

Translated from the Hebrew Original

Koor Industries Limited

Condensed Consolidated Interim
Financial Statements
As at June 30, 2011
(unaudited)

The information contained in these financial statements constitutes an unofficial translation 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 Financial Statements as at June 30, 2011 (Unaudited)

Table of Contents

	<u>Page</u>
Auditors' Review Report	2
Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited):	
Condensed Consolidated Interim Statements of Financial Position	3-4
Condensed Consolidated Interim Statements of Income	5
Condensed Consolidated Interim Statements of Comprehensive Income	6
Condensed Consolidated Interim Statements of Changes in Equity	7-9
Condensed Consolidated Interim Statements of Cash Flows	10-11
Notes to the Condensed Consolidated Interim Financial Statements	12-37



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Review Report to the Shareholders of Koor Industries Ltd.

Introduction

We have reviewed the accompanying financial information of Koor Industries Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of June 30, 2011 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six and three month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries whose assets, and whose revenues constitute 11% and 7% of the consolidated revenues from sales and services, from Group’s equity in the results of affiliates (in absolute values), from gains from sale of and dividends from financial assets available for sale and from other income for the six and three month periods then ended, respectively. Furthermore, we did not review the condensed interim financial information of equity accounted investees the investment in which amounted to NIS 483,643 thousand as of June 30, 2011, and the Group’s share in their profits amounted to NIS 143,101 thousand and NIS 131,559 thousand for the six and three month periods then ended, respectively. The condensed interim financial information 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 information 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 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 financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, 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 interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 25, 2011

Condensed Consolidated Interim Statements of Financial Position as at

	June 30, 2011	June 30, 2010	December 31,
	(Unaudited)	(Unaudited)	2010
	NIS thousands	NIS thousands	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Current assets			
Cash and cash equivalents	369,041	(*) 272,624	597,446
Short-term deposits and investments, including financial derivatives	97,764	99,933	76,458
Pledged short-term deposits	18,434	-	-
Trade receivables	9,870	12,953	17,078
Other receivables	31,254	91,359	29,988
Inventories	23,803	32,314	23,700
	550,166	509,183	744,670
Long-term investments			
Investments in investees	2,999,835	3,445,149	2,790,974
Financial assets available for sale	103,692	1,170,812	117,020
Pledged financial assets available for sale	5,143,615	4,510,782	5,535,863
Pledged short-term deposits	1,023,491	(*)197,421	457,511
Other investments	58,037	70,160	76,691
	9,328,670	9,394,324	8,978,059
Deferred tax assets	861	-	-
Investment property	107,400	95,300	107,400
Fixed assets	3,485	1,970	1,641
Intangible assets	79,041	2,003	1,340
Total assets	10,069,623	10,002,780	9,833,110

(*) Reclassified. See Note 2(C)(1).

Condensed Consolidated Interim Statements of Financial Position as at

	June 30, 2011	June 30, 2010	December 31,
	(Unaudited)	(Unaudited)	2010
	NIS thousands	NIS thousands	(Audited)
			NIS thousands
Liabilities			
Current liabilities			
Credit from banks and bank overdrafts	376,182	31,000	26,618
Current maturity of debentures	153,094	153,094	153,094
Trade payables	12,681	14,244	14,817
Other payables	226,979	236,956	211,686
Financial derivatives	261,632	41,031	121,176
Provisions	2,877	12,527	5,733
Customer advances	342	1,985	770
	1,033,787	490,837	533,894
Long-term liabilities			
Long term bank loans	4,766,945	3,603,178	4,469,980
Debentures	1,717,379	1,819,102	1,843,209
Deferred tax liabilities	94,424	31,081	31,221
Other liabilities including financial derivatives	2,568	6,278	2,839
Employee benefits	4,305	1,257	889
	6,585,621	5,460,896	6,348,138
Equity			
Non-controlling interests			
	22,262	-	-
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	2,427,953	4,051,047	2,951,078
Total equity	2,450,215	4,051,047	2,951,078
Total liabilities and equity	10,069,623	10,002,780	9,833,110

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 notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Income

	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
Revenues					
Sales and services	65,875	44,735	31,526	25,079	102,431
Koor Group's equity in earnings of affiliates	300,103	182,992	185,587	70,019	82,850
Income from sale of and dividends from financial assets available for sale	201,959	296,037	196,802	281,452	306,408
Other income	6,578	109	364	74	12,545
Financing income	12,571	40,717	7,253	30,185	101,816
	587,086	564,590	421,532	406,809	606,050
Expenses					
Cost of sales and services	24,510	32,571	11,137	18,166	77,436
Selling and marketing expenses	19,008	6,451	8,783	3,010	11,879
General and administrative expenses	33,614	23,863	14,725	15,356	53,153
Koor Group's equity in losses of affiliates	581	-	-	-	288,382
Loss from sale of and impairment of financial assets available for sale	1,834,777	-	1,832,458	-	12,065
Other expenses	1,676	6,616	1,177	50	9,684
Financing expenses	485,762	181,652	490,307	195,737	593,385
	2,399,928	251,153	2,358,587	232,319	1,045,984
Earnings (loss) before income taxes	(1,812,842)	313,437	(1,937,055)	174,490	(439,934)
Income taxes	18,040	(70,617)	11,072	(139,107)	(96,350)
Income (loss) for the period	(1,794,802)	242,820	(1,925,983)	35,383	(536,284)
Earnings (loss) attributed to:					
Holders of the Company	(1,795,429)	242,820	(1,926,176)	35,383	(536,284)
Non-controlling interests	627	-	193	-	-
Earnings (loss) for the period	(1,794,802)	242,820	(1,925,983)	35,383	(536,284)
	NIS	NIS	NIS	NIS	NIS
Earnings per share:					
Basic earnings (loss) per ordinary share	(37.849)	5.127	(40.599)	0.750	(11.304)
Diluted earnings (loss) per ordinary share	(37.849)	5.111	(40.599)	0.750	(11.304)

