

K o o r I n d u s t r i e s L t d .**Board of Directors Report****For the year ended on December 31, 2010**

We are pleased to present the audited financial statements of Koor Industries Ltd. for the year ended December 31, 2010.

Koor Industries Ltd. ("the Company") is a member of the IDB Group and is one of the most prominent holding companies in Israel, investing in companies operating in a variety of business segments. The Company, together with its headquarters companies ("Koor") generally invests in companies which operate in the global market and/or international companies and focuses on large-scale investments. Koor examines and makes investments in which it holds a position of influence after its investment and financial investments (even if very large) in which it does not. From time to time Koor also makes financial investments for various terms and in various sizes. This is, among other reasons, due to market conditions and opportunities in them.

1. The Board's explanations for the state of the corporation's affairs

Net loss attributed to the Company's equity holders in 2010 amounted to NIS 536 million and basic losses per share of NIS 11.3, compared with profit of NIS 2,166 million and basic earnings per share of NIS 45.6 in 2009.

1.1 Breakdown of Koor's business results

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>NIS Millions</u>		
Koor's equity in the results of investees, net	(254)	(25)	167
Profit from sale of investments less impairment, net	303	2,691	599
Financing, administrative and other expenses, net	(524)	(375)	(528)
Taxes	(61)	(125)	-
Net profit (loss)	(536)	2,166	238
Basic earnings (loss) per share (NIS)	(11.3)	45.6	8.5

1.1.1 Koor's equity in the results of investees, net

	<u>Koor's equity in profit (loss) for the year</u>			<u>Change in</u>
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010</u>
	<u>NIS Millions</u>			<u>compared to</u>
				<u>2009</u>
Makhteshim Agan	(225)	57	311	N/A
452 Fifth Owners LLC ("452 Owners")	41	-	-	N/A
Telrad Networks Ltd. ("Telrad")	-	(2)	(43)	N/A
ECtel Ltd. ("ECtel")	(5)	(7)	(6)	N/A
Koor Venture Capital Partnership	(3)	(5)	(23)	N/A
Harriet Investments (2001) Ltd. (formerly Dekolink Wireless Ltd.) ("Harriet")	-	(6)	(67)	N/A
Microwave Networks Inc. ("MNI")	(5)	(10)	13	N/A
Epsilon Investment House Ltd. ("Epsilon")	9	12	(7)	(25%)
Other companies	(3)	(2)	13	N/A
Excess cost and other adjustments	(63)	(62)	(24)	N/A
Total	(254)	(25)	167	N/A

1.1.2 Profit from sale of investments less impairment, net

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>NIS Millions</u>		

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Profit from sale of investments less impairment, net	303	2,691	599
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In 2010, this item included in particular: a dividend (gross) of NIS 262 million from Credit Suisse Group AG, which was received in the second quarter of 2010, a capital gain of NIS 15 million from the sale of holdings in Credit Suisse shares, a capital gain of NIS 12 million from the sale of holdings in Carrefour SA ("Carrefour") shares, profit of NIS 9 million revalued of investment property and profit of NIS 7 million in respect of receipts from the investment fund of Indivision India Partners.

In 2009, this item included in particular: a capital gain of NIS 2,641 million from the sale of holdings in Credit Suisse shares, and a dividend of NIS 10 million from Credit Suisse, which was received in the second quarter of 2009, and an additional capital gain of NIS 32 million from the sale of holdings in Carrefour shares, which was recorded in the fourth quarter of 2009.

In 2008, this item included in particular: a capital gain of NIS 575 million from the sale of holdings in Credit Suisse shares and a capital gain of NIS 48 million following an additional receipt from Elbit Systems Ltd. in respect of the sale of Elisra Electronic Systems Ltd. ("Elisra"), as a result of receipt of insurance payments in respect of a fire at the plants of Elisra subsidiaries in 2001. However, an impairment of NIS 23 million was recorded in respect of Koor's holdings in Epsilon.

1.1.3 Financing, administrative and other expenses, net

	2010	2009	2008
	NIS Millions		
Administrative and other expenses, net	(36)	(34)	(32)
Financing expenses, net	(488)	(341)	(496)
Total administrative, financing and other expenses, net	(524)	(375)	(528)

In 2010, the financing, administrative and other expenses, net item primarily included: Current interest of NIS 257 million in respect of loans and financing expenses due to the increase in the exchange rate of the Swiss Franc over the course of the year, which led to a shekel-denominated expense in respect of Koor loans in this currency, and generated a loss of NIS 274 million in respect of CHF/NIS hedge transactions. Additionally, the rise in the Israeli CPI over the year led to an increase in Koor's Israeli CPI-linked financial liabilities. Financing expenses were offset against financing income in respect of investments in negotiable shares, particularly Sanofi-Aventis (investment which led to NIS 40 million in profit).

In 2009, this item included in particular: Current interest of NIS 178 million in respect of loans and financing expenses due to the rise in Israeli CPI over the year, which led to an increase of NIS 105 million in Koor's Israeli CPI-linked financial liabilities. In addition, the increase in the exchange rate of the Swiss franc over the course of the year led to a shekel-denominated expense in respect of Koor's loans in this currency. Net financing expenses attributable to changes in the exchange rate of the Swiss franc and CHF/NIS hedge transactions in 2009 were NIS 20 million.

In 2008, this item included in particular: Current interest of NIS 150 million in respect of loans and financing expenses due to a drop in the exchange rate of the US dollar over the course of the year, which led to a shekel-denominated expense of NIS 348 million in respect of the Company's US dollar balances at the time and changes in the exchange rate of the Swiss franc. Additionally, losses were recorded for revaluation of short-term investments.

1.1.4 Taxes

	2010	2009	2008
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	NIS Millions		
Taxes	(61)	(125)	-

In 2010, the tax expense item included in particular: Expenses in respect of the dividend of NIS 39 million received from Credit Suisse and adjustment of provisions and tax reserves in respect of this investments, which were offset by tax income from the creation of a tax asset in respect of carry forward losses from other investments, amounting to NIS 22 million, net.

In 2009, the tax expense item included in particular: Expenses in respect of Koor's investment in Credit Suisse, amounting to NIS 127 million.

1.2 Segment data

1.2.1 The Company's assets by business segment, as presented in Note 24 to the financial statements.

Company assets as of December 31, 2010 and 2009 consist of the following business segments:

<u>Segment</u>	Table of assets by segment	
	NIS millions	
	2010	2009
Makhteshim Agan	2,367	2,821
Credit Suisse	5,536	5,111
Telecommunications equipment	44	59
Epsilon	74	79
452 Owners	350	46
Other holdings	279	373
Adjustments (Koor HQ assets)	1,183	1,691
Total	9,833	10,180

1.2.2 Breakdown of Koor's business results, by business segment (per Note 24 to the financial statements)

	2010	2009	2008
	NIS Millions		
	Makhteshim Agan	(287)	(3)
Credit Suisse	216	2,524	575
Telecommunications equipment	(5)	(17)	(54)
Epsilon	8	10	(31)
452 Owners	41	-	-
Other holdings	23	28	(11)
Adjustments (mainly financing and management)	(532)	(376)	(530)
Total	(536)	2,166	238

1.2.2.1 Makhteshim Agan segment

	2010	2009	2008
	NIS Millions		
	Segment contribution	(287)	(3)

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Most of the change in the segment's results in 2010 compared with 2009 is attributable to the business results of Makhteshim Agan.

For information regarding the agreement for the sale of some of Makhteshim Agan shares and its becoming a private company, see Section 1.4.7 below and Note 9 A(7) to the financial statements.

Makhteshim Agan (47% holding of the voting rights as of December 31, 2010) reported the following business results:

	<u>2010</u>	<u>2009</u>	<u>2009-2010</u> <u>Increase</u> <u>(decrease)</u>	<u>2008</u> <u>USD</u> <u>millions</u>	<u>2008-2009</u> <u>Increase</u> <u>(decrease)</u> <u>%</u>
	<u>USD millions</u>		<u>%</u>		
Income	2,362	2,215	7%	2,536	(13%)
Gross profit	649	582	12%	848	(31%)
Operating income	6	120	(95%)	367	(67%)
Financing expenses, net	122	94	30%	97	(3%)
Net profit (loss) attributed to equity holders	(132)	33	N/A	219	(85%)
EBITDA	142	218	(35%)	457	(52%)

In view of the cumulative effects of a number of factors, some of them one-time events, 2010 was marked in the difference between the quarters in the activities of Makhteshim Agan.

Below is a brief review of the trends that characterized Makhteshim Agan's business environment in 2010 as a whole and in the fourth quarter in particular:

- A. Climate conditions in some of the areas in which Makhteshim Agan is active, including a cold winter in the northern hemisphere (particularly in Europe and North America), which led to a delay in the opening of the agricultural season in the first quarter, floods in northern Europe (in the second quarter), and dryness and drought in Eastern Europe (in the third quarter), impacted negatively on the sales of some of Makhteshim Agan products.
- B. In 2010, a decline in inventory levels was recorded compared to the high levels of inventory that typified the market in 2009.
- C. Stronger competition in the market for crop protection products due to an increase in imports from China and competition from the large players in the market.
- D. In 2010, there was stabilization in total sowing areas and an upward trend in the prices of agricultural commodities, particularly towards the end of the year, which supported demand for crop protection products and growth in the quantities sold in the market, as was also seen in Makhteshim Agan's results.
- E. Along with the rise in the quantities sold, as aforementioned, 2010 recorded lower average sales price levels of crop protection products than in 2009, primarily due to fiercer competition in the market, as aforementioned. In the fourth quarter of the year, the average sales prices stabilized.

The results of Makhteshim Agan activity in 2010 were impacted, among other things, by events of a one-time nature.

Provisions of USD 50 million, net of tax, in respect of voluntary early retirement of employees in Israel; USD 5 million in impairment of the manufacturing facility in Israel; USD 79 million in impairment in respect of the subsidiary Milenia in Brazil (which included provisions of USD 5 million in respect of retirement of employees; USD 26 million in impairment of fixed assets and intangible assets, USD 28 million in impairment for current assets, and impairment of a deferred tax asset by USD 20 million);

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USD 5 million expenses in respect of negotiations for the acquisition of Albaugh; and impairment of licensing assets in the US and other provisions amounting to USD 15 million. Neutralizing these events, net profit attributed to equity holders in 2010 amounted to USD 21 million.

In 2010, Makhteshim Agan began implementing a comprehensive change in strategy designed to adapt its business activity model to the changes in the competitive environment of the industry and to strengthen its material areas of activity.

Said plan reflects the Makhteshim Agan's strategic emphasis in the coming years, particularly on: (1) Maximizing the potential attributable to the accelerated rate of patent expiration and growth in the generic segment of the global agrochemical industry; (2) required improvement in the structure of costs of Makhteshim Agan products and striking the right mix between outsourcing to self-production and optimal deployment of the global supply chain, and (3) maximizing growth potential in the developing markets in Asia, South America and Africa.

The management of Makhteshim Agan believes that the steps Makhteshim Agan took in 2010 will begin to have an effect and already lead to a gradual improvement in its results in 2011. As of the date of the report, Makhteshim Agan believes that following said steps, and due to the fact that the first quarter of 2011 is marked by continued growth in demand for crop protection products and an end to the trend of erosion in the selling prices of its products, which typified most of 2010, Makhteshim Agan will show similar business results to those in the first quarter of 2010.

Makhteshim Agan's estimates regarding the results of the strategic change plan is forward-looking information, as defined in the Securities Law, 1968, based on information currently in the possession of its management and based on which the plan was approved by its Board of Directors. Makhteshim Agan's estimates may not materialize, inter alia, due to factors not in its control, including the actions of its potential competitors.

1.2.2.2 Credit Suisse segment

	2010	2009	2008
	NIS Millions		
Segment contribution	216	2,524	575

Subsequent to the decision of the Company's board of directors to invest in the negotiable shares of European banking institutions, Koor bought and sold Credit Suisse shares throughout 2010 and in 2009 and 2008, while exploiting opportunities that arose due to the market volatility. Koor's total pre-tax profit from dividends and the sale of Credit Suisse shares in 2010 is NIS 277 million, compared to profit of NIS 2,651 million in the corresponding period the previous year. Tax expenses incurred by the Company in respect of its investment in Credit Suisse shares in 2010 are NIS 61 million compared to an expense of NIS 127 million in the corresponding period the previous year.

