

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

## Board of Directors Report For the year ended 31 December 2008

We are pleased to submit the condensed unaudited financial statements of Koor Industries Ltd. for the year ended December 31, 2008.

Koor Industries Ltd (the Company) is a member of the IDB Group and is one of the most prominent holding companies in Israel, investing in companies operating in a 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 and focuses on large-scale investments. Koor examines and invests in companies in which it has a position of control following the investment, as well as in companies in which Koor does not have a position of control following its investment. This, inter alia, in view of the market conditions and opportunities open in them, due to the decline in the market values of large international companies as a result of the economic crisis in the markets.

Subsequent to the Company's board of directors' decision to invest in negotiable shares of European banking institutions, during the course of the year the Company bought and sold shares in Credit Suisse Group AG (Credit Suisse) for which Koor recorded, in 2008, a profit of NIS 575 million. During the fourth quarter, Koor invested in Credit Suisse an overall amount of approximately CHF 1.2 billion. Subsequent to this action and further acquisitions, Koor's holdings as at December 31, 2008 of Credit Suisse shares reached 3.4% at a cost of NIS 4.35 billion. As at the date of this report, Koor holds approximately 39 million Credit Suisse shares, constituting some 3.35% of Credit Suisse share capital, at a cost of NIS 4.41 billion.

### 1. Results of operations

The net earnings attributed to the Company's shareholder equity in 2008 totaled approximately NIS 238 million, with basic earnings per share of about NIS 8.5, compared with earnings of about NIS 614 million and basic earnings per share of about NIS 24.3 for 2007.

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

	<u>2008</u>	<u>2007</u>
	<u>NIS Millions</u>	
Koor's equity in the operating results of investee companies, net	167	174
Gain from sale of investments, net of impairment	599	682
Administrative, financing and other expenses, net	(528)	(242)
<b>Net profit</b>	<b>238</b>	<b>614</b>
Basic earnings (losses) per share (in NIS)	8.5	24.3

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

	Koor's equity in earnings (losses) for the year		Change
	<u>2008</u>	<u>2007</u>	<u>2008 compared</u> <u>with 2007</u>
	<u>NIS Millions</u>		
Makhteshim Agan Industries Ltd.	311	266	17%
ECI Telecom Ltd.	-	56	n/a
Telrad Networks Ltd.	(43)	(7)	n/a
ECTel Ltd.	(6)	(7)	n/a
Koor Venture Capital Partnerships	(23)	(12)	n/a
Harriet Investments (2001)	(67)	(41)	n/a
Microwave Networks Inc.	13	(13)	n/a
Other companies	6	5	20%
Excess cost and other adjustments	(24)	(73)	n/a
<b>Total</b>	<b>167</b>	<b>174</b>	<b>4%-</b>

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

	2008	2007
	NIS Millions	
Gain from sale of investments, net of impairment	599	682

In 2008, this item included in particular capital gain from exercising holdings in Credit Suisse shares in an amount of approximately NIS 575 million, and capital gain of NIS 48 million due to an estimated additional income from Elbit Systems Ltd (Elbit) for the sale of Elisra Electronic Systems Ltd (Elisra), resulting from the receipt of an insurance payment for the fire that occurred at Elisra's consolidated plant in 2001 against recorded amortization in the amount of NIS 23 million for our holdings in Epsilon Investment House Ltd. (Epsilon).

In 2008, this item included in particular capital gain from the sale of our holdings in E.C.I. Telcom Ltd. (ECI) in the amount of NIS 615 million, capital gain of NIS 29 million from the sale of our holdings in Sheraton Moriah (Israel) Ltd., capital gain of NIS 26 million from the sale of our holdings in Scopus Video Networks Ltd. (Scopus), and capital gain of NIS 10 million from the sale of our holdings in Knafaim Holdings Ltd.

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

	2008	2007
	NIS Millions	
Administrative and other expenses, net	(32)	(27)
Financing expenses, net	(496)	(215)
<b>Total administrative, financing and other expenses, net</b>	<b>(528)</b>	<b>(242)</b>

The primary change during 2008 as compared with the same period in the previous year relates to the rise in net financing expenses attributable to the sharp drop in the exchange rates of the shekel against the dollar, particularly during the first six months when the Company held large dollar balances, causing erosion of dollar financial assets; the Israeli ISRAELI CPI increase which led to revaluation of Israeli ISRAELI CPI linked loans and debentures; and the increase in the Swiss franc exchange rate against the shekel in Q4 of 2008, which led to re-evaluation of CHF linked loans. Another factor was the loss with respect to revaluation of short-term investments recorded during the second half of 2008 as a result of the current market financial crisis and its impact on the capital market in Israel.

Financing expenses deriving from the erosion of the dollar exchange rate in 2008 (especially during the first six months of the year, subsequent to which Koor converted the majority of its foreign currency balances from dollar linked balances to Swiss franc linked balances) and from changes in the Swiss franc exchange rate (as of Q3 of 2008, at a time when Koor took Swiss franc loans, and especially during Q4 of 2008) amounted to about NIS 348 million and in the fourth quarter to NIS 94 million. The increase in financing expenses was partially offset by the revenue deriving from buy back (through a wholly owned subsidiary) of Debentures Series H as stipulated in section 4.20 below, and from changes in the fair value of Option Warrants Series 2, which were issued to institutional investors together with the issue of Debentures Series G.

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### 2. Segments of operation

#### 2.1 Investments in investee companies and others by segment

The Company's assets, based on the balance sheets as of December 31, 2007 and 2008, include the following business segments:

<u>Segment</u>	Investments by segment			
	NIS millions		% of total	
	2008	2007	2008	2007
Agrochemicals	2,528	2,345	34%	44%
Financial	4,100	-	55%	-
Telecommunications equipment	135	175	2%	3%
Venture capital investments	71	91	1%	2%
Other holdings	305	313	4%	6%
Joint assets	322	2,447	4%	45%
<b>Total</b>	<b>7,461</b>	<b>5,371</b>	<b>100%</b>	<b>100%</b>

#### 2.2 Profit before financing expenses and income tax, by operating segment (Contribution of business segment)

	<u>2008</u>	<u>2007</u>
	NIS millions	
Agrochemicals	289	195
Financial	575	-
Telecommunications equipment	(96)	612
Venture capital investments	(24)	14
Other holdings	33	17
<b>Total</b>	<b>777</b>	<b>838</b>

##### 2.2.1 Agrochemicals

	<u>2008</u>	<u>2007</u>
	NIS millions	
Contribution of business segment	289	195

The main change in the results of the segment in 2008 compared with the corresponding period in the previous year were due to the improvement in the business results of Makhteshim Agan Industries Ltd. (Makhteshim Agan). Similarly, the contribution of the segment also includes negative goodwill in the amount of NIS 19 million deriving from the acquisition of Makhteshim Agan shares by the Company in November 2008, which was recorded as income, as set forth in section 4.17 below.

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**Makhteshim Agan (held 42%), reported the following business results:**

	<u>2008</u>	<u>2007</u>	<u>Growth</u>
	<u>Million USD</u>		<u>%</u>
Revenues	2,536	2,066	23%
Gross profit	848	689	23%
Operating profit	367	268	37%
Financing expenses, net	97	80	21%
Net earnings attributable to the shareholders	219	156	40%
EBITDA	457	357	28%

Significant growth was recorded in 2008 which included the following trends: (a) an increase in the demand for Makhteshim Agan products as a result of the minor increase in the growing areas in most of the geographic regions in which Makhteshim Agan operates; the high prices of most of the agricultural produce and the need for maximum protection of the crops in these regions; the high price of agricultural produce is mainly due to the continuous rise in the standard of living worldwide, especially in developing regions such as China and India and the changes in the nutritional habits of the population in these regions; in addition, the rise in the global demand for oil product substitutes, produced from sugar cane, canola and maize contributed to the increase in the global demand for Makhteshim Agan products. (b) The increase in the average sales price of some of Makhteshim Agan's products. This trend had a positive impact on the increase in Makhteshim Agan's revenues from the sale of its products and on Makhteshim Agan's profitability. (c) The relatively moderate climatic conditions in most of the geographic regions in which Makhteshim Agan operates (d) Makhteshim Agan reports its results in US dollars and thus the strengthening exchange rates of the currencies in which Makhteshim Agan operates during much of the year against the dollar, contributed to an increase in Makhteshim Agan's revenues in dollar terms, notwithstanding the strengthening of the shekel which increased the local expenses in Israel. (e) On the other hand, surplus demand for raw materials and finished products, together with the high oil prices, which led to significant increase of the cost base and to quantity shortages.

Nevertheless, as reported my Makhteshim Agan, due to the global crisis significant changes took place in the business environment in which Makhteshim Agan operated during the third quarter of 2008 and during the period from the balance sheet date until approval of the financial statements, Makhteshim Agan's significant growth trend continued, though at a lower rate and its gross profitability began to erode. As part of these changes, among other things, new trends began to appear which may continue through 2009 as well, the main ones being: (1) maintaining the stability of the demand for Makhteshim Agan's products due to the fact that there has been only a small decline in the extent of growing areas worldwide; (2) a drop in the prices of agricultural produce (although there prices are still relatively high in a multi-annual review) is liable to reduce the demand for Makhteshim Agan products; (3) a credit crunch among some of Makhteshim Agan's customers who impacts the demand for its products; (4) the strengthening of the USD against the other currencies in which Makhteshim Agan operates, which will lower the dollar value of the sales recorded in its financial statements; and (5) surplus supply of raw materials (especially in China) and the sharp drop in global oil prices which is expected in the middle and long term to reduce Makhteshim Agan's cost of sales.