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

Condensed Consolidated Interim Statements of Comprehensive Income

	For six-month period ended		For three-month period ended		For year ended
	June 30		June 30		December 31
	2011	2010	2011	2010	2010
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Income (loss) for the period	(1,794,802)	242,820	(1,925,983)	35,383	(536,284)
Elements of other comprehensive income (comprehensive loss):					
Foreign currency translation differences from foreign operations	(109,065)	91,406	(53,052)	138,904	(173,163)
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	(393,925)	(1,338,619)	(584,629)	(1,587,232)	(1,402,451)
Net change in fair value of financial assets available for sale recognized in gain/loss, net of tax	3,584	(19,618)	5,306	(8,679)	(19,618)
Impairment loss on financial assets available for sale, recognized in statement of income	1,758,860	2,717	1,758,860	2,717	2,717
Actuarial losses from defined benefits plan	(266)	-	-	-	(295)
Koor's equity in comprehensive income (comprehensive loss) of affiliates	13,033	(14,592)	7,730	(22,962)	(6,761)
Total comprehensive income (comprehensive loss) for the period	<u>(522,581)</u>	<u>(1,031,539)</u>	<u>(791,768)</u>	<u>(1,441,869)</u>	<u>(2,131,508)</u>
comprehensive income (comprehensive loss) attributed to:					
Holders of the Company	(523,125)	(1,031,539)	(791,961)	(1,441,869)	(2,131,508)
Non-controlling interests	544	-	193	-	-
Comprehensive income (comprehensive loss) for the period	<u>(522,581)</u>	<u>(1,031,539)</u>	<u>(791,768)</u>	<u>(1,441,869)</u>	<u>(2,131,508)</u>

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

Condensed Consolidated Interim Statement of Changes in Equity

	Attributed to Company's equity holders							Non-controlling interest	Total equity	
	Share capital	Premium on shares	Translation reserve for foreign operations	Hedge reserve	Reserve for financial assets available for sale	Treasury shares	Retained earnings			Total
	NIS thousands									
For six-month period ended June 30, 2011 (unaudited)										
Balance as at January 1, 2011 (audited)	564,546	3,904,575	(417,496)	7,436	(1,349,894)	(6,071)	247,982	2,951,078	-	2,951,078
Non-controlling interests in respect of business combination	-	-	-	-	-	-	-	-	23,406	23,406
Dividend to non-controlling interest in a subsidiary	-	-	-	-	-	-	-	-	(1,688)	(1,688)
Income (loss) for the period	-	-	-	-	-	-	(1,795,429)	(1,795,429)	627	(1,794,802)
Other comprehensive income (comprehensive loss) for the period	-	-	(94,897)	(7,029)	1,368,519	-	5,711	1,272,304	(83)	1,272,221
Balance as at June 30, 2011 (unaudited)	564,546	3,904,575	(512,393)	407	18,625	(6,071)	(1,541,736)	2,427,953	22,262	2,450,215

	Attributed to Company's equity holders							Total equity
	Share capital	Premium on shares	Translation reserve for foreign operations	Hedge reserve	Reserve for financial assets available for sale	Treasury shares	Retained earnings (accumulated loss)	
	NIS thousands							
For six-month period ended June 30, 2010 (unaudited)								
Balance as at January 1, 2010 (audited)	564,546	3,904,575	(243,722)	17,461	69,458	(6,071)	1,046,296	5,352,543
Income for the period	-	-	-	-	-	-	242,820	242,820
Other comprehensive income (comprehensive loss) for the period	-	-	74,341	5,394	(1,355,520)	-	1,426	(1,274,359)
Dividend to holders of equity	-	-	-	-	-	-	(269,957)	(269,957)
Balance as at June 30, 2010 (unaudited)	564,546	3,904,575	(169,381)	22,855	(1,286,062)	(6,071)	1,020,585	4,051,047

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

Condensed Consolidated Interim Statement of Changes in Equity (cont.)

	Attributed to Company's equity holders							Non-controlling interest	Total equity	
	Share capital	Premium on shares	Translation reserve for foreign operations	Hedge reserve	Reserve for financial assets available for sale	Treasury shares	Retained earnings			Total
	NIS thousands									
For three-month period ended June 30, 2011 (unaudited)										
Balance as at April 1, 2011 (audited)	564,546	3,904,575	(465,357)	(1,781)	(1,160,912)	(6,071)	384,914	3,219,914	22,913	3,242,827
Dividend to non-controlling interest in a subsidiary	-	-	-	-	-	-	-	-	(844)	(844)
Income (loss) for the period	-	-	-	-	-	-	(1,926,176)	(1,926,176)	193	(1,925,983)
Other comprehensive income (comprehensive loss) for the period	-	-	(47,036)	2,188	1,179,537	-	(474)	1,134,215	-	1,134,215
Balance as at June 30, 2011 (unaudited)	564,546	3,904,575	(512,393)	407	18,625	(6,071)	(1,541,736)	2,427,953	22,262	2,450,215

	Attributed to Company's equity holders							Retained earnings (accumulated loss)	Total equity
	Share capital	Premium on shares	Translation reserve for foreign operations	Hedge reserve	Reserve for financial assets available for sale	Treasury shares			
	NIS thousands								
For three-month period ended June 30, 2010 (unaudited)									
Balance as at April 1, 2010 (unaudited)	564,546	3,904,575	(283,778)	22,925	307,132	(6,071)	983,587	5,492,916	
Income for the period	-	-	-	-	-	-	35,383	35,383	
Other comprehensive income (comprehensive loss) for the period	-	-	114,397	(70)	(1,593,194)	-	1,615	(1,477,252)	
Balance as at June 30, 2010 (unaudited)	564,546	3,904,575	(169,381)	22,855	(1,286,062)	(6,071)	1,020,585	4,051,047	

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

Condensed Consolidated Interim Statement of Changes in Equity (cont.)

	Attributed to Company's equity holders							Total equity
	Share capital	Premium on shares	Translation reserve for foreign operations	Hedge reserve	Reserve for financial assets available for sale	Treasury shares	Retained earnings	
	NIS thousands							
For the year ended December 31, 2010 (audited)								
Balance as at January 1, 2010 (audited)	564,546	3,904,575	(243,722)	17,461	69,458	(6,071)	1,046,296	5,352,543
Dividend to Company's shareholders	-	-	-	-	-	-	(269,957)	(269,957)
Loss for the year	-	-	-	-	-	-	(536,284)	(536,284)
Other comprehensive income (comprehensive loss) for the year	-	-	(173,774)	(10,025)	(1,419,352)	-	7,927	(1,595,224)
Balance as at December 31, 2010 (audited)	564,546	3,904,575	(417,496)	7,436	(1,349,894)	(6,071)	247,982	2,951,078