On December 31, 2010, the Company together with a wholly owned subsidiary held 38.60 million Credit Suisse shares, which constituted 3.25% of Credit Suisse shares registered for trade, without deducting treasury shares (3.29% after deducting treasury shares), at a cost of NIS 6.97 billion. On the same date, the value of the investment in Credit Suisse shares, according to the stock exchange price list, was NIS 5,536 million, an amount that reflects the negative gap of NIS 1,433 million compared to their original cost, which was NIS 6,969 million, a gap that constitutes 20.6% of the original cost. On December 31, 2010, the negative gap between the cost of the shares and their market value had existed continuously for a period that does not exceed 12 months. Given that at that time, the decline in the fair value of Credit Suisse shares was not significant or prolonged, under the criteria listed in Note 10(F) to the financial statements, the drop in the fair value of the financial asset available for sale was recognized solely in equity and not in the income statement.

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As noted in the financial statements, the negative gap between the cost of the shares and their market value has existed continuously since August 6, 2010. At that time, the closing price on the NYSE reflected a positive gap. However, prior to that date, there had been a continuous negative gap since April 20, 2010. Noting the above, to implement the accounting policy (described in Note 10(F) to the financial statements) on the cutoff dates in the future, the Company's Board of Directors will review all of the circumstances through said date and whether anything constituted a deviation from said accounting policy, and this regarding examination of whether there was a prolonged decline in the fair value.

In 2010, Koor bought and sold shares of Credit Suisse. In respect of its investment in Credit Suisse shares during this period, Koor recorded profit from sales of NIS 15 million, and comprehensive profit (after tax and including dividends received) of NIS 216 million. Since the start of its investment in Credit Suisse in 2008, Koor has recorded total profit after tax of NIS 3.4 billion in respect of sales of Credit Suisse shares and receipt of a dividend from Credit Suisse.

As of the date of the report, there is no change in the number and cost of Credit Suisse shares held by Koor. Additionally, as of the date of this report, the negative gap between the value of the Credit Suisse shares Koor holds, according to the stock exchange price list, and the cost of these shares as aforementioned is NIS 1.30 million, and is included in the capital reserve.

For additional information, see Section 1.4.1 below and Note 10(F) to the financial statements.

1.2.2.3 452 Owners segment

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>NIS Millions</u>		
Segment contribution	41	-	-

Purchase of the headquarters building of HSBC in New York by 452 Owners was completed in April 2010.

In 2010, the profit from our holdings in 452 Owners amounted to NIS 41 million (including net profit from revaluation of NIS 39 million, as detailed in Note 9(B) in the financial statements). For more information, see Section 1.4.3 below.

1.2.2.4 Telecommunications equipment segment

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>NIS Millions</u>		
Segment contribution	(5)	(17)	(54)

Most of the change in the results of the segment in 2010 compared to 2009 stemmed from minimizing the losses contributed by Harriet due to the sale of most of its assets in the first quarter of 2009, as detailed in Note 8 (2) to the financial statements. Additionally, in 2010, MNI's losses decreased (loss of USD 1.2 million this year compared to losses of USD 2.6 million the previous year).

Most of the change in the results of the segment in 2009 compared to 2008 stemmed from minimizing the losses contributed by Harriet due to the sale of most of its assets in the first quarter of 2009, as aforementioned. In contrast, MNI results were worse this year.

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1.2.2.5 Epsilon segment

	2010	2009	2008
	NIS Millions		
Segment contribution	8	10	(31)

In 2010, Epsilon showed profit of NIS 11 million (the Company's share of the profit is NIS 8 million, including cancellation of NIS 3 million in provisions for impairment, based on the value of Epsilon as derived from the transaction for the purchase of Epsilon shares as set out in Section 1.4.2 below). See also Note 9 (C) to the financial statements.

In 2009, Epsilon posted profit of NIS 23 million (the Company's share in the profit is NIS 10 million), primarily attributable to profits from securities it held.

In 2008, Koor recorded impairment of NIS 23 million in respect of its investment in Epsilon, and its share in the loss recorded by Epsilon was NIS 8 million.

1.2.2.6 Other holdings segment

	2010	2009	2008
	NIS Millions		
Segment contribution	23	28	(11)

In 2010, most of the contribution is attributable to profit from revaluation of investment property of NIS 12 million and profit after tax as a result of sale of Carrefour shares for NIS 9 million.

In 2009, most of the contribution was attributable to profit of NIS 31 million from the sale of Carrefour shares.

In 2008, most of the contribution was attributable to Koor's share in the NIS 43 million in losses posted by Telrad and the NIS 24 million in losses posted by Koor Corporate Venture Capital partnership, which was partially offset by the contribution of NIS 48 million by Elisra, as set out in Section 1.1.2 above.

1.3 Analysis of results by quarter

In the fourth quarter of 2010, Koor recorded a loss of NIS 419 million. Loss per share amounted to NIS 8.9, compared with a profit of NIS 32 million and earnings per share of NIS 0.7 in the fourth quarter of 2009, compared to a loss of NIS 74 million and loss per share of NIS 1.8 in the fourth quarter of 2008.

1.3.1 Results of operations of the Company and the consolidated companies by quarter in 2008-2010 are presented in the main sections of the consolidated statement of income as follows:

	Total	2010			
	2010	Q4	Q3	Q2	Q1
	NIS Millions				
Koor's equity in the results of investees, net	(254)	(280)	(115)	35	106
Profit (loss) from sale of investments less impairment, net	303	9	(2)	281	15
Financing, administrative and other expenses, net	(524)	(123)	(250)	(171)	20

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Tax revenues (expenses)	(61)	(25)	8	(110)	66
Profit (loss) attributable to Company equity holders	(536)	(419)	(359)	35	207
	Total	2009			
	2009	Q4	Q3	Q2	Q1
	NIS Millions				
Koor's equity in the results of investees, net	(25)	(72)	(55)	(20)	122
Profit from sale of investments less impairment, net	2,691	358	692	1,608	33
Financing, administrative and other expenses, net	(375)	(75)	(151)	(115)	(34)
Tax revenues (expenses)	(125)	(179)	26	(102)	130
Profit (loss) attributable to Company equity holders	2,166	32	512	1,371	251
	Total	2008			

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	2008	Q4	Q3	Q2	Q1
	NIS Millions				
Koor's equity in the results of investees, net	167	(12)	26	69	84
Profit from sale of investments less impairment, net	599	28	529	(2)	44
Financing, administrative and other expenses, net	(528)	(90)	(127)	(187)	(124)
Profit (loss) attributable to Company equity holders	238	(74)	428	(120)	4
Profit (loss) attributable to Company equity holders	2,166	32	512	1,371	251

1.3.2 Analysis of Koor's business results by segment of operation and principal items in the fourth quarter:

	Fourth quarter		
	2010	2009	2008
	NIS Millions		
Makhteshim Agan	(287)	(68)	16
Credit Suisse	(24)	137	40
Telecommunications equipment	(1)	(3)	(5)
Epsilon	4	2	(20)
452 Owners	3	-	-
Other holdings	9	30	(17)
Adjustments (mainly financing and management)	(123)	(66)	(88)
Profit (loss) attributable to Company equity holders	(419)	32	(74)

Comparison of results by segment between the fourth quarter of 2010 and the corresponding quarter of 2009 shows that:

In the Makhteshim Agan segment, Koor recorded a higher loss in the fourth quarter of 2010 compared with the corresponding period the previous year, primarily due to one-time provisions set aside by Makhteshim Agan in the current quarter and to other factors as described in Section 1.2.2.1. above.

In the fourth quarter of 2009, Makhteshim Agan recorded a loss due to its poorer business results, which were attributable to the drop in sales and the rate of gross profit as a result of lower demand and a drop in the sales prices of most Makhteshim Agan products.

In the Credit Suisse segment, Koor recorded a loss in the fourth quarter of 2010, which was attributable to tax expenses in respect of adjustment of provisions and tax reserves in respect of its investment in Credit Suisse. In the fourth quarter of 2009 and 2008, Koor posted profit after tax from the sale of Credit Suisse shares.

In the 452 Owners segment, in the fourth quarter of 2010, Koor posted profit of NIS 3 million.

In the Telecommunications Equipment segment, Koor recorded a loss in the fourth quarter of 2010, which reflects improvement following lower losses of MNI.

In the Epsilon segment, Koor posted profit of NIS 4 million in the fourth quarter of 2010 as a result of cancellation of NIS 3 million in provisions for impairment and its share in Epsilon profits of NIS 1 million. In the fourth quarter of 2009, Koor recorded profit of NIS 2 million from its share in

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Epsilon profit. In the corresponding quarter of 2008, Koor posted provisions for impairment of NIS 15 million and its share in Epsilon's losses in that quarter.

In the Other Holdings segment, Koor recorded a profit in the fourth quarter of 2010 in respect of revaluation of investment property of NIS 12 million, compared to profit of NIS 2 million in the corresponding quarter of 2009, which was recorded following the sale of shareholding in Carrefour, in the corresponding quarter in 2008, a loss was recorded in respect of poorer Telrad results.

1.4 Main changes in the holdings of the Company and its investees in 2010

The principal changes are described in Notes 9, 10(f), 17(c) and 30 to the Company's financial statements, the most noteworthy of which are the following:

1.4.1 In January 2010, the Company's board of directors increased the total framework for investment in Credit Suisse shares to NIS 7 billion. The investment will be made by exploiting buy and sell opportunities, with due attention to the market conditions and in accordance with the Company's assessments from time to time.

In May 2010, Credit Suisse paid a dividend of CHF 2 per share. Koor's share in this dividend (before tax) was NIS 262 million. In respect of this dividend, in the second quarter of 2010, Koor recorded profit after tax of NIS 223 million.

In February 2011, Credit Suisse provided notice that its board of directors would suggest in the general meeting of shareholders to be held on April 29, 2011, a cash distribution from capital funds in the amount of CHF 1.3 per share. Subject to approval of said distribution, the amount to be received by Koor will be determined according to the number of shares Koor holds on the date of record for distribution. Based on the number of shares currently held by Koor and the exchange rate for the Swiss franc on the date of the report, this amount is NIS 195 million before tax. See Note 30 (1) to the financial statements.

In 2010, Koor bought and sold shares of Credit Suisse. In respect of its investment in Credit Suisse shares in this period, Koor recorded profit from sales of NIS 15 million and total profit (after tax and including dividends received) of NIS 216 million. For additional information, see Section 1.2.2.2 above.

1.4.2 In March 2010, Koor entered into an agreement for the purchase of 18.75% of the shares in Epsilon. In January 2011, the purchase was completed for NIS 28 million, such that after its completion Koor holds 68.75% of the paid up and issued share capital in Epsilon.

1.4.3 In April 2010, the transaction for the purchase of the HSBC headquarters building on Fifth Avenue in New York ("Building") in consideration of USD 330 million by Koor and Property and Building Corporation Ltd. ("PBC") through an American corporation under their joint (and equal) ownership, 452 Owners ("Purchasing Corporation"). As part of the transaction, Koor and PBC each purchased, through the Purchasing Corporation, half of the rights to the Building (in consideration of USD 165 million each). To fund the transaction, the Purchasing Corporation received USD 210 million in credit from Bank Leumi USA for a period of 10 years. To secure the credit, the Purchasing Corporation placed a charge on the Building and provided additional collateral, as is standard. The Company and PBC each provided a guarantee, severally and not jointly, of USD 52.5 million in favor of Leumi USA, and as is standard for this type of loan, guarantees unlimited in amount to secure special cases.

The fair value of the Building was revised as of June 30, 2010 to USD 390 million, in accordance with an appraisal the Purchasing Corporation received from an independent American real estate appraiser. The increase in value is attributable to the fact that since execution of the agreement for purchase of the

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asset in October 2009, the office market in Manhattan has entered into recovery, as can be seen in the prices of transactions recently conducted, and from the fact that the buyer initiated betterment activity for the asset (for details see Section 11 of the Chapter titled Description of the Corporation's Operations and Note 9(B) to the financial statements). As a result, Koor posted income of NIS 39 million from an increase in the fair value of the investment property, net of tax.

