

Translated from the Hebrew Original

Koor Industries Limited

Consolidated Financial Statements
For the Year ended
December 31, 2010

The information contained in these financial statements constitutes an unofficial 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.

Financial Statements as at December 31, 2010

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Auditors' Report to the Shareholders of Koor Industries Ltd.

We have audited the accompanying consolidated statements of financial position of Koor Industries Ltd. (the Company) as of December 31, 2010 and 2009 and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows, for each of the three years, the last of which ended December 31, 2010. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain consolidated subsidiaries whose assets constitute 1% and 1% of the total consolidated assets as of December 31, 2010 and 2009, respectively, and whose revenues constitute 12%, 4% and 13% of the consolidated revenues from sales and services, from Group's equity in the results of affiliates (in absolute values), from gains from sale of and dividends from financial assets available for sale and from other income for the years ended December 31, 2010, 2009 and 2008, respectively. Furthermore, we did not audit the financial statements of equity accounted investees the investment in which amounted to NIS 307,311 thousand and NIS 253,658 thousand as of December 31, 2010 and 2009, respectively, and the Group's share in their profits amounted to NIS 105,073 thousand, NIS 26,591 thousand and NIS 23,760 thousand for the years ended December 31, 2010, 2009 and 2008, respectively. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and on the reports of the abovementioned other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of December 31, 2010 and 2009 and their results of operations, changes in equity and cash flows, for each of the three years, the last of which ended December 31, 2010, in accordance with International Financial Reporting Standards (IFRS) and in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting", the components of the Company's internal control over financial reporting as of December 31, 2010, and our report dated March 17, 2011 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)
March 17, 2011



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Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

Consolidated Statements of Financial Position as at December 31

	<u>Note</u>	<u>2010</u> <u>NIS thousands</u>	<u>2009</u> <u>NIS thousands</u>
Assets			
Current assets			
Cash and cash equivalents	5	597,446	1,612,343
Short-term deposits and investments including financial derivatives	10(a)	76,458	63,945
Trade receivables	6	17,078	19,513
Other receivables	6	29,988	11,880
Inventories	7	23,700	34,670
Assets held for sale	8	-	16,655
		<u>744,670</u>	<u>1,759,006</u>
Long-term investments			
Investments in investees	9	2,790,974	2,945,939
Financial assets available for sale	10(b)	117,020	2,888,648
Pledged financial assets available for sale	10(b)	5,535,863	2,412,527
Other investments and pledged deposits	10(b)	534,202	73,816
		<u>8,978,059</u>	<u>8,320,930</u>
Investment property	11	<u>107,400</u>	<u>95,300</u>
Fixed assets	12	<u>1,641</u>	<u>2,305</u>
Intangible assets	13	<u>1,340</u>	<u>2,476</u>
Total assets		<u><u>9,833,110</u></u>	<u><u>10,180,017</u></u>

Consolidated Statements of Financial Position as at December 31

	Note	2010 NIS thousands	2009 NIS thousands
Liabilities			
Current liabilities			
Credit from banks	17	26,618	266,514
Current maturities of debentures	17	153,094	456,438
Trade payables	14	14,817	16,671
Other payables	15	211,686	266,892
Financial derivatives		121,176	3,637
Provisions	16	5,733	9,735
Customer advances		770	2,134
		<u>533,894</u>	<u>1,018,384</u>
Long-term liabilities			
Long-term bank loans	17	4,469,980	1,757,365
Debentures	17	1,843,209	1,965,267
Deferred tax liabilities	22	31,221	80,100
Other liabilities including derivatives	17	2,839	5,273
Employee benefits	18	889	1,081
Liability for options to investors	19(i)	-	4
		<u>6,348,138</u>	<u>3,809,090</u>
Equity			
Share capital	19	564,546	564,546
Premium on shares		3,904,575	3,904,575
Treasury shares		(6,071)	(6,071)
Reserves		(1,759,954)	(156,803)
Retained earnings		247,982	1,046,296
		<u>2,951,078</u>	<u>5,352,543</u>
Total equity attributed to holders of the Company's equity rights			
		<u>2,951,078</u>	<u>5,352,543</u>
Total liabilities and equity			
		<u>9,833,110</u>	<u>10,180,017</u>

Ami Erel
Chairman of the Board of
Directors

Raanan Cohen
Chief Executive Officer

Oren Hillinger
Chief Financial Officer

Approval date of financial statements: March 17, 2011

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

Consolidated Statements of Income for the Year Ended December 31

	Note	2010 NIS thousands	2009 NIS thousands	2008 NIS thousands
Revenues				
Sales and services	20(a)	102,431	122,253	216,690
Koor Group's equity in earnings of affiliates		82,850	(*) 11,149	(*) 297,929
Gains from sale of and dividends from financial assets available for sale	10	306,408	2,682,802	574,523
Other income	20(e)	12,545	26,092	55,718
Financing income	21	101,816	29,608	200,171
		<u>606,050</u>	<u>2,871,904</u>	<u>1,345,031</u>
Expenses				
Cost of sales and services	20(b)	77,436	92,410	205,204
Selling and marketing expenses	20(c)	11,879	20,069	33,704
General and administrative expenses	20(d)	53,153	68,330	58,514
Koor Group's equity in losses of affiliates		288,382	(*) 11,023	(*) 80,639
Other expenses	20(f)	21,749	18,448	29,551
Financing expenses	21	593,385	373,310	699,956
		<u>1,045,984</u>	<u>583,590</u>	<u>1,107,568</u>
Earnings (loss) before income tax		(439,934)	2,288,314	237,463
Income tax	22	<u>(96,350)</u>	<u>(122,611)</u>	<u>16</u>
Income (loss) for the year		(536,284)	2,165,703	237,479
Attributed to:				
Holders of the Company		(536,284)	2,165,703	237,596
Non controlling interests		-	-	(117)
Income for the year		(536,284)	2,165,703	237,479
		<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
Earnings (loss) per share:	23			
Basic earnings (loss) per ordinary share		<u>(11.304)</u>	45.648	8.534
Diluted earnings (loss) per ordinary share		<u>(11.304)</u>	45.633	8.486

(*) Reclassified. See Note 2(G).

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

Consolidated Statements of Comprehensive Income for the Year Ended December 31

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Income (loss) for the year	(536,284)	2,165,703	237,479
Elements of other comprehensive income (comprehensive loss):			
Foreign currency translation differences from foreign operations	(173,163)	(16,901)	(21,427)
Foreign currency translation differences from foreign operations recognized in income/loss	4,347	1,078	643
Net change in fair value of financial assets available for sale, net of tax	(1,402,451)	2,290,301	176,576
Net change in fair value of financial assets available for sale recognized in income/loss, net of tax	(19,618)	(1,978,016)	(419,402)
Impairment loss of financial assets available for sale recognized in statement of income	2,717	-	-
Actuarial gains (losses) from defined benefits plan	(295)	533	(680)
Koor's equity in comprehensive income (comprehensive loss) of affiliates	(6,761)	26,530	(6,106)
Total comprehensive income (comprehensive loss) for the year	<u>(2,131,508)</u>	<u>2,489,228</u>	<u>(32,917)</u>
Attributed to:			
Holders of the Company	(2,131,508)	2,489,228	(32,800)
Non controlling interests	-	-	(117)
Comprehensive income (comprehensive loss) for the year	<u>(2,131,508)</u>	<u>2,489,228</u>	<u>(32,917)</u>

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

Consolidated Statement of Changes in Shareholders' Equity

	Attributed to Company's equity holders							Noncontr olling interest	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 (accumu- lated loss			Total
As at January 1, 2008	564,515	2,245,022	(210,751)	-	(644)	(6,071)	(563,225)	2,028,846	117	2,028,963
Issuance of shares	31	1,659,553	-	-	-	-	-	1,659,584	-	1,659,584
Exercise of options granted to employees	(*)	-	-	-	-	-	-	-	-	-
Exercise of options granted to investors	(*)	-	-	-	-	-	-	-	-	-
Income for the year	-	-	-	-	-	-	237,596	237,596	(117)	237,479
Other comprehensive income (comprehensive loss) for the year	-	-	(36,923)	10,022	(242,483)	-	(1,012)	(270,396)	-	(270,396)
As at December 31, 2008	564,546	3,904,575	(247,674)	10,022	(243,127)	(6,071)	(326,641)	3,655,630	-	3,655,630
Income for the year	-	-	-	-	-	-	2,165,703	2,165,703	-	2,165,703
Dividend to Company's shareholders	-	-	-	-	-	-	(792,315)	(792,315)	-	(792,315)
Other comprehensive income (comprehensive loss) for the year	-	-	3,952	7,439	312,585	-	(451)	323,525	-	323,525
As at December 31, 2009	564,546	3,904,575	(243,722)	17,461	69,458	(6,071)	1,046,296	5,352,543	-	5,352,543
Loss for the year	-	-	-	-	-	-	(536,284)	(536,284)	-	(536,284)
Other comprehensive income (comprehensive loss) for the year	-	-	(173,774)	(10,025)	(1,419,352)	-	7,927	(1,595,224)	-	(1,595,224)
Dividend to Company's shareholders	-	-	-	-	-	-	(269,957)	(269,957)	-	(269,957)
As at December 31, 2010	564,546	3,904,575	(417,496)	7,436	(1,349,894)	(6,071)	247,982	2,951,078	-	2,951,078

(*) Represents an amount less than NIS 1 thousand.

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

Consolidated Statement of Cash Flows for the Year Ended December 31

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	NIS thousands	NIS thousands	NIS thousands
Cash flows generated by operating activities			
Income (loss) for the year	(536,284)	2,165,703	237,596
Adjustments:			
Non controlling interests	-	-	(117)
Financing costs, net	227,804	217,235	445,691
Income tax expenses (savings)	96,350	122,611	(16)
Koor's equity in results of affiliates, net	205,532	(126)	(217,290)
Dividend received from affiliates and from financial assets available for sale	292,101	122,525	249,690
Depreciation and amortization	1,725	1,738	10,504
Increase (decrease) in employee benefits, net	(487)	502	165
Revaluation of investment property	(12,100)	(2,039)	(3,020)
Net capital gains from realization and dividends -			
Fixed assets	-	(7)	(180)
Investments in investees and financial assets available for sale	(301,585)	(2,679,071)	(623,230)
Gain from early redemption of debentures	-	(278)	(78,348)
Linkage and amortization of debenture discounts and revaluation of liability from options	25,571	52,010	15,965
Linkage of loan principals and other long-term liabilities	238,403	85,358	64,494
Revaluation of investments, deposits and loans receivable	(1,062)	(10,061)	44,695
Impairment of assets and investments	14,595	4,940	28,809
Decrease in trade and other receivables	1,010	17,909	4,203
Decrease (increase) in inventories and customer advances	7,936	12,774	(3,429)
Decrease in trade and other payables	(16,548)	(58,127)	(9,593)
Income tax paid	(57,890)	(219)	(150)
Net cash inflows generated by operating activities	185,071	53,377	166,439
Cash flows generated by investing activities			
Purchase of fixed assets	(65)	(1,142)	(1,566)
Amounts recognized as intangible assets	(946)	(1,270)	(5,708)
Proceeds from realization of financial assets available for sale, investments in investees and other	288,568	11,181,471	4,541,802
Proceeds from sale of fixed assets, investment property and intangible assets	-	22,075	538
Proceeds from realization of assets held for sale	16,178	16,306	-
Investment in financial assets available for sale, affiliates and other	(2,431,196)	(9,639,405)	(8,462,097)
Investment in venture capital companies	-	-	(5,625)
Increase in pledged deposits, net	(443,356)	-	-
Decrease (increase) in short-term deposits and investments, net	65,020	(24,230)	382,685
Cash flows from settlement (to settlement) of derivatives	30,789	(*) (22,489)	-
Interest received	5,692	6,337	60,953
Net cash inflows (outflows) generated by continuing investing activities	(2,469,316)	1,537,653	(3,489,018)
Net cash inflows generated by discontinued financing activities	-	-	35,560
Net cash inflows (outflows) generated by investing activities	(2,469,316)	1,537,653	(3,453,458)

(*) Reclassified. See Note 2(G).

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

Consolidated Statement of Cash Flows for the Year Ended December 31 (cont)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Cash flows generated by financing activities			
Net proceeds from issuance of debentures	-	819,438	-
Net proceeds from issuance of shares	-	-	1,659,584
Dividend distribution to Company's shareholders	(269,957)	(792,315)	-
Interest paid	(254,445)	(184,567)	(154,908)
Proceeds from reissuance of debentures that were held by subsidiary	-	79,862	-
Long-term loans received	2,549,697	738,347	158,000
Long-term loans and debentures repaid	(761,783)	(1,111,807)	(571,430)
Cash flows from settlement of derivatives	787	(*)10,839	13,571
Increase (decrease) in credit from banks and others, net	(1,070)	145,170	788,093
Net cash inflows (outflows) generated by financing activities	<u>1,263,229</u>	<u>(295,033)</u>	<u>1,892,910</u>
Change in cash and cash equivalents from continuing operations	(1,021,016)	1,295,997	(1,429,669)
Change in cash and cash equivalents from discontinued operations (**)	-	-	35,560
Change in cash and cash equivalents	(1,021,016)	1,295,997	(1,394,109)
Cash and cash equivalents – beginning of period	1,612,343	277,265	1,917,412
Effect of fluctuations in exchange rate on balances of cash and cash equivalents	6,119	39,081	(246,038)
Cash and cash equivalents – end of period	<u>597,446</u>	<u>1,612,343</u>	<u>277,265</u>

(*) Reclassified. See Note 2(G).

(**) Includes proceeds from sale of discontinued operations.

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

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 1 - General**A. Reporting Entity**

Koor Industries Ltd. ("the Company" or "Koor") is an Israel domiciled company, which was incorporated in Israel. Its official address is 3 Azrieli Center, Tel-Aviv 67023. The consolidated financial statements of the Company as at December 31, 2010 include the financial statements of the Company and its subsidiaries, as well as the Group's rights in affiliates and in a jointly-controlled company (together – "the Group"). The Company is a holding company that makes investments mainly in the fields of agrochemicals, finance, telecom equipment, real estate and other investments, through its subsidiaries, affiliates and a jointly controlled company as well as financial investments. I.D.B. Development Ltd. ("IDB Development"), the controlling shareholder in the Company, holds 76% of the Company's shares as at December 31, 2010, directly and through Discount Investments Corporation 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 committed among themselves in a voting agreement. The 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.

B. Definitions

In these financial statements:

- | | |
|---|--|
| 1. International Financial Reporting Standards ("IFRS") | standards and interpretations adopted by the International Accounting Standards Board (IASB) and they include International Financial Reporting Standards (IFS) and International Accounting Standards (IAS), including interpretations of these standards as prescribed by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations prescribed by the Standing Interpretations Committee (SIC), respectively. |
| 2. The Company | Koor Industries Ltd. |
| 3. The Group | Koor Industries Ltd. and its investees |
| 4. Investees | subsidiaries and companies, including partnerships, the Company's investment in which is included directly or indirectly by the equity method. |
| 5. Subsidiaries | companies, including partnerships, whose financial statements are fully consolidated, directly or indirectly, with those of the Company. |
| 6. Related parties | as defined in International Accounting Standard 24 regarding related parties. |
| 7. Interested parties | as defined in Paragraph (1) of the definition of "interested parties" in Section 1 of the Israeli Securities Law - 1968. |
| 8. Consumer Price Index | the Israeli Consumer Price Index (CPI) published by the Israeli Central Bureau of Statistics. |

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 2 – Basis for Preparation of Financial Statements

A. Declaration of compliance with International Financial Reporting Standards

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). The Group adopted IFRS for the first time in 2008, with the transition date to IFRS on January 1, 2007 ("transition date").

These financial statements are also prepared in accordance with the Israeli Securities Regulations (Annual Reports), 2010.

The consolidated financial statements were approved for issuance by Koor's board of directors on March 17, 2011.

B. Functional currency and presentation currency

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

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

C. Measurement basis

The financial statements were prepared on the basis of historical cost, except for the following assets and liabilities:

- Financial instruments at fair value through income/loss;
- Financial instruments classified as available for sale;
- Inventory;
- Liability for options to investors, where the exercise price is linked to the CPI;
- Investment property;
- Non-current assets that are held for sale;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities in respect of employee benefits;
- Equity-accounted investments in affiliates and jointly-controlled entities.

For additional information on the measurement method of these assets and liabilities, see Note 3, regarding Significant Accounting Policies.

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

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 2 – Basis for preparation of financial statements (cont.)**D. Operating cycle**

The Company's ordinary operating cycle is up to 12 months.

E. Use of estimates and judgment

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

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

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

Critical estimates

Presented below is information on critical estimates, which were prepared while implementing the accounting policy, and have a material effect on the financial statements.

- Taxes on income – The Company and its subsidiary have unutilized tax loss carryforwards, which they estimate, may be utilized against taxable income. In order to determine the amount of loss carryforwards that can be utilized and the amount of deferred taxes to be created, management's judgment is required regarding the offsetting of losses, the expected taxable income and its timing. Changes in these assumptions may lead to changes in the value of the deferred taxes, the provisions for taxes and operating results.
- Revaluation of investment property and venture capital investments – According to IFRS, investment property and venture capital investments are stated at fair value, based on the valuations of independent appraisers and parties holding appropriate professional skills. The fair value is evaluated at least once a year, and at any time there are indications of a material change in value. Changes in fair value are recognized in the statement of operations, and therefore, could have a material effect on the Company's results.
The method for valuation of investment property is described in Note 11(A).
The method for valuing venture capital investments is described in Note 10(H).
- Contingent liabilities – In assessing the prospects of legal claims that were filed against the Company and its investees, the companies relied on the opinions of their legal counsel. These assessments of the legal counsel are based on the best of their professional judgment, considering the stage of the proceedings, as well as the legal experience aggregated on the various issues. Since the outcome of the claims will be determined by the courts, these outcomes could be different from the assessments.

Notes to the Financial Statements for the Year Ended December 31, 2010

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

- Impairment – On every balance sheet date, the Company evaluates whether events or changes in circumstances have occurred indicating that one or more of the non-monetary assets has sustained impairment. If there are indications of impairment, an examination is performed as to whether the amount at which the investment in the asset may be recovered out of the cash flows projected from such asset or out of the fair value less selling expenses ("net sales price") from such asset, and if necessary, an impairment provision is recorded up to the amount that is recoverable. Discounted cash flows are calculated, in some cases, using appraisers, according to the pre-tax discount rate that reflects the market's assessments of the time value of money and the specific risks related to the asset. Determination of the estimated cash flows is based on the past experience of this or similar assets, and on the Company's best assessment of the economic conditions that will prevail during the balance of the asset's useful life. In determining the net sales price of some of the assets, a valuation from an independent appraisers and assessors. Changes in the Company's estimates could lead to material changes in the carrying value of the assets and in operating results.

Impairment of financial assets available for sale – On every balance sheet date, the Group evaluates whether there is objective evidence to the fact that the value of an asset has been reduced and it has sustained impairment. For the purpose of evaluating for impairment, as noted, the Group uses its discretion regarding signs indicating objective evidence related to the percentage of the decline in fair value, as well as the duration of the impairment period. Also see Note 10(F) for the dermination if impairment in Credit Suisse consider as continuous or significant.

F. Format for analysis of expenses recognized in statement of income

The format for the analysis of expenses recognized in the statement of income is by the classification method based on the nature of the expense's activity. Additional information on the substance of the expense is included in the notes to the financial statements.

G. Reclassification

In the statement of income for the year ended December 31, 2010, the Company presents separately the Koor Group's equity in earnings of affiliates within revenue items and the Koor Group's equity in losses of affiliates within expense items.

Comparative figures for the years ended December 31, 2009 and 2008 were reclassified in order to present the Koor Group's equity in earnings of affiliates within revenue items and the Koor Group's equity in losses of affiliates within expense items.

In the statement of cash flows for the year ended December 31, 2010, the Company presents the flows from the settlement of derivatives from foreign exchange transactions of the Swiss franc related to 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 cash flows from the settlement of these derivatives within cash flows for investing activities and not within cash flows for financing activities.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 2 – Basis for preparation of financial statements (cont.)**H. Changes in accounting policies****Financial statements presentation of changes in equity**

As from January 1, 2010 the Group early implements the revision to IAS 1, *Presentation of Financial Statements*, which was issued in the framework of *Improvements to IFRSs 2010*, pursuant to which the Group presents in the statement of changes in equity, for each component of equity, a reconciliation between the carrying amount at the beginning of the period and the carrying amount at its end, and provides separate disclosure for each change resulting from profit or loss, other comprehensive income, and transactions with the owners in their capacity as owners. The Group provides disclosure for the said reconciliation with separate disclosure for each change resulting from each component of other comprehensive income in Note 19 on capital and reserves.

I. Examining the materiality of valuations

The Company examines the materiality of the valuations of assets and liabilities for the purpose of providing disclosure about them or attaching them to the annual and interim periodic reports, according to the provisions of Legal Position No. 105-23: Parameters for Examining the Substance of Valuations, which was issued by the Securities Authority in December 2010 ("Authority's Position"). Generally a valuation will be deemed very material if the object of the valuation constitutes 10% or more of the Company's total assets in the consolidated statement of financial position at the last day of the reporting period, or if the effect of the change in fair value on net income or comprehensive income, as applicable, exceeds 10% of net income or comprehensive income, respectively, for the reporting period ("the Results Test"). A valuation that is not very material will be deemed material if one of the above quantitative tests exceeds 5%.

Application of the Results Test for materiality of a valuation in an interim period shall be done with respect to the projected net income or the projected comprehensive income, as applicable, of the current year as a whole. If it is not possible to reasonably estimate the projected net income or comprehensive income for the current year as a whole, application of the Results Test with respect to net income or comprehensive income, as applicable, for the four quarterly periods prior to the report date.

The quantitative sizes used in the Results Test – The effect of the change in value resulting from the valuation, the total net income and the total comprehensive income – those attributed to the holders of the Company (and do not include the share attributed non controlling interests).

When the valuation meets the Results Test, the definition of "very material" ("a valuation that meets the results test"), the Company evaluates whether on the basis of qualitative considerations, it is appropriate to determine that it is not very material and therefore, will not be attached to the financial statements. In accordance with the Authority's Position, the Company's evaluation also includes an additional test, the "Representative Income" test, which constitutes an accepted parameter for evaluating the results of holdings companies like the Company. The Representative Income parameter was also used to examine the materiality of valuation in the Company's financial statements for the years 2008, 2009 and 2010, and is used by the Company to examine the materiality and inconsequential also in other contexts. According to the said additional test, in the absence of other special qualitative considerations, the said valuation will not be deemed a very material valuation and will not be attached, if the effect of the change in the value of the valuation object (attributed to holders of the Company) is less than 10% of the Representative

Notes to the Financial Statements for the Year Ended December 31, 2010

Income (i.e. – average annual income (for four quarters) in the last three years, calculated on the basis of the last 12 quarters (income/loss in each quarter will be

Note 2 – Basis for preparation of financial statements (cont.)**I. Examining the materiality of valuations (cont.)**

calculated at their absolute values)). Moreover, in the absence of special qualitative considerations, a valuation that meets the Results Test will not be attached to the periodic reports if the effect of the object of the valuation on net income or comprehensive income (attributed to holders of the Company), as applicable, as included in the financial statements of the current year, is less than 10% of net income or comprehensive income (attributed to the holders of the Company) for the prior reporting year, and it is not probable to exceed 10% of the projected net or comprehensive income (attributed to the holders of the Company) of the coming reporting year. In instances in which as a result of applying these tests, the valuation that meets the Results Test will not be attached, disclosure of such will be provided in the Directors' Report, as required by the Authority's Position.

Qualitative considerations could lead to the attachment of the valuation even if from a quantitative viewpoint, it does not meet the tests for definition as "very material".

Regarding the attachment of the valuation in connection with the determination of fair value of options on foreign currency, see Note 4(C).

Note 3 - Significant Accounting Policies

The accounting policies provided below were applied consistently throughout all the periods presented in these consolidated financial statements by the Group companies.

A. Basis of consolidation

As a result of the initial implementation of IFRS 3 (2008) and IAS 27 (2008) the Group has changed its accounting policy with respect to accounting for business combinations.

(1) Business combinations

The Group implements the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The Company exercises discretion in determining the acquisition date and whether control has been obtained.

Accounting treatment of business combinations after January 1, 2010

For acquisitions on or after January 1, 2010, the Group recognizes goodwill at acquisition according to the fair value of the consideration transferred including any amounts recognized in respect of rights that do not confer control in the acquiree as well as the fair value at the acquisition date of any pre-existing equity right of the acquirer in the acquiree, less the net amount of the identifiable assets acquired and the liabilities assumed.

On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

Notes to the Financial Statements for the Year Ended December 31, 2010

If the Group pays a bargain price for the acquisition (meaning including negative goodwill), it recognizes the resulting gain in profit or loss on the acquisition date.

Note 3 - Significant Accounting Policies (cont'd)**A. Basis of consolidation (cont'd)****(1) Business combinations (cont'd)**

Furthermore, as from January 1, 2010 goodwill is not adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination, also with respect to previous business combinations from before that date.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, the liabilities incurred by the acquirer to the previous owners of the acquiree and equity instruments that were issued by the Group. In a step acquisition, the difference between the acquisition date fair value of the Group's pre-existing equity rights in the acquiree and the carrying amount at that date is recognized in profit or loss under other income or expenses. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in fair value of the contingent consideration classified as a financial liability in profit or loss.

If a business combination settles a pre-existing relationship between the acquirer and the acquiree, the Group deducts/adds to the consideration transferred in the business combination the lower of any stated settlement provisions in the contract and the amount by which the contract is favorable or unfavorable for the acquirer, as compared to the terms of current market transactions in identical or similar items, and it recognizes this amount in profit or loss under other income or expenses.

When a share-based payment award replaces an award held by the employees of the acquiree (hereinafter – the replacement award), the market-based measure of the replacement award, which is part of the transferred consideration, is the portion that can be attributed to services provided before the business combination, whether or not the acquirer is obliged to replace the share-based payment awards. The unvested portion of the replacement award that is attributed to post-acquisition services is recognized as a compensation cost following the business combination.

The aforesaid accounting treatment is applied also in respect of business combinations in which the employees of the acquiree hold share-based payment awards that are not replaced in the business combination.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as: finder's fees, advisory, legal, valuation and other professional or consulting fees, other than those associated with an issue of debt or equity instruments connected to the business combination, are expensed in the period the services are received.

During 2010, the Group did not effect a new business combination.

Commencing January 1, 2010, the Group applies the Amendment to IAS 39, *Financial Instruments: Recognition and Measurement No Longer Applicable to Contracts for Business Combinations* ("the Amendment"), which was published as part of the International Financial Reporting Improvement Project for 2009. 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

Notes to the Financial Statements for the Year Ended December 31, 2010

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 this exception does not apply when it involves purchases and sales of equity-accounted investees.

Note 3 - Significant Accounting Policies (cont'd)**A. Basis of consolidation (cont'd)****(1) Business combinations (cont'd)***Business combinations between January 1, 2007 and January 1, 2010*

For acquisitions between January 1, 2007 (the date of transition to IFRSs) and January 1, 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, a bargain purchase gain is recognized in profit or loss on the acquisition date.

Transaction costs, other than those associated with an issue of debt or equity instruments, that the Group incurred in connection with the business combination were capitalized as part of the cost of the acquisition.

Business combinations prior to January 1, 2007 (the date of transition to IFRSs)

On the date of transition to IFRSs, the Group adopted the relief provided in IFRS 1 and elected not to retrospectively implement the provisions of IFRS 3 (2004) with respect to business combinations, acquisitions of affiliates, acquisitions of jointly controlled entities and acquisition of minority interests prior to the date of transition. Therefore, in respect of acquisitions prior to January 1, 2007 the goodwill recognized and the excess cost created represent the amounts recognized by the Group under Israeli GAAP.

(2) Subsidiaries

Subsidiaries are entities in which the Company holds more than 50% of the voting rights therein, including potential voting rights that may be exercised immediately, so that the Company has the power to govern the entity's financial and operating policies of the entity, so as to obtain benefits from its activities. The financial statements of subsidiaries, which were prepared in accordance with the Group's accounting policies, are included in the consolidated financial statements commencing from the date control is achieved until the date control ceases.

(3) Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. The difference between the sum of the proceeds and fair value of the retained interest, and the derecognized balances is recognized in profit or loss under other income or other expenses. Subsequently the retained interest is accounted for as an equity-accounted investee or as an available-for-sale asset depending on the level of influence retained by the Group in the relevant company. The amounts recognized in capital reserves through other comprehensive income with respect to the same subsidiary are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the subsidiary had itself realized the same assets or liabilities.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 3 - Significant Accounting Policies (cont'd)

A. Basis of consolidation (cont'd)

(4) Investments in affiliates and a jointly-controlled entity (accounted for by the equity method)

Affiliates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Affiliates and jointly controlled entities are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the income and expenses in profit or loss and of other comprehensive income of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to zero and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(5) Loss of significant influence of joint control

The Group discontinues applying the equity method from the date it loses significant influence or joint control and it accounts for the investment as a financial asset, affiliated company, jointly controlled company or subsidiary, as relevant.

On that date, the Group measures at fair value any retained interest it has in the former affiliated company or jointly controlled company and recognizes in profit or loss any difference between the sum of the fair value of the retained interest and any proceeds received from the partial disposal of the investment in the affiliated company or jointly controlled company, and the carrying amount of the investment on that date.

The amounts recognized in capital reserves through other comprehensive income with respect to the same affiliated company or jointly controlled company are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the affiliated company or jointly controlled company had itself realized the same assets or liabilities.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 3 - Significant Accounting Policies**A. Basis of consolidation (cont)****(6) Change in interest held in affiliates while retaining significant influence**

When the Group increases its interest in an affiliated company accounted for by the equity method while retaining significant influence, it implements the acquisition method only with respect to the additional interest obtained whereas the previous interest is not remeasured and remains the same.

When there is a decrease in the interest in an affiliated company accounted for by the equity method while retaining significant influence, the Group derecognizes a proportionate part of its investment and recognizes in profit or loss a gain or loss from the sale under other income or other expenses. The cost of the rights sold is determined according to a weighted average for purposes of calculating the gain or loss from the sale.

Furthermore, on the same date, a proportionate part of the amounts recognized in capital reserves through other comprehensive income with respect to the same affiliated company are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the affiliated company had itself realized the same assets or liabilities.

(7) Transactions eliminated in consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with affiliates and jointly controlled entities are eliminated against the investment to the extent of the Group's interest in these investments. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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

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

Non-monetary items denominated in foreign currency and measured according to historical cost are translated according to the exchange rate prevailing on the transaction date.

(2) Foreign operations

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

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 3 - Significant Accounting Policies**B. Foreign currency (cont)****(2) Foreign operations (cont)**

Exchange rate differences on translation were recognized to other comprehensive income, as from January 1, 2007, the transition date to IFRS, and are stated in equity as part of the translation reserve of foreign operations.

Upon the realization of foreign operations that leads to a loss of control, material influence or joint control, the cumulative amount in the translation reserve deriving from the foreign operations are reclassified to the statement of income, as part of the gain or loss from realization.

When the Group realizes part of the investment that is an affiliate or jointly-controlled entity that contains foreign operations, while retaining material influence or joint control, the pro rata share of the cumulative amount of translation differences is reclassified to income and loss.

When the settlement of loans provided to the foreign operations are not planned or expected to be settled in the foreseeable future, the gains and losses from translation differences deriving from these monetary items are included as part of the investment in foreign operations, net, are recognized directly in other comprehensive income and are included in equity, as part of the translation reserve for foreign operations.

C. Financial instruments**(1) Non-derivative financial assets**Initial recognition of financial assets

The Group initially recognizes loans, receivables and deposits on the date they are created. The remaining financial assets that are acquired in a regular way purchase, including assets designated as fair value through income/loss are initially recognized on the trade date, on which the Group becomes a party to the contractual terms of the instrument, i.e. the date on which the Group has committed to buy or sell the asset. Non-derivative financial instruments include investments in shares and debt instruments, trade and other receivables and cash and cash equivalents.

Deduction of financial assets

Financial assets are deducted when the Group's contractual rights to the cash flows deriving from the financial asset lapse, or when the Group transfers the right to receive the cash flows deriving from the financial asset in a transaction in which all the risks and rewards from ownership of the financial asset are essentially transferred.

Sales of financial assets in a regular way sale are recognized on the trade date, i.e., the date on which the Group is committed to sell the asset.

Regarding the offset of financial assets and financial liabilities, see Par. (2) below.

The Group classifies financial assets in the following categories:

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 3 - Significant Accounting Policies (cont.)**C. Financial instruments (cont)****(1) Non-derivative financial assets (cont)***Financial assets at fair value through income and loss*

A financial asset is classified as measured at fair value through gain and loss if it is classified as held for trading or if it is designated as such when initially recognized. Financial assets designated for fair value through income and loss, if the Group manages such investments and makes buy and sell decisions about them based on their fair value, according to the manner in which the Group documents the risk or strategic management of the investment, if the designation is intended to prevent an accounting mismatch or if it involves a compound instrument that includes an embedded derivative. The attributable transaction costs are recognized in income and loss when they occur. These financial assets are measured at fair value with the changes recognized in income and loss.

Financial assets designated for fair value through income and loss include equity investments which would otherwise be classified as available for sale.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are designated financial assets available for sale or were not classified to any other category.

The Group's investments in certain shares are classified as financial assets available for sale. On the initial recognition date and in subsequent periods, these investments are measured at fair value, with the changes in them, aside from ongoing or significant losses from impairment are recognized directly in other comprehensive income and are presented in capital reserve for financial assets available for sale. A dividend or cash distribution received for the equity instruments classified as available for sale is recognized in the statement of income on the record date. When the investment is disposed of, the gains or losses accrued in capital reserve are transferred to the statement of income. The amounts recognized in the statement of income from financial assets available for sale, which constitute part of the Company's liquid resources, are included in financing income or financing expenses, as applicable. The amounts recognized in the statement of operations for other financial assets available for sale are included in the item gain from realization and dividend income from financial assets available for sale or other expenses.

Regarding the definition of impairment as continuous or significant for the investment in Credit Suisse, see Note 10(F).

Loans and receivables

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

Cash and cash equivalents

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

Notes to the Financial Statements for the Year Ended December 31, 2010

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

The Group initially recognizes debt instruments on the date they are created. The remaining financial liabilities are initially recognized on the trade date, on which the Group becomes a party to the contractual terms of the instrument.

