,808,396                                  | 2,945,939  |
| Financial assets available for sale                                     | <b>1,170,812</b>                           | 2,043,978                                  | 2,888,648  |
| Pledged financial assets available for sale                             | <b>4,510,782</b>                           | 744,303                                    | 2,412,527  |
| Other investments   | <b>70,160</b>                              | 71,464                                     | 73,816   |
|   | <b>9,196,903</b>                           | 5,668,141                                  | 8,320,930  |
| <b>Investment property</b>  | <b>95,300</b>                              | 94,900                                     | 95,300   |
| <b>Fixed assets</b>   | <b>1,970</b>                               | 2,702                                      | 2,305  |
| <b>Intangible assets</b>  | <b>2,003</b>                               | 2,776                                      | 2,476  |
| <b>Total assets</b>   | <b>10,002,780</b>                          | 9,059,486                                  | 10,180,017   |

**Condensed Consolidated Interim Statements of Financial Position as at**

|   | <b>June 30, 2010</b><br><b>(Unaudited)</b> | <b>June 30, 2009</b><br><b>(Unaudited)</b> | <b>December 31,</b><br><b>2009</b><br><b>(Audited)</b> |
|---|--|--|--|
|   | <b>NIS thousands</b><br><b>(Unaudited)</b> | <b>NIS thousands</b><br><b>(Unaudited)</b> | <b>NIS thousands</b><br><b>(Audited)</b>               |
| <b>Liabilities</b>  |  |  |  |
| <b>Current liabilities</b>  |  |  |  |
| Credit from banks   | <b>31,000</b>                              | 327,968                                    | 266,514  |
| Current maturities of debentures  | <b>153,094</b>                             | 441,577                                    | 456,438  |
| Trade payables  | <b>14,244</b>                              | 24,046                                     | 16,671   |
| Other payables including financial derivatives                            | <b>277,987</b>                             | 385,617                                    | 266,892  |
| Provisions  | <b>12,527</b>                              | 7,594                                      | 9,735  |
| Customer advances   | <b>1,985</b>                               | 1,098                                      | 2,134  |
|   | <b>490,837</b>                             | 1,187,900                                  | 1,018,384  |
| <b>Long-term liabilities</b>  |  |  |  |
| Long term bank loans  | <b>3,603,178</b>                           | 1,003,360                                  | 1,757,365  |
| Debentures  | <b>1,819,102</b>                           | 1,133,142                                  | 1,965,267  |
| Deferred tax liabilities  | <b>31,081</b>                              | 105,228                                    | 80,100   |
| Other liabilities including financial derivatives                         | <b>6,278</b>                               | 8,508                                      | 5,273  |
| Employee benefits   | <b>1,257</b>                               | 948  | 1,081  |
| Liability for options to investors  | <b>-</b>                                   | 16,168                                     | 4  |
|   | <b>5,460,896</b>                           | 2,267,354                                  | 3,809,090  |
| <b>Equity</b>   |  |  |  |
| Share capital   | <b>564,546</b>                             | 564,546                                    | 564,546  |
| Premium on shares   | <b>3,904,575</b>                           | 3,904,575                                  | 3,904,575  |
| Treasury shares   | <b>(6,071)</b>                             | (6,071)                                    | (6,071)  |
| Reserves  | <b>(1,432,588)</b>                         | 278,779                                    | (156,803)  |
| Retained earnings   | <b>1,020,585</b>                           | 862,403                                    | 1,046,296  |
| <b>Total equity attributed to holders of the Company's capital rights</b> | <b>4,051,047</b>                           | 5,604,232                                  | 5,352,543  |
| <b>Total liabilities and equity</b>                                       | <b>10,002,780</b>                          | 9,059,486                                  | 10,180,017   |

Ami Erel  
Chairman of the Board of  
Directors

Raanan Cohen  
Chief Executive Officer

Oren Hillinger  
Chief Financial Officer

Approval date of financial statements: August 11, 2010

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

**Condensed Consolidated Interim Statements of Income**

|   | For six-month period ended |                  | For three-month period ended |                  | For year ended   |
|---|----------------------------|------------------|------------------------------|------------------|------------------|
|   | June 30                    |                  | June 30                      |                  | December 31      |
|   | 2010                       | 2009             | 2010                         | 2009             | 2009             |
|   | (Unaudited)                | (Unaudited)      | (Unaudited)                  | (Unaudited)      | (Audited)        |
|   | NIS thousands              | NIS thousands    | NIS thousands                | NIS thousands    | NIS thousands    |
| <b>Revenues</b>   |                            |                  |                              |                  |                  |
| Sales and services  | 44,735                     | 66,347           | 25,079                       | 34,870           | 122,253          |
| Koor Group's equity in results of affiliates, net                           | 182,992                    | 111,803          | 70,019                       | (9,301)          | 126              |
| Income from sale of and dividends from financial assets available for sale  | 296,037                    | 1,641,272        | 281,452                      | 1,608,315        | 2,682,802        |
| Other income  | 109                        | 16,161           | 74                           | 7,218            | 26,092           |
| Financing income  | 40,717                     | 21,989           | 30,185                       | 17,475           | 29,608           |
|   | <u>564,590</u>             | <u>1,857,572</u> | <u>406,809</u>               | <u>1,658,577</u> | <u>2,860,881</u> |
| <b>Expenses</b>   |                            |                  |                              |                  |                  |
| Cost of sales and services  | 32,571                     | 48,723           | 18,166                       | 26,550           | 92,410           |
| Selling and marketing expenses  | 6,451                      | 11,090           | 3,010                        | 5,778            | 20,069           |
| General and administrative expenses   | 23,863                     | 23,200           | 15,356                       | 15,981           | 68,330           |
| Other expenses  | 6,616                      | 10,429           | 50                           | 48               | 18,448           |
| Financing expenses  | 181,652                    | 171,480          | 195,737                      | 137,942          | 373,310          |
|   | <u>251,153</u>             | <u>264,922</u>   | <u>232,319</u>               | <u>186,299</u>   | <u>572,567</u>   |
| <b>Earnings before income taxes</b>   | <b>313,437</b>             | <b>1,592,650</b> | <b>174,490</b>               | <b>1,472,278</b> | <b>2,288,314</b> |
| Income taxes  | (70,617)                   | 28,601           | (139,107)                    | (101,775)        | (122,611)        |
| <b>Income for the period attributed to holders of the Company's capital</b> | <b>242,820</b>             | <b>1,621,251</b> | <b>35,383</b>                | <b>1,370,503</b> | <b>2,165,703</b> |
|   | <u>NIS</u>                 | <u>NIS</u>       | <u>NIS</u>                   | <u>NIS</u>       | <u>NIS</u>       |
| <b>Earnings per share:</b>  |                            |                  |                              |                  |                  |
| Basic earnings per ordinary share   | <u>5.13</u>                | <u>34.18</u>     | <u>0.75</u>                  | <u>28.89</u>     | <u>45.65</u>     |
| Diluted earnings per ordinary share   | <u>5.11</u>                | <u>34.18</u>     | <u>0.75</u>                  | <u>28.89</u>     | <u>45.63</u>     |

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

**Condensed Consolidated Interim Statements of Comprehensive Income**

|   | For six-month period ended |               | For three-month period ended |               | For year ended |
|---|----------------------------|---------------|------------------------------|---------------|----------------|
|   | June 30                    |               | June 30                      |               | December 31    |
|   | 2010                       | 2009          | 2009                         | 2009          | 2009           |
|   | (Unaudited)                | (Unaudited)   | (Audited)                    | (Unaudited)   | (Audited)      |
|   | NIS thousands              | NIS thousands | NIS thousands                | NIS thousands | NIS thousands  |
| <b>Income for the period</b>  | <b>242,820</b>             | 1,621,251     | <b>35,383</b>                | 1,370,503     | 2,165,703      |
| Other elements of comprehensive income:   |                            |               |                              |               |                |
| Foreign currency translation differences from foreign operations  | <b>91,406</b>              | 74,134        | <b>138,904</b>               | (185,892)     | (16,901)       |
| Foreign currency translation differences from foreign operations recognized in gain/loss                          | <b>4,347</b>               | 1,078         | -                            | -             | 1,078          |
| Net change in fair value of financial assets classified as available for sale, net of tax                         | <b>(1,338,619)</b>         | 1,893,693     | <b>(1,587,232)</b>           | 1,228,188     | 2,290,301      |
| Net change in fair value of financial assets classified as available for sale recognized in gain/loss, net of tax | <b>(16,901)</b>            | (1,207,667)   | <b>(5,962)</b>               | (1,183,281)   | (1,978,016)    |
| Actuarial gains from defined benefits plan  | -                          | -             | -                            | -             | 533            |
| Koor's equity in comprehensive income (loss) of affiliates  | <b>(14,592)</b>            | (1,672)       | <b>(22,962)</b>              | (2,769)       | 26,530         |
| <b>Total comprehensive income for the period – attributed to holders of the Company's</b>                         | <b>(1,031,539)</b>         | 2,380,817     | <b>(1,441,869)</b>           | 1,226,749     | 2,489,228      |