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

Condensed Consolidated Interim Statement of Cash Flows

	For six-month period ended		For three-month period ended		For year ended
	June 30		June 30		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					
Income (loss) for the period	(1,794,802)	242,820	(1,925,983)	35,383	(536,284)
Adjustments:					
Financial expenses, net	473,191	140,935	483,055	165,552	491,569
Income tax expenses (savings)	(18,040)	70,617	(11,072)	139,107	96,350
Koor's equity in results of affiliates, net	(299,522)	(182,992)	(185,587)	(70,019)	205,532
Dividend received	204,419	281,514	200,828	274,014	292,101
Depreciation and amortization	5,407	941	2,763	392	1,725
Increase (decrease) in employee benefits	(199)	176	(156)	131	(487)
Revaluation of investment property	-	-	-	-	(12,100)
Net capital gains from realization, net and dividends from investments in investees and securities available for sale	(197,592)	(293,848)	(192,435)	(284,087)	(301,585)
Impairment of assets and investments	1,824,564	4,314	1,827,773	2,700	14,595
Decrease (increase) in trade and other receivables	8,499	3,763	5,611	(690)	1,010
Decrease (increase) in inventories and customer advances	(1,500)	3,043	169	2,894	7,936
Decrease in trade and other payables	(18,998)	(21,652)	(8,218)	(6,585)	(17,401)
Income tax received (paid)	980	(110,056)	1,213	(112,648)	(57,890)
Net cash inflows generated by operating activities	186,407	139,575	197,961	146,144	185,071
Cash flows generated by investing activities					
Purchase of fixed assets	(1,040)	(51)	(256)	(13)	(65)
Amounts recognized as intangible assets	(42)	(946)	(42)	(946)	(946)
Proceeds from realization of financial assets available for sale, in investees and other	150,203	284,217	113,561	102,598	288,568
Proceeds from realization of assets held for sale	-	16,178	-	-	16,178
Investment in financial assets available for sale, affiliates and other	(190,858)	(2,369,265)	(21,092)	(494,655)	(2,431,196)
Decrease (increase) in pledged deposits, net	(525,847)	(*) (191,995)	(560,099)	(*) (191,995)	(443,356)
Decrease (increase) in short-term deposits, pledged deposits and investments, net	27,805	(7,118)	30,836	(281)	65,020
Acquisition of subsidiary, net of cash acquired, in the framework of the initial consolidation	(24,890)	-	-	-	-
Cash flows to settlement of derivatives, net	47,956	37,043	4,101	12,397	30,789
Interest received	5,439	2,936	1,697	1,349	5,692
Net cash outflows generated by investing activities	(511,274)	(2,229,001)	(431,294)	(571,546)	(2,469,316)

* Reclassified, see Note 2(C)(1).

** Reclassified, see Note 2(C)(2).

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

Condensed Consolidated Interim Statement of Cash Flows (cont.)

	For six-month period ended		For three-month period ended		For year ended
	June 30		June 30		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 distributed to shareholders	-	(269,957)	-	(269,957)	(269,957)
Dividend to non-controlling interest in a subsidiary	(1,688)	-	(844)	-	-
Interest paid	(110,376)	(97,425)	(38,903)	(40,515)	(254,445)
Long-term loans received	-	1,881,308	-	1,026,783	2,549,697
Long-term loans and debentures repaid	(153,094)	(761,783)	-	(680,880)	(761,783)
Cash flows from settlement of derivatives, net	-	-	-	-	787
Increase (decrease) in credit from banks, net	348,199	740	239,992	2,234	(1,070)
Net cash inflows generated by financing activities	83,041	752,883	200,245	37,665	1,263,229
Change in cash and cash equivalents	(241,826)	(1,336,543)	(33,088)	(387,737)	(1,021,016)
Cash and cash equivalents – beginning of period	597,446	1,612,343	389,843	650,221	1,612,343
Effect of fluctuations in exchange rate on balances of cash and cash equivalents	11,144	(*) (3,176)	10,009	(*) 10,140	6,119
Cash and cash equivalents – end of period	(**)366,764	(*) 272,624	(**)366,764	(*) 272,624	597,446

* Reclassified, see Note 2(C)(1).

** The balance of cash and cash equivalents as at June 30, 2011 is presented net of bank overdrafts of NIS 2,227 thousand.

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

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 1 – General**

Koor Industries Ltd. ("the Company" or "Koor") is an Israel-domiciled company that was incorporated in Israel; its registered address is 3 Azrieli Center, Tel-Aviv 67023. The Company's consolidated financial statements as at June 30, 2011 include the financial statements of the Company and the financial statements of its subsidiaries, as well as the Group's rights in affiliates and in a jointly-controlled company (together – "the Group"). The Company is a holding company that invests mainly in the fields of agrochemicals, finance, telecommunications equipment, real estate and others, through subsidiaries, affiliates, a jointly-controlled company and financial investments. I.D.B. Development Ltd. ("IDB Development"), which is the controlling shareholder in the Company, holds 76% of the Company's shares as at June 30, 2011, directly and indirectly through Discount Investment Corporation Ltd ("DIC"). The controlling interest in IDB Development is comprised of Gandan Holdings Ltd., Manor Holdings B.I. Ltd. and Abraham Livnat Ltd., which are tied in a voting agreement. Its ultimate parent company is Gandan Holdings Ltd., and Mr. Nochi Dankner is the ultimate controlling shareholder. The Company's securities are listed for trading on the Tel Aviv Stock Exchange.

Note 2 – Basis for preparation of financial statements**A. Declaration of compliance with International Financial Reporting Standards**

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* – and do not include all the information required in the full annual financial statements. The condensed interim financial statements should be read together with the financial statements as at and for the year ended December 31, 2010 ("the annual financial statements").

Likewise, the financial statements are prepared in accordance with Section D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved for issue by the Company's Board of Directors on August 25, 2011.

B. Use of estimates and judgment

When preparing condensed financial statements in conformity with IFRS, Company management is required to use judgment when making assessments, estimates and assumptions that affect the implementation of the policies and amounts of assets and liabilities, revenues and expenses. It is clarified that the actual results could differ from these estimates. Management's judgment, when applying the Group's accounting policies and main assumptions used in estimates involve uncertainty, are consistent with those used in the annual financial statements.

C. Reclassification

1. 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 197,421 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.
2. In the statement of cash flows for the six-month and three-month periods ended June 30, 2011, the Company adjusted the net financing costs in cash flows from operating activities in only one line-item, and not in several separate items, as it had done in the past. Comparative figures in the statement of cash flows for the six-month and three-month periods ended June 30, 2010 and for the year ended December 31, 2010 were reclassified for comparison purposes. The above reclassification has no effect on total cash flows from operating, investing or financing activities.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)

Note 3 – Significant accounting policies

Except as provided below, the Group's accounting policies in these condensed consolidated interim financial statements are the policies applied in its annual financial statements.

Presented below is a description of the changes in accounting policies instituted in the condensed consolidated interim financial statements and their effect:

A. First-time application of new standards

(1) Interim financial reporting

Commencing January 1, 2011, the Group applies the Amendment to IAS 34, *Interim Financial Reporting*, Significant Events and Transactions ("the Amendment"), which was issued as part of the IFRSs Improvements Project for 2010. In accordance with the Amendment, the list of events and transactions requiring disclosure in the interim financial reporting was broadened. Likewise, the materiality limit in the minimum disclosure requirements that existed prior to the Amendment was eliminated. The disclosures required by the Amendment were expressed in these condensed interim consolidated financial statements.