The proceeds from the agricultural produce and the financial markets did not materially impact the outcome of Makhteshim Agan's operations in 2008, and notwithstanding the aforesaid, Makhteshim Agan recorded significant growth rate of 23%, among other things,

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due to the consistent high demand for its products. In view of the continuing global crisis, Makhteshim Agan estimates that the trends seen in the last third of 2008, as described above are liable to continue, also in the short term, as well as, inter alia, erosion of the gross profitability during the sale of existing stocks which will be offset in part by controlling operating expenses. At the same time Makhteshim Agan estimates that, in the long term, the basic positive trends of the years previous to the global crisis, with respect to its area of operations, will continue, and this, if there will be no significant negative developments over a lengthy period of time. Nonetheless, in view of the uncertainty worldwide and the instability of the financial markets, and especially the emerging markets in which a significant part of Makhteshim Agan's operations are carried out, it is unable to estimate, as at the date of the financial statements, the anticipated impact of the events described above and the duration of the period during which said impacts may occur.

### 2.2.2 Financial Segment

	<u>2008</u>	<u>2007</u>
	<u>NIS millions</u>	
Contribution of business segment	575	-

Pursuant to the decision of the Company's board of directors to invest in the negotiable shares of European banking institutions, throughout the year, the Company bought and sold Credit Suisse shares while exploiting the opportunities created due to the market volatility. These buy and sell activities generated for the Company profits of NIS 575 million for 2008. In October 2008, Koor invested an overall amount of CHF 1.2 billion in Credit Suisse. The transaction was carried out by way of the acquisition from Credit Suisse of 34 million ordinary shares in Credit Suisse (from its treasury shares) which constituted, immediately subsequent to the acquisition, approximately 3% of Credit Suisse share capital.

As of the date of this report, Koor holds approximately 39 million ordinary shares of Credit Suisse, which constitute some 3.35% of Credit Suisse's share capital, at an accumulated investment of NIS 4.41 billion.

As at December 31, 2008 the value of the investment in Credit Suisse shares, based on their stock exchange price, was NIS 4,100 million. This amount reflects a NIS 246 million gap with their original cost which was NIS 4,346 million. This gap constitutes 5.7% of their original cost. The standard deviation for the share price (in shekel terms) since initial recognition of the asset and until December 31, 2008 was 22.3, while the average share price for this period was NIS 116.2 (compared with the cost of NIS 113.9 per share). The accumulated period during which the share price (converted to shekel) was lower than its original cost (in shekel) was 32 trading days, which constitutes 59% of the entire holding period of the asset during the reported period. Since as at December 31, 2008, and considering the foregoing, the decline in the fair value of Credit Suisse shares is not a significant or consistent decline, therefore the decline in fair value of the available-for-sale financial asset was not recognized in the profit and loss statement, but in the shareholders equity statement only. As at the reporting date, the value of the investment in Credit Suisse shares, based on their price on the stock exchange, was NIS 4,243 million. This amount reflects a NIS 165 million gap with their original cost which was NIS 4,408 million. This gap constitutes 3.7% of their original cost. The standard deviation for the share price (in shekel terms) since initial recognition of the asset and until the reporting date was 19 and since January 1, 2009 until the reporting date it was 9.3, while the average share price since the acquisition and until the reporting date was NIS 108.5 (compared with the cost of NIS 113.1 per share) and since January 1, 2009 until the reporting date it was NIS 100.2. The accumulated period during which the share price (converted to shekel) was lower than its

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original cost (in shekel) since the initial recognition of the asset was 79 trading days, which constitutes 76% of the entire holding period of the asset. For further information relating to Credit Suisse, including with respect to Credit Suisse shareholders equity ratio (Tier 1 ratio of 13.3%), which is higher than other financial institutes in Europe, see section 10 of the chapter on the description of company's operations.

### 2.2.3 Telecommunications equipment

	<u>2008</u>	<u>2007</u>
	<u>NIS millions</u>	
Contribution of business segment	(96)	612

The principal change in the results of the segment in 2008 compared with 2007 were due to the non-inclusion of the results of ECI Telecom Ltd. operations in 2008 because it was sold during Q3 2007 when it recorded capital gains of NIS 615 million, and a deterioration in the business results of Harriet Investments (2001) Ltd. (formerly - Dekolink Wireless Ltd.) (Harriet) and Telrad Networks Ltd. (Telrad).

During the fourth quarter of the year, Harriet's main customer notified the company that it was ceasing its purchases from it. This notice had significant negative impact on Harriet's status. For further details relating to the sale of the majority of Harriet's assets to a third party, see section 5.2 below.

During the first quarter of 2009, Nortel Networks Corp. (Nortel), which was the principal customer of Telrad entered an automatic creditors' stay of proceedings, (Chapter 11). Nortel's entering an automatic stay had a material negative impact on the financial status of Telrad and on its business results, and there are concerns about it continuing as a going concern. For details see section 5.3 below.

### 2.2.4 Venture capital investments

	<u>2008</u>	<u>2007</u>
	<u>NIS millions</u>	
Contribution of business segment	(24)	14

The changes in the results of the segment in 2008 as compared with 2007 derive from the results of the operations of Koor Corporate Venture Capital, which constitutes the segment for the reporting period.

Below follows a description of the business activity of the partnerships in this business segment during the reporting period:

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

	<u>2008</u>	<u>2007</u>
	<u>NIS millions</u>	
Revenue	1	26
Operating profit (loss)	(24)	14
Net earnings (loss)	(23)	14

The primary contribution of Koor Corporate Venture Capital in 2008 is the result of the decline in the fair value of venture capital investments, including the decline in the fair value of venture capital investments, inter alia, as a result of the decline in the market value of listed holdings and value deriving from transactions carried out by investees.

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The primary contribution of Koor Corporate Venture Capital in 2007 was mainly due to capital gains in the amount of NIS 26 million attributable to the partnership from the sale of its total holdings in Scopus during Q1 2007 and which was offset as an expense against the decline in the fair value of the venture capital investments.

### 2.2.5 Other holdings

	<u>2008</u>	<u>2007</u>
	NIS millions	
Contribution of business segment	33	17

The primary changes in the results of this segment in 2008 as compared with 2007 is due to the gains recorded mainly for Q1 2008 with respect to the additional expected income from Elbit for the sale of Elisra, as set forth section 1.2 above, against recorded impairment in the amount of NIS 23 million with respect to our holdings in Epsilon. In 2008, Epsilon's revenue and profitability began to decline as a result of the capital market crisis, which led to a continuing decline in assets under management by Epsilon (management of portfolios, mutual funds and provident funds) as well as in its revenues from underwriting. In addition, Epsilon also presented a loss this year from securities held by it. In 2007, capital gain in the amount of approximately NIS 10 million was recorded for the sale of Koor's holdings in Knafaim Holdings Ltd.

## 3. Analysis of results, by quarter

In Q4 2008, Koor recorded a loss of NIS 74 million and a loss per share of NIS 1.8, compared with a loss of NIS 158 million and a loss per share of NIS 8.7 in the corresponding quarter of 2007.

### 3.1 The results of the company's operations and those of the consolidated companies by quarter in 2008 and 2007 are presented in the main sections of the consolidated statement of income below (NIS millions):

	<u>Total</u>	<u>2008</u>			
	<u>2008</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Koor's equity in the operating results of investee companies, net	167	(12)	26	69	84
Gain from sale of investments, net of impairment	599	28	529	(2)	44
Administrative, financing and other expenses, net	(528)	(90)	(127)	(187)	(124)
<b>Net profit (loss) for the period</b>	<b>238</b>	<b>(74)</b>	<b>428</b>	<b>(120)</b>	<b>4</b>
	<u>Total</u>	<u>2007</u>			
	<u>2008</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Koor's equity in the operating results of investee companies, net	107	132	(8)	(57)	174
Gain from sale of investments, net of impairment	26	39	614	3	682
Administrative, financing and other expenses, net	(11)	(13)	(114)	(104)	(242)
<b>Net profit (loss) for the period</b>	<b>122</b>	<b>158</b>	<b>492</b>	<b>(158)</b>	<b>614</b>

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### 3.2 Analysis of Koor's financial results by segment and main items in the fourth quarter:

<u>Segments of Operation</u>	<u>Q4</u>	
	<u>2008</u>	<u>2007</u>
	<u>NIS Millions</u>	
Agrochemicals	16	(6)
Financial	40	-
Telecommunications equipment	(35)	(41)
Venture capital investments	(7)	(6)
Other holdings	(12)	2
Total segments	2	(51)
Joint general income (expenses)	(16)	(8)
Financing expenses, net	(60)	(99)
Income (loss) before income tax	(74)	(158)

A comparison of segment results for Q4 2008 and Q4 2007 shows the following:

In the Agrochemical segment, Koor recorded in the fourth quarter of 2008 profit growth compared with the corresponding quarter of the previous year, subsequent to the improved business outcomes of Makhteshim Agan in 2008.

In the financial segment, Koor recorded, in the fourth quarter of 2008, a profit due to the exercise of holdings of Credit Suisse shares. In the corresponding quarter of the previous year, Koor did not have operations in this segment.

In the telecommunications equipment segment, Koor recorded in the fourth quarter of 2008 a loss due to the adverse business results of Harriet and Telrad, while the loss recorded in the fourth quarter of 2007 derived mainly from adverse business results of Harriet and Microwave Networks Inc.