Financial assets are deducted when the Group's obligation, as provided in the agreement, lapses, or when it is settled or cancelled. The financial liability is initially recognized at fair value plus attributable transaction costs. Subsequently, the financial liabilities are measured at amortized cost according to the effective interest method.

Swaps of debt instruments, having significantly different terms, between an existing borrower and lender, is treated as a settlement of the original financial liability and recognition of a new financial liability at fair value. Likewise, a significant change in the terms of an existing financial liability or a part thereof is treated as the settlement of the original financial liability and recognition of a new financial liability.

The terms are significantly different if the discounted present value of the cash flows according to the new terms, including any commissions paid, net of any commissions received, and discounted through the original effective interest rate, is a difference of at least ten percent of the discounted present value of the remaining cash flows of the original financial liability.

In addition to the quantitative test, as noted, the Group evaluates whether there were also changes in various economic parameters embedded in the swapped debt instruments. Therefore, swaps of CPI-linked debt instruments with instruments that are not CPI-linked are deemed swaps having significantly different terms even if they do not meet the above quantitative test.

The Group has non-derivative financial liabilities, including: credit and loans from banks and other lenders, trade payables, etc.

A financial asset and financial liability are offset and the amounts are presented net in the statement of financial position when the Group currently has an enforceable legal right to offset the amounts recognized, and intends to settle the asset and the liability on a net basis, or to realize the asset and settle the liability simultaneously.

(3) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments for the purpose of hedging foreign currency risks, interest risks and/or indexation risks (also see Note 25).

Embedded derivatives are separated from the hosting contract and accounted for separately if: (a) there is no close connection between the economic characteristics and risks of the hosting contract and of the embedded derivative, (b) a separate instrument having the same terms as the embedded derivative would fulfill the definition of a derivative and (c) the hybrid instrument is not measured at fair value against income/loss.

Derivatives are recognized initially at fair value; attributable transaction costs are expensed when incurred. Subsequently, derivatives are measured at fair value, with changes in fair value treated as follows:

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 3 - Significant Accounting Policies (cont.)**C. Financial instruments (cont.)****(3) Derivative financial instruments, including hedge accounting***Cash flow hedges*

Changes in the fair value of derivatives used to hedge cash flows in an affiliate, for the part that is the effective hedge, are recognized through other comprehensive income directly to the hedge reserve. For the part that is not effective, the changes in fair value are recognized in the statement of income. The amount accrued in the hedge reserve is reclassified to the statement of income in the period in which the cash flows affect the statement of income, and are presented in the same statement of income item in which the hedged item is found.

If the hedging instrument does not meet all the criteria for an accounting hedge, or expires or is sold, is terminated or realized, then hedge accounting discontinues. The gain or loss accrued previously in the hedge reserve through other comprehensive income remains in the reserve, until the expected hedged transaction occurs or until the hedged transaction is no longer expected to occur. If the expected transaction is not longer expected to occur, the gain or loss from the hedging instrument accrued in the hedge reserve is transferred to the carrying value of the asset, when it is recognized. In other cases, the amount recognized in the hedge reserve is transferred to income/loss in the period in which the hedged item affects income/loss.

Economic hedge

An accounting hedge is not applied to derivative instruments used for economic hedges of financial assets and liabilities denominated in foreign currency or linked to the CPI. Changes in the fair value of these derivatives are recognized in income/loss, as financing income or expenses.

Derivatives not used to hedge

Changes in the fair value of derivatives not used to hedge are recognized currently in income/loss. According to this principle, the Group applies this accounting treatment for changes in the fair value of options for which the exercise price is not fixed.

Separated embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in gain or loss, as financing income or expenses.

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

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

(5) Financial guarantees

On the initial recognition date, financial guarantees are recognized at fair value. In subsequent periods, financial guarantees are measured at the higher of the amount recognized in accordance with the provisions of IAS 37 and the liability initially recognized after it was reduced in accordance with the provisions of IAS 18. Every such update of the liability, in accordance with the aforesaid, is recognized in the statement of income.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 3 - Significant Accounting Policies (cont.)**C. Financial instruments (cont.)****(6) Share capital**

Incremental costs related directly to the issuance of ordinary shares and share options presented in equity, are presented as a deduction from capital.

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

D. Fixed assets**(1) Recognition and measurement**

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. When significant parts of fixed assets (including major periodic tests costs) have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Gain or loss from disposal of a fixed asset item is determined by comparing the proceeds from the disposed asset to its carrying value, and is recognized net in the statement of operations item, "other income" or "other expenses", as applicable.

(2) Subsequent costs

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

(3) Depreciation

Depreciation is the methodical allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the asset's cost, or another sum that replaces cost, net of the asset's residual value.

Depreciation is expensed on a straight-line basis over the estimated useful lives of each part of fixed asset items. Since this method reflect the expected consumer pattern of the future economic benefits embodied in the assets at the best way.

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

	<u>Year</u>
Machinery, equipment and fixtures	3-5
Furniture and office equipment	13-17
Computers and ancillary equipment	3-5
Leasehold improvements	*

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

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

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 3 - Significant Accounting Policies (cont.)**E. Intangible assets**

(1) Intangible assets that were acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(2) Subsequent costs

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

(3) Amortization

Amortization is the methodical allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the asset's cost net of its residual value.

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

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

Usage rights to patents	5 years
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Estimates in respect of depreciation methods and useful lives values are assessed at the end of each reporting year.

F. Investment property

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

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

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

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

G. Leased property

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

Notes to the Financial Statements for the Year Ended December 31, 2010

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

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

I. Impairment**(1) Non-derivative financial assets**

The impairment of a financial asset that is not stated at fair value through income/loss is examined when there is objective evidence that a loss event occurred after the initial recognition date of the asset, and this loss event had a negative effect on the estimated future cash flows of that asset, which can be reliably estimated.

Objective evidence that a financial asset has sustained impairment could include breach of a contract by a debtor, restructuring of the amount owed to the Group, based on terms that the Group would not have considered in other circumstances, the existence of signs that a debtor or issuer of debt will go bankrupt, negative changes in a borrower's payment status, changes in the economic environment that testify to insolvency of debt issuers or the disappearance of an active market for a security.

In examining for the impairment of available-for-sale financial assets that are capital instruments, the Company also examines the difference between the asset's fair value and its original cost, while relating to the standard deviation of the instrument's price, for the duration of the time in which the fair value of the asset is less than its original cost, and to changes in the technological, economic or legal environment or in the market environment in which the Company that issued the instrument operates. Furthermore, a significant or ongoing decrease in fair value below the original cost is objective evidence of impairment. Regarding the determination of whether the impairment of the investment in Credit Suisse shares is deemed significant or ongoing, see Note 10(F) (also see Par(S) below, regarding application of IFRS 9).

Impairment losses on financial assets available for sale are recognized by the transfer of the accrued loss recognized in a capital reserve for assets available for sale to income and loss. The cumulative loss that was reclassified from other comprehensive income to income and loss is the difference between the acquisition cost net of repayments of principal and write-downs and between the current fair value net of impairments recognized in the past through income and loss. Changes in the impairment provision as a result of application of the effective interest method are presented as a component of financing income.

An impairment loss is reversed when one can objectively attribute it to an event that occurred after the recognition of the impairment loss (such as repayment by a debtor). Reversal of an impairment loss for financial assets is measured according to amortized loss, and for financial assets classified as available for sale that are debt instruments, are recognized in income and loss. Reversal of an impairment loss for financial assets classified as available for sale that are equity instruments are recognized directly in other comprehensive income.

Notes to the Financial Statements for the Year Ended December 31, 2010

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

The Group examines evidence for impairment with respect to loans, trade receivables and other receivables, at the level of the individual asset and at the collective level. The balances of trade receivables, loans, receivables and investments held to maturity that are significant individually, are examined specifically for impairment. The balances of trade receivables, loans, receivables and investments held to maturity for which specific impairment was not identified are grouped together, and their impairment is examined on a collective basis, in order to identify impairment that has occurred but has not yet been identified. Regarding the trade receivables, loans, receivables and investments held to maturity that are not material individually, a collective examination for impairment is performed, by grouping them together according to similar risk characteristics.

(2) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

The recoverable amount of an asset or cash-generating unit is the greater of its usage value and its net selling price (fair value less selling expenses). In assessing usage value, the Group's estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be examined individually are grouped together into the smallest group of assets that generates cash inflows from continuing use, which are largely independent of other assets or groups of assets (the "cash-generating unit").

Impairment losses are recognized when the book value of the asset or cash-generating unit to which the asset is allocated exceeds the recoverable amount, and are recognized in income and loss. Impairment losses recognized for cash-generating units are allocated first to reduce the book value of the goodwill allocated to these units and later to reducing the book value of the other assets in the cash-generating unit, on a pro rata basis.

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

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 3 - Significant Accounting Policies (cont.)**I. Impairment (cont.)****(3) Investments in equity-accounted affiliates and jointly-controlled entities**

An investment in an affiliate or jointly-controlled entity is examined for impairment when there is objective evidence indicating impairment (as provided in Par. (1) above).

Goodwill that constitutes part of the investment in affiliate account is not recognized separately, and therefore, is not examined separately for impairment.

If there is objective evidence indicating that an investment's value may have been impaired, the Group estimates the recoverable amount of the investment, which is the higher of the usage value and its net sales price.

In determining the usage value of an investment in an affiliate, the Group estimates its share in the present value of the estimated future cash flows, which are projected to be generated by the affiliated, including cash flows from current activities of the affiliate and the proceeds from the final realization of the investment, or the present value of the estimated future cash flows that are forecast from dividends to be received and final realization.

An impairment loss is recognized when the investment's book value, after application of the equity method, exceeds the recoverable amount, and is recognized in income/loss.

An impairment loss is not allocated to any asset, including goodwill that constitutes part of the investment in affiliate or jointly-controlled entity account.

An impairment loss will be reversed only if changes have occurred in the estimates used to determine the investment's recoverable amount, from the date an impairment loss was last recognized. The investment's book value, after reversal of the impairment loss, shall not exceed the investment's book value that would be determined by the equity method if an impairment loss had not been recognized.

The Group's investments in affiliates are examined in each holding company, at the level of its total investment. If excess cost is allocated to assets in the affiliate and the affiliate records impairment for such assets, then the Company reduces the excess cost allocated to the above in income and loss.

J. Non-current assets held for sale

Non-current assets (or realization groups comprised of assets and liabilities), which it is expected will be realized through sale and not by continuing usage, are classified as assets held for sale. Immediately before their classification as held for sale, the assets (or the elements of the group designated for settlement) are measured according to the Group's accounting policy. Later, the assets (or the group designated for settlement) are measured at the lower of their carrying amount and their fair value, net of sale costs. In subsequent periods, depreciable assets classified as held for sale are not amortized on a periodic basis. Impairment losses upon the initial classification of the asset as held for sale, and the subsequent gains or losses resulting from the re-measurement, are recognized in income/loss. Gains are recognized up to the cumulative amount of the impairment loss recognized in the past.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 3 - Significant Accounting Policies (cont.)**K. Employee benefits****(1) Post-employment benefits**

The Group has several post-employment benefit plans. The plans are generally funded by deposits with insurance companies or provident and pension funds and they are classified as defined contribution plans and defined benefit plans.

(a) Defined contribution plan

The Group's obligation to deposit fixed contributions into a defined benefit plan is expensed in the period during which the employees provided the services.

(b) Defined benefit plan

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

When the calculation results in a net asset to the Group, the asset is recognized up to the net present value of the economic benefits available in the form of refunds or a reduction in future contributions to the plan. The economic benefit in the form of refunds or reductions in future contributions will be deemed available to the Group when it can be realized during the life of the plan or after the obligation is settled.

The Group recognizes immediately all actuarial gains and losses arising from defined benefit plans directly in other comprehensive income.

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

(2) Other long-term employee benefits

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

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 3 - Significant Accounting Policies (cont.)**K. Employee benefits (cont.)****(3) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed when the related service is provided, or in the event of absences that are not accrued (such as maternity leave) – at the time of actual absences.

The provision for short-term employee benefits for a cash bonus is recognized for the amount expected to be paid when the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Employee benefits are classified as current benefits or non-current benefits for the purpose of their presentation in the statement of financial position based on the date on which the payment is due to be settled.

L. Provisions

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

(1) Lawsuits

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

(2) Warranty

The warranty provision is recognized upon the sale of the products or the service for which the warranty is given. The provision is based on historical data and a weighting of all the possible outcomes at their probability.

(3) Restoration of site

Pursuant to a subsidiary's obligation under the terms of a property-sale agreement, a provision is recognized for building a drainage line.

Notes to the Financial Statements for the Year Ended December 31, 2010

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

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

The timing of transfers of risks and rewards vary depending on the individual terms of the sales contract.

(2) Services

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

(3) Rental income

Rental income from investment property is recognized in the statement of income in "sales and services" on a straight-line basis over the rental period.

N. Financing income and expenses

Financing income includes interest income on amounts invested (including available-for-sale financial assets that constitute part of the Group's liquid resources), dividend income from marketable securities (except for affiliates), changes in the fair value of financial assets stated at fair value through gain or loss, net foreign currency gains, gains from hedging instruments that are recognized through gain or loss and gain from early redemption of debentures. Interest income is recognized as it accrues, using the effective interest method. Dividend income is recognized on the date that the Group's right to receive payment is granted. If a dividend is received for marketable shares, the Group recognizes the dividend income on the ex-dividend date.

Changes in the fair value of financial assets stated at fair value through gain or loss also includes dividend and interest income.

Financing expenses include interest expenses and indexation differences from borrowings, changes in the time value of provisions, changes in the fair value of financial assets stated at fair value through gain or loss (except for changes in the value of financial assets that do not constitute part of the Company's liquid resources), losses on hedging instruments recognized through gain or loss, and net foreign currency losses. Borrowing costs are expensed using the effective interest method.

Gains and losses from foreign currency translation differences are reported net as financing income or financing expenses, depending on exchange rate fluctuations and depending on their position (net income or loss).

Notes to the Financial Statements for the Year Ended December 31, 2010

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

Income tax expense includes current and deferred taxes. Current and deferred taxes are recognized in the statement of income unless the tax derives from a business combination or are recognized directly in equity or in other comprehensive income, if they derive from items that are recognized directly in equity or in other comprehensive income.

Current tax is the expected amount of tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group does not recognize deferred for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income, and differences relating to investments in subsidiaries, jointly controlled entities and affiliates to the extent that it is probable that they will not reverse in the foreseeable future, and to the extent the Group controls the reversal date of the difference. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted as at reporting date. The Company offsets deferred tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for tax loss carryforwards, tax benefits and deductible temporary differences, when it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Not taken into account in the calculation of deferred taxes are the taxes that would apply in the event of realization of investments in investees, since the Company intends to hold these investments and not realize them.

The Group could be liable for additional tax in the event of a dividend distribution in respect of the Group companies. This incremental tax is not included in the financial statements, when the Group companies' policy is not to cause a dividend distribution that involves additional tax to the recipient company in the foreseeable future. In cases in which the investee expects to distribute a dividend from earnings that entail additional tax to the Company, the Company creates a provision for tax for the incremental tax for which it could be liable due to the dividend distribution.

Regarding assumptions on the utilization of tax loss carryforwards, see Note 2(E).

Regarding the tax treatment of the Credit Suisse shares, see the elaboration in Note 10(F).

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 3 - Significant Accounting Policies (cont.)**Q. Earnings per share**

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

R. Segment reporting

A segment is a distinguishable component of the Group that meets the following three conditions:

- (1) Is engaged in business activities from which it could generate revenues and for which it could incur expenses, including revenues and expenses related to transactions between Group companies;
- (2) Its operating results are reviewed regularly by the Group's head operational decision maker, in order to reach decisions regarding the resources to be allocated to it and to assess its performance; and
- (3) Separate financial information about it is available.

S. New Standards and Interpretations not yet adopted

Within the scope of the Improvements to IFRS Project for 2010 ("Improvements to IFRSs"), on May, 2010, the IASB published 11 amendments to the International Financial Reporting Standards and one interpretation on a wide range of accounting issues. Most of the amendments will apply to period commencing on or after January 1, 2011, with the possibility of early adoption, subject to the conditions provided for each amendment.

Presented below is information about the amendments that are relevant to the Group and which could have an effect on the financial statements:

- * Amendment to IAS 34, *Interim Financial Reporting*, Significant Events and Transactions ("the Amendment"). Pursuant to the Amendment, the list of events and transactions requiring financial statement disclosure in interim periods was expanded, such as recognition of an impairment loss on financial assets and reclassification of financial assets resulting from a change in their designation or usage. Likewise, the materiality limit for minimum disclosure requirements existing in the present Standard, before the Amendment was also eliminated. The Amendment will apply to annual periods commencing on or after January 1, 2011.
- * Amendment to IFRS 7, *Financial Instruments: Disclosures*, Corrections to Disclosures ("the Amendment"). Pursuant to the Amendment, an explicit declaration was added that the interaction between qualitative and quantitative disclosures enables the financial statement users to better assess the Company's exposure to risks deriving from financial instruments. Likewise, a clause was deleted that stated that quantitative disclosures are not required when the risk is immaterial. Additionally, certain disclosure requirements regarding credit risk were modified and others removed. The Amendment will apply to annual periods commencing on or after January 1, 2011. Early adoption is possible, if disclosure is provided.

Notes to the Financial Statements for the Year Ended December 31, 2010

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

- IFRS 9 (2010), *Financial Instruments* (hereinafter – “the Standard”) – This Standard is one of the stages in a comprehensive project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (hereinafter – IAS 39) and it replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities.

In accordance with the Standard, there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity’s business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In accordance with the Standard, an investment in a debt instrument will be measured at amortized cost if the objective of the entity’s business model is to hold assets in order to collect contractual cash flows and the contractual terms give rise, on specific dates, to cash flows that are solely payments of principal and interest. All other debt assets are measured at fair value through profit or loss. Furthermore, embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss. Nevertheless, the Standard allows an entity on the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized is ever classified to profit or loss at a later date. Dividends on equity instruments where revaluations are measured through other comprehensive income are recognized in profit or loss unless they clearly constitute a return on an initial investment.

The Standard generally preserves the instructions regarding classification and measurement of financial liabilities that are provided in IAS 39. Nevertheless, unlike IAS 39, IFRS 9 (2010) requires as a rule that the amount of change in the fair value of financial liabilities designated at fair value through profit or loss, other than loan grant commitments and financial guarantee contracts, attributable to changes in the credit risk of the liability be presented in other comprehensive income, with the remaining amount being included in profit or loss. However, if this requirement aggravates an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts thus recognized in other comprehensive income may never be reclassified to profit or loss at a later date. The new standard also eliminates the exception that allowed measuring at cost derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured. Such derivatives are to be measured at fair value.

The Standard is effective for annual periods beginning on or after January 1, 2013 but may be applied earlier, subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the Standard. The Standard is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in the Standard. In particular, if an entity adopts the Standard for reporting periods beginning before January 1, 2012 it is not required to restate prior periods.

The Group is examining the possibility of early adopting the Standard and the anticipated effects of its adoption on the financial statements.

Notes to the Financial Statements for the Year Ended December 31, 2010

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

- IAS 24 (2009) *Related Party Disclosures* (hereinafter – “the Standard”). The new standard includes changes in the definition of a related party and changes with respect to disclosures required by entities related to government. The Standard is to be applied retrospectively for annual periods beginning on or after January 1, 2011. The Group is in the process of reassessing its relationships with related parties for the purpose of examining the effects of adopting the Standard on its financial statements.

Note 4 – Determination of Fair Value

Among the accounting principles and disclosure requirements, the Group is required to determine the fair value of financial and non-financial assets and liabilities. The fair values are determined for measurement and/or disclosure purposes, based on the methods described below. Additional information on the assumptions used in determining fair value is provided in the notes relating to that asset or liability.

A. Investment property

The Group estimates the value of the investment real estate properties at least once a year, through an independent appraiser, who has recognized and appropriate professional skills and updated experience regarding the location and type of real estate being valued. The fair value is based on market values. The market value of investment property is the estimate of the amount at which it was possible to sell investment property on the valuation date, in an arm's length transaction, operating in an intelligent manner.

In the absence of current prices in an active market, the valuation of investment property considers an estimate of the total projected cash flows to be received from renting the property. A valuation of real estate is based on net annual cash flows, discounted at a yield rate that reflects the specific risks embodied in the net cash flows.

For additional information on the determination of fair value, see Note 11(A).

B. Investments in shares and debt instruments

The fair value of financial assets measured at fair value through income/loss and financial assets classified as available for sale was determined while referring to their quoted closing bid price at the close of trading on the reporting date. If there is no quoted price, the fair value is measured while considering the maximum information viewed in the market (such as use of interest curve), and through a valuation technique that includes the discounted cash flows method, using projected future cash flows and accepted market discount rates. In the absence of quoted market sales prices, the fair value of non-marketable shares is determined based on the valuation of an independent appraiser.

For additional information on the fair value hierarchy, see Note 26 regarding financial instruments.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 4 – Determination of Fair Value**C. Financial derivatives**

The fair value of financial derivatives on the index is based on quotes from financial institutions. Furthermore, the Company evaluates the reasonableness of the fair value by discounting the estimated future cash flows, based on the terms and duration to maturity of each contract, using an appropriate interest rate.

According to the Company's policy for examining the materiality of valuations (see Note 2(I)), the Company attaches to these financial statements a valuation that it used to determine the fair value of liabilities for options on the Swiss franc-shekel exchange rate, held by the Company in connection with its investment in Credit Suisse and financing linked to the Swiss Franc. The fair value of the liabilities for the said options at December 31, 2010 totals NIS 119 million, for which financing expenses totaling NIS 94 million were recorded for the year ended December 31, 2010 – representing 18% of the net loss for 2010 and 7% of representative income. In view of the circumstances of the holding of the said options, the fluctuations in the exchange rate and in the volume of transactions (it should be noted that the volume of transactions varies frequently), and considering the percentage of financing expenses out of the net loss for year 2010 and the level of this loss, the Company elected to attach the valuation to the periodic reports for 2010 on the basis of qualitative considerations. Regarding the value and volume of the transactions, see Note 26(C)(1).

The fair value of the financial derivatives on the CPI is based on quotes from financial institutions. Moreover, the Company examines the reasonableness of the fair value by discounting the estimated future cash flows based on the terms and period to maturity of each contract, using the appropriate interest rate.

For additional information on the fair value hierarchy, see Note 26 regarding financial instruments.

D. Financial liabilities not measured at fair value

The fair value, which is determined for disclosure purposes, is calculated based on the present value of the future cash flows for the principal and interest components, which are discounted at the relevant market interest rate at the reporting date.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 5 – Cash and Cash Equivalents**

	December 31	
	2010	2009
	NIS thousands	
Balances in banks	224,601	14,261
Demand deposits	372,845	1,598,082
	<u>597,446</u>	<u>1,612,343</u>

The Group's exposure to credit risk, interest rate risk, currency risk and sensitivity analysis of financial assets and liabilities are provided in Note 26, regarding financial instruments.

As at December 31, 2010, the Company maintains a cash balance of NIS 275 million secure (and as at December 31, 2009 – NIS 105 million), as required by the loan agreements with certain banks – see Note 17(C)2 and 17(C)3.

Note 6 – Trade and other receivables

	December 31	
	2010	2009
	NIS thousands	
Trade receivables		
Open accounts – stated in US dollars	17,170	20,939
Net of – allowance for doubtful accounts	(92)	(1,426)
	<u>17,078</u>	<u>19,513</u>
Other receivables		
Government ministries (includes for taxes)	28,431	7,322
Accrued income	748	248
Prepaid expenses	584	3,251
Other	225	1,059
	<u>29,988</u>	<u>11,880</u>
Other receivables according to linkage		
CPI-linked	-	6
Unlinked	733	700
Dollar-linked	-	267
Swiss Franc	16	3
	<u>749</u>	<u>976</u>

Note 7 – Inventories

	December 31	
	2010	2009
	NIS thousands	
Raw and auxiliary materials	17,628	32,760
Work in progress	788	898
Finished goods	5,284	1,012
	<u>23,700</u>	<u>34,670</u>

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 8 – Assets Held for Sale

1. On October 22, 2009, ECTel Ltd. ("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 sum provided 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.

As of December 31, 2009, the investment in ECTel was presented as an asset held for sale.

2. Harriet Investments (2001) Ltd. (in voluntary liquidation) ("Harriet")
In January 2009, Harriet closed on the sale of most of its assets to an unrelated third party. Under the terms of the assets sale, the Buyer acquired the intellectual property of Harriet, inventory and equipment. Moreover, Harriet assigned to the Buyer several agreements and obligations included in those agreements. The sale's proceeds totaled \$4.1 million in cash, and in addition, in March 2010, Harriet received NIS 145 thousand for invoices receivable that had been assigned to the Buyer by Harriet.

In December 2009, Harriet entered voluntary liquidation, without a declaration of solvency.

In 2008, the Company recorded an impairment loss totaling NIS 29,107 thousand for the remeasurement of assets that were held for sale, at the lower of carrying value and fair value net of selling costs.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 9 - Investments in Investees

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

1. Koor's holding percentage in the voting rights of Makhteshim-Agan as of December 31, 2010 is 47.03%. The book balance of the investment as of December 31, 2010 totaled NIS 2,367 million. The market value at such date is NIS 3,683 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 \$ 7.7 million.

As of December 31, 2010, there are several option plans that have been granted to employees. The total options outstanding at this date amount to 24,535,936, exercisable for 24,535,936 shares, representing 5.6% of the equity of Makhteshim-Agan.

Upon the exercise of the options, Makhteshim-Agan will issue shares in a quantity that reflects the amount of the financial benefit embedded in the options, i.e. the difference between the price of the ordinary share on the exercise date and the exercise price of the options.

The exercise price of most of the options outstanding as of December 31, 2010 ranges between NIS 19.61 and NIS 34.27. Thus the percentage of the increase in equity rights and voting rights assuming exercise, according to the market price as of December 31, 2010 is immaterial.

3. Seasonality

Sales of agrochemicals are directly dependent on the agricultural seasons and the cycle of crop production. Therefore, Makhteshim-Agan's revenues are not distributed evenly throughout the year. Countries in the Northern Hemisphere are characterized by similar timing of the agricultural seasons and the highest sales to these countries usually take place during the first half of the year. The seasonality in the Southern Hemisphere is opposite and most of the sales take place during the second half of the year, with the exception of Australia where most of the sales take place in April-July.

Makhteshim-Agan's' worldwide activities are conducive to balancing the seasonality impact even though Makhteshim-Agan has higher sales in the Northern Hemisphere.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 9 - Investments in Investees (cont.)**A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (cont.)**

4. A. Makhteshim-Agan has undertaken toward banks to comply with financial covenants, mainly:
- (1) The ratio of the interest-bearing financial liabilities to shareholders' equity of Makhteshim-Agan shall not exceed the ratio prescribed in some of the financing documents, ranging between 1.25 (the most stringent ratio) and 1.5. at December 31, 2010 the ratio was actually 0.9;
 - (2) The ratio of the interest-bearing financial liabilities to income before financing expenses, taxes, depreciation and amortization (EBITDA) shall not exceed 4.

After Makhteshim-Agan believed that there is a possibility that it will not comply with certain covenants, Makhteshim-Agan, at its initiative, approached the relevant banks, and following its request, received during December 2010, letters of consent from its financing banks, whereby the financial contingency regarding the ratio between Makhteshim-Agan's interest-bearing financial liabilities and EBITDA, so that for the period ending December 31, 2010, the ratio between the financial liabilities and EBITDA will not exceed 4.5 in relation to one of the funding banks and 5 in relation to banks and other funders.

Moreover, the letters of consent given to Makhteshim-Agan by the relevant banks prescribe an exception, whereby at December 31, 2010 and for each of the quarters until the third quarter of 2011 (inclusive), when calculating the said ratio, one-off expenses totalling \$90 million will be neutralized (for some of the banks) or a total of up to \$90 million for certain non-recurring events (for the other banks). At December 31, 2010, the ratio between Makhteshim-Agan's interest-bearing financial liabilities and EBITDA (Excluding the aforementioned non-recurring expenses) of 4.2, according to Makhteshim-Agan position on December 31, 2010, met this criterion. In addition, Makhteshim-Agan received consent writings correcting the financial condition of the ratio of interest-bearing financial liabilities of Makhteshim-Agan to EBITDA so that the ratio all periods until the third quarter, 2011 (inclusive) in relation to some of the funding banks and until the fourth quarter, 2011 (inclusive) in relation to one of the financing banks Such treatment will be updated to no more than 5.

- (3) The shareholders' equity will not be less than the amount prescribed in some of the financing agreements, ranging between \$1.22 billion (the most stringent amount) and \$850 million. In the written consent obtained from the relevant bank, it was determined that the calculation of equity capital balance as of December 31, 2010 and for each of the quarters until the third quarter 2011 (including) neutralized one-off expenses in the amount of up to \$90 million for certain one-time events. (as at December 31, 2010, the Company's equity amounted to \$1.131 billion neutralizing the one-off expenses mentioned above equity amounted to \$1.221 billion).
- (4) The financing documents of one of the banks further prescribed that the balance of retained earnings of the Company according to the financial statements on every date shall not be less than \$700 million. The letter of consent received from the relevant bank prescribed that for the calculation of retained earnings at December 31, 2010, one-off expenditures will be neutralized totalling a cumulative amount not exceeding \$90 million for certain non-recurring events (at December 31, 2010, the balance of the Company's retained earnings totalled \$611 million, and the retained earnings balance after neutralizing the said one-off expenses totalled \$701 million). It should be noted that as per the written consent obtained from the relevant bank, it was determined that the calculation of equity capital balance as of December 31, 2010 and for each of the quarters until the third quarter 2011 (including) neutralized one-off expenses in the amount of up to \$90 million for certain one-time events.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 9 - Investments in Investees (cont.)

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

4(A). (cont.)

- (5) It was also agreed that there will be no transfer of control (as defined in the relevant agreements), in Makhteshim-Agan and in the subsidiaries Makhteshim and Agan without obtaining the Bank's prior written consent.

Furthermore, it should be noted that there are limitations on Makhteshim-Agan's subsidiaries in receiving credit, which, to the best of the Makhteshim-Agan's knowledge, are not material and at the report date, they are in compliance with these limitations.

- B. The securitization agreement of trade receivables of Makhteshim-Agan and its subsidiaries (including their amendments) include Makhteshim-Agan's commitment to maintain financial ratios.

After Makhteshim-Agan believed that there is a possibility that it will not comply with certain covenants, Makhteshim-Agan, at its initiative, approached the parties with which it has undertaken in a securitization agreement during 2010 and consequently, in September and December 2010, amendments to the securitization agreement were signed, whereby at September 30, 2010 and December 31, 2010, Makhteshim-Agan will not be required to comply with the financial covenants prescribed in the securitization agreement.

According to the amendments to the securitization agreements that were signed in December 2010, commencing March 31, 2011, Makhteshim-Agan will once again be required to comply with the financial covenants prescribed in the securitization agreements, of which the significant covenants are as follows:

- (1) The ratio between Makhteshim-Agan's financial liabilities and its equity will not exceed 1.25.
- (2) The ratio between Makhteshim-Agan's interest-bearing financial liabilities and EBITDA will not exceed 3.3. As part of the extension of the credit facility for an additional year and amendment of the securitization agreement, Makhteshim-Agan reached agreement with the financing party regarding the amendment of the financial covenant regarding the ratio between Makhteshim-Agan's interest-bearing financial liabilities and EBITDA, so that for the period ended March 31, 2011 and for every period until December 31, 2011 (inclusive), the ratio between the financial liabilities and EBITDA will not exceed 5. Furthermore, Makhteshim-Agan reached agreement with the financing party, so that the amendment to the securitization agreement will contain an exception, whereby at March 31, 2011 and for every period until December 31, 2011 (inclusive), the calculation of the said ratio will not include one-off expenses totalling \$90 million. The said agreements were given to Makhteshim-Agan verbally, and the related documents have not yet been signed.
- (3) Makhteshim-Agan's shareholders' equity will not fall below \$1 billion.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 9 - Investments in Investees (cont.)**A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (cont.)**

4(B). (cont.)

The securitization agreement and the agreements with banks contain Cross Default clauses, whereby the party opposite which Makhteshim-Agan has undertaken in the agreement will be allowed to demand immediate repayment of the debts of Makhteshim-Agan and/or its subsidiaries, in full or part, provided that the amount of the debts and obligations of Makhteshim-Agan and/or subsidiaries toward that other financing parties exceeds the minimum amount prescribed in the various financing agreements.

Furthermore, Makhteshim-Agan has undertaken, under the terms of the letters of consent opposite financing parties, as aforesaid, to comply with additional criteria which Makhteshim-Agan believes, at the report date, does not significantly restrict Makhteshim-Agan's activities.

At December 31, 2010, Makhteshim-Agan was in compliance with the financial covenants prescribed by the financing banks under the terms of the financing documents and letters of consent received from the financing banks at the end of the report period. Likewise, in Makhteshim-Agan's estimation, it will be in compliance with the financial covenants prescribed in the letters of consent in the relevant period. It should be clarified that following those periods, the original financial covenants, as prescribed in the financing agreements, will be resumed.

5. On October 31, 2010, Makhteshim-Agan announced that it had reached agreement with the New Histadrut Haclalit and with the workers committees of the subsidiaries in Israel, Makhteshim and Agan, of which labor disputes that declared will end in relation to the subsidiaries plants. The key agreements reached in the agreement in principle are presented below:
 1. Makhteshim-Agan committed to continue production in the volume and on certain production lines in the subsidiaries' plants in Israel until June 1, 2017 ("commitment period") provided that any agreement to transfer control in Makhteshim-Agan will be closed by June 1, 2012. The commitment period will be anchored in a transfer of control in Makhteshim-Agan agreement if such an agreement will be signed.
 2. It was agreed on the voluntary retirement of up to 100 employees over age 57 during the years 2011-2012, in each of the subsidiaries (total of up to 200 employees). The names of the voluntary retirees will be agreed by the parties.
 3. In the event any agreement to transfer control in Makhteshim-Agan is signed, a special assistance fund will be established for the voluntary retirees.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 9 - Investments in Investees (cont.)**A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (cont.)**

5. (cont.)

