

Translated from the Hebrew original

## **Koor Industries Ltd.**

### **Board of Directors Report For the first nine months and the third quarter of 2011**

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We are pleased to submit the unaudited financial statements of Koor Industries Ltd. for the first nine months and the third quarter ended September 30, 2011.

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 range of business segments. The Company, together with its wholly owned subsidiaries ("Koor") generally invests in companies which operate in the global market and/or international companies, primarily focusing on large-scale investments. Koor examines and invests in companies in which it has a position of control following the investment, as well as financial investments (also in substantially large-scale investments) in which Koor does not have a position of control following its investment. Furthermore, Koor invests from time to time in financial investments of varying scope and for varying periods. This is due to, inter alia, the prevailing market conditions and available opportunities.

#### **1. Board of Directors explanations on the state of the Company's affairs**

In October 2011, subsequent to fulfilling the contingent conditions, the merger transaction with the subsidiary of China National Chemical Corporation ("ChemChina") ("the Merger Transaction") was closed and Makhteshim Agan became a private company jointly owned by ChemChina (60%) and Koor (40%), and various arrangements prescribed as part of the shareholders agreement signed between these parties, came into force.

As part of closing the merger transaction, Koor received a total amount of USD 1.1 billion, of which USD 169 million was paid to Koor as consideration for the sale of part of its shares in Makhteshim Agan (7.02%) and a total of USD 960 million was granted to Koor as a non-recourse loan, secured by the Makhteshim Agan shares it holds (40%).

As a result of the closing of the transaction, Koor will record in the fourth quarter of 2011 net profit in the amount of NIS 638 million (based on the representative USD exchange rate on the merger closing date), of which net profit in the amount of NIS 202 million is for the sale of approximately 7.02% of its shares in Makhteshim Agan and a profit of NIS 436 million is due to aspects of the loan (granted under the terms of the transaction), based on the assessment of the value of the benefit with respect to these aspects of the loan, and less expenses incurred due to a settlement pertaining to a legal claim against the Company and against Makhteshim Agan (as set forth in Note 6(1) to the financial statements).

In addition, Koor will record an equity increase due to revaluation of capital reserves from September 30, 2011 until the merger closing date and realization of the capital reserve balance from the sold shares, so that the increase in capital reserves will amount to NIS 680 million.

Koor recorded an impairment loss in the second quarter of 2011, which was attributed to profit or loss, in the amount of NIS 1.8 billion and as a result of the continuing decline in Credit Suisse share price in the third quarter of 2011, the Group recorded additional impairment loss in the third quarter of 2011 in the amount of NIS 0.9 billion, and recorded a loss with respect to shares sold during this quarter, as described below, in the amount of NIS 378 million. It is noted that subsequent to the response of the Securities Authority to the Company's preliminary query, the Company is examining the option of early adoption of IFRS 9 (2009) as of the first quarter of 2012. If the Company resolves as aforesaid, the Company might choose, pursuant to the provisions of the Standard, the alternative of presenting the changes in the fair value of the investment in Credit Suisse as part of other comprehensive income so that the negative difference, net of tax, as of September 30, 2011 between the cost of Credit Suisse shares and their market value, which refers to the balance of Credit Suisse shares held by the Company on January 1, 2012, will be attributed to equity for financial assets through other comprehensive income and accordingly, the portion of the loss due to impairment that is recorded in profit or loss in the second and third quarters of 2011 will be canceled. Based on the

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remaining shares held by Koor at the reporting date, the recognition of the loss due to impairment that was recorded in the second and third quarters of 2011 in the amount of NIS 2.1 billion will be canceled (loss of NIS 1.2 billion and NIS 0.9 billion, respectively). As a result, and if the Company will act in the aforesaid manner, the comparative figures for 2011 in the Company's statements of income will not express recognition of the loss due to impairment with regard to the remaining Credit Suisse shares that will be held by the Company on January 1, 2012 and the Company's surplus balance will also reflect this amendment.

Nonetheless, it is hereby emphasized that if the Company does choose to adopt early application of the provisions of the Standard without designating fair value through other comprehensive income, the Company will present the change in fair value of the investment in Credit Suisse shares in profit or loss. In the event that the Company will adopt the Standard in this manner, by early adoption in the 2011 annual statement, the entire negative difference, net of tax, recorded in profit or loss in the second quarter of 2011, in the amount of NIS 1.82 billion will not be recognized, rather the amount of NIS 1.4 billion thereof will be attributed to surplus as of January 1, 2011 and the surplus at the beginning of 2011 will be reduced, while the balance of the negative difference in the amount of NIS 0.4 billion will be attributed to profit or loss for the first and second quarters of 2011 (profit of NIS 0.2 billion and loss of NIS 0.6 billion, respectively). No change will apply to the results of the third quarter of 2011.

For further information see Notes 3(C)(1) and 5(1) to the financial statements.

The net loss attributable to the Company's equity holders for the third quarter of 2011 amounted to NIS 1,636 million, with basic loss per share of NIS 34.5 compared with loss of NIS 359 million and basic loss per share of about NIS 7.6 in the third quarter of 2010.

The net loss attributed to the Company's equity holders in the first nine months of 2011 totaled NIS 3,431 million, with basic loss per share of NIS 72.3 compared with loss of NIS 116 million and basic loss per share of NIS 2.5 in the first nine months of 2010.

#### **1.1 Breakdown of Koor's financial results:**

	<b>First nine months of</b>		<b>Third quarter of</b>		<b>Year</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>N I S m i l l i o n s</b>				
Koor's equity in the operating results of investees, net	235	28	(8)	(115)	(254)
Profit (loss) from disposal of investments and from dividends, net of impairment, net	(2,930)	294	(1,297)	(2)	303
Administrative, financing and other	(818)	(401)	(336)	(250)	(524)
Tax income (expenses)	82	(37)	5	8	(61)
Net loss	(3,431)	(116)	(1,636)	(359)	(536)
Basic loss per share (in NIS)	(72.3)	(2.5)	(34.5)	(7.6)	(11.3)

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#### 1.1.1 Koor's share in the operating results of investees, net

	Koor's share in the profit for the first nine months of			Koor's share in the profit for the third quarter of			Year
	2011	2010	Change	2011	2010	Change	2010
	N I S m i l l i o n s						
Makhteshim Agan	208	47	343%	10	(100)	n/a	(225)
452 Fifth Owners LLC ("452 Owners")	57	39	46%	(14)	2	n/a	41
ECTel Ltd. ("ECTel")	-	(5)	n/a	-	-	n/a	(5)
Koor Corporate Venture Capital	12	(2)	n/a	6	-	n/a	(3)
Microwave Networks Inc ("MNI")	(3)	(4)	n/a	1	-	n/a	(5)
Epsilon Investments Ltd. "Epsilon")	2	4	(50%)	(2)	2	n/a	9
Other companies	3	(4)	n/a	5	(2)	n/a	(3)
Less surplus costs and other adjustments	(44)	(47)	n/a	(14)	(17)	n/a	(63)
<b>Total</b>	<b>235</b>	<b>28</b>	<b>739%</b>	<b>(8)</b>	<b>(115)</b>	<b>n/a</b>	<b>(254)</b>

#### 1.1.2 Profit (loss) from disposal of investments and from dividends, net of impairment, net

	Koor's share in the profit for the first nine months of		Koor's share in the profit for the third quarter of		Year
	2011	2010	2011	2010	2010
	N I S m i l l i o n s				
Profit (loss) from disposal of investments and from dividends, net of impairment, net	(2,930)	294	(1,297)	(2)	303

In the first nine months of 2011 this item included, in particular: impairment loss in the second quarter of 2011, which was attributed to profit or loss, in the amount of NIS 1.8 billion and as a result of the continuing decline in Credit Suisse share price in the third quarter of 2011, the Group recorded additional impairment loss in the third quarter of 2011 in the amount of NIS 0.9 billion, and recorded a loss with respect to shares sold during this quarter, as described below, in the amount of NIS 378 million (see section 1.2.2.2 below), which was offset by income from a cash distribution of Credit Suisse equity reserves in an amount of NIS 187 million, which was received in the second quarter of 2011.

In the first nine months of 2010 this item included, in particular: Gross dividend from Credit Suisse in the amount of NIS 262 million, capital gains from the sale of Credit Suisse shares in the amount of NIS 15 million, capital gains in the amount of NIS 12 million from the sale of Carrefour and profit in the amount of NIS 7 million for receipts from the Indivision Investment Fund. In the third quarter of 2011, the amount included impairment due to changes in the NIS to USD exchange rate, in the amount of NIS 2 million.

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#### 1.1.3 Administrative, financing and other expenses, net

	First nine months of		Third quarter of		Year
	2011	2010	2011	2010	2010
	N I S m i l l i o n s				
Administrative and other expenses, net	(19)	(15)	(6)	(6)	(36)
Financing expenses, net	(799)	(386)	(330)	(244)	(488)
Total administrative, financing and other expenses, net	(818)	(401)	(336)	(250)	(524)

In the first nine months of 2011 this item included, in particular: Current interest for loans and debentures in the amount of NIS 200 million (in the third quarter NIS 72 million), and finance expenses resulting from the increase in the CHF to NIS exchange rate during the first nine months of 2011, which incurred NIS expenses with respect to Koor's loans denominated in this currency (net of deposits) and for CHF/NIS collar transactions in an amount of NIS 572 million (NIS 253 million in the third quarter). Furthermore, an increase in the Israeli CPI during the first nine months of 2011 caused an increase in Koor's financial liabilities linked to the Israeli CPI in the amount of NIS 37 million (NIS 9 million in the third quarter).

In the first nine months of 2010 this item included, in particular: Current interest for loans and debentures in the amount of NIS 189 million (NIS 65 million in the third quarter). Finance expenses resulting from the increase in the CHF to NIS exchange rate during the nine months, which incurred NIS expenses with respect to Koor's loans denominated in this currency (net of deposits) and for CHF/NIS collar transactions in an amount of NIS 251 million (NIS 209 million in the third quarter). Furthermore, an increase in the Israeli CPI during the first nine months of 2011 caused an increase in Koor's financial liabilities linked to the Israeli CPI in the amount of NIS 17 million (NIS 13 million in the third quarter). The financing expenses were offset by financing income for investments in tradable shares in an amount of NIS 76 million in the first nine months of 2010 (NIS 41 million in the third quarter).

#### 1.1.4 Tax income (expenses)

	First nine months of		Third quarter of		Year
	2011	2010	2011	2010	2010
	N I S m i l l i o n s				
Tax income (expenses)	82	(37)	5	8	(61)

In the first nine months of 2011 this item included, in particular: Tax income due to moving the amount of the tax income that was recorded in the past in comprehensive income to profit or loss, simultaneous to recognizing the loss from impairment of the investment in Credit Suisse shares.

In the first nine months of 2010 this item included, in particular: Expenses from withholding tax at source in Switzerland for a dividend from Credit Suisse that was received in the second quarter of 2010.

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#### **1.1.5 Weight of the primary holdings**

The table below represents the pro rata weight of Koor's primary holdings, as of the reporting date, taking into account the rate of its holdings in them, calculated at the value of the holdings (\*):

<b>Investee</b>	<b>% of total holdings</b>
Makhteshim Agan	52%
Credit Suisse	35%
452 Owners	6%
Other holdings	7%
Total	<u>100%</u>

(\*) The value of the holdings (excluding the liquid and encumbered cash balances, or Koor's liabilities) is calculated with respect to Makhteshim Agan, at a value that reflects the consideration received in the merger transaction described in section 1 above. With respect to Credit Suisse, based on the known market value (proximate the publication date of the report) and with respect to private companies, at their book value as appearing in the financial statements (including shareholders loans), with the addition of investments made as of the date of this report, and are not necessarily represented at the financial value of these holdings. The rates represented in the table are rounded.