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

**Condensed Consolidated Interim Statement of Changes in Equity**

|   | Attributed to Company's equity holders |                   |  |               |   |                 |                                      | Total equity       |
|---|--|-------------------|--|---------------|---|-----------------|--------------------------------------|--------------------|
|   | Share capital                          | Premium on shares | Translation reserve for foreign operations | Hedge reserve | Reserve for financial assets available for sale | Treasury shares | Retained earnings (accumulated loss) |                    |
|   | NIS thousands                          |                   |  |               |   |                 |                                      |                    |
| <b>For six-month period ended June 30, 2010 (unaudited)</b> |  |                   |  |               |   |                 |                                      |                    |
| <b>Balance as at January 1, 2010 (audited)</b>              | 564,546                                | 3,904,575         | (243,722)                                  | 17,461        | 69,458  | (6,071)         | 1,046,296                            | 5,352,543          |
| Total comprehensive income (loss) for the period            | -                                      | -                 | <b>74,341</b>                              | <b>5,394</b>  | <b>(1,355,520)</b>                              | -               | <b>244,246</b>                       | <b>(1,031,539)</b> |
| Dividend to holders of equity                               | -                                      | -                 | -  | -             | -   | -               | <b>(269,957)</b>                     | <b>(269,957)</b>   |
| <b>Balance as at June 30, 2010 (unaudited)</b>              | <b>564,546</b>                         | <b>3,904,575</b>  | <b>(169,381)</b>                           | <b>22,855</b> | <b>(1,286,062)</b>                              | <b>(6,071)</b>  | <b>1,020,585</b>                     | <b>4,051,047</b>   |

|   | Attributed to Company's equity holders |                   |  |                |   |                 |                                      | Total equity     |
|---|--|-------------------|--|----------------|---|-----------------|--------------------------------------|------------------|
|   | Share capital                          | Premium on shares | Translation reserve for foreign operations | Hedge reserve  | Reserve for financial assets available for sale | Treasury shares | Retained earnings (accumulated loss) |                  |
|   | NIS thousands                          |                   |  |                |   |                 |                                      |                  |
| <b>For six-month period ended June 30, 2009 (unaudited)</b> |  |                   |  |                |   |                 |                                      |                  |
| <b>Balance as at January 1, 2009 (audited)</b>              | 564,546                                | 3,904,575         | (247,674)                                  | 10,022         | (243,127)                                       | (6,071)         | (326,641)                            | 3,655,630        |
| Total comprehensive income (loss) for the period            | -                                      | -                 | 85,839                                     | (12,606)       | 686,325   | -               | 1,621,259                            | 2,380,817        |
| Dividend to holders of equity                               | -                                      | -                 | -  | -              | -   | -               | (432,215)                            | (432,215)        |
| <b>Balance as at June 30, 2009 (unaudited)</b>              | <b>564,546</b>                         | <b>3,904,575</b>  | <b>(161,835)</b>                           | <b>(2,584)</b> | <b>443,198</b>                                  | <b>(6,071)</b>  | <b>862,403</b>                       | <b>5,604,232</b> |

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

**Condensed Consolidated Interim Statement of Changes in Equity (cont.)**

|   | Attributed to Company's equity holders |                   |  |               |   |                 |                                      | Total equity       |
|---|--|-------------------|--|---------------|---|-----------------|--------------------------------------|--------------------|
|   | Share capital                          | Premium on shares | Translation reserve for foreign operations | Hedge reserve | Reserve for financial assets available for sale | Treasury shares | Retained earnings (accumulated loss) |                    |
|   | NIS thousands                          |                   |  |               |   |                 |                                      |                    |
| <b>For three-month period ended June 30, 2010 (unaudited)</b> |  |                   |  |               |   |                 |                                      |                    |
| Balance as at April 1, 2010 (unaudited)                       | 564,546                                | 3,904,575         | (283,778)                                  | 22,925        | 307,132   | (6,071)         | 983,587                              | 5,492,916          |
| Total comprehensive income (loss) for the period              | -                                      | -                 | <b>114,397</b>                             | <b>(70)</b>   | <b>(1,593,194)</b>                              | -               | <b>36,998</b>                        | <b>(1,441,869)</b> |
| <b>Balance as at June 30, 2010 (unaudited)</b>                | <b>564,546</b>                         | <b>3,904,575</b>  | <b>(169,381)</b>                           | <b>22,855</b> | <b>(1,286,062)</b>                              | <b>(6,071)</b>  | <b>1,020,585</b>                     | <b>4,051,047</b>   |

|   | Attributed to Company's equity holders |                   |  |                |   |                 |                                      | Total equity     |
|---|--|-------------------|--|----------------|---|-----------------|--------------------------------------|------------------|
|   | Share capital                          | Premium on shares | Translation reserve for foreign operations | Hedge reserve  | Reserve for financial assets available for sale | Treasury shares | Retained earnings (accumulated loss) |                  |
|   | NIS thousands                          |                   |  |                |   |                 |                                      |                  |
| <b>For three-month period ended June 30, 2009 (unaudited)</b> |  |                   |  |                |   |                 |                                      |                  |
| Balance as at April 1, 2009 (unaudited)                       | 564,546                                | 3,904,575         | 5,580                                      | 26,062         | 398,290   | (6,071)         | (83,284)                             | 4,809,698        |
| Total comprehensive income (loss) for the period              | -                                      | -                 | (167,415)                                  | (28,646)       | 44,908  | -               | 1,377,902                            | 1,226,749        |
| Dividend to holders of equity                                 | -                                      | -                 | -  | -              | -   | -               | (432,215)                            | (432,215)        |
| <b>Balance as at June 30, 2009 (unaudited)</b>                | <b>564,546</b>                         | <b>3,904,575</b>  | <b>(161,835)</b>                           | <b>(2,584)</b> | <b>443,198</b>                                  | <b>(6,071)</b>  | <b>862,403</b>                       | <b>5,604,232</b> |

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

*Translated from the Hebrew Original*

Koor Industries Ltd.

**Condensed Consolidated Interim Statement of Changes in Equity (cont.)**

|   | Attributed to Company's equity holders |                   |  |               |   |                 | Total equity     |                                      |
|---|--|-------------------|--|---------------|---|-----------------|------------------|--------------------------------------|
|   | Share capital                          | Premium on shares | Translation reserve for foreign operations | Hedge reserve | Reserve for financial assets available for sale | Treasury shares |                  | Retained earnings (accumulated loss) |
|   | NIS thousands                          |                   |  |               |   |                 |                  |                                      |
| <b>For the year ended December 31, 2009 (audited)</b> |  |                   |  |               |   |                 |                  |                                      |
| <b>Balance as at January 1, 2009 (audited)</b>        | 564,546                                | 3,904,575         | (247,674)                                  | 10,022        | (243,127)                                       | (6,071)         | (326,641)        | 3,655,630                            |
| Dividend to holders of equity                         | -                                      | -                 | -  | -             | -   | -               | (792,315)        | (792,315)                            |
| Comprehensive income for the period                   | -                                      | -                 | 3,952                                      | 7,439         | 312,585   | -               | 2,165,252        | 2,489,228                            |
| <b>Balance as at December 31, 2009 (audited)</b>      | <u>564,546</u>                         | <u>3,904,575</u>  | <u>(243,722)</u>                           | <u>17,461</u> | <u>69,458</u>                                   | <u>(6,071)</u>  | <u>1,046,296</u> | <u>5,352,543</u>                     |