Employee representatives have committed to industrial calm on matters that were arranged in the agreements between the parties, including with respect to a future transfer of control in Makhteshim-Agan.

On November 6, 2010, Makhteshim-Agan's management gave the workers committees of Makhteshim consent in principle, as provided in the agreement in principle, whereby during the years 2013-2014, up to 50 permanent employees may retire, in addition to those already listed in the agreement in principle, subject to all the stipulates of the agreement in principle.

In the fourth quarter of 2010, Makhteshim-Agan posted a one-off provision of \$58 million for the retirement of 150 employees from manufacturing sites in Israel for which agreements were reached. This provision does not include a provision to the assistance fund that will be available if an agreement is signed to transfer control. The Group's share of the provision is NIS 99 million.

6. On October 11, 2010, Makhteshim-Agan's board of directors approved in principle, a comprehensive reorganization in Makhteshim-Agan's subsidiary in Brazil ("the plan"). Implementation of the plan involves a significant adjustment of manpower levels, a significant reduction in manufacturing activities and the transfer of products from independent manufacturing to outsourcing, while reducing overhead. Due to implementation of the plan, the subsidiary recorded one-off provisions for employee terminations and for write-down of assets totaling \$47 million. The Group's share in this provision is NIS 80 million.

Additionally, the subsidiary has deferred tax assets that were recognized because Makhteshim-Agan estimated that future taxable income is expected, against which it will be possible to utilize these tax assets.

During the third quarter of 2010, sales turnover and profit margins fell below the forecasts in the subsidiary's forecasts. Consequently, the subsidiary is implementing a comprehensive reorganization plan, as discussed above. In the estimation of Makhteshim-Agan, based on factors including its past experience in implementing reorganization plans in the Group and based on the actions that have been decided upon and which the subsidiary has been carrying out since the fourth quarter of 2010, the reorganization plan is expected to improve the subsidiary's results already in 2011.

Accordingly, the subsidiary updated its forecasts according to detailed data for the next eight years, based on factors including a detailed sales forecast of the subsidiary and the expected results of the reorganization described above.

As a result, during the third quarter of 2010, the tax assets were reduced by \$20 million. The Group's share in this reduction is NIS 36 million.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 9 - Investments in Investees (cont.)**A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (cont.)**

7. During the third quarter of 2010, the Company received an inquiry from China National Chemical Corporation, a large Chinese company controlled by the government of China engaged in chemicals and agrochemicals, regarding a proposed strategic process related to Makhteshim-Agan. On January 8, 2011, an agreement was signed with a subsidiary of China National Chemical Corporation ("ChemChina") to effect a merger, under the terms of which the public's holding in Makhteshim-Agan will be acquired, 7% of the Makhteshim-Agan shares held by Koor will be acquired, and Makhteshim-Agan will become a private company owned jointly by ChemChina (60%) and by Koor (40%).

The shares of Makhteshim-Agan will be acquired at a price that will reflect a company value of \$2.4 billion (calculated based on the effective holdings that do not include Company shares held by Makhteshim-Agan and its subsidiary) with the payments made in US dollars. Accordingly, before the minor dilution expected to be caused by the exercise of employee options, the share price is \$5.57 (which as of the report date and taking into account the present dollar exchange rate, the share price is NIS 19.83). Under the terms of the transaction, the shareholder public of Makhteshim-Agan will receive total consideration of \$1,272 million for the sale of 53% of the shares of Makhteshim-Agan, and Koor will receive \$168 million for the sale of 7% of Makhteshim-Agan's shares. Note that if and when Makhteshim-Agan will issue shares or convertible securities from the signing date of the agreement until its closing, a sum equal to 60% of the issue proceeds will be added to the total consideration amount.

Pursuant to the merger agreement, the parties to which are: (1) Makhteshim-Agan (2) ChemChina; (3) a private company, wholly-owned of ChemChina (indirectly through its wholly-owned corporation) that was established in Israel for the purpose of entering into the merger agreement ("special purpose company"); (4) the Company, the controlling shareholder in Makhteshim-Agan and M.A.G.M. Chemistry Holdings Ltd. (together with Koor – "Koor") – the special purpose company will be merged with and into Makhteshim-Agan, by a three-way reverse merger. Hence, immediately after the merger closes, ChemChina will hold 60% of the issued capital of Makhteshim-Agan and Koor will hold 40% of the issued capital of Makhteshim-Agan. Upon the closing of the merger, Makhteshim-Agan's shares will be de-listed from trading on the Tel Aviv Stock Exchange Ltd. ("Stock Exchange") and Makhteshim-Agan will become a private company and the special purpose company ceases to operate. However, it will continue to be a reporting corporation, as this term is defined in the Securities Regulations – 1968, due to the fact that the debentures issued by Makhteshim-Agan will continue to be listed for trading on the Stock Exchange even after the merger's closing.

As part of the merger, ChemChina will cause a non-recourse loan to be provided to Koor, through a Chinese bank ("the Bank"), totaling \$960 million, which will be secured solely by a lien on the shares of Koor in Makhteshim-Agan. The loan principal will be repaid at the end of 7 years and will bear fees and interest at the rate of Libor+4.5% plus expenses that Koor will bear. Considering the current Libor rate, the effective interest (before fees) is estimated at 6%. In the first 4 years, interest will not be paid, but will be added to the principal and later, the interest will be paid every 3 months. The loan will be repaid in cash or through the pledged shares (or part of them), and Koor will be allowed, as from the end of the year in which the loan is provided, to make early repayment of the loan – in full or part. Dividends for the pledged shares, up to the amount of the annual interest, will be used to make the interest payments, with the surplus dividends, if any, distributed to Koor. Koor,

Notes to the Financial Statements for the Year Ended December 31, 2010

ChemChina and the Bank will negotiate a detailed loan agreement ("the loan agreement"), which will be brought separately for the approval of the Koor board of directors.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 9 - Investments in Investees (cont.)**A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (cont.)**

7. (cont.)

The merger's closing is contingent upon the fulfillment of various suspending conditions, including obtaining the requisite approvals from the governmental authorities in China, which could take several months (and if not received within the period prescribed), the merger agreement may be cancelled by Koor or Makhteshim-Agan; obtaining approval of a general meeting of Makhteshim-Agan in a special majority, in accordance with the provisions of Sections 320(c) and, as agreed between the parties, also in accordance with the provision of section 275 of the Companies Law (Koor has undertaken to vote in favor of the merger in the general meeting of the Company, subject to the signing of the loan agreement and additional conditions); and the signing of a loan agreement and providing the loan to Koor (if Koor's board of directors decides not to approve the loan agreement, Koor will be permitted to cancel the merger agreement).

Subject to the fulfillment of the suspending conditions, the transaction is expected to close during the second or third quarter of 2011. If the transaction is not closed by the end of August 2011 (subject to an extension under certain circumstances), the agreement may be cancelled by the parties.

On the signing date of the merger agreement, a shareholder agreement was signed between Koor and ChemChina, taking effect on the transaction's closing date, arranging the partnership ties between them in Makhteshim-Agan, which prescribes provisions, including: appointment of directors based on ratio of holdings; ChemChina's right to appoint the chairman of the board of directors and Koor's right to appoint the deputy of the chairman of the board of directors; appointment and dismissal of senior management with consent; certain veto rights for Koor; possibility of selling certain agrochemical assets of ChemChina to Makhteshim-Agan (subject to Koor's approval); dividend distribution policy; commitment to work toward a public offering of the shares of Makhteshim-Agan and registration rights to Koor, in the event such offering is not carried out as noted within 3 years; various limitations on the transfer of Makhteshim-Agan shares, including reciprocal right of first refusal or reciprocal right of first offer (during the periods prescribed) and Koor's tag along right toward ChemChina; Koor's commitment that before the end of 3 years from the merger's closing date, Discount Investment Corporation Ltd. will not stop being a controlling shareholder therein (unless control will be held by another IDB Group entity), and that thereafter, control therein will not be sold to a competitor of Makhteshim-Agan or of ChemChina. In the event of a change in control in Koor after the end of the 3 years, as noted, certain rights given to Koor (including Koor's right to appoint the deputy chairman and its rights regarding appointment and dismissal of senior management) will lapse; ChemChina's commitment to hold at least 51% of the voting rights in Makhteshim-Agan until the public offering and to remain the largest shareholder in Makhteshim-Agan for the subsequent period designated.

Note that as published in the transaction agreement by Makhteshim-Agan on January 20, 2011, Makhteshim-Agan received an opinion from the Yitzhak Suari Firm stating that the share price in the transaction expresses a fair price for the shareholding public of Makhteshim-Agan. The said opinion contains an economic valuation of the benefit to Koor for the characteristics of the loan, amounting to \$160-\$185 million.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 9 - Investments in Investees (cont.)**A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (cont.)**

7. (cont.)

If and when the transaction will close, Koor is expected to recognize net income from the sale of 7% of the shares of Makhteshim-Agan, estimated at this stage at NIS 185 million (takes into account capital reserves with debit balances that will be realized for NIS 60 million). Moreover, upon the closing of the transaction, Koor will recognize an increase in equity for the said capital reserves that will be realized. Koor is examining other accounting implications of the transaction, including the accounting treatment to be adopted for the loan, and subject to the results of such examination for the loan, Koor may also recognize income, on the closing date of the transaction, in addition to the aforesaid, due to the characteristics of the loan net of tax, which, noting the fairness opinion, could be a significant amount, which may also be updated periodically to income and loss over the life of the loan. These estimates of Koor are based on factors including the amount at which Koor's investment in Makhteshim-Agan is recorded in its books and the equity of Makhteshim-Agan as of December 31, 2010, as well as the exchange rate of the dollar as of December 31, 2010. These estimates could change significantly, mainly due to possible changes in the equity of Makhteshim-Agan and the dollar exchange rate until the relevant dates.

The agreement between Koor and ChemChina is a future contract, the result of which is a future business combination for ChemChina (together with the acquisition of shares from the public), with the period expected until the closing of the agreement constituting a normal period for obtaining the requisite approvals for the transaction. Therefore, this agreement is to be deemed a future contract for a business combination, which is not covered by IAS 39, in other words, it is a contract that does not constitute a derivative and which is not required to be measured at fair value through income and loss.

The investment in Makhteshim-Agan will continue to be treated in Koor's books by the equity method.

It is clarified that the closing of the merger is not certain.

B. 452 Fifth owners, LLC – jointly-controlled company

On October 3, 2009, Koor and Property and Building Corporation Ltd. ("Property and Building", a company held by DIC) 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, at terms that 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.

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

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 9 - Investments in Investees (cont.)**B. 452 Fifth owners, LLC – jointly-controlled company (cont.)**

Pursuant to the agreement, IDB Corporation purchased the building, which serves as the headquarters for HSBC Bank. 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 totaled \$353 million (includes brokerage fees and payments to consultants). For the purpose of partial financing of the consideration, IDB Corporation received, on the closing date, a loan from Bank Leumi USA ("Leumi USA") totaling \$210 million for a period of 10 years. The credit bear fixed interest at the 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 balloon payment at the end of the loan period. To secure the credit, on the closing date, 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 consideration was financed from independent sources of IDB Corporation.

Note that since under exceptional circumstances, the guarantees could be deemed unlimited in amount, and for reasons of caution, the financial statements of 452 Fifth Owners LLC are attached to the financial statements for the year 2010, as required by Regulation 19(C) of the Securities Regulations (Annual Financial Statements), 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 for the space rented for 10 years (HSBC's option to extend the rental period for part of the space rented for 12 months was not exercised). The rental fees to be paid 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 Financial Statements for the Year Ended December 31, 2010

Note 9 - Investments in Investees (cont.)**B. 452 Fifth owners, LLC – jointly-controlled company (cont.)**

The fair value of the building was updated as of 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, in the second quarter of 2010, IDB Corporation recognized income from the increase in the fair value of investment property of \$36.9 million. The transaction is subject to the agreement with Rock Real, described in Note 29(C)(2)(4). In connection with this agreement, IDB Corporation recorded a provision totaling \$2.4 million in 2010. Koor's share in the net revaluation from the said provision is NIS 66.6 million, included in Koor's share in the results of affiliates. In addition to and as a result of the said revaluation and provision, the consolidated financial statements include deferred taxes of NIS 30 million. As of December 31, 2010, there was no change in the building's fair value.

The book balance of the investment (including shareholder's loan) as of December 31, 2010 totaled NIS 350 million.

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's share, 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 additional approvals from the relevant organs of the Company and of Property and Building.

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

1. During 2010, the board of directors of Epsilon resolved to distribute a cumulative dividend of NIS 23.7 million. Koor's share in these distributions is NIS 11.85 million. These dividends were received on the dates of the board of directors' resolutions.
2. As of December 31, 2010, the Company's investment in Epsilon is accounted for by the equity method.

During 2008 and at its end, the Company evaluated the recoverable amount of its investment in Epsilon, facilitated by a valuation by an independent appraiser. As a result of this appraisal, an impairment provision of NIS 23 million was recorded in 2008, which was included in the item "the Koor Group's equity in losses of affiliates".

In 2009, the Company re-evaluated the recoverable amount of its investment in Epsilon, facilitated by a valuation by an independent appraiser. Based on the evaluation, the Company was not required to record or reverse the impairment provision. The measurement of the recoverable value of Epsilon was based on the realization value of its areas of operation.

In 2010, the Company recognized income of NIS 3 million for the reversal of impairment of the investment in Epsilon, based on the value stipulated in the agreement to acquire the shares of Epsilon described in Par. 3 below.

3. 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 28 million, so that after the said acquisition, the Company holds 68.75% of the issued and paid share capital of Epsilon. The transaction closed on January 20, 2011.

Notes to the Financial Statements for the Year Ended December 31, 2010

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 in January 2011.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 9 - Investments in Investees (cont.)**C. Epsilon Investment House Ltd. ("Epsilon") – an affiliate (cont.)**

3. (cont.)

The Company will consolidate the results of Epsilon from the date control is transferred (as from January 2011).

According to generally accepted accounting principles, the transition to consolidation will be treated as a sale of the balance of the investment in Epsilon as of the date of the business combination before effecting the acquisition of shares, as above, and reacquisition of all the holdings in Epsilon after acquiring the shares, as noted. The aforesaid will have no effect on the income and loss in the first quarter of 2011.

As a result of the reacquisition of Epsilon, Koor had adjustments to fair value of identifiable assets and liabilities, net of goodwill, of NIS 67 million.

Epsilon's contribution to the Group's income for the year ended December 31, 2010 totaled NIS 7,511 thousand.

Management estimates that if the acquisition had been made already on January 1, 2010, the amount of revenues from sales and services in the consolidated statement of income for 2010 would total NIS 163,995 thousand, and the consolidated loss for that year would be NIS 523,167 thousand. Not taken into account in determining these amounts are amortization of excess cost for the reacquisition, since the excess cost has not yet been allocated.

D. Credit Suisse Emerging Markets Credit Opportunity Fund L.P. ("Emco Fund")

In resolutions from August 10, 11 and 12, 2010, the audit committee and board of directors of Koor approved Koor's undertaking a transaction, which was executed on November 22, 2010, under the terms of which Koor, Clal Insurance Enterprises Holdings Ltd. ("Clal Insurance") and Clal Pension and Gemel Ltd. (together with Clal Insurance – "Clal Insurance Group") (Clal Insurance Group together with Koor – "IDB Group") have undertaken to invest a total of \$250 million - \$125 million by the Company and \$125 million by the Clal Insurance Group – in the Emco Fund, a private equity fund managed by corporations in the Credit Suisse Group, the objective of which is to invest in emerging markets, mainly through debt products. The joint venture was approved by the audit committee and board of directors of Koor under Regulation 1(4) of the Companies Regulations (Exceptions in Interested Party Transactions), 2000.

The total amount of the investment commitment in Emco Fund is \$1 - \$1.1 billion. The general partner in Emco Fund will be a corporation from the Credit Suisse Group. IDB Group has undertaken, as noted, to invest \$250 million in Emco Fund. Each limited partner in the Fund that has committed, by itself or together with other related entities, to invest at least \$250 million in Emco Fund (except for the general partner or any other limited partner related to Credit Suisse), were granted special rights in Emco Fund's documents, as long as that limited partner ("significant investor"), or any other limited partner related to it, is not in breach.

In the event a partner will breach its obligations to inject cash, its rights in Emco Fund will be transferred, in certain circumstances, to the other limited partner at a price that is the lower of 50% of the value or cost of the transferred interest.

The life of Emco Fund is five years commencing November 22, 2010, and may be extended, under certain conditions, by two additional periods of one-year each.

Note 9 - Investments in Investees (cont.)

Notes to the Financial Statements for the Year Ended December 31, 2010

D. Credit Suisse Emerging Markets Credit Opportunity Fund L.P. ("Emco Fund")(cont.)

Proposals for making investments (acquisitions, sales and/or related activities) of Emco Fund are presented before the significant investors, which have been granted veto rights and rights to approve certain transactions or actions of Emco Fund, under the conditions prescribed in Emco Fund's documents. Koor and the Clal Insurance Group have agreed that the representative of IDB Group for giving consent to the Fund shall be Mr. Nochi Dankner (a director in Koor and in Clal Insurance) or whoever is appointed as his substitute or whoever will be agreed upon, from time to time, by Koor and Clal Insurance, and that the representative shall act at his discretion in certain matters (including, with respect to investment-making decisions, as aforesaid).

Subject to the law imposed from time to time on institutional bodies in the Clal Insurance Group, the following rights apply between Koor and the Clal Insurance Group, provided that their applicability is reciprocal: (a) giving one party the possibility of stepping into the shoes of the other party with respect to certain rights that have been conferred on significant investors and with respect to the injection of monies into Emco Fund, and (b) the right of first refusal in the transfer of an interest to an unrelated third party.

Emco Fund will make distributions to the partners out of the current earnings (such as dividends or interest) and from monies received in connection with the realization of Emco Fund's investments, all subject to retaining amounts to cover expenses, obligations and withholding taxes.

Based on the conditions prescribed in the Emco Fund agreement, Koor will account for the investment by the equity method. In the Company's opinion, according to accounting principles, it has significant influence in Emco Fund since it has the power to make certain significant decisions of Emco Fund, such as investment decisions, through a joint representative designated by the Company and Clal Insurance.

The investments in Emco Fund actually began subsequent to the balance sheet date.

As of the report date, the cumulative investments of Koor in Emco Fund totaled \$7 million, and the balance of Koor's commitment to invest in Emco Fund is \$118 million.

E. A.K.A. Development Ltd. ("AKA") – former affiliate

On April 16, 2009, Koor Properties Ltd. ("Koor Properties"), a wholly-owned subsidiary of Koor, signed an agreement for the sale of its stake (33% of the issued and paid-up share capital) in AKA, to the remaining shareholders in AKA ("the Buyers"). On July 20, 2009, the sale was closed. The total receipts from the sale of Koor's Properties in AKA amounted to NIS 81.2 million, comprised of proceeds from the sale of shares totaling NIS 30.6 million, proceeds from the repayment of loans given by Koor Properties totaling NIS 33.9 million and from a dividend – pre-sale – in which Koor Properties share is of NIS 16.7 million. This transaction had no effect on the Company's net income.

F. Koor Venture Capital – a consolidated partnership

Regarding the investments of Koor Venture Capital, which are measured at fair value through income/loss, see Note 10(H).

G. ECTel – a former affiliate

Regarding the sale of ECTel shares, see Note 8(1).

Note 9 - Investments in Investees (cont.)

Notes to the Financial Statements for the Year Ended December 31, 2010**H. Telrad Networks Ltd. ("Telrad") – a former affiliate**

On March 31, 2009, Koor signed an agreement with Telrad and with the Fortissimo Fund, whereby Koor transferred a part of its shares in Telrad to Fortissimo, as well as part of its right to repayment of the loans it had furnished to Telrad, for no consideration, so that its holdings in Telrad fell to 10% and its share in shareholder loans fell to 10%. Furthermore, in accordance with Koor's undertaking to inject up to \$1,000 thousand as part of a round of financing that was effected during 2010, at the terms provided in the agreements. As from the signing date of the agreement, Koor has the right to join the sale of Telrad shares by Fortissimo, and has no representation in Telrad's board of directors. The sale had no effect on the Company's net income.

As a result of the sale, commencing March 31, 2009, the investment in Telrad is treated as an asset available for sale.

I. Condensed financial data regarding affiliates and jointly-controlled entity accounted for by the equity method

Presented below are summarized financial data for equity-accounted affiliates, without adjustment to ownership percentages held by the Company and without adjustment for excess cost included in these investments:

	<u>Ownership percentage</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Revenues</u>	<u>Earnings (loss)</u>
2010					
Makhteshim-Agan	47%	13,197,837	9,124,401	9,082,788	(478,030)
Epsilon	50%	63,202	12,815	61,564	11,438
452 Fifth owners LLC (3)	50%	1,467,039	1,140,677	268,898	150,674
Emco Fund	12.5%	-	7,498	-	(7,498)
2009					
Makhteshim-Agan	47%	14,193,422	9,373,642	8,921,728	144,993
Epsilon	50%	76,346	13,697	60,684	23,278
ECTel (2)	21%	122,067	39,718	52,855	(53,895)
452 Fifth owners LLC (4)	50%	92,610	196	-	(340)
AKA (1)	33%	412,098	319,318	7,926	3,339
2008					
Makhteshim-Agan	42%			9,376,097	776,296
Epsilon	50%			30,896	(13,065)
ECTel (2)	61%			89,640	(29,758)
Telrad (1)	21%			194,430	(80,523)
AKA (1)	33%			63,881	25,327

(1) Sold during 2009.

(2) As of December 31, 2009, investment was presented as held for sale. See Note 8(1) above.

(3) Total assets include current assets totaling NIS 77,548 thousand and non-current assets totaling NIS 1,389,491 thousand. Total liabilities include current liabilities totaling NIS 18,011 thousand and long-term liabilities totaling NIS 1,122,666 thousand.

(4) Total assets include current assets totaling NIS 3,708 thousand and non-current assets totaling NIS 88,902 thousand and the total liabilities are current liabilities.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 9 - Investments in Investees (cont.)

J. Supplementary information on affiliates, jointly-controlled company and subsidiaries held directly by Company

	State of association	As at December 31, 2010				As at December 31, 2009			
		Company's rights in capital %	Amounts Company made available to investee		Total investment in investee (4)	Company's rights in capital %	Amounts Company made available to investee		Total investment in investee (4)
			Loans	Guarantees NIS thousands			Loans	Guarantees NIS thousands	
Affiliates									
Makhteshim-Agan (1)(5)	Israel	14.96	-	-	1,010,023	14.96	-	-	1,190,128
Epsilon	Israel	50	-	-	74,150	50	-	-	78,488
ECTel (2)	Israel	-	-	-	-	21.5	-	-	16,655
Emco Fund	Cayman Isl.	12.5	-	-	(937)	-	-	-	-
Mashal Alluminia Industries Ltd. (in liquidation)	Israel	47.5	-	-	-	47.5	-	-	-
452 Fifth Owners LLC(3)	Delaware	50	187,176	186,323	-	50	-	-	-
Subsidiaries									
Microwave Networks Inc. (MNI)	Delaware	97.5	38,814	26,618	(39,542)	97.5	36,320	31,710	(36,517)
Koor Industry USA L.P.	Delaware	100	-	-	131,853	100	-	-	46,181
Koor Industry USA Inc.	Delaware	100	-	-	-	100	-	-	-
Koorshevel Ltd.	Israel	55	20,854	-	(1,481)	55	20,389	-	(2,562)
Harriet Investments (2001) Ltd. (in voluntary liquidation)	Israel	70	106,858	-	(106,858)	70	106,858	-	(106,858)
M.A.G.M. Chemistry Holdings Ltd. ("MAGM")	Israel	100	-	864,038	2,765,338	100	-	861,494	4,232,048
Ganei Ta'asiya Acre Ltd.	Israel	100	3,653	-	(2,331)	100	3,537	-	(498)
Koor Tadiran Gemel Ltd.	Israel	100	-	-	-	100	-	-	-
Telrad Holdings Ltd.	Israel	100	-	-	6,361	100	-	-	6,363
Koor Venture Capital Partnership	Israel	100	-	-	47,244	100	-	-	62,147
Koor Investments Ltd.	Israel	100	-	-	-	100	-	-	120
Koor Properties Ltd. (in voluntary liquidation)	Israel	100	-	-	7,177	100	-	-	18,429
Solkoor, Marketing and Purchasing Company Ltd.	Israel	100	19,207	-	(19,185)	100	18,140	-	(18,810)
Korin Insurance Limited	Guernsey	100	-	-	2,168	100	-	-	2,854
Tadiran Ltd. (in voluntary liquidation)(6)	Israel	100	-	60,333	(33,914)	100	-	64,175	(33,094)
Solnir Ltd. (in voluntary liquidation)	Israel	100	-	-	-	100	-	-	-
			376,562	1,137,312	3,840,066		185,244	957,379	5,455,074

(1) Group's holding percentage in direct and indirect voting rights (through MAGM) in Makhteshim-Agan, as at December 31, 2010 is 47.03% (2009 – 47.04%).

Moreover, as at December 31, 2010, the Company's direct voting rights are 15.11% (as at December 31, 2009 – 15.12%).

(2) Regarding financial statement presentation as of December 31, 2009, see Note 8(1).

(3) The Company provided loans to 452 Fifth Owners LLC, a jointly-controlled company of Koor (through Koor Industries USA L.P.) and Property and Building Ltd.

(4) Total investment in subsidiaries was calculated as a net amount, based on the consolidated financial statements attributed to the company's owners of total assets less total liabilities, including goodwill. Therefore, the said totals do not include intercompany loan balances.

(5) The market value of the Group's investment in Makhteshim-Agan, directly and indirectly (through MAGM) as of December 31, 2010, is NIS 3,683 million (as of December 31, 2009 – NIS 3,664 million).

(6) Incidental to the voluntary liquidation of Tadiran and the transfer of its assets to Koor, Koor has undertaken to indemnify Tadiran up to the amount shown in the table.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 9 - Investments in Investees (cont.)****K. Information on dividends received or receivable from affiliates, a jointly-controlled company and subsidiaries**

	Year ended December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
From affiliates	11,850	112,718	249,690
From subsidiaries	11,609	288,582	-

L. Information on goodwill deriving from acquisition of investments in affiliates

	December 31			
	2010		2009	
	Total goodwill deriving from acquisition	Total of impairment of the investment	Total goodwill deriving from acquisition	Total of impairment of the investment
	NIS thousands		NIS thousands	
In respect of affiliates	358,423	(*) 19,847	377,135	(*) 22,940

(*) Regarding the impairment provision on investment in Epsilon, see Par C(2) above.

Note 10 – Other Investments and Pledged Deposits**A. Short-term deposits and investments:**

	December 31	
	2010	2009
	NIS thousands	
Financial assets designated as fair value through income/loss	69,860	44,034
Bank deposits	6,598	13,444
Derivatives not recognized as accounting hedge	-	6,467
Total	76,458	63,945

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 10 – Other Investments and Pledged Deposits (cont.)****B. Non-current investments**

	December 31	
	2010	2009
	NIS thousands	
<u>Financial assets available-for-sale</u>		
Financial assets available-for-sale	117,020	2,888,648
Pledged financial assets available-for-sale	5,535,863	2,412,527
	5,652,883	5,301,175
<u>Other investments and pledged deposits</u>		
Pledged deposits	457,511	-
Deposits in banks and financial institutions	2,839	3,111
Financial assets designated as fair value through income/loss (mainly venture capital investments)	47,601	62,486
Derivatives not recognized as accounting hedge	8,109	7,794
Long-term debit balances	17,746	-
Funded employee benefits deposited with related party	396	425
	534,202	73,816
Total non-current investments	6,187,085	5,374,991

The Group's exposure to credit risk, currency and indexation risk and interest rate risk are also discussed in Note 26, regarding financial instruments.

C. Share price risk – sensitivity analysis

- The sensitivity analysis below presents the effect of a change in share prices on the fair value of financial assets available for sale. A change in share prices would increase (decrease) income and loss and equity by the following amounts after-tax:

	December 31			
	2010		2009	
	Income/loss	Equity	Income/loss	Equity
	NIS thousands		NIS thousands	
Increase of 5%	7,552	275,030	44,583	245,755
Increase of 10%	7,903	542,860	89,166	491,510
Decrease of 5%	(14,815)	(282,645)	(9,965)	(245,755)
Decrease of 10%	(22,734)	(565,288)	(9,965)	(491,510)

- Change in fair value of securities measured at fair value through income/loss would affect income and loss by the following after tax amounts:

	Increase (decrease) in income/loss	
	2010	2009
	NIS thousands	
Increase of 5%	5,873	5,326
Increase of 10%	11,746	10,652
Decrease of 5%	(5,873)	(5,326)
Decrease of 10%	(11,746)	(10,652)

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 10 – Other Investments and Pledged Deposits (cont.)****D. Information on interest and indexation according to type of investment****(1) Financial assets measured at fair value through income/loss, except for derivatives (*)**

	December 31, 2010			Total
	Monetary financial instruments			
	Non-monetary financial instruments	Unlinked NIS	CPI-linked NIS	
	NIS thousands			
Financial assets designated at fair value through income/loss:				
Marketable shares	27,195	-	-	27,195
Non-marketable shares	44,146	-	-	44,146
Government bonds	-	8,114	4,395	12,509
Investment in participating units of mutual funds and ETF's	33,611	-	-	33,611
Total financial assets designated at fair value through income/loss	104,952	8,114	4,395	117,461
	December 31, 2009			
	Monetary financial instruments			
	Non-monetary financial instruments	Unlinked NIS	CPI-linked NIS	
	NIS thousands			
Financial assets designated at fair value through income/loss:				
Marketable shares	12,403	-	-	12,403
Non-marketable shares	59,931	-	-	59,931
Government bonds	-	6,165	7,228	13,393
Investment in participating units of mutual funds and ETF's	20,793	-	-	20,793
Total financial assets designated at fair value through income/loss	93,127	6,165	7,228	106,520

(*) For information on the Group's derivative financial instruments, see Note 26 regarding financial instruments.

(2) Financial assets available for sale

	Non-monetary financial instruments	
	December 31	
	2010	2009
	NIS thousands	NIS thousands
Marketable shares (pledged and not pledged)	5,559,030	5,212,204
Non-marketable financial assets	93,853	88,971
	5,652,883	5,301,175

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 10 – Other Investments and Pledged Deposits (cont.)****D. Information on interest and indexation according to type of investment****(3) Loans and receivables**

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Effective</u>	<u>Total</u>	<u>Effective</u>	<u>Total</u>
	<u>interest rate</u>	<u>NIS thousands</u>	<u>interest rate</u>	<u>NIS thousands</u>
Long-term debit balance – dollar linked	-	<u>17,746</u>	-	<u>-</u>
Deposits – dollar-linked	<u>0.3%</u>	<u>2,839</u>	0.2%	<u>3,111</u>
Pledged deposits – denominated in Swiss francs	<u>0.11%</u>	<u>457,511</u>	-	<u>-</u>

E. Analysis of contractual realization dates

	<u>Second year</u>	<u>Third year</u>	<u>Fourth year</u>	<u>More than five years</u>	<u>Total</u>
	<u>NIS thousands</u>				
Long-term debit balance	<u>871</u>	<u>794</u>	<u>728</u>	<u>15,353</u>	<u>17,746</u>
Loans and receivables - deposits	<u>1,600</u>	<u>1,000</u>	<u>239</u>	<u>-</u>	<u>2,839</u>
Pledged deposits (*)	<u>236,935</u>	<u>220,576</u>	<u>-</u>	<u>-</u>	<u>457,511</u>

For information on realization dates of derivative financial instruments, see Note 26 regarding financial instruments.

(*) The contracted realization dates are according to the expected repayments of the loans (based on management's intention to exercise an extension of the credit period) for which the deposits were pledged. Note that the pledge of the deposits depends on the ratio of the collateral to the debt and could be realized before the loan's maturity date – see Notes 17(C)(2) and 17(C)(3). At the report date, the balance of pledged deposits amounts to NIS 393 million

F. Investment in shares of Credit Suisse Group AG ("Credit Suisse")

In March 2008, in view of the situation in the markets, and especially as a result of the sub-prime crisis, as a result of which many banks reported significant write-offs and the prices of their shares fell considerably, Koor's board of directors approved the purchase of shares of European financial institutions traded on a stock exchange in Europe and/or the U.S., up to a total of NIS 1.5 billion. In April 2008, Koor reported that the shares of the banks which Koor's board of directors approved for purchase include, inter alia, the shares of Credit Suisse. In July 2008, the Company's board of directors approved an increase in the amount of the investment in the shares of Credit Suisse, up to a total of NIS 3 billion, and in November 2008, the board of directors approved an increase in the maximum amount of the investment in shares of Credit Suisse up to NIS 5 billion. In August 2009, the Company's board of directors resolved to increase the investment framework to NIS 6 billion. In January 2010, the Company's board of directors resolved to increase the investment limit to NIS 7 billion, all in accordance with a decision by Koor from time to time, and based on Koor's assessments about developments in the markets, while executing sell and buy transactions in accordance with market conditions, with the objective of being a significant shareholder in Credit Suisse. Said share purchases shall be made as a financial investment and not for the purpose of acquiring control.

Note 10 – Other Investments and Pledged Deposits (cont.)

Notes to the Financial Statements for the Year Ended December 31, 2010

F. Investment in shares of Credit Suisse Group AG ("Credit Suisse") (cont.)

The investment is accounted for in the balance sheet as a financial asset available for sale and is measured at fair value. In view of the existence of two major trading sites for the shares of Credit Suisse (the SIX Swiss Exchange in Switzerland and the NYSE in New York), measurement of the fair value of the investment on cut-off dates is the most updated, available price between these two markets. The most updated price as at the balance sheet date was the price on the New York Stock Exchange. Changes in the fair value of the investment are recognized (as long as they do not constitute a significant and/or continuous decline in value) directly in equity, in the capital reserve for financial assets available for sale ("capital reserve").

In examining for impairment of the investment in Credit Suisse, the Group also examines the percentage of the difference between the asset's fair value and its original cost, while referring to changes in the asset's fair value, the duration of time in which the asset's fair value is less than its original cost and to changes in the technological, economic or legal environment or the market environment in which Credit Suisse operates.