#### **1.2 Segments of operation**

##### **1.2.1 Company assets by segment of operation**

Koor's assets in its consolidated balance sheet as of September 30, 2011 and December 31, 2010, include the following segments of operation:

<b>Segment</b>	<b>Investments by segment</b>	
	<b>NIS millions</b>	
	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Makhteshim Agan	2,662	2,367
Credit Suisse	2,503	5,536
Telecommunications equipment	37	44
Epsilon	61	74
452 Owners	511	350
Other holdings	381	279
Adjustments (mainly Koor head office assets)	2,000	1,183
Total	<u>8,155</u>	<u>9,833</u>

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#### 1.2.2 Analysis of Koor's business results by business segment (according to Note 7 to the financial statements):

	First nine months of		Third quarter of		Year
	2011	2010	2011	2010	2010
	N I S m i l l i o n s				
Makhteshim Agan	166	-	(4)	(116)	(287)
Credit Suisse	(2,853)	241	(1,299)	6	216
Telecommunications equipment	(3)	(4)	1	-	(5)
Epsilon	(1)	3	(2)	1	8
452 Owners	57	39	(14)	2	41
Other holdings	22	14	15	1	23
Adjustments (particularly financing and administrative)	(819)	(409)	(333)	(254)	(532)
Total	(3,431)	(116)	(1,636)	(359)	(536)

#### 1.2.2.1 Makhteshim Agan

	First nine months of		Third quarter of		Year
	2011	2010	2011	2010	2010
	N I S m i l l i o n s				
Contribution of business segment	166	-	(4)	(116)	(287)

The main change in the segment's financial results in the first nine months of 2011 compared with the first nine months of 2010 is due to the business results of Makhteshim Agan. Furthermore, in the first quarter of 2011, expenses in the amount of NIS 31 million were recorded in Koor's books for transactions carried out by Makhteshim Agan with non-controlling interests in a company it controls, as set out in Note 4[A](4) to the financial statements.

Makhteshim Agan (as of September 30, 2011 and at the reporting date, holdings of 47% and 40% of voting rights, respectively), reported the following business results:

	First nine months of			Third quarter		Year	
	2011	2010	Increase (decrease)	2011	2010	Increase (decrease)	
	Million USD		%	Million USD		%	
Revenue	2,142	1,857	15.3%	638	533	19.7%	2,362
Gross profit	692	543	27.4%	198	135	46.7%	649
Operating profit	249	146	70.5%	50	(5)	n/a	6
Financing expenses, net	81	95	(14.7%)	33	36	(8.3%)	122
Net profit (loss) attributed to shareholders	147	27	444.4%	10	(56)	n/a	(132)
EBITDA	346	227	52.4%	83	24	245.8%	142

In the third quarter of 2011 Makhteshim Agan presented an increase in its sales and improvement in gross margin and operating margin compared with the corresponding quarter of the previous year. These improvements are due to an increase in the sales volume and the improvement in Makhteshim Agan's product mix, the outcome of the steps taken by Makhteshim Agan during 2010

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and the reporting period, and the following trends in the crop protection products market and in Makhteshim Agan's operations.

- A. The rise in prices of agricultural produce compared with the corresponding quarter last year, as well as good climatic conditions, contributed to increased profits for farmers and an increase in the demand for crop protection products, leading to an increase in sales volume in the industry, including of Makhteshim Agan's products. During the reporting period there was a moderate upward trend of prices in the industry, allowing Makhteshim Agan to also raise its prices selectively and moderately.
- B. In the third quarter of 2011 and as a result of the changes instituted by Makhteshim Agan, the significant improvement in the results of the operations of the subsidiary in Brazil continued.
- C. The strengthening of some of the currencies in which Makhteshim Agan operates, particularly the EUR and AUD against the USD contributed to the sales growth, which was partially offset by the increased costs relevant to those currencies.
- D. Raw material prices began to increase during the reporting period, which Makhteshim Agan assumes is liable to continue.

#### **1.2.2.2 Credit Suisse**

	<b>First nine months of</b>		<b>Third quarter of</b>		<b>Year</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>N I S     m i l l i o n s</b>				
Contribution of business segment	(2,853)	241	(1,299)	6	216

As of September 30, 2011 Koor held 25.7 million Credit Suisse shares, constituting 2.14% of Credit Suisse's listed shares, which were presented in the financial statements at their fair value as of the same date, in the amount of NIS 2.50 billion.

Koor recorded an impairment loss in the second quarter of 2011, which was attributed to profit or loss, in the amount of NIS 1.8 billion and as a result of the continuing decline in Credit Suisse share price in the third quarter of 2011, the Group recorded additional impairment loss in the third quarter of 2011 in the amount of NIS 0.9 billion, and recorded a loss with respect to shares sold during this quarter, as described below, in the amount of NIS 378 million. It is noted that subsequent to the response of the Securities Authority to the Company's preliminary query, the Company is examining the option of early adoption of IFRS 9 (2009) as of the first quarter of 2012. If the Company resolves as aforesaid, the Company might choose, pursuant to the provisions of the Standard, the alternative of presenting the changes in the fair value of the investment in Credit Suisse as part of other comprehensive income so that the negative difference, net of tax, as of September 30, 2011 between the cost of Credit Suisse shares and their market value, which refers to the balance of Credit Suisse shares held by the Company on January 1, 2012, will be attributed to equity for financial assets through other comprehensive income and accordingly, the portion of the loss due to impairment that is recorded in profit or loss in the second and third quarters of 2011 will be canceled. Based on the remaining shares held by Koor at the reporting date, the recognition of the loss due to impairment that was recorded in the second and third quarters of 2011 in the amount of NIS 2.1 billion will be canceled (loss of NIS 1.2 billion and NIS 0.9 billion, respectively). As a result, and if the Company will act in the aforesaid manner, the comparative figures for 2011 in the Company's statements of income will not express recognition of the loss due to impairment with regard to the remaining Credit Suisse shares that will be held by the Company on January 1, 2012 and the Company's surplus balance will also reflect this amendment.

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Nonetheless, it is hereby emphasized that if the Company does choose to adopt early application of the provisions of the Standard without designating fair value through other comprehensive income, the Company will present the change in fair value of the investment in Credit Suisse shares in profit or loss. In the event that the Company will adopt the Standard in this manner, by early adoption in the 2011 annual statement, the entire negative difference, net of tax, recorded in the second quarter of 2011, in the amount of NIS 1.8 billion will not be recognized, rather the amount of NIS 1.4 billion thereof will be attributed to surplus as at January 1, 2011 and the surplus at the beginning of 2011 will be reduced, while the balance of the negative difference in the amount of NIS 0.4 billion will be attributed to profit or loss for the first and second quarters of 2011 (profit of NIS 0.2 billion and loss of NIS 0.6 billion, respectively). No change will apply to the results of the third quarter of 2011.

In the first nine months of 2011, the Company recorded revenue for its share of cash from capital reserves in the amount of CHF 1.3 per share it received from its shares in Credit Suisse, totaling NIS 197 million, compared with income from dividends received for Credit Suisse shares in the amount of NIS 262 million in the corresponding period of the previous year.

Following the high level of volatility and the sharp decline in prices on stock markets worldwide, as well as the significant decline recorded for Credit Suisse share prices in the third quarter of 2011 Koor sold Credit Suisse shares for a total amount of NIS 1.34 billion. The proceeds from the disposal of the shares was used to reduce the loans received as part of the non-recourse credit arrangements, secured by Credit Suisse shares, that Koor has with the Morgan Stanley and Citi ("the Lending Banks") and thereby reducing the debt to collateral ratio prescribed in the credit arrangements.

The tax income generated by the Company for its investment in Credit Suisse shares during the first nine months of 2011 amounted to NIS 74 million (NIS 65 million in the second quarter of 2011), compared with tax expenses of NIS 36 million in the corresponding period in 2010 (and income of NIS 6 million in the third quarter of 2010).

In November 2011 Koor acquired additional shares in Credit Suisse at a cost of NIS 203 million so that as of reporting date Koor holds 27.8 million Credit Suisse shares, constituting 2.31% of the share equity of Credit Suisse. The negative difference between the value of the Credit Suisse shares held by Koor, at the closing price on the New York stock exchange close to the date of this report, amounting to NIS 2.43 billion, and the cost of Credit Suisse shares in the Company's books as of September 30, 2011, as aforesaid, with the addition of the cost of the shares acquired in November 2011 (total cost in books of NIS 2.71 billion) amounts to NIS 276 million.

As of the reporting date, the framework for Koor's investment in Credit Suisse shares, as approved by Koor's Board of Directors, is an overall investment of up to NIS 7 billion. By the beginning of the third quarter of 2011 the investment framework was utilized in full and as of the reporting date, subsequent to receipt of an amount of NIS 1.3 billion for the sale of Credit Suisse shares during the third quarter of 2011 and further acquisition of Credit Suisse shares in November 2011 (as aforesaid), the balance of the investment framework amounts to NIS 1.1 billion. Koor intends to continue being a material shareholder in Credit Suisse by exploiting buy and sell opportunities, while paying attention to the status of the markets and Koor's estimates from time to time.

#### **1.2.2.3 Telecommunications equipment**

	<b>First nine months of</b>		<b>Third quarter of</b>		<b>Year</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>N I S m i l l i o n s</b>				
Contribution of business segment	(3)	(4)	1	-	(5)

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The results of the segment derive from the results of the operations of MNI.

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#### 1.2.2.4 Epsilon

	First nine months of		Third quarter of		Year
	2011	2010	2011	2010	2010
	N I S m i l l i o n s				
Contribution of business segment	(1)	3	(2)	1	8

Epsilon, which was first consolidated in Koor's financial statements in Q1 2011, presented in the first nine months of 2011 operating profit of NIS 12 million (NIS 3 million in the third quarter), and net profit of NIS 3 million (loss of NIS 2 million in the third quarter). The Company's share in the profit less surplus costs amounts to a loss of NIS 1 million (loss of NIS 2 million in the third quarter). Declines and volatility in the financial markets during the second and third quarters of 2011, as described in section 2.1 below, caused inter alia, a decrease in the amount of assets managed by Epsilon and to losses in its nostro activities.

The total cost of the investment in Epsilon as of September 30, 2011 was NIS 96 million (as of September 30, 2010, NIS 72 million).

#### 1.2.2.5 452 Owners

	First nine months of		Third quarter of		Year
	2011	2010	2011	2010	2010
	N I S m i l l i o n s				
Contribution of business segment	57	39	(14)	2	41

452 Owners' acquisition of the HSBC building in New York was completed in April 2010.

In the first nine months of 2011, this item included in particular: profit from the re-evaluation of the building, less a provision for Rock Real and net of tax, in the amount of NIS 69 million, which was recorded in the second quarter of 2011, and a loss in the amount of NIS 12 million, which was recorded in the third quarter of 2011, mainly due to the difference between the fair value and the book value of the loan from the financing bank. This was due to the sale transaction of Koor's full rights in the HSBC building to Property and Building Corporation Ltd. ("Property & Building"). See section 1.3.5 below and in Note 4 (D) [3] to the financial statements.

In the first nine months of 2010, this item included in particular: profit from the re-evaluation of the building, less a provision for Rock Real and net of tax, in the amount of NIS 35 million, which was recorded in the second quarter of 2010.

#### 1.2.2.6 Other holdings

	First nine months of		Third quarter of		Year
	2011	2010	2011	2010	2010
	N I S m i l l i o n s				
Contribution of business segment	22	14	15	1	23

The main change in the segment's financial results for the first nine months of 2011 compared with the first nine months of 2010 originates from:

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Profit of NIS 12 million recorded by Koor Venture Capital in the first nine months of 2011 compared with a loss of NIS 2 million recorded by Koor Venture Capital in the first nine months of 2010.

Profit of NIS 5 million recorded from the investment in the Mustang and Indivision Funds in the first nine months of 2011, compared with a profit of NIS 6 million recorded in the corresponding period last year.