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

**Condensed Consolidated Interim Statement of Cash Flows**

|  | For six-month period ended |               | For three-month period ended |               | For year ended |
|--|----------------------------|---------------|------------------------------|---------------|----------------|
|  | June 30                    |               | June 30                      |               | December 31    |
|  | 2010                       | 2009          | 2010                         | 2009          | 2009           |
|  | (Unaudited)                | (Unaudited)   | (Unaudited)                  | (Unaudited)   | (Audited)      |
|  | NIS thousands              | NIS thousands | NIS thousands                | NIS thousands | NIS thousands  |
| <b>Cash flows generated by operating activities</b>  |                            |               |                              |               |                |
| <b>Income for the period</b>   | <b>242,820</b>             | 1,621,251     | <b>35,383</b>                | 1,370,503     | 2,165,703      |
| Adjustments:   |                            |               |                              |               |                |
| Financing costs, net   | <b>112,187</b>             | 119,777       | <b>37,166</b>                | 70,722        | 217,235        |
| Income tax expenses (savings)  | <b>70,617</b>              | (28,601)      | <b>139,107</b>               | 101,775       | 122,611        |
| Koor's equity in results of affiliates, net  | <b>(182,992)</b>           | (111,803)     | <b>(70,019)</b>              | 9,301         | (126)          |
| Dividend received from affiliates  | <b>9,000</b>               | -             | <b>1,500</b>                 | -             | 112,718        |
| Depreciation and amortization  | <b>941</b>                 | 825           | <b>392</b>                   | 371           | 1,738          |
| Increase (decrease) in employee benefits   | <b>176</b>                 | (164)         | <b>131</b>                   | (7)           | 502            |
| Revaluation of investment property   | -                          | (1,639)       | -                            | -             | (2,039)        |
| Capital losses (gains), net, from realization of:  |                            |               |                              |               |                |
| Fixed assets   | -                          | (7)           | -                            | -             | (7)            |
| Investments in investees and financial assets available for sale                                     | <b>(21,334)</b>            | (1,627,881)   | <b>(11,573)</b>              | (1,599,026)   | (2,669,264)    |
| Gain from early redemption of debentures   | -                          | (278)         | -                            | -             | (278)          |
| Linkage and amortization of debenture discounts and revaluation of liability from options            | <b>1,462</b>               | 35,934        | <b>17,355</b>                | 44,134        | 52,010         |
| Linkage of loan principals and other long-term liabilities   | <b>50,463</b>              | 13,053        | <b>105,303</b>               | 19,595        | 85,358         |
| Erosion (revaluation) of investments, deposits and loans receivable                                  | <b>(23,318)</b>            | (19,528)      | <b>4,363</b>                 | (12,590)      | (10,061)       |
| Impairment (revaluation) of assets and investments (mainly in value of venture capital investments)  | <b>4,314</b>               | (355)         | <b>2,700</b>                 | 4,835         | 4,940          |
| Decrease (increase) in trade and other receivables   | <b>3,763</b>               | 11,871        | <b>(690)</b>                 | (6,787)       | 17,909         |
| Decrease in inventories and customer advances  | <b>3,043</b>               | 5,120         | <b>2,894</b>                 | 4,176         | 12,774         |
| Decrease in trade and other payables   | <b>(21,511)</b>            | (47,925)      | <b>(5,220)</b>               | (12,020)      | (58,127)       |
| Income tax paid  | <b>(110,056)</b>           | (192)         | <b>(112,648)</b>             | (66)          | (219)          |
| <b>Net cash inflows (outflows) generated by operating activities</b>                                 | <b>139,575</b>             | (30,542)      | <b>146,144</b>               | (5,084)       | 53,377         |
| <b>Cash flows generated by investing activities</b>  |                            |               |                              |               |                |
| Purchase of fixed assets   | <b>(51)</b>                | (1,080)       | <b>(13)</b>                  | (102)         | (1,142)        |
| Amounts recognized as intangible assets  | <b>(946)</b>               | -             | <b>(946)</b>                 | -             | (1,270)        |
| Proceeds from realization of financial assets available for sale, investments in investees and other | <b>284,217</b>             | 5,455,223     | <b>102,598</b>               | 4,968,047     | 11,181,471     |
| Proceeds from sale of fixed assets, investment property and intangible assets                        | -                          | 22,075        | -                            | -             | 22,075         |
| Proceeds from realization of assets held for sale  | <b>16,178</b>              | 16,306        | -                            | -             | 16,306         |
| Investment in financial assets available for sale, affiliates and other                              | <b>(2,369,265)</b>         | (1,413,011)   | <b>(494,655)</b>             | (1,260,123)   | (9,639,405)    |
| Increase in short-term deposits and investments, net   | <b>(7,118)</b>             | -             | <b>(281)</b>                 | -             | (24,230)       |
| Cash flows from settlement (to settlement) of derivatives  | <b>37,043</b>              | -             | <b>12,397</b>                | -             | *(22,489)      |
| Interest received  | <b>2,936</b>               | 1,420         | <b>1,349</b>                 | 1,001         | 6,337          |
| <b>Net cash inflows (outflows) generated by continuing investing activities</b>                      | <b>(2,037,006)</b>         | 4,080,933     | <b>(379,551)</b>             | 3,708,823     | 1,537,653      |

\* Reclassified, see Note 2(C).

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

**Condensed Consolidated Interim Statement of Cash Flows (cont.)**

|   | For six-month period ended |                    | For three-month period ended |                    | For year ended   |
|---|----------------------------|--------------------|------------------------------|--------------------|------------------|
|   | June 30                    |                    | June 30                      |                    | December 31      |
|   | 2010                       | 2009               | 2010                         | 2009               | 2009             |
|   | (Unaudited)                | (Unaudited)        | (Unaudited)                  | (Unaudited)        | (Audited)        |
|   | NIS thousands              | NIS thousands      | NIS thousands                | NIS thousands      | NIS thousands    |
| <b>Cash flows generated by financing activities</b>                                     |                            |                    |                              |                    |                  |
| Net proceeds from issuance of debentures  | -                          | -                  | -                            | -                  | 819,438          |
| Dividend distributed to shareholders  | (269,957)                  | (432,215)          | (269,957)                    | (432,215)          | (792,315)        |
| Interest paid   | (97,425)                   | (61,560)           | (40,515)                     | (26,944)           | (233,209)        |
| Proceeds from the reissuance of debentures that were held by subsidiary                 | -                          | 79,862             | -                            | 79,862             | 79,862           |
| Long-term loans received  | 1,881,308                  | -                  | 1,026,783                    | -                  | 750,000          |
| Long-term loans and debentures repaid   | (761,783)                  | (71,354)           | (680,880)                    | (70,828)           | (1,111,807)      |
| Cash flows from settlement (to settlement) of derivatives                               | -                          | 9,819              | -                            | 9,819              | *10,839          |
| Increase (decrease) in credit from banks and others, net                                | 740                        | (751,160)          | 2,234                        | (829,812)          | 182,159          |
| <b>Net cash inflows (outflows) generated by financing activities</b>                    | <b>752,883</b>             | <b>(1,226,608)</b> | <b>37,665</b>                | <b>(1,270,118)</b> | <b>(295,033)</b> |
| <b>Change in cash and cash equivalents</b>  | <b>(1,144,548)</b>         | <b>2,823,783</b>   | <b>(195,742)</b>             | <b>2,433,621</b>   | <b>1,295,997</b> |
| <b>Cash and cash equivalents – beginning of period</b>                                  | <b>1,612,343</b>           | <b>277,265</b>     | <b>650,221</b>               | <b>693,652</b>     | <b>277,265</b>   |
| <b>Effect of fluctuations in exchange rate on balances of cash and cash equivalents</b> | <b>2,250</b>               | <b>(6,439)</b>     | <b>15,566</b>                | <b>(32,664)</b>    | <b>39,081</b>    |
| <b>Cash and cash equivalents – end of period</b>  | <b>470,045</b>             | <b>3,094,609</b>   | <b>470,045</b>               | <b>3,094,609</b>   | <b>1,612,343</b> |

\* Reclassified, see Note 2(C).

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

**Note 1 – General**

Koor Industries Ltd. ("the Company" or "Koor") is an Israel-domiciled company that was incorporated in Israel; its registered address is 3 Azrieli Center, Tel-Aviv 67023. The Company's condensed consolidated financial statements as at June 30, 2010 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 that invests mainly in the fields of agrochemicals, finance, telecommunications equipment and others, through subsidiaries, affiliates and financial investments. I.D.B. Development Ltd. ("IDB Development"), which is the controlling shareholder in the Company, holds 76% of the Company's shares as at June 30, 2010, directly and indirectly through Discount Investment Company Ltd ("DIC"). The controlling interest in IDB Development is comprised of Gandan Holdings Ltd., Manor Holdings B.I. Ltd. and Abraham Livnat Ltd., which are tied in a voting agreement. Its ultimate parent company is Gandan Holdings Ltd., and Mr. Nochi Dankner is the ultimate controlling shareholder. 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 have been 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 as at and for the year ended December 31, 2009 ("the annual financial statements").