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 decrease in fair value (at the cut-off date) is 30% of the original cost or, if the decrease in fair value (at the cut-off date) exceeds 25% of the original cost during the period of three consecutive months ending on the cut-off date. A decrease in value will be deemed continuous if the decrease in fair value (at the cut-off date) relative to the original cost is over a period of twelve continuous months (the examination for consecutiveness of period, for the purpose of the said criteria, is based on a daily calculation of the share cost relative to their fair value, based on the available most up-to-date price at that day, between the two markets mentioned above). This policy will be implemented as long as no change has occurred in the circumstances that would require a re-examination, aside from exceptional cases. Note that this policy is being honed opposite the Securities Authority's staff, and the discussions have not yet ended.

In the years 2008, 2009 and 2010, the Company effected – directly and through a wholly-owned subsidiary – purchases and sales of shares of Credit Suisse. As a result of the sale of Credit Suisse shares during the years 2008, 2009 and 2010, the Group posted a pre-tax gain of NIS 575 million, NIS 2,641 million and NIS 15 million, respectively.

On May 7, 2010, Credit Suisse distributed a dividend of CHF 2 per share. The Group's share in this dividend was NIS 262 million. In the second quarter of 2010, the Company recorded net income from the dividend, net of withholding tax in Switzerland and based on expected tax effects in Israel (in accordance with Israeli tax law) of NIS 223 million.

On April 30, 2009, Credit Suisse distributed a dividend of CHF 0.1 per share. The Group's share in this dividend was NIS 10 million, net of withholding tax in Switzerland.

In connection with the shares of Credit Suisse, the Company and the subsidiary ("the Companies") are each required to record provisions for tax, the cumulative amount of which constitutes the provision for tax in the Company's consolidated financial statements, for the two elements that together constitute the difference between the investment on the books, measured at fair value (market value) and the tax basis on the investment for income tax purposes.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 10 – Other Investments and Pledged Deposits (cont.)**F. Investment in shares of Credit Suisse Group AG ("Credit Suisse") (cont.)**

The first element is the difference between the carrying value of the investment (measured, as noted, at market value) and the original cost of the investment (measured by the average cost method, with a consolidated view, for the Company's investments and the investments effected by the subsidiary). This difference reflects the accounting gain or loss embedded in the investment that accrued in equity. For this element, the Companies record a provision for tax or a tax asset, respectively, against the capital reserve (so that the capital reserve of the Companies represents the increase or decrease in fair value net of tax effects). The second element is the difference between the original investment cost of the shares and the tax basis of the investment for income tax purposes. This difference is created mainly for the differences between the manner in which the investment is recorded (as noted, by the average cost method with a consolidated view) and the manner in which the investment is accounted for on a tax basis (measurement differences for tax purposes). For the second element, the Companies record a provision for tax or a tax asset, in the item "taxes on income" in the statement of income.

If the sum of the aforementioned two elements results in a deferred tax asset, the company in which the tax asset is created does not recognize it, due to the inability to anticipate utilization of the loss against future gains. Therefore, it is not included in the consolidated financial statements. If the said amount results in a deferred tax liability, this payable is recorded, and against it, every company records a deferred tax asset up to the balance of the loss carryforwards that can be utilized in that company. The deferred tax asset for loss carryforwards are recorded through earnings/loss. In this connection, the reduction of the capital reserve in subsequent periods, for example, as a result of a decrease in the market value of the shares, will lead to a reduction in the liability, and correspondingly, will lead to a reduction in the deferred tax assets and to the recognition of tax expenses through earnings/loss. Utilization of the deferred tax asset included in the financial statements depends on the realization of the investment to which the capital reserve relates and the value at which the investment will be realized.

In 2009, the Company recognized material gains from the sale of shares of Credit Suisse, which it assesses, and based on professional opinions, may be offset against the loss carryforwards accrued in prior years, and in the year ended December 31, 2009. In these financial statements, management's judgment was required regarding the manner in which the losses are to be offset, the expected taxable income and its timing, since the tax laws and provisions on this area are subject to different interpretations.

In the year ended December 31, 2010, the Group recorded tax expenses totaling NIS 21million, excluding the tax effect of the aforementioned dividend, inter alia, for the recording of a tax provision on the difference between the cost of the Credit Suisse shares for tax purposes and their carrying value.

As at December 31, 2010, the Group holds 38.60 million shares of Credit Suisse, representing 3.29% of the shares of Credit Suisse (net of treasury shares), at a cumulative investment amount of NIS 6.97 billion, having fair value as of such date of NIS 5.54 billion. Hence, the balance of the negative capital reserve, net of tax, as of December 31, 2010, was NIS 1,359 million, reflecting a decrease in value of shares relative to the cost of shares of 20.6%, in addition to the negative difference between the cost of the shares and their market value has existed consecutively since August 6, 2010.

As at December 31, 2009, the Group holds 27.54 million shares of Credit Suisse, representing 2.36% of the outstanding shares (net of treasury shares) at a cumulative investment of NIS 5.05 billion, the fair value of which on such date stood at NIS 5.11 billion. Thus the balance of the positive capital reserve as at December 31, 2009, stood at NIS 43 million.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 10 – Other Investments and Pledged Deposits (cont.)**F. Investment in shares of Credit Suisse Group AG ("Credit Suisse") (cont.)**

As at the report date, the negative difference between the value of the Credit Suisse shares held by the Group, at their stock exchange price, which is NIS 5.67 billion, and the cost of these shares as mentioned above, stands at NIS 1.30 billion, and is included in capital reserve.

Regarding Credit Suisse's declaration proposing a cash distribution subsequent to the balance sheet date, see Note 30(1).

G. Investment in shares of Carrefour SA ("Carrefour")

On June 22, 2009, Koor's board of directors authorized to invest in the shares of Carrefour SA ("Carrefour"). The purchases are effected through a wholly-owned subsidiary of the Company. The approved investment limit is up to a sum of NIS 3.5 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. There is no certainty as to the amount of the investment.

The investment is treated in the balance sheet as a financial asset available for sale, and is measured at its fair value. The change in fair value of the investment, net of tax, is recognized (as long as there is no significant and/or ongoing decline) directly in equity, within the capital reserve for financial assets available for sale.

During 2009 and 2010, the Company, through a wholly-owned subsidiary, purchased and sold Carrefour shares. As a result of the sale of Carrefour shares, during 2009 and 2010 the Group recognized after-tax income of NIS 31 million and NIS 9 million, respectively.

As at December 31, 2010, the Company held 0.16 million shares of Carrefour, at an investment amount of NIS 24 million, and having fair value at this date of NIS 23 million. This negative difference of NIS 1 million was recognized in the capital reserve, financial assets available for sale. Regarding purchase and sale transactions subsequent to the date and the Group's holdings at the report date, see Note 30(6).

H. Venture capital investments

During 2010, the investments of the Koor Corporate Venture Capital Partnership, which are measured at fair value through income/loss, fell by a total of NIS 3 million (2009 – a total of NIS 5 million).

The fair value of the venture capital investments is determined as follows:

- a) Venture capital investments in which the shares are marketable – according to the market price of the shares as at the balance sheet date.
- b) Venture capital investments in which the shares are not marketable – the value of these investments is determined based on a valuation performed by an independent appraiser, or on the basis of sales effected subsequent to the date of the financial statements. The valuation was calculated from the starting point of the value derived from the most recent transaction effected in each company, while considering additional parameters, including: date the last investment was made in the company, the amount of the investment in the company, the identity of the investors in the aforementioned investment (for example, distinguishing between investors that are existing shareholders in the company and outside investors).

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 10 – Other Investments and Pledged Deposits (cont.)**I. Pledged deposits**

As at December 31, 2010, the balance of deposits of Koor and MAGM deposited against the Group's debt to Citi and Morgan Stanley is NIS 99 million and NIS 359 million, respectively. Withdrawal of the balance of these deposits is restricted. The possibility of their withdrawal in the future is contingent on achieving compliance with the collateral to debt ratio as prescribed in the Citi and Morgan credit agreements. See Note 17(C)(2) and 17(C)(3) regarding the loan agreements opposite the banks. At the report date, the balance of pledged deposits amounts to NIS 393 million

J. Investment in Sanofi-Aventis shares ("Sanofi")

In August 2010, the Company's board of directors approved a financial investment framework of up to \$120 million in the shares of Sanofi, a company engaged in the research, development, manufacturing and marketing of pharmaceuticals and healthcare products, the shares of which are listed for trading on the Euronext Paris Stock Exchange and on the New York Stock Exchange in the U.S. During the investment period, the maximum investment balance of the Group in Sanofi shares (in terms of cost) totaled \$74 million. During 2010, the Group sold all of its shares in Sanofi and recognized a gain on its investment in the shares of Sanofi of NIS 40 million.

The investment is accounted as designated at fair value through income/loss.

K. Investment in Indivision India Partners Fund ("the Fund")

In August 2006, Koor entered into an agreement, pursuant to which it committed to invest \$15 million in Indivision India Partners, a private investments fund totaling \$425 million, which invests in the retail industry in India.

During 2010, Koor invested \$1 million in the Fund and received refunds of \$2 million (in 2009 – invested \$1 million). At December 31, 2010, the Company's cumulative investment in the Fund totaled \$13 million and the balance of the Company's commitment for additional investments in the Fund is \$2 million.

The investment is accounted for as an asset available for sale measured at fair value. At December 31, 2010, the value of the investment in the Fund is NIS 55 million.

L. Investment in Mustang Mezzanine Fund ("Mustang Fund")

In September 2008, the Company signed an agreement, pursuant to which it committed to invest \$20 million in Mustang Fund, an Israeli limited partnership. The Mustang Fund focuses on providing mezzanine funding to suitable maturing companies in Israel or overseas engaged in different industries, including industry, commerce, telecom, services and real estate.

In 2010, Koor invested \$3 million in Mustang Fund (in 2009 – NIS 7 million). At December 31, 2010, Koor's cumulative investment in Mustang Fund totaled \$10 million. The balance of Koor's investment commitment in Mustang Fund at the report date is \$10 million.

The investment is accounted for in the balance sheet as an asset available for sale measured at fair value. At December 31, 2010, the value of the investment in Mustang Fund is NIS 39 million.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 11 – Investment Property**

Presented below are the changes in investment property:

	<u>Land</u>	<u>Rental buildings*</u>	<u>Total</u>
	<u>NIS thousands</u>		
Balance as at January 1, 2009	32,800	82,100	114,900
Increase in fair value	700	1,339	2,039
Disposal(*)	-	(21,639)	(21,639)
Balance as at December 31, 2009	<u>33,500</u>	<u>61,800</u>	<u>95,300</u>
Increase in fair value	<u>3,000</u>	<u>9,100</u>	<u>12,100</u>
Balance as at December 31, 2010	<u>36,500</u>	<u>70,900</u>	<u>107,400</u>

(*) In February 2009, Koor entered into an agreement for the sale of two floors in an office building in Tel-Aviv, constituting a single unit spanning, 1,617 square meters (and parking space) in consideration for NIS 22.4 million.

A. Determination of fair value

The Company and a subsidiary estimate the value of the investment property portfolio at least once a year, by means of an independent appraiser having the appropriate, recognized skills and up-to-date experience regarding the location and classification of the properties being appraised.

The fair value is based on market values. The market value of investment property is the estimated amount at which it is possible to sell the investment property on the valuation date, in an arm's length transaction in which the parties act intelligently in a transaction that is not influenced by special relations between the parties. To this end, for certain real estate properties, the direct comparison approach (market approach) was adopted, whereby the appraiser bases his estimate of market values on transactions effected in other properties, similar in their characteristics, inter alia, in their location, nature, embodied risk level and degree of their marketability. The final valuation in this approach uses relevant comparative coefficients for the land being appraised with respect to the comparative transactions.

For the remaining properties, the appraiser used the revenues approach (discounted revenues approach). According to this approach, the appraiser estimated the value of the property by discounting the net annual cash flows received, or should be received, over the property's rental period. The discounting used an interest rate appropriate for the nature of the property being appraised, the embodied risk level in the revenues and other factors, ranging between 8%-9.5% (2009: 7%-9.5%).

B. Amounts recognized in the statement of operations for the year ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Rental income from investment property	<u>6,928</u>	<u>6,660</u>	<u>7,307</u>
Increase in fair value	<u>12,100</u>	<u>2,039</u>	<u>3,020</u>

C. Information on rights to land serving the Group as investment property

	<u>Expiration date of lease period (in years)</u>	<u>December 31</u>	
		<u>2010</u>	<u>2009</u>
		<u>NIS thousands</u>	<u>NIS thousands</u>
Freehold		<u>63,500</u>	54,500
In non-capital lease	<u>30</u>	<u>5,600</u>	5,500
In capital lease	<u>7 -962</u>	<u>38,300</u>	35,300
		<u>107,400</u>	<u>95,300</u>

Some of the investment properties have not yet been registered in the names of the subsidiary in the Land Registry, some due to a lack of parcelization.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 12 - Fixed Assets**

	Leasehold improvements	Machinery, equipment and fixtures	Furniture and office equipment	Total
	NIS thousands			
Cost				
Balance as at January 1, 2009	5,027	15,284	11,060	31,371
Additions	631	438	73	1,142
Disposals	-	-	(2,572)	(2,572)
Foreign currency translation adjustments	(116)	(101)	(28)	(245)
Balance as at December 31, 2009	<u>5,542</u>	<u>15,621</u>	<u>8,533</u>	<u>29,696</u>
Additions	-	-	65	65
Foreign currency translation differences	(331)	(935)	(442)	(1,708)
Balance as at December 31, 2010	<u>5,211</u>	<u>14,686</u>	<u>8,156</u>	<u>28,053</u>
Accumulated depreciation				
Balance as at January 1, 2009	4,801	14,854	9,386	29,041
Depreciation for the year	17	564	123	704
Disposals	-	-	(2,137)	(2,137)
Foreign currency translation adjustments	(34)	(163)	(20)	(217)
Balance as at December 31, 2009	<u>4,784</u>	<u>15,255</u>	<u>7,352</u>	<u>27,391</u>
Depreciation for the year	12	366	295	673
Foreign currency translation adjustments	(285)	(963)	(404)	(1,652)
Balance as at December 31, 2010	<u>4,511</u>	<u>14,658</u>	<u>7,243</u>	<u>26,412</u>
Net book value as at December 31, 2010	<u>700</u>	<u>28</u>	<u>913</u>	<u>1,641</u>
Net book value as at December 31, 2009	<u>758</u>	<u>366</u>	<u>1,181</u>	<u>2,305</u>

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 13 - Intangible Assets**

	Patent usage rights
	NIS thousands
Cost	
Balance as at January 1, 2009	4,749
Additions	334
Foreign currency translation adjustments	(48)
Balance as at December 31, 2009	<u>5,035</u>
Foreign currency translation adjustments	<u>(302)</u>
Balance as at December 31, 2010	<u>4,733</u>
Amortization (*)	
Balance as at January 1, 2009	1,581
Amortization for the year	1,034
Foreign currency translation adjustments	(56)
Balance as at December 31, 2009	<u>2,559</u>
Amortization for the year	<u>1,052</u>
Foreign currency translation adjustments	<u>(218)</u>
Balance as at December 31, 2010	<u>3,393</u>
Net book value as at December 31, 2010	<u>1,340</u>
Net book value as at December 31, 2009	<u>2,476</u>

(*) The current amortization for all intangible assets is recognized in cost of sales and services in the statement of income.

Note 14 - Trade Payables

	December 31	
	2010	2009
	NIS thousands	
Open accounts	13,776	16,652
Post-dated checks and notes payable	<u>1,041</u>	<u>19</u>
	<u>14,817</u>	<u>16,671</u>

* For the Group's exposure to currency and liquidity risks from trade payables, see Note 26 regarding financial instruments.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 15 - Other Payables**

	December 31	
	2010	2009
	NIS thousands	
Employees and payroll institutions	3,430	5,540
Accrued expenses	22,443	38,549
Government ministries (including for taxes)	116,351	98,938
Accrued interest	42,357	48,512
Payables for settlement of shares purchased	-	50,695
Loans from non controlling rights in subsidiary	16,284	14,968
Others	10,821	6,053
	211,686	263,255

For additional information on payables that constitute related and interested parties, see Note 29 regarding related and interested parties.

For the Group's exposure to currency and liquidity risks from some of the other payables balances, see Note 26 regarding financial instruments.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 16– Provisions**

	<u>Warranty (a)</u> <u>NIS thousands</u>	<u>Legal claims (b)</u> <u>NIS thousands</u>	<u>Site restoration (c)</u> <u>NIS thousands</u>	<u>Total</u> <u>NIS</u> <u>thousands</u>
Balance as at January 1, 2010	1,137	3,628	4,970	9,735
Provisions created during the period	254	4,423	-	4,677
Provisions realized during the period	(848)	(5,225)	(1,437)	(7,510)
Provisions reversed during the period	-	(1,169)	-	(1,169)
Balance as at December 31, 2010	<u>543</u>	<u>1,657</u>	<u>3,533</u>	<u>5,733</u>

(a) Warranty

The provision for warranty relates mainly to products and services sold by a subsidiary during the years ended December 31, 2009 and 2010. The warranty is based on estimates based on past experience relating to similar products and services. The Group assesses that most of the liability will be realized during 2011.

(b) Legal claims

In the course of day-to-day business, legal claims are filed against Group companies, and for some, also motions for class action recognition by various defendants, containing various allegations. In the opinion of the management of the Company and of its subsidiaries, based on factors including legal opinions on the prospects of the claims, the financial statements include adequate provisions totaling NIS 1,657 thousand, where provisions are required to cover the exposure resulting from these claims.

In the opinion of the management of the Company and its subsidiaries, the amount of additional exposure (beyond the said provisions) as at December 31, 2010, due to claims that were filed against the Company and its subsidiaries on various matters, if the said claims will be approved including recognition as class actions, and for which dismissal is more likely than realization, totals NIS 8 million.

Subsequent to the balance sheet date, a claim was filed against the Company, which, if recognized as a class action, involves additional exposure of NIS 381 - NIS 762 million.

See Note 28 regarding details on the significant claims pending against the Company and its investees.

(c) Site restoration

The balance of the provision is for a subsidiary's obligation under the terms of an agreement to build a drainage line.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 17 – Loans and Credit from Banks and Others**

This note provides information on the contractual terms of the Group's interest-bearing loans and credit, which are measured at amortized cost. Additional information on the Group's exposure to interest, currency and liquidity risks is provided in Note 26, regarding financial instruments.

A. Loans

	December 31	
	2010	2009
	NIS thousands	
Current liabilities		
Credit from banks	26,618	266,514
Current maturity of debentures	153,094	456,438
Total current liabilities	179,712	722,952
Non-current liabilities		
Debentures	1,996,303	2,421,705
Bank loans	4,469,980	1,757,365
Less – current maturity	(153,094)	(456,438)
	6,313,189	3,722,632
Loans and liabilities from others	2,839	3,964
Total non-current liabilities	6,316,028	3,726,596

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 17 – Loans and Credit from Banks and Others (cont.)****B. Information on interest and linkage**

	<u>Currency</u>	<u>Stated interest</u> %	<u>December 31</u>			
			<u>Stated value</u>	<u>2010</u>		<u>2009</u>
				<u>Carrying value</u>	<u>Stated value</u>	
			<u>NIS thousands</u>			
Bank loans	CHF	Libor+ 2.75%-4%	-	-	242,035	234,804
Short-term bank loans	Dollar	Libor+2%	26,618	26,618	31,710	31,710
Total current liabilities			26,618	26,618	273,745	266,514
Debtures (1)	CPI	5.1%	1,052,348	1,186,153	1,452,348	1,617,512
Debtures (2)	NIS	6.7%-7.2%	823,603	810,150	823,603	804,193
Bank loans (3)	CHF	Libor+1.7%-2.6%	3,619,083	3,606,214	907,601	896,189
Bank loans (4)	NIS	5%	750,000	750,000	750,000	750,000
Bank loans	NIS	6.72%-6.76%	108,000	113,766	108,000	111,176
Other long-term balances	Dollar	-	2,839	2,839	3,964	3,964
Total non-current liabilities (includes current maturity)			6,355,873	6,469,122	4,045,516	4,183,034
Total liabilities			6,382,491	6,495,740	4,319,261	4,449,548

- (1) See Par. C(1) below.
(2) See Par. C(5) and (6) below.
(3) See Par. C(2) – C(3) below.
(4) See Par. C(7) below.

C. Information regarding loans and credit given during the period

- (1) During November and December 2008 and January 2009, the Company purchased, through a wholly-owned subsidiary, 218,050,086 par value of debentures (Series H) of the Company ("the debentures") in stock exchange trading and off-exchange transactions, totaling NIS 158 million. The debentures are deemed an asset of the subsidiary, were not be de-listed from stock exchange trading, and the subsidiary will be allowed to execute any transaction in connection with the debentures, including their sale from time to time. On these purchases, the Company recognized a cumulative gain in the years 2008 and 2009 of NIS 78 million.

In 2009, the subsidiary sold 75,830,000 par value of debentures (Series H) in consideration for NIS 80 million.

As at December 31, 2010, the subsidiary holds a total of 142,220,086 par value of debentures (Series H).

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 17 – Loans and Credit from Banks and Others (cont.)**C. Information regarding loans and credit given during the period (cont.)**

- (2) In December 2008, the Company entered into a non-recourse credit facility with a Morgan Stanley Group corporation, secured by Credit Suisse shares ("Morgan Stanley credit"). The Morgan Stanley credit was arranged through a transaction in financial derivatives. During 2009, MAGM and Telrad Holdings Ltd. (a subsidiary) ("Telrad Holdings", and together with the Company and MAGM – "Borrower Companies") were added as additional borrowers, where it was agreed that the Morgan Stanley credit may be utilized by one or more of the Borrower Companies (in some proportion). In December 2009, the credit facility period was extended by an additional years, and its terms were updated, such that the credit facility amount was placed at CHF 495 million, with the maturity date fixed as December 2010, with the Borrower Companies being given the right to extend the credit facility term by one more year. The Morgan Stanley credit's terms include the right of the Borrower Companies for early repayment of the credit, subject to the payment of a fee.

To secure the Morgan Stanley credit, the Borrower Companies were required to pledge Credit Suisse shares in favor of Morgan Stanley, and it was agreed that in the event that the ratio between the value of the collateral and the value of the debt balance was fall below a certain percentage (which is subject to changes under certain circumstances), the Borrower Companies would be required to furnish a cash deposit as additional collateral, at an amount that will lead to compliance with the agreed ratio of collateral to debt. Morgan Stanley is allowed, as long as the shares are pledged to it, to lend, pledge or dispose of additional pledged shares.

The Company has the right to deposit a deposit in a pledged account, in order to improve of the collateral to debt and to reduce the margin paid on the loan. This deposit may be withdrawn as long as the collateral to debt ratio is below the limit prescribed in the agreement.

Under the terms of the Morgan Stanley credit arrangement, the Borrower Companies have undertaken to retain available cash balances in an amount equal to the lower of 5% of the initial value of the collateral or 5% of the value of the collateral, as it shall be from time to time. Morgan Stanley has undertaken to make maximum effort to enable the Borrower Companies to vote the pledged shares in general meetings of Credit Suisse. It was provided that the Borrower Companies will be allowed to withdraw the current dividends that will be distributed in respect of the pledged shares, provided that it complies with the requisite collateral to debt ratio. Proceeds of Credit Suisse's special dividends, if distributed, in respect of the pledged shares, will be held by Morgan Stanley together with the collateral. The Morgan Stanley credit includes provisions regarding forced immediate repayment provisions, including a change in control of the Borrower Companies or in Credit Suisse, a significant worsening of Credit Suisse's credit rating, extremely low trading volumes in the shares of Credit Suisse, or a drastic drop in the price of the Credit Suisse shares.

For the utilized part of the Morgan Stanley credit, interest was paid (according to the update in December 2009) at the relevant Libor rate, on a monthly basis, plus an annual margin of 2.05%-3.10%, based on the ratio between the value of the collateral and the utilized part of the credit facility, net (as actually was from time to time) as well as the increment for grossing up withholding tax.

Likewise, a fee was fixed for the unutilized part of the Morgan Stanley credit, on a monthly basis, at an annual rate ranging between 1.2%-1.4%, based on the credit facility's utilization rate.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 17 – Loans and Credit from Banks and Others (cont.)**C. Information regarding loans and credit given during the period (cont.)**

(2) (Cont.)

Under the terms of the Morgan Stanley credit, the Company has guaranteed certain liabilities of MAGM and Telrad Holdings. Furthermore, it was agreed that the collateral furnished by each of the borrowing companies will also secure the liabilities of the other borrowing companies.

In December 2010, the Borrower Companies entered into a new credit facility agreement with Morgan Stanley, to supercede the previous credit facility agreement, with the new agreement based on the provisions of the previous agreement (including with respect to the facility limit and arrangements relating to collateral, immediate repayment events and the ration between the Borrower Companies), while improving some of the terms, of which the principle ones are as follows:

Under the terms of the new credit facility agreement, the interest on the utilized part of the Morgan Stanley credit was reduced and fixed at the relevant Libor rate, paid on a monthly basis, plus a margin at an annual rate of 1.7%-2.60%, depending on the ratio between the value of the collateral and the utilized part of the credit facility, net (as will actually be from time to time) plus the grossing up of withholding tax.

Moreover, the fee for the unutilized part of the Morgan Stanley credit, paid on a monthly basis, was also reduced, to an annual rate of 0.9%-1.0%, based on the credit facility's utilization rate.

The credit facility period will end in December 2011. The borrower companies were given the right to extend the credit period by one additional year (without the payment of a fee).

As at December 31, 2010 and at the date of this report, the utilized Morgan Stanley credit amounted to CHF 495 million.

As at December 31, 2010, the Company classified the Morgan Stanley credit as a long-term liability, in view of the intention of the Borrower Companies to exercise their right to extend the credit period, thereby extending the credit period, with such exercise, beyond 12 months.

- (3) In July 2009, the Company and MAGM entered into a non-recourse credit facility agreement with a corporation in the Citigroup ("Citi"), secured by Credit Suisse shares ("Citi Credit"). In January 2010, the terms of the Citi credit were updated, adding Telrad Holdings as an additional borrower, setting the credit facility at CHF 495 million, reducing the interest rate and fee amount and updating the credit facility period and the right of the Borrower Companies to extend it, so that the end date of the credit facility was fixed as January 2011, with the Borrower Companies being given the right to extend it for two additional periods, the first of one year and the second of half a year. The Citi Credit may be utilized by one or more of the Borrower Companies (at whatever ratio exists), and the Borrower Companies are allowed to repay the credit early, subject to the payment of a fee.

Under the terms of the Citi credit, the Borrower Companies are required, to secure the Citi credit, to pledge and/or loan in favor of Citi, shares of Credit Suisse, when it is agreed that in the event of non-compliance with the ratio between value of the collateral and the value of the debt balance (which is subject to changes in certain circumstances), the Borrower Companies will be required to furnish a cash deposit as additional collateral, in an amount that will lead to compliance with the agreed upon ratio of collateral to debt. As long as the shares are pledged in its favor, Citi may borrow, pledge or dispose of the pledged shares.

Notes to the Financial Statements for the Year Ended December 31, 2010

The Company has the right to deposit a deposit in a pledged account, in order to improve of the collateral to debt and to reduce the margin paid on the loan. This deposit may be withdrawn as long as the collateral to debt ratio is below the limit prescribed in the agreement.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 17 – Loans and Credit from Banks and Others (cont.)**C. Information regarding loans and credit given during the period (cont.)****(3) (Cont.)**

Under the terms of the Citi Credit, the Borrowing Companies have undertaken to maintain available cash balances at an amount equal to the lower of 5% of the initial value of the collateral or 5% of the value of the collateral as it will be from time to time. City has undertaken to make maximum effort to enable the Borrowing Companies to vote these shares that will be furnished as collateral, as noted, in general meetings of Credit Suisse. The Borrowing Companies will be allowed to withdraw the current dividends to be distributed in respect of the shares that will be furnished as collateral, subject to compliance with the required collateral to debt ratio. Special dividends of Credit Suisse, if distributed, in respect of the shares to be furnished as collateral, will be held by Citi together with the collateral. Likewise, the Citi Credit includes provisions regarding forced immediate repayment events, including incidents of a change in control in the Borrowing Companies or in Credit Suisse, a significant downgrading in Credit Suisse's credit rating, extremely low trading volumes in the shares of Credit Suisse or a drastic drop in the price of Credit Suisse shares. Under the terms of the Citi credit, the Company has guaranteed certain liabilities of MAGM and Telrad Holdings. Furthermore, it was agreed that collateral furnished by each of the Borrowing Companies will also secure the liabilities of the other Borrowing Companies.

Pursuant to the updated terms of the Citi credit, in January 2010, interest was paid on the Citi credit, on a monthly basis at the relevant LIBOR rate plus a margin ranging between 2.05% and 3.10%, based on the ratio of the collateral to the net utilized credit facility, as it will actually be from time to time (plus the grossing up of withholding tax).

Additionally, a fee was fixed for the unutilized part of the Citi credit, paid on a monthly basis, at an annual rate ranging between 1.2% and 1.4%, based on the credit facility's utilization rate.

In December 2010, the Borrowing Companies notified Citi of their exercise of the right to extend the Citi credit period (so that it will end in January 2012, subject to the right of extension, as below), and agreed with Citi to update several terms, of which the key terms are presented below (the update took effect during January 2011):

The interest rate on the utilized part of the Citi credit, paid on a monthly basis, was updated to the relevant LIBOR rate plus a margin at an annual rate ranging between 1.70% and 2.60%, based on the ratio between the value of the collateral and the utilized part of the Citi credit, net (as it will actually be from time to time), plus the grossing up of withholding tax. Likewise, the fee paid on the unutilized part of the Citi credit, on a monthly basis, at an annual rate of 0.9%-1.0%, based on the percentage of the credit facility's utilization rate.

The right of the Borrowing Companies to extend the credit period was updated, such that they will have the right to extend the Citi credit period, after it ends in January 2012, by another two periods, the first of one year and the second of half a year (without payment of a fee).

Incidental to the undertaking in Citi credit, a coordination agreement was executed between Morgan Stanley and Citi (as lenders) and between the Borrowing Companies (as borrowers), whereby, inter alia, in the event that a material condition in the credit agreement with one lender will be amended, the other lender will be offered the possibility of making a similar amendment. Moreover, the coordination agreement refers to a transfer of information between the lenders, in connection with certain matters related to the credit, as well as to the coordination mechanism between the lenders in all that relates to realization of the collateral or the sale of shares furnished as collateral in certain instances of early termination of the credit provided by one of the lenders.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 17 – Loans and Credit from Banks and Others (cont.)**C. Information regarding loans and credit given during the period (cont.)**

(3) (Cont.)

As at December 31, 2010 and as at this report date, the utilized part of the Citi credit was CHF 460 million.

As at December 31, 2010, the Company classified the Citi credit as a long-term liability, in view of the Borrower Companies exercise of their right to extend the Citi credit period, such that the ending date of the facility was fixed as January 2012 (i.e. a period beyond 12 months).

- (4) In December 2009, MAGM entered into a recourse credit facility agreement with a corporation in the HSBC Group, secured by shares of Carrefour in the amount of €100 million. MAGM elected not to utilize the credit facility, and in early July 2010, this credit facility was cancelled.

- (5) On August 9, 2009, the Company issued to the public 634,117,000 NIS 1 par value of a new series of debentures (Series I) and listed it for trading on the Tel Aviv Stock Exchange Ltd. The total gross proceeds received by the Company from the debentures (Series I) amount to NIS 634 million.

The debentures are in unlinked shekels. The debentures will be repaid in 5 equal annual installments, with the first principal payment due on March 15, 2011. The interest rate borne by the debentures was fixed at 6.7%. The fixed annual interest will be paid in semi-annual payments – on March 15 of each of the years 2010 through 2015 (inclusive) and on September 15 of each of the years 2010 through 2014 (inclusive). Moreover, when issued, the debentures bore one-off supplemental interest ("supplemental interest"), contingent on certain conditions, at the rate of 10% of the increase in the share price of Credit Suisse on the New York Stock Exchange during the 6 month examination period prescribed, which is to be paid, in accordance with the examination conditions prescribed, whenever there will be an increase in the share price of Credit Suisse at the end of this period, in addition to a semi-annual payment of fixed interest payable on March 15, 2010. On February 9, 2010, the Company announced that the conditions prescribed for the payment of the supplemental interest were not fulfilled, since the average closing price of the Credit Suisse shares on the examination date was below the base price of the Credit Suisse share (as defined within the framework of the offering).

The said supplemental interest is accounted for separately from the debenture as a derivative, which is measured at fair value against income/loss in each period. Considering the value of the derivative on the issue date of the debentures and the issue costs, the effective interest rate on the debentures was 7.77%.

On September 10, 2009, the Company issued to the public 131,353,000 NIS 1 par value debentures (Series I) through an expansion of the series, at a price of NIS 1.008 per unit. The total gross proceeds received by the Company totaled NIS 132 million. The effective interest rate of these debentures is 7.62%.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 17 – Loans and Credit from Banks and Others (cont.)**C. Information regarding loans and credit given during the period (cont.)**

- (6) On September 10, 2009, the Company issued to the public 58,133,000 NIS 1 par value of a new series of debentures (Series J) and listed it for trading on the Tel Aviv Stock Exchange Ltd. The total gross proceeds received by the Company from the debentures (Series J) amount to NIS 58 million.
- The debentures are in unlinked shekels. The debentures will be repaid in 6 equal annual installments on September 16 of each of the years 2012 through 2017 (inclusive). The interest rate borne by the debentures was fixed at 7.20%. The annual fixed interest will be paid (or has been paid, as applicable) in semi-annual installments, on March 16 of each of the years 2010 through 2017 (inclusive) and on September 16 of each of the years 2010 through 2017 (inclusive). The effective interest rate of these debentures is 7.51%.
- (7) In December 2009, a wholly-owned subsidiary repaid loans that had been given to it by one of the banks totaling NIS 1,030 million, which were CPI-linked and took a new loan of NIS 750 million, guaranteed by Koor. The loan is in NIS, maturing in December 2012 and bearing fixed interest at the rate of 5%. Regarding the financial covenants to which the loan was subject, see Par. D below.
- (8) On April 30, 2010, the Company redeemed its Series F debentures, in full, at a total of NIS 454 million.