Profit of NIS 4 million from the investment in the EMCO Fund recorded by the Company in the first nine months of 2011.

Loss from the sale of Carrefour shares in the amount of NIS 4 million recorded in the first half of 2011 compared with a profit from the sale of Carrefour shares in the second quarter of 2010 in the amount of NIS 12 million.

In addition, the Company recorded in the first quarter of 2010 a loss in the amount of NIS 5 million for disposal of capital reserves from the sale of ECTel shares.

#### **1.3 Main changes in the holdings of the Company and its investees during Q3 2011**

The main changes are noted in detail in Notes 4, 5 and 6 to the financial statements of the Company, of which the following changes require special mention:

**1.3.1** In October 2011, subsequent to fulfilling the contingent conditions, the merger transaction with ChemChina was closed and Makhteshim Agan became a private company jointly owned by ChemChina (60%) and Koor (40%), and the various arrangements prescribed as part of the shareholders agreement signed between these parties, came into force.

As part of closing of the merger transaction, Koor received a total amount of USD 1.1 billion, of which USD 169 million was paid to Koor as consideration for the sale of part of its shares in Makhteshim Agan (7.02%) and a total of USD 960 million was granted to Koor as a non-recourse loan, secured by the Makhteshim Agan shares it holds (40%).

As a result of the closing of the transaction, Koor will record in the fourth quarter of 2011 net profit in the amount of NIS 638 million (based on the representative USD exchange rate on the merger closing date), of which net profit in the amount of NIS 202 million is for the sale of approximately 7% of its shares in Makhteshim Agan and a profit of NIS 436 million is due to aspects of the loan (granted under the terms of the transaction), based on the assessment of the value of the benefit with respect to these aspects of the loan, and less expenses with respect to a settlement pertaining to a legal claim against the Company and against Makhteshim Agan. For further information pertaining to the Settlement Agreement, see Note 6 [A](1) to the financial statements.

In addition, Koor will record an equity increase due to revaluation of capital reserves as of September 30, 2011 until the merger closing date and realization of the capital reserve balance due to the sold shares, so that the increase in capital reserves will amount to NIS 680 million.

For further information, see Note 4 [A](3) to the financial statements.

**1.3.2** Following the high level of volatility and the sharp decline in prices on stock markets worldwide, as well as the significant decline recorded for Credit Suisse share prices in the third quarter of 2011:

**1.3.2.1** Koor sold Credit Suisse shares for a total amount of NIS 1.34 billion as specified in section 1.2.2.2 above. The proceeds from the disposal of the shares was used to reduce the loans received as part of the non-recourse credit arrangements, secured by Credit Suisse shares, that Koor has with the

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Lending Banks and thereby reducing the debt to collateral ratio prescribed in the credit arrangements (as described in Note 5(2) to the financial statements).

On September 30, 2011 the balance of the Morgan Stanley loan and of the Citi loan amounted to CHF 315 million (approximately NIS 1.3 billion) and CHF 321 million (approximately NIS 1.33 billion), respectively. Furthermore, CHF 327 million (approximately NIS 1.35 billion) was deposited into pledged deposits with Morgan Stanley and Citi. The net balance of debt (less pledged deposits) to Morgan Stanley and to Citi totaled CHF 309 million (approximately NIS 1.28 billion). To secure the loans, all of the Credit Suisse shares, valued as of same date at CHF 617 million (NIS 2.54 billion), were pledged.

As of November 15, 2011, subsequent to the sale of shares as aforesaid, the balance of the Morgan Stanley loans and of the Citi loans amounted to CHF 342 million (approximately NIS 1.39 billion) and CHF 346 million (approximately NIS 1.41 billion), respectively and the balance of pledged deposits totaled CHF 328 million (approximately NIS 1.34 billion). The net balance of debt (less pledged deposits) to Morgan Stanley and to Citi totaled CHF 360 million (approximately NIS 1.46 billion). To secure the loans, all of the Credit Suisse shares, valued as of same date at CHF 596 million (NIS 2.42 billion), were pledged. As of the same date, the debt to collateral ratio at Morgan Stanley and Citi was 61% and 60%, respectively.

With regard to the amendment of the credit agreements with the Lending Banks see Note 5(2) to the financial statements. As of the reporting date the Company is examining the option of renewing the credit arrangements from the Lending Banks, in a smaller amount, while improving their terms.

- 1.3.2.2** In June and August 2011, the Company reached an agreement with a local bank with regard to the Company's financing arrangements with the local bank. For further information see Note 5(8) to the financial statements.

As of the date of this report the balance of the Company's liabilities to the bank for the loan amounted to NIS 0.9 billion. On November 8, 2011 Koor deposited, in USD, an amount of NIS 1 billion with the foregoing bank, which replaces all the financial covenants (other than the certain undertakings as set forth in Note 5 (8) to the financial statements) until new covenants are prescribed or the loan is repaid.

- 1.3.2.3** In August 2011 the Company's Audit Committee and Board of Directors, pursuant to section 1(2) of the Companies Regulations (Relief for Transactions with Interested Parties), 2000 ("the Relief Regulations"), approved receipt of the bridging loan in the total amount of NIS 700 million from DIC and IDB Development, pro rata to their direct holdings in the Company (NIS 578 million from DIC and NIS 122 million from IDB Development; ("the DIC Loan" and "the IDB Loan", respectively). The DIC loan and the IDB loan are at similar terms, linked to the Israeli CPI, do not bear any interest and are not secured by any collateral. The repayment date for the loans will be the earlier date between: (a) the date on which the Company receives in its bank account the loan that ChemChina will provide as part of concluding the merger transaction with Makhteshim Agan; or (b) on January 1, 2013 (but prior to repayment of the Company's debt to the bank). Any amounts that the Company will receive from the DIC and IDB loans and any amounts that the Company will pay to DIC and IDB Development for settling the linkage differentials and the loan principle will be distributed between DIC and IDB Development pro rata to their direct holdings in the Company. Koor received the DIC and IDB Development loans in full. The loan agreements were approved as required in the Relief Regulations.

In November 2011 the Company received in its bank account the money from the loan that it was awarded as part of the closing of the merger between Makhteshim Agan and ChemChina, and shortly thereafter it repaid the foregoing bridging loan.

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**1.3.2.4** During the third quarter of 2011, the Company invested an amount of USD 10 million (NIS 37 million) in the EMCO Fund. As of the date of this report the accumulated scope of Koor's investment in the EMCO Fund amounts to approximately USD 28 million and the balance of Koor's commitment to invest in the EMCO Fund is USD 97 million.

**1.3.2.5** In August 2011 and October 2011 Koor's Audit Committee and in September 2011 and October 2011 Koor's Board of Directors approved Koor's engagement in a transaction with Property & Building under which Koor will sell its entire rights (50%) in the HSBC Building, by selling Koor's entire rights in 452 Owners companies, which hold (indirectly) the full rights in the HSBC Building, for consideration totaling USD 138.1 million (subject to adjustments as specified in the agreement (USD 114 million net of the estimated tax payment), which was calculated on the basis of the value of the HSBC Building, of USD 480 million, with the addition of the estimated working capital of 452 Owners as of November 17, 2011 in the amount of USD 6.2 million, and less bank loans in the amount of USD 210 million, while an amount of USD 77.6 million of the consideration was paid for the sale of the equity rights in 452 Owners companies and the balance, of USD 60.5 million, was paid in accordance with the financing agreements. In November 2011 the general meeting of Koor and of Property & Building approved the transaction. Similarly, the bank that provided a loan to 452 Owners consented to release Koor from its guarantees and indemnification undertakings towards the lending bank. The expected closing date of the transaction is November 17, 2011.

For further information, including with respect to the impairment of the investment in 452 Owners and with respect to the profit that Koor is expected to record upon closing of the transaction, see Note 4(D)(3) to the financial statements.

#### **1.4 The financial status and sources of finance**

##### **1.4.1**

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
	<b>N I S</b>	
	<b>M i l l i o n s</b>	
Total assets in the consolidated statement of financial position	8,155	9,833
Investments in investees in the consolidated statement of financial position	3,279	2,791
Available-for-sale financial assets in the consolidated statement of financial position	115	117
Attached available-for-sale financial assets in the consolidated statement of financial position	2,503	5,536
Total equity attributed to the Company's shareholders	1,056	2,951
Surplus current asset over current liabilities (surplus current liabilities over current assets) in the statement of financial position	(3,494)	211
Koor's financial liabilities*	6,604	6,523
Surplus financial liabilities over Koor's cash, deposits, short term investments and attached deposits**	4,731	5,408

\* Does not include obligations for CHF-NIS collar transactions in the amount of NIS 185 million as of September 30, 2011.

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\*\* Does not include Credit Suisse shares which are classified as available-for-sale financial assets recorded, as at September 30, 2011, at a value of NIS 2,503 million.

On October 17, 2011 the Makhteshim Agan merger transaction was completed, under which Koor received a total amount of USD 1.1 billion (NIS 4.1 billion), approximately USD 169 million (NIS 613 million) as consideration for the sale of part of Makhteshim Agan shares held by Koor and USD 960 million (NIS 3.5 billion) as a non-recourse loan for seven years, secured by the balance of the Makhteshim Agan shares that Koor holds after closing of the transaction.

During October and November 2011 the Company repaid loans in the amount of NIS 1,215 million and took loans in the amount of NIS 200 million.

As of November 15, 2011, the value of Credit Suisse shares (at the closing price on the Swiss stock exchange) less the balance of the Morgan Stanley loan and the balance of the Citi loan, net of the deposits pledged in favor of these loans, amounts to NIS 0.96 billion.

As of November 15, 2011, Koor's cash balance including deposits, short term investments and pledged deposits amounted to NIS 4.64 billion, of which NIS 1.34 billion are encumbered deposits and NIS 3.28 billion are non-pledged available cash balances that is intended to be used by the Company to finance its current liabilities and needs, including to enable it to make use of its rights to increase the pledged deposits as collateral for loans it received from the Lending Corporations, to put up collateral with regard to CHF-NIS hedging transactions, to pay interest on financing that it received and to be used as available cash balances in an amount equivalent to the lower between 5% of the initial value of the collateral put up for Morgan Stanley and Citi, or 5% of the value of the collateral, as it may be from time to time (under the terms of the loan agreements with Morgan Stanley and Citi), and as deposit balances in the amount of NIS 1 billion (under the terms of the agreement with a local bank, until new financial covenants are prescribed or the loan is repaid). It should be noted that the Company intends to use the balance of the cash to repay significant loans it received from a local bank.

Koor's surplus financial liabilities over financial assets (while the financial assets do not include Credit Suisse shares valued (at the closing price on the Swiss stock exchange) at NIS 2.42 billion which are classified as pledged available for sale financial assets and the financial liabilities do not include the non-recourse loan in the amount of USD 960 million (secured by Makhteshim Agan shares and repayable with these shares one year after the date of receipt of the loan) and the liabilities for CHF-NIS collar transactions (as described in section 2.1.2 below in the amount of NIS 143 million) amount to NIS 0.94 billion.

As of September 30, 2011 the distributable profit balance, as defined in section 302 of the Companies Law, 1999 is a negative balance totaling NIS 3.18 billion. With respect the possible effect on this balance in the event of early adoption of IFRS 9, also see Note 5(1) to the financial statements.

#### **1.4.2**

	<b>First nine months of</b>		<b>Third quarter of</b>		<b>Year</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>N I S m i l l i o n s</b>				
Proceeds from sale of investments in Koor	1,499	300	1,348	-	305
Dividends received	213	288	4	7	292
Investment in affiliates and other Koor companies	(261)	2,378	(41)	6	2,435

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Koor's debt raising	1,215	2,539	865	656	2,552
Repayment of Koor's debt	(1,629)	(762)	(1,476)	-	(762)

With regard to the financial covenants with the main providers of loans see Notes 5(2) and 8(5) to the financial statements.