- 1.4.4** In April 2010, Koor sold the balance of its holdings of Carrefour shares at that date. In December 2010, Koor purchased Carrefour shares, and on December 31, 2010 held 159,000 shares of Carrefour, at a cost of NIS 24 million. As of the date of this report, Koor holds 810,000 Carrefour shares, at a cost of NIS 123 million and at a value of NIS 120 million. Since beginning to invest in Carrefour in 2009, Koor's total profit after tax in respect of this investment to date is NIS 44 million, of which Koor recorded profit of NIS 9 million in 2010, and it will record NIS 2 million in 2011. For more information, see Note 10 (G) to the financial statements.

The framework of the investment in Carrefour that was approved by the Company's Board of Directors is up to NIS 3.5 billion. The investment in Carrefour shares will be made by exploiting buy and sell opportunities, with due attention to the market situation and in accordance with the Company's assessments from time to time.

- 1.4.5** In August 2010, Koor's Audit Committee and Board of Directors approved its contractual engagement with Clal Insurance Company Ltd. and Clal Pension and Provident Funds Ltd. in an investment transaction of USD 250 million (of which USD 125 million would be invested by Koor) in Credit Suisse Emerging Markets Credit Opportunity Fund L.P. As of the date of this report, Koor's investment in the fund amounts to USD 7 million. For additional information, see Note 9(d) to our Financial Statements.

- 1.4.6** In August 2010, the Company's Board of Directors approved an investment framework of up to USD 120 million in shares of Sanofi-Aventis ("Sanofi"), a company engaged in research, development, manufacture and marketing of pharmaceuticals and health products. In October, Koor sold the balance of its shares in Sanofi. To date, Koor has gained NIS 40 million in profit from the investment.

- 1.4.7** In the fourth quarter of the year, the Company negotiated with the ChemChina Group, which is a large Chinese group, owned by the Chinese government and engaged in the fields of chemistry and agrochemistry. In January 2011, a merger agreement was executed between the Company (and a wholly owned subsidiary) and China National Agrochemical Corporation of the ChemChina group ("ChemChina") and Makhteshim Agan, pursuant to which as part of the merger transaction, ChemChina will purchase 60% of Makhteshim Agan (and will purchase all of the public holdings in Makhteshim Agan and 7% of Koor's shares in Makhteshim Agan), which will make it a private company, at a price that will reflect company value of Makhteshim Agan at USD 2.4 billion. Upon completion of the transaction, ChemChina will have a 60% holding in Makhteshim Agan and Koor a holding of 40%.

As part of the transaction, as aforementioned, Koor will sell 7% of Makhteshim Agan shares for USD 168 million. Additionally, as part of the transaction, ChemChina will arrange for the provision of a non-recourse loan to Koor in the amount of USD 960 million, to be secured solely by Makhteshim Agan shares. It will be possible to repay the loan in cash or through these shares. The loan will be repaid in full after seven years and will bear variable interest plus total effective annual costs of 6%, based on the relevant LIBOR rate on the date of this report.

Completion of the transaction is subject to several conditions, including receipt of the required approvals by the Chinese authorities, which is expected to take several months (and if not received within a period determined, Koor or the Company will be able to cancel the merger agreement); approval by the general meeting of Makhteshim Agan by special majority under Section 320(C) of the Companies Law and, as was agreed by the parties, also pursuant to Section 275 of the

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Companies Law (Koor undertook to vote in favor of the merger at Makhteshim Agan's general meeting, subject to execution of the loan agreement and other conditions); and the execution of the loan agreement and its provision to Koor (should Koor's Board of Directors resolve not to approve the loan agreement, Koor will be entitled to cancel the merger agreement).

Subject to performance of the suspensive conditions, the transaction is expected to close in the second or third quarter of 2011. Should the transaction not be completed by the end of August 2011 (subject to extension under certain circumstances), the parties will be entitled to cancel the agreement.

It should be noted that Makhteshim Agan received an opinion from the offices of Isaac Swary, which determined that the share price in the transaction reflects fair value for Makhteshim Agan's shareholders. Said expert opinion put the economic value of the benefit to Koor in respect of the features of the loan at USD 160-185 million.

If and should the transaction be completed, Koor is expected to record net profit in respect of the sale of 7% of Makhteshim Agan shares, estimated at this point at NIS 185 million (which takes into account capital funds realized of NIS 60 million). Additionally, upon completion of the transaction, Koor will record an increase in equity in respect of the capital funds realized as aforementioned. Koor is reviewing additional accounting implications of the transaction, including the accounting treatment in connection with the loan, and subject to the results, Koor may record, on the date of closing the transaction and in addition to the aforementioned profit, a profit in respect of the loan characteristics net of tax, which could be considerable and, heeding the aforementioned fairness opinion, which might also be updated to profit and loss in each period over the term of the loan. These estimates made by Koor are based, inter alia, on the amount at which Koor's investment in Makhteshim Agan is stated in its financial statements and on the equity of Makhteshim Agan on December 31, 2010, as well as on the dollar exchange rate on December 31, 2010. The estimates could change significantly, mainly due to possible changes in the equity of Makhteshim Agan and in the dollar exchange rate by the relevant dates.

It is clarified that there is no certainty as to the closing of the merger transaction.

For additional information, see Note 9(A) 7 to the financial statements. Regarding the application for a class action with respect to the transaction filed in January 2011 against the Company and Makhteshim Agan, see Note 28(1) (C) to the financial statements.

1.4.8 Regarding the main changes in Makhteshim Agan and the contingent liabilities, see Notes 9(A) and 28(B) to the financial statements and Sections 9.2 of the chapter titled, Description of the Corporation's Operations.

1.5 Distribution of dividend

In April 2010, the Company distributed cash dividends totaling NIS 270 million, constituting NIS 5.69 per share.

1.6 Financial situation and sources of financing

	December 31	
	2010	2009
	NIS Millions	
Total assets in the consolidated balance sheet	9,833	10,180
Investments in investees in the consolidated balance sheet	2,791	2,946
Available-for-sale financial assets in the consolidated balance sheet	117	2,889
Pledged available-for-sale financial assets in the consolidated	5,536	2,413

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balance sheet		
Total equity attributed to the Company's shareholders	2,951	5,353
Current asset surplus over current liabilities in the consolidated balance sheet	211	741
Koor's financial liabilities	6,523	4,495
Surplus financial liabilities over Koor's cash, deposits, long-term investments and pledged deposits*	5,408	2,851

* Does not include Credit Suisse and Carrefour shares, which are classified as available-for-sale financial assets, recorded as of December 31, 2010, at a value of NIS 5,536 million and NIS 23 million, respectively.

As of March 16, 2011, Koor has a cash balance, including deposits, short-term investments and pledged deposits of NIS 900 million (including pledged deposits of NIS 393 million) and its surplus of financial liabilities over financial assets (where those financial assets do not include Credit Suisse shares valued at NIS 5.67 billion, which are classified as pledged available-for-sale assets) amounts to NIS 5.56 billion.

	2010	2009	2008
	NIS Millions		
Proceeds from realization of investments in Koor	289	11,203	4,576
Dividends to Koor from investees and available-for-sale securities	292	123	250
Investments in affiliates and other Koor companies	2,432	9,653	8,539

Most of the proceeds from realization of investments and most of the investments in affiliates and others between 2008 and 2010 stem from acquisitions and the sale of Credit Suisse shares.

In 2010, Koor took long-term bank loans of NIS 2,550 million, and repaid loans and redeemed debentures for a total of NIS 762 million.

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2. Exposure to market risk and risk management

2.1 Report on changes in the economic environment, implications of the crisis in capital markets, exposure to market risk and risk management

The report in Sections 2.1.2 – 2.1.5 below refers to Koor. Section 2.1.6 refers to the market risks to which a principal subsidiary of Koor (Makhteshim Agan) is exposed, and which are liable to have a significant impact on Koor. Additionally, Koor has a financial investment in Credit Suisse shares. For a description of the risk factors that affect the operations of Credit Suisse, see Section 10.3[E] of the chapter titled, Description of the Corporation's Operations.

2.1.1 Status of the financial markets (pursuant to Section 8 of the chapter titled, Description of the Corporation's Operations)

In 2010, economic recovery continued to characterize most of the financial and real markets worldwide, particularly emerging markets and also Israel. That said, the impact of the financial crisis that began in 2008 can still be felt, including in the fluctuations in exchange rates and the prices of securities, given the uncertainty of the ability of certain European countries to service their debt, the ability of the US to cut the unemployment rate, the slow recovery of the US real estate market and handling of rising inflation in developing nations (particularly China) due to the high rise in the prices of commodities worldwide. Over the past few days, due to the earthquake in Japan that damaged the nuclear facility there and generated fear of a negative impact on the Japanese economy, the uncertainty in global financial markets grew and sharp decreases could be seen.

The local capital market experienced a positive trend in 2010, with capital raisings in the corporate debt market gradually increasing. The unequivocal recovery of the Israeli economy on the one hand and the concern that a bubble will develop in the local residential real estate market along with concern of higher inflation on the other hand, led the Bank of Israel to slowly and gradually increase monetary interest and at the same time continue its intervention in the foreign currency market. Recently, in cooperation with the Ministry of Finance, the Bank of Israel has also made short-term capital movement more difficult. 2011 began with the continued growth trend in the Israeli economy and recovery of the financial markets, along with the development of geopolitical instability in several Middle Eastern countries. Continued geopolitical unrest in the Middle East may, under certain scenarios, have an adverse effect on the Israeli economy.

The developments in the global markets, and particularly in the Euro zone and the US, which includes fluctuation in the exchange rates in Israel and around the world, have impacted on and may continue to impact on Koor's business results and those of its investees - on their liquidity, value of equity, value of their assets and ability to realize them, the condition of their business (including demand for the products of Koor's investees), their financial covenants, credit ratings, ability to distribute dividends and even their ability to secure financing for the current and long-term activity, as well as the terms of financing.

In September 2010, Israel became a full member of the Organization for Economic Cooperation and Development (OECD), which is a forum of countries committed to democracy and market economy and that serves as a platform for defining economic, social and environmental policy guidelines and practices. Membership in the OECD is an indication that Israel is one of the "developed nations" and meets the economic and regulatory criteria it defines. Additionally, Israel's membership in the OECD may have a positive effect on foreign investors when they invest in Israel and on the State of Israel's credit rating.

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The decrease and fluctuations in the prices of the securities of Koor's investees (in particular, Credit Suisse and Makhteshim Agan), on the one hand, and the increase in Koor's debt on the other, could affect Koor's financial position and its credit rating as well as its compliance with the ratios set for certain financial covenants. Additionally, they may, in certain cases, lead to a decline in value and recorded losses due to the reduced value of the holdings. Maalot's rating published in January 2011 and Midroog's rating published at the same time are based on various parameters, including the net debt to adjusted value of holdings. In order to maintain the current rating, Maalot expects that the ratio of net debt to adjusted value of IDB Group's holdings will not exceed 60%, with the exception of short-term deviations. A decrease in the value of the assets and an increase in net financial debt by Koor and/or other companies in the IDB Group will result in an increase in this ratio. An increase in the value of the assets or a decline in net financial debt by Koor and/or other companies in the IDB Group will result in a decrease in this ratio. As of December 31, 2010, the ratio of net debt to adjusted value of IDB Group's holdings was 64% and Koor's was 54%. As of March 16, 2011, the ratio of net debt to adjusted value of IDB Group's holdings was 65% and Koor's was 55%.

Circular on investment of an institutional body in nongovernmental bonds. In July 2010, the Commissioner of the Capital Market, Insurance and Savings ("Commissioner of the Capital Market") published a circular that includes, among other things, directives on internal processes in an institutional body prior to investment in nongovernmental bonds, the information an institutional body requires to examine an investment in them and for ongoing tracking of them, on mechanisms for cooperation between institutional bodies on specific issues regarding investment in bonds, as aforementioned, on the provisions that must be included in said bond documents as a condition for investment by institutional bodies and on the obligation of institutional bodies to set a policy for investment in nongovernmental bonds (including regarding immediate redemption rights to be included in them), which relates to the characteristics of the bonds and the various issuers. Most of the directives in the circular entered into effect in October 2010 or January 2011.