In the venture capital investments segment, Koor recorded in Q4 of 2008, a loss due to provision for impairment of venture capital investments, similar to the loss recorded in Q4 of 2007.

In the other holdings segment, Koor recorded in the fourth quarter of 2008 a loss, compared with a profit in the corresponding quarter of 2007, due to impairment carried out in the current quarter with respect to its holdings in Epsilon, in the amount of NIS 15 million.

### 4. Main changes in the holdings of the Company and its investees in 2008

- 4.1 In January 2008, Koor acquired Makhteshim Agan shares in the amount of NIS 126 million. For further information on this subject, see Note 9 (A) to the financial statements.
- 4.2 In March 2008, Makhteshim Agan's board of directors decided to distribute a dividend in the amount of USD 120 million. The Company's share in the dividend, which was distributed in April 2008, was NIS 166 million.
- 4.3 In March 2008, Makhteshim Agan's board of directors decided on a buy back of Makhteshim Agan shares up to USD 100 million. The buy back was completed in October 2008.

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**4.4** In March 2008, the final installment in the amount of NIS 36 million was received regarding the transaction that was completed in April 2007 for the sale of Koor's holdings (56.5%) in Sheraton Moriah (Israel) Ltd, to Azorim Tourism Ltd., controlled by Azorim Development and Construction Co. Ltd. and Boymelgreen Capital Ltd. for USD 24 million. For further information, refer to Note 9 (I) to the financial statements.

**4.5** In March 2008, in view of the market conditions, and in particular as a result of the sub-prime crisis, leading numerous banks to report substantial write-offs and the price of their shares to fall significantly, Koor's board of directors approved, on March 24, 2008 acquisition of negotiable shares in European banks trading on European and/or US stock exchanges, in an overall investment of up to NIS 1.5 billion. In April 2008, Koor reported that the bank shares approved by Koor's board of directors, as aforesaid, include, inter alia, Credit Suisse shares. In July 2008, Koor's board of directors resolved to increase the amount of the investment in Credit Suisse shares to an overall amount of NIS 3 billion and in November 2008, Koor's board of directors approved to raise the maximum investment in Credit Suisse shares to NIS 5 billion. This in accordance with Koor's decisions, from time to time, and based on Koor's assessments with regards to market developments, whereby said acquisition of shares will be carried out as a financial investment and not for the purpose of acquiring the controlling shareholding in any of these banks.

For information relating to the financing of the acquisition of Credit Suisse shares during the reported period, see section 4.15 below. Subsequent to the board of director's decision, during the third quarter of 2008 the Company bought and sold Credit Suisse shares and Koor's holding reached the maximum rate of 1.21% of Credit Suisse shares at a cost of approximately NIS 1.9 billion. The Company exploited opportunities to buy and sell Credit Suisse shares during the third quarter so that by the end of the period it sold most of its holdings. These buy and sell operations generated a profit of NIS 535 million for the Company in the third quarter. For the sale of part of its holdings in Credit Suisse during the fourth quarter of 2008, Koor recorded a profit in the amount of NIS 40 million and at 2008 in total, Koor recorded a profit for the sale of part of its holdings in Credit Suisse for an amount of approximately NIS 575 million.

**4.6** In April 2008, the Company's general meeting approved amendments to the Company's Articles of Association and its adaptation to comply with the new Companies Law of 1999. For further information see the Company's immediate report of April 13, 2008.

**4.7** Pursuant to the Securities Regulations (Manner of Offering Securities to the Public) (Amendment), 5768-2008 (the Regulations Amendment), in May 2008 the company's general meeting approved that in the event of an offering of securities by way of rights, the Company shall be entitled not to offer such rights to holders of its securities for whom the law of a foreign country shall be applicable and this, if the exclusion of the foreign holders is not in violation of the law of the foreign country, and provided that the exclusion of the foreign holders will be conducted in accordance with the provisions of the Securities Law, 5728-1968 and its regulations, as shall be applicable at such time. For further information see the Company's Immediate Reports of April 14, 2008, May 5, 2008 and May 13, 2008.

**4.8** In May 2008 the Company invested an amount of USD 2.55 million in Indivision India Partners private investment fund, which invests in the retail sector in India, as part of its overall undertaking to invest US\$ 15 million the Fund. As at the report date, the scope the Companies cumulative investments in the Fund totaled USD 10.8 million. The balance of the Company's commitment to invest in the Fund as of the reporting date is USD 4.2 million.

**4.9** In May 2008, the Company published a prospectus for issue by way of rights, whereby Koor shareholders were offered up to 2,377,311 ordinary shares (of NIS 0.001 par value each) in the Company by way of rights to the holders of the Company's ordinary shares (with the exclusion of the US shareholders who were excluded in accordance with the Regulations Amendment). In June 2008,

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the Company announced the results of the rights issue for shares under the shelf prospectus including details of the exercise of the units of rights for shares offered to the Company's shareholders under the shelf prospectus and relating to the exercise of rights under said offering by IDB Development Corporation Ltd., the controlling shareholder in Discount Investment Corporation Ltd. (and indirectly, also of the Company) and a shareholder in the Company, and by Discount Investment Corporation Ltd. Of the rights units offered under the shelf prospectus, 2,371,158 rights units were exercised for the purchase of 2,371,158 ordinary NIS 0.001 nominal value shares in the Company, which is the equivalent to 99.7% of all the rights units offered under the shelf Prospectus and about 15.25% of the Company's issued capital (prior to the issue), and in return for the rights units which were exercised as aforesaid, the Company received an overall amount of NIS 384 million (gross). Pursuant to the provisions of the Regulation Amendments, the Company compensated its US shareholders with fair and uniform compensation which was determined by an external evaluator and which was approved by the Company's audit committee and board of directors, in an overall amount of NIS 10.1 million, the majority of which (approximately NIS 10 million) derived from the income from the sale of the rights which were not offered to the US shareholders by the Company, on the trading day of the rights.

- 4.10** In June 2008, the Company's general meeting approved (in accordance with the provisions of the Company's previous Articles of Association which were applicable on the date of the general meeting) the distribution of interim dividends as recommended and announced by the Company's Board of Directors, in the amount of NIS 150 million (which was paid in September 2007), and in the amount of NIS 380 million (which was paid in December 2007).
- 4.11** In July 2008, Standard & Poor's Maalot Ltd. (Maalot) notified in a public announcement, that due to the anticipated changes in the Company's portfolio components subsequent to its notification with respect to the Credit Suisse investment, Maalot will continue monitoring the developments with respect to this matter and will examine the impact of the portfolio changes on the Company's financial risks and its security rating. Maalot's announcement notes the Company raised capital by means of a rights issue in June 2008 and the publication of the shelf prospectus which will enable the Company to raise further capital. In November 2008, Maalot published a credit rating of A+/CW Negative for Koor's debentures.
- 4.12** In July 2008, the Company published a shelf offering memorandum for issue by way of rights, under a shelf prospectus published by Koor in May 2008, whereby Koor shareholders were offered up to 4,753,084 ordinary shares (of NIS 0.001 par value each) in the Company by way of rights to the holders of the Company's ordinary shares (with the exclusion of the US shareholders who were excluded in accordance with the Regulations Amendment). In September 2008, the Company announced the results of the rights issue for shares under the shelf prospectus including details of the exercise of the units of rights for shares offered to the Company's shareholders under the shelf prospectus and relating to the exercise of rights under said offering by IDB Development Corporation Ltd., the controlling shareholder in Discount Investment Corporation Ltd. (and indirectly, also of the Company) and a shareholder in the Company, and by Discount Investment Corporation Ltd. Of the rights units offered under the shelf prospectus, 4,743,939 rights units were exercised for the purchase of 4,743,939 ordinary NIS 0.001 nominal value shares in the Company, which is the equivalent to 99.81% of all the rights units offered under the shelf prospectus and about 24.95% of the Company's issued capital (prior to the issue), and in return for the rights units which were exercised as aforesaid, the Company received an overall amount of NIS 678 million (gross). Pursuant to the provisions of the Regulation Amendments, the Company compensated its US shareholders with fair and uniform compensation which was determined by an external evaluator and which was approved by the Company's audit committee and board of directors, in an overall amount of NIS 4.6 million, the majority of which (approximately NIS 4.5 million) derived from the income from the sale of the rights which were not offered to the US shareholders by the Company, on the trading day of the rights.