As a holdings company, the Company is examining, from the aspect of financing and liquidity issues, the value of its assets against its liabilities and its liquid resources. It is also assessing its reasonable access to such resources (including through the disposal of assets) required for its operations and the repayment of its debts.

#### **1.4.3**

As of September 30, 2011 the Company has working capital deficit, however the cash flows from ongoing operations in the nine and three month periods ended September 30, 2011 are positive. The Company's Board of Directors examined the Company's financial status and decided that there is no reasonable concern that the Company will not meet its existing and expected financial liabilities during the two year period following the publication date of the financial statements, when the time comes to meet them (with regard to examining the option of renewing the credit arrangements with Morgan Stanley and Citi (classified in our financial statements as short term loans), see Note 5(2) to the financial statements).

This conclusion is based, inter alia, on the Company's asset balance most of which is cash in the amount of NIS 4.62 billion, which includes non-pledged cash in the amount of NIS 3.28 billion (including cash received in October and November 2011 upon closing of the Makhteshim Agan merger transaction under which Koor sold 7% of its shares in Makhteshim Agan and received a loan through a Chinese bank as part of the agreement, and this after the cash was used by the Company, subsequent to the balance sheet date, to repay loans in the amount of NIS 1.2 billion); and highly tradeable shares (Credit Suisse shares) at a total market value (at the closing price on the Swiss stock exchange) as of the date of this report of NIS 2.42 billion, which is pledged against loans less deposits in the amount of NIS 1.5 billion, and on the Company's ability to refinance existing debt<sup>1</sup>.

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<sup>1</sup> This assessment is forward-looking information as defined in the Securities Law, based on the Company's management forecasts and estimates relating to Koor's ability to repay its liabilities. These assessments may not be realized or may be realized differently, including materially, to the forecast due to changes in the market condition, decline in the value of investments and changes in the anticipated cash flows to be received from investees.

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**2. Exposure to Market Risks and Means for their Management**

**2.1 Changes in the economic environment, implications of the crisis in capital markets, and market risk exposure and management**

**2.1.1 Condition of the economy and the financial markets**

Since the beginning of 2011, the uncertainty in financial markets worldwide has increased. At the beginning of the year the global economy was adversely affected by the extreme harm caused to industrial production in Japan (due to force majeure) and an increase in oil and commodities prices. The markets responded with price drops against a background of disappointing financial figures in the US, which were expressed, inter alia, by weak private consumption, negligible decline in unemployment and lowering of the US credit rating. At the same time, the internal European disputes regarding the manner of dealing with the debts of southern European countries, first with regard to Greece and later with regard to larger countries (Italy and Spain), have led to consistent declines in the capital markets in recent months, in addition to the expected slowdown of global growth, including in emerging markets in general and China in particular. The comprehensive plan announced in late October 2011 by European leaders for dealing with the debt crisis, which includes writing off of 50% of Greece's debt, increasing the European Financial Stability Facility to EUR 1 trillion and raising the capital adequacy required of European banks had a positive effect on the markets, however implementation of the measures they announced are still to be tested.

Most of the growth in the Israeli economy occurred in the first half of the year. The economy is still close to negligible unemployment, relatively high consumer confidence, and is also supported by an increase in investment (particularly in residential construction) and moderate growth in private consumption. In the third quarter, industrial export decreased by 4.3%. At the same time the stock market in Israel dropped sharply in the third quarter (and in 2011 in general ) based on the global developments, the increase in the geopolitical instability, the deterioration in political relations with Turkey, and concerns of escalation due to the possible UN recognition of a Palestinian State. The social protests that forced food companies and supermarket chains to cut prices and improve market competition also contributed to the decline in stock prices.

After interest was raised from 2% to 3.5% in the first half of 2011, the Bank of Israel again lowered the interest to 3% at the end of September due to concerns regarding a global slowdown. The Bank of Israel also lowered Israel's projected growth to 3.2% for 2012 (from 3.9%) and presented a second (pessimistic scenario) projection of more moderate growth of 2.7% should the global slowdown be more severe.

It is also noted that the social protests against the cost of housing and cost of living are expected to lead to government reforms which could affect the economy in Israel. See section 4.2 of Part A of the Report pertaining to the recommendations of the committee for socio-economic change.

The developments in the global markets, particularly in the Euro zone and in the United States, including fluctuations in securities prices and exchange rates, and the foregoing domestic developments, affect and are liable to have continuous adverse effects on the business results of the Company and its investees, their liquidity, value of equity, value of their assets and their ability to sell these assets, their business positions (including the demand for products of the Company's investees), financial covenants, credit rating, ability to pay dividends, their ability to raise financing for their ongoing operating activities and long-term operations, and their allocation of resources, as well as the availability and terms of financing from financial institutions and banks. Declines and fluctuations in the prices of the securities of the companies held by Koor (Credit Suisse), on the one hand, and Koor's increased debt, on the other, may affect Koor's financial situation and its credit

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rating as well as its compliance with the ratios set for certain financial criteria. Additionally, they may, in certain cases, lead to impairments and recorded losses due to the reduced value of the holdings.

Midroog's rating published in August 2011 and Maalot's rating published in October 2011 are based on various parameters, including the net debt to adjusted value of holdings ratio. Maalot's rating report of October 2011 states, inter alia, that based on its methodological approach, Maalot refers to and examines IDB's five headquarters companies as a single unit for estimating credit risk, and this is in accordance with the methodological approach that states that the probability of failure to repay in the long term is not materially different among the various holding companies in the structure. Furthermore, Maalot noted that an increase in leverage towards 80% or a decline in IDB Group's liquidity will lead to negative ratings given the characteristics of the current portfolio, Maalot will weigh positive rating act if IDB Group manages to lower leverage to below 65% in the long term. Impairment of assets and further increase of net financial debt incurred by Koor and/or by other companies in the IDB Group will result in a rise in this ratio. An increase in the value of assets or a decrease in the net financial debt by Koor and/or by other companies in the IDB Group will result in a decline in this ratio. The Company was informed that, as of September 30, 2011, the net debt to adjusted value of holdings ratio of IDB Group was 82% and as of November 15 this ratio was 76%. As of September 30, 2011 and November 15, 2011, the net debt to adjusted value of holdings ratio of Koor was 62% and 24%, respectively. The cost ratio decrease subsequent to the balance sheet date is primarily due to the closing of the Makhteshim Agan transaction, following which in calculating the cost ratio the non-recourse loan in the amount of USD 960 million is offset against our investment in Makhteshim Agan shares, pledged in favor of this loan, and is expressed in the inherent value of the benefit in the nature of the loan in the amount of USD 169 million.

In August 2011 Midroog placed its rating of Koor's debentures Series H, I and J, under credit watch with negative outlook.

In October 2011 Maalot lowered the rating of Koor's debentures Series H, I and J to i1A and placed the debentures under credit watch with negative outlook. In November 2011, Maalot confirmed the rating, removing it from credit watch with negative outlook and rated it with stable outlook.

As the Company was informed by Midroog, Midroog is examining lowering the rating for debentures Series G, H and I from A1 to A2 and changing the rating outlook from developing to stable. The decision on this matter is at the sole discretion of Midroog's rating committee which is expected to discuss the matter and publish its decision soon.

#### **2.1.2 Koor's market risks**

During the reporting period, no material changes occurred in the exposure of the Company to market risks and their management compared with the Company's Directors' report for 2010, dated March 17, 2011, other than the following with regard to USD exposure.

As of November 15, 2011, Koor has CHF denominated assets totaling CHF 0.9 billion (Credit Suisse shares (at the Swiss stock exchange closing price) at value of CHF 596 million and pledged cash and deposits totaling CHF 344 million) and CHF loans in the amount of CHF 688. The Company has open CHF/NIS options transactions (collar transactions) in a notional amount of CHF 438 million.

Subsequent to closing of the Makhteshim Agan merger transaction, as of November 15, 2011, Koor has USD denominated liquid assets (cash and short term deposits) of USD 848 million, and a loan in the amount of USD 960 million. Koor may, from time to time, hedge its USD exposure, based on its periodic assessments.

In addition, the dollar exchange rate changes have an effect on the profitability of investees operating or reporting in US dollars, as well as an impact on Koor's profits from the results of investees which

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hold US dollar assets, and an impact on Koor's equity due to the adjusted capital reserve resulting from the translation of the investees' financial statements in foreign currency (in particular Makhteshim Agan).

Based on the scope of operations approved by the Company's Board of Directors with respect to its CHF to NIS exchange rate exposure, from time to time and in varying scope, Koor carries out transactions to purchase CHF/NIS put options and NIS/CHF call options (together, "Collar Transactions"). At times the scope of the open Collar Transactions is higher than the scope of its net CHF exchange rate exposure, also in material amounts (at the transaction date of the foregoing difference will not exceed CHF 250 million, but it may be greater after this date due to impairment of Koor's Credit Suisse holdings). The contracts are usually for periods of up to twelve months, but can be repaid and are from time to time actually repaid before the contract expiry date. The Company consistently monitors the collar transactions and the any extraordinary developments are brought to the attention of the Company's authorized decision makers. The Company's policy and manner of applying it with regard to collar transactions is discussed by its Board of Directors and Committees as required and no less than once every quarter (during the first three quarters of 2011, the matter was discussed several times by the Board of Directors and its Committees).

On September 30, 2011, the scope of open CHF/NIS collar transactions amounted to CHF 488 million and their fair value was estimated at a liability of NIS 185 million. The highest volume of collar transactions during the first nine months of 2011 was CHF 1,100 million and during the third quarter of 2011 was CHF 700 million. As of November 15, 2011, the scope of open CHF/NIS collar transactions amounted to CHF 438 million and their fair value was estimated at a liability of NIS 143 million (an increase of 5% and 10% in the CHF to NIS exchange rate will increase the liability value of these transactions by NIS 82 million and NIS 167 million, respectively, while a decrease in the CHF to NIS exchange rate by the same percentages will reduce the liability value of these transactions by NIS 80 million and NIS 157 million, respectively). With regard to the decrease in the CHF exchange rate since the beginning of the fourth quarter of 2011, the Company generated at this stage a quarterly income for collar transactions estimated by the Company to amount to NIS 30 million. See Note 3[C](3) to the annual financial statements with respect to accounting treatment of derivatives that are not used for hedging.

In the event of the liability balances for collar transactions made with banks exceeding the credit arrangements that these same banks extended to the Company in connection with these transactions (due to the increase in the CHF exchange rate), the Company is required to deposit as pledged collateral the full amount of this difference (in the case of a decrease in the difference, the Company may reduce the deposits depending on the pledged balances). The scope of the credit arrangements available to Koor with respect to the collar transactions vary from time to time and as required, and is subject to generally accepted banking terms (including and accordingly, the right to call for immediate repayment if another debt of Koor is called for immediate repayment and in the event of Koor failing to repay, and in some cases, if Koor's credit rating falls below a preset rating (as of the reporting date, falling below a rating of A- or a lower rating, accordingly). As of September 30, 2011 and November 15, 2011, no pledged deposits were deposited with respect to collar transactions.

As a rule if the market value of a collar transaction at the maturity set for that transaction, constitutes a liability of the Company, the Company must pay this liability or, alternatively, and subject to the consent of the bank, engage with the bank on that date in another transaction for the same liability value for a further period.

Furthermore, Koor carries out from time to time, currency conversions, particularly NIS to CHF and USD to NIS (or vice versa).

*The foregoing information pertaining to the fair value at reporting date of collar transactions and the income generated for the Company from the beginning of the fourth quarter of 2011 through to*

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*the date of this report, for these transactions, includes initial estimates and partial information that Koor has to date. This information 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 CHF exchange rate. For this reason, it is possible that their impact on the Company's results for the fourth quarter of 2011 will be different, and even materially different, compared with the foregoing.*

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#### 2.1.3 Report of linkage bases

A. Koor does not manage the risks of its investees. Below are the linkage terms of monetary balances and derivative positions of Koor (together with its wholly-owned subsidiaries), as of September 30, 2011.