The Commissioner's circular and the manner in which the directives will be implemented by the institutional bodies may impact on the ability to raise capital from institutional bodies through nongovernmental bonds, including the terms and prices of said raising of capital.

2.1.2 **Koor's market risks**

Mr. Oren Hillinger, the Company's CFO, is responsible for risk management at Koor.

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

In 2010, most of Koor's debt was denominated in Swiss francs at variable interest, part was shekel denominated Israeli CPI linked at fixed interest, and the rest was shekel denominated at fixed interest. The fair value of the Swiss franc-denominated debt was impacted by changes in shekel/Swiss franc exchange rates. On the other hand, Koor held a cash balance denominated primarily in shekels and Swiss francs, at variable interest, and available-for-sale financial assets denominated in Swiss francs.

2.1.3 **Detailed description of the market risks and Koor's policy for managing such exposure**

Exposure to the impact of changes exchange rates and transactions in derivative instruments

In 2010, most of the Company's cash balances were denominated in shekels or Swiss francs. As of December 31, 2010, Koor has a net debt balance (in other words, less cash, cash equivalents and

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pledged deposits) of NIS 2.95 billion (approximately CHF 0.8 billion), exposed to fluctuations in the Swiss franc/shekel exchange rate, and a cash balance of NIS 25 million denominated in U.S. dollars. The fair value in shekels of the liquid assets and debt balance, net, is affected by changes in the exchange rate of the shekel against these currencies, and said change was recognized in profit or loss.

Additionally, Koor is subject to the effects of the exchange rate of the shekel against the Swiss franc on the shekel value of the investment in available-for-sale assets (Credit Suisse shares at fair value, as of the report date, of NIS 5.67 billion, which is CHF 1.46 billion), and the effects of the exchange rate of the shekel against the US dollar on the balances of its shekel investments in investees that operate abroad and/or most of whose operations are in foreign currency. As opposed to the treatment of the liquid assets and debt balances, net, these effects are presented under capital (except in the event of significant and/or prolonged impairment of available-for-sale assets, as described in Note 3(I)1 to the financial statements).

In respect of its exposure to the exchange rate of the Swiss franc against the shekel, from time to time and in variable scope Koor engages in hedging transactions by purchasing CHF/NIS put options and selling CHF/NIS call options (jointly, "Collar Transaction"). At times, the total of open Collar Transactions is greater than the total net exposure to the exchange rate of the Swiss franc. The contracts are generally for a period of up to 12 months, but can be unwind, and are sometimes actually cleared even before the contractual expiration date. As of December 31, 2010, the total of open CHF/NIS Collar Transactions was CHF 1,100 million, the fair value of which was estimated as a liability of NIS 119 million (for more information about the valuation attached in Section G of the Periodic Report, see Appendix B to the Board of Directors Report). This was also the highest total of Collar Transactions in 2010. As of the date of publication of the report, there are CHF 800 million in open CHF/NIS Collar Transactions, the fair value of which is estimated as a liability of NIS 123 million. As of the beginning of the first quarter of 2011, at this point, in respect of the Collar Transactions, the Company has generated total profit, estimated by the Company at NIS 38 million. Additionally, Koor engages from time to time in currency exchange, primarily between the shekel and the Swiss franc (or vice versa). See Note 3(C) 3 to our financial statements regarding the accounting treatment of derivatives that are not used for hedging.

The above data on the fair value as of the date of the report of the Collar Transactions and the profit earned by the Company from the start of the first quarter of 2011 in respect of said transactions, include initial estimates and partial data currently in the possession of Koor. This data has not yet been processed, has not yet been finally examined and has not been reviewed by Koor's accountants, and is subject to additional changes in the exchange rates of the Swiss Franc and the dollar. Therefore, their impact on the Company's results in the first quarter of 2011 may be different than the foregoing.

Direct exposure to the rise in the Israeli CPI

On December 31, 2010 and on the date of this report, Koor's Israeli CPI-linked shekel liabilities are NIS 1.3 billion with an average duration of 3.5 years.

Koor partially hedges this exposure by purchasing forward contracts for the Israeli CPI. In the majority of cases, the contracts are purchased for one or two years. On the date of the report, the overall volume of such contracts held is NIS 380 million, with an average time to maturity of 11 months. In addition, in December 2009 Koor repaid Israeli CPI linked debt of NIS 1 billion and took an unlinked loan of NIS 750 million with fixed interest.

Exposure to market value fluctuations of Koor assets

Koor has great exposure to fluctuations in the market value of its assets, primarily the shares of Credit Suisse and Makhteshim Agan. On the date of this report, Koor does not hedge against this exposure. However, it is possible that in specific cases, such steps will be taken in the future.

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Exposure to changes in interest rates

Koor has exposure to LIBOR interest on the Swiss franc. As of the date of this report, Koor does not hedge against this exposure. However, such hedging may be performed in the future.

Koor uses derivative financial instrument transactions only through banks and entities committed to maintaining security levels according to scenarios.

2.1.4 Means of supervision and implementation of policy

The Company's policies for investment of cash balances and hedging against financial exposures are carried out by the Company's management and by Management's investment committee, whose members include the CFO and capital market consultants. Additionally, at all meetings of the Audit Committee and of the Board of Directors discussing the financial statements, Management reported on Koor's exposure to changes in exchange rates and Koor's linkage balance was discussed as well as the hedging transaction position.

2.1.5 Report on linkage bases

- A. The Company does not manage the risks of its investees.
- B. On the linkage balance on December 31, 2010 and 2009, see Note 26(c)1 to the financial statements.
- C. Koor's linkage balance as of December 31, 2010 (in NIS millions):

	Linked to the Israeli CPI	USD or USD- linked	Euro or euro- linked	CHF or CHF- linked	Unlinked	Non- monetary item	Total
Assets							
Current assets	4	30	-	217	366	86	703
Investments in affiliates (including loans)	-	187	-	-	-	2,622	2,809
Other investments	8	21	-	457*	-	5,702	6,188
Fixed assets and investment real estate	-	-	-	-	-	72	72
Total assets	12	238	-	674	366	8,482	9,772
Liabilities							
Current liabilities (including current maturities)	(22)	(15)	(1)	(122)	(191)	(122)	(473)
Long-term liabilities	(1,300)	(3)	-	(3,606)	(1,407)	(32)	(6,348)
Total liabilities	(1,322)	(18)	(1)	(3,728)	(1,598)	(154)	(6,821)
Assets less liabilities, net	(1,310)	220	(1)	(3,054)	(1,232)	8,328	2,951

* In addition to the above, it is noted that in Management's view, Credit Suisse shares are also exposed to changes in the Swiss franc, which as of December 31, 2010 were trading in Switzerland at a value of NIS 5,536 million, which is a non-monetary item.

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D. Koor's derivative positions as of December 31, 2010 (in NIS millions):

	NIS/CHF Collar			
	<u>Par value</u>	<u>Fair value to</u>	<u>Par value</u>	<u>Fair value to</u>
	<u>(CHF</u>	<u>pay</u>	<u>(CHF</u>	<u>pay</u>
	<u>millions)</u>	<u>(NIS millions)</u>	<u>millions)</u>	<u>(NIS millions)</u>
	<u>Up to one year</u>		<u>More than one year</u>	
Future contracts - not recognized as an accounting hedging transaction (1)	1,100	(119)	-	-

- (1) These contracts are made up of the purchase of CHF/NIS Put options and the sale of CHF/NIS Call options (Collar Transactions), such that in the event that the exchange rate of the Swiss franc drops below a minimum exchange rate stipulated in the contract Koor will receive the difference or if the exchange rate of the Swiss franc rises above a maximum exchange rate stipulated in the contract, Koor will pay the difference.

	Israeli CPI/NIS			
	<u>Par value</u>	<u>Fair value to</u>	<u>Par value</u>	<u>Fair value to</u>
	<u>Up to one year</u>	<u>pay</u>	<u>More than one year</u>	<u>receive</u>
	<u>Long</u>	<u>Long</u>	<u>Long</u>	<u>Long</u>
Future contracts - not recognized as an accounting hedging transaction (2)	180	(2)	200	8

- (2) These contracts are made up of the purchase of forward contracts on the Israeli CPI, such that if the actual Israeli CPI rises above the CPI stipulated in the contract, Koor will receive the difference, and if the opposite occurs, Koor will pay the difference.

E. Koor's linkage balance as of December 31, 2009 (in NIS millions):

	Linked to the Israeli CPI	USD or USD-linked	Euro or euro-linked	CHF or CHF-linked	Unlinked	Non-monetary item	Total
Assets							
Current assets	8	219	-	565	853	59	1,704
Investments in affiliates (including loans)	-	-	-	-	-	2,964	2,964
Other investments	8	3	-	-*	-	5,364	5,375
Fixed assets and investment real estate	-	-	-	-	-	62	62
Total assets	16	222	-	565	853	8,449	10,105
Liabilities							
Current liabilities (including current maturities)	(479)	(9)	(9)	(287)	(53)	(107)	(944)
Long-term liabilities	(1,274)	(3)	-	(896)	(1,554)	(81)	(3,808)
Total liabilities	(1,753)	(12)	(9)	(1,183)	(1,607)	(188)	(4,752)
Assets less liabilities, net	(1,737)	210	(9)	(618)	(754)	8,261	5,353

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In addition to the above, it is noted that in Management's view, Credit Suisse shares are also exposed to changes in the Swiss franc, which as of December 31, 2009 were trading in Switzerland at a value of NIS 5,111 million, which is a non-monetary item.

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F. Koor's derivative positions as of December 31, 2009 (in NIS millions):

	NIS/CHF Collar			
	<u>Par value</u>	<u>Fair value to</u>	<u>Par value</u>	<u>Fair value to</u>
	<u>Up to one year</u>	<u>pay</u>	<u>More than one year</u>	<u>pay</u>
	<u>Long</u>	<u>Long</u>	<u>Long</u>	<u>Long</u>
Future contracts - not recognized as an accounting hedging transaction (1)	500	5	-	-

- (1) These contracts are made up of the purchase of CHF/NIS Put options and the sale of CHF/NIS Call options (Collar Transactions), such that in the event that the exchange rate of the Swiss franc drops below a minimum exchange rate stipulated in the contract Koor will receive the difference or if the exchange rate of the Swiss franc rises above a maximum exchange rate stipulated in the contract, Koor will pay the difference.

	Israeli CPI/NIS			
	<u>Par value</u>	<u>Fair value to</u>	<u>Par value</u>	<u>Fair value to</u>
	<u>Up to one year</u>	<u>receive</u>	<u>More than one year</u>	<u>receive</u>
	<u>Long</u>	<u>Long</u>	<u>Long</u>	<u>Long</u>
Future contracts - not recognized as an accounting hedging transaction (2)	120	1	380	7

- (2) These contracts are made up of the purchase of forward contracts on the Israeli CPI, such that if the actual Israeli CPI rises above the CPI stipulated in the contract, Koor will receive the difference. and if the opposite occurs, Koor will pay the difference.

2.1.6 Investees

Report on market risks to which Koor's significant investees are exposed, where such exposure is likely to have a material impact upon Koor

Koor's policy for risk management is implemented only for Koor itself. Koor does not set this policy for its investees, and for the reporting period, did not take steps to hedge market risks arising from the operations of its investees. However, Koor's exposure to market risks from the operations of its affiliates is material, and how it should be managed is periodically reviewed and might change from time to time. Exposure to market risks arising from consolidated companies is not material for Koor.

The following is a summary of information according to the reports of a significant affiliate, whose exposure to market risks could have material impact on Koor:

Makhteshim Agan (holding on the date of this report: 47%)

Makhteshim Agan operates in the agrochemical sector and is therefore exposed to sectoral risks from changes in external factors such as competition, agricultural policy, and climate conditions, as well as factors that affect the demand for its products. Makhteshim Agan runs its business in various environments that operate in various currencies. Given its operations, Makhteshim Agan is exposed to market risks that are mainly changes in exchange rates (mainly the euro, shekel and Brazilian real against the dollar, which is the Company's functional currency); partial adjustment of product prices to the prices of raw materials in order to reduce the exposure (Makhteshim Agan customarily makes long-term purchase contracts where possible); change in the rate of rise in the Israeli CPI, and changes in the LIBOR rate in respect of short-term and long-term liabilities.