D. Financial covenants and contractual limitations

1. In the agreement between Koor (and a wholly-owned subsidiary) and one of the banks, financial covenants were prescribed, namely:
- (a) Equity attributed to shareholders of Koor will not be less than NIS 1.1 billion (linked to the CPI of June 2008). In June 2010, the parties reached agreement in principle, whereby the equity attributed to the holders of Koor will not be less than NIS 1.8 billion (subject to certain adjustments);
- (b) If Koor's equity will fall below NIS 2 billion (linked to the CPI of June 2008), Koor will not distribute a dividend to its shareholders, unless the bank gives its written prior consent;
- (c) Koor will continue to be the controlling shareholder and largest shareholder, directly or indirectly (at a shareholding percentage that will at no time be less than 26% of the issued and paid-up share capital) of Makhteshim-Agan;
- (d) The maximum amount of debt within the financing facility that was and/or will be furnished to Koor and or a wholly-owned subsidiary, solely for the purpose of acquiring shares of Credit Suisse and Carrefour, will not exceed \$1.3 billion. This financing amount, which will be recourse to Koor (whether as borrower or as guarantor), will not exceed \$455 million;
- (e) The ratio of the market value to debt will not be less than 1.4 at any time. The ratio of market value to debt is the ratio between the cumulative market value of Makhteshim-Agan shares held by Koor and by a wholly-owned subsidiary of Koor, together with the following assets:
- (1) Credit Suisse and/or Carrefour shares, the investment in which derives from the debt for financing the acquisition of Credit Suisse and/or Carrefour, is held by Koor and/or a subsidiary of Koor (as long as the subsidiary is 100%-owned by Koor, combined with -

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 17 – Loans and Credit from Banks and Others (cont.)**D. Financial covenants and contractual limitations (cont.)**

(e) (cont.)

- (2) Credit Suisse and Carrefour shares free of any pledge, held by Koor and/or by a subsidiary of Koor (as long as the subsidiary is 100%-owned by Koor) and not deposited with any provider of financing to finance their purchase; combined with –
- (3) 50% of the value of Koor's holdings in the Credit Suisse Emerging Market Credit Opportunity Fund L.P. (subject to certain conditions).

Between the net financial debt (as defined in the agreement with the bank) for which there is a right of recourse to Koor, and the non-recourse debt for the Credit Suisse and Carrefour shares, based on the financial data of Koor that consolidates MAGM alone, as long as MAGM is wholly-owned by Koor. In the event the ratio of market value to debt falls below 1.3, the bank will be permitted to call the credit, or any part of it, for immediate repayment. Whenever the ratio of market value to debt falls below 1.4, provided that the bank did not call the credit, or any part of it, for immediate repayment, and as long as the ratio of market value to debt was not modified in a manner whereby Koor will comply with the ratio, the margin on the credit will be raised by 1%;

It was also clarified that a decrease in the ratio of market value to debt to below 1.4 (as long as it is not below 1.3) is not a breach of the liability by Koor, unless such decrease will be for 14 consecutive business days and Koor did not give notice until the end of such period of its intent to take certain actions for correction of the ratio, to the satisfaction of the bank and/or did not take such action on the dates so prescribed.

- (f) a change in the control of Koor gives the bank the right of immediate repayment of the loan;
- (g) providing for immediate repayment, all or part of the financing given by any provider of financing to purchase shares of Credit Suisse and/or Carrefour, gives the bank the right to immediate repayment of the loan.

Koor complied with the said credit terms in each of the quarters of 2010.

As at December 31, 2010, the ratio of market value to debt is 1.69 and the equity attributed to the shareholders in Koor is NIS 2.95 billion.

In addition, Koor and MAGM have undertaken toward the bank not to pledge any asset owned by the Company without the prior written consent of the bank. Consent was received from the bank to pledge the shares of Credit Suisse and Carrefour.

- 2. Regarding the financial covenants of Morgan Stanley and Citi, see Par. C(2) – C.(3) above.
- 3. As at December 31, 2010, the Company is in compliance with the covenants described in Par. 1-2 above.
- 4. To the extent the Makhteshim-Agan transaction will be closed, the Company expects to receive, as part of the transaction, \$168 million proceeds from the sale of its shares in Makhteshim-Agan as well as a \$960 million loan (see Note 9(A)(7)). Following the closing of the transaction, the Company will not comply with the contingency provided in Par. 1(C) above, and is expected to pledge the shares of Makhteshim-Agan. The Company intends to discuss this matter with the bank toward the closing of the transaction and take actions in coordination with the bank.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 18 – Employee Benefits**

Employee benefits include post-termination benefits, severance benefits and short-term benefits.

Regarding post-termination benefits, the Group has a defined benefit plan for which it deposits amounts in central severance pay funds, appropriate insurance policies and insurance policies issued by a related party ("assets for employee benefits that are not plan assets"). Defined benefit plans entitle eligible employees to the benefit of a one-time payment based on their last salary for each year of seniority.

Pursuant to agreements signed with certain employees who resigned, Koor have undertaken to pay pension to these employees until they reach retirement age.

A. Post-employment benefit plans – defined benefit plan

	December 31	
	2010	2009
	NIS thousands	
Present value of unfunded obligations	2,638	2,989
Present value of funded obligations	3,774	3,725
Total present value of obligations	6,412	6,714
Fair value of plans' assets	5,523	5,633
Total employee benefits	889	1,081
Presented in the following items:		
Long-term employee benefits	889	1,081
Fair value of assets in respect of employee benefits that are not plan assets (presented in "other investments")	396	425

(1) Changes in the present value of the obligation for defined benefit plans

	2010	2009
	NIS thousands	
Obligation for defined benefit plans as at January 1	6,714	5,703
Benefits paid	(1,347)	(389)
Current service costs and interest costs	569	1,277
Actuarial losses recognized in other comprehensive income	476	123
Obligations for defined benefit plans as at December 31	6,412	6,714

(2) Changes in plan assets

	2010	2009
	NIS thousands	
Fair value of plans' assets as at January 1	5,633	4,591
Amounts deposited	263	246
Benefits paid	(783)	-
Expected yield on plans' assets	236	178
Actuarial gains recognized in other comprehensive income	174	618
Fair value of plans' assets as at December 31	5,523	5,633

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 18 – Employee Benefits (cont.)****A. Post-employment benefit plans – defined benefit plan (cont.)****(3) Changes in employee benefit assets that are not plan assets**

	<u>2010</u>	<u>2009</u>
	<u>NIS thousands</u>	
Fair value as at January 1	425	325
Amounts deposited	32	49
Benefits paid	(86)	-
Expected yield on assets	18	13
Actuarial gains recognized in equity	7	38
Fair value as at December 31	<u>396</u>	<u>425</u>

(4) Expense recognized in statement of operations

	<u>Year ended December 31</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>NIS thousands</u>		
Current service costs	266	1,031	579
Interest costs	303	246	317
Expected yield on plan's assets	(236)	(178)	(270)
Expected yield on employee benefit assets that are not plan assets	(18)	(13)	(13)
	<u>315</u>	<u>1,086</u>	<u>613</u>

The expense is included in the following statement of income items:

	<u>Year ended December 31</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>NIS thousands</u>		
General and administrative expenses	266	1,031	579
Financing expenses	49	55	34
	<u>315</u>	<u>1,086</u>	<u>613</u>

(5) Actual yield

	<u>Year ended December 31</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>NIS thousands</u>		
Actual yield on the plan's assets	410	796	(312)
Actual yield on the assets of employee benefits that are not plan assets	25	51	8

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 18 – Employee Benefits (cont.)****A. Post-employment benefit plans – defined benefit plan (cont.)****(6) Actuarial gains and losses recognized directly to equity**

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Cumulative balance as at January 1	159	(374)	306
Amounts recognized during the period	(295)	533	(680)
Cumulative balance as at December 31,	(136)	159	(374)

(7) Actuarial assumptions

The main actuarial assumptions as at the reporting date (according to weighted average):

	2010	2009	2008
	%		
Discount rate on December 31	2.78	2.33	2.87
Expected yield on plan's assets as at January 1	2.33	2.87	3.49
Expected yield on employee benefit assets that are not plan assets as at January 1	2.33	2.87	3.49
Rate of increase in future salary costs	3.50	3.50	3.50

The assumptions related to the future mortality rate are based on published statistical data and accepted mortality tables.

(8) Historical data

	December 31			
	2010	2009	2008	2007
	NIS thousands			
Present value of obligations from defined benefit plan	6,412	6,714	5,703	5,257
Fair value of plan assets	5,523	5,633	4,591	4,846
Plan's deficit	889	1,081	1,112	411

The Company's estimate of deposits expected in 2011 in the funded defined benefit plan is NIS 226 thousand.

B. Post-employment benefit plans – defined contribution plan

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Amount recognized as an expense from defined contribution plan	188	196	196

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 19 – Capital and Reserves****A. Share capital and premium on shares**

	Ordinary shares			Deferred shares		
	2010	2009	2008	2010	2009	2008
	NIS 0.001 par value shares					
Issued and paid-up share capital as at January 1	47,459,750	47,459,750	16,640,468	15,156,533	15,156,533	15,156,533
Shares issued for cash during period	-	-	30,818,573	-	-	-
Exercise of options for shares during period	-	-	709	-	-	-
Issued and paid-up share capital as at December 31	<u>47,459,750</u>	<u>47,459,750</u>	<u>47,459,750</u>	<u>15,156,533</u>	<u>15,156,533</u>	<u>15,156,533</u>
Issued and paid-up share capital net of treasury shares	<u>47,443,950</u>	<u>47,443,950</u>	<u>47,443,950</u>	<u>-</u>	<u>-</u>	<u>-</u>
Authorized capital	<u>83,932,757</u>	<u>83,932,757</u>	<u>83,932,757</u>	<u>15,792,243</u>	<u>15,792,243</u>	<u>15,792,243</u>

Additional information:

- (1) The ordinary shares are traded on the Tel Aviv Stock Exchange (TASE). On December 31, 2010, the share price on the TASE was NIS 86.50.
- (2) Holders of ordinary shares have the right to receive a dividend as will be declared from time to time, and the right to vote in general meetings of the Company, with one vote per share. Deferred shareholders are entitled to a return of the paid-up capital at the nominal amount upon liquidation, after the payment of the nominal amount to the ordinary shareholders. The deferred shareholders have no voting rights and are not entitled to participate in any kind of dividend distribution. The deferred shares are held by a subsidiary.

B. Translation reserve from foreign operations

The translation reserve includes all the foreign currency differences deriving from the translation of the financial statements of foreign operations, and translation of liabilities defined as capital investments in foreign operations.

C. Hedge reserve

The hedge reserve includes the effective part of the net accrued change in fair value of instruments that hedge the cash flows and relate to transactions that were hedged, but did not yet occur. The source of the hedge reserves is from affiliates.

D. Reserve for available for sale financial assets

The reserve for available for sale financial assets includes the accrued after-tax change in the fair value of financial assets available for sale, until the disposal date of the investment or until the impairment of the investment, which constitute significant and/or ongoing impairment.

E. Treasury shares

The reserve for treasury shares includes the cost of the Company's shares held by the Group. As at December 31, 2010, a subsidiary held 15,800 shares of the Company (2009: 15,800 shares).

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 19 – Capital and Reserves (cont.)**F. Dividends**

1. On March 14, 2010, the Company's board of directors resolved to distribute a cash dividend of NIS 270 million (representing NIS 5.69 per share). The dividend was distributed on April 13, 2010.
2. On May 20, 2009 and November 15, 2009, the Company's board of directors resolved to distribute dividends of NIS 432 million and NIS 360 million, respectively. The per share dividend was NIS 9.11 and NIS 7.59 respectively.

The dividends were paid on June 10, 2009 and December 7, 2009, respectively.

G. Issuance of rights

1. On May 29, 2008, the Company published a prospectus for an issuance through rights, in which Koor issued, through rights, 2,371,158 ordinary shares of Koor that were offered to its shareholders (except for American shareholders), in consideration of NIS 162 per share. The benefit element in this issuance is 3.7%. The total net consideration (net of issue costs and compensation to American shareholders for their exception) in this offering was NIS 382,997 thousand.
2. On August, 2008, Koor closed on an additional offering through rights of 4,743,939 ordinary shares of Koor, which were offered to its shareholders (except for American shareholders), in consideration for NIS 143 per share. The benefit element in this issuance is 5.03%. The total net consideration (net of issue costs and compensation to American shareholders for their exception) in this offering was NIS 677,625 thousand.
3. On December, 2008, Koor closed on an additional offering through rights of 23,703,476 ordinary shares of Koor, which were offered to its shareholders (except for American shareholders), in consideration for NIS 25.3 per share. The benefit element in this issuance is 37.38%. The total net consideration (net of issue costs and compensation to American shareholders for their exception) in this offering was NIS 598,962 thousand.

H. Employee options

At the end of 2009, 4,000 employee options remained, the exercise price of which was NIS 225 and the final exercise date was December 2010. As at December 31, 2010, the options were not exercised and expired, so that no employee options remain outstanding.

I. Options to institutional investors

In the framework of a private placement to Israeli institutional investors on April 10, 2005, 800,000 option warrants were issued (Series 2). Each option warrant was exercisable until April 30, 2010. The options were classified as a financial liability, measured each period at fair value through income/loss, since the exercise price for the options was linked to the CPI. See Note 21 regarding the effect of the measurement on income and loss. On April 20, 2010, the options expired.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 19 – Capital and Reserves (cont.)****J. Other comprehensive income**

	For the year ended December 31, 2010				Total
	Attributed to Company's shareholders				
	Foreign Currency Translation reserve	Hedge reserve	Financial assets available for sale reserve NIS thousands	Retained earnings	
Foreign currency translation differences for foreign operations	(173,163)	-	-	-	(173,163)
Foreign currency translation differences for foreign operations recognized in statement of income	4,347	-	-	-	4,347
Net change in fair value of financial assets classified as available for sale net of tax	-	-	(1,402,451)	-	(1,402,451)
Net change in fair value of financial assets classified as available for sale transferred to statement of income, net of tax	-	-	(19,618)	-	(19,618)
Impairment loss on financial assets available for sale transferred to statement of income	-	-	2,717	-	2,717
Actuarial losses from defined benefit plan	-	-	-	(295)	(295)
Koor's equity in comprehensive income (comprehensive loss) of affiliates	(4,958)	(10,025)	-	8,222	(6,761)
Total other comprehensive income (comprehensive loss)	(173,774)	(10,025)	(1,419,352)	7,927	(1,595,224)

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 19 – Capital and Reserves (cont.)

J. Other comprehensive income (cont.)

	For the year ended December 31, 2009				
	Attributed to Company's shareholders				
	Foreign Currency Translation reserve	Hedge reserve	Financial assets available for sale reserve NIS thousands	Retained earnings	Total
Foreign currency translation differences for foreign operations	(16,901)	-	-	-	(16,901)
Foreign currency translation differences for foreign operations recognized in statement of income	1,078	-	-	-	1,078
Net change in fair value of financial assets classified as available for sale net of tax	-	-	2,290,301	-	2,290,301
Net change in fair value of financial assets classified as available for sale transferred to statement of income, net of tax	-	-	(1,978,016)	-	(1,978,016)
Actuarial gains from defined benefit plan	-	-	-	533	533
Koor's equity in comprehensive income					
(comprehensive loss) of affiliates	19,775	7,439	300	(984)	26,530
Total other comprehensive income (comprehensive loss)	3,952	7,439	312,585	(451)	323,525
	For the year ended December 31, 2008				
	Attributed to Company's shareholders				
	Foreign Currency Translation reserve	Hedge reserve	Financial assets available for sale reserve NIS thousands	Retained earnings	Total
Foreign currency translation differences for foreign operations	(21,427)	-	-	-	(21,427)
Foreign currency translation differences for foreign operations recognized in statement of income	643	-	-	-	643
Net change in fair value of financial assets classified as available for sale net of tax	-	-	176,576	-	176,576
Net change in fair value of financial assets classified as available for sale transferred to statement of income, net of tax	-	-	(419,402)	-	(419,402)
Actuarial losses from defined benefit plan	-	-	-	(680)	(680)
Koor's equity in comprehensive income					
(comprehensive loss) of affiliates	(16,139)	10,022	343	(332)	(6,106)
Total other comprehensive income (comprehensive loss)	(36,923)	10,022	(242,483)	(1,012)	(270,396)

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 20 - Statements of Income Data****A. Revenues from sales and services**

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Rental fees	6,928	6,660	7,307
Sales of telecom products	93,285	113,440	207,604
Management fees	2,218	2,153	1,779
	102,431	122,253	216,690

B. Cost of sales and services

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Materials and outsourcing	64,901	59,640	115,582
Salaries and related expenses	4,950	8,164	14,753
Depreciation and amortization	179	169	(*)27,848
Research and development expenses, net	6,584	8,805	(*)24,337
Other production expenses	5,098	6,357	23,452
	81,712	83,135	205,972
Decrease in inventory of goods being processed and projects in progress	56	906	4,663
	81,768	84,041	210,635
Decrease (increase) in inventory of finished goods	(4,332)	8,369	(5,431)
	77,436	92,410	205,204

(*) Includes impairment loss in respect of assets held for sale totaling NIS 29,107 thousand.

C. Selling and marketing expenses

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Salaries and related expenses	8,505	13,316	17,907
Commissions	728	2,460	5,093
Overseas travel	1,121	2,037	3,266
Advertising	-	-	869
Depreciation and amortization	47	47	69
Other	1,478	2,209	6,500
	11,879	20,069	33,704

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 20 - Statements of Income data (cont.)****D. General and administrative expenses**

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Salaries and related expenses	8,886	10,495	15,381
Professional services	19,325	18,728	19,024
Charitable contributions	10,811	24,598	8,622
Bad and doubtful debts	(788)	1,350	2,711
Insurance	1,338	1,620	1,565
Rental fees	924	1,243	942
Depreciation and amortization	397	297	246
Overseas travel	2,975	4,171	2,284
Other	9,285	5,828	7,739
	<u>53,153</u>	<u>68,330</u>	<u>58,514</u>

E. Other income

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Capital gain from realization of investments in investees and other investments	-	2,091	49,539
Management fees from affiliates and a jointly-controlled company	-	-	1,689
Revaluation of investment property	12,100	2,039	3,020
Reversal of provision for legal claim	-	13,262	-
Other	445	8,700	1,470
	<u>12,545</u>	<u>26,092</u>	<u>55,718</u>

F. Other expenses

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Loss from realization of investee	4,824	6,193	-
Impairment loss on assets available for sale	12,065	-	4,460
Impairment loss on venture capital investments	2,700	4,940	24,349
Provision for investment commitment	-	4,188	-
Other	2,160	3,127	742
	<u>21,749</u>	<u>18,448</u>	<u>29,551</u>

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 21 – Financing Income and Expenses****A. Recognized in statement of income**

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Interest income from securities held to redemption	-	-	428
Interest income from bank deposits	5,521	6,310	46,971
Positive change in fair value of liability for options to investors	4	382	61,938
Positive change in fair value of financial assets and liabilities designated as fair value through income/loss	83,997	7,101	-
Positive change in fair value of derivative financial assets	-	14,880	-
Gain from early redemption of debentures	-	278	78,348
Other (*)	12,294	657	12,486
Financing income recognized in statement of income	<u>101,816</u>	<u>29,608</u>	<u>200,171</u>
Interest expenses on financial liabilities measured at amortized cost	310,427	329,525	298,825
Net loss from change in exchange rates	190,397	18,075	335,878
Negative change in fair value of financial assets designated as fair value through income/loss	-	-	54,902
Negative change in fair value of derivative financial assets	91,234	-	9,904
Other (**)	1,327	25,710	447
Financing expenses recognized in statement of income	<u>593,385</u>	<u>373,310</u>	<u>699,956</u>
Net financing expenses recognized in statement of income	<u>491,569</u>	<u>343,702</u>	<u>499,785</u>

(*) Mainly interest due to loans to affiliate and joint control company.

(**) In 2009 – Fees for early repayment of loans.

B. Financing income and expenses, net, include the following amounts related to financial assets (liabilities) that are not stated at fair value through income/loss:

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Total interest income	<u>17,382</u>	<u>6,967</u>	<u>53,479</u>
Total interest expenses	<u>282,026</u>	<u>224,515</u>	<u>164,760</u>

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 22 - Taxes on Income**A. Information on tax environment in which the Group operates****1. Amendments to the Income Tax Ordinance**

- (a) On July 25, 2005, the Knesset passed the Law to Amend the Income Tax Ordinance (No. 147), 2005, which provided, inter alia, a gradual reduction in the corporate tax rate, reaching 25% in the 2010 tax year and henceforth.

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislative Amendments for Implementation of the Economic Plan for the Years 2009 and 2010), 2009, which provided, inter alia, a further gradual reduction in the corporate tax rate, to 18% in 2016 and henceforth. According to the said amendments, the corporate tax rates in effect in the tax year 2011 and henceforth are as follows: in 2011 tax year – 24%; in 2012 tax year – 23%; in 2013 tax year – 22%; in 2014 tax year – 21%, in 2015 tax year – 20% and in the tax year 2016 and henceforth, a corporate tax rate of 18% will be in effect.

The current taxes and deferred tax balances for the periods reported in these financial statements are calculated according to the new tax rates prescribed in the Economic Efficiency Law.

- (b) On September 17, 2009, Income Tax Regulations (Determination of Interest Rate in the Matter of Section 3(J)) (Amendment), 2009, in which the Income Tax Regulations (Determination of Interest Rate in the Matter of Section 3(J)), 1986, were changed totally.

The amendment applies to a loan given as from October 1, 2009, in the scope of which transitional provisions were also prescribed relating to loans given before the amendment's effective date.

Commencing October 1, 2009, the annual interest rate for Section 3(J) of the Ordinance, with respect to taxpayers subject to it, which give the loan in NIS, is 3.3% per annum (unlinked). This interest rate was in effect for the period from October 1, 2009 through December 31, 2009. The annual interest rate with respect to Section 3(J) of the Ordinance as from January 1, 2010 is 3% (unlinked).

This rate could change as from the 2011 tax year, depending on the rate of the average cost of unlinked credit given to the public by banks, and publication in the Gazette of the updated interest rate with respect to Section 3(J) of the Ordinance by the Minister of Finance.

Contrarily, when the loan is given in foreign currency (as defined in the Regulations), the interest rate for Section 3(J) is prescribed as the rate of change in the exchange rate of that currency plus 3%.

Furthermore, a special provision was prescribed with respect to determining the interest rate for a shekel loan or a foreign currency loan given during the period of up to 14 days before or after the loan was received at identical terms, not from a relative.

2. Tax benefits under the Law for Encouragement of Capital Investments, 1959

Enterprises of subsidiaries of Makhteshim-Agan in Israel Under this law were granted "approved enterprise" or "benefited enterprise" status under the Law for Encouragement of Capital Investments, 1959. During the benefits period, some of the income deriving from the "approved enterprise" or the "benefited enterprise" is liable for tax at the rate of 25% (the total benefits period is seven years, and under certain conditions up to ten years, but not more than 14 years from the date of the approval deed and 12 years from the commencement of production).

Other enterprises of subsidiaries of Makhteshim-Agan in Israel were granted a tax exemption for two to six years and a tax liability at a preferential rate of 25% during the balance of the benefits period. If a dividend will be distributed out of the tax-exempt income, the subsidiaries of Makhteshim-Agan will be subject to tax at the rate of 25% on the income from which the dividend was distributed.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 22 - Taxes on Income (cont.)**A. Information on tax environment in which the Group operates (cont.)****2. Tax benefits under the Law for Encouragement of Capital Investments, 1959 (cont.)**

For some of the enterprises of Makhteshim-Agan, the benefits period has ended, and for some, will end in the years until 2014. Likewise, subsidiaries of Makhteshim-Agan have additional investment plans that are in stages of performance or for which the benefits period has not yet begun.

The benefits are conditional upon the fulfillment of terms set out in law, regulations promulgated there under or in deeds of approval pursuant to which the investments were made in the approved enterprises. Non-fulfillment of terms could cause cancellation of the benefit, in full or in part, and the return of benefit sums, plus interest. According to the assessment of Makhteshim-Agan's management, the companies are in compliance with the said terms.

To secure compliance with the conditions for receipt of the investment grants, Makhteshim-Agan and its subsidiaries have registered floating liens, unlimited in amount, on all of their assets.

3. Law for Encouragement of Capital Investments, 1959

On December 29, 2010, the Knesset passed the Economic Policy Law for Years 2011-2012, under which the Law for the Encouragement of Capital Investments, 1959 ("Encouragement Law") was amended. The Amendment was published in the Code on January 6, 2011. The Amendment is effected as from January 1, 2011 and its provisions will apply to preferential income generated or earned by a preferred company, as defined in the Amendment, in 2011 and henceforth. A company is allowed not to be subject to the Amendment to the Encouragement Law and to remain subject to the Law, before its amendment, until the end of the benefits period. The last year of election that the Company is allowed to choose is the 2012 tax year, provided that the minimum entitling investment began in 2010.

The Amendment prescribes that only companies in Priority Area A will be eligible to benefit from the grants track and from the parallel benefits track. Likewise, the existing tax benefit tacks (tax exemption track, "Ireland" track and "Strategy" track), replaced by two new tax tracks – Preferred Enterprise and Special Preferred Enterprise, which mainly provide a uniform reduced tax rate on all of the company's benefit-eligible income, as follows: for a Preferred Enterprise – in the 2011-2012 tax years – 10% in Priority Area A and 15% in the rest of the country, in 2013-2014 tax years – 7% in Priority Area A and 12.5% in the rest of the country and in tax year 2015 and henceforth – 6% in Priority Area A and 12% in the rest of the country. Furthermore, an enterprise that meets the definition of a Special Preferred Enterprise is eligible for a benefits period of 10 consecutive years, to a reduced tax rate of 5% if located in Priority Area A or a reduced tax rate of 8% if located elsewhere.

The Amendment to the law further provides that no tax will be imposed on a dividend to be distributed out of preferred income to a shareholder that is a company – at the level of the distributing company and at the level of the shareholder. A tax rate of 15% will still apply to a dividend that will be distributed out of preferred income to a shareholder who is an individual or to a foreign resident subject to a treaty to prevent double taxation – in other words, there is no change from the existing law. The Amendment to the law also provides relief related to the tax paid on a dividend paid by an Israeli company from the income of an approved/alternative/benefitted enterprise, earned during the benefits period according to the formula of the law before its amendment, if the dividend distributing company notifies the tax authorities by June 30, 2015 of the imposition of the provisions of the Amendment to the law, and the dividend is distributed after the notice date.

Notes to the Financial Statements for the Year Ended December 31, 2010

At the report date, Makhteshim-Agan has elected to continue with the benefits conferred by the law before its amendment.

Note 22 - Taxes on Income (cont.)**A. Information on tax environment in which the Group operates (cont.)****4. Measurement of results for tax purposes in accordance with the Income Tax (Inflationary Adjustments) Law, 1985 ("the Adjustments Law")**

The Income Tax (Inflationary Adjustments) Law, 1985 ("the Law") has been in effect since the 1985 tax year. The Law instituted the measurement of results for tax purposes on a real basis. The various adjustments under this Law are intended to bring about income taxation on a real basis. In view of the fact that the financial statements are not linked to the CPI from the date the Israeli economy was no longer deemed a hyperinflationary economy, differences were created between earnings according to the financial statements and adjusted income for tax purposes, and therefore, also temporary differences between the value of assets and liabilities in the financial statements and their tax basis.

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

Pursuant to the Amendment, in the 2008 tax year and henceforth, taxable income will no longer be adjusted to a real measurement basis. Likewise, the linkage to the CPI of depreciation of fixed assets and of carryforward tax losses are discontinued, in a manner that these amounts will be adjusted to the CPI of the end of 2007, and their linkage to the CPI, will cease from this date henceforth. The effect of the Amendment to the Adjustments Law was expressed in the calculation of current and deferred taxes as from 2008.

5. On February 4, 2010, published in the Official Gazette of the Israel Government was Amendment 174 to the Income Tax Ordinance – (Temporary Order for Tax Year 2007, 2008 and 2009)- 2010 ("Temporary Order"). According to the Temporary Order, in the determination of taxable income in the tax years 2007-2009, Israeli Accounting Standard 29 regarding adoption of International Financial Reporting Standards (IFRS) ("Standard 29") will not apply, even if applied in financial statement preparation. The provision of the Temporary Order regarding the issue of non-imposition of IFRS in determining taxable income in 2010 has not been prescribed for determination of taxable income in 2010.

The effect of the Temporary Order with respect to determining taxable income for the years 2007-2009 on the financial statements is not material.

6. Law for the Encouragement of Industry (Taxation), 1969

According to the Law for the Encouragement of Industry (Taxes), 1969, Makhteshim-Agan is an industrial holding company and its subsidiaries in Israel qualify as "industrial companies". The main benefits according to this law are the filing of consolidated income tax returns, accelerated rates of depreciation and amortization of know-how over 8 years.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 22 - Taxes on Income (cont.)

A. Information on tax environment in which the Group operates (cont.)

7. Tax rates applicable to income from other sources

Income not eligible for "approved enterprise" benefits is subject to tax at the statutory tax rate of 25% (or if the investee is registered and operates outside of Israel, at the tax rate prescribed for that territory).

8. Amendment 169 to Income Tax Ordinance

On January 1, 2009, Amendment 169 to the Income Tax Ordinance was enacted as a temporary order for the 2009 tax year alone, whereby a company can elect to pay 5% tax on dividend income it received in 2009 and paid to it by a foreign-resident body of persons, provided that several conditions prescribed in the temporary order are met.

After Makhteshim-Agan examined how to implement the Amendment 169, its board of directors proposed a one-off withdrawal of earnings from the Makhteshim-Agan foreign group companies totaling \$300 million. The earnings that were transferred in the fourth quarter of 2009 were used by Makhteshim-Agan for its current needs and as a reserve for a dividend distribution.

The financial statements of Makhteshim-Agan as at December 31, 2009 include a liability for taxes payable of \$15 million (5% of the dividend amount).

It should be clarified that the withdrawal of such earnings does not change the dividend distribution policy of Makhteshim-Agan and/or its timing.

B. Tax loss carryforwards and tax assessments

The balance of tax loss carryforwards of the Company and its subsidiaries as at December 31, 2010, in accordance with the Amendment to IAS 12, amounts to approximately NIS 2,104 million on the balance sheet date, of which NIS 768 million is in Koor.

The Company has received final assessments up to and including the 2005 tax year.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 22 - Taxes on Income (cont.)****C. Income tax expenses (savings) are comprised as follows:**

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Current income tax expenses (savings)			
For current year (1)	39,421	61,280	171
Adjustments for prior years, net	14,859	(2,342)	(187)
	<u>54,280</u>	<u>58,938</u>	<u>(16)</u>
Deferred tax expenses (savings)			
Deferred tax due to temporary differences (2)	33,727	66,677	-
Change in deferred taxes due to change in tax rates	(3,076)	(3,004)	-
Reduction of deferred tax asset	11,419	-	-
	<u>42,070</u>	<u>63,673</u>	<u>-</u>
Total income tax expenses (savings)	<u>96,350</u>	<u>122,611</u>	<u>(16)</u>
(1) Of which the benefit deriving from the tax loss, tax credit or temporary difference from prior period not recognized in the past and used to reduce current tax expenses	<u>-</u>	<u>520,150</u>	<u>7,274</u>
(2) Of which the benefit deriving from the tax loss, tax credit or temporary difference not recognized in the past and used to reduce deferred tax expenses	<u>23,515</u>	<u>18,322</u>	<u>-</u>

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 22 - Taxes on Income (cont.)

D Income taxes on components of other comprehensive income

	Year ended December 31								
	2010			2009			2008		
	Before tax	Tax savings	Net of tax	Before tax	Tax (expense) savings	Net of tax	Before tax	Tax (expense) savings	Net of tax
	NIS thousands			NIS thousands			NIS thousands		
Foreign currency translation differences for foreign operations	(173,163)	-	(173,163)	(16,901)	-	(16,901)	(21,427)	-	(21,427)
Foreign currency translation differences for foreign operations recognized in income/loss	4,347	-	4,347	1,078	-	1,078	643	-	643
Net change in fair value of financial assets classified as available for sale	(1,484,295)	81,844	(1,402,451)	3,001,707	(711,406)	2,290,301	331,697	(155,121)	176,576
Net change in fair value of financial assets classified as available for sale transferred to statement of income	(26,157)	6,539	(19,618)	(2,672,995)	694,979	(1,978,016)	(574,523)	155,121	(419,402)
Impairment loss on financial assets available for sale transferred to statement of income	2,717	-	2,717	-	-	-	-	-	-
Actuarial gains (losses) from defined benefit plan	(295)	-	(295)	533	-	533	(680)	-	(680)
Koor's equity in comprehensive income (comprehensive loss) of affiliates	(6,761)	-	(6,761)	26,530	-	26,530	(6,106)	-	(6,106)
Total other comprehensive income (comprehensive loss)	(1,683,607)	88,383	(1,595,224)	339,952	(16,427)	323,525	(270,396)	-	(270,396)

Notes to the Financial Statements for the year ended December 31, 2010**Note 22 - Taxes on Income (cont.)****E. Reconciliation between theoretical tax on earnings before taxes on income and tax expenses**

	December 31		
	2010	2009	2008
	NIS thousands		
Earnings before taxes on income	(439,934)	2,288,314	237,463
Company's principal tax rate	25%	26%	27%
Tax calculated at Company's main tax rate	(109,984)	594,961	64,115
Addition to (savings on) tax liability for:			
Deduction of Koor Group's equity in results of affiliates, net	70,218	(33)	(58,669)
Effect of change in tax rates	(3,076)	(3,004)	-
Expenses that are not deductible for tax purposes (exempt income)	2,808	6,183	(9,209)
Losses and temporary differences for which deferred taxes were not recorded and credits for which tax benefits were not recognized	85,307	104,757	14,828
Tax losses and temporary differences from prior years for which deferred taxes were not recorded and were utilized/created in the current year	24,758	(538,472)	(7,274)
Taxes for prior years	14,859	(2,342)	(187)
Effect of foreign subsidiaries	14,682	(1,017)	1,368
Other(*)	(3,222)	(38,422)	(4,988)
Total taxes on income	96,350	122,611	(16)

* Includes mainly differences in measurement basis between accounting principles and tax provisions.

Notes to the Financial Statements for the year ended December 31, 2010**Note 22 - Taxes on Income (cont.)****F. Deferred tax assets and liabilities recognized**

The deferred taxes for companies in Israel are calculated according to the tax rates expected to be in effect when reversed, as provided above. Deferred taxes for subsidiaries operating outside of Israel were calculated according to the relevant tax rates in each country.