(2) Related party disclosures

Commencing January 1, 2011, the Group applies IAS 24 (2009), Related Party Disclosures ("the Standard"). The Standard includes changes in the definition of a related party and changes with respect to the disclosures related by government-related entities. The Standard is to be applied retroactively. For the purpose of initial application of the Standard, the Group mapped the relationships between related parties. In accordance with the new definition and as a result of the mapping, no new related party transactions or balances or the effect on financial statement disclosure were identified.

B. Accounting policies for new transactions or events

- As a result of the increase to control in Epsilon Investment House Ltd. (see Note 4(B)(2)), the Company applied a new accounting policy, as follows:

Non-controlling interests

Non-controlling interests are equity in a subsidiary that cannot be attributed, directly or indirectly, to the parent company. Non-controlling interests are an instrument that confers an ownership right in the present, and grants its holder a share in net assets in the event of liquidation (for example: ordinary shares), are measured on the date of the business combination at fair value or at its proportionate share of the identified assets and liabilities of the acquiree, on a separate transaction. The election of this accounting policy is not allowed for other instruments meeting the definition of non-controlling interests (for example: options for ordinary shares). These instruments will be measured at fair value or in accordance with the provisions of other relevant IFRS Standards.

Attribution of comprehensive income between the shareholders

A gain or loss and any element of other comprehensive income are attributed to the holders of the Company and to non-controlling interests. Total comprehensive income is attributed to the Company's owners and to non-controlling interests even if it results in a negative balance of non-controlling interests.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 3 – Significant Accounting Policies (Cont.)****B. Accounting policies for new transactions or events**

- As a result of transactions with non-controlling interests executed by Makhteshim-Agan Ltd. (see Note 4(A)(4)), the Company applied a new policy, as follows:

Transactions (purchases and sales) of an affiliate with non-controlling interests in the Group's consolidated financial statements

The accounting treatment for an increase (or decrease) in the affiliate's equity in the Group's consolidated financial statements as a result of transactions of the affiliate with non-controlling interests are recognized as income or loss in the Group's consolidated financial statements.

C. New standards and interpretations not yet adopted

- International Financial Reporting Standard IFRS 9 (2009), Financial Instruments ("the Standard") – further to that stated in the note on "significant accounting policies" in the annual financial statements regarding new standards and interpretations not yet adopted, it is noted that subsequent to the response of the Securities Authority to a preliminary inquiry by the Company, the Company is examining the possibility of early adoption of IFRS 9 (2009) commencing from the first quarter of 2012. As long as the Company makes such a decision, the Company could, according to the provisions of the Standard, elect the alternative of presenting the change in the fair value of the investment in Credit Suisse in other comprehensive income, with the amounts charged to other comprehensive income not being reclassified at any stage to income and loss, not even upon the sale of the shares, except for dividends (that clearly do not represent a recovery of the cost of the investment) that will be recorded in income and loss. Likewise, in the event that the Company will elect the alternative of presenting the change in fair value in other comprehensive income, the comparative figures for the years 2010 and 2011 will be corrected through restatement, so that the negative difference as at June 30, 2011 between the cost of the Credit Suisse shares and their market value, relating to the balance of the Credit Suisse shares that will be held by the Company on January 1, 2012 (in other words, after deducting sales), will be recognized in a capital reserve for financial assets through other comprehensive income and accordingly, will reverse the recognition of the pro rata share of the impairment loss recorded in the income statement in the second quarter of 2011. Changes in the value of the investment in subsequent periods will also be recognized in other comprehensive income. Consequently, and to the extent the Company will act in the same manner, the comparative figures for the year 2011 in the Company's statement of income will not express the recognition of the impairment loss for the balance of the Credit Suisse shares that will be held by the Company on January 1, 2012, and the balance of the Company's retained earnings will also reflect this correction.

However, it should be emphasized that if and as long as the Company elects to adopt early application of the Standard's provisions without the designation as fair value through other comprehensive income, the Company will present the change in fair value of the investment in Credit Suisse shares in the statement of income. In the event the Company will adopt the Standard in this manner, in early adoption in the financial statements of the third quarter or with respect to the annual financial statements for 2011, the full negative difference will not be recognized in the income statement in the second quarter, but rather, the negative difference as at January 1, 2011 will be charged as a reduction of the retained earnings as at the beginning of 2011, whereas the balance of the negative difference will be recognized in the income and loss of the first and second quarter of 2011.

There is no certainty that the Company will elect early adoption of the Standard's provisions and/or the manner in which they will be applied, as long as they are adopted, as noted.

For details on the expected implications of adoption of the Standard, see Note 5(1).

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 3 – Significant Accounting Policies (Cont.)****C. New standards and interpretations not yet adopted (cont.)****2. A new suite of accounting standards on Consolidation, Joint Arrangements and Disclosure on Involvement with Other Entities**

The new suite of standards replaces existing standards regarding consolidation of financial statements and joint arrangements and includes a number of changes with respect to investments in associates.

Presented hereunder are the new standards that were issued:

- a. **IFRS 10, Consolidated Financial Statements ("the Standard")**. The Standard replaces the requirements of IAS 27 *Consolidated and Separate Financial Statements* and the requirements of SIC-12 *Consolidation – Special Purpose Entities* with respect to the consolidation of financial statements, so that the requirements of IAS 27 will continue to be valid only for separate financial statements.

The Standard introduces a new single control model for determining whether an investor controls an investee and should therefore consolidate it. This model is implemented with respect to all investees. According to the model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and return.

Presented hereunder are certain key changes from the current consolidation guidance:

- The Standard introduces a model that requires applying judgment and analyzing all the relevant facts and circumstances for determining who has control and is required to consolidate the investee.
- The Standard introduces a single control model that is to be applied to all investees, both those presently in the scope of IAS 27 and those presently in the scope of SIC-12.
- De facto power should be considered when assessing control. This means that the existence of de facto control could require consolidation.
- When assessing control, all “substantive” potential voting rights will be taken into account. The structure, reasons for existence and conditions of potential voting rights should be considered.
- The Standard provides guidance on the determination of whether a decision maker is acting as an agent or as a principal when assessing whether an investor controls an investee.
- The Standard provides guidance on when an investor would assess power over portion of the investee (silos), that is over specified assets of the investee.
- The Standard provides a definition of protective rights, while there is no such definition in existing IFRS.
- The exposure to risk and rewards of an investee does not, on its own determine that the investor has control over an investee, rather it is one of the factor of control analysis.