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- 4.13** In July 2008, the Company reported that its board of directors resolved to update the annual remuneration and participation remuneration for Koor's external directors, so that they will be entitled to the maximum amounts under Regulations 4 and 5 (respectively) of the Companies Regulations (Rules concerning Remuneration and Reimbursement of Expenses of External Directors) 5760-2000 (the Remuneration Regulations), as they were updated in the amendment to the Remuneration Regulations. The update of the remuneration paid to Koor's directors (including external directors) will take effect as of the date of the amendment to the Remuneration Regulations, i.e. as of March 6, 2008.
- 4.14** In September 2008, the Company signed an agreement whereby it undertook to invest USD 20 million in the private investment fund, Mezzanine Mustang Limited Partnership, which focuses on mezzanine financing for mature companies in Israel and abroad operating in various sectors, including industry, commerce, telecommunications, services and real estate. Up until shortly prior to the date of this report, the Company invested USD 260 thousand in the Fund.
- 4.15** On October 13, 2008, Koor signed a contract with Credit Suisse, according to which the Company will invest in Credit Suisse an overall amount of approximately CHF 1.2 billion. The transaction was carried out by way of the acquisition from Credit Suisse of 34 million ordinary shares in Credit Suisse (from its treasury shares) which constituted, immediately subsequent to the acquisition, approximately 3% of Credit Suisse share capital. Most of the finance for said acquisition came from Koor's own resources. Accordingly, an amount of CHF 900 million was financed from the Company's liquid balances and an amount of approximately CHF 300 million was financed as part of the recourse credit facilities extended to the Company by the Goldman Sachs Group (Goldman Sachs). As of the report date, the net loan balance drawn by Koor as part of the line of credit extended by Goldman Sachs, is CHF 214 million. For further information, see section 16.7 to Part A, Description of Company Operations.
- 4.16** In October 2008, Koor and one of the banks, which is the bank that provides Koor with most of its credit (the Bank), agreed to change the terms of the credit the Bank extends to Koor, including the following: Among other things, Koor has the right, up until December 31, 2009, to defer the due date of the credit it received from the bank, which is due for repayment in 2008-2010 (in an amount of NIS 1.1 billion), until 2014-2016. Koor exercised this right for the amounts due during 2008, in the amount of NIS 108 million. In addition, new financial covenants were set. For details see Note 17 (d) to the financial statements.
- 4.17** In October and November 2008, Koor acquired 2,896,000 ordinary NIS 1 nominal value shares of Makhteshim Agan in return for a total NIS 38 million. Subsequent to this acquisition and subsequent to Makhteshim Agan's buy back, in the amount of USD 100 million, Koor holds as at the report date approximately 41.51% of the share capital and 41.93% of the voting rights in Makhteshim Agan.
- 4.18** In November 2008, Makhteshim Agan's board of directors decided to distribute a dividend in the amount of USD 50 million. Koor's share in the dividend, which was distributed in December 2008, was NIS 82 million.
- 4.19** In November 2008, the Company published a shelf offering memorandum for issue by way of rights, under a shelf prospectus published by Koor in May 2008, whereby Koor shareholders were offered up to 23,756,274 ordinary shares (of NIS 0.001 par value each) in the Company by way of rights to the holders of the Company's ordinary shares (with the exclusion of the US shareholders who were excluded in accordance with the Regulations Amendment). In December 2008, the Company announced the results of the rights issue for shares under the shelf prospectus including details of the exercise of the units of rights for shares offered to the Company's shareholders under the shelf prospectus and relating to the exercise of rights under said offering by IDB Development Corporation Ltd., the controlling shareholder in Discount Investment Corporation Ltd. (and indirectly, also of the Company) and a shareholder in the Company, and by Discount Investment

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Corporation Ltd. Of the rights units offered under the shelf prospectus, 23,703,476 rights units were exercised for the purchase of 23,703,476 ordinary NIS 0.001 nominal value shares in the Company, which is the equivalent to 99.77% of all the rights units offered under the shelf prospectus and about 49.94% of the Company's issued capital (prior to the issue), and in return for the rights units which were exercised as aforesaid, the Company received an overall amount of NIS 600 million (gross). Pursuant to the provisions of the Regulation Amendments, the Company compensated its US shareholders with fair and uniform compensation which was determined by an external evaluator and which was approved by the Company's audit committee and board of directors, in an overall amount of NIS 11.7 million, the majority of which (approximately NIS 11.6 million) derived from the income from the sale of the rights which were not offered to the US shareholders by the Company, on the trading day of the rights.

- 4.20** In November and December 2008, a wholly owned subsidiary of Koor purchased 217,304,270 par value debentures (Series H) of Koor, on floor and off floor, for approximately NIS 157.5 million. The aforesaid debentures will be considered as an asset of the said subsidiary, will not be delisted from the TASE, and the subsidiary will have the right to take any action in respect of the debentures, including to sell them. In the fourth quarter of 2008, Koor recorded a profit of approximately NIS 78.4 million for this purchase.
- 4.21** In December 2008, Koor received a non-recourse line of credit from a bank belonging to the Morgan Stanley Group (Morgan Stanley). The maximum amount that can be drawn under the terms of this credit line is CHF 165 million. In June 2009 this amount will be updated to the maximum amount actually drawn by Koor up to that date (the maximum amount withdrawn up to the report date is CHF 64 million). As of the reporting date, the net loan balance drawn by Koor as part of the Morgan Stanley credit line is CHF 43 million. For further information, see section 16.8 to Part A, Description of Company Operations.
- 4.22** As at the report date, the Company has a net loan denominated in Swiss franc in the amount of NIS 845 million and a liquid assets dollar balance of NIS 29 million. As a result of changes in the Swiss franc to shekel exchange rate and the dollar to shekel exchange rate from the beginning of the first quarter of 2009, the Company at that time has accrued an accumulated profit estimated by the Company as NIS 14 million. It should be noted that a Swiss franc loan was secured by an asset fixed in Swiss franc, the value of which, subsequent to the increase in the Swiss franc exchange rate, has been assigned directly to capital reserve and not to the profit and loss statement (with the exception of the case of a significant and/or consistent devaluation, as set forth in section 2.2.2 above). The foregoing information includes an initial assessment and the partial information in Koor's possession to date. This data has not yet been processed, has not yet been finally examined and has not been reviewed by Koor's accountants, and is subject to additional changes in the exchange rates of the Swiss Franc and the dollar. For this reason, it is possible that their impact on the Companies results for Q1 of 2009 will be different as compared with the foregoing. In addition, the dollar exchange rate changes have impact on the profitability of the investees which operate or report in dollars, as well as an impact on Koor's profits from the results of investees which hold dollar assets, and an impact on Koor's equity due to the foreign currency translation adjustments capital fund (in particular Makhteshim Agan). Furthermore, changes in the Swiss Franc exchange rate impact the shekel value of Credit Swiss shares presented in the balance sheet as available-for-sale assets and on Koor's equity because of the available-for-sale assets capital fund.

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

- 5.1** In November 2009, a wholly owned subsidiary of the Company acquired 745,816 par value debentures (Series H) of Koor in a TASE transaction. Subsequent to this acquisition and the previous

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acquisition as stipulated in section 4.20 above, as at the report date, the subsidiary holds 218,050,186 nominal value debentures (Series H) of Koor.

- 5.2** In January 2009, Harriet concluded a transaction to sell the majority of its assets to an unrelated third party. As part of the asset transaction, the buyer purchased from Harriet intellectual property, inventory and equipment. In addition, Harriet assigned to the buyer certain agreements and the undertakings included in those agreements. The total consideration of the acquisition amounted to US\$ 4.1 million, in cash. In addition, the buyer undertook to transfer to Harriet receipts for receivable invoices assigned to the buyer by Harriet, up to a total amount of USD 250 thousand.
- 5.3** In January 2009, Nortel, the principal customer of Telrad, entered an automatic creditors' stay of proceedings, (Chapter 11), subsequent to which, inter alia, Nortel's past debt to Telrad was frozen and as at same date sales of certain Telrad inventories to Nortel were cancelled, in an amount of approximately USD 11 million. In addition, in January 2009, Telrad entered a new agreement with Nortel with respect to sales and terms of payment for 2009. Due to Nortel entering a stay of proceedings Telrad has encountered a severe cash crunch and it is conducting negotiations with its creditors in an attempt to reach settlements with respect to its debts. Nortel's automatic stay had a material negative impact on the financial status of Telrad and on its business results, and there are concerns about its existence as a going concern.
- 5.4** In February 2008, Koor entered a deal to sell two floors of an office building in Tel Aviv, representing a single unit, with an overall area of 1,617 sq m (plus parking spaces) for consideration of NIS 22.4 million. The fair value set in Koor's financial statements with respect to this property is NIS 20 million.
- 5.5** Shortly prior to the date of this report, subsequent to the acquisition of Credit Suisse shares (less sales), Koor holds approximately 39 million shares in Credit Suisse, which constitutes 3.35% of Credit Suisse share capital, in the overall investment of NIS 4.41 billion.

## 6. The financial situation and sources of finance

### 6.1

	December 31, 2008	December 31, 2007
	NIS Millions	
Total assets in the consolidated balance sheet	7,461	5,371
Investments in investees in the consolidated balance sheet	2,704	2,566
Available-for-sale financial assets in the consolidated balance sheet	1,621	30
Pledged available-for-sale financial assets in the consolidated balance sheet	2,517	-
Total equity attributed to the Company's shareholders	3,656	2,029
Surplus (deficit) of current assets over current liabilities in the consolidated balance sheet	(903)	1,986
Koor's financial liabilities	3,570	3,020
Surplus of financial liabilities over Koor's cash and cash equivalents*	3,284	650

\* Does not include Credit Suisse shares which are classified as available-for-sale financial assets recorded, as at December 31, 2008, at a value of NIS 4,100 million.

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## Board of Directors Report For the year ended 31 December 2008

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### 6.2

	2008	2007
	NIS millions	
Proceeds from exercise of investments in Koor	4,576	1,761
Dividends received from investees	250	9
Investment in affiliates and other Koor companies	8,539*	78

\* The net investment in Credit Suisse as at December 31, 2008 subsequent to buy and sell transactions totals NIS 4.35 billion.

As mentioned above, during the third quarter of 2008, the Company acquired and sold additional Credit Suisse shares. Accordingly, the proceeds from the exercise of the investment in the amount of NIS 4,576 million, derives mainly from the sale of Credit Suisse shares. During this period, Koor invested approximately NIS 8,539 million, mainly in Credit Suisse shares. In 2007, the proceeds from exercise of investments amounted to NIS 1,761 million, mainly for the sale of the Company's holdings in ECI.

