

Translated from the Hebrew original

Koor Industries Limited

**Condensed Interim Separate
Financial Information**

As at June 30, 2011

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

Condensed Interim Separate Financial Data as at June 30, 2011

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To:
The shareholders of Koor Industries Ltd

Subject: Special auditors' report on separate interim financial information according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of Koor Industries Ltd (hereinafter – the Company) as of June 30, 2011 and for the six and three month periods then ended. The separate interim financial information is the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

We did not review the separate interim financial information of investee companies the investments in which amounted to NIS 462,318 thousand as of June 30, 2011, and the profit from these investee companies amounted to NIS 141,087 thousand and NIS 129,703 thousand for the six and three month periods then ended, respectively. The financial statements of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information was not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 25, 2011

Condensed Interim Separate Financial Information as at June 30, 2011**Condensed Interim Financial Position Data as at**

	<u>2011</u>	<u>June 30</u> <u>2010</u>	<u>December 31</u> <u>2010</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Assets			
Current assets			
Cash and cash equivalents	191,398	(*)256,443	553,800
Short-term deposits and investments including financial derivatives	42,506	62,175	69,860
Pledged short-term deposits	18,434	-	-
Other receivables	269,299	18,254	4,159
	<u>521,637</u>	<u>336,872</u>	<u>627,819</u>
Long-term investments			
Balance for investees	3,674,639	4,704,078	3,840,066
Financial assets available for sale	103,692	1,165,529	93,853
Pledged financial assets available for sale	1,108,862	145,041	1,193,423
Pledged deposits	220,742	(*)6,293	98,682
Other investments	5,838	14,181	14,409
Loans to investees	390,374	394,974	388,527
	<u>5,504,147</u>	<u>6,430,096</u>	<u>5,628,960</u>
Investment property	<u>70,900</u>	<u>61,800</u>	<u>70,900</u>
Fixed assets	<u>739</u>	<u>784</u>	<u>762</u>
Total assets	<u>6,097,423</u>	<u>6,829,552</u>	<u>6,328,441</u>

(*) Reclassified. See Note 2.

The accompanying supplementary information is an integral part of the condensed interim separate financial data.

Condensed Interim Separate Financial Information as at June 30, 2011**Condensed Interim Financial Position Data as at**

	<u>2011</u>	<u>June 30</u> <u>2010</u>	<u>December 31</u> <u>2010</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Liabilities			
Current liabilities			
Credit from banks	350,000	-	-
Current maturity of debentures	153,094	153,094	153,094
Trade payables	1,999	1,980	2,008
Other payables and credit balances	167,702	499,779	306,662
Financial derivatives	261,632	41,031	121,176
Provisions	1,250	500	500
	<u>935,677</u>	<u>696,384</u>	<u>583,440</u>
Long-term liabilities			
Liabilities to banks	843,082	88,736	780,203
Debentures	1,883,571	1,979,856	2,006,449
Capital note from subsidiary	6,382	6,382	6,382
Financial derivatives	-	3,178	-
Deferred tax liabilities	-	2,712	-
Employee benefits	758	1,257	889
	<u>2,733,793</u>	<u>2,082,121</u>	<u>2,793,923</u>
Equity			
Share capital	564,546	564,546	564,546
Premium on shares	3,904,575	3,904,575	3,904,575
Treasury shares	(6,071)	(6,071)	(6,071)
Reserves	(493,361)	(1,432,588)	(1,759,954)
Retained earnings (accumulated loss)	(1,541,736)	1,020,585	247,982
Total equity attributed to holders of equity rights in the Company	<u>2,427,953</u>	<u>4,051,047</u>	<u>2,951,078</u>
Total liabilities and equity	<u>6,097,423</u>	<u>6,829,552</u>	<u>6,328,441</u>

Ami Erel
Chairman of the Board of Directors

Raanan Cohen
Chief Executive Officer

Oren Hillinger
Chief Financial Officer

Approval date of financial statements: August 25, 2011

The accompanying supplementary information is an integral part of the condensed interim separate financial data.