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Makhteshim Agan's board of directors approved a policy of using accepted financial instruments (such as options, forward contracts and swaps) to reduce exposure to changes in exchange rates and rises in the Israeli CPI. Makhteshim Agan's transactions are made only through banks and stock exchanges committed to compliance with requirements of capital adequacy or maintaining a level of collateral according to various scenarios. For additional information, see Section 9.2 of the chapter titled, Description of the Corporation's Operations.

Credit Suisse (holding as of date of report is 3.25%, without deducting treasury shares)

In addition, Koor has a financial investment in Credit Suisse. For a description of the risk factors that affect the operations of Credit Suisse, see Section 10.3[E] of the chapter titled, Description of the Corporation's Operations.

2.1.7 Sensitivity test tables for sensitive financial instruments

For more information regarding sensitivity analyses for sensitive financial instruments including in the consolidated financial statements for the period ended December 31, 2010 and 2009, according to the changes in the market facts, see Appendix A.

The following are summary lines of the sensitivity analysis tables:

For the period ended December 31, 2010

	<u>Fair value</u>	<u>Profit (loss) from changes in parameters in respect of which the sensitivity test was conducted</u>					
		<u>Rise of 200 base points</u>	<u>Increase</u>		<u>Fall of 200 base points</u>	<u>Decrease</u>	
			<u>10%</u>	<u>5%</u>		<u>10%</u>	<u>5%</u>
		<u>NIS Millions</u>					
Sensitivity to changes in shekel-denominated interest rate	(3,073)	153	27	13	(168)	(27)	(13)
Sensitivity to changes in the nominal shekel-denominated exchange rate - on derivative positions of CHF/NIS options	(119)	(32)	(2)	(1)	21	2	1

<u>Item</u>	<u>Fair value</u>	<u>Profit (loss) from changes in parameters in respect of which the sensitivity test was conducted</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
		<u>NIS millions</u>			
Sensitivity to changes in the dollar exchange rate	194	19	10	(19)	(10)
Sensitivity to changes in the Swiss franc exchange rate (excluding financial derivatives)*	(2,935)	(293)	(146)	293	146
Sensitivity to changes in Israeli and foreign stock exchange prices of negotiable securities	5,632	563	281	(563)	(281)
Sensitivity to changes in Israeli CPI – on derivative positions	6	8	4	(8)	(4)
Sensitivity to changes in Swiss franc exchange rate – on derivative positions	(119)	(339)	(171)	350	169

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Sensitivity to changes in the standard deviation – on derivative positions	(119)	(1)	(1)	2	1
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- * In addition to the above, it is noted that in Management's view, Credit Suisse shares are also exposed to changes in the Swiss franc, which as of December 31, 2010 were trading in Switzerland at a value of NIS 5,536 million, which is a non-monetary item.

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For the period ended December 31, 2009

	Profit (loss) from changes in parameters in respect of which the sensitivity test was conducted						
	Fair value	Rise of 200 base points	<u>Increase</u>		<u>Decrease</u>		
			<u>10%</u>	<u>5%</u>	Fall of 200 base points	<u>10%</u>	<u>5%</u>
			NIS Millions				
Sensitivity to changes in shekel-denominated interest rate	(3,441)	192	46	23	(240)	(46) (23)	

Item	Profit (loss) from changes in parameters in respect of which the sensitivity test was conducted				
	Fair value	<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
		NIS millions			
Sensitivity to changes in the dollar exchange rate	174	17	8	(17)	(8)
Sensitivity to changes in the Swiss franc exchange rate (excluding financial derivatives)*	(623)	(62)	(31)	62	31
Sensitivity to changes in Israeli and foreign stock exchange prices of negotiable securities	5,259	526	263	(526)	(263)
Sensitivity to changes in Israeli CPI – on derivative positions	8	10	5	(10)	(5)
Sensitivity to changes in Swiss franc exchange rate – on derivative positions	5	(135)	(52)	164	73
Sensitivity to changes in the standard deviation – on derivative positions	(5)	1	1	(1)	(1)

* In addition to the above, it is noted that in Management's view, Credit Suisse shares are also exposed to changes in the Swiss franc, which as of December 31, 2009 were trading in Switzerland at a value of NIS 5,111 million, which is a non-monetary item.

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3. Aspects of corporate governance

3.1 Contribution and aid to the community

Koor sees contributing to and supporting the community in Israel as a highly integral and important element of its activities that should be included in its overall activity. The Company, as an IDB Group company, views its contribution to the community in Israel as a central pillar of its business vision and believes that it bears a responsibility towards Israeli society, out of a recognition that business leadership co-exists with social leadership.

Out of an ongoing commitment to contribute to the development of the country and to strengthen its resilience, and out of its social and moral obligation to work on behalf of Israeli society, the Company contributes to projects in the areas of education, health, welfare, culture and sports. As part of this, priority is given to contributions in the field of education.

Against the background of the crisis in northern Israel during the Second Lebanon War, and in light of the ongoing reality in the Gaza Periphery settlements, the Company resolved, as part of the IDB Group, to continue its extensive support of the confrontation line settlements in the north and in the south and the resilience of their residents, out of a sense of solidarity, involvement and unity.

In 2010, the Company approved a budget for donations of NIS 8 million to various projects and organizations, mainly in the fields of education and health. This sum includes donations of NIS 4.4 million on behalf of residents of periphery settlements and the confrontation line in the north and the south.

The main projects to which the donations were approved in 2010

- Student scholarships: A total of 3,300 scholarships were awarded to students and outstanding doctoral candidates in four local authorities in confrontation line settlements in the north and south, in a total amount of NIS 4.4 million.
- Additional projects at a cost of NIS 3.8 million as support for health-related fields.

Below are details of donations approved and/or made in the reporting period, when the controlling shareholder in the Company had an interest in the recipient of the donation:

<u>Recipient of the donation</u>	<u>Amount of donation</u>	<u>Controlling shareholder / director</u>	<u>Nature of the interest (as declared by the controlling shareholder / director)</u>
The Tel Aviv Sourasky Medical Center	NIS 4,750,000	Nochi Dankner Avi Fischer Ami Erel	Mr. Dankner is a member of the executive committee of the Friends of Sourasky Medical Center, Mr. Fischer is a member of the Friends of Sourasky Medical Center, and Mr. Erel's wife is employed at the Medical Center
The Association for the Wellbeing of Israel's Soldiers	NIS 36,000	Avi Fischer	Member of NPO, Adopt a Soldier
Hapoel Be'eri basketball club	NIS 70,000	Avi Fischer	Indirectly holds shares in a company that has 51% of the voting rights in a corporation in which the remaining voting rights are held by a corporation controlled by Kibbutz Be'eri

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Donations to organizations in which the Company's controlling shareholders or their relatives, as well as the Company's directors or officers, serve on the executive committee or similar organ, as opposed to being members of the board of trustees or members in an association or organization, are brought to the Company's Audit Committee and Board of Directors for approval, after the relevant controlling shareholders, director or officer confirms that he has no personal interest in the donation other than the interest in the entity receiving the donation by virtue of his office.

3.2 Directors

3.2.1 Directors with accounting and financial expertise

Pursuant to Section 92(A)(12) of the Companies Law, the minimum number of directors with accounting and financial expertise appropriate for the Company is set at two directors (including external directors with such expertise). This takes into account the statutory duties and function of the Board of Directors, which includes its responsibility for preparing and approving the financial statements, the nature of the accounting and financial issues arising while preparing the Company's financial statements in view of its areas of operation, the size and complexity of the Company, and the composition of the Company's Board of Directors as a whole, including directors with business, managerial and professional experience that allows them to deal with the tasks of managing the Company, including its reporting duties.

After assessing the education, experience, qualifications and knowledge of the Board members on business-accounting topics and financial statements, the Company's directors whom the Board deems to have accounting and financial expertise and the facts by virtue of which they are deemed as such are the following:

- Nochi Dankner - LL.B. and B.A. (Political Science). Chairman of the Board and CEO of IDB Holdings Corporation Ltd., chairman of the boards of directors of IDB Development Corporation Ltd., Clal Industries & Investments Ltd. and Discount Investment Corporation Ltd. He also serves and/or has served as chairman and member of the boards of directors of public and private companies in IDB Group and in Ganden Group. Served as a director in Bank Hapoalim Ltd. and as chairman of the bank's credit committee.
- Yitzhak Manor - MBA. Director in public and private companies in IDB Group and chairman of companies in David Lubinski Group Ltd., co-vice chairman of IDB Holdings Ltd., director and member of the balance sheet committee of Israel Union Bank Ltd.
- Ami Erel - B.Sc. (Electrical Engineering). Chairman of the Company's Board of Directors, President and CEO of Discount Investment Co. Ltd., Chairman of the Board of Cellcom Israel Ltd., of and of Netvision Ltd. and Makhteshim Agan Industries Ltd. and as a director of other IDB Group companies. Former chairman, president and CEO of Elron Electronic Industries Ltd., and former CEO of Bezeq, The Israel Telecommunication Corp. Ltd.
- Lior Hannes - BA in Economics and Accounting; MA in Finance and Accounting from the Hebrew University of Jerusalem. Serves as Senior Deputy CEO of IDB Development Corporation Ltd. and CEO of IDB Investments (UK) Ltd. Serves as a director of IDB Holding Corporation, Clal Insurance Enterprises Holdings and IDB Investments (UK) Ltd. Served as CEO of Ganden Tourism & Aviation Ltd. and Business Manager of Ganden Holdings Ltd.

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- Gideon Lahav - B.A. (Economics). Director in Orbotech Ltd. and First International Bank of Israel Ltd. Chairman of the Company's audit committee, director in Discount Investments and chairman of its audit committee. Former director in other public companies, former CEO of Barclays Discount Bank and former CEO and subsequently chairman of Israel Discount Bank Ltd.
- Avraham Asheri - B.A. (Economics and Political Science). Former director of the Investments Center, Director General at the Ministry of Trade and Industry, Senior VP at Discount Bank in charge of the business sector, chief loan officer at Discount Bank and eventually CEO of Discount Bank. Currently a director in Discount Mortgage Bank Ltd., Redwood Ltd., Elron Electronic Industries Ltd. (chairman of the audit committee), Elbit Systems Ltd., and Micronet Ltd.
- Shlomo Reizman - B.A. (Economics and Political Science) from the Tel Aviv Law and Economics Academy. Served as Managing Director of the Farmers Association, member of management at Amir Ltd. and at Accounting for Farmers Ltd., member of the CEOs committee of the Liaison Bureau of the Economic Organizations. Member of the board of directors of The Technion in Haifa, member of the council, finance committee and chairman of the buildings committee of Israel's National Insurance Institute, and member of public associations.
- Arie Zeif - B.A. (Agronomy Studies, Specializing in Agricultural Economics) from the Hebrew University of Jerusalem. Served as CEO of Dubek Ltd. (through 2008), owner of a private consulting firm - Ardelia Holdings Ltd. (since January 2008). Serves as a director of Israel Petrochemical Enterprises Ltd. and external director of Shlomo Holdings Ltd.

3.2.2 Independent director

The Company has not adopted in its articles the directive concerning the percentage of independent directors as defined in section 219(E) of the Companies Law.

3.2.3

In May 2010, Mr. Ami Erel, Chairman of the Board of Directors, announced his plans to step down from the position of Chairman of the Board. When Mr. Ami Erel steps down, the Company's Board of Directors will recommend the appointment of Lior Hannes as chairman of the Board.

3.3 **The corporation's internal auditor**

3.3.1 Internal auditor and compliance with terms

Name of auditor: Ezra Yehuda, CPA.

Started service July 22, 1998.

Qualifications for the position: CPA, B.A. in accounting and economics, and MBA (cum laude) majoring in finance and management, both from Tel Aviv University. He has thirty-five years of experience in the field. Mr. Yehuda's accounting firm was established in 1988, and specializes in internal auditing from the aspects of finances, operations and computer control.

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The internal auditor is not an interested party or officer in the Company, a relative of any of those, nor is he the auditing accountant or anyone on his behalf. The internal auditor does not hold any position in the corporation in addition his position as internal auditor. To the best of the Company's knowledge, the internal auditor does not hold another position outside of the corporation that creates or is liable to create a conflict of interest with his position as internal auditor.