**6.3** In 2008, Koor took long-term bank loans totaling NIS 158 million, and repaid long-term loans in the amount of NIS 397 million. In addition, Koor took short-term bank loans in the amount of NIS 1,134 million and repaid short-term loans to the extent of NIS 346 million.

**6.4** In 2008, Koor raised, by way of three rights offerings, a total amount of NIS 1,662 million (gross). For details, see sections 4.9, 4.12 and 4.19 above.

**6.5** As at December 31, 2008, the Company has continuing positive cash flows from ongoing operations and working capital deficit. 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. This conclusion is based, inter alia, on the Company's cash balances, its unused credit facilities, its ability to reuse and/or receive loans, on the strong position of the Company's assets, the majority of which are highly tradable negotiable shares (Credit Suisse and Makhteshim Agan shares) at an overall market value as at the report date of NIS 6.7 billion, and the potential dividend from investees<sup>1</sup>.

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<sup>1</sup> This assessment is forward-looking statements as defined in the Securities Law, based on the Company's management's 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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### 6.6 Summary of data relating to debentures as of December 31, 2008 (in NIS millions):

Series	Original date of issue	Par value at date of issue (millions)	Par value balance in circulation (millions)	Par value balance in circulation linked (millions)	Accrued interest in books	Value of debenture balance as at Dec 31, 08 in books	Market value	Average interest rates (fixed)	Principal repayment date <sup>(2)</sup>		Interest payment date	Linkage terms	Trust company Name of contact Address: Telephone: <sup>(5)</sup>
									From	To			
G	10.4.05	400	400	441.3	2.8	433.5	Non-negotiable	3.75%	30.4.10	30.4.10	30.4.09, 31.10.09, 30.4.10	ISRAELI CPI	Ubank Trust Co. 83 Rothschild Blvd. Tel Aviv Tel: 03-5645205 Ifat Bachar
H <sup>(3)</sup>	20.8.06	1,194.6	1,194.6	1,261.3	21.4	1,276.3 <sup>(4)</sup>	864.0	5.10%	1.9.12	1.9.16	1.9.09, 1.9.10, 1.9.11, 1.9.12, 1.9.13, 1.9.14, 1.9.15, 1.9.16	ISRAELI CPI	Aurora Fidelity Trust Co. 6 Hayarkon Street, Ramat Gan Tel: 03-6005946 Meital Ben Yosef

#### Comments:

- (1) The Company complies with all the debenture terms and conditions. Furthermore, the Company complies with all the liability conditions as set in the deed of trust.
- (2) Annual payments.
- (3) The series was expanded on May 10, 2007. The data in the table refers to the entire series.
- (4) The consolidated statements represent the debenture (Series H) balance as at December 31, 2008 less the debentures acquired by a wholly owned subsidiary and is NIS 1,044.1 million.
- (5) Due to concerns of conflict of interest, the Company acts to switch the trustees for the two debenture series.

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## Board of Directors Report For the year ended 31 December 2008

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

Series	Name of rating company	Current rating	Rating fixed at the issue date	Additional ratings during the period between the original issue date and the report date	
				Date	Rank
G	Maalot	A+/CW Negative	A+	May 6, 2007	A+/Stable
H	Maalot	A+/CW Negative	A+	May 22, 2007	A+/Stable

In November 2008, Maalot announced a credit rating of A+/CW Negative to the debentures. In July 2008, Maalot announced that due to the change in the composition of the Company's portfolio following its notification of the investment in Credit Suisse, Maalot would continue to monitor developments with respect to this matter and examine the impact of the change in the composition of the portfolio on the Company's financial risk and its security rating. Maalot's announcement notes the capital Koor raised through the rights offering of June 2008 and the publication of the shelf prospectus (Koor's prospectus of May 2008), which allows Koor to raise additional capital.

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### 7. Remuneration of interested parties and executive officers

Apart from the Company's CEO, Mr. Raanan Cohen, who is not an employee of the Company, but an employee of the Company's parent company, Discount Investment Co. Ltd. (DIC) and whereby the Company participates in 80% of the cost of his employment at DIC, the Company has three executive officers who receive remuneration from the Company. The considerations guiding the Company's board of directors in decided the salary and grants for the officers were based mainly on the status and role of each of them and their contribution to the Company's operations and advancement. The salary, considering the nature of the Company, its size and the complexity of its business, and the salaries awarded officers with similar roles in similar company's in the country, constitutes a fair and reasonable consideration.

Taking into consideration the financial crisis and the severe market conditions, the Company's CEO gave notice regarding a cut as of November 2008 and until the end of 2009 of 8% in his salary (which is paid, as aforesaid, by DIC), for the period of one year, and the reduction of 20% of the grant for 2008. Accordingly, the costs of his employment in the Company declined.

### 8. Disclosure concerning the auditor's salary

	Name of the auditor	2 0 0 8				2 0 0 7			
		Fee (NIS thousands)		Work hours		Fee (NIS thousands)		Work hours	
		Audit and tax services	Other services	Audit and tax services	Other services	Audit and tax services	Other services	Audit and tax services	Other services
	KPMG								
The company and the company's wholly-owned subsidiaries	Somekh Chaikin	889	254	3,736	443	1,253	253	5,049	934
	Yosef Shimoni	118	78	532	386	178	134	657	525

The accountants' fee is based on the volume of their work in practice and approved by the board of director's audit committee.

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**9. Contribution to the community**

Koor views contributing to and supporting the community in Israel as a most worthy cause to be integrated into its activities. The Company, similar to other companies in the IDB Group, views its contribution to the community in Israel as a central tier in its business vision and believes that it has some responsibility towards the Israeli society, and this by recognizing that business leadership co-exists with social leadership.

From its continuous commitment to contribute to the development of the country and to strengthen its resilience, and from its social and moral obligation to act on behalf of the society in Israel, the Company contributes to various projects which it is interested in promoting. As part of this, priority is given to contributions in areas of education, health, welfare, culture and sport.

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

During 2008, the Company approved donations of NIS 16.5 million for 2008-2009, to various projects and associations, mainly in education, health, sport and public welfare.

The foregoing amount includes donations that were approved in the amount of NIS 11 million for the benefit of the residents and peripheral settlements and the confrontation line in the north and the south.

**The main projects to which the donations were approved are:**

- Student scholarships: A total of 1300 scholarships were approved for students in the amount of NIS 2.5 million, according to the following specification: Scholarships to 750 students, residents of Naharia; scholarships to 420 students, residents of Maalot-Tarchicha and scholarships to 120 students residents of the north and south which will be granted through the World Federation of Moroccan Jews.
- Additional projects at a cost of NIS 10.5 million include: Support for educational, welfare and sport activities in Sderot and the Gaza Peripheral settlements, support for staff treating special populations in Sderot, acquisition of computers for children in Ashkelon during the recent Oferet Yetzuka campaign, coordinated with the departments of education and welfare of the Ashkelon city council, construction and upgrade of sport facilities at Kibbutz Nir Am which is in the Shaar Hanegev Regional Council, assistance in financing relaxation outings for the children of Sderot and Gaza Peripheral settlements, participation in the financing of a program to improve reading skills and encouragement of excellence among the residents of the Bedouin population in the Misgav Regional Council and other projects.
- A donation to the Heart Foundation of the Sourasky Medical Center in an amount of NIS 1 million.

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## Board of Directors Report For the year ended 31 December 2008

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Below are details of donations approved and/or made in the reporting period, when the controlling shareholder in the Company had a connection with the recipient of the donation.

<b>Recipient of the donation</b>	<b>Amount of donation</b>	<b>Controlling shareholder / director</b>	<b>Nature of the connection (according to the declaration of the controlling shareholder)</b>
Sourasky Medical Center, Tel Aviv	USD 250,000	Nochi Dankner and Avi Fisher	Mr. Dankner is a member of the management committee of the center's Association of Friends. Mr. Fisher is a member of the center's Association of Friends.
The College of Management Academic Studies	NIS 180,000	Ami Erel	Chairperson of the Association of Friends. His daughter is a lecturer and his son studies at the college.

Donations to organizations in which the Company's controlling shareholders or their relatives, as well as the Company's directors or officers, serve on the management committee (or a similar organ, unlike members on the board of trustees or members in an association or organization) are brought to the Company's audit committee and board of directors for approval, after the relevant controlling shareholders, directors or officers confirm that they do not have a personal interest in the donation, apart from the connection to the organization receiving the donation by virtue of their office.

## 10. Internal auditing in the Company

### 10.1 Internal auditor and compliance with terms

**10.1.2** Name of the internal auditor: Ezra Yehuda, CPA

**10.1.3** Start of service: July 22, 1998

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

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

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

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

**10.2** Appointment of the internal auditor: The appointment of the internal auditor was approved by the audit committee at its meeting on July 1, 1998 and by the board of directors at its meeting on July 22, 1998, after considering the auditor's education, qualifications and experience in internal auditing, and the type, scope and complexity of the Company's operations.