B. Koor's linkage balance as of September 30, 2011 (in NIS millions):

	Israeli CPI linked	USD or USD linked	Euro or Euro linked	CHF or CHF linked	Unlinked	Non- monetary item	Total
<b>Assets</b>							
Current assets	8	392	-	1,418	70	34	1,922
Investment in affiliates (including loans)	-	221	-	-	-	3,169	3,390
Other investments	-	10	-	(*) -	-	2,664	2,674
Fixed assets and real estate for investment	-	-	-	-	-	72	72
<b>Total assets</b>	<b>8</b>	<b>623</b>	<b>-</b>	<b>1,418</b>	<b>70</b>	<b>5,939</b>	<b>8,058</b>
<b>Liabilities</b>							
Current liabilities (including maturities)	(1,062)	(10)	(1)	(2,806)	(1,448)	(110)	(5,437)
Long-term liabilities	(975)	(3)	-	-	(498)	(89)	(1,565)
<b>Total liabilities</b>	<b>(2,037)</b>	<b>(13)</b>	<b>(1)</b>	<b>(2,806)</b>	<b>(1,946)</b>	<b>(199)</b>	<b>(7,002)</b>
<b>Assets less liabilities, net</b>	<b>(2,029)</b>	<b>610</b>	<b>(1)</b>	<b>(1,388)</b>	<b>(1,876)</b>	<b>5,740</b>	<b>1,056</b>

(\*) In addition to the particulars in the above table, it is noted that, based on the management's opinion, Credit Suisse shares which, as of September 30, 2011 were traded on the Swiss stock exchange at a value of NIS 2,503 million, are also exposed to changes in the CHF exchange rates and, based on the accounting standards, are classified as a non-monetary item.

C. Consolidated linkage balance at September 30, 2011 (in NIS millions):

	Israeli CPI linked	USD or USD linked	Euro or Euro linked	CHF or CHF linked	Unlinked	Non- monetary item	Total
<b>Assets</b>							
Current assets	23	403	-	1,418	78	89	2,011
Investment in affiliates (including loans)	-	221	-	-	-	3,058	3,279
Other investments	-	10	-	(*) -	3	2,665	2,678
Plant and equipment, intangible and investment real estate assets	-	-	-	-	-	187	187
<b>Total assets</b>	<b>23</b>	<b>634</b>	<b>-</b>	<b>1,418</b>	<b>81</b>	<b>5,999</b>	<b>8,155</b>
<b>Liabilities</b>							
Current liabilities (including maturities)	(1,062)	(51)	(1)	(2,806)	(1,470)	(115)	(5,505)
Long-term liabilities	(975)	(3)	-	-	(498)	(98)	(1,574)
<b>Total liabilities</b>	<b>(2,037)</b>	<b>(54)</b>	<b>(1)</b>	<b>(2,806)</b>	<b>(1,968)</b>	<b>(213)</b>	<b>(7,079)</b>
<b>Assets less liabilities, net</b>	<b>(2,014)</b>	<b>580</b>	<b>(1)</b>	<b>(1,388)</b>	<b>(1,887)</b>	<b>5,786</b>	<b>1,076</b>

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(\*) In addition to the particulars in the above table, it is noted that based on the management's opinion, Credit Suisse shares which, as of September 30, 2011, were traded on the Swiss stock exchange at a value of NIS 2,503 million, are also exposed to changes in the CHF exchange rates and, based on the accounting standards, are classified as a non-monetary item.

D. Koor's derivative positions as of September 30, 2011 (in NIS millions):

	NIS / CHF Collar			
	Par value (CHF millions)	Fair value to pay (NIS millions)	Par value (CHF millions)	Fair value to receive (NIS millions)
	Up to 1 year		More than one year	
Futures contracts - not recognized as accounting hedging transaction (1)	488	(185)	-	-

(1) These contracts consist of CHF/NIS put options and CHF/NIS call options (collar transactions), so that if the CHF exchange rate drops below the minimum exchange rate fixed in the contract, Koor will receive the difference and if the CHF exchange rate rises above the maximum exchange rate fixed in the contract, Koor will pay the difference.

	Israeli CPI / NIS			
	Par value (NIS millions)	Fair value to receive (NIS millions)	Par value (NIS millions)	Fair value to receive (NIS millions)
	Up to 1 year		More than one year	
	LONG	LONG	LONG	LONG
Futures contracts - not recognized as accounting hedging transaction (2)	400	7	-	-

(2) These contracts consist of Israeli CPI forward contracts, so that in the event that the actual Israeli CPI rises above the index level stipulated in the contract, Koor will receive the difference, and if the opposite occurs Koor will pay the difference.

E. Koor's linkage balance as of September 30, 2010 (in NIS millions):

	Israeli CPI linked	USD or USD linked	Euro or Euro linked	CHF or CHF linked	Unlinked	Non- monetary item	Total
<b>Assets</b>							
Current assets	5	207	171	10	161	285	839
Investment in affiliates (including loans)	-	193	-	-	-	2,967	3,160
Other investments	9	19	(*) -	(*) 397	-	6,150	6,575
Fixed assets and real estate for investment	-	-	-	-	-	63	63
<b>Total assets</b>	<b>14</b>	<b>419</b>	<b>171</b>	<b>407</b>	<b>161</b>	<b>9,465</b>	<b>10,637</b>
<b>Liabilities</b>							
Current liabilities (including maturities)	(8)	(11)	(1)	(125)	(16)	(128)	(289)
Long-term liabilities	(1,292)	(3)	-	(3,555)	(1,559)	(33)	(6,442)
<b>Total liabilities</b>	<b>(1,300)</b>	<b>(14)</b>	<b>(1)</b>	<b>(3,680)</b>	<b>(1,575)</b>	<b>(161)</b>	<b>(6,731)</b>
<b>Assets less liabilities, net</b>	<b>(1,286)</b>	<b>405</b>	<b>170</b>	<b>(3,273)</b>	<b>(1,414)</b>	<b>9,304</b>	<b>3,906</b>

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(\*) In addition to the particulars in the above table, it is noted that based on the management's opinion, Credit Suisse shares which, as of September 30, 2010 were traded on the Swiss stock exchange at a value of NIS 5,999 million and Sanofi shares which, as of September 30, 2010 were traded on the stock exchange in France at a value of NIS 146 million, are also exposed to changes in the CHF and in the EUR exchange rates and, based on the accounting standards, are classified as a non-monetary item.

F. Consolidated linkage balance at September 30, 2010 (in NIS millions):

	Israeli CPI linked	USD or USD linked	Euro or Euro linked	CHF or CHF linked	Unlinked	Non- monetary item	Total
<b>Assets</b>							
Current assets	5	225	171	10	161	313	885
Investment in affiliates (including loans)	-	193	-	-	-	2,948	3,141
Other investments	9	19	(*) -	(*) 397	-	6,150	6,575
Fixed assets and real estate for investment	-	-	-	-	-	99	99
<b>Total assets</b>	<b>14</b>	<b>437</b>	<b>171</b>	<b>407</b>	<b>161</b>	<b>9,510</b>	<b>10,700</b>
<b>Liabilities</b>							
Current liabilities (including maturities)	(23)	(57)	(1)	(125)	(169)	(130)	(505)
Long-term liabilities	(1,292)	(3)	-	3,555	(1,406)	(33)	(6,289)
<b>Total liabilities</b>	<b>(1,315)</b>	<b>(60)</b>	<b>(1)</b>	<b>(3,680)</b>	<b>(1,575)</b>	<b>(163)</b>	<b>(6,794)</b>
<b>Assets less liabilities, net</b>	<b>(1,301)</b>	<b>377</b>	<b>170</b>	<b>(3,273)</b>	<b>(1,414)</b>	<b>9,347</b>	<b>3,906</b>

(\*) In addition to the particulars in the above table, it is noted that based on the management's opinion, Credit Suisse shares which, as of September 30, 2010 were traded on the Swiss stock exchange at a value of NIS 5,999 million and Sanofi shares which, as of September 30, 2010 were traded on the stock exchange in France at a value of NIS 146 million, are also exposed to changes in the CHF and in the EUR exchange rates and, based on the accounting standards, are classified as a non-monetary item.

G. Koor derivative positions as of September 30, 2010 (in NIS millions):

	NIS / CHF Collar			
	Par value (CHF millions)	Fair value to pay (NIS millions)	Par value (CHF millions)	Fair value to receive (NIS millions)
	Up to 1 year		More than one year	
Futures contracts for hedging purposes - not recognized as accounting hedging transaction (1)	1,050	(121)	-	-

(1) These contracts consist of CHF/NIS put options and CHF/NIS call options (collar transactions), so that if the CHF exchange rate drops below the minimum exchange rate fixed in the contract, Koor will receive the difference and if the CHF exchange rate rises above the maximum exchange rate fixed in the contract, Koor will pay the difference.

Israeli CPI / NIS Forward			
Par value	Fair value to pay	Par value	Fair value to receive
Up to 1 year		More than one year	
LONG	LONG	LONG	LONG

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Futures contracts for hedging purposes - not recognized as accounting hedging transaction (2)

280 (1) 200 8

(2) These contracts consist of Israeli CPI forward contracts, so that in the event that the actual Israeli CPI rises above the index level stipulated in the contract, Koor will receive the difference, and if the opposite occurs Koor will pay the difference.

#### 2.1.4 Investees

No material changes occurred during the reporting period in the exposure of the Company's investee companies to exposure and management of market risk as compared with the Company's Board of Directors' report for 2010.

#### 2.1.5 Sensitivity test for sensitive financial instruments

For further information pertaining to sensitivity test tables for sensitive financial instruments included in the consolidated financial statements as of September 30, 2011, based on changes in market factors, see Appendix A below.

Breakdown of sensitivity test tables:

At September 30, 2011

	Profit (loss) from changes in parameters for which sensitivity tests were carried out						
	Fair value	I n c r e a s e			D e c r e a s e		
		Increase of 200 base points	10%	5%	Decrease of 200 base points	10%	5%
		N I S m i l l i o n s					
Sensitivity to interest rate changes	(3,315)	79	33	18	(84)	(34)	(18)
Sensitivity to changes in the nominal NIS interest rate - on CHF/NIS derivative position options	(185)	(19)	(2)	(1)	18	2	1

	Profit (loss) from changes in parameters for which sensitivity tests were carried out				
	Fair value	Increase		Decrease	
		10%	5%	10%	5%
		N I S m i l l i o n s			
Sensitivity to changes in the USD exchange rate	580	58	29	(58)	(29)
Sensitivity to changes in the stock exchange prices in Israel and abroad, of the tradable securities	2,570	257	128	(257)	(128)
Sensitivity to changes in the Israeli CPI – on derivative positions	7	8	4	(8)	(4)
Sensitivity to changes in the CHF exchange rate (excluding financial derivatives)*	(1,203)	(120)	(60)	120	60
Sensitivity to changes in the CHF	(185)	(154)	(80)	182	87

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exchange rate – on derivative positions

Sensitivity to standard deviation changes –

on derivative positions (185) (2) (1) 2 1

\* In addition to the particulars in the above table, it is noted that based on the management's opinion, Credit Suisse shares which, as of September 30, 2011 were traded on the Swiss stock exchange at a value of NIS 2,503 million, are also exposed to changes in the CHF exchange rates and, based on the accounting standards, are classified as a non-monetary item.

\*\* As of reporting date, the scope of open CHF/NIS collar transactions amounted to CHF 438 million and their fair value was estimated at a liability of NIS 143 million. An increase of 5% and 10% in the CHF to NIS exchange rate will increase the liability value of these transactions by NIS 82 million and NIS 167 million, respectively, while a decrease in the CHF to NIS exchange rate by the same percentages will reduce the liability value of these transactions by NIS 80 million and NIS 157 million, respectively.