The Standard is applicable retrospectively (with a certain relief) for annual periods beginning on or after January 1, 2013, except for certain exceptions prescribed in the Standard's transitional provisions. Early adoption is permitted providing that disclosure is provided and that the entire consolidation suite is early adopted, meaning also the two additional standards that were issued– IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Involvement with Other Entities.

Noting the nature of the Company as a holding company, the said Standard could have significant effects relating to the Company's financial statements.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 3 – Significant Accounting Policies (Cont.)****C. New standards and interpretations not yet adopted (cont.)****2. A new suite of accounting standards on Consolidation, Joint Arrangements and Disclosure on Involvement with Other Entities (cont.)**

- b. **IFRS 11, *Joint Arrangements*** ("the Standard"). The Standard replaces the requirements of IAS 31 *Interests in Joint Ventures* (hereinafter – IAS 31) and amends part of the requirements in IAS 28 *Investments in Associates*.

The Standard defines a joint arrangement as an arrangement over which two or more parties have joint control (as defined in IFRS 10). Joint arrangements are divided into two types: a joint operation and a joint venture.

The key changes are as follows:

- Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
- Joint operations – The parties with joint control have rights to the assets and obligations for the liabilities, relating to the arrangement, regardless of whether the joint arrangement is not structured in a separate vehicle, or is structured in a separate vehicle but the parties with joint control have rights to the assets and obligations for the liabilities, relating to the arrangement.

The accounting treatment of joint operations is similar to the accounting treatment in IAS 31 for jointly controlled assets and operations. This means that assets, liabilities and transactions are recognized and accounted for according to the relevant standards.

- Joint ventures – All joint arrangements structured in a separate vehicle in which the parties with joint control have rights to the net assets of the joint arrangement.

Joint ventures shall only be accounted for using the equity method (the option to apply the proportionate consolidation method has been removed).

- Accounting treatment for transition from significant influence to joint control, or vice versa- IAS 28 (Amended) eliminates the existing requirement to remeasure the existing or retained interest in the investment to fair value.
- According to IAS 28 (Amended), IFRS 5 applies on an investment, or a portion of an investment, in an associate or a joint venture, that meets the criteria to be classified as held for sale. Until the disposal of the portion of the investment that has been classified as held for sale, the equity method continues to be applied on the portion of the investment that has not been classified as held for sale.

The Standard is applicable retrospectively for annual periods beginning on or after January 1, 2013, but there are specific requirements for retrospective implementation in certain cases. Early adoption is permitted providing that disclosure is provided and that the entire consolidation suite is adopted at the same time, meaning also the two additional standards published – IFRS 10 *consolidated financial statements* and IFRS 12 *disclosure of involvement with other entities*.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 3 – Significant Accounting Policies (Cont.)****C. New standards and interpretations not yet adopted (cont.)**

- c. **IFRS 12, *Disclosures Involvement with other Entities* ("the Standard")**. The Standard contains extensive disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and unconsolidated structured entities.

The Standard is applicable for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that the entire consolidation suite is adopted at the same time, meaning also the two additional standards published – IFRS 10 *consolidated financial statements* and IFRS 11 *joint arrangements*. Nevertheless, it is permitted to voluntarily provide the additional disclosures required by IFRS 12 prior to its adoption without early adopting the other Standards.

The Group is examining the implications of adopting the Standards in its financial statements.

3. **IFRS 13, *Fair Value Measurement* ("the Standard")**. This Standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value.

The Standard applies to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided. Nevertheless, IFRS 13 does not apply to share based payment transactions within the scope of IFRS 2 *Share-Based Payment* and leasing transactions within the scope of IAS 17 *Leases*. IFRS 13 does not apply to measurements that are similar to but are not fair value (such as the measurement of the net realizable value of inventory, in accordance with IAS 2 *Inventories*, and the measurement of value in use, in accordance with IAS 36, *Impairment of Assets*).

The Standard is applicable prospectively for annual periods beginning on or after January 1, 2013. Earlier application is permitted with disclosure of that fact. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

The Group is examining the implications of adopting the Standards in its financial statements.

4. **Amendment to IAS 1 – *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* ("the amendment")**. The amendment changes the presentation of items of other comprehensive income (hereinafter – "OCI") in the financial statements, so that items of OCI that may be reclassified to profit or loss in the future, would be presented separately from those that would never be reclassified to profit or loss. Additionally, the amendment changes the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income. However, entities are still allowed to use other titles. The amendment is effective for annual periods beginning on or after July 1, 2012. The amendment will be applied retrospectively. Early adoption is permitted providing that disclosure is provided.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)

Note 3 – Significant Accounting Policies (Cont.)**C. New standards and interpretations not yet adopted (cont.)**

5. **Amendment to IAS 19, *Employee Benefits* ("the Amendment").** The Amendment introduces a number of changes to the accounting treatment of employee benefits.

The key changes are as follows:

- The amendment eliminates the possibility of postponing recognition of actuarial gains and losses, known as the "corridor method" and, in addition, eliminates the option of recognizing actuarial gains and losses directly in profit or loss. As a result, all actuarial gains and losses will be recognized immediately in equity through other comprehensive income.
- The amendment requires immediate recognition of past service costs regardless of whether the benefits have vested or not.
- The calculation of net interest income or expense will be determined by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset). Accordingly, calculation of actuarial gains or losses will also change.
- The amendment changes the definitions of short-term employee benefits and of other long term employee benefits, so that the distinction between the two will depend on when the entity expects the benefits to be wholly settled, rather than when settlement is due.
- The amendment enhances the disclosure requirements for defined benefit plans, in an effort to provide better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.
- The definition of termination benefits has been clarified so that termination benefits are recognized at the earlier of when the entity recognizes, in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, costs for a restructuring that includes the payment of termination benefits, and when the entity can no longer withdraw the offer of the termination benefits.

The amendment is applicable retrospectively (excluding certain exceptions stated in the standard) for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that disclosure is provided.

The Group is examining the implications of adopting the Amendment in its financial statements.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 4 - Information Regarding Certain Investees****A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate**

1. Koor's holding percentage in the voting rights in Makhteshim-Agan as at June 30, 2011 is 47.02%. The book value of the investment as at June 30, 2011 amounted to NIS 2,455 million. The market value as at the said date amounted to NIS 3,847 million.