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- 10.3** Organizational superior of the internal auditor: Chairman of the board of directors.
- 10.4** The work plan of the internal auditor: The work plan is in an annual format. The considerations in determining the work plan are the nature of the Company's operations and the fact that it is a holding company, the need for monitoring to maintain a proper auditing process in the Company's subsidiaries and investees, the probability of the existence of faults and exposures in the Company's operations, and the aspiration to audit material matters in the Company's operations at least once every four years. The entities involved in determining the work plan are the internal auditor, Company's management and the audit committee, which approves the plan. The internal auditor has discretion to deviate from the work plan, subject to a report to the audit committee and receipt of its approval of the proposed changes.
- 10.5** Auditing abroad or of investees: The Company and its wholly owned subsidiaries have no activities abroad, with the exception of a holding in certain corporations abroad. The auditor is the internal auditor of the Company and a number of its subsidiaries, as well as of Telrad. The Company's material investees have their own internal auditors who prepare all the internal audits for the corporations they audit. The Company's internal auditor does not audit the material investees that have another auditor. However, the annual internal audit plan includes reference to the actual performance of the internal audit performed by other auditors in some of the Companies investees, but does not refer to their operations in Israel or other countries.
- 10.6** Scope of employment: About 270 work hours per year in accordance with the work plan, of which 270 hours were utilized in 2008 and 212 hours in 2007. In the opinion of the audit committee, the internal auditing work plan and the scope of employment defined for realizing this plan are appropriate for the Company's needs. If necessary, the Company has the option to expand this scope of employment.
- 10.7** Conducting the audit: The audit is conducted in accordance with generally accepted professional standards and the Internal Audit Law.
- 10.8** Accessibility to information: The internal auditor and his employees are given access to information as stipulated in Section 9 of the Internal Audit Law, and this includes continuous and direct access to the information systems of the Company and its wholly-owned subsidiaries.
- 10.9** The internal auditor's report: The internal auditor's reports are submitted in writing. For 2008, five reports were submitted on five topics, and for 2007, four reports were submitted on four topics. The internal audit reports are distributed to the chairman of the board of directors, the chairman and members of the audit committee and the Company's management as they are completed. The reports were distributed prior to audit committee meetings which discussed them at its meetings held on May 13, 2007, August 15, 2007, November 11, 2007, March 16, 2008, August 7, 2008, November 6, 2008 and March 12, 2009.
- 10.10** Board of directors' assessment: In the opinion of the board of directors, the scope, nature and continuity of the internal auditor's activities and his work plan are reasonable in the circumstances, and they fulfill the Company's internal audit goals.
- 10.11** Remuneration: The remuneration paid to the internal auditor is based on actual work hours. In 2008, the internal auditor was paid NIS 69,000 for his work and in 2007, he was paid NIS 62,000 for his work.
- 11. Changes in the economic environment, implications of the crisis in capital markets, market risk exposure and its management**

The report in section 11.2 below refers to Koor. The information in section 11.3 refers to the consolidated balance sheet of the Company and its subsidiaries. Section 11.4 below refers to market risks to which Koor's primary investee (Makhteshim Agan) is exposed, and which are liable to have a significant impact on Koor. Additionally, Koor has a financial investment in Credit Suisse shares.

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For information relating to the risk factors that affect the operations of Credit Suisse, see section 10.3 [E] to Part A of Koor's periodic report.

**11.1 The crisis in financial markets (following the description in section 8 to Part A of the Koor's periodic report)**

In 2008, there were significant upheavals in global financial markets, which intensified in September-October 2008 and continued to deteriorate at the beginning of 2009 with the collapse of several very large financial organizations in the USA and other countries. This deteriorating crisis led, among others, to serious damage to global capital markets, substantial declines and fluctuations in stock markets in Israel and around the world, including sharp drops in the prices of securities of certain Koor investees, and to creation of a credit crisis (including a substantial decline in available credit). Following these events, a number of countries took various steps to promote stabilization and prevent fluctuation in the financial markets, including by injecting cash into financial institutes and lowering interest. However there is no certainty that these steps will halt the crisis or prevent it from deteriorating. It appears that the direct economic consequences of the crisis have yet to be encountered and the US and global economy are in deep recession.

Declines and fluctuations in the prices of the securities of Koor holdings (and particularly Credit Suisse and Makhteshim Agan), on the one hand, and Koor's increased debt, on the other, may affect Koor's credit rating as well as its compliance with the ratios set for certain financial criteria. Additionally, they may, in certain cases, lead to a decline in value and recorded losses due to the reduced value of the holdings. This credit rating is based on various parameters, including the ratio of the adjusted value of holdings plus liquid portfolio to gross debt, which may not fall below 2.7 in the long term and 2.5 in the short term. On March 13, 2009, this ratio was 2. A decrease in the value of the assets and further financial debt will result in a decline in this ratio. An increase in the value of the assets or a decrease in the financial debt will result in an increase in this ratio.

Furthermore, the fluctuations in the financial markets together with the large differences in the prices of Credit Suisse shares enabled Koor to acquire and sell Credit Suisse shares in the first half of 2008, subsequent to which Koor recorded gains of NIS 575 million in 2008.

Alongside the global financial crisis, several other developments took place in the Israeli market towards the end of 2008, including significant fluctuations in the exchange rates of the principal foreign currencies against the shekel and a rise in inflation rates in the local market. For details of Koor's financing expenses, see also section 1.3 to this report.

These market developments and fluctuations are liable to have significant impacts on the business outcomes of Koor and its investees, their liquidity, value of their equity and assets and the ability to sell these assets, business situation, financial covenants, credit rating, ability to pay dividends, and ability to raise financing for their operating activities and long-term activities as well as on the terms of their financing.

**11.2 Koor's market risks**

Mr. Oren Hillinger, the Company's CFO, is responsible for managing the market risks to which Koor is exposed.

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

In the first half of 2008, Koor's debt was shekel denominated, linked to the Israeli CPI and bearing fixed interest and its fair value was affected by changes in market interest rates. On the other hand,

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the majority of Koor's liquid assets were dollar linked, bearing variable dollar interest rates and their fair value was impacted by changes in the shekel to dollar exchange rate. In the second half of 2008, the major part of Koor's debt (75%) was in the shekel, linked to the Israeli CPI and bearing fixed interest. Part of the debt (25%) was in Swiss franc, bearing variable interest, and its fair value was affected by changes in the shekel to Swiss franc exchange rate. On the other hand, Koor held a cash balance denominated primarily in the shekel and bearing variable interest and available-for-sale financial assets denominated in Swiss franc.

**11.2.1 Market risks and Koor's policy for managing such exposure**

Direct exposure to the rise in the Israeli CPI

As of the date of the report, the scope of Koor's Israeli CPI-linked shekel liabilities is NIS 2.7 billion for an average duration of 2.1 years.

Koor partially hedges this exposure by purchasing forward contracts for the Israeli CPI. In the majority of cases, the contracts are purchased for one or two years. As of the date of the report, the overall scope of such contracts held is NIS 650 million, with an average time to maturity of seven months.

Exposure to the impact of exchange rate fluctuations

In the second quarter of 2008, the Company converted most of its cash balances denominated in the dollar to Swiss franc, following the acquisition of Credit Suisse shares, and received consideration in Swiss franc after selling Credit Suisse shares. As of the report date, Koor has a net debt balance of NIS 845 million exposed to fluctuations in the shekel to Swiss franc exchange rate, and a cash balance of NIS 29 million denominated in the dollar. The fair value in shekels of these liquid assets and debt balance is affected by changes in the exchange rate of the shekel opposite these currencies.

Additionally, fluctuations in the shekel to Swiss franc exchange rate impact the value of Koor's investment in available-for-sale assets (Credit Suisse shares, as of the report date, of NIS 4.41 billion). Fluctuations in the shekel to dollar exchange rate impact the balances of Koor's shekel investments in investees operating abroad or and/or whose operations are primarily denominated in foreign currency. These impacts are presented under equity (with the exception in the event of sharp and/or continuous impairment, as described in section 2.2.2 above).

As of the report date, Koor has not hedged against the exposures relating to the shekel values of foreign currency assets and/or against indirect exposures that affect the performances of investees. However, it is possible that in the future, Koor will hedge against these exposures.

Exposure to market value fluctuations of Koor assets and the impact of market variables on the value

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

Exposure to changes in interest rates

In the past, Koor took steps to hedge interest rate risks by swap transactions of variable to fixed interest in respect of exposure to LIBOR interest. This type of hedging may also be applied in the future, however, as of the date of this report, no steps have been taken to hedge this exposure.

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

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### 11.2.2 Means of supervision and implementation of policy

The Company's policies regarding investment of cash balances and hedging against financial exposure are carried out by the Company's management and the board's investment committee, which is made up of the CFO and capital market consultants. In November 2007, the board of directors appointed the board's investment committee, which includes four directors, of which two are external directors. The management reported to the investment committee regarding policy for investment of cash balances and hedging against exposure, and the board's investment committee examined and approved this policy. Additionally, the management reported on Koor's exposure to exchange rate fluctuations at all audit committee and board meetings, and Koor's linkage balance was discussed.

### 11.3 Report of linkage bases

A. The Company does not manage the risks of its investees. Hereunder are the linkage terms of monetary balances and derivative positions of Koor and its wholly-owned subsidiaries, as of December 31, 2008.