At September 30, 2010

#### Profit (loss) from changes in parameters for which sensitivity tests were carried out

	Fair value	Increase			Decrease		
		Increase of 200 base points	10%	5%	Decrease of 200 base points	10%	5%
Sensitivity to interest rate changes	(3,043)	165	29	15	(180)	(29)	(15)
Sensitivity to changes in the nominal NIS interest rate - on CHF/NIS options derivative position	(121)	(36)	(3)	(1)	26	3	1

#### Profit (loss) from changes in parameters for which sensitivity tests were carried out

	Fair value	Increase		Decrease	
		10%	5%	10%	5%
		N I S m i l l i o n s			
Sensitivity to changes in the USD exchange rate	377	38	19	(38)	(19)
Sensitivity to changes in the EUR exchange rate(*)	171	17	9	(17)	(9)
Sensitivity to changes in the stock exchange prices in Israel and abroad, of the tradable securities	6,216	621	311	(621)	(311)
Sensitivity to changes in the Israeli CPI – on derivative positions	7	10	5	(10)	(5)
Sensitivity to changes in the CHF exchange rate (excluding financial derivatives)(*)	(3,152)	(315)	(158)	315	158
Sensitivity to changes in the CHF exchange rate – on derivative positions	(121)	(312)	(151)	324	156

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Sensitivity to standard deviation  
changes – on derivative positions (121) (3) (2) 4 2

(\*) In addition to the particulars in the above table, it is noted that based on the management's opinion, Credit Suisse shares which, as of September 30, 2010 were traded on the Swiss stock exchange at a value of NIS 5,999 million and Sanofi shares which, as of September 30, 2010 were traded on the stock exchange in France at a value of NIS 146 million, are also exposed to changes in the CHF and in the EUR exchange rates and, based on the accounting standards, are classified as a non-monetary item.

### 3. Corporate Governance

#### 3.1 Disclosure of the process for approving the financial statements

##### 3.1.1 The organs within the corporation in charge of overall control:

Company Board of Directors and Audit Committee.

##### 3.1.2 Procedures undertaken by the organs in charge of overall control in the corporation, prior to approval of the financial statements of the corporation:

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

Board members: Ami Erel (see section 3.1.3 below pertaining to his announcement of the termination of his service as a director in the Company), Nochi Dankner, Avi Fischer, Yitzhak Manor, Zvi Livnat, Haim Gavrieli, Marc Schimmel, Lior Hannes, Rafi Bisker, Gideon Lahav, Ayelet Ben-Ezer, Shlomo Reisman, Abraham Asheri and Arie Schiff.

The Company's Audit Committee also serves as the committee for examining its financial statements (in this section - "the Committee") and which, following a discussion on the financial statements, recommends approval to the Company's board of directors.

The Committee comprises five members:

Ms. Ayelet Ben-Ezer - external director and Chair of the Committee

Mr. Shlomo Reisman - external director

Mr. Gideon Lahav - director

Mr. Abraham Asheri - director

Mr. Arie Schiff - director who complies with the conditions qualifying him to be an independent director

All the Committee members, with the exclusion of Ayelet Ben-Ezer, have financial and accounting expertise. Upon their appointment, all the Committee members provided declarations, pursuant to Regulation 3 of the Companies Regulations (Conditions and Qualifications for a Director with Accounting and Financial Expertise and for a Director with Professional Qualifications), 2005, or of their ability to read and understand financial statements, respectively. For details of the qualifications, education, experience and knowhow of the Committee members, based on which the Company deems them to be qualified to read and understand financial statements, see section 3.2.1 of the 2010 Board of Directors report and section 16 of Part D to the Company's 2010 periodic report (Additional Information About the Company).

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Approval of the financial statements for the first nine months of 2011 involved three meetings: First - a Committee meeting, prior to the board meeting, for a comprehensive discussion of the material reporting issues relating to the financial statements; Second - a Committee meeting (acting as Audit Committee) to discuss the financial statements, business results and developments; and Third - the Board of Directors meeting to discuss the Committee's recommendations and the financial statements, and to approve them.

The committee meeting was held on November 13, 2011 and the following Board members were present at the meeting: Ms. Ayelet Ben-Ezer, Mr. Shlomo Reisman, Mr. Gideon Lahav, Mr. Abraham Asheri and Mr. Arie Schiff, as well as the internal auditor, Mr. Ezra Yehuda, the Company's auditor, Mr. Herve Barda of Somech Chaikin KPMG and the CEO, Mr. Raanan Cohen, CFO, Mr. Oren Hillinger, the Company's controller, Ms. Avishag Perets and the Company's legal counsel, Mr. Zvi Fischer. During the Committee meeting for discussing material issues relating to the financial statements, the Committee examined, inter alia, the assessments and estimates that were prepared for financial reporting of the first nine months of 2011, the internal audit pertaining to the financial reporting, the integrity and suitability of the disclosures in the financial statements for the first nine months of 2011, as well as the accounting principles that were adopted and the accounting treatment applied for the Company's material issues. The Committee also examined the fair value including the basic assumptions and forecasts on which the figures in the financial statements for the first nine months of 2011 are based, and the various risk control and management aspects, those reflected in the financial statements for the first nine months of 2011 (such as reporting of financial risks), and those that impact the reliability of the financial statements. These issues were presented by the Company's auditors, officers and other employees, including: The CEO, Mr. Raanan Cohen, the CFO, Mr. Oren Hillinger, the controller, Ms. Avishag Perets and the legal counsel, Mr. Zvi Fischer. The Committee's recommendations concerning each of the specified issues were sent in writing to the board members on November 13, 2011.

In addition, another meeting convened on the same day (acting as the Audit Committee) at which the Committee discussed the Company's financial results and its business developments.

At the Board meeting convened on November 16, 2011, the Board of Directors discussed the Committee's recommendations and approved the Company's financial statements as at September 30, 2011. The Board of Directors believes that, with regard to the scope of the Committee's recommendations and their complexity, the Committee's recommendations were sent to the board members within reasonable time prior to the said Board of Directors meeting. The time span that the Board of Directors set as reasonable in this matter is two business days. The following directors participated at the board meeting: Ami Erel (Chair), Nochi Dankner, Yitzhak Manor, Avi Fischer, Lior Hannes, Rafi Bisker, Haim Gavrieli, Ayelet Ben-Ezer, Shlomo Reisman, Gideon Lahav, Abraham Asheri and Arie Schiff.

- 3.1.3** On November 16, 2011 Mr. Ami Erel announced the termination of his service as a director and as the Chairman of the Company's Board of Directors, as of the date of approval of Mr. Lior Hannes as his replacement, by the Company's general meeting.

Further to this announcement, the Company's Board of Directors resolved to recommend to the Company's shareholders the appointment of Mr. Lior Hannes as Chairman of the Company's Board of Directors and to convene a general meeting of the shareholders with the appointment of Mr. Hannes as Chairman of the Board of Directors on the agenda.

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- 3.1.4** In view of the ratification of Amendment 16 of the Companies Law, the Company is examining renewing the existing contract with DIC with regarding to providing the Company administrative services.
- 3.1.5** On October 9, 2011 the Company's Audit Committee adopted a procedure (as updated on November 13, 2011) aimed at setting criteria and guidelines for classifying transactions with controlling shareholders or officers or in which a controlling shareholder or officer has a personal interest ("Transaction with Interested Party" or "Transaction") as extraordinary or non-extraordinary transactions and for classifying the activities noted in section 254 (A) of the Companies Law 1999 ("Companies Law"), as material or non-material activities. Such classification will be used for the special approval procedures which may be required for transactions or operations and with regard to requirements for reporting such transactions and operations.

Main points of the procedure:

Pursuant to the procedure, a transaction will be classified as a non-extraordinary transaction if it complies with the following conditions: (1) the transaction is in the Company's regular course of business; (2) the transaction is at market terms; (3) the transaction is not material, i.e. is not likely to have a material effect on the Company's profitability, its assets or liabilities.

1. The regular course of the Company's of business

A transaction will be deemed to be a transaction carried out as part of the Company's regular course of business if it is actually carried out as part of the Company's routine business and it is not an unusual transaction for the Company's operations.

In the absence of special considerations, it is presumed that a transaction with similar characteristics as the types of transactions that the Company engaged in in the past as part of the regular course of its business as a holdings company and/or that is usual in a holdings company, if the transaction is part of the Company's core business, or if it is connected to the Company's business operations or serves them, also if it is not part of the Company's core business (for example: a transaction for the rental of offices that will serve as the Company's head office), is a transaction engaged in the regular course of the Company's business.

In accordance with the foregoing, below is an incomplete list of the types of transactions that may be deemed as transactions engaged in the regular course of business: transactions for the acquisition of a property, company or other investment transactions, financing transactions and loan transactions or transactions, management agreements and transactions for the disposal of investments or assets (which are similar in nature to acquisition, investment or sale transactions) that are of the type of transactions that the Company usually engages in or engaged in in the past as part of its areas of operation or related to its areas of operations; agreements relating to the service and/or employment of officers and employees in the Company which are the type of agreements generally accepted in the Company or that are similar in nature to previous agreements of the Company; transactions of the types of transactions specified in the Company's procedures for classifying transactions as negligible, as set forth in Note 29 (C) (1) to the financial statements of the Company as of December 31, 2011.

In the absence of special considerations, it is presumed that a transaction that changes the nature of the Company's operations is a transaction that is not part of the Company's regular course of business.

2. Market Terms

A transaction with an Interested Party will be deemed to be in accordance with market terms if the price and other main and material terms reflect the price and main terms of similar transactions between the Company and an unrelated third party or other related parties. The existence of market terms in the transaction of an Interested Party can be established if there are transactions in the

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market similar to the transaction under examination or if there is evidence external to the transaction which can show generally accepted price and other main terms of this type of transaction. Without derogating from the foregoing generality, the existence of market terms can be established, inter alia, in one or more of the following manners: (1) on the basis of the terms of transactions similar in nature to the transaction under examination, in which the company has engaged or is engaging with unrelated parties; (2) on the basis of the terms of price proposals for transactions similar in nature to the transaction under examination actually received from other unrelated parties and under which the Company would willingly engage in the transactions; (3) on the basis of the terms of transactions similar in nature to the transaction under examination, under which two parties unrelated to one another are engaged; (4) if the terms of the transaction between the Company and a controlling shareholder or officer were fixed prior to the party becoming a controlling shareholder or officer in the Company and therefore was an unrelated party, so that there are no concerns of bias in the terms of the transaction; (5) it is possible to rely on the opinion of an assessor or economist or other relevant expert for the purpose of basing a market term if it is based on examination of the terms of transactions similar to the transaction under examination. Nonetheless, usually a financial assessment based on subjective indices (such as cash flow or capitalization rate projections, etc.) will not be sufficient, nor will external evidence regarding the terms of similar transactions; (6) if market terms cannot be examined according to the foregoing tests, on the basis of the terms of transactions, similar in nature to the transaction under examination, in which the second party to the transaction engaged or accepted an offer to engage (or was prepared to engage in, even if they did not actually engage in it) with unrelated parties, and this subject to written confirmation received from the second party in this matter.

An interested party transaction that offers the Company terms that are better than the market terms will not be deemed (from the Company's point of view) as a transaction that is not under market terms.

When there is no external evidence from which the price and generally accepted terms of a transaction of the same type can be obtained the transaction will not be deemed as a transaction engaged in under market terms. Furthermore, if, on the basis of the terms of similar transactions or price proposals as aforesaid, there is a substantial broad range of prices and terms or a substantially extreme difference in the price and terms, these terms alone cannot be relied on for regarding the transactions as a transaction at market terms.