2. Seasonal factors

Sales of plant protection products are directly dependent on the agricultural seasons and the cyclical pattern of the growing seasons and, therefore, Makhteshim-Agan's revenues are not spread evenly throughout the year. Countries located in the northern hemisphere are characterized by the same timing of agricultural seasons, and, as a result, sales to these countries are usually highest in the first half of the year. In the southern hemisphere, the seasonal trend is the opposite and most of the local sales are made in the second half of the year, except for Australia where most of the sales are made in April through July.

The worldwide operations of Makhteshim-Agan act to balance out the seasonal impacts, even though Makhteshim-Agan's sales are higher in the northern hemisphere.

3. On January 8, 2011, an agreement was signed with a subsidiary of China National Chemical Corporation ("ChemChina") to effect a merger, under the terms of which it will acquire all of the public's holdings in Makhteshim-Agan, and will acquire from Koor the Makhteshim-Agan shares it holds, such that immediately after the closing of the merger, Makhteshim-Agan will become a private company owned jointly by ChemChina (60%) and by Koor (40%).

The shares off Makhteshim-Agan will be acquired at a price that will reflect a company value for Makhteshim-Agan of \$2.4 billion (calculated based on the effective holdings that do not include Company shares held by Makhteshim-Agan and its subsidiary), with the payments to be made in US dollars. Accordingly, before the minor dilution expected to be caused by the exercise of employee options, the share price is \$5.57 (which as of the report date and taking into account the present dollar exchange rate, the share price is NIS 20.1). Under the terms of the transaction, the shareholder public of Makhteshim-Agan will receive total consideration of \$1,272 million for the sale of 53% of the shares of Makhteshim-Agan, and Koor will receive \$168 million for the sale of 7% of Makhteshim-Agan's shares. Note that if and when Makhteshim-Agan will issue shares or convertible securities from the signing date of the agreement until its closing, a sum equal to 60% of the issue proceeds will be added to the total consideration amount. Additionally, see Note 6(1) below regarding the interim ruling in connection with the action against the Company and against Makhteshim-Agan.

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

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)

Note 4 - Information Regarding Certain Investees (Cont.)**A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (cont.)**

3. (cont.)

Effective June 28, 2011, a detailed loan agreement was signed, pursuant to which, under the terms of the merger agreement, ChemChina undertakes to provide Koor with a non-recourse loan totaling \$960 million, through a Chinese bank ("the Chinese bank"), which will be secured solely by a lien on the shares of Koor in Makhteshim-Agan. Furthermore, the Chinese bank issued a letter of credit to Koor at the amount of the loan principal, backed by HSBC Bank, which will be used to guarantee the providing of the loan. The loan principal will be repaid at the end of 7 years and will bear interest at a rate that will not exceed the financing that ChemChina will take for the purpose of payment of the total merger consideration, but in no case will exceed Libor (for six months) +4.5% annually. Upon signing the agreement, ChemChina declared that the interest rate on the financing it will receive, as noted, will be Libor (for six months) + 4.5% annually. Considering the current Libor rate, the effective interest (after grossing up withholding taxes, as will be charged, and before fees) is estimated at 6%. In the first 4 years, interest will not be paid (except from dividends received), but rather will be added to the principal and be repaid with the principal at the end of the seventh year, and thereafter, the current interest will be paid every 3 months. It was further prescribed that Koor will bear reasonable expenses and various fees prescribed in connection with the loan and the letter of credit. The loan will be repaid in cash or through the pledged shares (one of them), and Koor will be allowed, as from the end of the year in which the loan is provided, to make early repayment of the loan – in full or part. In the event of a transfer of shares to an unrelated third party, the proceeds to be received will be used first to repay the pro rata share of the loan (based on the number of transferred pledged shares). Dividends for the pledged shares, up to the amount of the annual interest, will be used to make the interest payments (as noted, also in the first four years), with the surplus dividends, if any, distributed to Koor.

As part of the Company's preparations for the closing of the Merger Agreement, the Company reached updated agreements with an Israeli bank that is giving it credit ("the Bank") regarding the Company's commitments in connection with the credit furnished to it and to its subsidiary by the Bank ("the Credit"), subject to the closing of the Merger Agreement by the end of 2011, the key points of which are as follows: Koor will be allowed to sell part of its holdings in Makhteshim-Agan and to pledge the balance of its holdings against receipt of the loan, and will no longer be obligated to be the controlling shareholder and largest shareholder in Makhteshim-Agan, in which it holds at least 26%. Concurrently, Koor has undertaken that as from the date on which the loan monies will be transferred to an account it owns, and until the earlier of (a) the signing of a new agreement with the Bank relating to new financial covenants or (b) repayment of the credit, Koor will deposit in an unpledged account in the Bank, a sum equivalent to NIS 1 billion (and non-deposit of the deposit shall constitute a cause of action for immediate repayment of the credit by the Bank). Under certain circumstances of the merger agreement not closing, the said deposit will not be deposited, and the prior commitment letters between the Company and the Bank will once again be in effect, except for adjustments under certain circumstances. As at the date of this Report, the balance of the Company's liabilities to the Bank for the credit stands at NIS 0.9 billion, in addition to NIS 300 million in short-term loans.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 4 - Information Regarding Certain Investees (Cont.)****A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (cont.)**

3. (cont.)

The closing of the merger transaction is subject to the fulfillment of various conditions, including, but not limited to: receipt of requisite approvals by the Chinese governmental authorities in China – as of the Report date, all of the requisite approvals were received from the governmental authorities in China in order to execute the transaction; receipt of approvals from the Anti-trust Commission or the passing of the waiting period prescribed in the law for them – as of the Report date, approvals were received from the Anti-trust authorities in Brazil and the U.S. and the request for approvals from the Anti-trust Authority of the European Union is still being processed; approval of Makhteshim-Agan's general meeting by extraordinary majority vote to the merger agreement as required under the provisions of Section 320(F) and 275 of the Companies Law, 1999 – on August 7, 2011, said approval of a general meeting was received; and the signing of the Loan Agreement and providing it to Koor – as of the Report date, the loan agreement was signed and it will be provided to Koor on the closing date of the transaction, subject to its closing.

Subject to the fulfillment of all the suspending conditions, the transaction is expected to close by October 31, 2011. After this date, either party is allowed to cancel the agreement, If the transaction is not closed (subject to an extension under certain circumstances).

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

Note that as published in the invitation to the general meeting of the shareholders of Makhteshim-Agan on July 2, 2011, Makhteshim-Agan received an opinion from the Yitzhak Suari Firm stating that the share price in the transaction expresses a fair price for the shareholding public of Makhteshim-Agan. The said opinion contains an economic valuation of the benefit to Koor for the characteristics of the loan, amounting to \$160-\$185 million.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 4 - Information Regarding Certain Investees (Cont.)****A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (cont.)**

3. (cont.)