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

The condensed consolidated interim financial statements were approved for issue by the Company's Board of Directors on August 11, 2010.

**B. Use of estimates and judgment**

When preparing condensed financial statements in conformity with IFRS, Company management is required to use judgment when making assessments, estimates and assumptions that affect the implementation of the policies and amounts of assets and liabilities, revenues and expenses. It is clarified that the actual results could differ from these estimates. Management's judgment, when applying the Group's accounting policies and main assumptions used in estimates involve uncertainty, are consistent with those used in the annual financial statements.

In connection with the determination of whether impairment of the Credit Suisse shares will be deemed significant or continuous, see Note 5(1).

**C. Reclassification**

In the statement of cash flows for the six-month and three-month periods ended June 30, 2010, the Company presents the cash flows from the settlement of derivatives that hedge the economic value of the investment in Credit Suisse within cash flows for investing activities. Comparative figures in the statement of cash flows for the year ended December 31, 2009 were reclassified, in order to include the flows from the settlement of these derivatives within cash flows from investing activities and not in cash flows for financing activities.

### Note 3 – Significant Accounting Policies

#### A. Declaration of compliance with International Financial Reporting Standards

Except as provided in Par. (1) below, the Group's accounting policies in these condensed consolidated interim financial statements are the policies that it applied in its annual financial statements.

Presented below is a description of the changes in accounting policies instituted in the condensed consolidated interim financial statements and their effect:

#### (1) First-time application of new standards

##### a. Business combinations and transactions with minority interest

Commencing January 1, 2010, the Group applies IFRS 3 (2008), *Business Combinations* and IAS 27 (2008) *Consolidated and Company Only financial statements* (hereinafter – "IFRS 3" and "IAS 27"), respectively.

Likewise, as from January 1, 2010, the Group applies, in early adoption, the following amendments to IFRS 3 (2008), *Business Combinations*, which were issued as part of the IFRSs Improvements Project for 2010: amendment to the transitional provisions relating to contingent proceeds in a business combination occurring before the effective date of IFRS 3 (2008), amendment on the subject of measurement of non-controlling interest and amendment on share-based payment transactions that are not exchanged, or are exchanged voluntarily.

The amendments' principal changes are as follows:

- The definition of a business has been broadened, so that more acquisitions will be treated as business combinations.
- When a parent company loses control over a subsidiary, the residual holdings after discontinuing the consolidation are revalued on the date of deconsolidation, at fair value, to the statement of income.
- When a business combination is achieved in stages, the difference between the fair value on the initial date of consolidation and the original book value of the investment on that date is recognized in the statement of income.
- A minority interest, which is comprised of instruments that confer an ownership right in the present and grant its holder a share in the net assets in the event of liquidation (for example: ordinary shares) is measured on the date of the business combination at fair value or at its proportionate share of the identified assets and liabilities of the acquiree, on a transaction-by-transaction basis. The election of this accounting policy is not allowed for other instruments meeting the definition of rights that do not confer control (for example: options for ordinary shares). These instruments will be measured at fair value or in accordance with the provisions of other relevant IFRS Standards.
- Transactions with the minority interest, while retaining control, are treated as equity transactions, such that the difference between the consideration paid or received and between the change in the minority interest are attributed to the equity holders of the Company.
- Transaction costs incurred by the buyers in a business combination are treated as an expense in the period in which they occur and services are received.
- Contingent proceeds are measured on the date of the business combination at fair value. Subsequent to the acquisition date, changes in the fair value of contingent proceeds classified as a financial liability are recognized in the statement of income. The cost of a business combination occurring before January 1, 2010 was adjusted for the contingent proceeds not yet discharged or settled, if and when the payment of the contingent proceeds is probable and the amount may be reliably estimated.
- Goodwill will not be updated for utilization of carryforward tax losses that existed on the date of the business combination.

**Note 3 – Significant Accounting Policies (Cont.)****(1) First-time application of new standards (Cont.)****a. Business combinations and transactions with minority interest (Cont.)**

- A gain or loss or any element of other comprehensive income is attributed to the holders of the Company and to the minority interest even if as a result, the minority interest will be negative.
- The exercise price capitalized for a put option issued by the group to the minority interest will be recognized as a financial liability. In subsequent periods, changes in the value of the liability are recognized in the statement of income.
- On the acquisition date, the buyer recognizes a contingent liability assumed in a business combination if it is not recorded in the financial statements of the acquiree company only if there is a current obligation deriving from past events and fair value may be reliably measured.
- The definition of minority interest was broadened to include additional elements, such as: equity element of convertible debentures of subsidiaries, share-based payments that will settle the equity instruments of subsidiaries and options for shares of subsidiaries.

The said changes will have an effect on the Company's future business combinations and on transactions with minority interests.

**b. Contracts for business combinations**

Commencing January 1, 2010, the Group applies Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* is no longer applicable to contracts for business combinations. This amendment clarifies that only forwards between the buyer and the seller regarding the purchase or sale of a controlled entity within the scope of a business combination on a future acquisition date, is not subject to IAS 39 when the period of the forward contract does not exceed the normal period required to obtain the requisite approvals for the transaction. The Amendment also clarifies that the exemption does not apply when acquisitions of equity-accounted investees are involved.

**c. Amendment to International Financial Reporting Standard IAS 1, Financial Statement Presentation ("Standard 1")**

Commencing January 1, 2010, the Group applies, in early adoption, the Amendment to IAS1, *Financial Statement Presentation*, which was issued as part of the Improvements to IFRSs Project for 2010, pursuant to which the statement of changes in equity is to include, for every element of equity, an adjustment between the book value at the beginning of the period and at its end, while providing separate disclosure for each change resulting from profit or loss, other comprehensive income and transactions with holders in their functions as owners. The Group includes separate disclosure of the adjustment for each change resulting from every element of other comprehensive income within the scope of the notes to the annual financial statements.

**(2) New standards and interpretations not yet adopted**

Within the scope of the Improvements to IFRSs Project for 2010, in May 2010, the IASB published 11 amendments to the IFRSs and one interpretation on a range of accounting issues. Most of the amendments will apply to periods commencing on or after January 1, 2011, with the possibility for early adoption, subject to the conditions provided in each amendment.

Described below are the amendments that could be relevant to the Group and which could have an effect on the financial statements, and were not adopted early:

**Note 3 – Significant Accounting Policies (Cont.)****(2) New standards and interpretations not yet adopted (cont.)**

- Amendment to IAS 34, *Interim Financial Reporting, Material Events and Transactions* (hereinafter – the Amendment), which expanded the list of events and transactions requiring disclosure in the interim financial statements, such as recognition of an impairment loss on financial assets and the reclassification of financial assets as a result of a change in their designation or usage. Likewise, the materiality limit of the minimum disclosure requirement existing in the current standard, before the Amendment, was eliminated. The Amendment will apply to annual periods commencing on or after January 1, 2011. Early application is possible, if disclosure is provided.

**Note 4 - Information Regarding Certain Investees****A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate**

1. Koor's holding percentage in the voting rights in Makhteshim-Agan as at June 30, 2010 is 47.03%. The book value of the investment as at June 30, 2010 amounted to NIS 3,002 million. The market value as at the said date amounted to NIS 2,632 million.
2. On May 11, 2010, the board of directors of Makhteshim-Agan resolved to allot, through a trustee, 6,500,000 options to officers and a manager in Makhteshim-Agan, whereby each option is exercisable for one ordinary shares, NIS 1 par value, of Makhteshim-Agan. The exercise price of the option is NIS 20.22 per option. The cost of the benefit embedded in the option to be allotted, based on the fair value on grant date, totals NIS 7.7 million.
3. On May 11, 2010, the board of directors of Makhteshim-Agan resolved to not issue shares through rights to the shareholders of Makhteshim-Agan, about which a resolution in principle was adopted previously by the board of directors of Makhteshim-Agan on March 9, 2010.
4. On June 27, 2010, the board of directors of Makhteshim-Agan approved an undertaking of Makhteshim-Agan in a memorandum of understanding dated June 13, 2010, whereby subject to a due diligence process, agreement and signing of a binding agreement between the parties and the fulfillment of suspending conditions, as stipulated in the binding agreement, Makhteshim-Agan will acquire all of the issued and paid-up share capital of Albaugh Inc., a private company associated in the United States ("acquired company"), from shareholders holding all of the issued and paid-up share capital of the acquired company ("the seller"). Under the terms of the memorandum of understanding, in consideration for acquisition of all the issued and paid-up share capital of the acquired company, as well as all of its assets and liabilities, with the acquired company's net financial debt not exceeding \$280 million on the transaction's closing date, Makhteshim-Agan will pay to the seller the sum of \$340 million in cash on the closing date, and \$455 million will be paid in promissory notes of the seller, in seven equal annual interest-bearing installments. Additionally, the seller will be allotted 59 million shares in Makhteshim-Agan, which will constitute 12% of the issued and paid up share capital of Makhteshim-Agan on a fully-diluted basis.