To the best of the Company's knowledge: the internal auditor does not hold any securities of the Company or of entities affiliated with it. The internal auditor has no material business relations or other material connections with the Company or with any entity affiliated with it, other than his being employed as the internal auditor of several of the corporation's subsidiaries.

Employment status: Mr. Yehuda provides services through his firm.

3.3.2 Appointment of the internal auditor

The appointment of the internal auditor was approved by the Audit Committee at its meeting on July 1, 1998 and by the Board of Directors at its meeting on July 22, 1998, after considering the auditor's education, qualifications and experience in internal auditing, and the type, scope and complexity of the Company's operations.

3.3.3 Superior of the internal auditor

Chairman of the Board.

3.3.4 The work plan of the internal auditor

The work plan is in an annual format. The considerations in determining the work plan are the nature of the Company's operations and the fact that it is a holding company, the need for monitoring to maintain a proper auditing process in the Company's subsidiaries and investees, the probability of the existence of flaws and exposures in the Company's operations, and the aspiration to audit material matters in the Company's operations at least once every four years and this based on the risk assessment survey. The parties involved in drafting the work plan are the internal auditor, the Company's Management and the Audit Committee, which approves the plan. The internal auditor has discretion to deviate from the work plan, subject to a report to the Audit Committee and its approval of the proposed change.

3.3.5 Auditing abroad or of investees

The Company and its headquarters companies have no activities abroad, with the exception of a holding in certain corporations outside Israel. The Company's material investees have their own internal auditors who perform all the internal audits for the corporations they audit. The Company's internal auditor is not involved in those audits. However, while the annual internal audit plan does include reference to the actual performance of the internal audit by other auditors in some of the Company's investees, it does not refer to their operations in Israel or other countries.

3.3.6 Scope of employment

About 394 work hours in 2010 and 324 work hours in 2009. In the opinion of the Audit Committee, the internal audit work plan and the scope of employment defined for its implementation are appropriate to the Company's needs. If necessary, the Company has the option to expand this scope of employment.

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3.3.7 Conducting the audit

The audit is conducted in accordance with accepted professional standards and the Internal Audit Law.

3.3.8 Access to information

The internal auditor and his staff have access to information as stipulated in Section 9 of the Internal Audit Law, which includes constant and direct access to the information systems of the Company and its headquarters companies.

3.3.9 Material transactions

The internal auditor receives an invitation, including background material, to meetings of the Company's Audit Committee and attends committee meetings at which material transactions are reviewed and approved. The internal auditor also receives, at his request, minutes of Board meetings at which such transactions are approved. Over the course of the year, the internal auditor examined the Company's contractual engagement to purchase the HSBC headquarters building (see Section 1.4.3 above) and the consulting agreement regarding the purchase of real estate assets abroad (see Note 29(C)(2)(4) to the financial statements), including the process for their approval, transactions in which the controlling shareholder has a personal interest.

3.3.10 Internal auditor's reports

The internal auditor's reports are submitted in writing. In 2010, five reports were submitted on five topics, and in 2009, six reports were submitted on six topics. The internal audit reports are distributed to the Chairman of the Board, the chairman and members of the Audit Committee, and the Company's Management. The reports in respect of 2010 were distributed prior to Audit Committee meetings which discussed them on May 13, 2010, August 10, 2010, November 22, 2010 and March 16, 2011.

3.3.11 Board of Directors' assessment

In the opinion of the Board of Directors, the scope, nature and continuity of the internal auditor's activities and his work plan are reasonable in the circumstances, and they fulfill the Company's internal audit goals.

3.3.12 Remuneration

The remuneration paid to the internal auditor is based on actual hours worked. In 2010, the internal auditor was paid NIS 110,000, and in 2009 he was paid NIS 90,000.

3.4 The corporation's external auditor

	<u>Name of auditor</u>	<u>2010</u>				<u>2009</u>			
		<u>Fees (NIS thousands)</u>		<u>Work hours</u>		<u>Fees (NIS thousands)</u>		<u>Work hours</u>	
		<u>Audit and tax services</u>	<u>Other services</u>	<u>Audit and tax services</u>	<u>Other services</u>	<u>Audit and tax services</u>	<u>Other services</u>	<u>Audit and tax services</u>	<u>Other services</u>
The Company and its wholly-owned headquarters companies	KPMG Somekh Chaikin	1,356	250	4,861	530	1,103	331	4,618	811

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The fees of the auditors were set on the basis of the actual scope of work, and were approved by the Audit Committee and the Board of Directors. The fees in 2010 also included fees in respect of an audit of a shelf prospectus published in May 2010 and in respect of an audit on the effectiveness of the internal auditing on financial reporting.

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3.5 Disclosure concerning the procedure for approval of the financial statements

3.5.1 Identity of the organs in the corporation charged with overall control:

The Board of Directors of the Company and its Audit Committee.

3.5.2 Procedures taken by the parties charged with overall control in the corporation, prior to approval of its financial statements:

The Company's Board of Directors is the organ in charge of overall control of the Company and the approval of its financial statements.

The members of the Board of Directors are: Ami Erel, Nochi Dankner, Avi Fischer, Isaac Manor, Zvi Livnat, Haim Gavrieli, Mark Shimmel, Lior Hannes, Rafi Bisker, Gideon Lahav, Ayelet Ben Ezer, Shlomo Reizman, Avraham Asheri and Arie Zeif.

The Company's Audit Committee also serves as a committee to review the Company's financial statements (hereinafter in this section, "Committee"), which after discussion of the financial statements - recommends their approval to the Company's Board of Directors.

The Committee has five members -

Mrs. Ayelet Ben-Ezer - External Director and Chairwoman of the Committee.

Mr. Shomo Reizman - External Director.

Mr. Gideon Lahav - Director.

Mr. Avraham Asheri - Director.

Mr. Arie Zeif - Director, who meets the criteria for independent director.

All Committee members, with the exception of Ayelet Ben-Ezer, have financial and accounting expertise. Prior to their appointment, all members of the Committee provided an affidavit under Regulation 3 of the Companies Regulations (Terms and Criteria for a Director with Accounting and Finance Expertise and a Director with Professional Qualifications), 2005. For information as to the skills, education, experience and knowledge of the Committee members, based on which the Company believes they have the ability to read and understand financial statements, see Section 3.2.1 above and Section 16 of Part D of the Period Report (Addition Information about the Corporation).

Approval of the 2010 financial statements took three meetings: the first - of the Committee, prior to the Board meeting, for comprehensive discussion of the material reporting issues; the second - of the Committee to discuss the financial statements, results and developments in the business activity, and third - of the Board of Directors to discuss and approve the financial statements.

Additionally, in another meeting held on February 16, 2011, the Audit Committee discussed the effectiveness of the internal control over the financial reporting and disclosure.

In addition to the Committee members, the following individuals were among those invited and in attendance at the meeting of March 15, 2011: the Internal Auditor Mr. Ezra Yehuda, the Company's auditors Mrs. Hila Keren and Mr. Herve Berdah of KPMG Somekh Chaikin and CEO, Mr. Raanan Cohen, CFO. Mr. Oren Hillinger, Comptroller, Mrs. Avishag Peretz and General Counsel, Mr. Zvi Fisher. In the meeting, the committee members examined, among other things, the assessments and estimates applied in the 2010 financial statements, the internal controls related to financial reporting, the completeness and suitability of the disclosure in the 2010 financial statements, the accounting policy adopted and the accounting treatment implemented for material issues, the

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valuations, including the underlying assumptions and estimates upon which the data in the 2010 financial statements relies. The committee also reviewed various aspects of control and risk management, both those reflected in the 2010 financial statements (such as the reporting on financial risks) and those that affect the reliability of the financial statements. This is done through detailed presentations of said issues by the auditors, officers and others in the Company, including: CEO, Mr. Raanan Cohen, CFO, Mr. Oren Hillinger and Comptroller, Mrs. Avishag Peretz and General Counsel, Mr. Zvi Fisher. The recommendations of the Committee on each of the issues set out above were submitted to the members of the Board on March 15, 2011.

In the committee meeting held on March 16, 2011, the Company's financial results and developments in its business operations were discussed. In said meeting, all of the Audit Committee members, as well as the following individuals were among those in attendance: the Internal Auditor Mr. Ezra Yehuda, the Company's auditors Mrs. Hila Keren and Mr. Herve Berdah of KPMG Somekh Chaikin and CEO, Mr. Raanan Cohen, CFO, Mr. Oren Hillinger, Comptroller, Mrs. Avishag Peretz and General Counsel, Mr. Zvi Fisher.

In the meeting of the Board of Directors held on March 17, 2011, the Board discussed the recommendations of the Committee and approved the Company's financial statements for December 31, 2010. The Board of Directors believes that with respect to the number and complexity of the recommendations made, the Committee's recommendations were submitted to the Board members a reasonable amount of time prior to said Board meeting. The amount of time the Board of Directors defined as reasonable for this is two businessdays. The following Board members participated in said Board meeting: Ami Erel (Chairman), Nochi Dankner, Isaac Manor, Zvi Livnat, Avi Fischer, Lior Hannes, Rafi Bisker, Haim Gavrieli, Gideon Lahav, Ayelet Ben Ezer, Shlomo Reizman, Avraham Asheri and Arie Zeif.

3.6 Compensation to interested parties and senior officers

Except for the CEO of the Company, Mr. Raanan Cohen, who is not a Company employee but an employee of the Company's parent, Discount Investments Corporation Ltd. ("DIC") and for the cost of whose employment at DIC the Company participates 80%, the Company has three senior officers whose salaries it pays.

The Company's Board of Directors approved criteria, according to which the terms of compensation of the Company's officers are examined, including their reasonableness, the correlation between them and the contribution of the officer and their fairness.

The following is a list of criteria for the examination of the compensation terms (not including grants that are a matter of discretion) of officers, including the CEO:

- A. The assumption is that as long as there has not been a significant change in the position or function of the officer over the course of the year, the terms of compensation, as approved, are fair and reasonable.
- B. Salary terms will be examined, noting the following parameters:
 1. The contribution of the officer to the business, profit, resilience and stability of the Company.
 2. The need of the Company to retain an officer with special skills, knowledge or expertise.
 3. The amount of responsibility assigned to the officer.

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The following is a list of criteria for examination of bonuses to an officer, including the CEO, that are not based upon a predefined formula, but are a matter of discretion:

- A. The bonus will be determined according to multiples of gross monthly salary.
- B. The maximum bonus (generally speaking and lacking any special considerations, as outlined below) will not exceed 15 months of gross salary.
- C. The total bonus will be determined noting the following parameters:
 - 1. The Company's business performance over the course of the year.
 - 2. The contribution of the officer to the business, profit, resilience and stability of the Company.
 - 3. The need of the Company to retain an officer with special skills, knowledge or expertise.
 - 4. The amount of responsibility assigned to the officer.
 - 5. Changes made in the amount of responsibility assigned to the officer during the year.
 - 6. Satisfaction with the performance of the officer (including assessment of the involvement and caring the officer demonstrates in the performance of his job).
 - 7. Assessment of the officer's ability to work in cooperation with the team.
 - 8. The contribution of the officer to corporate governance and a proper control and ethics environment.
- D. When the officer has made a unique business contribution with real significance for the Company's business or in the event of special challenge/s significant to the Company, which the officer faced over the course of the year, the Board of Directors has the option of paying a bonus of more than 15 gross salaries.
- E. Regarding the CEO, the bonus does not have to be determined according to multiples of gross monthly salary, and no restriction shall apply with respect to the foregoing.

As previously reported by the Company, the holding companies in the IDB Group are very unique, making it very difficult to compare them in terms of type, scope and complexity of activity to other holding companies in Israel. However, these companies are similar to each other.

Note, that salary conditions in the holding companies in the IDB Group is different than in other holding companies in Israel, as unlike the norm in other companies, the holding companies in the IDB Group do not provide capital remuneration / share-based compensation.