Condensed Interim Separate Financial Information as at June 30, 2011
Condensed Interim Statement of Income Data

	For six-month period ended June 30		For three-month period ended June 30		For year ended December 31
	2011	2010	2011	2010	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Revenues					
Revenues from rental fees	3,447	3,268	1,729	1,634	6,928
Koor's equity in the earnings of investees	119,583	268,830	82,360	79,105	50,202
Gain from realization and dividend from financial assets available for sale	47,749	64,230	44,858	64,230	74,684
Other income	86	-	86	-	9,366
Management fee and financing income from investees	8,349	8,382	4,677	5,292	14,639
Financing income	2,342	24,351	2,459	3,717	21,581
	<u>181,556</u>	<u>369,061</u>	<u>136,169</u>	<u>153,978</u>	<u>177,400</u>
Expenses					
General and administrative expenses	16,183	12,326	6,532	6,242	43,200
Koor's equity in the losses of investees	1,700,052	8,238	1,752,916	16,067	344,818
Other expenses	5,481	4,856	3,238	-	16,903
Financing expenses	238,237	88,074	273,358	86,189	279,569
	<u>1,959,953</u>	<u>113,494</u>	<u>2,036,044</u>	<u>108,498</u>	<u>684,490</u>
Earnings (loss) before income tax	(1,778,397)	255,567	(1,899,875)	45,480	(507,090)
Income tax	(17,032)	(12,747)	(26,301)	(10,097)	(29,194)
Earnings (loss) for the period attributed to the holders of the Company	(1,795,429)	242,820	(1,926,176)	35,383	(536,284)

The accompanying supplementary information is an integral part of the condensed interim separate financial data.

Condensed Interim Separate Financial Information as at June 30, 2011**Condensed Interim Comprehensive Income Data**

	For six-month period ended June 30		For three-month period ended June 30		For year ended December 31
	2011	2010	2011	2010	2010
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Earnings (loss) for the period attributed to holders the Company	(1,795,429)	242,820	(1,926,176)	35,383	(536,284)
Components of other comprehensive income (comprehensive loss):					
Foreign currency translation differences from foreign operations	(52,978)	44,437	(25,873)	64,633	(80,257)
Foreign currency translation differences from foreign operations recognized in gain/loss	-	4,347	-	-	4,347
Net change in fair value of financial assets available for sale, net of tax	(55,528)	(260,152)	(95,958)	(292,179)	(273,740)
Impairment loss on financial assets available for sale, recognized in statement of income	-	2,717	-	2,717	2,717
Actuarial losses from defined benefits plan	-	-	-	-	(295)
Koor's equity in comprehensive income (loss) of investees, net of tax	1,380,810	(1,065,708)	1,256,046	(1,252,423)	(1,247,996)
Total comprehensive income (comprehensive loss) for the period attributed to holders of the Company	<u>(523,125)</u>	<u>(1,031,539)</u>	<u>(791,961)</u>	<u>(1,441,869)</u>	<u>(2,131,508)</u>

The accompanying supplementary information is an integral part of the condensed interim separate financial data.

Condensed Interim Separate Financial Information as at June 30, 2011**Condensed Interim Cash Flows Data**

	For six-month period ended June 30		For three-month period ended June 30		For year ended December 31
	2011	(**)2010	2011	(**)2010	(**)2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows generated by operating activities					
Earnings (loss) for the period	(1,795,429)	242,820	(1,926,176)	35,383	(536,284)
Adjustments:					
Financial expenses, net	228,101	55,898	266,501	77,459	244,460
Koor's equity in results of investees, net	1,580,469	(260,592)	1,670,556	(63,038)	294,616
Dividend received	52,710	76,156	47,263	66,475	98,143
Depreciation and amortization	23	21	12	10	47
Increase (decrease) in employee benefits	(131)	176	(36)	131	(487)
Income tax expenses	17,032	12,747	26,301	10,097	29,194
Revaluation of investment property	-	-	-	-	(9,100)
Capital losses (gains), net, from realization and dividend of investment in investees and securities available for sale	(47,749)	(62,123)	(44,858)	(66,947)	(69,860)
Impairment of assets and investments	5,473	2,717	3,155	2,717	12,067
Decrease (increase) in other receivables and debit balances	(724)	(163)	68	3,861	262
Decrease in trade and other payables and credit balances	(7,836)	(14,988)	(3,402)	(14,664)	(10,146)
Income tax received (paid)	1,367	(19,866)	1,367	(19,866)	(7,614)
	33,306	32,803	40,751	31,618	45,298
Net cash inflows (outflows) generated by operating activities with investees	(2,290)	90	(2,259)	422	(1,845)
Net cash inflows generated by operating activities	31,016	32,893	38,492	32,040	43,453
Cash flows generated by investing activities					
Purchase of fixed assets	-	(40)	-	(13)	(44)
Proceeds from realization of assets held for sale	-	16,178	-	-	16,178
Investment in available for sale financial assets and in investees and other	(97,329)	(271,008)	(22,561)	(221,682)	(280,700)
Decrease (increase) in pledged deposits, net	(114,172)	(*) (6,430)	(120,294)	(*) (6,430)	(97,375)
Increase in short-term deposits and investments, net	26,230	(9,069)	27,069	(1,873)	(9,363)
Cash flows from settlement of derivatives, net	47,956	37,043	4,101	12,397	30,789
Interest received	3,120	2,749	621	1,255	5,152
	(134,195)	(230,577)	(111,064)	(216,346)	(335,363)
Net cash inflows (outflows) generated by investing activities with investees	(254,830)	7,510	(244,217)	616,042	12,230
Net cash inflows (outflows) generated by investing activities	(389,025)	(223,067)	(355,281)	399,696	(323,133)

(*) Reclassified. See Note 2.