B. Koor's linkage terms of monetary balances as of December 31, 2008 (in NIS millions):

	<b>Israeli CPI linked</b>	<b>USD or USD- linked</b>	<b>CHF or CHF- linked</b>	<b>Unlinked</b>	<b>Non- monetary item</b>	<b>Total</b>
<b>Assets</b>						
Current assets	10	45	-	262	-	317
Investment in affiliates (including loans)	150	95	-	17	2,459	2,721
Other investments and receivables	-	43*	4,100	-	67	4,210
Fixed and other assets	-	-	-	-	83	83
<b>Total assets</b>	<b>160</b>	<b>183</b>	<b>4,100</b>	<b>279</b>	<b>2,609</b>	<b>7,331</b>
<b>Liabilities</b>						
Current liabilities (including maturities)	(247)	(15)	(891)	(49)	-	(1,202)
Long-term liabilities (excluding maturities)	(2,469)	(3)	-	-	(1)	(2,473)
<b>Total liabilities</b>	<b>(2,716)</b>	<b>(18)</b>	<b>(891)</b>	<b>(49)</b>	<b>(1)</b>	<b>(3,675)</b>
<b>Assets less liabilities, net</b>	<b>(2,556)</b>	<b>165</b>	<b>3,209</b>	<b>230</b>	<b>2,608</b>	<b>3,656</b>

\* Including a balance of NIS 1 million denominated in pound sterling.

C. Koor's derivative positions as of December 31, 2008 (in NIS millions):

	<b>Israeli CPI / NIS</b>			
	<b>Face value</b>	<b>Fair value to pay</b>	<b>Face value</b>	<b>Fair value to receive</b>
	<b>Up to one year</b>		<b>More than one year</b>	
	<b><u>LONG</u></b>	<b><u>LONG</u></b>	<b><u>LONG</u></b>	<b><u>LONG</u></b>
Forward contracts for hedging (1)	650	(2)	-	-

(1) These contracts are intended to hedge Koor's index-linked liabilities, so that if 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.

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D. Linkage terms of monetary balances as of December 31, 2008 (in NIS millions):

	Israeli CPI linked	USD or USD- linked	CHF or CHF- linked	Unlinked	Non- monetary item	Total
<b>Assets</b>						
Current assets	10	89	-	265	63	427
Investment in affiliates (including loans)	33	80	-	-	2,590	2,703
Other investments and receivables	-	43 *	4,100	-	67	4,210
Fixed and other assets	-	-	-	-	120	120
<b>Total assets</b>	<b>43</b>	<b>212</b>	<b>4,100</b>	<b>265</b>	<b>2,841</b>	<b>7,461</b>
<b>Liabilities</b>						
Current liabilities (including maturities)	(261)	(120)	(891)	(58)	-	(1,330)
Long-term liabilities (excluding maturities)	(2,469)	(5)	-	-	(1)	(2,475)
<b>Total liabilities</b>	<b>(2,730)</b>	<b>(125)</b>	<b>(891)</b>	<b>(58)</b>	<b>(1)</b>	<b>(3,805)</b>
<b>Assets less liabilities, net</b>	<b>(2,687)</b>	<b>87</b>	<b>3,209</b>	<b>207</b>	<b>2,840</b>	<b>3,656</b>

\* Including a balance of NIS 1 million denominated in pound sterling.

E. Koor's linkage terms of monetary balances as of December 31, 2007 (in NIS millions):

	Israeli CPI linked	USD or USD- linked	Other currency or linked thereto	Unlinked	Non- monetary item	Total
<b>Assets</b>						
Current assets	209	1,757	-	469	-	2,435
Investment in affiliates (including loans)	83	74	-	-	2,407	2,564
Other investments and receivables	-	12	5	-	112	129
Fixed and other assets	-	-	-	-	82	82
<b>Total assets</b>	<b>292</b>	<b>1,843</b>	<b>5</b>	<b>469</b>	<b>2,601</b>	<b>5,210</b>
<b>Liabilities</b>						
Current liabilities (including maturities)	(312)	(11)	-	(89)	-	(412)
Long-term liabilities (excluding maturities)	(2,757)	(12)	-	-	-	(2,769)
<b>Total liabilities</b>	<b>(3,069)</b>	<b>(23)</b>	<b>-</b>	<b>(89)</b>	<b>-</b>	<b>(3,181)</b>
<b>Assets less liabilities, net</b>	<b>(2,777)</b>	<b>1,820</b>	<b>5</b>	<b>380</b>	<b>2,601</b>	<b>2,029</b>

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F. Koor's derivative positions as of December 31, 2007 (in NIS millions):

	ISRAELI CPI / NIS			
	Face value	Fair value to receive	Face value	Fair value to receive
	Up to one year		More than one year	
	LONG	LONG	LONG	LONG
Forward contracts for hedging (1)	100	2	400	10

(1) These contracts are intended to hedge Koor's index-linked liabilities, so that if 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.

G. Linkage terms of monetary balances as of December 31, 2007 (in NIS millions):

	Israeli CPI linked	USD or USD- linked	GBP or GBP- linked	Unlinked	Non- monetary item	Total
<b>Assets</b>						
Current assets	209	1,803	-	471	57	2,540
Investment in affiliates (including loans)	30	54	-	-	2,482	2,566
Other investments and receivables	-	12	5	-	112	129
Fixed and other assets	-	-	-	-	136	136
<b>Total assets</b>	239	1,869	5	471	2,787	5,371
<b>Liabilities</b>						
Current liabilities (including maturities)	(312)	(122)	-	(113)	(8)	(555)
Long-term liabilities (excluding maturities)	(2,764)	(23)	-	-	-	(2,787)
<b>Total liabilities</b>	(3,076)	(145)	-	(113)	(8)	(3,342)
<b>Assets less liabilities, net</b>	(2,837)	1,724	5	358	2,779	2,029

### 11.4 Investees

#### **Market risks to which Koor's significant investees are exposed, where such exposure is likely to have a material impact upon Koor**

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

Hereunder is a summary of information according to the reports of the significant affiliate whose exposure to market risks may have material impact on Koor:

#### Makhteshim Agan (holding as of date of report: 42%)

Makhteshim Agan operates in the agrochemical sector and is therefore exposed to sectoral risks from changes in external factors such as competition in the sector, agricultural policy and weather conditions, as well as factors that affect the demand for its products. Makhteshim Agan manages its

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business in different business environments operating in various currencies. Makhteshim Agan is exposed to market risks due to its operations. These risks include changes in exchange rates (mainly with regard to the Euro, Shekel and Brazilian Real against the Dollar, which is the Company's functional currency); limited adjustment of product prices to the prices of raw materials with the purpose of reducing the exposure (Makhteshim Agan customarily enters into long-term purchase contracts where this may occur); and changes in the Israeli CPI and LIBOR interest in respect of short- and long-term liabilities. Makhteshim Agan's board of directors approved a policy of using accepted financial instruments (such as options, forward contracts and swap transactions) to reduce exposure to exchange rate fluctuations and Israeli CPI increases. Makhteshim Agan's transactions are carried out only through banks and stock exchanges committed to complying with requirements of adequate capital or maintaining levels of securities according to various scenarios. For further information, see section 9.2 to Part A, Description of Company Operations.

Additionally, Koor has a financial investment in Credit Suisse shares. For information relating to the risk factors impacting the operations of Credit Suisse, see section 10.3 [E] to Part A, Description of Company Operations in Koor's periodic report.

### 11.5 Sensitivity analysis tables for sensitive financial instruments included in the consolidated financial statements as of December 31, 2008, based on changes in market factors

#### Sensitivity analysis of changes in Israeli CPI linked interest rates

Item	Fair value	Profit (loss) from changes in interest rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Long-term deposits and loans given (including current maturities), index-linked	28	(2)	(1)	2	1
Israeli CPI linked debentures	(994)	91	46	(91)	(46)
Israeli CPI linked bank loans	(1,161)	12	6	(12)	(6)
	(2,127)	101	51	(101)	(51)

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

Item	<u>Fair value</u>	<u>Profit (loss) from changes in interest rate</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
NIS millions					
Long-term loans to affiliates	80	8	4	(8)	(4)
Long-term deposits and other loans	3	-	-	-	-
Other investments	39	4	2	(4)	(2)
Short-term loans and deposits	6	1	-	(1)	-
Debtors and short-term debit balances	45	5	2	(5)	(2)
Negotiable securities	8	1	-	(1)	-
Cash and cash equivalents	30	3	2	(3)	(2)
Long-term loans from banks	(17)	(2)	(1)	2	1
Other long-term liabilities	(3)	-	-	-	-
Short-term financial liabilities	(40)	(4)	(2)	4	2
Suppliers, creditors and credit balances	(65)	(7)	(3)	7	3
	<u>86</u>	<u>9</u>	<u>4</u>	<u>(9)</u>	<u>(4)</u>

### Sensitivity analysis of changes in the Swiss franc exchange rate

Item	<u>Fair value</u>	<u>Profit (loss) from changes in interest rate</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
NIS millions					
Other investments	4,100	410	205	(410)	(205)
Short-term liabilities	(891)	(89)	(45)	89	45
	<u>3,209</u>	<u>321</u>	<u>160</u>	<u>(321)</u>	<u>(160)</u>

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

Item	<u>Fair value</u>	<u>Profit (loss) from changes in interest rate</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
NIS millions					
Not recognized as accounting hedging	(2)	8	4	(8)	(4)

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### 11.6 Sensitivity analysis tables for sensitive financial instruments included in the consolidated financial statements as of December 31, 2007, based on changes in market factors

#### Sensitivity analysis of changes in Israeli CPI linked interest rates

Item	<u>Fair value</u>	Profit (loss) from changes in interest rate			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
NIS millions					
Long-term deposits and loans given (including current maturities), index-linked	18	(2)	(1)	2	1
Israeli CPI linked debentures	(1,641)	36	18	(36)	(18)
Israeli CPI linked bank loans	(1,382)	11	5	(11)	(5)
	(3,023)	47	23	(47)	(23)