3. A transaction that is liable to materially affect the Company's profitability, its assets or liabilities (a "Material Transaction")

The materiality of an interested party transaction will be examined by quantitative examination and by qualitative examination, as set forth below:

**Quantitative examination** - In the absence of specific qualitative considerations arising from the circumstances of the matter, an interested party transaction will be deemed a non-material transaction if the relevant criteria calculated for the transaction are not greater than 5% and it will be deemed a material transaction if one or more of the relevant criteria are greater than 5% ("Presumption of Materiality"). For each interested party transaction under examination of materiality, one or more of the relevant criteria for the transaction will be calculated while the audited consolidated financial statements or the reviews of the Company and the data they contain will be taken into account and based on.

Separate interested party transactions that are dependent upon one another so that in practice they form part of the same engagement will be examined as a single transaction for the purpose of examining the materiality component (for example centralized negotiations with regard to a series of transactions). The materiality of transactions that are carried out frequently, are permanent or are

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repeated throughout the period (such as frequent and repeated orders, even if they are independent of one another) will be examined according to the annual scope of the transactions.

The scope of the transaction in multi-annual transactions will be calculated on an annual basis for the purpose of the materiality examination. Thus, for example, for the scope of an insurance transaction covering several years the annual premiums paid for the insurance will be calculated.

**Qualitative examination** - The examination of qualitative considerations may lead to deviation of the presumption of materiality with regard to a transaction being material or non-material.

4. Criteria for classifying actions as material or non-material with regard to approvals under section 255 of the Companies Law:

An action by an officer will be classified as material or non-material according to the materiality component tests for examining the classification of a transaction as extraordinary or not extraordinary (see above), with required changes.

5. General guidelines

Transactions of a subsidiary that is a private company will also be examined for classification by the Company, in accordance with the provisions of the law. An interested party transaction of a subsidiary that is a private company controlled by the Company that is classified by the subsidiary as not extraordinary and that also complies with the Company's classification examination in accordance with the provisions of the law will be deemed as a transaction that is non extraordinary for the Company. Such an interested party transaction that is classified as extraordinary by the subsidiary will be examined for the Company according to the relevant criteria and standards based on this procedure.

The Company's management will bring the classification examination of a certain transaction or action to the Audit Committee if a question of interpretation arises with regard to the classification of the transaction or action based on the criteria of the foregoing procedure.

The Company's internal auditor will annually review the manner in which the provisions of the procedure are implemented by the Company and will report to the Audit Committee regarding this review.

The need to update the procedure will be examined by the Audit Committee from time to time, taking note of the nature of the Company's operations, transactions classified in accordance with this procedure in the past year, relevant changes in the provisions of the law and regulatory guidelines, and other circumstances that may affect the compatibility of the procedure with the Company, and in accordance with the provisions of the law it will be brought for approval of the Audit Committee at least once a year.

#### **4. Disclosure provisions in respect of the Company's financial reporting**

##### **4.1 Critical accounting estimates**

As of the reporting date no material changes occurred during the first nine months of 2011 with regard to critical accounting estimates that the Company uses for its annual financial statements.

##### **4.2 Main events subsequent to the balance sheet date**

For information pertaining to primary events subsequent to the balance sheet date see Note 9 to the financial statements.

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With regard to a buyback plan of the Company's debentures that was approved by the Board of Directors on November 16, 2011, see Note 9(4) to the financial statements.

Further to earlier reports, as of the reporting date structural changes in the IDB Group are still being examined, including the option of a merger between Koor, DIC, IDB Development and IDB Holdings Corporation. As at reporting date no concrete decisions have yet been made and it is not certain that any of the foregoing structural changes will be carried out, if at all. On November 16, 2011 Koor established a team to examine and promote merger options of Koor and DIC and other options.

Raanan Cohen

CEO

Ami Erel

Chairman of the Board

Tel Aviv, November 16, 2011

#### **Appendix A - Sensitivity analysis of sensitive financial instruments**

Hereunder are tables demonstrating sensitivity tests of the market value of financial instruments. The following tables should be considered in light of the following remarks:

1. The recorded instruments are not necessarily represented in the financial statements according to fair value. The foregoing refers mainly to liabilities.
2. The changes in fair value of instruments which are represented according to fair value impact the Company's reported results and its equity, due to recording of capital reserves for available for sale financial instruments.
3. Changes in currency exchange rates impact the Company's reported results and its equity due to assigning of the conversion differentials derived from the translation of financial statements of investees prepared in foreign currencies.

#### **Sensitivity test tables for sensitive financial instruments included in the consolidated financial statements to September 30, 2011, based on changes in market factors**

##### **Sensitivity analysis to changes in interest rates**

Section	Profit (loss) from changes in NIS interest rate						
	Fair value	Increase			Decrease		
		Increase of 200 base points (*)	10%	5%	Decrease of 200 base points (*)	10%	5%
N I S m i l l i o n s							
Short term deposits and investments	3	-	-	-	-	-	-
Other investments	18	(1)	(1)	-	1	1	-
Current maturities of debentures	(382)	16	7	4	(17)	(7)	(4)
Debentures	(1,392)	60	26	13	(64)	(27)	(13)

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Loans from controlling shareholders	(696)	1	-	-	(1)	-	-
Borrowings from banks	(866)	3	1	1	(3)	(1)	(1)
	<u>(3,315)</u>	<u>79</u>	<u>33</u>	<u>18</u>	<u>(84)</u>	<u>(34)</u>	<u>(18)</u>

- (\*) The Company has chosen to present the change in the interest rate, which will be used to carry out stress tests for financial instruments sensitive to changes in the interest rate, to the amount of 200 basis points (2%). This after having checked and not found any higher absolute daily change in the interest rate in the ten years preceding the date of the report, and after estimating that a change of 200 base points could occur under in an extreme but plausible scenario.

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

Section	Fair value	Profit (loss) from changes in US dollar exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
		N I S m i l l i o n s			
Cash and cash equivalents	379	38	19	(38)	(19)
Short term deposits and investments	5	-	-	-	-
Trade and accounts receivable and debit balances	20	2	1	(2)	(1)
Other investments	230	23	11	(23)	(11)
Bank loans and overdraft	(29)	(3)	(1)	3	1
Trade and other accounts payable and credit balances	(22)	(2)	(1)	2	1
Other long-term liabilities	(3)	-	-	-	-
	580	58	29	(58)	(29)

**Sensitivity test on changes in the Stock Exchange prices in Israel and abroad, of the negotiable securities**

Section	Fair value	Profit (loss) from changes in prices of negotiable securities			
		Increase		Decrease	
		10%	5%	10%	5%
		N I S m i l l i o n s			
Short term deposits and investments	62	6	3	(6)	(3)
Other investments	5	1	-	(1)	-
Available-for-sale attached financial assets	2,503	250	125	(250)	(125)
	2,570	257	128	(257)	(128)

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

Forward index	Fair value	Profit (loss) from changes in the Israeli CPI			
		Increase		Decrease	
		2%	1%	2%	1%
		N I S m i l l i o n s			
Not recognized as accounting hedging	7	8	4	(8)	(4)

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**Sensitivity analysis of changes in the CHF exchange rate (not including financial derivatives)**

Section	Fair value	Profit (loss) from changes in Swiss franc exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
		N I S m i l l i o n s			
Cash and cash equivalents	71	7	4	(7)	(4)
Pledged deposits	1,347	135	67	(135)	(67)
Trade and other accounts payable and credit balances	(3)	-	-	-	-
Borrowings from banks	(2,618)	(262)	(131)	262	131
	(1,203)	(120)	(60)	120	60

In addition to the particulars in the above table, it is noted that based on the management's opinion, Credit Suisse shares which, as at September 30, 2011, were traded on the Swiss stock exchange at a value of NIS 2,503 million, are also exposed to changes in the CHF exchange rates and, based on the accounting standards, are classified as a non-monetary item.

**Sensitivity analysis of changes in the CHF exchange rate – on derivative positions**

Not recognized as accounting hedging Section	Fair value	Profit (loss) from changes in Swiss franc exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
		N I S m i l l i o n s			
Acquisition of CHF/NIS put option	29	(22)	(14)	69	26
Sale of CHF/NIS call option	(214)	(132)	(66)	113	61
	(185)	(154)	(80)	182	87

As of reporting date, the scope of open CHF/NIS collar transactions amounted to CHF 438 million and their fair value was estimated at a liability of NIS 143 million. An increase of 5% and 10% in the CHF to NIS exchange rate will increase the liability value of these transactions by NIS 82 million and NIS 167 million, respectively, while a decrease in the CHF to NIS exchange rate by the same percentages will reduce the liability value of these transactions by NIS 80 million and NIS 157 million, respectively.

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Sensitivity analysis to standard deviation changes – on derivative positions

Not recognized as accounting hedging Section	Fair value	Profit (loss) from changes in standard deviation of CHF exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Acquisition of CHF/NIS put option	29	7	4	(7)	(4)
Sale of CHF/NIS call option	(214)	(9)	(5)	9	5
	(185)	(2)	(1)	2	1

**Sensitivity analysis to nominal NIS interest rate changes – on derivative positions**

Not recognized as accounting hedging Section	Fair value	Profit (loss) from changes in nominal NIS interest rates					
		Increase			Decrease		
		Increase of 200 base points (*)	10%	5%	Decrease of 200 base points (*)	10%	5%
		N I S m i l l i o n s					
Acquisition of CHF/NIS put option	29	(4)	-	-	4	-	-
Sale of CHF/NIS call option	(214)	(15)	(2)	(1)	14	2	1
	(185)	(19)	(2)	(1)	18	2	1

(\*) The Company has chosen to present the change in the interest rate, which will be used to carry out stress tests for financial instruments sensitive to changes in the interest rate, to the amount of 200 basis points (2%). This after having checked and not found any higher absolute daily change in the interest rate in the ten years preceding the date of the report, and after estimating that a change of 200 base points could occur under in an extreme but plausible scenario.

The results of the sensitivity tests for changes in the CHF interest rates on an acquisition of CHF/NIS put option type of derivative position and a sale of CHF/NIS call option type of derivative position is below NIS 1 million and therefore is not presented.

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**Sensitivity test tables for sensitive financial instruments included in the consolidated financial statements to September 30, 2010, based on changes in market factors**

**Sensitivity analysis to changes in interest rates**

Section	Fair value	Profit (loss) from changes in NIS interest rate					
		Increase			Decrease		
		Increase of 200 base points (*)	10%	5%	Decrease of 200 base points (*)	10%	5%
Short term deposits and investments	14	(1)	(*) -	(*) -	1	(*) -	(*) -
Current maturities of debentures	(159)	7	2	1	(7)	(2)	(1)
Debentures	(1,987)	118	20	10	(130)	(20)	(10)
Bank loans							
Sensitivity to changes in interest rates	(911)	41	7	4	(44)	(7)	(4)
	(3,043)	165	29	15	(180)	(29)	(15)

(\*) The Company has chosen to present the change in the interest rate, which will be used to carry out stress tests for financial instruments sensitive to changes in the interest rate, to the amount of 200 basis points (2%). This after having checked and not found any higher absolute daily change in the interest rate in the ten years preceding the date of the report, and after estimating that a change of 200 base points could occur under in an extreme but plausible scenario.

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

Section	Fair value	Profit (loss) from changes in US dollar exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
Cash and cash equivalents	203	20	10	(20)	(10)
Short term deposits and investments	5	1	-	(1)	-
Trade and accounts receivable and debit balances	17	2	1	(2)	(1)
Other investments	212	21	11	(21)	(11)
Bank and other borrowings	(29)	(3)	(2)	3	2
Trade and other accounts payable and credit balances	(28)	(3)	(1)	3	1
Other long-term liabilities	(3)	-	-	-	-
	377	38	19	(38)	(19)

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#### Sensitivity analysis on changes in the exchange rate of the Euro

Section	Fair value	Profit (Loss) from Changes in the euro exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
		N I S m i l l i o n s			
Cash and cash equivalents	171	17	9	(17)	(9)

In addition to the figures in the above table, it is noted that, with respect to the investment in Sanofi shares the fair value of which as of September 30, 2010 was NIS 146 million, these shares are traded on the stock exchange in France and their value in NIS was affected by the changes in the Euro to NIS exchange rate.