Deferred tax assets and liabilities are attributed to the following items:

	Financial instruments	Carryforward deductions and losses	Other temporary differences	Total
	NIS thousands			
Deferred tax asset (liability)				
balance				
as at January 1, 2009	-	-	-	-
Changes recognized in income/loss	(65,127)	1,454	-	(63,673)
Changes recognized in equity	(16,427)	-	-	(16,427)
Deferred tax asset (liability)				
balance				
as at December 31, 2009	(81,554)	1,454	-	(80,100)
Changes recognized in income/loss	(28,576)	20,293	(33,787)	(42,070)
Changes recognized in equity	88,383	-	-	88,383
Changes for translation differences	-	-	2,566	2,566
Deferred tax asset (liability)				
balance				
as at December 31, 2010	<u>(21,747)</u>	<u>21,747</u>	<u>(31,221)</u>	<u>(31,221)</u>

G. Deferred tax assets not recognized

Deferred taxes were not recognized for the following items:

	Year ended December 31	
	2010	2009
	NIS thousands	
Temporary differences that can be deducted	5,085,694	1,876,033
Tax losses	2,013,759	1,787,318
	<u>7,099,453</u>	<u>3,663,351</u>

According to existing tax laws, there is no time limit on the utilization of tax losses and utilization of temporary differences that may be deducted. Deferred tax assets were not recognized for these items, since it is not expected that the temporary difference will reverse in the foreseeable future and that there will be taxable income in the future, against which it will be possible to utilize the tax benefits.

H. Deferred tax liabilities not recognized

A deferred tax liability for temporary differences of NIS 903 million (2009: NIS 1,187 million), relating to the investment in affiliates, was not recognized since the Company intentions is to held those investments and not to sell it the investments.

Notes to the Financial Statements for the year ended December 31, 2010**Note 23 - Earnings per Share****1. Basic earnings per share**

The basic loss per share for the year ended December 31, 2010 is calculated based on the loss attributed to the ordinary shareholders of NIS 536,301 thousand (2009: earnings of NIS 2,165,742 thousand, 2008: earnings of NIS 240,983 thousand), divided by the weighted average number of ordinary shares outstanding during the year of 47,444 ordinary shares (2009: 47,444 thousand; 2008: 28,237 thousand shares), in the following manner:

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Net earnings (loss) for the year	(536,284)	2,165,703	237,596
Adjustments for equity in affiliates' earnings (losses)	(17)	39	3,387
	(536,301)	2,165,742	240,983

	Year ended December 31		
	2010	2009	2008(*)
	NIS thousands		
Weighted average number of ordinary shares			
Balance as at January 1	47,443,950	47,443,950	23,898,988
Effect of options exercised for shares	-	-	1,019
Shares issued during the year	-	-	4,336,926
Weighted average number of ordinary shares for the calculation of basic earnings (loss) per share	47,443,950	47,443,950	28,236,933

(*) Adjusted according to benefit element in issuances of rights in 2008.

Notes to the Financial Statements for the year ended December 31, 2010**Note 23 - Earnings per Share (cont.)****2. Diluted earnings per share**

The diluted loss per share for the year ended December 31, 2010 is calculated based on the loss attributed to the ordinary shareholders of NIS 536,324 thousand (2009: earnings of NIS 2,165,010; 2008: earnings of NIS 239,606 thousand), divided by the weighted average number of ordinary shares outstanding, after adjustment, based on the weighted stock exchange price of the shares, for all the potentially dilutive ordinary shares of 47,444 thousand (2009: 47,444 thousand shares; 2008: 28,237 thousand shares), in the following manner:

	Year ended December 31		
	2010	2009	2008
	NIS thousands		
Net earnings (loss) for the year	(536,284)	2,165,703	237,596
Adjustments for equity in affiliates' earnings (losses)	(40)	(693)	2,010
	<u>(536,324)</u>	<u>2,165,010</u>	<u>239,606</u>
	Year ended December 31		
	2010	2009	2008(*)
	NIS thousands		
Weighted average number of ordinary shares			
Weighted average number of ordinary shares for the calculation of diluted earnings (loss) per share	<u>47,443,950</u>	<u>47,443,950</u>	<u>28,236,933</u>

(*) Adjusted according to benefit element in issuances of rights in 2008.

Notes to the Financial Statements for the year ended December 31, 2010

Note 24 – Business Segments**A. General**

The segment information is presented for the Group's operating segments.

The Group has the following main operating segments:

Makhteshim-Agan (affiliated company) **segment.** Makhteshim-Agan is considered the world's leading agrochemical producer. Makhteshim-Agan provides a wide range of solutions and products, including herbicides, insecticides and fungicides, as well as aroma products and different types of chemicals.

Credit Suisse segment. These activities are carried out through the investment in the shares of Credit Suisse group, whose shares are traded on two main exchanges: the SIX in Switzerland and the NYSE in New York, which provides global finance services, including: commercial banking services, private banking, investment banking and asset management.

Telecom equipment segment. The activities in the Group's telecom equipment segment are carried out by MNI, a subsidiary, which develops and markets point-to-point telecom systems. In 2008 and part of the first quarter of 2009, this activity also include Harriet, which developed and marketed cellular telecom equipment, the assets of which were sold in January 2009.

Epsilon segment (affiliated company). These activities are carried out through the investment in shares of Epsilon, which is engaged in providing financial services, including investment portfolio management, mutual fund management, provident fund management, underwriting and distribution of securities and investment banking.

452 Owner Segment. Koor holds 50% of the HSBC Building, an income-producing property, together with Properties and Construction, through 452 Owners, owned jointly. The HSBC Building contains two buildings with built-up area of 80,000 square meters.

The accounting policy of the operating segments is the same as that presented in Note 3, Significant Accounting Policies.

Segment revenues include revenues from sales and services, gain (loss) to Koor from realization or write-down of investments in the segment's companies, amortization of excess cost attributed to the segment's companies and gain to Koor from negative goodwill created in the acquisition of the segment's companies, gain from sale of financial assets available for sale, other income and financing income.

Segment results include Koor's equity in the net earnings (loss) of the segment's companies, the gain (loss) to Koor from the realization or write-down of investments in the segment's companies, from amortization of excess cost attributed to the segment's companies, and gain to Koor from negative goodwill created in the acquisition of the segment's companies.

The assets of the segment's companies include the assets of the segment's companies according to their financial statements, and regarding investments classified in the Company's books as assets available for sale, the segment's assets are the Company's investment according to its fair value.

Regarding equity-accounted investees, their sales revenues and assets were included in full, according to the reporting format to the Group's head operational decision maker. These revenues and assets are eliminated in the adjustments column, and instead, the adjustments column includes the Company's equity in the results of the segment's companies and the Company's investments in these companies, respectively.

The operations of the headquarter companies, including Koor, are included in the adjustments.

The Epsilon and 452 Owners segments were identified as reportable segments for the first time in the current period, based on the Standard's quantitative limits. According to the requirements of IFRS 8, the segment information for prior periods was restated for comparison purposes, to reflect these segments separately.

Notes to the Financial Statements for the year ended December 31, 2010

Note 24 – Business Segments (cont.)

B. Data from the consolidated statements of income

	For year ended December 31, 2010							Consolidated
	Makhteshim Agan	Credit Suisse (*)	Telecom	452		Others	Adjustments	
			equipmen t	Epsilon	Owners			
NIS thousands								
Sales and services	8,824,997	-	93,285	61,311	125,753	9,146	(9,012,061)	102,431
Koor Group's equity in earnings of affiliates	-	-	-	1,793	-	-	81,057	82,850
Earnings from realization and dividends of financial assets available for sale	-	276,913	-	-	-	29,495	-	306,408
Other income	10,181	-	-	93	143,145	12,380	(153,254)	12,545
Financing income	247,610	-	-	160	-	(458)	(145,496)	101,816
	<u>9,082,788</u>	<u>276,913</u>	<u>93,285</u>	<u>63,357</u>	<u>268,898</u>	<u>50,563</u>	<u>(9,229,754)</u>	<u>606,050</u>
Cost of sales and services	6,483,223	-	77,436	-	52,256	-	(6,535,479)	77,436
Selling and marketing expenses	1,531,401	-	11,879	-	-	-	(1,531,401)	11,879
General and administrative expenses	396,785	-	7,290	47,270	9,846	3,514	(411,552)	53,153
Koor Group's equity in losses of affiliates	84,037	-	-	-	-	-	204,345	288,382
Other expenses	382,604	-	12	-	-	19,937	(380,804)	21,749
Financing expenses	701,955	-	2,071	121	56,123	1,471	(168,356)	593,385
	<u>9,580,005</u>	<u>-</u>	<u>98,688</u>	<u>47,391</u>	<u>118,225</u>	<u>24,922</u>	<u>(8,823,247)</u>	<u>1,045,984</u>
Taxes on income	(42,537)	(60,472)	(73)	(2,735)	(33,789)	(2,147)	45,403	(96,350)
Non controlling interest	252,305	-	-	(5,720)	(75,337)	-	(171,248)	-
Segment results –attributed to Company's holders	<u>(287,449)</u>	<u>216,441</u>	<u>(5,476)</u>	<u>7,511</u>	<u>41,547</u>	<u>23,494</u>	<u>(532,352)</u>	<u>(536,284)</u>
Depreciation and amortization	474,532	-	1,678	1,780	-	-	-	-
Impairment loss from fixed assets, intangible assets and investments	94,415	(**) <u>1,432,688</u>	-	-	-	14,765	-	-
Reversal of impairment loss on investments	-	-	-	3,093	-	-	-	-
Capital investments	849,440	2,072,114	21	742	1,219,145	49,450	-	-
Interest expenses	312,430	-	721	121	56,123	-	-	-
Interest income	22,069	-	-	160	-	-	-	-

(*) The liabilities of the Credit Suisse segment as at December 31, 2010 include loans from foreign banks as well as the liability for options on the Swiss franc-shekel exchange rate totaling NIS 3,726 million, for which financing expenses in the year ended December 31, 2010 total NIS 321 million for foreign bank loans and NIS 94 million for exchange rate options. These financing expenses were not presented as part of the segment's information, since it does not constitute part of the internal reporting format, within the Credit Suisse segment, which is provided in an orderly manner to the Group's head operational decision makers.

(**) The impairment loss in the Credit Suisse segment reflects the negative capital reserve for financial assets available for sale totaling NIS 1,432,688 thousand.

Notes to the Financial Statements for the year ended December 31, 2010

Note 24 – Business Segments (cont.)

B. Data from the consolidated statements of income (cont.)

	For year ended December 31, 2009							
	Makhteshim	Credit	Telecom	Epsilon	452	Others	Adjust-	Consoli-
	Agan	Suisse (*)	equipmen	(**)	Owners			
			t	(**)	(**)		ments	dated
	NIS thousands							
Sales and services	8,751,037	-	113,440	60,621	-	61,668	(8,864,513)	122,253
Koor Group's equity in earnings of affiliates	-	-	-	(1,300)	-	83	12,366	11,149
Earnings from realization and dividends of financial assets available for sale	-	2,650,592	-	-	-	32,210	-	2,682,802
Other income	13,874	-	24	-	-	4,571	7,623	26,092
Financing income	156,817	-	-	63	-	481	(127,753)	29,608
	<u>8,921,728</u>	<u>2,650,592</u>	<u>113,464</u>	<u>59,384</u>	<u>-</u>	<u>99,013</u>	<u>(8,972,277)</u>	<u>2,871,904</u>
Cost of sales and services	6,527,569	-	92,410	-	-	32,662	(6,560,231)	92,410
Selling and marketing expenses	1,408,742	-	20,069	-	-	18,342	(1,427,084)	20,069
General and administrative expenses	312,501	-	9,614	35,857	340	15,286	(305,268)	68,330
Koor Group's equity in losses of affiliates	59,478	-	-	-	-	-	(48,455)	11,023
Other expenses	23,516	-	6,193	-	-	8,025	(19,286)	18,448
Financing expenses	524,371	-	1,552	350	-	-	(152,963)	373,310
	<u>8,856,177</u>	<u>-</u>	<u>129,838</u>	<u>36,207</u>	<u>340</u>	<u>74,315</u>	<u>(8,513,287)</u>	<u>583,590</u>
Taxes on income	28,243	(126,944)	(157)	(1,199)	-	6,893	(29,447)	(122,611)
Non controlling interest	(96,656)	-	-	(11,639)	170	(3,831)	111,956	-
Segment results –attributed to Company's holders	<u>(2,862)</u>	<u>2,523,648</u>	<u>(16,531)</u>	<u>10,339</u>	<u>(170)</u>	<u>27,760</u>	<u>(376,481)</u>	<u>2,165,703</u>
Depreciation and amortization	452,315	-	1,665	1,893	-	4,773		
Impairment loss from fixed assets, intangible assets and investments	-	-	-	-	-	32,847		
Capital investments	733,433	8,863,046	1,435	360	92,702	384,680		
Interest expenses	325,146	-	1,408	351	-	-		
Interest income	32,000	-	-	63	-	1,123		

(*) The liabilities of the Credit Suisse segment as at December 31, 2009 include loans from foreign banks totaling NIS 1,131 million, for which financing expenses in the year ended December 31, 2009 total NIS 125 million. These financing expenses were not presented as part of the segment's information, since it does not constitute part of the internal reporting format, within the Credit Suisse segment, which is provided in an orderly manner to the Group's head operational decision makers. In addition, the assets of the Credit Suisse segment as at December 31, 2009 did not include assets for options on the exchange rate of the Swiss franc against the shekel of NIS 6 million. The financing expenses for options on exchange rates for the year ended December 31, 2009 is NIS 17 million.

(**) Restated in order to present separately the Epsilon and 452 Owners segments.

Notes to the Financial Statements for the year ended December 31, 2010

Note 24 – Business Segments (cont.)

B. Data from the consolidated statements of income (cont.):

	For year ended December 31, 2008							
	Makhteshim Agan	Credit Suisse(*)	Telecom equipmen t		Epsilon (***)	Others (***)	Adjust- ments	Consoli- dated
			NIS thousands					
Sales and services	9,070,325	-	207,604	30,814	283,292	(9,375,345)	216,690	
Koor Group's equity in earnings of affiliates	(21,580)	-	-	-	8,443	311,066	297,929	
Earnings from realization and dividends of financial assets available for sale	-	574,523	-	-	-	-	574,523	
Other income	13,022	-	976	82	56,365	(14,727)	55,718	
Financing income	292,750	-	44	-	7,138	(99,761)	200,171	
	<u>9,354,517</u>	<u>574,523</u>	<u>208,624</u>	<u>30,896</u>	<u>355,238</u>	<u>(9,178,767)</u>	<u>1,345,031</u>	
Cost of sales and services	6,123,903	-	205,204	-	257,557	(6,381,460)	205,204	
Selling and marketing expenses	1,344,599	-	33,704	-	55,695	(1,400,294)	33,704	
General and administrative expenses	300,308	-	16,057	36,081	58,900	(352,832)	58,514	
Koor Group's equity in losses of affiliates	-	-	-	24,240	1,325	55,074	80,639	
Other expenses	9,307	-	63	4,776	40,543	(25,138)	29,551	
Financing expenses	635,946	-	7,715	167	11,379	44,749	699,956	
	<u>8,414,063</u>	<u>-</u>	<u>262,743</u>	<u>65,264</u>	<u>425,399</u>	<u>(8,059,901)</u>	<u>1,107,568</u>	
Taxes on income	(178,948)	-	(171)	(2,937)	(1,673)	183,745	16	
Non controlling interest	(472,020)	-	117	6,532	60,955	404,533	117	
Segment results –attributed to Company's holders	<u>289,486</u>	<u>574,523</u>	<u>(54,173)</u>	<u>(30,773)</u>	<u>(10,879)</u>	<u>(530,588)</u>	<u>237,596</u>	
Depreciation and amortization	<u>372,160</u>	<u>-</u>	<u>6,222</u>	<u>1,818</u>	<u>9,800</u>			
Impairment loss from fixed assets, intangible assets and investments	-	(**)245,927	3,687	22,940	28,806			
Capital investments	<u>468,189</u>	<u>8,265,066</u>	<u>7,243</u>	<u>468</u>	<u>21,046</u>			
Interest expenses	<u>219,684</u>	<u>-</u>	<u>9,042</u>	<u>732</u>	<u>11,016</u>			
Interest income	<u>36,384</u>	<u>-</u>	<u>-</u>	<u>565</u>	<u>4,174</u>			

(*) The liabilities of the Credit Suisse segment as at December 31, 2008 include loans from foreign banks totaling NIS 891 million, for which financing expenses in the year ended December 31, 2008 total NIS 103 million. These financing expenses were not presented as part of the segment's information, since it does not constitute part of the internal reporting format, within the Credit Suisse segment, which is provided in an orderly manner to the Group's head operational decision makers.

(**) The impairment loss in the Credit Suisse segment reflects the negative capital reserve for financial assets available for sale totaling NIS 245,927 thousand.

(***) Restated in order to present separately the Epsilon segment.

Notes to the Financial Statements for the year ended December 31, 2010

Note 24 – Business Segments (cont.)

C. Segment balance sheet data:

	December 31, 2010							Consolidated
	Makhteshim Agan	Credit Suisse	Telecom equipment	Epsilon	452 Owners	Others	Adjustments	
	NIS thousands							
Segment assets	<u>13,197,837</u>	<u>5,535,864</u>	<u>44,213</u>	<u>63,202</u>	<u>1,467,039</u>	<u>278,718</u>	<u>(10,753,763)</u>	<u>9,833,110</u>
Segment liabilities	<u>9,124,401</u>	<u>3,725,563</u>	<u>-</u>	<u>-</u>	<u>1,140,677</u>	<u>-</u>	<u>(7,108,609)</u>	<u>6,882,032</u>
	December 31, 2009							Consolidated
	Makhteshim Agan	Credit Suisse	Telecom equipment	Epsilon(*)	452 Owners(*)	Others	Adjustments	
	NIS thousands							
Segment assets	<u>14,193,422</u>	<u>5,110,948</u>	<u>59,389</u>	<u>76,346</u>	<u>92,610</u>	<u>478,520</u>	<u>(9,831,218)</u>	<u>10,180,017</u>
Segment liabilities	<u>9,373,642</u>	<u>1,130,993</u>	<u>-</u>	<u>-</u>	<u>196</u>	<u>-</u>	<u>(5,677,357)</u>	<u>4,827,474</u>

D. Adjustments for reportable segments – revenues, earnings and loss, assets and liabilities and other material items

	Year ended December 31		
	2010	2009 (*)	2008 (*)
	NIS thousands	NIS thousands	NIS thousands
Revenues			
Total revenues from reportable segments	<u>9,785,241</u>	11,745,168	10,168,560
Revenues from operations classified in others operating segment	<u>50,563</u>	99,013	355,238
Net of revenues from affiliates	<u>(9,415,043)</u>	(9,035,172)	(9,678,729)
Equity in earnings of equity-accounted investees	<u>82,850</u>	11,149	297,929
Amounts not attributed – mainly financing income from Koor headquarters	<u>102,439</u>	51,746	202,033
Consolidated revenues	<u>606,050</u>	<u>2,871,904</u>	<u>1,345,031</u>
Earnings and loss			
Total earnings or loss from reportable segments	<u>(27,426)</u>	2,514,424	779,063
Earnings or loss from operations classified in others operating segment	<u>23,494</u>	27,760	(10,879)
Amounts not attributed – mainly financing expenses and general and administrative expenses for Koor headquarters	<u>(532,352)</u>	(376,481)	(530,588)
Net income (loss)	<u>(536,284)</u>	<u>2,165,703</u>	<u>237,596</u>

(*) Restated in order to reflect separately in 2009 the Epsilon and 452 Owners segments, and in 2008 the Epsilon segment.

Notes to the Financial Statements for the year ended December 31, 2010

Note 24 – Business Segments (cont.)

D. Adjustments for reportable segments – revenues, earnings and loss, assets and liabilities and other material items (cont.)

	December 31	
	2010	2009 (*)
	NIS thousands	NIS thousands
Assets		
Total assets of reportable segments	20,308,155	19,532,715
Assets attributed to operations classified in others operating segments	278,718	478,520
Net of assets from affiliates	(14,727,141)	(14,484,445)
Investment in equity-accounted affiliates	2,790,974	2,945,939
Asset held for sale	-	16,655
Other amounts not attributed – mainly cash, deposits and short-term investments of Koor headquarters	1,182,404	1,690,633
Total consolidated assets	<u>9,833,110</u>	<u>10,180,017</u>
Liabilities		
Total liabilities of reportable segments	13,990,641	10,504,831
Less liabilities from affiliates	(10,265,078)	(9,373,838)
Other amounts not attributed – mainly debentures and bank loans of Koor headquarters	3,156,469	3,696,481
Total consolidated liabilities	<u>6,882,032</u>	<u>4,827,474</u>

	Year ended December 31, 2010		
	Reportable segments	Adjustments	Consolidated
	NIS thousands	NIS thousands	NIS thousands
Interest income	22,229	(4,847)	17,382
Interest expenses	369,395	(87,369)	282,026
Depreciation and amortization	477,990	(476,265)	1,725
Capital investments	4,141,462	(1,772,499)	2,368,963
Impairment loss on fixed assets, intangible assets and investments	1,527,103	(79,650)	1,447,453
Reversal of impairment loss on fixed assets, intangible assets and investments	3,093	-	3,093

	Year ended December 31, 2009(*)		
	Reportable segments	Adjustments	Consolidated
	NIS thousands	NIS thousands	NIS thousands
Interest income	32,063	(25,096)	6,967
Interest expenses	326,905	(102,390)	224,515
Depreciation and amortization	455,873	(454,135)	1,738
Capital investments	9,690,976	(15)	9,690,961
Impairment loss on investments	-	4,940	4,940

	Year ended December 31, 2008 (*)		
	Reportable segments	Adjustments	Consolidated
	NIS thousands	NIS thousands	NIS thousands
Interest income	36,949	16,530	53,479
Interest expenses	229,458	(64,698)	164,760
Depreciation and amortization	380,200	(373,763)	6,437
Capital investments	8,740,966	(265,970)	8,474,996
Impairment of fixed and intangible assets and investments	272,554	28,806	301,360

Notes to the Financial Statements for the year ended December 31, 2010

(*) Restated in order to present separately in 2009 the Epsilon and 452 Owners segments and in 2008 the Epsilon segment.

Note 24 – Business Segments (cont.)**E. Supplementary information on products and services of Group companies**

	Year ended December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Revenues from sales and services to outside customers			
Telecom equipment	93,285	113,440	207,604
Real estate – rentals buildings	6,928	6,660	7,307
Other: Management fees	2,218	2,153	1,779
	102,431	122,253	216,690

F. Information on geographic regions

The Company's country of residence is Israel. The Group operates and generates its revenues mainly in the U.S., South America and Israel. In the presentation of information based on geographic segments, revenues from products and services from outside parties are based on the geographic location of the customers and assets, based on the geographic location of the assets.

Revenues from outside parties

	Year ended December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
U.S.	72,679	95,811	116,696
South America	16,186	16,788	74,219
Israel	9,146	8,813	15,671
Other	4,420	841	10,104
	102,431	122,253	216,690

Non-current assets

	December 31	
	2010	2009
	NIS thousands	NIS thousands
Israel	108,161	96,065
U.S.	2,220	4,016
	110,381	100,081

G. Information on major customers

Group revenues from two customers attributed to the telecom equipment segment total NIS 36,381 thousand (in 2009 and 2008 - NIS 58,989 thousand and NIS 83,906 thousand, respectively).

Notes to the Financial Statements for the year ended December 31, 2010

Note 25 – Financial Risks Management**A. General**

The Company and its subsidiaries are exposed to the following risks, deriving from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (includes currency risk, interest risk and other price risk)

In this note, information is provided on the exposure of the Company and its subsidiaries to each of the above risks, the goals of the Company and its subsidiaries, policies and processes regarding the measurement and management of the risk. Additional quantitative disclosure is included throughout these consolidated financial statements.

The board of directors holds overall responsibility for establishing the Company's risk management framework and controlling it. Moreover, the audit committee receives reports on risks management. Furthermore, the board of directors of MNI monitors the risks in MNI.

The Company's risks management policy was formulated in order to identify and analyze the risks faced by the Company, to determine reasonable limits for the risks and controls, and to control the risks and compliance with the limits. The risks management policies and methods are reviewed regularly by the Company's management, in order to reflect the changes in market conditions and the Company's activities. The Company, through training and the existence of procedures, works to develop effective control environment in which all the employees understand their function and obligations.

The board of directors' audit committee supervises management's monitoring of compliance with the Company's risks management policy and its procedures, and it compares the risks management framework with the risks faced by the Group. The supervision process is facilitated by the audit committee in internal audit. The internal audit is engaged in regular examinations and examinations required by the controls and procedures for risks management, the results of which are reported to the audit committee.

B. Credit risk

Credit risk is the risk of a financial loss that will be sustained by the Company and its subsidiaries if a customer or a counter party to a financial instrument does not meet its contractual obligations, and derives mainly from investments in securities and the debts of customers and other receivables.

Bodies that provided financing to purchase shares

The risk of bodies that provided the Company with financing to purchase the Credit Suisse shares and to secure this financing the shares of Credit Suisse were pledged. These bodies have the right to dispose of these shares. The Company regularly evaluates the credit rating of these entities.

Trade and other receivables

The exposure of the Company and its subsidiaries to credit risks derives from MNI and is influenced mainly by the individual characterization of each customer. The demographic characteristics of the customer base of the Company and its subsidiaries, including the risk of insolvency in an industry or country in which the customer operates has a minor effect on the credit risk. Approximately 36% of the revenues of the Company and its subsidiaries from sales and services derive from sales opposite two customers. From the standpoint of geographic concentration - approximately 71% of the revenues of the Company and its subsidiaries derive from sales to the U.S. and approximately 16% originates from sales to Latin American countries.

Notes to the Financial Statements for the year ended December 31, 2010**Note 25 – Financial Risks Management (cont.)****B. Credit risk (cont.)**

Most of the customers of the Company and its subsidiaries have traded with it for more than four years, and rarely have losses been sustained because of them. In monitoring the credit risk of customers, they customers are evaluated individually by the management of MNI, according to their credit characterization, including whether they are a private individual or a legal entity, wholesalers, retailers or end customers, geographic location, industry, aging of the debt, maturity dates and existence of financial difficulties in the past. Trade and other receivables relate mainly to a group of MNI's wholesaler customers. Customers rated as high risk are under the day-to-day supervision of MNI management and sales to them are effected after an examination of the collection of their debts.

The Company and its subsidiaries recognize an impairment provision that reflects its assessment of losses sustained from trade and other receivables and from investments. The main elements of this provision are specific losses related to significant specific exposure.

Cash

The Group holds cash and cash equivalents in banks and financial institutions rated as follows:

- The minimum rating for deposits in local banks (local rating scale) – rated by Maalot for deposits – ilAA/stable, the rating by Midroog for long-term deposits – Aa3/stable and for short-term deposits – P-1/stable.
- The minimum rating in foreign banks (international rating scale):

	December 31	
	2010	2009
Long -term deposits	A/Negative	A2/Negative
Short-term deposits	A-1/Negative	P-1/Negative

Investments

The Company and its subsidiaries limit the exposure to credit risk by investing only in liquid securities, and only when the counter party has a credit rating of at least (in cases of debt instruments) "A-" by Standard & Poor's Maalot or a rating comparable to "1A" according to Midroog. By this credit policy, management is attempting to limit the exposure.

In addition, Koor executes transactions in financial derivative instruments only through banking corporations and entities that are required to maintain a level of collateral according to scenarios.

Guarantees

It is the Company's policy to refrain from giving financial guarantees to investees (aside from exceptional situations). The Company furnished guarantees to a wholly-owned subsidiary that serve as "headquarters" companies. Additionally, in 2010, the Company furnished a guarantee to a jointly-controlled company for a bank loan. Likewise, several years ago, the Company furnished a guarantee to a subsidiary, which is still in effect. For additional information about financial guarantees, see Note 26(F), regarding financial instruments.

Notes to the Financial Statements for the year ended December 31, 2010

Note 25 – Financial Risks Management (cont.)**C. Liquidity risk**

Liquidity risk is the risk that the Group will have difficulty honoring obligations related to its financial liabilities, which are settled by providing cash or another financial asset. The Group's approach for management of its liquidity risks is to assure, to the extent possible, the degree of liquidity sufficient to meet its obligations on a timely basis, at ordinary terms and under pressure conditions, without sustaining unwanted losses of hurting its reputation.

The Company and its subsidiaries use cash flows forecasts, in order to monitor cash flow requirements and to maximize the cash yield on its investments. The Company and its subsidiaries plan for the existence of sufficient cash levels, according to payment requirements for expenses expected, including the amounts required to meet its financial obligations; the aforesaid does not take into account the potential effect of extreme scenarios that it is not reasonable to foresee, such as plunging asset values, sharp exchange rate fluctuations, natural disasters, the collapse of debtors, etc. Moreover, the Group holds \$100 million, which can be drawn to cover short-term financial needs. This line of credit is daily, and is renewed automatically at the Group's election. The interest will be at the rate of prime plus a margin based on market conditions. The line of credit is based on non-obligatory facilities that were granted to the Company by various banks.

D. Market risks

Market risk is the risk that changes in market prices, such as currency exchange rates, indexation, interest rates and prices of capital instruments, as well as the price of marketable shares, will affect the Group's revenues or the value of its holdings in financial instruments. The goal of market risks management is to manage and control the exposure to market risks within the scope of acceptable parameters.

In the ordinary course of business, the Company and its subsidiaries buy and sell derivatives, mainly options on the exchange rate of the shekel against the Swiss franc, as well as shekel-CPI forwards, and assume the financial liabilities for the purpose of managing the market risks. The said transactions are executed according to the guidelines prescribed by the Board of directors or by the audit committee. For the most part, the Group does not apply hedge accounting and values the transactions at their fair value, with the change in fair value charged to income/loss.

Currency risk

The Company and its subsidiaries are exposed to currency risk from assets, loans, sales and purchases denominated in currencies that differ from the appropriate functional currencies of the Group companies, mainly NIS and the Swiss franc, but also the U.S. dollar. The currencies in which most transactions are denominated are NIS, Swiss franc and U.S. dollar.

For the interest rate exposure of the Swiss franc against the shekel, Koor periodically, in differing amounts, executes trades to purchase put options CHF/NIS and to sell call options CHF/NIS (together – cylinder trades). Periodically, the amount of the open cylinder trades exceeds the net exposure to the exchange rate of the Swiss franc. For the most part, contracts are effected for a period of up to twelve months, but they may be settled, and sometimes are actually settled, before the contractual expiration date. As of December 31, 2010, the amount of open CHF/NIS cylinder trades amounted to CHF 1,100 million, with a fair value estimated as a liability of NIS 119 million. This was also the highest amount of cylinder trades during 2010. As at the report's publication date, there are open CHF/NIS cylinder trades totaling CHF 800 million, with a fair value estimated as a liability of NIS 123 million. Likewise, Koor periodically converts currency, mainly between the shekel and the Swiss franc (or vice versa).

Notes to the Financial Statements for the year ended December 31, 2010

Note 25 – Financial Risks Management (cont.)

D. Market risks (cont.)

Interest rate risk

Part of the Company's debt (approximately 44%) is at fixed interest, and as such, is not exposed to fluctuations in cash flows due to interest rate. The rest of the debt (approximately 56%) is exposed to changes in the Libor rate on the Swiss franc. As at the report date, the Company does not hedge this risk. However, from time to time, the Company considers executing interest rate swaps, and there is nothing to prevent it from executing such trades in the future.

Indexation risk

Part of the Company's debt (approximately 20%) is linked to the CPI. Changes in the CPI impact the amount of the Company's debt and its financial results. As at the report date, the Company partially hedges this risk economically by purchasing forward contracts on the CPI.

Changes in the prices of marketable shares

Koor has exposure to fluctuations in the market value of its marketable assets, mainly shares of Credit Suisse and shares of Makhteshim-Agan.

As at the report date, the Company does not execute hedge transactions against these exposures. However, it is possible that in the future, the Company will hedge against these exposures.

Notes to the Financial Statements for the year ended December 31, 2010**Note 26 – Financial Instruments****A. Credit risk**

1. Exposure to credit risk

The carrying value of financial assets represents the maximum credit exposure. The maximum credit risk on the balance sheet date is as follows:

	December 31	
	2010	2009
	Carrying value	
	NIS thousands	
Pledged financial assets available for sale (*)	5,535,863	2,412,527
Financial assets measured at fair value through income/loss (except for derivatives)	12,509	13,393
Loans and receivables (mainly loans to jointly-controlled company)	222,749	20,490
Cash and cash equivalents, short and long-term investments and pledged deposits	1,064,394	1,628,898
Assets in respect of forward contracts on CPI	8,109	8,619
Assets in respect of exchange rate options	-	5,642
	6,843,624	4,089,569

The above balances are included in cash and cash equivalents, trade receivables, other receivables and other investments, including derivatives.

The maximum exposure to credit risk in respect of cash and cash equivalents, trade receivables, other receivables, loans and other investments, as at the balance sheet, according to geographic regions was as follows:

	December 31	
	2010	2009
	Carrying value	
	NIS thousands	
Israel	403,646	1,035,880
Switzerland	216,418	234,107
UK	6,000,934	2,586,668
U.S	214,903	231,058
Other regions	7,723	1,856
	6,843,624	4,089,569

The maximum exposure to credit risk in respect of cash and cash equivalents, trade receivables, other receivables and other investments, as at the balance sheet, according to counter party was as follows:

	December 31	
	2010	2009
	Carrying value	
	NIS thousands	
End customers	17,078	19,513
Debentures issued by the Israeli Government	12,509	13,393
Banks	1,072,680	1,643,159
Banks (pledged financial assets available for sale) (*)	5,535,863	2,412,527
Other investments and loans (mainly loan to jointly-controlled company)	205,494	977
	6,843,624	4,089,569

(*) Financial assets available for sale pledged to the financing banks – see Note 17(C)(2) and 17(C)(3).