If and to the extent the transaction will close, Koor is expected to recognize a net gain from the sale of 7% of the shares of Makhteshim-Agan, estimated at this stage at NIS 136 million (which takes into account capital reserves with debit balances that will be realized for NIS 73 million). Moreover, upon the closing of the transaction, Koor will recognize an increase in equity for the said capital reserves that will be realized. These estimates of Koor are based on factors including the amount at which Koor's investment in Makhteshim-Agan is recorded in its books and the equity of Makhteshim-Agan as at June 30, 2011, as well as the exchange rate of the dollar as of June 30, 2011. These estimates could change significantly, mainly due to possible changes in the equity of Makhteshim-Agan and the dollar exchange rate until the relevant dates.

In addition to the aforementioned gain, Koor will recognize income due to the characteristics of the loan, net of tax, after deducting the expenses for the interim ruling related to the action against the Company and against Makhteshim-Agan (as detailed in Note 6(1), which could be, noting the said fairness opinion, a significant amount, which will be determined finally proximate to the closing date of the transaction. Koor is examining the manner in which the benefit for the loan's characteristics will be recorded, whether as a derivative in long-term investments item, which will be updated in subsequent periods over the life of the loan, to income and loss based on fair value, or presented as a loan at fair value, so that the spreading of the benefit element will be charged to income and loss in subsequent periods over the life of the loan, based on the effective interest method.

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

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

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

4. In the first quarter of 2011, the Group recognized a loss of NIS 31 million from transactions executed by Makhteshim-Agan with non-controlling interests, while control was retained by Makhteshim-Agan.

B. Epsilon Investment House Ltd. ("Epsilon") – a subsidiary

1. In January and May 2011, the board of directors of Epsilon resolved to distribute a dividend for a cumulative total of NIS 5.4 million. Koor's share in these distributions is NIS 3.7 million.
2. On March 24, 2010, the Company entered into an agreement with Mr. Ron Levkovitz and his wholly-owned company to acquire all of their holdings (18.75%) in Epsilon, in consideration for NIS 28 million, so that after the acquisition, the Company holds 68.75% of the issued and paid-up share capital of Epsilon. The transaction closed on January 20, 2011.

Concurrent with the signing of the said agreement, the Company signed an agreement with Mr. Samuel Frankel and his wholly-owned company, which arranges the relations

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)

Note 4 - Information Regarding Certain Investees (Cont.)**B. Epsilon Investment House Ltd. ("Epsilon") – a subsidiary**

2. (cont.)

between the parties as the remaining shareholders in Epsilon, which took effect in January 2011.

In January and May 2011, the board of directors of Epsilon resolved to distribute a dividend for a cumulative total of NIS 5.4 million. Koor's share in these distributions is NIS 3.7 million.

On March 24, 2010, the Company entered into an agreement with Mr. Ron Levkovitz and his wholly-owned company to acquire all of their holdings (18.75%) in Epsilon, in consideration for NIS 28 million, so that after the acquisition, the Company holds 68.75% of the issued and paid-up share capital of Epsilon. The transaction closed on January 20, 2011.

Concurrent with the signing of the said agreement, the Company signed an agreement with Mr. Samuel Frankel and his wholly-owned company, which arranges the relations between the parties as the remaining shareholders in Epsilon, which took effect in January 2011.

Until the closing of the transaction, the Company treated the investment in Epsilon by the equity method. From the date control was transferred (commencing January 2011), the Company consolidates the results of Epsilon.

According to generally accepted accounting principles, the transition to consolidation is treated as a sale of the balance of the investment in Epsilon as at the date of the business combination prior to effecting the acquisition of shares, as above, and reacquisition of all the holdings in Epsilon after acquiring the shares, as noted. The said transaction had no effect on income and loss in the first quarter of 2011.

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

For the purpose of allocating the excess cost created, the Company engaged an independent appraiser with recognized and appropriate skills.

Presented below are the principles of the methods used by the appraiser in his work:

- Customer portfolio – The "excess earnings" approach was adopted, whereby an intangible asset is valued according to discounted cash flows. To this end, a revenues and expense forecast was prepared, with adjustments to cash flows, and net of contributing charges for the existing customer portfolio.
- Brand name – The "relief from royalty" approach was adopted, whereby an intangible asset is valued according to the discounted appropriate royalty payments that the user of the asset would be required to pay for its usage, had he not owned it.
- Non-compete agreement – Was valued based on the revenues from customers with the potential of leaving without a non-compete agreement. The economic value of the non-compete agreement was valued based on the "excess earnings" approach, while adopting the "with or without" method. According to this method, a calculation was made of the difference between the basic scenario, under existing competition, and the scenario according to which there will be limited competition during the agreement period, while assessing the probability of each of the scenarios.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 4 - Information Regarding Certain Investees (Cont.)****A. Epsilon Investment House Ltd. ("Epsilon") – a subsidiary (cont.)**

2. (cont.)

According to the fair value of the identified assets and liabilities acquired, Koor attributed the excess cost to the intangible assets of Epsilon as below:

	NIS thousands	Amortization method	Amortization period
Intangible assets:			
Customer portfolio	27,352	Over the period of future economic benefits	Mainly 8 years
Brand name	4,110	Over the period of future economic benefits	10 years
Non-compete agreement	391	Over the term of the agreement	1 year
Deferred tax liabilities	(7,342)	Based on the amortization of the assets for which deferred taxes were created	
Goodwill	50,464		
Non-controlling interests (*)	(7,660)		
	<u>67,315</u>		

(*) Part of the non-controlling interests in excess value of above identified assets and liabilities.

The effect on assets and liabilities in the consolidated statement of financial position at the date of initial consolidation of Epsilon was as follows:

	Carrying value in Epsilon's books when first consolidated	Adjustments to fair value	Values recognized when first consolidated
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Current assets	61,098	-	61,098
Long-term investments	296	-	296
Fixed assets	1,415	-	1,415
Intangible assets	239	82,317	82,556
Deferred taxes	154	-	154
Current liabilities	(9,289)	-	(9,289)
Long-term liabilities	(3,526)	(7,342)	(10,868)
Non-controlling interests (*)	(15,746)	(7,660)	(23,406)
	<u>34,641</u>	<u>67,315</u>	<u>101,956</u>

Additionally, the Company derecognized the investment in Epsilon based on equity value on the date of consolidation amounting to NIS 74,150 thousand.

(*) Non-controlling interests were measured at their pro rata share of identified assets and liabilities of Epsilon.