Without derogating from the generality of the foregoing, prior to the review of the compensation terms of Company officers, the Board of Directors was able to review the results of analysis of data regarding the compensation plan for senior officers ("Data Analysis"), conducted by Kesselman Finance PricewaterhouseCoopers Ltd. ("Kesselman"), which included collection and statistical analysis of data publicly issued regarding the amounts and mechanisms for compensation of senior officers of Israeli public companies, distinguishing between the various positions of said officers and relating to the relevant parameters (parameters taken into consideration include the following: market value of the sampled companies, their revenues, total equity and number of employees), and the Company's Board of Directors also received Kesselman's Data Analysis on providing a

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compensation mechanism through discretionary bonuses, which was described above, under market conditions. Based on this examination and according to the data regarding the total compensation received by each of the senior officers brought to the Board for review, the Company's Board of Directors examined the overall compensation terms for each of the Company's senior officers, also taking into account the Board's assessment of the senior officer's contribution to the Company in the reporting period, and reached the conclusion that compensation is fair and reasonable, as follows:

Raanan Cohen, CEO

The Board of Directors was presented the detailed information on the compensation for the CEO of the Company, Mr. Raanan Cohen, who served in the position in 2010, as set out in Section 9.2 of Part 4 of the 2010 Periodic Report. As noted there, the Company participates in 80% of the cost of the employment of Mr. Cohen, who is employed by DIC. The Board of Directors considered the Company's share (80%) in said compensation to Mr. Cohen, as follows:

With respect to Company's share in Mr. Cohen's current salary, the Board of Directors took into account that Mr. Cohen has served as CEO since 2006, that Mr. Cohen, through his dedication and ongoing work, contributes the Company's business and stability, and the responsibility with which he is charged in this position, considering the volume of business and complexity of the Company's activity is significant. With regard to the need of the Company to retain Mr. Cohen in this position, the Board of Directors considered his considerable skills and expertise in managing the Company's affairs, his in-depth understanding of its business, its activity under his management and the very significant level of responsibility with which he is charged in this position. The Board of Directors also took into consideration the size of Mr. Cohen's salary compared to that paid to CEOs of other large Israeli companies.

The Company was informed that the authorized bodies of DIC have proposed, but not yet discussed, a 2010 bonus for Mr. Raanan Cohen, and therefore the Koor Audit Committee and Board of Directors has not yet held a discussion in this regard.

The Board of Directors believes that in light of the considerations set out above, noting Mr. Cohen's very positive contribution to Company and considering the Data Analysis conducted by Kesselman and the Company's results, the Company's share in Mr. Cohen's compensation in 2010, as set out in Section 9.2 of Part D of the 2010 Periodic Report, is fair and reasonable.

Mr. Oren Hillinger, CFO:

The Board of Directors was presented with information regarding the compensation of the Company's CFO, Mr. Oren Hillinger, in 2010, as set out in Section 9.2 of the 2010 Periodic Report.

The Board of Directors considered said compensation of Oren Hillinger, as follows:

With respect to Mr. Hillinger's current salary, the Board of Directors considered the fact that Mr. Hillinger has served as the Company's CFO since 2008 and prior to that time served as the Finance Director of Koor, that through his dedication and work Mr. Hillinger contributes to the Company's business, strength and stability, and the responsibility he shoulders in his position, given the volume of the Company's business and complexity of its activity, is significant. Regarding the Company's need to retain Mr. Hillinger in his position, the Board of Directors considered Mr. Hillinger's in-depth knowledge of the Company's affairs and particularly the accounting/financial aspects of its business. The Board of Directors also took into consideration the size of Mr. Hillinger's salary compared to that paid to CFOs of other large Israeli companies.

Regarding the bonus approved for Mr. Hillinger, among other things, the Board of Directors considered the following: Mr. Hillinger's base salary, the responsibility he assumes in his position, noting the scale of the Company's business and complexity of its operations, and his involvement and contribution to the management of market risks to which the Company is exposed, financing activity, and the preparedness of the Company to implement regulations regarding the effectiveness of the internal control over the financial reporting, the need of the Company to retain him in his position, as set out above, the high level of satisfaction of the Board of Directors with his work, degree of involvement and dedication to his job, and his ability to coordinate and cooperate with those around him and those who report to him.

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The Board of Directors believes that in light of the considerations set out above, noting Mr. Hillinger's very positive contribution to Company and considering the Data Analysis conducted by Kesselman and the Company's results, Mr. Hillinger's compensation in 2010, as set out in Section 9.2 of Part D of the 2010 Periodic Report, is fair and reasonable.

Aviad Gefen - CEO, subsidiary:

The Board of Directors was presented with information about the compensation of the CEO of one of the Company's subsidiaries located in the US - Mr. Aviad Gefen in 2010, as was detailed in Section 9.2 of Part D of the 2010 Periodic Report. Mr. Gefen was employed by the Company and served as the CEO of the subsidiary since March 2010 and through the date on which he received his US work visa, November 2010. Since that time, he is no longer employed by the Company, but by the subsidiary in the US and his salary is paid by the subsidiary. The Board of Directors considered said compensation of Mr. Gefen, as follows:

With respect to Mr. Gefen's current salary, the Board of Directors took into account that Mr. Gefen was especially hired by the Company to replace the previous CEO of the subsidiary, his expertise in the subsidiary's field of operations and his contribution to the activity and stability of the subsidiary.

Regarding the bonus approved for Mr. Gefen, among other things, the Board of Directors considered the following: Mr. Gefen's base salary, the fact that he relocated his family to the US, his contribution to cutting costs and stabilizing the subsidiary, the Company's need to retain him in his position, as set out above and the satisfaction with his work, his degree of involvement and dedication to his job, and ability to coordinate and cooperate with those around him and those who report to him.

The Board of Directors believes that in light of the considerations set out above, noting Mr. Gefen's very positive contribution to Company and the subsidiary, and considering the Data Analysis conducted by Kesselman, Mr. Gefen's compensation in 2010, as set out in Section 9.2 of Part D of the 2010 Periodic Report, is fair and reasonable.

4. Disclosure directives relating to the corporation's financial reporting

4.1 Principal events after the balance sheet date

For information about principal events after the balance sheet date, see Note 30 to the financial statements.

4.2 Disclosure concerning critical estimates

For information about critical estimates, see Note 2(E) to the financial statements.

4.3 Disclosure of significant differences in the estimates and projections behind the valuations

A test for impairment of investment in Makhteshim Agan was annexed to the Company's financial statements on December 31, 2008. The valuation was based on a financial forecast for 2010 – 2013. The table shows the results of Makhteshim Agan's operations for 2010 compared with its results for the year as projected in the previous year:

	Actual in 2010	Projection for 2010 made in 2008 (realistic scenario)	Difference
	NIS Thousands		
Income	2,362,232	2,629,783	(267,551)
Cost of sales	1,713,006	1,769,958	(56,952)
Gross profit	649,226	859,825	(210,599)

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Gross profit margin	27.5%	32.7%	
Expenses:			
R&D, net	23,187	23,206	(19)
Sales and marketing	410,371	389,151	21,220
General and administrative	106,529	81,857	24,672
Other expenses	102,907	-	102,907
Total expenses	642,994	494,214	45,873
Operating income	6,232	365,611	(359,379)
Operating income %	0.3%	13.9%	

As can be seen in the table, the income, profits and profit margins of Makhteshim Agan in 2010 were lower than projected in the test for impairment as of December 31, 2008. The company's non-compliance with the forecasts was a consequence of the effects of the economic crisis on the crop protection market, which were more severe than foreseen by Makhteshim Agan and by the market itself, and of the one-time events that occurred in 2010 and adversely affected the results of Makhteshim Agan's operations, as described in Section 1.2.2.1 above.

Retrospectively, these gaps result in a measure of impairment of the usage value of Makhteshim Agan as of December 31, 2008. However, in view of the very large gap between the usage value of Makhteshim Agan according to the valuation, and the value of Makhteshim Agan in Koor's books, the Company estimates that even if the impairment of the usage value were applied, the usage value would still be significantly higher than the value of Makhteshim Agan in Koor's books. It is noted that, in any event, the market value of Koor's holding in Makhteshim Agan on December 31, 2010 was NIS 3.68 billion, which is considerably higher than the value of the holding in Koor's books on that date, which was NIS 2.37 billion.

5. Dedicated disclosure for debenture holders

See Appendix 3 below.

6. Managers and employees of the Company and the investees

We would like to thank the Company's Management and employees as well as the managements and employees of the investees, for their work, effort and contribution to the Company and the investees throughout the year.

Ami Erel
Chairman of the Board

Raanan Cohen
CEO

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

**Board of Directors Report
For the year ended on December 31, 2010**

Tel Aviv, March 17, 2011

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

Board of Directors Report For the year ended on December 31, 2010

Appendix 1 - Sensitivity tests for sensitive financial instruments

The following tables outline the sensitivity tests for market value of financial instruments. The tables below should be reviewed in light of the following comments:

1. The instruments listed are not necessarily presented in the financial statements according to their fair value. That stated relates primarily to liabilities.
2. The changes in the fair value of instruments that are presented and fair value impact both on the reported results and on the Company's equity, as a result of the recording of capital funds in respect of available-for-sale financial instruments.
3. The changes in exchange rates have an effect both on the reported results and on the Company's equity as a result of the recognition of translation differences attributable to translation of financial statements of an investee prepared in foreign currency.

Tables of sensitivity tests for sensitive financial instruments included in the consolidated financial statements for the period ended December 31, 2010, in accordance with the changes in the market factors

Sensitivity test for changes in shekel-denominated interest rate

Item	Fair value	<u>Profit (loss) from changes in shekel denominated interest rate</u>					
		Rise of 200 base points (**)	<u>Increase</u>		<u>Decrease</u>		
			10% N I S	5% m i l l i o n s	Fall of 200 base points (**)	10%	5%
Short-term deposits and investments	12	(1)	-(*)	-(*)	1	-(*)	-(*)
Current maturities of debentures	(162)	6	2	1	(7)	(2)	(1)
Debentures	(2,019)	111	18	9	(122)	(18)	(9)
Liabilities to banks	(904)	37	7	3	(40)	(7)	(3)
	(3,073)	153	27	13	(168)	(27)	(13)

(*) Amounts lower than NIS 1 million.

(**) The Company chose to present the change in interest, for which stress tests will be performed on financial instruments that are sensitive to changes in the interest rate, at 200 base points (2%), after being checked and no higher absolute daily change was found in the interest rate in the ten years preceding the reporting date, and after assessing that the change of 200 base points is a change that can occur in a serious, but believable, scenario at the same interest rate.

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Sensitivity test for changes in the USD exchange rate

Item	Fair value	Profit (loss) from changes in the USD exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Cash and cash equivalents	25	3	1	(3)	(1)
Short-term deposits and investments	5	-	-	-	-
Trade receivables, receivables and debit balances	17	2	1	(2)	(1)
Other investments	208	20	10	(20)	(10)
Credit from banks and others	(27)	(3)	(1)	3	1
Trade payables, payables and credit balances	(31)	(3)	(1)	3	1
Other long-term financial liabilities	(3)	-	-	-	-
	194	19	10	(19)	(10)

Sensitivity test for changes in the Swiss franc exchange rate (excluding financial derivatives)

Item	Fair value	Profit (loss) from changes in the CHF exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Cash and cash equivalents	217	22	11	(22)	(11)
Other investments and pledged deposits	457	46	23	(46)	(23)
Trade and other accounts payable and credit balances	(3)	-	-	-	-
Long-term liabilities to banks	(3,606)	(361)	(180)	361	180
	(2,935)	(293)	(146)	293	146

In addition to what appears in the table above, it is noted that in Management's view, Credit Suisse shares are also exposed to changes in the Swiss franc, which as of December 31, 2010 were trading in Switzerland at a value of NIS 5,536 million, which is a non-monetary item.

Sensitivity test for changes in the euro exchange rate

Item	Fair value	Profit (loss) from changes in the EUR exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Other accounts payable and accrued expenses	(1)	_(*)	_(*)	_(*)	_(*)

(*) Amounts lower than NIS 1 million.

In addition to what appears in the table above, it is noted that in Management's view, Carrefour shares are also exposed to changes in the euro, which as of December 31, 2010 were trading in France at a value of NIS 23 million, which is a non-monetary item.