Notes to the Financial Statements for the year ended December 31, 2010**Note 26 – Financial Instruments (cont.)****A. Credit risk (cont.)****(2) Aging of accounts and impairment losses**

Presented below is the aging of cash and cash balances, trade receivables, other receivables, pledged financial assets available for sale and other loans and investments:

	2010		December 31 2009	
	Gross	Impairment	Gross	Impairment
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Not in arrears	6,838,928	-	4,088,928	-
Arrears 0-30 days	1,995	-	109	-
Arrears 31-120 days	2,701	-	732	200
Arrears more than 120 days	92	92	1,226	1,226
	<u>6,843,716</u>	<u>92</u>	<u>4,090,995</u>	<u>1,426</u>

The change in the impairment provision for balances of trade receivables, other receivables and loans given during the year was as follows:

	2010	2009
	NIS thousands	
Balance as at January 1	1,426	436
Change during the year	(1,334)	990
Balance as at December 31	<u>92</u>	<u>1,426</u>

Notes to the Financial Statements for the year ended December 31, 2010**Note 26 – Financial Instruments (cont.)****B. Liquidity risk**

Presented below are the contractual maturity dates of the financial liabilities, including estimates of interest payments. This disclosure does not include amounts for which there are offset agreements.

	December 31, 2010							Sixth year and thereafter
	Carrying value(*)	Total contractual cash flows (**)	First year	Second year	Third year	Fourth year	Fifth year	
NIS thousands								
Non-derivative financial liabilities								
Short-term bank loans	26,661	26,661	26,661	-	-	-	-	-
Trade payables	14,817	14,817	14,817	-	-	-	-	-
Other payables	52,853	52,853	52,853	-	-	-	-	-
Debentures	2,032,730	2,391,189	263,610	499,010	476,021	453,032	430,042	269,474
Loans from banks (***)	4,475,867	4,813,170	140,794	2,765,961	1,778,891	45,074	42,507	39,943
Other liabilities	2,839	2,839	-	1,600	1,000	239	-	-
Financial liabilities – derivative instruments								
Exchange rate options	119,348	119,348	119,348	-	-	-	-	-
Forward contracts on CPI	1,828	1,828	1,828	-	-	-	-	-
Total	6,726,943	7,422,705	619,911	3,266,571	2,255,912	498,345	472,549	309,417

(*) The carrying value includes current maturities and interest accrued to December 31, 2010.

(**) Contractual cash flows are calculated on the basis of the CPI and exchange rates known as at December 31, 2010.

(***) Regarding compliance with financial covenants pertaining to the closing of the Makhteshim-Agan transaction, see Note 17(D)(4).

Notes to the Financial Statements for the year ended December 31, 2010**Note 26 – Financial Instruments (cont.)****B. Liquidity risk (cont.)**

Presented below are the contractual maturity dates of the financial liabilities, including estimates of interest payments. This disclosure does not include amounts for which there are offset agreements.

	December 31, 2009							
	Carrying value(*)	Total contractual cash flows (**)	First year	Second year	Third year	Fourth year	Fifth year	Sixth year and thereafter
NIS thousands								
Non-derivative financial liabilities								
Short-term bank loans	267,178	277,596	277,596	-	-	-	-	-
Trade payables	16,671	16,671	16,671	-	-	-	-	-
Other payables	116,031	116,031	116,031	-	-	-	-	-
Debentures	2,465,642	2,945,586	586,083	262,267	492,405	469,684	446,963	688,184
Loans from banks	1,761,041	1,994,647	79,900	987,505	795,037	7,528	44,068	80,609
Other liabilities	4,397	4,397	433	2,444	1,400	120	-	-
Financial liabilities – derivative instruments								
Forward contracts on CPI	1,088	1,088	212	876	-	-	-	-
Exchange rate options	169	169	169	-	-	-	-	-
Options for incremental interest on debentures series I (***)	3,257	3,257	3,257	-	-	-	-	-
Total	4,635,474	5,359,442	1,080,352	1,253,092	1,288,842	477,332	491,031	768,793

(*) The carrying value includes current maturities and interest accrued to December 31, 2009.

(**) Contractual cash flows are calculated on the basis of the CPI and exchange rates known as at December 31, 2009.

(***) See Note 17(C)(5).

Notes to the Financial Statements for the year ended December 31, 2010**Note 26 – Financial Instruments (cont.)****C. Indexation and currency risk****(1) Exposure to indexation and currency risk**

Group's exposure to indexation and currency risk, based on stated values, is as follows:

	December 31, 2010							
	Unlinked NIS	CPI-linked	Dollar	Euro	CHF	Other	Non-monetary items	Total
	NIS thousands							
Current assets:								
Cash and cash equivalents	355,505	-	25,238	44	216,528	131	-	597,446
Short-term deposits and investments	9,658	4,395	5,054	-	-	-	57,351	76,458
Trade receivables	-	-	17,078	-	-	-	-	17,078
Other receivables	733	-	-	-	16	-	29,239	29,988
Inventories	-	-	-	-	-	-	23,700	23,700
Non-current assets:								
Investments in investees	-	-	187,176	-	-	-	2,603,798	2,790,974
Financial assets available for sale and other investments	-	8,109	20,585	-	457,511	-	(*)5,700,880	6,187,085
Investment properties, fixed assets and intangible assets	-	-	-	-	-	-	110,381	110,381
Current liabilities:								
Short-term credit from banks	-	-	(26,618)	-	-	-	-	(26,618)
Trade payables	(1,994)	-	(12,756)	-	-	(67)	-	(14,817)
Other payables	(35,710)	(36,969)	(18,795)	(689)	(3,047)	-	(116,476)	(211,686)
Financial derivatives	-	(1,828)	-	-	(119,348)	-	-	(121,176)
Provisions	-	-	-	-	-	-	(5,733)	(5,733)
Advances from customers	-	-	-	-	-	-	(770)	(770)
Non-current liabilities								
Debentures (includes current maturity)	(810,150)	(1,186,153)	-	-	-	-	-	(1,996,303)
Liabilities to banks	(750,000)	(113,765)	-	-	(3,606,215)	-	-	(4,469,980)
Deferred tax liabilities	-	-	-	-	-	-	(31,221)	(31,221)
Other liabilities	-	-	(2,839)	-	-	-	-	(2,839)
Employee benefits	-	-	-	-	-	-	(889)	(889)
	<u>(1,231,958)</u>	<u>(1,326,211)</u>	<u>194,123</u>	<u>(645)</u>	<u>(3,054,555)</u>	<u>64</u>	<u>8,370,260</u>	<u>2,951,078</u>

Notes to the Financial Statements for the year ended December 31, 2010

- (*) Credit Suisse shares traded on the Switzerland Stock Exchange totaling NIS 5,536 million, which is a non-monetary item and according to management's view, are exposed to changes in the shekel/CHF exchange rate.

Notes to the Financial Statements for the year ended December 31, 2010**Note 26 – Financial Instruments (cont.)****C. Indexation and currency risk (cont.)****(1) Exposure to indexation and currency risk (cont.)**

Group's exposure to indexation and currency risk, based on stated values, is as follows:

	December 31, 2009							
	Unlinked	CPI-linked	Dollar	Euro	CHF	Other	Non-monetary items	Total
	NIS							
	NIS thousands							
Current assets:								
Cash and cash equivalents	838,381	-	214,158	46	559,581	177	-	1,612,343
Short-term deposits and investments	14,503	8,053	5,108	-	5,641	-	30,640	63,945
Trade receivables	-	-	19,513	-	-	-	-	19,513
Other receivables	700	6	267	-	3	-	10,904	11,880
Inventories	-	-	-	-	-	-	34,670	34,670
Assets held for sale	-	-	-	-	-	-	16,655	16,655
Non-current assets:								
Investments in investees	-	-	-	-	-	-	2,945,939	2,945,939
Financial assets available for sale and other investments	-	7,794	3,111	-	-	-	(*) 5,364,086	5,374,991
Investment properties, fixed assets and intangible assets	-	-	-	-	-	-	100,081	100,081
Current liabilities:								
Short-term credit from banks	-	-	(31,710)	-	(234,804)	-	-	(266,514)
Trade payables	(1,107)	-	(15,564)	-	-	-	-	(16,671)
Other payables	(51,579)	(38,029)	(16,858)	(8,981)	(48,870)	-	(98,938)	(263,255)
Financial derivatives	-	(212)	-	-	(3,425)	-	-	(3,637)
Provisions	-	-	-	-	-	-	(9,735)	(9,735)
Advances from customers	-	-	-	-	-	-	(2,134)	(2,134)
Non-current liabilities								
Debentures (includes current maturity)	(804,193)	(1,617,512)	-	-	-	-	-	(2,421,705)
Liabilities to banks	(750,000)	(111,176)	-	-	(896,189)	-	-	(1,757,365)
Deferred tax liabilities	-	-	-	-	-	-	(80,100)	(80,100)
Other liabilities	-	(876)	(3,964)	(433)	-	-	-	(5,273)
Employee benefits	-	-	-	-	-	-	(1,081)	(1,081)
Liability from option to investors	-	(4)	-	-	-	-	-	(4)
	<u>(753,295)</u>	<u>(1,751,956)</u>	<u>174,061</u>	<u>(9,368)</u>	<u>(618,063)</u>	<u>177</u>	<u>8,310,987</u>	<u>5,352,543</u>

Notes to the Financial Statements for the year ended December 31, 2010

- (*) Credit Suisse shares traded on the Switzerland Stock Exchange totaling NIS 5,111 million, which is a non-monetary item and according to management's view, are exposed to changes in the shekel/CHF exchange rate.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 26 – Financial Instruments (cont.)

C. Indexation and currency risk (cont.)

(1) Exposure to indexation and currency risk (cont.)

Group's exposure to indexation and currency risk from financial derivatives is as follows:

December 31, 2010						
Currency/ linkage receivable	Currency/ linkage payable	Expiration date	Par value in millions	Annual interest% /stated contract rate	Fair value NIS thousands	
Instruments not used to hedge:						
Sale of call options on foreign currency	NIS	CHF	2-12/2011	CHF 1,100	3.57-3.8875	(175,007)
Purchase of put options on foreign currency	NIS	CHF	2-12/2011	CHF 1,100	3.216-3.77	55,658
Forward contract on CPI	CPI – linked NIS	Fixed interest NIS	9/2011- 4/2012	NIS 380	1.75%- 2.95%	6,281
						<u>(113,068)</u>
December 31, 2009						
Currency/ linkage receivable	Currency/ linkage payable	Expiration date	Par value in millions	Annual interest% /stated contract rate	Fair value NIS thousands	
Instruments not used to hedge:						
Sale of call options on foreign currency	NIS	CHF	1-2/2010	CHF 500	3.665-3.895	(6,832)
Purchase of put options on foreign currency	NIS	CHF	1-2/2010	CHF 500	3.65	12,304
Forward contract on CPI	CPI – linked NIS	Fixed interest NIS	9/2010- 4/2012	NIS 500	1.75%- 2.95%	7,532
						<u>13,004</u>

Presented below are data on the CPI and major currencies:

	Year ended December 31			December 31	
	2010	2009	2008	2010	2009
	% change			Spot rate	
CHF	3.30	2.89	4.23	3.7882	3.6672
US dollar	(5.99)	(0.71)	(1.14)	3.549	3.775
Euro	(12.93)	2.72	(6.39)	4.7379	5.4417
CPI points	2.66	3.91	3.80	108.00	105.20

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 26 – Financial Instruments (cont.)****C. Indexation and currency risk (cont.)****(2) Sensitivity analysis**

The appreciation of the shekel against the following currencies as at December 31, 2010 and the increase in the CPI would increase (reduce) the equity and earnings or loss before tax by the amounts presented below. This analysis assumes that all the other variables, especially interest rates, remained constant. The analysis for 2009 was performed on the same basis.

	December 31, 2010 (**)			
	Equity		Earnings (loss)	
	Increase of	Decrease of	Increase of	Decrease of
	NIS thousands		NIS thousands	
In the CPI of 1%	(9,525)	9,525	(9,525)	9,525
In the exchange rate of:				
CHF by 5% (*)	(318,230)	315,671	(318,230)	315,671
U.S. dollar by 5%	11,003	(11,003)	1,644	(1,644)
Euro by 5%	(32)	32	(32)	32

	December 31, 2009 (**)			
	Equity		Earnings (loss)	
	Increase of	Decrease of	Increase of	Decrease of
	NIS thousands		NIS thousands	
In the CPI of 1%	(12,595)	12,595	(12,595)	12,595
In the exchange rate of:				
CHF by 5% (*)	(83,382)	104,355	(83,382)	104,355
U.S. dollar by 5%	10,503	(10,503)	10,503	(10,503)
Euro by 5%	(468)	468	(468)	468

(*) Additionally, it should be noted that for the details of the above tables related to the investment in Credit Suisse shares, the fair value of which at December 31, 2010 is NIS 5,536 million (2009 - NIS 5,111 million), that the said shares are traded in Switzerland and their value in NIS will be affected in part by a change in the CHF/NIS exchange rate, so that an increase of 5% in the exchange rate of the CHF on the report date would increase equity at December 31, 2010 by an additional NIS 269,615 thousand, after tax (at December 31, 2009 - NIS 236,244 thousand), and a decrease of 5% would decrease equity at December 31, 2010 by NIS 276,794 thousand after tax (at December 31, 2009 - NIS 236,244 thousand) assuming that there will be no changes in any of the other parameters.

(***) Includes the effects from financial derivatives.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 26 – Financial Instruments (cont.)****D. Interest rate risk****(1) Type of interest**

Presented below is information on the Group's variable interest-bearing financial instruments:

	December 31	
	2010	2009
	Carrying value	
	NIS thousands	NIS thousands
Variable-interest instruments		
Financial assets	494,414	165,711
Financial liabilities	<u>(3,632,833)</u>	<u>(1,162,704)</u>
	<u>(3,138,419)</u>	<u>(996,993)</u>

(2) Sensitivity analysis on fair value of fixed-interest instruments

The Group's assets and liabilities at fixed-interest are not measured at fair value through income/loss. Therefore, a change in the interest rates as at the balance sheet date is not expected to have any effect on the earnings or loss for changes in the value of the assets and liabilities at fixed interest.

(3) Sensitivity analysis on fair value of variable-interest instruments

A change of 1% in interest rates on the reporting date would increase (decrease) equity and earnings or loss by the amounts presented below (after tax). This analysis was performed assuming that the remaining variables, especially exchange rates, remained constant. The analysis for 2009 was performed on the same basis.

	December 31, 2010			
	Earnings or loss		Equity	
	Increase in interest of 1%	Decrease in interest of 1%	Increase in interest of 1%	Decrease in interest of 1%
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Sensitivity of cash flows (net)	<u>(31,513)</u>	<u>31,513</u>	<u>(31,513)</u>	<u>31,513</u>

	December 31, 2009			
	Earnings or loss		Equity	
	Increase in interest of 1%	Decrease in interest of 1%	Increase in interest of 1%	Decrease in interest of 1%
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Sensitivity of cash flows (net)	<u>(9,970)</u>	<u>9,970</u>	<u>(9,970)</u>	<u>9,970</u>

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 26 – Financial Instruments (cont.)****E. Fair value****(1) Fair value compared to carrying value**

The carrying value of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, other short-term investments, derivatives, short-term loans and credit, trade payables and other payables, are the same or proximate to their fair value.

The fair value of the remaining financial liabilities and their carrying value are presented in the balance sheet as follows:

	2010		December 31	
	Carrying value	Market value	Carrying value	Market value
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Non-current liabilities:				
Debentures (includes current maturity)	2,032,730	2,181,493	2,465,642	2,568,433
Long-term loans from banks	4,475,867	4,513,643	1,761,041	1,780,599
	<u>6,508,597</u>	<u>6,695,136</u>	<u>4,226,683</u>	<u>4,349,032</u>

See Note 4 regarding the basis for determining fair value.

(2) Interest rates used to determine fair value

The interest rates used to discount the estimated projected cash flows, where applicable, for marketable debentures, are based on market yield of those debentures as at balance sheet date. For bank loans, interest rates used are based on common quotes of non-marketable debentures with the same rank and the same duration as at balance sheet date, are as follows:

	December 31	
	2010	2009
	%	%
Non-current liabilities:		
Debentures (includes current maturity)	2.51-5.11	0.53-6.88
Long-term loans from banks	2.39-3.76	3.98-4.91

(3) Fair value hierarchy

The table below presents an analysis of the financial instruments measured at fair value, using the valuation method. The different levels were defined as follows:

- Level 1: Quotes prices (not adjusted) in an active market for identical instruments.
- Level 2: Data is viewed, directly or indirectly, that are not included in Level 1 above.
- Level 3: Data that is not based on viewed market data.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 26 – Financial Instruments (cont.)

E. Fair value (cont.)

(3) Fair value hierarchy (cont.)

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Financial assets designated for fair value through income/loss				
Marketable shares	27,195	-	-	27,195
Non-marketable shares	-	-	44,146	44,146
Investments in participating units of mutual funds and ETF's	33,611	-	-	33,611
Government bonds	12,509	-	-	12,509
Available for sale financial assets:				
Marketable shares	5,559,030	-	-	5,559,030
Non-marketable shares	-	-	93,853	93,853
	<u>5,632,345</u>	<u>-</u>	<u>137,999</u>	<u>5,770,344</u>
Financial derivatives:				
Forwards on CPI	-	6,281	-	6,281
Exchange rate options	-	(119,348)	-	(119,348)
	<u>-</u>	<u>(113,067)</u>	<u>-</u>	<u>(113,067)</u>
December 31, 2009				
	Level 1	Level 2	Level 3	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Financial assets designated for fair value through income/loss				
Marketable shares	12,403	-	-	12,403
Non-marketable shares	-	-	59,931	59,931
Investments in participating units of mutual funds and ETF's	20,793	-	-	20,793
Government bonds	13,393	-	-	13,393
Available for sale financial assets:				
Marketable shares	5,212,204	-	-	5,212,204
Non-marketable shares	-	-	88,971	88,971
	<u>5,258,793</u>	<u>-</u>	<u>148,902</u>	<u>5,407,695</u>
Financial derivatives:				
Forwards on CPI	-	7,531	-	7,531
Exchange rate options	-	(*) 5,474	(*) -	5,474
Options for supplemental interest on Series I bonds	-	-	(3,257)	(3,257)
Other	-	-	(437)	(437)
	<u>-</u>	<u>13,005</u>	<u>(3,694)</u>	<u>9,311</u>

(*) Reclassified.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 26 – Financial Instruments (cont.)****E. Fair value (cont.)****(4) Financial instruments measured at fair value at Level 3**

The table below presents a reconciliation between the opening balance and closing balance related to financial instruments measured at fair value at Level 3 in the fair value hierarchy:

	2010			
	Fair value through income/loss	Available for sale		Financial liabilities
	Non-marketable shares designated for fair value through income/loss	Non- marketable shares	Total	Derivatives not used for hedging
	NIS thousands			
Balance at January 1, 2010	59,931	88,971	148,902	(3,694)
Total income (losses) recognized:				
In income and loss (*)				
In other comprehensive income	(3,563)	(12,065)	(15,628)	3,002
Investment in shares	-	(8,117)	(8,117)	-
Redemptions	-	25,064	25,064	-
Balance at December 31, 2010	<u>(12,222)</u>	<u>-</u>	<u>(12,222)</u>	<u>692</u>
	<u>44,146</u>	<u>93,853</u>	<u>137,999</u>	<u>-</u>
(*) Total (losses) for the period included in income and loss from assets held as at December 31, 2010 in the items:				
Other expenses	<u>(3,563)</u>	<u>(12,065)</u>	<u>(15,628)</u>	<u>-</u>

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 26 – Financial Instruments (cont.)

E. Fair value (cont.)

(4) Financial instruments measured at fair value at Level 3 (cont.)

	2009			
	Fair value through income/loss	Available for sale		Financial liabilities
	Non-marketable shares designated for fair value through income/loss	Non- marketable shares	Total	Derivatives not used for hedging
	NIS thousands			
Balance at January 1, 2009	67,309	38,002	105,311	(386)
Total income (losses) recognized:				
In income and loss (*)	(7,378)	-	(7,378)	(**) 14,095
In other comprehensive income	-	17,986	17,986	-
Purchases of investment in shares (liabilities)	-	32,983	32,983	(17,403)
Balance at December 31, 2009	<u>59,931</u>	<u>88,971</u>	<u>148,902</u>	<u>(3,694)</u>
(*) Total gains (losses) for Period included in gains and losses from assets held as at December 31, 2009 in the items:				
Financing income	-	-	-	14,095
Other expenses	<u>(7,378)</u>	<u>-</u>	<u>(7,378)</u>	<u>-</u>

(**) Reclassified.

F. Guarantees

1. Guarantees to banks and others for loans, securing lines of credit and other guarantees:

	December 31	
	2010	2009
	NIS thousands	NIS thousands
Total guarantees (*)(**)	<u>154,722</u>	<u>160,455</u>
(*) Includes a guarantee of NIS 126 million (2009 – NIS 123 million) that Koor furnished to Bezeq pertaining to Bezeq's agreement to transfer ownership in the operations of a public switch to a third party.		
(**) Does not include guarantees totaling NIS 28 million (2009 – NIS 32 million) that were furnished to banks for the loans of a subsidiary that is consolidated in these financial statements, as well as guarantees to wholly-owned subsidiaries serving as headquarters companies, and a guarantee to a jointly-controlled company – see Par. 2 below.		

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 26 – Financial Instruments (cont.)****F. Guarantees (cont.)**

2. On April 13, 2010, the Company furnished a guarantee to secure credit given to 452 Fifth Owners LLC (a jointly-owned company) in favor of Leumi USA totaling \$52.5 million. For additional information, see Note 9(B).

The Company recognized a liability for furnishing the said guarantee at according to its fair value.

The fair value, maximum exposure for the guarantee and the carrying value presented in the statement of financial position under "other payables" in liabilities is as follows:

	December 31, 2010		
	<u>Carrying value</u>	<u>Fair value</u>	<u>Maximum exposure</u>
	<u>NIS thousands</u>		
Liability for furnishing guarantee to jointly-controlled company	<u>5,803</u>	<u>5,803</u>	<u>186,323</u>

Note 27 – Operating Leases

1. The Company and subsidiaries lease and rent industrial and office premises under long-term lease and rental contracts. The lease contracts are non-cancelable and in most cases include renewal options. The expenses of these companies were NIS 2.4 million in 2010 (2009 - NIS 2.4 million).

Future minimum payments under the non-cancelable operating leases and rental fees for the years subsequent to balance sheet date (excluding the option to renew for an extension period), are as follows:

	<u>December 31 2010</u>	<u>December 31 2009</u>
	<u>(NIS thousands)</u>	<u>(NIS thousands)</u>
First year	2,087	2,395
Second year	917	1,584
Third year	797	344
Fourth year and thereafter	<u>1,699</u>	-
	<u>5,500</u>	<u>4,323</u>

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 28 - Contingent Liabilities**1. The Company**

- a. In March 2009, a claim and motion for class action recognition (together – "the claim") were filed in Jerusalem District Court against DIC and against directors and the CEO of Koor, by a plaintiff claiming that he is a shareholder in Koor. The claim alleges, mainly, that the issuance of rights by Koor in November 2008 ("issuance of rights") discriminated against Koor's shareholders from the general public, and was done for the benefit of the controlling shareholders in Koor, including DIC, and that in reaching the decision to issue the rights, the directors of Koor acted in a conflict of interest. The claim further alleges that the number of shares issued from the issuance of rights, pursuant to the shelf offering, exceeded the number of shares provided in the shelf prospectus of Koor from May 2008 on which it was based.

The claim alleges that the issuance of rights violated the rights of the plaintiffs under the Companies Law, 1999, the Securities Law, 1968 and the regulations promulgated there under, and the Unlawful Enrichment Law, 1979; and that they acted without good faith and with negligence.

The class that the plaintiff is requesting to represent ("the represented class") is all the Koor shareholders immediately before the issuance of rights that are not part of the controlling shareholders in Koor (DIC, its parent company, and any of the interested parties that hold shares personally in Koor), which did not realize their right to acquire shares in the issuance of the rights; as well as the American shareholders who were unable to realize rights to acquire Koor shares in the issuance of rights.

If recognized as a class action, the relief requested by the plaintiff is that DIC will provide to the represented class 3,988,377 shares of Koor that DIC acquired in the issuance of rights beyond its pro rata share in that rights issuance, so that each of the members of the represented class could acquire a pro rata share of the said shares for NIS 37.29 per share. If this is not possible – to require the defendants to compensate the members of the represented group in the amount of NIS 68.24 per share for each said share; alternatively, to require the defendants to compensate the member of the represented group at a total amount estimated by the plaintiff (according to a financial opinion attached to the claim) of NIS 73 million, or another amount to be determined by the court. The court is also asked to issue orders to prevent future discrimination against Koor's shareholders from the general public, including an order for Koor to convene a general meeting of shareholders and to elect new directors, for whom a condition of their election will be their declaration that they have no connection with the controlling shareholders, as well as to prescribe certain procedures in Koor before it issues rights in the future.

In the past, Koor gave its directors and officers general letters of indemnification, pursuant to which Koor has undertaken to indemnify the said officers for any obligation to be imposed on them or expense that they will incur, inter alia, for claims against them due to their activities in performing their function. For details, see Note 29.

The Company received, for its review, the opinion of the legal counsel of the Company's directors and CEO, pursuant to which at this stage, it is not more likely that the claim will prevail, than that it will be dismissed. Therefore, in addition to the aforementioned

Notes to the Financial Statements for the Year Ended December 31, 2010

insurance coverage, it did not include any provision for this claim in its financial statements.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 28 – Contingent Liabilities (cont.)**1. The Company (cont.)**

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

The claim against Koor and the former liquidator of Tadiran was dismissed outright, whereas Tadiran reached a compromise agreement with E.C.I. in July 2010, whereby Tadiran will pay NIS 4.4 million to E.C.I. and the claim will be dismissed. In September 2010, Tadiran paid the said amount to E.C.I. and the claim was dismissed.

- c. On January 16, 2011, a motion was filed in Tel-Aviv District Court for removal and prevention of discrimination, and a motion for class action recognition under the Class Action Law – 2006 (together - "the motion"), against the Company and against Makhteshim-Agan. The petitioner in the motion, who claims to be a shareholder in Makhteshim-Agan, alleges that the distribution of the consideration in the transaction for the sale of Makhteshim-Agan shares to ChemChina ("the sale") discriminates against the shareholders from the public, while creating preference and granting a benefit to the Company, due to the benefit in the non-recourse loan that Koor will receive as part of the sale.

The petitioner is asking the court to order the distribution of the said beneficial consideration among all the shareholders of Makhteshim-Agan, so that the Company will pay to the other shareholders of Makhteshim-Agan their proportionate share of the benefit based on the pro rata holdings of each shareholder in Makhteshim-Agan, causing the shareholders among the public to be entitled to the same conditions, i.e. to receive the "actual option for the shares" (the petitioner's wording).

The class action was valued by the petitioner at between NIS 381 and 762 million.

The petitioner clarified in the motion that he is not requesting cancellation of the sale.

Note that the sale is subject, inter alia, to approval by a general meeting of Makhteshim-Agan in a special majority, and that under the terms of the sale Makhteshim-Agan was given a fairness opinion, whereby the share price in the sale expresses a fair price to the shareholders from the public of Makhteshim-Agan, all as discussed in Note 9(A)(7) above.

The Company's legal counsel believes that the Company has worthy, solid claims, in the subject matter and regarding the need for dismissal of the request for class action recognition. Therefore, in the Company's estimation, based on the professional assessment of its legal counsel, the motion for class action to be recognized is not more likely to be accepted than that it will be dismissed.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 28 – Contingent Liabilities (cont.)**2. Makhteshim-Agan Industries ("Makhteshim-Agan ") and its investees**

- a. The production processes of Makhteshim-Agan, as well as the products that it produces and markets, involve environmental risks that have an impact on the environment. Makhteshim-Agan invests substantial sums in order to comply with environmental laws to which it is subject, and attempts to prevent or minimize the environmental hazards that could occur in its operations. To the best of the knowledge of Makhteshim-Agan, at the balance sheet date, none of the permits and licenses applicable to it relating to environmental matters has been revoked. Makhteshim-Agan is insured against sudden, unexpected events of environmental pollution, in Israel and abroad. In the estimation of Makhteshim-Agan, based on the opinion of its insurance advisors, the scope of its insurance coverage for such events is adequate. At the balance sheet date, Makhteshim-Agan has only limited and relatively low insurance coverage against ongoing environmental contamination. Such coverage is difficult to obtain, and in cases when it can be obtained, Makhteshim-Agan' Management believes that the terms of the policy, including the amount of the insurance coverage, do not presently justify obtaining such a policy.
- b. Administrative proceedings and fiscal claims are pending against a subsidiary of Makhteshim-Agan, all of which deal with demands for payment of various taxes, totaling NIS 419 million (including interest and indexation differences at the balance sheet date). On the basis of the opinion of its legal advisors, the subsidiary estimates that its chances of prevailing in all the proceedings and fiscal claims pending against it are good, and therefore, no provision was recorded in the financial statements for this claim.
- c. In 2002, a claim was filed against a subsidiary of Makhteshim-Agan by a private environmental protection organization, claiming that the subsidiary's plant in Londrina pollutes the environment and causes damage to its vicinity and residents. The plaintiff demands that the subsidiary prepare an environmental impact study, provide examinations for the subsidiary's employees and neighbors, halt production activity at the plant and pay damages to the vicinity's residents. The plaintiffs estimate that the amount claimed from the subsidiary is NIS 71 million. The lower court ordered an environmental impact study to be conducted but the court of appeals decided that the subsidiary is not obligated to prepare an environmental impact study and/or conduct examinations for the subsidiary's employees and neighbors until a final ruling is issued obligating the subsidiary to make these remedies. The subsidiary's legal advisors estimate that it has good defenses against the claim and therefore no provision was included in the financial statements for this claim.
- d. Following tests performed by the Brazilian health authorities in a subsidiary of Makhteshim-Agan relating to the licensing issues of several formulations that the subsidiary produces and/or markets in Brazil, it was ruled that the subsidiary must refrain, temporarily, from the production and sale of these formulations, and the ruling also applies to existing inventory held by some of the subsidiary's customers. The subsidiary's position, as presented to the authorities, is that the formulations it sells are similar to those sold in the Brazilian market by other companies, and that the changes made to the formulations are minor, intended to improve their quality, and if there is any variation, it is merely an administrative and procedural matter. On March 24, 2010, the subsidiary received a ruling from 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 subsidiary's financial statements include a proper provision for these penalties. As a result of the ruling in the administrative proceedings, a criminal investigation was opened against the subsidiary and its managers by the police of Londrina and the police of Taquari. Within the scope of the investigation, the subsidiary's managers were summoned for a

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 28 - Contingent Liabilities and Commitments (cont.)**2. Makhteshim-Agan Industries ("Makhteshim-Agan ") and its investees (cont.)**

d. (cont.)

hearing, after which it will be decided whether to open criminal proceedings against the subsidiary and its managers.

- e. In 2004, six identical actions were filed against a subsidiary of Makhteshim-Agan in the United States and six other agrochemical companies in the State of Illinois, USA, by a local water supplier (hereinafter, "the Plaintiff"). The Plaintiff seeks to represent all the water suppliers in the State of Illinois. The Plaintiff claims that the product Atrazine, which is sold by the defendant companies, pollutes its water source and that water contaminated with Atrazine is a health hazard. The Plaintiff does not indicate the concentration of Atrazine in the water or that the quantity of Atrazine in its water exceeds the amount permitted by the Federal Water Standard but claims that Atrazine is a health hazard even at concentrations below the Federal Water Standard.

One of the principal contentions in the claim is that the subsidiary (as well as the other defendants) is aware of the danger of Atrazine to human beings but is concealing this information from the authorities and the public. The subsidiary contends that it received its license for Atrazine pursuant to United States law by means of referring to studies submitted by the original license holder without it having been permitted to review the said studies. In addition, the subsidiary contends that it did not conduct its own independent studies and it is not aware of studies indicating that Atrazine at the concentration permitted by the Federal Water Standard is hazardous to human health.

Additional causes of action claimed by the Plaintiff are negligence and violation of the environmental protection and water pollution laws.

As is customary for claims of this type in the United States, the claim does not state the amount of the damages sought or the compensation requested.

Although the claim was filed in 2004, it is still in the very preliminary stages of discovery. In view of the aforesaid, and based on the opinion of its legal advisors, the subsidiary assesses that that it is more likely that the claim will be dismissed than that it will prevail, and therefore no provision for the claim was included in the financial statements.

- f. During 2007, three suits were filed in Beer Sheva District Court against the Ramat Hovav Local Industrial Council and the State of Israel by three groups of plaintiffs. The Plaintiffs claim that they have suffered various illnesses and deformations and that there is a causal relationship between their illnesses and poisonous substances that were emitted by or seeped from the Ramat Hovav Industrial area.

The Plaintiffs allege that two primary focal points of contamination have been identified: the water purification plants and the evaporation pools (that are owned and operated by the Ramat Hovav Local Industrial Council) and the factories that are located in the Ramat Hovav Industrial Area, including the Company's factories, which the Plaintiffs allege significantly exceed the permitted amount of contamination.

Furthermore, the Plaintiffs alleged that the Ramat Hovav Local Industrial Council and the State of Israel were negligent, *inter alia*, in their supervision, enforcement and initiative to prevent the Plaintiffs' exposure to contamination originating in the Ramat Hovav Industrial

Notes to the Financial Statements for the Year Ended December 31, 2010

Area. The Plaintiffs estimate the sum of their claims at approximately NIS 242 million. This sum does not include general damages that were not quantified.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 28 - Contingent Liabilities and Commitments (cont.)**2. Makhteshim-Agan Industries ("Makhteshim-Agan ") and its investees (cont.)**

f. (cont.)

During 2008, third party notices were filed against Makhteshim, a subsidiary of Makhteshim-Agan ("Makhteshim"), and against thirty-six additional corporations and persons which were sent by the Ramat Hovav Industrial Council and the State. In the third party notice on behalf of the State and the Local Industrial Council, each denies the claims against it, contending that if they are obliged to pay any amount to the plaintiffs, the third party notice recipients will have to compensate or indemnify it for the full amounts imposed on it.

On March 30, 2009, Makhteshim filed its statements of defense before the Ramat Hovav Council and the State. On February 4, 2009, the court ruled that the hearing on the claims would revolve first around the question of whether there is a specific, causal medical connection between the alleged illness of each of the plaintiffs and his exposure to materials emitted from the Ramat Hovav site. On April 6, 2010, the defendants and several third parties, including Makhteshim, submitted evidence and an expert opinion on the issue at hand. In the estimation of Makhteshim's legal counsel, it is not expected that the claims will prevail and therefore, provisions for them were not included in the financial statements.