**Note 4 - Information Regarding Certain Investees (Cont.)****A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (cont.)**

The accounting effects of the transaction on the financial statements of Koor will be determined based on different information that is not currently known, including the stock market price of the shares of Makhteshim-Agan, the balance of the investment account of Makhteshim-Agan in the books of Koor and the balance of the capital reserves for Makhteshim-Agan in the books of Koor, as they will be on the transaction's closing date. Based on the relevant data known as of the date of these financial statements, it is expected that as a result of the transaction, if closed at the terms provided above, Koor will recognize a loss at this stage of NIS 38 million. It is clarified that this amount is a preliminary estimate, and subject to changes in the relevant data until the closing date of the transaction, as described previously.

**5. Seasonal factors**

Sales of agrochemicals are directly dependent on the agricultural seasons and the cyclical pattern of the growing seasons and, therefore, Makhteshim-Agan's revenues are not spread evenly throughout the year. Countries located in the northern hemisphere are characterized by the same timing of agricultural seasons, and, as a result, sales to these countries are usually highest in the first half of the year. In the southern hemisphere, the seasonal trend is the opposite and most of the local sales are made in the second half of the year, except for Australia where most of the sales are made in April through July.

The worldwide operations of Makhteshim-Agan act to balance out the seasonal impacts, even though Makhteshim-Agan's sales are higher in the northern hemisphere.

**B. 452 Fifth owners LLC – a jointly-controlled company**

On October 3, 2009, Koor and Property and Building Corporation Ltd. ("Property and Building", a company held by Discount Investments Company Ltd.), signed an agreement ("the Agreement") through a joint corporation, with a corporation in the HSBC Group ("HSBC"), to purchase the HSBC headquarters building on Fifth Avenue in New York ("the Building"), for total consideration of \$330 million, the key terms of which will be provided below ("the transaction"). The transaction closed on April 13, 2010.

Under the terms of the transaction, Koor and Property and Building will each purchase, through an American corporation owned jointly by each of them in an indirect manner (in equal stakes) ("IDB Corporation"), one-half of the rights in the building (for consideration of \$165 million each), and bear one-half of the expenses involved in executing the transaction; Koor and Property and Building are equal partners in the rights and obligations of the transaction, in IDB Corporation and in the Building, and includes joint management of the building, its maintenance, rental and all that it involves, and allowed, according to resolutions of their boards of directors, as will be adopted from time to time, inter alia, to provide financing to IDB Corporation for any purpose related to the Building, maintenance and ownership of it, to sell rights in IDB Corporation and/or the Building (in full or in part), directly or indirectly, and to bring investors into the IDB Corporation and/or the Building, all on a pro rata bases according to their proportionate shares.

**Note 4 - Information Regarding Certain Investees (Cont.)****B. 452 Fifth owners LLC – a jointly-controlled company (Cont.)**

The Company states its investment in the joint corporation by the equity method.

Pursuant to the agreement, IDB Corporation purchased the building, which serves as the headquarters for HSBC Bank and is located on Fifth Avenue in Manhattan. The building contains two structures known as 452 Fifth Avenue N.Y. and 1 West 39th Street, N.Y., containing 12 and 29 floors, respectively, encompassing total built area of 863,000 square feet (80,000 square meters). The closing was executed on April 13, 2010 ("the closing date"), and on such date, the agreements between HSBC (as lessee) and IDB Corporation (as lessor) ("rental agreements") took effect, for rental of most of the buildings space, as provided below. The cost of the property amounted to \$353 million (including, inter alia, brokerage fees and payments to consultants).

For the purpose of partial financing of the cost, IDB Corporation received a loan on the closing date from Bank Leumi USA ("Leumi USA") in the amount of \$210 million, for a 10-year period. The loan bears interest at the fixed rate of 5% for the first four years, and for the balance of the loan period, interest at the rate of Libor+2.75%. The principal will be repaid as from the fourth year, according to the 25-year loan amortization schedule (i.e. at the rate of 4% per annum), and the balance in a single payment at the end of the loan period. To secure the credit, IDB Corporation pledged the building and provided additional collateral, as is customary, and the Company and Property and Building each furnished a guarantee, severally and not jointly, totaling \$52.5 million, in favor of Leumi USA, and as is customary in these types of loans, an unlimited guarantee to secure special situations. Payment of the balance of the cost was financed from independent sources of IDB Corporation.

It should be noted that since under extraordinary circumstances, the guarantees could be deemed unlimited in amount, and for the sake of caution, attached to these financial statements are the financial statements of 452 Fifth owners, LLC for the second quarter of 2010.

Pursuant to the rental agreement, almost all of the space in the building was rented to HSBC: most of the space, 547,000 square feet (51,000 square meters) was rented to HSBC for a 10-year rental period; and part of the space, 289,000 square feet (27,000 square meters) located in the upper floors of the building, was rented to HSBC for a 12-month period. Under the terms of the rental agreements, HSBC was granted options to extend the rental periods, regarding space rented for 10 years (HSBC's option to extend the rental period for some of the rented space for a 12-month period was not exercised). The rental fees to be received for the said rented space in the first year total \$45 million, of which \$19 million is for the upper floors. The operating expenses to be borne by IDB Corporation are estimated at \$19 million for the first year. HSBC was given the right of first offer to rent vacant space (or space that will be vacant in the future) in the building.

In the event that during 24 months from the closing date of the transaction, IDB Corporation will sell the building, or more than 50% of the rights in IDB Corporation will be sold, HSBC will be entitled to one-half of the gain. The Company and Property and Building (severally and not jointly) are each guarantors for half of this obligation toward HSBC.

After HSBC will vacate some of the space in the building, IDB Corporation intends to rent the vacated space. IDB Corporation estimates that the investments that IDB Corporation will need to make in order to adapt and renovate the building will total \$19 million (excluding leasehold renovations according to tenant needs, if any). The timing and pace of the investments will conform to market conditions and the rental situation in the building.

**Notes to the Interim Financial Statements as at June 30, 2010 (unaudited)****Note 4 - Information Regarding Certain Investees (Cont.)****B. 452 Fifth owners LLC – a jointly-controlled company (Cont.)**

The fair value of the building was updated as at June 30, 2010 to \$390 million, based on a valuation obtained by IDB Corporation from an independent appraiser in the U.S. As a result, IDB Corporation recognized a gain from the increase in the fair value of the investment property of \$36.9 million. The transaction is subject to the agreement with Rock Real described in Note 32(C)(2)(4) of the Company's annual financial statements. In connection with this agreement, IDB Corporation recorded a provision of \$4.4 million in the second quarter of 2010. Koor's share in the said revaluation and provision amounts to NIS 63 million, which are included in Koor's equity in results of affiliates, net, in the second quarter of 2010. Furthermore, and as a result of the revaluation, the consolidated financial statements included deferred tax charges of NIS 28.3 million in the second quarter of 2010.

On May 23, 2010, the audit committee and board of directors of the Company resolved to approve the payment of bonuses by IDB Corporation totaling NIS 2,950 thousand (Company share of 50% - NIS 1,475 thousand) in connection with dealing with the HSBC transaction and its closing, including a bonus to a director of the Company totaling NIS 900 thousand. The bonuses were paid in June 2010, after obtaining approval from the relevant organs of the Company and of Property and Building.