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

Item	<u>Fair value</u>	Profit (loss) from changes in interest rate			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
NIS millions					
Long-term deposits and loans (including current maturities)	66	7	3	(7)	(3)
Debtors and short-term debit balances	29	3	1	(3)	(1)
Trade receivables	39	4	2	(4)	(2)
Short-term deposits and loans	35	4	2	(4)	(2)
Cash and cash equivalents	1,700	170	85	(170)	(85)
Long-term loans from banks	(23)	(2)	(1)	2	1
Other long-term liabilities	(7)	(1)	-	1	-
Suppliers, creditors and credit balances	(75)	(8)	(4)	8	4
Short-term bank credit	(40)	(4)	(2)	4	2
	1,724	173	86	(173)	(86)

#### Sensitivity analysis of changes in prices of negotiable securities

Item	<u>Fair value</u>	Profit (loss) from changes in interest rate			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
NIS millions					
Investment in negotiable securities	442	44	22	(44)	(22)

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

Item	<u>Fair value</u>	Profit (loss) from changes in interest rate			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
NIS millions					
Not recognized as accounting hedging	12	9	5	(9)	(5)

### 12. Fair value of financial assets and liabilities used to finance acquisition of the assets, using different measurement methods

	Disclosure of fair value and book value		Disclosure of changes in fair value and book value	
	31.12.08		2008	
	NIS millions		NIS millions	
<b>Asset – Credit Suisse shares pledged in favor of the bank</b>	Value at first recognition	2,668		
	Recognized directly in other equity groups	(151)	Recognized directly in other equity groups	(151)
	<b>Total book value</b>	<b>2,517</b>	<b>Total recognized in changes in equity</b>	<b>(151)</b>
	<b>Total fair value</b>	<b>2,517</b>	<b>Total changes in fair value</b>	<b>(151)</b>
<b>Liabilities – bank loan</b>	Value at first recognition	(811)		
	Recognized in income statement	(77)	Recognized in income statement	(77)
	<b>Total book value</b>	<b>(888)</b>	<b>Total recognized in profit or loss</b>	<b>(77)</b>
	<b>Total fair value</b>	<b>(888)</b>	<b>Total changes in fair value</b>	<b>(77)</b>

### 13. IFRS

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 – Adoption of International Financial Reporting Standards (IFRS). The Standard stipulates that companies that are subject to the provisions of the Securities Law, 5728-1968 and are required to report according to the provisions of that law, will prepare their financial statements in accordance with IFRS for periods commencing from January 1, 2008, with the transition date to initial implementation being January 1, 2007 (the Transition Date).

For the purpose of the transition, the Company implemented IFRS 1 in its first quarter financial statements of 2008 and presented the opening balance on January 1, 2007, balance sheet as of December 31, 2007 and income statement for the year then ended in accordance with IFRS. Additionally, in its financial statements as of September 30, 2008, the Company presented adjustments between reporting in accordance with Israeli GAAP and reporting in accordance with IFRS at the

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transition date, as of December 31, 2007, and the year then ended, retroactively (from now onwards) (subject to deviations).

For further information, see Note 2, 3 and 34 to the financial statements.

## **14. Directors with accounting and financial expertise and independent directors**

### **14.1 Directors with accounting and financial expertise**

Pursuant to Section 92(A)(12) of the Companies Law, 5759-1999, the minimum number of directors with accounting and financial expertise appropriate for the Company is set at two directors (including external directors with such expertise). This takes into account the duties and the function of the board of directors as imposed by law, which includes its responsibility for preparing and approving the financial statements, the nature of the accounting and financial issues arising while preparing the Company's financial statements, in view of its areas of operation, the size and complexity of the Company, as well as the composition of the Company's board of directors, as a whole, including directors with business, managerial and professional experience allowing them to deal with the tasks of managing the Company, including its reporting duties.

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

- |               |   |
|---------------|---|
| Nochi Dankner | – LL.B. and B.A. (Political Science). Serves as chairman of the board and CEO of IDB Holdings Corporation Ltd., chairman of the boards of directors of IDB Development Corporation Ltd., of Clal Industries & Investments Ltd., and of Discount Investment Corporation Ltd. He also serves and /or has served as chairman and member of the boards of directors of public and private companies of the IDB Group and of the Ganden Group. He served as a member of the board of directors of Bank Hapoalim Ltd. and as chairman of the credit committee of the board of directors of Bank Hapoalim Ltd. |
| Yitzhak Manor | – MBA. Mr. Manor serves as a director in public and private companies in the IDB Group and as chairman of companies in the David Lubinski Group Ltd., co-chairman of IDB Holdings Ltd., director and member of the balance sheet committee of Israel Union Bank Ltd.  |
| Ami Erel      | – B.Sc. in Electrical Engineering. Mr. Erel serves as CEO and business manager of Discount Investment Company Ltd., and of Netvision Ltd. He also serves as chairman of the board of directors of Cellcom Israel Ltd., and as a director of Property and Building Company Ltd., Supersol Ltd., Makhteshim Agan Industries Ltd., and of other companies in the IDB Group. He served as chairman of the board and as President and CEO of Elron Electronic Industries Ltd., and of Bezeq the Israel Telecommunication Corp. Ltd.  |
| Gideon Lahav  | – B.A. in Economics. Mr. Lahav serves as a director of Paz Fuel Company Ltd., and First International Bank of Israel Ltd. He also serves as chairman of the Company's audit committee, director of Discount Investments and chairman of Discount Investments' audit committee. In the past he served as a director in other public companies, as CEO of Barclays Discount Bank and as CEO and later as chairman of Israel Discount Bank Ltd.  |

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- Avraham Asheri – B.A. in Economics and Political Science. Mr. Asheri served as a director of the Investments Center, Director General at the Ministry of Trade and Industry, Senior VP at Discount Bank in charge of the business sector, in charge of loans at Discount Bank and eventually also as CEO of Discount Bank. He serves as a director of Discount Mortgage Bank Ltd., Africa Israel Investments Ltd., (external director and chairman of the audit committee), Elron Electronic Industries Ltd. (chairman of the audit committee), Elbit Systems Ltd., and Micronet Ltd.
- Shlomo Rizman – B.A. in Economics and Political Science from the Tel Aviv Law and Economics Academy. Mr. Rizman serves as Managing Director of the Farmers Association, a member of Amir Ltd. and Accounting for Farmers Ltd. management, a member of the board of directors of the Liaison Bureau of the Economic Organizations. He serves as a member of the board of directors of the Technion in Haifa, member of the finance committee and chairman of the buildings committee of the National Insurance Institute in Israel and a member of public associations.

**14.2 Independent directors**

The Company has not adopted in its articles the directive concerning the percentage of independent directors as defined in section 219 (E) of the Companies Law 5759-1999.

**15. Critical accounting estimates**

The preparation of the financial statements of the Company and its subsidiaries in accordance with IFRS require their managements to use estimates, assessments and assumptions which will affect the implementation of the policy and the amounts presented in the financial statements. These include estimates that require reasoning in an environment of uncertainty and have a significant effect on presentation of the data in the financial statements. When considering such estimates, the Company relies on past experience, various facts, external factors and reasonable assumptions according to the circumstances appropriate for each estimate. Actual results may differ from these estimates.

For further information about the critical estimates, see Note 2(4) to the financial statements.

**16. Disclosure of the procedure for approving the financial statements in a reporting corporation**

**16.1** The entities within the corporation in charge of overall control: Company board of directors and audit committee.

**16.2** Procedures undertaken by the entities in charge of overall control in the corporation, prior to approval of the financial statements of the corporation:

The Company's board of directors appointed the audit committee to serve as a "balance sheet committee", which presents the board with the main issues of the detailed discussion concerning the financial statements and makes recommendations concerning their approval. The financial statements are approved by the board of directors. The members of the balance sheet committee are Mr. Gidon Lahav, Mr. Avraham Asheri, Mrs. Ayelet Ben Ezer and Mr. Shlomo Rizman. Three members of the audit committee have financial expertise. The Company's internal auditor is invited to and attends the balance sheet committee meetings. The Company's auditor is invited to and attends balance sheet committee and board of directors meetings in which the financial statements

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are discussed and approved, and is required to explain the principal findings, if any, which arose during the audit or the review.

The balance sheet committee examines, with the aid of detailed presentations made by office holders and others in the Company, including the CEO, Mr. Raanan Cohen, CFO, Mr. Oren Hillinger and Comptroller, Mrs. Avishag Perets, the significant issues in the financial report, including transactions outside of the ordinary course of the Company's business, if any, the material assessments and critical estimates applied in the financial statements, the reasonableness of the data, the accounting policy applied and the changes that have occurred in it, and the application of the principle of proper disclosure in the financial statements and accompanying information. The balance sheet committee also examines various aspects of control and risk management, both those reflected in the financial statements (such as the reporting on financial risks) and those that affect the reliability of the financial statements. Where necessary, the balance sheet committee requests a comprehensive review of matters of significant implication.

For approval of the financial statements, the audit committee meets prior to the date of the board of directors meeting for a comprehensive discussion of the material reporting issues and detailed discussion of the draft financial statements.

## **17. Managers and employees of the Company and the investees**

We wish to extend our appreciation to the Company's management and employees, and to the management and employees of the investees, for their work, effort and contribution to the Company and the investees throughout this year.

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Ami Erel

Chairman of the Board of Directors

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Raanan Cohen

CEO

Tel Aviv, March 15, 2009