- g. In October 2007, a monetary suit against Makhteshim, with a motion for a class action recognition according to the Class Action Law, 2006, 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. If the claim is recognized as a class action suit, the plaintiffs estimate that the amount claimed from Makhteshim is NIS 1 billion. On August 17, 2010, the motion for class action recognition was stricken and the plaintiff's claim was dismissed without issuance of an order for expenses.
- h. In January 2009, a monetary claim was filed in Beer Sheba District Court against a subsidiary of Makhteshim-Agan, ("Agan") and a motion for recognition as a class action suit under the Class Action Law, by a resident of Ashdod, alleging damages that were apparently sustained, due to the suffering that the plaintiff alleges was caused as a result of a fire that occurred in the Agan plant in Ashdod on January 14, 2009. To the extent the claim will be recognized as a class action, the plaintiff estimated that the amount claimed from Agan will be NIS 100 million. On November 11, 2009, Agan and the Plaintiff filed a motion with the Beer Sheba District Court to approve a compromise agreement, pursuant to which Agan has undertaken: (A) without admitting any right and/or assertion against it, and in consideration for final settlement of the claims and the plaintiff and class members, Agan will set up a closed-circuit television system, which will enable watching at any given moment that which is occurring in the production facilities and warehouses in Agan and will facilitate prevention of the occurrence of unexpected events; likewise, Agan will finance/build within the bounds of the city of Ashdod a public garden also suitable for people with handicaps. Agan estimates that the cost of these actions totals NIS 1.2 million; (B) to pay the petitioner the total sum of NIS 20 thousand; (C) to pay the representative of the class' representative the sum of NIS 180 thousand as fees. On December 16, 2010, the court approved the compromise agreement and gave it the validity of a ruling. The Company has insurance coverage for the expense involved in the execution of the ruling.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 28 - Contingent Liabilities and Commitments (cont.)**2. Makhteshim-Agan Industries ("Makhteshim Agan ") and its investees (cont.)**

- i. On July 1, 2009, a criminal complaint was filed in Beer Sheba Magistrate's Court against Agan, directors, officers and an executive in Agan, by a group of residents of the moshav Nir Galim ("the Complainants"). In the complaint, the Complainants assert that there were several instances during the years 2007-2009, in which the Ashdod plant of Agan produced strong and unreasonable odor nuisances in violation of the provisions of the Abatement of Nuisances Law, 1961. In the complaint, the Complainants are petitioning to convict the defendants and to impose penalties and/or imprisonment, based on the provisions of the relevant laws ("the Complaint"). At the Court's order, the Complaint was transferred to Magistrate's Court in Netanya. On August 5, 2010, the Prosecutors Office informed the Court that after an extensive review of the complaint, the Ministry of Environmental Protection decided that it does not intend to join and conduct the claim. On January 2, 2011, the Complainants and the defendants signed a document of understandings, whereby the parties will begin conducting an arbitration process, with the objective of reaching a final compromise agreement between the parties (the criminal complaint and the civil action, as provided below). The Court gave the document of understandings the validity of a ruling on January 6, 2011.

Under the terms of the understandings, it was further agreed that as long as the arbitration proceedings will continue, the defendants (except for Agan) will be removed from the complaint, and the Court ordered their removal from the complaint. If the arbitration process ends successfully, the parties have agreed that the complaint will be halted. If the arbitration process is unsuccessful, the complaint process will resume before the Court, and in such a case, in the estimation of the Company's legal counsel, it is not possible at this juncture to estimate the prospects of the complaint. However, Makhteshim Agan has worthy defense claims against the complaint and its legal counsel is of the opinion that in view of the fact that the Company cooperates regularly with the regulator, has received its approval for the environmental investment plans in the plant and is implementing such plans, it is more likely than not that the Court will not demand the issuance of orders to halt the environmental nuisances.

- j. On July 14, 2009, a lawsuit was filed in Beer Sheba Magistrate's Court against Agan, directors, officers and an executive in Agan, by a group of residents of the moshav Nir Galim ("the Plaintiffs"), claiming damages that the plaintiffs allege were sustained due to odor nuisances, noise and air pollution originating in the Agan plant. In the statement of complaint, the plaintiffs are petitioning the court to issue a restraining order and a mandatory injunction against Agan, and to require Agan to pay damages totalling NIS 59 million. Following the motion filed by the defendants, the court ruled that the plaintiffs must pay the full amount of the court fee, and if not, the claim will be dismissed, Therefore the plaintiffs filed a motion to delete the financial relief of NIS 59 million and to retain only the remedies of a restraining order and a mandatory injunction. Since a period of time elapsed, in which the fee was not paid in full, and since a motion was not filed to stay the execution of the court's ruling, the law is for the claim to be dismissed. On February 25, 2010, the plaintiffs filed a motion for leave to appeal with the Supreme Court of the court's January 14, 2010 ruling, in which the court was asked to rule that the court fee paid by the plaintiffs, when the claim was filed, was paid lawfully, and alternatively, to order the lower court not to dismiss the claim due to the existence of additional remedies, for which the court fee was paid lawfully.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 28 - Contingent Liabilities and Commitments (cont.)**2. Makhteshim-Agan Industries ("Makhteshim Agan ") and its investees (cont.)**

j. (cont.)

On May 4, 2010, the Supreme Court dismissed the motion for leave to appeal on the classification of the claim for fee purposes, although it ruled that the Court should enable the petitioners to amend the Statement of Claim and not order its dismissal. On January 2, 2011, the plaintiffs and defendants signed a document of understanding, whereby the parties will begin an arbitration process, with the objective of reaching a final compromise agreement between the parties, which will settle the disputes and avoid the need of clarifying the legal proceedings between the parties (the civil claim and criminal complaint, as above). Furthermore, as long as the arbitration process continues, the defendants (aside from Agan) will be removed from the claim. To the extent the arbitration process is successful, the parties agree that the claim process will be halted. To the extent the arbitration process is unsuccessful, the claim process will resume before the Court, and in such a case, in the estimation of Makhteshim Agan's legal counsel, in view of the dismissal of the motion for leave to appeal on the classification of the claim, and as long as the plaintiffs have not filed an amended claim, the claim does not pose a risk of paying cash damages. In addition, the Company's legal counsel is of the opinion that in view of the fact that the Company is cooperating regularly with the regulator, has received its approval for the environmental investment plans in the plant and is implementing such plans, it is more likely than not that the Court will not demand the issuance of orders to halt the environmental nuisances.

k. In 2003, a criminal complaint was filed against Makhteshim and one of its directors by *Adam, Teva VeDin* (Israel Union for Environmental Defense). 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 intent). Makhteshim does not admit these charges.

On May 26, 2010, the court ordered cancellation of the legal proceedings in accordance with the compromise agreement signed by the parties, whereby Makhteshim will contribute \$250 thousand to an environmental project to be managed by *Adam, Teva VeDin*, pursuant to the plan agreed to by Makhteshim.

l. In July and October 2009, subsidiaries of Makhteshim Agan were furnished with demands by the Beer Sheba and Ashdod Municipalities to pay various sewer and development assessments totaling NIS 29.4 million. At the date of the financial statements, the details and reasons, which had been requested by the subsidiaries of Makhteshim Agan relating to the legal and factual infrastructures on which the payment demand was made, were not yet received. In the estimation of the subsidiaries of Makhteshim Agan, based on the opinions of their legal counsel, the provisions included in the books of account are appropriate.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 28 - Contingent Liabilities and Commitments (cont.)**2. Makhteshim-Agan Industries ("Makhteshim Agan ") and its investees (cont.)**

- m. On November 11, 2010, the State of Israel (Ministry of Environmental Protection) indicted Agan Chemical Manufacturers Ltd. and five executives of various rankings ("the defendants") in Magistrate's Court in Kiryat Gat. The indictment contains allegations against the defendants that they breached the terms of the poisons permit issued to the Agan plant in Ashdod ("the plant") and caused serious or unreasonable air pollution and water pollution as a result of the fire incident that occurred in the plant on January 14, 2009. The date for reading the indictment was scheduled for September 6, 2011. In the opinion of the Makhteshim Agan's legal counsel, in view of the early stage of the proceedings, it is difficult to assess the outcome.
 - n. On March 8, 2011, a subsidiary of Makhteshim Agan in the UK was furnished with a claim and motion for a restraining order filed by BASF, asserting that a certain product marketed by the subsidiary allegedly infringes on a patent registered to BASF. On March 14, the subsidiary of Makhteshim Agan was furnished with a restraining order filed by BASF, with a similar allegation for that product, for sales in Denmark. Noting the date of the furnishing of the claim and motion for restraining order in the UK and the restraining order in Denmark, Makhteshim is unable at the publication date of its financial statements, to estimate the prospects of the proceedings.
 - o. Several different claims were filed against Makhteshim Agan Group companies, in immaterial amounts, for damage that the plaintiffs allege they sustained from the use of their products, supply of defective products, etc. The cumulative amounts claimed in these claims were estimated by the various plaintiffs at a total of NIS 20 million. In the estimation of the subsidiaries of Makhteshim Agan, based on the opinions of their legal counsel, it is more likely that the claims will be dismissed than that they will prevail or that the provisions included in the books of account are not appropriate. Makhteshim Agan has insurance coverage for its warranty, which involves a co-payment.
- 3. Regarding provisions for legal claims – see Note 16(B).
 - 4. Regarding conditions related to investment grants –see Note 22A.
 - 5. The liability of directors and officers in the Company and in certain investee companies is insured by Clal Insurance Company Ltd., an interested party in a company in the IDB Group, in directors and officers (D&O) insurance, subject to the terms of the insurance policy.

Additionally, in accordance with a resolution by the general meeting of the Company's shareholders, the Company resolved to indemnify its directors and officers against various events that the insurance does not cover, and in monetary amounts exceeding the insured amounts, all as provided in the said resolution.

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 29 – Related Party Transactions and Balances****A. Parent company, controlling shareholder and subsidiaries**

At December 31, 2010, I.D.B. Development, the Company's controlling shareholder, controls 76% of the Company's shares, directly and indirectly, through Discount Investments Ltd. ("DIC"). I.D.B. Development is a leading investment company in Israel, with a diverse portfolio encompassing a large number of companies in the Israeli economy ("IDB Group"). The IDB Group companies constitute interested parties of the Company.

Regarding the investees, see Appendix A.

B. Benefits to key managerial personnel (including directors) who are not employed in the Company

	Year ended December 31					
	2010		2009		2008	
	No. of people	Amount	No. of people	Amount	No. of people	Amount
		NIS thousands		NIS thousands		NIS thousands
Total benefits for directors who are not employed	12	2,317	12	2,260	12	3,658
Total benefits for key managerial person who is not employed	1	1,462	1	2,170	1	2,190
	13	3,779	13	4,430	13	5,848

Remuneration of directors and CEO

(1) On August 1, 2006, Mr. Raanan Cohen was appointed CEO of the Company. Mr. Cohen is employed by DIC. Pursuant to the agreement ("service agreement") from March 2007, between Discount Investments Corporation ("DIC") (controlling shareholder in the Company) and the Company (which was approved by a general meeting of shareholders on June 11, 2007, after receipt of approval from the audit committee and board of directors of the Company, under Section 275 of the Companies Law, 1999 ("the Companies Law")), DIC, effective July 3, 2006, provides the Company with services through Mr. Ranan Cohen, who concurrent with his role as Vice President of DIC, also serves as the Company's CEO. Mr. Ranan Cohen is an employee of DIC and there are no employee-employer relations between him and the Company. Pursuant to the service agreement, Mr. Ranan Cohen devotes 80% of his time and energies to his role as the Company's CEO and 20% to DIC. DIC pays the entire cost of Mr. Ranan Cohen's employment, including a monthly salary of NIS 90,000 linked to the CPI, with the base CPI being the CPI for July 2006 (and at December 31, 2010 stands at NIS 109,000), the prevailing related benefits (including provisions for managers' insurance and continuing education fund, vacation days, sick days, recreation pay, vehicle and telephone), and an annual bonus conforming to the board of directors' resolution from time to time. The Company pays DIC 80% of the employment cost of Mr. Ranan Cohen, based on the actual costs, without an overhead increment. Pursuant to the employment agreement between DIC and Mr. Ranan Cohen, the termination of his employment at DIC, whether by DIC or Mr. Ranan Cohen, involves serving prior notice of at least 90 days, and in the event of termination of employment, Mr. Ranan Cohen is entitled to a termination bonus of one monthly salary for each full year of his employment in DIC, based on his last monthly salary. In this agreement, Ranan Cohen committed to a 12-month period from his termination date of restricting his engaging in certain activities. Mr. Ranan Cohen's eligibility for the termination bonus, provisions for social benefits, an annual bonus and prior notice may be revoked if his employment is termination due to circumstances in

Notes to the Financial Statements for the Year Ended December 31, 2010

which severance pay to a discharged employee may be revoked. The parties to the service agreement are allowed to bring about termination with prior notice of 90 days.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 29 – Related Party Transactions and Balances (cont.)**B. Benefits to key managerial personnel (including directors) (cont.)**

- (2) On May 11, 2009, a special general meeting of the shareholders of Koor resolved, in the majority required by Section 275 of the Companies Law, resolved to approve a payment to I.D.B. Development of management fees constituting participation in the cost of the employment by IDB Development in year 2008 of Messrs Haim Gavrieli (a director in Koor and an officer in IDB Development) and Lior Hannes (an officer in IDB Development and a director in IDB Holding Corporation Ltd.), in the amount of NIS 1.2 million for each of them, in view of their substantial contribution to the operations and profitability of Koor in 2008.

C. Description of transactions with related and interested parties**1. Ordinary transactions that are not exceptional****(1) Classification of transactions as inconsequential transactions**

- a. In May 2010, the Company's board of directors resolved to update guidelines and rules for the classification of a transaction of the Company or its subsidiary with an interested party as a trivial transaction, as provided in Regulation 41(A)(6) of the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010 ("Financial Statement Regulations"). These updated rules and guidelines will also be used to evaluate the scope of disclosures in the periodic report and in a prospectus (including shelf offering reports) regarding a transaction of the Company, a corporation it controls and its related company with a controlling shareholder, or the controlling shareholder has a personal interest in its approval, as provided in Regulation 22 of the Israeli Securities Regulations (Periodic and Immediate Report), 1970 ("Periodic Report Regulations") and in Regulation 54 of the Securities Regulations (Details of the Prospectus and Draft Prospectus – Structure and Format), 1969 ("Prospectus Details Regulations"), as well as to evaluate the need to submit immediate reporting for such transaction of the Company, as provided in Regulation 37A(6) of the Periodic Reports Regulations (Types of Transactions Provided in the Financial Statement Regulations, in the Periodic Report Regulations and in the Prospectus Details Regulations mentioned previously – "interested party transactions").
- b. In the ordinary course of their business, the Company and its subsidiaries and related companies, execute or could execute interested party transactions, and they do or could have commitments to execute such transactions, including transactions of the types and having the characteristics provided below: transactions for receiving banking and financial services from banks and financial institutions (including management of moneys provided by employers and employees to provident and continuing education funds); purchases or sales of products and services (such as: telecom products and services, food products, paper products, tourism services, elementary insurance, auto leasing services, legal services); rental of real estate.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 29 – Related Party Transactions and Balances (cont.)**C. Description of transactions with related and interested parties (cont.)**1. Ordinary transactions that are not exceptional (cont.)(1) Classification of transactions as inconsequential transactions (cont.)

- c. In the absence of special qualitative considerations arising from all of the matter's circumstances, an interested party transaction that is not an exceptional transaction (as the term is defined in the Companies Law and detailed in Par. 4 below) will be deemed a trivial transaction for the purpose of immediate and periodic reporting, the financial statements and a prospectus (including shelf offering reports) – if the relevant criteria calculated for the transaction is at a rate of less than 0.5%, as provided below, and the total amount of the transaction does not exceed NIS 8 million (adjusted periodically for an increase in the CPI, from the known CPI at the beginning of 2010).

For every interested party transaction examined for classification as a trivial transaction, one or more of the relevant criteria for a certain transaction will be computed on the basis of the consolidated financial statements – the company's most recently reviewed or audited: (a) in the purchase of a fixed asset ("non-current asset") – amount of the transaction vis a vis total assets (i.e. total balance sheet); (b) in the sale of a fixed asset ("a non-current asset") – the gain or loss from the transaction – and in the purchase/sale of products or services – the amount of the transaction against average annual income (i.e. for four quarters) according to the last 12 quarters for which reviewed or audited financial statements have been published. In this context, the income/loss from the transaction and the income/loss in every quarter will be calculated at their absolute values; (c) when receiving a monetary liability – the amount of the transaction vis a vis the liabilities in the balance sheet.

With respect to multi-year transactions, the amount of the transaction for purposes of examining triviality will be calculated on an annual basis. For example, in a multi-year insurance transaction, the annual insurance fees paid or collected will be deemed the amount of the transaction.

In cases in which, in the Company's judgment, none of the aforementioned quantitative criteria are relevant to examine the triviality of an interested party transaction, a transaction will be deemed trivial, based on other relevant criteria, to be prescribed by the Company (provided that the relevant criteria calculated for the transaction will be less than 0.5% and the amount of the transaction will not exceed NIS 8 million, adjusted for the CPI as above).

- d. It is clarified that a transaction that is not in the ordinary course of business of the Company, or is not at market conditions, or could have a material effect on the company's profitability, assets or liabilities, will usually not be classified as trivial. Note that the Company is working on the preparation of criteria for the classification of transactions as exceptional or non-exceptional. When these criteria are adopted, the Company will provide disclosure in its reporting.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 29 – Related Party Transactions and Balances (cont.)**C. Description of transactions with related and interested parties (cont.)**1. Ordinary transactions that are not exceptional (cont.)(1) Classification of transactions as inconsequential transactions (cont.)

- e. An examination of the qualitative considerations of an interested party transaction could lead to contradicting the triviality of a transaction, as in Par. 3 above. For example, and solely for illustration, an interested party will not usually be deemed trivial if it is seen as a significant event by the Company's management and serves as a basis for making managerial decisions, or if within the scope of the interested party transaction, the interested parties expect to receive benefit that has importance in reporting them to the public.
- f. Separate transactions that are interdependent, so that they are actually part of the same undertaking (such as consolidated negotiations for a range of transactions), will be examined as a singled transaction.
- g. A transaction classified as trivial by an investee of the Company will also be deemed trivial at the Company level. Such a transaction that is classified by the investee as not trivial, will be examined against the relevant criteria at the Company level.
- h. Annually, the audit committee will review the manner in which these provisions are implemented by the Company, and will perform sample testing of transactions to which the Company is a party directly or indirectly, and which were classified as trivial transactions according to the procedure. Within the scope of the sample testing of transactions, the audit committee will examine along with others the way in which prices and other terms of the transaction are determined, as applicable, and will examine the effect of the transaction on the Company's business condition and its operating results. The actions of the audit committee according to this paragraph, including the sample testing, the manner in which it is carried out and summarized results and conclusions, will be disclosed in the Company's periodic report. In accordance with the aforesaid, on March 16, 2011, the audit committee reviewed the manner in which the provisions of this procedure are implemented by the Company and performed sample testing of transactions that were classified as trivial according to the procedure. The audit committee determined that the said transactions, based on their nature, percentage and effect on the Company's business condition were properly classified as trivial transactions, in accordance with the procedure prescribed by the Company.
- i. The Company's board of directors will periodically examine the need to update the provisions of this procedure, noting interested party transactions undertaken by the Company and changes in the relevant provisions of the law.
- j. Examination of the classification of interested party transactions as trivial will be carried out by the Controllershship Department and Secretariat of the Company, together with the legal counsel, to the extent required. The Company's Secretariat will be responsible for documenting the examination and classification process.

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 29 – Related Party Transactions and Balances (cont.)**C. Description of transactions with related and interested parties (cont.)**1. Ordinary transactions that are not exceptional (cont.)

(2) To the best of the knowledge of the Company and its subsidiaries, ordinary transactions that are not extraordinary were executed with interested parties, and commitments were made to execute such transactions, of the following types and characteristics: transactions between the Company and its subsidiary and between financial institutions that are interested parties, as provided in Par. (3) below; insurance policies issued by Clal Insurance Company Ltd. ("Clal Insurance") or its subsidiary; purchases of goods and services (such as telecom and food products) executed by interested parties during the ordinary course of business with companies in the IDB Group engaged in the sale of these goods and services; purchase of vouchers; purchases of travel services from interested party companies; financial advisory services; financial management by Clal Finance Mutual Funds and Provident Funds Ltd. of monies deposited by employers and employees in mutual funds and provident funds.

(3) Epsilon Investment House Ltd. ("Epsilon"), Clal Finance Betuha Investment Management Ltd. ("Clal Finance Betuha") and Clal Insurance Holdings Ltd. are deemed interested parties of Koor Group companies and related parties of the Company and Koor Group companies. The Company and Koor Group companies, like interested parties of the Company, receive financial services from the financial institutions provided above and companies that they own. Likewise, the Company and Koor Group companies occasionally hold units in investment funds managed by related parties and manage securities accounts with Clal Finance Betuha. In the years 2008, 2009 and 2010, Koor paid the above companies NIS 510 thousand, NIS 801 thousand and NIS 427 thousand, respectively.

2. Arrangements between the Company and its controlling shareholder

(1) In September 2006, the Company relocated its offices to the Triangle Tower in the Azrieli Center in Tel Aviv, where the other IDB Group companies are located. Under the terms of the arrangement to allocate office costs and uses, pursuant to which the IDB Group companies located in the Azrieli Center operate, IDB Development (the controlling shareholder in the Company) is the primary tenant of the IDB Group for the entire group of the office space in the Azrieli Center, engages the management and administration services from the Azrieli Center Management Company for the entire group, and bears all the additional general expenses for the additional services enjoyed by all the group companies ("rental and management services"). Pursuant to this agreement, each of the IDB Group companies located in the Azrieli Center participates in the expenses of IDB Development for the rental and administration services, on a basis proportionate to each company's share, determined according to a ratio between the number of its employees to the total number of employees in the IDB Group companies located in the Azrieli Center. Participation in expenses is based on the expenses borne by IDB Development without a profit margin. The Company's pro rata share in the annual costs for rental fees and office maintenance in the years 2008, 2009 and 2010 and at the report date total NIS 942 thousand, NIS 917 thousand and NIS 913 thousand, respectively.

Notes to the Financial Statements for the Year Ended December 31, 2010

The Company's participation in this arrangement was approved by the audit committee of the Company's board of directors, by the Company's board of directors

Notes to the Financial Statements for the Year Ended December 31, 2010

Note 29 – Related Party Transactions and Balances (cont.)**C. Description of transactions with related and interested parties (cont.)**1. Arrangements between the Company and its controlling shareholder (cont.)(1) (cont.)

and by a general meeting of the Company's shareholders on November 20, November 22 and November 28, 2006.

On February 13, 2011, the audit committee and board of directors of the Company resolved, in accordance with Regulation 1(1) of the Companies Regulations (Exceptions in Interested Party Transactions), 2000, to approve the Company's consent to extend the rental period of all the rented space for an additional rental period of 5 years ending March 31, 2016, and accordingly, to approve the extension of the expense allocation agreement for that period.

- (2) April 3, 2008, a general meeting of the Company (further to approval by the audit committee and board of directors of the Company on February 28, 2008) (in accordance with the Securities Regulations (Transaction between a Company and its Controlling shareholder), 2001), and a general meeting of IDB Development (controlling shareholder in the Company), approved an arrangement whereby IDB Development will be allowed to enable the Company and private company it holds (together – "the Koor Group") to use the plane (acquired by IDB Development Ltd. for the international activities of the IDB Group), and the Koor Group will be allowed to use the plane, to the extent IDB will allow for it, based on the needs of the Koor Group and for the consideration provided below. To the best of the Company's knowledge, a similar arrangement for use of the plane will also be in effect between IDB Development and DIC, Property and Building Company, other public companies controlled by IDB Development, as IDB Development will find appropriate, and private corporations in which they have holdings ("using companies"), and between IDB Development and its officers, including officers who are controlling shareholders in IDB Development and their relatives. The plane will serve the Koor Group, including its officers (including officers who are controlling shareholders in the Company or their relatives), employees, officials and consultants of the Koor Group. The consideration to be paid for use of the plane is as follows: [1] for each actual flight hour - \$4,000; [2] for overnight expenses of the plane and the flight crew outside the plane's home airport - \$2,000; [3] reimbursement of special expenses as incurred toward third parties in connection with the flight will be paid against receipts; [4] in the event of a flight that serves the interests of the Koor Group and of one of the user companies, these companies will arrange between them, with consent, the allocation of the consideration, and in the absence of such agreement – the allocation will be determined by IDB Development based on proportionate usage. It was provided that the arrangement period for usage of the plane would be five years commencing on the date of its approval by a general meeting of IDB Development (i.e. April 3, 2008), although IDB Development will be authorized to terminate the arrangement at any time.

The Company's audit committee will examine the usage rates of the plane once a year. If the audit committee determines that there is a substantial difference between the usage rates of the plane according to the usage arrangement and the prevailing market prices, the Company will take measures to update the said prices and re-approve them as required by the provisions of the Companies Law. At its meeting of May 23, 2010, the audit committee examined the usage rates of the plane and found that there is no material difference, as noted. In the years 2008, 2009 and 2010, Koor

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paid IDB Development the sums of NIS 1,412 thousand, NIS 2,422 thousand and NIS 1,475 thousand, respectively, for use of the plane.

Note 29 – Related Party Transactions and Balances (cont.)**C. Description of transactions with related and interested parties (cont.)**2. Arrangements between the Company and its controlling shareholder (cont.)

(3) Regarding participation in the employment cost of officers in IDB Development, see Par. B.2 above.

(4) Consulting agreement related to purchase of real estate overseas

On November 12 and 15, 2009, the Company's audit committee and the board of directors approved the Company's undertaking in an agreement with Rock Real Estate Partners Limited ("Rock Real"), pursuant to which Rock Real will initiate and propose to the Company, from time to time, to purchase (by itself and/or through private corporations it controls) rights in real estate outside of Israel, whether directly or through the purchase of corporations holding rights in real estate ("real estate"), will assist in negotiations relating to the purchase of real estate and obtaining financing for their purchase, will guide and coordinate the purchase until the closing, will provide strategic consulting services regarding the management of real estate and its improvement, and will assist in identifying and executing sales of real estate, all according to the Company's needs ("the Agreement"). In consideration for each real estate purchase transaction that the Company will undertake (by itself and/or through private corporations it controls), which are proposed by Rock Real, and will be guided by it, as noted, the Company (or a private company under its control, as applicable) will pay consideration to Rock Real at the rate of 12% of the earnings that will be generated to the Company (or the private corporation it controls) from the said real estate (i.e. all revenues net of all investments and expenses in respect of the property). The payment will be made only on the real estate's date of sale, or in a case in which prior to the sale of the real estate, the Company recovers its entire investment and expenses in respect of the purchase and management of the real estate, in real values, (including current revenues and refinancing within the framework of non recourse loans), all at the terms and in the manner of accounting provided in the Agreement.

Pursuant to the Agreement, the Company will not be obligated to purchase real estate proposed to it by Rock Real and Rock Real will not be obligated to propose transactions for the purchase of real estate to the Company. Real Rock is not allowed to assign its rights or liabilities pursuant to the agreement without the Company's consent.

To the best of the Company's knowledge, Rock Real is a company controlled by a trust, one of the beneficiaries of which is Mr. Jacob Shimmel, whose brother, Mr. Mark Shimmel, serves as a director in the Company.

The Agreement was approved by a general meeting of the Company's shareholders on December 21, 2009 and will lapse five years from this date. The Agreement will continue to be in effect at the end of this period with respect to real estate for which the purchase was closed during the said five-year period.

The Agreement applies to the transaction to purchase HSBC headquarters in New York. For details on the transaction in which Koor, together with Property and Building, has undertaken to acquire the HSBC headquarters on Fifth Avenue in New York, see Note 9(B).

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With respect to the undertaking pursuant to this Agreement, including the HSBC Building, the Company will apply the provisions of IAS 37 regarding the contingent liabilities and will record an expense and liability concurrent with the recording of the increase in fair value of the asset and the current earnings from it.

Note 32 – Related Party Transactions and Balances (cont.)**C. Description of transactions with related and interested parties (cont.)****3. Directors and Officers Insurance, indemnification and exemption from liability for officers**

- (2) In 2010, the liability of the officers of the Company and its subsidiaries was insured by Clal Insurance, a company controlled by the Company's controlling shareholder. The total insurance premium paid for the policy in 2008, 2009 and 2010 by the Company and subsidiaries included in the policy was NIS 1,413 thousand, NIS 1,470 thousand and NIS 1,272 thousand, respectively. The transaction was approved, in a framework approval, by a special general meeting of the Company's shareholders, as required by law since December 2006.
- (3) On July 12, 2010, in a special general meeting, in the majority required by Section 275 of the Companies Law, the shareholders of the Company approved in advance the Company's undertaking in joint insurance policies for the Company and its subsidiaries, in officers' liability insurance, including for officers who are controlling shareholders in the Company or their relatives ("insurance policies"). The insurance policies will be for several insurance periods, not exceeding five (5) years cumulatively (i.e. for insurance periods, the last of which is until the end of 2015), and may also be done by means of additional extensions of existing insurance policies in which the Company has undertaken, as approved the general meeting of the Company's shareholders on December 28, 2006, with a change in its terms, provided that the significant terms of the undertaking in the insurance policies will be within the parameters provided in Section A of the immediate report issued by the Company on June 6, 2010.
- (4) The Company had decided in the past to indemnify, under certain conditions, its officers (including former officers) and its representatives on the boards of directors of investees, for any amount that they could bear in the framework of legal proceedings against them in connection with their acts or omissions in filling their roles as officers. The Company gave such letters of indemnification to some of its officers (also to former directors).

After issuance of Companies Law (Amendment 3), 2005, the Company updated its articles of association, in accordance with this amendment. On December 28, 2006, following approval by the Company's audit committee and board of directors, a general meeting of the Company's shareholders approved the granting of new letters of indemnification to directors and officers in the Company (includes controlling shareholders acting as directors or officers of the Company). Following the approval, the Company issued new letters of indemnifications, pursuant to which the Company has an obligation to indemnify them for any liability or expense provided in the letter of indemnification (including a financial liability to a third party pursuant to a court order, as well as legal expenses, as provided in the letter of indemnification) which they could bear or could sustain within the scope of their activities to fulfill their obligations as officers of the Company and/or in fulfilling their roles, at the Company's request, as officers in another company, related to the events provided in the appendix to the letter of indemnification.

Pursuant to the letters of indemnification, the maximum amount that the Company will pay as indemnification (in addition to the amounts that could be received from the Company's insurers) for all of the Company's officers for a certain event, will not

Notes to the Financial Statements for the Year Ended December 31, 2010

exceed 25% of the Company's equity according to its last annual or quarterly financial statements before payment of the indemnification amount.

The liability of the Company's officers to fulfill their obligations is insured in part through insurance policies, including the policies described above in Par. 3(1).

Notes to the Financial Statements for the Year Ended December 31, 2010**Note 29 – Related Party Transactions and Balances (cont.)****C. Description of transactions with related and interested parties (cont.)**4. Management services to subsidiaries

The Company has agreements with some of its subsidiaries, whereby the Company receives management fees for advisory and management services provided to these companies.

The management fees from those investees that pay annual management fees to the Company is NIS 1.1 million (2009 - NIS 1.2 million).

5. Post-termination benefits plan

Regarding deposits of monies in insurance policies for post-termination benefit plans, where the insuring company is a related party, see Note 18 regarding employee benefits.

6. Regarding guarantees that Koor furnished to a subsidiary and a jointly-controlled company, see Note 26(F)(2).

7. As at December 31, 2010, the holdings of interested parties in the Company's debentures total NIS 37,278 thousand (as at December 31, 2009 – NIS 59,157).

C. Transactions with related and interested parties

	December 31		December 31	
	2010	2009	2010	2009
	The highest balance		Balance sheet balance	
	NIS thousands		NIS thousands	
Related/interested party				
Receivables – IDB Group companies	319	-	147	-
Loans to jointly-controlled company	187,176	-	187,176	-
Long-term debit balances	17,658	-	17,658	-
Payables – IDB Group companies	1,353	4,772	432	804

D. Supplementary information regarding revenues and expenses from related and interested parties

	Year ended December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
<u>Revenues:</u>			
Management services, directors fees from affiliate and jointly-controlled company	204	107	1,910
Interest from affiliate and jointly-controlled company	11,855	-	7,117
Interest income on deposits with related party	311	146	2,325

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Note 30 – Subsequent Events

1. On February 10, 2011, Credit Suisse announced that its board of directors will propose at the general meeting of its shareholders, to be held on April 29, 2011, a cash distribution out of capital reserves totaling CHF 1.3 per share. Subject to approval of said distribution, the amount that Koor will receive will be determined based on the number of shares it will hold on the record date of the distribution. According to the number of shares presently held by Koor, and based on the exchange rate of the Swiss franc at the report date, the amount is NIS 195 million, pre-tax, which according to accounting principles, will be recorded as income in Koor's statement of income in the second quarter of 2011. Assuming that the distribution will be approved, it will be subject to the tax laws of Switzerland and Israel, and Koor's tax liability from this distribution, which will be recognized as tax expenses, if any, is being evaluated.
2. Regarding the closing of the acquisition of Epsilon shares in January 2011, see Note 9(C).
3. Subsequent to the balance sheet date, the board of directors of Epsilon resolved to distribute a dividend of NIS 2.7 million. Koor's share in this distribution is NIS 1.9 million.
4. Regarding the filing of a claim related to the sale of Makhteshim-Agan shares to ChemChina, see Note 28(1)(C).
5. On March 15, 2011, the Company repaid the principle of Series I debentures totaling NIS 153 million. See Note 17(C)(5).
6. Subsequent to the balance sheet date, the Group bought and sold additional shares of Carrefour. On the sales of Carrefour shares, the Company will recognize net income of NIS 2 million in the second quarter of 2010.

Proximate to this report date, the Group holds 810 thousand shares of Carrefour at a cost of NIS 123 million, with fair value of NIS 120 million.