(**) Reclassified. See Note 2(C)(2) to the condensed interim consolidated financial statements.

The accompanying supplementary information is an integral part of the condensed interim separate financial data.

Condensed Interim Separate Financial Information as at June 30, 2011
Condensed Interim Cash Flows Data (cont.)

	For six-month period ended June 30		For three-month period ended June 30		For year ended December 31
	2011	2010	2011	2010	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Cash flows generated by financing activities					
Dividend distribution	-	(269,957)	-	(269,957)	(269,957)
Interest paid	(42,051)	(44,757)	(6,802)	(10,047)	(140,324)
Cash flows from settlement of derivatives, net	-	-	-	-	787
Long-term loans received	-	282,068	-	249,693	945,932
Long-term loans and debentures repaid	(153,094)	(999,871)	-	(967,373)	(999,871)
Increase credit from banks, net	350,000	2,791	250,000	2,791	2,791
	<u>154,855</u>	<u>(1,029,726)</u>	<u>243,198</u>	<u>(994,893)</u>	<u>(460,642)</u>
Net cash inflows (outflows) generated by financing activities with investees	<u>(159,769)</u>	<u>341,110</u>	<u>-</u>	<u>341,110</u>	<u>158,466</u>
Net cash (outflows) generated by financing activities	<u>(4,914)</u>	<u>(688,616)</u>	<u>243,198</u>	<u>(653,783)</u>	<u>(302,176)</u>
Change in cash and cash equivalents	(362,923)	(878,790)	(73,591)	(222,047)	(581,856)
Cash and cash equivalents – beginning of period	553,800	1,136,391	256,109	472,412	1,136,391
Effect of fluctuations in exchange rate on balances of cash and cash equivalents	<u>521</u>	<u>(*)(1,158)</u>	<u>8,880</u>	<u>(*)6,078</u>	<u>(735)</u>
Cash and cash equivalents – end of period	<u>191,398</u>	<u>(*)256,443</u>	<u>191,398</u>	<u>(*)256,443</u>	<u>553,800</u>

(*) Reclassified. See Note 2.

The accompanying supplementary information is an integral part of the condensed interim separate financial data.

Condensed Interim Separate Financial Information as at June 30, 2011

Supplementary Information**Note 1 – General**

The interim separate financial information is presented in accordance with Regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970, and does not include all the information required under Regulation 9C and Addendum 10 to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970, regarding financial information attributed to the Company alone. It is to be read in conjunction with the separate financial information as at December 31, 2010 and for the year then ended and in conjunction with the condensed consolidated interim financial statements as at June 30, 2011 ("the condensed interim consolidated financial statements").

(1) In this interim financial information attributed to the Company alone:

- (1) The Company – Koor Industries Ltd.
- (2) Subsidiaries – Companies, including partnerships, the financial statements of which are consolidated in full, directly or indirectly, in the Company's financial statements.
- (3) Investees – subsidiaries and companies, including partnerships, the Company's investment in which is included in the financial statements, directly or indirectly, by the equity method.

(2) Additional significant information required to understand the financial information attributed to the Company alone

Regarding additional significant information, see Notes 3, 4, 5, 6 and 8 to the condensed consolidated interim financial statements.

For the impact of early adoption of IFRS 9 (2009) see notes 3(C)(1) and 5(1).

(3) Related parties

During the first half of 2011, the Company transferred NIS 160 million as current debt to M.A.G.M. Chemistry Holdings Ltd ("MAGM"), a wholly-owned subsidiary. In addition the Company transferred NIS 262 million to MAGM.

Note 2 – Basis for financial statement preparation**Reclassification**

In the financial statements as at June 30, 2011, deposits pledged in favor of loans which presented as non-current liabilities in the item "pledged deposits". Pledged deposits totaling NIS 6,293 thousand as at June 30, 2011 were reclassified from the balance of cash and cash equivalents to pledged deposits. Consequently, the item "increase in pledged deposits, cash and cash equivalents balance as at the end of the period" and the item "effect of fluctuations in exchange rate on balances of cash and cash equivalents" in the statement of cash flows for the six-month and three-month periods ended on June 30, 2010 were updated.