**C. Epsilon Investment House Ltd. ("Epsilon") – an affiliate**

1. On February 17, 2010, the board of directors of Epsilon resolved to distribute a dividend of NIS 15 million. Koor's share in this distribution is NIS 7.5 million. The dividend was received on that date.
2. On May 2, 2010, the board of directors of Epsilon resolved to distribute a dividend of NIS 3 million. Koor's share in this distribution is NIS 1.5 million. The dividend was received on the next day.
3. On July 28, 2010, the board of directors of Epsilon resolved to distribute a dividend of NIS 2.3 million. Koor's share in this distribution is NIS 1.15 million. The dividend was received on that date.
4. On March 24, 2010, the Company entered into an agreement with Mr. Ron Levkovitz and a wholly-owned company of his to acquire all of their holdings (18.75%) in Epsilon, in consideration for NIS 29 million, so that after the said acquisition, the Company will hold 68.75% of the issued and paid-up share capital of Epsilon. The closing of the transaction is subject to several suspending conditions, including the consent of the Anti-Trust Commissioner (which was received on May 7, 2010) and a permit by the Superintendent of the Capital Market, Insurance and Savings in the Ministry of Finance.

Concurrent with the signing of the said agreement, the Company signed an agreement with Mr. Samuel Frankel and a wholly-owned company of his, which arranges the relations between the parties as the remaining shareholders in Epsilon, and which will take effect on the closing date of the sale.

The Company will consolidate the results of Epsilon from the date control is transferred (the closing date of the transaction).

**D. ECtel Ltd. ("ECtel") – affiliate**

On October 22, 2009, ECtel signed a merger agreement pursuant to which ECtel was acquired by cVidya Networks Ltd. in consideration for \$21 million in cash (net of transaction costs exceeding the amount prescribed in the agreement). Under the terms of the agreement, every ECtel shareholder received, upon the transaction's closing, \$1.26 per share held. The proceeds received by Koor from the sale of its shares in ECtel are \$4.4 million (NIS 16.7 million). On December 11, 2009, a general meeting of ECtel's shareholders approved the transaction. The transaction was closed in January 2010.

In the financial statements as of December 31, 2009, the investment in ECtel was presented as an asset held for sale.

**Note 5 – Significant Events in the Report Period**

1. In the first half of 2010, the Company, through a wholly-owned subsidiary, effected additional purchases and sales of shares of Credit Suisse Group AG ("Credit Suisse"). The Group recognized a pre-tax gain on the sales of Credit Suisse shares during this period of NIS 15 million.

In the six-month and three-month periods ended June 30, 2010, the Group recognized tax expenses of NIS 3 million and NIS 69 million, due mainly to the reduction of deferred tax assets recognized for the difference between the cost of the Credit Suisse shares for tax purposes and their accounting cost, resulting from a decline in the price of Credit Suisse shares during the second quarter of 2010.

In January 2010, the Company's board of directors resolved to increase the investment limit to NIS 7 billion. The investment will be made while utilizing buy and sell opportunities, noting the state of the markets and according to the Company's assessments from time to time.

On May 7, 2010, Credit Suisse distributed a dividend of CHF 2 per share. The Group's share in the dividend is NIS 262 million.

In the second quarter, the Company recognized net earnings from the said dividend, net of withholding tax in Switzerland, and based on expectations for tax effects in Israel (based on Israeli tax law), totaling NIS 223 million.

As at June 30, 2010 and at the date of the financial statements, the Group holds 38.46 million shares of Credit Suisse that constitute 3.24% of the share capital of Credit Suisse (net of treasury shares), at a total investment of NIS 6.95 billion, the fair value of which, at June 30, 2010, amounted to NIS 5.58 billion. Thus, at such date, the balance of the negative balance of the capital reserve, net of tax, totaled NIS 1.3 billion.

As at the date of these financial statements, the negative difference between the value of the Credit Suisse shares held by the Group, at its stock exchange price, and its cost, stands at NIS 134 million, and is included in a capital reserve. The positive difference between the market value and cost, after deducting the dividends described previously (recognized in income and not in a capital reserve), is NIS 128 million.

Further to the aforesaid in Note 10(F) to the Company's annual financial statements, the investment in Credit Suisse is treated in the balance sheet as an asset available for sale and is measured at its fair value. Changes in the fair value of the investment are recognized (as long as they do not constitute a significant and/or prolonged decline in value) directly in equity, in the capital reserve for assets available for sale.

In evaluating the investment in Credit Suisse for impairment, the Group examines the percentage of the difference between the fair value of the asset and its original cost, while considering changes in the fair value of the asset, the length of time in which the fair value of the asset is lower than its original cost and changes in the technological, economic or legal environment, or in the market environment in which Credit Suisse operates.

**Note 5 – Significant Events in the Report Period (cont.)**

## 1. (cont.)

In view of the conditions prevailing in the business environment in which Credit Suisse operates and its shares are traded, noting the unique characteristics of this investment, the impairment will be deemed significant if the impairment (on the cut-off date) is 30% of the original cost or, if the impairment (on the cut-off date) is more than 25% of the original cost for a period of three consecutive months ending on the cut-off date. The impairment will be deemed prolonged if the decline in fair value (on the cut-off date) relative to the original cost is over a period of twelve consecutive months. This policy will be applied as long as there is no change in the circumstances require a re-evaluation, except for exceptional cases. It should be noted that this policy is being fine-tuned opposite the Securities Authority, and the discussions have not yet ended.

2. In January 2010, the terms of the credit taken from a corporation in Citigroup ("Citi credit") were updated, inter alia, by increasing the credit facility to a total of CHF 495 million, a reduction in the interest rates paid on the credit, cancellation of the requirement to pay commissions on withdrawals from the facility and the addition of Telrad Holdings Ltd., a wholly-owned subsidiary of Koor, as an additional borrower, so that the Citi credit can be utilized by Koor and by M.A.G.M. Chemistry Holdings Ltd. and by Telrad Holdings (together in this paragraph – "the borrower companies"). At June 30, 2010, the net balance of the loan withdrawn from the Citi credit amounts to CHF 275 million.

The Citi credit will come due in January 2011, with the borrower companies having the right to extend the credit period by two additional periods, the first one of one year and the second period of half a year, subject to the payment of an extension commission which will be paid at some conditions detailed in the agreement. The borrower companies have the right to early repayment of the credit, subject to payment of commission. After the said update of the interest term, the interest rate paid on the utilized part of the Citi credit, on a monthly basis, is the relevant Libor rate plus a margin at an annual rate ranging between 2.05% and 3.10%, based on the ratio between the value of the collateral and the net loan balance (the actual balance from time to time), and with the addition of the grossing up of withholding tax. Likewise, after the update of the interest term, a commission is paid on the unutilized part of the Citi credit, on a monthly basis, at an annual rate ranging between 1.2% and 1.4%, based on the percentage of the credit facility utilized, plus the grossing up of withholding tax (if applicable).

As at June 30, 2010, the Company classified the Citi credit as a long-term liability, since it intends to extend the credit for a period of at least 12 months.

At the date of these financial statements, the Group has a debt balance (net of deposits) to Citi and Morgan Stanley, denominated in Swiss francs, totaling NIS 2.86 billion.

3. According to the Company's examination of February 8, 2010, the Company was not required to be supplemental interest (according to the description in Note 17(C)(7) to the Company's annual financial statements) to the holders of the Company's debentures (Series I), since the average closing rate of the Credit Suisse shares on the date of the examination was lower than the base price of the Credit Suisse shares on the issue date of the said debentures.

**Note 5 – Significant Events in the Report Period (cont.)**

4. On March 14, 2010, the Company's board of directors resolved to distribute a cash dividend totaling NIS 270 million (representing NIS 5.69 per share). The dividend was distributed on April 13, 2010.
5. In April 2010, the Group sold the balance of its shares in Carrefour while recognizing an after-tax gain of NIS 10 million. The investment framework in Carrefour approved by the Company's board of directors is up to NIS 3.5 billion. The investment in the shares of Carrefour will be executed while utilizing buy and sell opportunities, noting the state of the markets and according to Company assessments from time to time. It should be emphasized that there is no certainty that such transactions will be effected.

Further to the aforesaid in Note 17(C)(6) to the annual financial statements regarding the agreement for the facility secured by the shares of Carrefour, between MAGM and a corporation in the HSBC Group, the Company elected not to utilize the credit facility, and in early July, this credit facility was cancelled.