#### **Sensitivity test on changes in the Stock Exchange prices in Israel and abroad, of the negotiable securities**

Section	Fair value	Profit (loss) from changes in prices of negotiable securities			
		Increase		Decrease	
		10%	5%	10%	5%
		N I S m i l l i o n s			
Short term deposits and investments	213	21	11	(21)	(11)
Other investments	4	-	-	-	-
Available-for-sale attached financial assets	5,999	600	300	(600)	(300)
	6,216	621	311	(621)	(311)

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

Forward index	Fair value	Profit (loss) from changes in the Israeli CPI			
		Increase		Decrease	
		2%	1%	2%	1%
		N I S m i l l i o n s			
Not recognized as accounting hedging	7	10	5	(10)	(5)

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#### Sensitivity analysis of changes in the CHF exchange rate (not including financial derivatives)

Section	Fair value	Profit (loss) from changes in Swiss franc exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
		N I S m i l l i o n s			
Cash and cash equivalents	10	1	-	(1)	-
Other investments and attached deposits	397	40	20	(40)	(20)
Trade and other accounts payable and credit balances	(4)	-	-	-	-
Long term liabilities to banking institutions	(3,555)	(356)	(178)	356	178
	(3,152)	(315)	(158)	315	158

In addition to the figures in the above table, it is noted that based on the management's opinion, Credit Suisse shares which, as at September 30, 2010, were traded on the Swiss stock exchange at a value of NIS 5,999 million, are also exposed to changes in the CHF exchange rates and, based on the accounting standards, are classified as a non-monetary item.

#### Sensitivity analysis of changes in the CHF exchange rate – on derivative positions

Not recognized as accounting hedging Section	Fair value	Profit (loss) from changes in Swiss franc exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
		N I S m i l l i o n s			
Acquisition of CHF/NIS put option	66	(53)	(36)	192	72
Sale of CHF/NIS call option	(187)	(259)	(121)	132	84
	(121)	(312)	(157)	324	156

#### Sensitivity analysis to standard deviation changes – on derivative positions

Not recognized as accounting hedging Section	Fair value	Profit (loss) from changes in standard deviation of CHF exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
		N I S m i l l i o n s			
Acquisition of CHF/NIS put option	66	11	5	(10)	(5)
Sale of CHF/NIS call option	(187)	(14)	(7)	14	7
	(121)	(3)	(2)	4	2

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**Sensitivity analysis to nominal shekel interest changes – on derivative positions**

Not recognized as accounting hedging Section	Fair value	Profit (loss) from changes in nominal NIS interest rates					
		Increase			Decrease		
		Increase of 200 base points (*)	10%	5%	Decrease of 200 base points (*)	10%	5%
		N I S m i l l i o n s					
Acquisition of CHF/NIS put option	66	(12)	(1)	-	10	1	-
Sale of CHF/NIS call option	(187)	(24)	(2)	(1)	16	2	1
	(121)	(36)	(3)	(1)	26	3	1

(\*) The Company has chosen to present the change in the interest rate, which will be used to carry out stress tests for financial instruments sensitive to changes in the interest rate, to the amount of 200 basis points (2%). This after having checked and not found any higher absolute daily change in the interest rate in the ten years preceding the date of the report, and after estimating that a change of 200 base points could occur under in an extreme but plausible scenario.

The results of the sensitivity tests for changes in the CHF interest rates on an acquisition of CHF/NIS put option type of derivative position and a sale of CHF/NIS call option type of derivative position is below NIS 1 million and therefore is not presented.

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**Appendix B – Very Material Valuations**

The Company attached to these statements very material valuations (see Part F of this report).

Particulars relating to the evaluations:

**A. Evaluation of CHF/NIS collar transactions as of September 30, 2011**

1. Evaluation subject - CHF/NIS collar transactions as of September 30, 2011.
2. Date of evaluation - September 30, 2011.
3. The value of the evaluation subject in the Company's books prior to evaluation - liability of NIS 185 million.
4. The value of the evaluation subject as determined by the evaluation - liability of NIS 185 million.
5. Identity and details of the Appraiser - Financial Immunities Ltd., a private company managed by Dr. Adam Reuter, an expert with many years of experience in the area of derivatives.

The Appraiser is not dependent upon the companies requesting the evaluation.

The agreement with the Appraiser includes an undertaking to indemnify the Appraiser if in any legal proceedings or other proceedings it is required to pay any amount to a third party with regard to the provision of this service, excluding if with respect to the opinion the Appraiser acted with malice or gross negligence.

6. The evaluation model used by the Appraiser - Garman Kohlhagen formula which is a development of the Black & Scholes formula for foreign currency options.
7. The assumptions on which the evaluation was based:
  - a. CHF exchange rate - 4.1244
  - b. Standard deviation - 17.04% - 19.55%
  - c. NIS interest - 1.78% - 1.94%
  - d. CHF interest - 0.03% - 0.07%

For further information pertaining to a prior valuation that was attached with regard to CHF/NIS collar transactions see Appendix B to the Board of Directors report of June 30, 2011.

**B. The financial valuation of the benefit for the nature of the non-recourse loan from ChemChina**

1. Evaluation subject - financial value of Koor's benefit due to the nature of the loan from ChemChina.
2. Date of evaluation - October 17, 2011.
3. The value of the evaluation subject as determined by the evaluation - an asset of USD 157 - 181 million, and average of USD 169 million.
4. Identity and details of Appraiser - Uri Cohen of Itzhak Swary Ltd., an appraiser with much experience in financial consultation and evaluations, including for companies in the agrochemical industry. The Appraiser is not dependent upon the companies requesting the evaluation. The agreement with the Appraiser includes an undertaking to indemnify the Appraiser if in any legal proceedings or other proceedings it is required to pay any amount to a third party with regard to the provision of this service, excluding if with respect to the opinion the Appraiser acted with malice.

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5. The evaluation model used by the Appraiser - binomial model for pricing options which was derived from the Black & Scholes formula taking into account estimates and parameters based on data found in the market at the time of the evaluation.
6. The assumptions on which the evaluation was based:
  - a. The base price of the asset on the evaluation date - USD 960 million.
  - b. Exercise price of the option - the loan principal with the addition of estimated interest accrued according to the terms of the loan and the base interest rate at any point of decision to exercise the option.
  - c. Standard deviation of the basic asset - 40% in annual terms for a period of 5-7 years.
  - d. Exercise period - 7 years.
  - e. Risk-free interest rate - 1.7%.
  - f. Dividend proceeds - 40% of the projected net profit.
  - g. Effect of non tradability- decrease of 30% - 40% of the value of the option.

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### Appendix C – Special disclosures for holders of debentures

Breakdown of data relating to debentures as of September 30, 2011 (in NIS millions):

Series	Original date of issue	Par value At date of issue (millions)	Par value balance outstanding (millions)	Par value balance outstanding, at linkage terms (millions)	Accrued interest in books	Value of debenture balance as of June 30, 2011 in books	Market value	Interest rates (fixed)	Principal repayment date(2)		Interest payment date	Linkage terms	Trust company Name of contact Address and Tel:
									From	to			
H <sup>(4)</sup>	20.8.06	1,194.6	1,194.6	1,376.1	5.8	1,384.2 <sup>(6)</sup>	1,294.9	5.10%	Sept 1, 12	Sept 1, 16	Sept 1 <sup>(2)</sup>	Consumer Price Index	Reznick Paz, Nevo Trusts Ltd. 14 Yad Harutzim St. Tel Aviv Tel: 03 .-6389200 Liat Bachar-Segal
I <sup>(5)</sup>	9.8.09	765.5	612.4	612.4	1.8	603.1	579.6	6.7%	Mar 11, 15	Mar 15, 15	Mar 15 and Sept 15 <sup>(3)</sup>	Unlinked	Hermetic Trust Services (1975) Ltd. 113 Hayarkon Street, Tel Aviv, Israel; Tel: 03 .-5274867 Meirav Ofer Oren
J	9.9.09	58.1	58.1	58.1	0.2	57.8	54.1	7.2%	Sept 16, 12	Sept 16, 17	Mar 16 and Sept 16 <sup>(3)</sup>	Unlinked	Hermetic Trust Services (1975) Ltd. 113 Hayarkon Street, Tel Aviv, Israel; Tel: 03 .-5274867 Meirav Ofer Oren

#### Comments:

- (1) The Company is in compliance with all the debenture terms. The Company also complied with all the terms of its obligations under the Deed of Trust.
- (2) Annual payments.
- (3) Semi-annual payments.
- (4) Material series: The series was expanded on May 10, 2007. The figures in the table refer to all the series.
- (5) Material series: The series was expanded on September 10, 2009. The figures in the table refer to all the series. In March 2011, the Company paid the first principal installment in the amount of NIS 153 million.
- (6) The consolidated statements represent the debenture (Series H) balance as at September 30, 2011 less the debentures acquired by a wholly owned subsidiary and is NIS 1,217 million.
- (7) In accordance with the provisions of the Deeds of Trust for the Company's debentures, circumstances under which Koor will cease or will give notice of its intention to cease paying its liabilities may be grounds for calling the debentures for immediate redemption, subject to the terms and procedures prescribed in these deeds. For further information pertaining to additional grounds for calling for immediate redemption of the debentures, see the Company's prospectus dated May 30, 2010 and Deeds of Trust for the debentures of the series mentioned therein.

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### Information relating to the rating of the debentures:

Series	Name of rating company	Current rating	Rating fixed at the issue date
H	Maalot	ilA-/ Stable	A+
H	Midroog	A1/CW Negative	-
I	Maalot	ilA-/ Stable	A+/Stable
I	Midroog	A1/CW Negative	A1
J	Maalot	ilA-/ Stable	A+/Stable
J	Midroog	A1/CW Negative	A1

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

In July 2009 Maalot announced awarding of a rating of ilA+/stable for Koor's Debentures (Series H)

In August 2009 Midroog announced awarding a rating of A1 for the Company's debentures.

In September 2009 Maalot and Midroog announced the applicability of ilA+/stable and A1 rating respectively, on the expansion of Debentures (Series I) and on the issue of new Debentures (Series J).

In July 2010 Midroog announced placing of Koor's Debentures (Series H – J) on its Watch List.

In September 2010 Midroog announced that it was removing Koor's debentures from the Watch List, while granting a rating of A1 with stable outlook.

In January 2011, Maalot announced its affirmation of the +ilA rating for Koor's Debentures (Series H-J) while changing the rating outlook to Negative.

In January 2011, Midroog announced its affirmation of its A1 rating for Koor's Debentures (Series H-J) while changing the rating outlook to Developing.

In August 2011 Midroog announced placing of Koor's Debentures (Series H – J) on its Watch List with negative outlook.

In October 2011, Maalot announced that it was lowering the rating of Koor's debentures (Series H-J) to ilA- and placing them on Credit Watch with negative outlook.

In November 2011, Maalot announced its confirmation of the ilA- rating for Koor's debentures (Series H-J) while removing them from Credit Watch with negative outlook. The rating outlook is stable.

As the Company was informed by Midroog, Midroog is examining lowering the rating for debentures Series G, H and I from A1 to A2 and changing the rating outlook from developing to stable. The decision on this matter is at the sole discretion of Midroog's rating committee which is expected to discuss the matter and publish its decision soon.

### Quarterly report on liabilities by repayment dates

For information pertaining to the Company's liabilities, see immediate report regarding liabilities of the Company by repayment dates issued by the Company on November 16, 2011 (Ref. No.: 01-2011-328554), the information in which is noted in this Report by way of reference.