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Sensitivity test for changes in Israeli and foreign stock exchange prices of negotiable securities

Item	Fair value	Profit (loss) from changes in the prices of negotiable securities			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Short-term deposits and investments	70	7	3	(7)	(3)
Other investments	3	-	-	-	-
Financial assets classified as available for sale	23	2	1	(2)	(1)
Pledged financial assets classified as available for sale	5,536	554	277	(554)	(277)
	5,632	563	281	(563)	(281)

Sensitivity test for changes in Israeli CPI – on derivative positions

Forward index	Fair value	Profit (loss) from changes in Israeli CPI			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Not recognized as an accounting hedge	6	8	4	(8)	(4)

Sensitivity test for changes in Swiss franc exchange rate – on derivative positions

Not recognized as an accounting hedge Item	Fair value	Profit (loss) from changes in the CHF exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Purchase of CHF/NIS put options	56	(46)	(32)	213	76
Sale of CHF/NIS call options	(175)	(293)	(139)	137	93
	(119)	(339)	(171)	350	169

Sensitivity test for changes in the standard deviation – on derivative positions

Not recognized as an accounting hedge Item	Fair value	Profit (loss) from changes in the standard deviation of the CHF exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Purchase of CHF/NIS put options	56	10	5	(9)	(4)
Sale of CHF/NIS call options	(175)	(11)	(6)	11	5
	(119)	(1)	(1)	2	1

K o o r I n d u s t r i e s L t d .**Board of Directors Report****For the year ended on December 31, 2010****Sensitivity test for changes in the nominal shekel-denominated interest – on derivative positions**

Not recognized as an accounting hedge item	Fair value	Profit (loss) from changes in shekel denominated interest					
		Increase			Decrease		
		Rise of 200 base points (**)			Fall of 200 base points (**)		
			10%	5%		10%	5%
		N I S		m i l l i o n s			
Purchase of CHF/NIS put options	56	(11)	(1)	-	9	1	-
Sale of CHF/NIS call options	(175)	(21)	(1)	(1)	12	1	1
	(119)	(32)	(2)	(1)	21	2	1

(*) The Company chose to present the change in interest, for which stress tests will be performed on financial instruments that are sensitive to changes in the interest rate, at 200 base points (2%), after being checked and no higher absolute daily change was found in the interest rate in the ten years preceding the reporting date, and after assessing that the change of 200 base points is a change that can occur in a serious, but believable, scenario at the same interest rate.

The results of the sensitivity tests for changes in Swiss franc-denominated interest on the derivative positions of CHF/NIS put options and CHF/NIS call options are negligible and are therefore not presented.

Tables of sensitivity tests for sensitive financial instruments included in the consolidated financial statements for the period ended December 31, 2009, in accordance with the changes in the market factors

Sensitivity test for changes in the interest rate

Item	Fair value	Profit (loss) from changes in the interest rate					
		Increase			Decrease		
		Rise of 200 base points (**)			Fall of 200 base points (**)		
			10%	5%		10%	5%
		N I S		m i l l i o n s			
Current maturities of debentures	(466)	4	-(*)	-(*)	(5)	-(*)	-(*)
Debentures	(2,102)	139	34	17	(151)	(34)	(17)
Liabilities to banks	(883)	49	12	6	(54)	(12)	(6)
	(3,441)	192	46	23	(240)	(46)	(23)
	(3,073)	153	27	13	(168)	(27)	(13)

(*) Amounts lower than NIS 1 million.

(**) The Company chose to present the change in interest, for which stress tests will be performed on financial instruments that are sensitive to changes in the interest rate, at 200 base points (2%), after being checked and no higher absolute daily change was found in the interest rate in the ten years preceding the reporting date, and after assessing that the change of 200 base points is a change that can occur in a serious, but believable, scenario at the same interest rate.

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Sensitivity test for changes in the USD exchange rate

Item	Fair value	Profit (loss) from changes in the USD exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Cash and cash equivalents	214	21	11	(21)	(11)
Short-term deposits and investments	5	-	-	-	-
Trade and other accounts receivable and debit balances	20	2	1	(2)	(1)
Other investments	3	-	-	-	-
Credit from banks and other institutions	(32)	(3)	(2)	3	2
Trade and other accounts payable and credit balances	(32)	(3)	(2)	3	2
Other long-term financial liabilities	(4)	-	-	-	-
	174	17	8	(17)	(8)

Sensitivity test for changes in the Swiss franc exchange rate (excluding financial derivatives)

Item	Fair value	Profit (loss) from changes in the CHF exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Cash and cash equivalents	560	56	28	(56)	(28)
Credit from banks and other institutions	(235)	(23)	(12)	23	12
Trade and other accounts payable and credit balances	(52)	(5)	(2)	5	2
Long-term liabilities to banks	(896)	(90)	(45)	90	45
	(623)	(62)	(31)	62	31

In addition to what appears in the table above, it is noted that in Management's view, Credit Suisse shares are also exposed to changes in the Swiss franc, which as of December 31, 2009 were trading in Switzerland at a value of NIS 5,111 million, which is a non-monetary item.

Sensitivity test for changes in the euro exchange rate

Item	Fair value	Profit (loss) from changes in the EUR exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Other accounts payable and accrued expenses	(9)	(1)	-(*)	1	-(*)

(*) Amounts lower than NIS 1 million.

In addition to what appears in the table above, it is noted that in Management's view, Carrefour shares are also exposed to changes in the euro, which as of December 31, 2009 were trading in France at a value of NIS 101 million, which is a non-monetary item.

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Sensitivity test for changes in Israeli and foreign stock exchange prices of negotiable securities

Item	Fair value	Profit (loss) from changes in the prices of negotiable securities			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Short-term deposits and investments	44	4	2	(4)	(2)
Other investments	3	-	-	-	-
Financial assets classified as available for sale	2,800	280	140	(280)	(140)
Pledged financial assets classified as available for sale	2,412	242	121	(242)	(121)
	5,259	526	263	(526)	(263)

Sensitivity test for changes in Israeli CPI – on derivative positions

Forward index	Fair value	Profit (loss) from changes in Israeli CPI			
		Increase		Decrease	
		2%	1%	2%	1%
NIS millions					
Not recognized as an accounting hedge	8	10	5	(10)	(5)

Sensitivity test for changes in Swiss franc exchange rate – on derivative positions

Not recognized as an accounting hedge Item	Fair value	Profit (loss) from changes in the CHF exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Purchase of CHF/NIS put options	12	(12)	(12)	160	69
Sale of CHF/NIS call options	(7)	(123)	(40)	4	4
	5	(135)	(52)	164	73

Sensitivity test for changes in the standard deviation – on derivative positions

Not recognized as an accounting hedge Item	Fair value	Profit (loss) from changes in the standard deviation of the CHF exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Purchase of CHF/NIS put options	12	2	1	(2)	(1)
Sale of CHF/NIS call options	(7)	(1)	-	1	-
	(5)	1	1	(1)	(1)

The results of the sensitivity tests for changes in Swiss franc-denominated and shekel-denominated interest on the derivative positions of CHF/NIS put options and CHF/NIS call options are lower than NIS 1 million and were therefore not presented.

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Board of Directors Report For the year ended on December 31, 2010

Appendix 2 - Very Material Valuation

The Company attached a very material valuation to the periodic reports (see Section G of the Periodic Report).

The following is information regarding the valuation:

1. Subject of valuation - NIS/CHF Collar transactions open as of December 31, 2010.
2. Date of valuation - December 31, 2010.
3. Value of subject of valuation in the Company's books immediately prior to the valuation - liability of NIS 119 million.
4. Value of subject of valuation determined in the valuation - liability of NIS 119 million.
5. Identity and characteristics of the valuator - Financial Immunities Ltd., a private company managed by Dr. Adam Reuter, with extensive experience in derivatives. There is no dependence between the valuator and the company that ordered the valuation. The contract with the valuator includes an obligation to indemnify the valuator if in a legal proceeding or other action it is ruled that the valuator must pay any amount whatsoever to a third party regarding performance of the services, unless the valuator acted with malice or gross negligence with respect to the opinion.
6. Valuation model used by the valuator - Garman Kohlhagen formula, which is a variant of the Black & Scholes formula for foreign currency options.
7. Assumptions underlying the valuation:
 - A. CHF exchange rate - 3.7882.
 - B. Standard deviation - 10.7%-12%.
 - C. Shekel-denominated interest - 1%-1.7%.
 - D. CHF-denominated interest - 0%-0.4%.

For information regarding a material valuation on the HSBC building, see Section 11.11.8 to Part A of the Report (Description of the Corporation's Operations).

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Board of Directors Report

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Appendix 3 - Dedicated Disclosure for Debenture Holders

Summary of debenture data as of December 31, 2010 (NIS millions):

Series	Original issue date	Par value on date of issue (in millions)	Balance of par value in circulation (in millions)	Balance of par value in circulation by linkage terms (in millions)	Amount of interest accrued in the books	Book value of balance of debentures on December 31, 2010	Stock exchange value	Interest rate (fixed)	Principal payment dates ⁽²⁾		Interest payment dates	Linkage terms	Is it material to corporation's operations	Trust company - Name of contact, address and tel. no.
									From	To				
8 ⁽³⁾	20.8.06	1,194.6	1,194.6	1,339.3	22.8	1,349.4 ⁽⁵⁾	1,481.3	5.10%	1.9.12	1.9.16	1.9.11, 1.9.12 1.9.13, 1.9.14 1.9.15, 1.9.16	Israeli CPI	Yes	Reznik Paz Nevo Trusts Ltd. 14 Yad Harutzim St., Tel Aviv Tel: 03-6389200 Liat Bachar-Segal
9 ⁽⁴⁾	9.8.09	765.5	765.5	765.5	15.1	752.4	812.7	6.7%	15.3.11	15.3.15	15.3.11, 15.9.11 15.3.12, 15.9.12 15.3.13, 15.9.13 15.3.14, 15.9.14 15.3.15	Unlinked	Yes	Hermetic Trust (1975) Ltd. 113 Hayarkon St., Tel Aviv. Tel: 03-5274867 Merav Ofer Oren
10	10.9.09	58.1	58.1	58.1	1.2	57.8	63.9	7.2%	16.9.12	16.9.17	16.3.11, 16.9.11 16.3.12, 16.9.12 16.3.13, 16.9.13 16.3.14, 16.9.14 16.3.15, 16.9.15 16.3.16, 16.9.16 16.3.17, 16.9.17	Unlinked	No	Hermetic Trust (1975) Ltd. 113 Hayarkon St., Tel Aviv. Tel: 03-5274867 Merav Ofer Oren

Notes:

- (1) The Company is in compliance with all the terms of the debentures and met all the terms of the liability in the deed of trust.
- (2) Annual payments.
- (3) The series was expanded on May 10, 2007. The data in the table relate to the entire series.
- (4) The series was expanded on September 10, 2009. The data in the table relate to the entire series.
- (5) The consolidated financial statements state the balance of debentures (series 8) on December 31, 2010, net of the debentures purchased by a wholly-owned subsidiary, and is NIS 1,186.2 million.

In April 2010, the Company redeemed Series 7 debentures in full, in the amount of NIS 454 million.

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

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Debenture ratings:

Series	Rating company	Current rating	Rating on issue date
8	Maalot	A+/Negative	A+
8	Midroog	A1/Developing	-
9	Maalot	A+/Negative	A+/stable
9	Midroog	A1/Developing	A1
10	Maalot	A+/Negative	A+/stable
10	Midroog	A1/Developing	A1

In August 2006, Maalot announced a rating of A+/stable for debentures (Series 8). In November 2008, Maalot issued a credit rating of A+/CW Negative for Koor's debentures.

In July 2009, Maalot published a credit rating of ilA+/stable for Koor's debentures (Series 7 and 8).

In August 2009, Midroog announced a rating of A1 to Koor's debentures.

In September 2009, Maalot and Midroog announced a rating of ilA+/stable and A1 respectively, both for the expansion of the debentures (Series 9) and for the issue of the new debentures (Series 10).

In July 2010, Midroog announced that it had placed Koor's debentures (Series 8-10) on the Watch List.

In September 2010, Midroog announced that Koor's debentures in circulation were taken off the watch list, keeping the A1 Stable rating.

In January 2011, Maalot announced approval of +ilA rating of Koor's debentures (Series 8-10), changing the rating outlook to negative.

In January 2011, Maalot announced approval of A1 rating of Koor's debentures (Series 8-10), changing the rating outlook to developing.