6. On April 30, 2010, the Company repaid the Series F debentures in full, in the amount of NIS 454 million.
7. In June 2010, the financial covenants in the agreement for the credit provided to the Company and a wholly-owned subsidiary of Koor, detailed in Note 17(D)(1) to the Company's annual financial statements, were updated. According to the update, it was agreed with the bank on adjustments to the manner of calculation of the market value to debt ratio, mainly the addition to the fair value element of the market value of Credit Suisse and Carrefour shares, to the extent they will be held by the Company, the investment in which is derived from non recourse debt, with a corresponding addition to the net financial debt element of the non recourse debt in respect of the said shares. It was also clarified that a decline in the fair value to debt ratio below 1.4 (as long as it is not below 1.3) is not a breach of liability by the Company, unless such decline will last for 14 consecutive business days and the Company did not notify, by the end of such period, its intention to take certain actions to correct the ratio to the satisfaction of the bank and/or did not take such action, as noted, on the dates so stipulated.

Moreover, the parties reached agreement in principle relating to the update of the financial covenant of the equity ratio, whereby the equity attributed to holders of the Company will not be less than NIS 1.8 billion (subject to certain adjustments).

The Company is in compliance with all the financial covenants to which it is bound by virtue of the said credit agreement, before and after such adjustments.

**Note 6 – Contingent Liabilities**

During the ordinary course of business, legal claims were filed against the Company, including motions for class action recognition. The Company's management, based, inter alia, on the opinions of legal counsel regarding the prospects of the claims, including the motions for class action recognition, believes proper provisions were included, where required, to cover the exposure resulting from the above claims.

A detailed description of the contingent liabilities pending against the Company and its investees appears in Note 31 to the annual financial statements.

1. On December 17, 2009, E.C.I. Telecom Ltd. ("ECI") filed a claim in Tel Aviv District Court against Tadiran, Koor and the former liquidator of Tadiran ("the claim"). ECI alleges that Tadiran breached an array of agreements practiced between it and Tadiran Communications Ltd. (which was later merged into ECI), which arranged the mechanism for the internal accounting between them with respect to tax advances and loss carryforwards. ECI requested that the court enforce the array of agreements between the parties and require the defendants to pay it the sum of NIS 20 million, comprised of two subtotals – one relates to allegations regarding the accounting for tax advances and the other relates to the accounting for loss carryforwards among companies in the Tadiran Group.

The claim against Koor and the former liquidator of Tadiran was dismissed, whereas Tadiran reached a compromise agreement with ECI in July 2010, pursuant to which Tadiran will pay NIS 4.4 million to ECI and the claim will be withdrawn. At the date of the financial statements, the compromise agreement had not yet been filed with the court for approval. Therefore, the Group recorded a provision in its financial statements for this amount.

2. Provided below are details on material changes that occurred in contingent liabilities to which Makhteshim-Agan is a party:
  - a. On March 24, 2010, a subsidiary of Makhteshim-Agan received a decision by the Ministry of Health in Brazil, whereby in administrative proceedings opened against it, administrative penalties were imposed on the subsidiary in an immaterial amount. The financial statements of Makhteshim-Agan include an appropriate provision for these penalties.
  - b. In October 2007, a monetary suit against a subsidiary of Makhteshim-Agan, with a motion for a class action recognition totalling NIS 1 billion (hereafter – "the claim" and "the motion"), was filed in Beer Sheba District Court by three residents of the village Wadi El-Naim claiming that damage to their health has apparently been caused by the Makhteshim factories in the Ramat Hovav Industrial Area, for various causes related to air pollution. On August 3, 2010, the plaintiffs filed a motion with Beer Sheba District Court to postpone the claim and dismiss the motion for class action recognition, without an order for expenses.

**Note 6 – Contingent Liabilities**

2. (Cont.)
- c. In 2003, a criminal complaint was filed against Makhteshim and one of its directors by the foundation *Adam, Teva VeDin*. In the complaint, Makhteshim is accused that on several occasions during the years 1999 through 2003, emissions of materials at prohibited concentrations were measured in the chimneys of its Ramat Hovav plant, creating severe pollution. Hence, according to the complainant, Makhteshim created strong or unreasonable pollution, disturbing the people near the site, which, according to the complaint, constituted a crime under the Law to Prevent Hazards, 1961 (this crime is a serious liability crime that does not require proof of criminal intent). On May 26, 2010, the Court ordered dismissal of the criminal proceedings in accordance with the compromise agreement signed by the parties, whereby Makhteshim will contribute \$250 thousand to an environmental project to be run by the Foundation *Adam, Teva VeDin*.

**Note 7 – Operating segments**

The Group has three reportable operating segments, as below:

Makhteshim-Agan (affiliated company) segment. Makhteshim-Agan is considered the world's leading agrochemical producer (agrochemicals).

Credit Suisse segment. These activities are carried out through the investment in the shares of the Credit Suisse group.

Telecom equipment segment. These activities are carried out by Microwave Networks Inc., a subsidiary, which develops and markets point-to-point telecom systems.

The segment separation and profit and loss measurement basis is the same as that presented in Note 3, Significant Accounting Policies, to the annual financial statements.

## Notes to the Interim Financial Statements as at June 30, 2010 (unaudited)

## Note 7 – Operating segments (cont.)

## A. Information related to the Koor Group's operating segments – consolidated

|                  | Six-months ended June 30, 2010   |                     |                      |                  |                     |                   |
|------------------|----------------------------------|---------------------|----------------------|------------------|---------------------|-------------------|
|                  | Makhteshim<br>Agan               | Credit<br>Suisse    | Telecom<br>equipment | Others           | Adjust-<br>ments    | Consolidated      |
|                  | (Unaudited)                      |                     |                      |                  |                     |                   |
|                  | NIS thousands                    |                     |                      |                  |                     |                   |
| Total revenues   | <u>5,075,568</u>                 | <u>276,913</u>      | <u>40,250</u>        | <u>214,962</u>   | <u>(5,043,103)</u>  | <u>564,590</u>    |
| Segment results  | <u>116,260</u>                   | <u>234,532</u>      | <u>(4,348)</u>       | <u>51,898</u>    | <u>(155,522)</u>    | <u>242,820</u>    |
| Segment's assets | <u>14,992,367</u>                | <u>5,577,980</u>    | <u>52,025</u>        | <u>1,897,572</u> | <u>(12,517,164)</u> | <u>10,002,780</u> |
|                  | Six-months ended June 30, 2009   |                     |                      |                  |                     |                   |
|                  | Makhteshim<br>Agan               | Credit<br>Suisse    | Telecom<br>equipment | Others           | Adjust-<br>ments    | Consolidated      |
|                  | (Unaudited)                      |                     |                      |                  |                     |                   |
|                  | NIS thousands                    |                     |                      |                  |                     |                   |
| Total revenues   | <u>5,315,409</u>                 | <u>1,641,272</u>    | <u>62,182</u>        | <u>77,538</u>    | <u>(5,238,829)</u>  | <u>1,857,572</u>  |
| Segment results  | <u>104,869</u>                   | <u>(*)1,670,006</u> | <u>(9,495)</u>       | <u>9,614</u>     | <u>(153,743)</u>    | <u>1,621,251</u>  |
| Segment's assets | <u>13,573,598</u>                | <u>2,404,850</u>    | <u>72,304</u>        | <u>889,747</u>   | <u>(7,881,013)</u>  | <u>9,059,486</u>  |
|                  | Three-months ended June 30, 2010 |                     |                      |                  |                     |                   |
|                  | Makhteshim<br>Agan               | Credit<br>Suisse    | Telecom<br>equipment | Others           | Adjust-<br>ments    | Consolidated      |
|                  | (Unaudited)                      |                     |                      |                  |                     |                   |
|                  | NIS thousands                    |                     |                      |                  |                     |                   |
| Total revenues   | <u>2,278,579</u>                 | <u>262,328</u>      | <u>23,067</u>        | <u>197,956</u>   | <u>(2,355,121)</u>  | <u>406,809</u>    |
| Segment results  | <u>4,458</u>                     | <u>153,422</u>      | <u>(1,668)</u>       | <u>55,962</u>    | <u>(176,791)</u>    | <u>35,383</u>     |
|                  | Three-months ended June 30, 2009 |                     |                      |                  |                     |                   |
|                  | Makhteshim<br>Agan               | Credit<br>Suisse    | Telecom<br>equipment | Others           | Adjust-<br>ments    | Consolidated      |
|                  | (Unaudited)                      |                     |                      |                  |                     |                   |
|                  | NIS thousands                    |                     |                      |                  |                     |                   |
| Total revenues   | <u>2,168,562</u>                 | <u>1,608,315</u>    | <u>32,685</u>        | <u>35,781</u>    | <u>(2,186,766)</u>  | <u>1,658,577</u>  |
| Segment results  | <u>(12,795)</u>                  | <u>(*)1,506,562</u> | <u>(4,165)</u>       | <u>(585)</u>     | <u>(118,514)</u>    | <u>1,370,503</u>  |

(\*) Comparative figures for the six months and three months ended June 30, 2009 were reclassified in order to adjust to the annual segment reporting, so that the segment's results include the tax savings presented before the chief operational decision maker of the Group.

## Notes to the Interim Financial Statements as at June 30, 2010 (unaudited)

## Note 7 – Operating segments (cont.)

## A. Information related to the Koor Group's operating segments – consolidated (cont.)

|                  | Year ended December 31, 2009 |                  |                      |                |                    | Consolidated      |
|------------------|------------------------------|------------------|----------------------|----------------|--------------------|-------------------|
|                  | Makhteshim<br>Agan           | Credit<br>Suisse | Telecom<br>equipment | Others         | Adjust-<br>ments   |                   |
|                  | (Audited)                    |                  |                      |                |                    |                   |
|                  | NIS thousands                |                  |                      |                |                    |                   |
| Total revenues   | <u>8,862,248</u>             | <u>2,650,592</u> | <u>113,464</u>       | <u>158,397</u> | <u>(8,923,820)</u> | <u>2,860,881</u>  |
| Segment results  | <u>(2,864)</u>               | <u>2,523,648</u> | <u>(16,531)</u>      | <u>37,928</u>  | <u>(376,478)</u>   | <u>2,165,703</u>  |
| Segment's assets | <u>14,193,422</u>            | <u>5,110,948</u> | <u>59,389</u>        | <u>602,021</u> | <u>(9,785,763)</u> | <u>10,180,017</u> |

## B. Profit and loss adjustments for reportable segments

|   | Six-month period ended |             | Three-month period ended |             | Year ended  |
|---|------------------------|-------------|--------------------------|-------------|-------------|
|   | June 30                |             | June 30                  |             | December 31 |
|   | 2010                   | 2009        | 2010                     | 2009        | 2009        |
|   | (Unaudited)            | (Unaudited) | (Unaudited)              | (Unaudited) | (Audited)   |
| NIS thousands   |                        |             |                          |             |             |
| Total earnings or loss from reportable segments   | <b>346,444</b>         | 1,765,380   | <b>156,212</b>           | 1,489,602   | 2,504,253   |
| Earnings or loss from operations classified in the other operating segment  | <b>51,898</b>          | 9,614       | <b>55,962</b>            | (585)       | 37,928      |
| Amounts not attributed – mainly financing income (expenses) and general and administrative expenses for Koor headquarters | <b>(155,522)</b>       | (153,743)   | <b>(176,791)</b>         | (118,514)   | (376,478)   |
| Net income for the period   | <b>242,820</b>         | 1,621,251   | <b>35,383</b>            | 1,370,503   | 2,165,703   |

## Note 8 – Related parties

- On May 23, 2010 the Company's Board decided to update the guidelines and rules for the classification of a transaction of the Company or its consolidated companies with an interested party as a negligible transaction as determined in regulation 41(A)(6)(A) of the Securities Regulations (Annual Financial Statements), 2010. These rules and guidelines will also be used to examine the scope of disclosure in the Company's periodic reports and in prospectuses (including shelf offering reports), regarding a transaction of the Company, a company under its control and an associated company with a controlling shareholder or in which the controlling shareholder has a personal interest as set out in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports) 1970 ("Periodic Reports Regulations") and in Regulation 54 of the Securities Regulations (Prospectus Details and Draft Prospectus – Structure and Form), 1969 ("Prospectus Detail Regulations"), as well as for the examination of the need to submit an Immediate Report for the said transaction of the Company, as determined in Regulation 37A(6) of the Periodic Reports Regulations (types of transactions determined in the Financial Statements Regulations, the Periodic Reports Regulations and the Prospectus Details Regulations, referred to above, hereinafter "Transactions with Interested Parties").

**Note 8 – Related parties (Cont.)**

2. During the regular course of business, the Company and its consolidated and associated companies carry out or are likely to carry out Transactions with Interested Parties, and they have or are likely to have obligations to carry out such transactions, including transactions of types and natures as detailed below: transactions to obtain banking and financial services from banks and financial institutions (including the management of monies paid by employers and employees to provident and education funds), purchase or sales transactions of products or services (e.g. communications products and services, food products, paper products, tourism services, basic insurances, vehicle leasing services, legal services); transactions to lease real estate.
3. In the absence of special, qualitative considerations in the circumstances, a Transaction with an Interested Party, which is not an extraordinary transaction (in the meaning of the term in the Companies Law and detailed in par 4), the transaction shall be deemed negligible for the purpose of both immediate and periodic reporting, of the financial statements and prospectus (including shelf offering reports) – if the applicable criterion for the transaction is less than 0.5%, as detailed below and if the size of the transaction is not greater than NIS 8 million (linked to the increase in the CPI from the known index for the beginning of 2010).

In any Transaction with an Interested Party that is classified as a negligible transaction, one or more of the applicable criteria will be considered on the basis of the Company's last reviewed or audited consolidated financial statements: (1) in the acquisition of a fixed asset ("non-current asset") – the size of the transaction as compared with all assets (namely, the total balance sheet); (2) sale of a fixed asset ("non-current asset") – the profit/loss from the transaction – in the acquisition/sale of products or services – the size of the transaction – compared with annual income (namely for four quarters) averaged from the last 12 quarters for which reviewed or audited financial statements have been published. In this connection, profit/loss from the transaction and the profit/loss in each quarter shall be calculated at their absolute value; (3) taking on of a financial liability – size of the transaction as compared with the balance sheet liabilities.

In respect of multi-year transactions, the size of the transaction shall be calculated for test of negligibility on an annual basis. For example, in an insurance transaction over several years, the annual insurance premiums shall be used to calculate the size of the transaction.

On those occasions when at the Company's discretion, all the quantitative criteria noted above are not applicable to determine negligibility of a Transaction with an Interested Party, the transaction shall be deemed negligible, in accordance with other applicable criteria, that the Company shall decide upon (on condition that the applicable criterion considered for the transaction be less than 0.5% and that the size of the transaction not exceeds NIS 8 million - linked to the CPI as aforementioned).

4. It is clarified that a transaction not in the Company's normal course of business, or not a market terms, or that is likely to impact materially on the Company's profitability, assets or liabilities, shall not be classified as a negligible transaction. It should be noted that the Company is working on formulating criteria of types of transaction as extraordinary or not extraordinary transactions. When such criteria shall be adopted, the Company will publicize them in its reporting.

**Note 8 – Related parties (Cont.)**

5. Examination of qualitative considerations of a Transaction with an Interested Party may lead to a contradiction with the negligibility of the said transaction as mention in par 3 above. For example, and purely for illustrative purposes, a Transaction with an Interested Party will not generally be deemed negligible if it is considered a material event by the Company's management and serves as the basis for taking managerial decisions, or if as part of a Transaction with an Interested Party, the interested parties are expected to obtain benefits that are important to report to the public.
6. Related transactions that are interconnected, so that they are effectively part and parcel of the same transaction (for example, centralized negotiations for a group of transactions) shall be considered a single transaction.
7. A transaction classified as negligible by one of the Company's investees shall also be deemed negligible at the Company level. The said transaction that was classified by an investee company as not being negligible shall be examined against the applicable criteria at Company level.
8. Each year the Audit Committee shall review the manner in which the provisions of this procedure have been implemented by the Company, and will carry out sampling of transactions in which the Company was directly involved that were classified as negligible according to the procedure. As part of the said sampling of transactions, the Audit Committee will test inter alia the manner in which prices and other transaction terms were set, and will examine the impact of the transaction on the Company's commercial situation and operating results. The activities of the Audit Committee under this section, including the said sample testing, the manner carried out and a summary of its results and conclusions shall be disclosed in the Company's periodic report.
9. The Company's Board of Directors will examine the need to update this procedure from time to time, paying attention to Transactions with Interested Parties with which the Company is connected and changes to procedures that are sufficiently applicable.
10. Determining the classification of a Transaction with an Interested Party as a negligible transaction shall be made by the Company's Comptroller's office and Secretariat together with the Legal Counsel, as shall be required. The Company's Secretariat shall be responsible for documenting the examination and classification process (adjusted from time to time by the increase in the CPI, from the CPI known at the beginning of 2010).