Cumulative cash flows generated to the Group as a result of the acquisition:

	<u>NIS thousands</u>
Cash paid	(27,806)
Cash and cash equivalents of Epsilon	2,916
	<u>(24,890)</u>

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 4 - Information Regarding Certain Investees (Cont.)****C. Credit Suisse Emerging Markets Credit Opportunity Fund L.P. ("EMCO Fund") – an affiliate**

During the second quarter of 2011, the holdings percentage in EMCO Fund decreased from 12.5% to 12.19% due to the addition of new limited partners.

During the first half of 2011, the Company invested \$18 million (NIS 63 million) in EMCO Fund.

At the report date, the cumulative total of Koor's investments in EMCO Fund is \$24 million and the balance of Koor's investment commitment in EMCO Fund is \$101 million.

D. 452 Fifth owners, LLC – ("452 Owners") jointly-controlled company (50%)

The fair value of the HSBC Headquarters building in New York, owned by 452 Owners, was updated as at June 30, 2011 to a total of \$480 million, based on the valuation received by 452 Owners from an independent appraiser in the U.S. As a result, 452 Owners recognized income from the increase in the fair value of the investment property of \$81.5 million. The transaction is subject to the agreement with Rock Real described in Note 29(C)(2)(4) to the Company's annual financial statements. In connection with this agreement 452 Owners recorded a provision of \$8.3 million in the first half of 2011. Koor's share in the said revaluation and provision totaled NIS 125.1 million, which is included in Koor Group's equity in earnings of affiliates in the first half of 2011. Furthermore, and mainly from the aforesaid, deferred tax expenses were recognized in the consolidated financial statements in the first half of 2011 totaling NIS 58.4 million.

The financial statements of 452 Owners for the second quarter of 2011 are attached to these financial statements, since under exceptional circumstances, the guarantees provided by both the Company and Property and Building Corporation Ltd. ("Property and Building"), severally and not jointly, in favor of Bank Leumi USA to secure special cases, could be deemed a guarantee unlimited in amount, and in order to be prudent.

Note 5 – Significant Events in the Report Period

1. As at June 30, 2011, the Group held 38.60 million shares of Credit Suisse, which constituted 3.22% of the Credit Suisse shares, at a cumulative investment of NIS 6.97 billion, which had fair value as at June 30, 2011 of NIS 5.14 billion. The negative difference between the cost of the shares and their fair value, as at June 30, 2011, was NIS 1.82 billion, reflecting a decline in the value of the shares relative to their original cost of 26.2%.

In the second quarter of 2010, in view of the conditions that prevailed in the business environment in which Credit Suisse operates and its shares are traded, noting the unique characteristics of this investment, Company management prescribed that impairment will be deemed significant if the decrease in fair value (at the cut-off date) is 30% of the original cost or, if the decrease in fair value (at the cut-off date) exceeds 25% of the original cost during the period of three consecutive months ending on the cut-off date. A decrease in value will be deemed prolonged if the decrease in fair value (at the cut-off date) relative to the original cost is over a period of twelve continuous months (the examination for consecutiveness of period, for the purpose of the said criteria, is based on a daily calculation of the share cost relative to its fair value, based on the available most up-to-date price at that day, between the two major markets on which the Credit Suisse shares trade (SIX Swiss Exchange in Switzerland and NYSE in New York)). It also prescribed that this policy will be implemented as long as no change has occurred in the circumstances that would require a re-examination, aside from exceptional cases.

With respect to the date of the end of the second quarter of 2011, the Company examined all the circumstances, mainly the duration of the period in which a decrease in fair value exists (on the cut-off date) relative to the original cost. Although the said decline has not been for a period of

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)

Note 5 – Significant Events in the Report Period (cont.)

1. (cont.)

more than twelve consecutive months, and noting the fact that one single trading day interrupted the continuity of the period, the Group recognized an impairment loss in the second quarter of 2011 – which was recognized in income and loss – at the level of the negative difference of NIS 1.82 billion.

Additionally, in the second quarter of 2011, the Group recognized tax savings of NIS 65 million, mainly due to the transfer of tax savings that were recognized in the past in comprehensive income to income and loss, concurrent with the recognition of the impairment loss on the investment in Credit Suisse, as aforesaid.

On May 6, 2011, Credit Suisse distributed a cash out of capital reserves amounting to CHF 1.3 per share. The Group's share of this cash distribution was NIS 197 million, which, in accordance with accounting principles was recorded as income in Koor's statement of income for the second quarter of 2011.

Overall, in the second quarter of 2011, the Company recorded an expense totaling NIS 1.56 billion for its investment in the Credit Suisse shares.

In accordance with IAS 39, after recognition of an impairment loss in the second quarter of 2011, further impairment with respect to the investment in the said shares will be recognized immediately to income and loss, whereas increases in value, if any, will be recognized in other comprehensive income – all as relates to cut-off dates. The gain/loss that will be generated from realizations after the end of the second quarter of 2011, in which the full loss was recognized, will be calculated relative to the amortized cost (cost of the shares net of impairments recognized until the last cut-off date) and will be recognized in income and loss.

Following the high volatility and sharp price declines in the world's stock exchanges, and the significant decrease posted in the price of Credit Suisse shares recently, in August 2011 until the publication date of these financial statements, the Group sold Credit Suisse shares in consideration for a total of NIS 1.34 billion. On these sold shares, the Company will recognize an additional loss in the third quarter of 2011, beyond the impairment loss recognized in the second quarter of 2011, totaling NIS 378 million. The proceeds from the sales of shares were used to reduce the credit taken within the framework of the non recourse credit arrangements that are secured by Credit Suisse shares, in which Koor has undertaken with the lending corporations (as defined below), and reduced the debt to collateral ratio prescribed in the credit arrangements.

As of the date of this report, after the said sales of Credit Suisse shares, the Group holds 25.7 million shares of Credit Suisse, constituting 2.14% of the share capital of Credit Suisse, with a value as at June 30, 2011 of NIS 3.42 billion. The negative difference between the value of the Credit Suisse shares that the Group holds, which according to the closing price on the New York Stock Exchange proximate to the date of this report stands at NIS 2.57 billion, and the value of these shares as at June 30, 2011, as aforesaid, stands at NIS 0.85 billion.

Note that subsequent to the response of the Securities Authority to the Company's preliminary inquiry, the Company is evaluating the possibility of early adoption of IFRS 9 (2009) as from the first quarter of 2012. As long as the Company reaches the decision, as noted, the Company could elect, according to the Standard's provisions, the alternative of presenting the change in fair value of the investment in Credit Suisse in other comprehensive income, so that the negative difference as at June 30, 2011, between the cost of the Credit Suisse shares and their market value, related to the balance of Credit Suisse shares that will be held by the Company on January 1, 2012, will be recognized in a capital reserve for financial assets through other comprehensive income and correspondingly, will reverse the recognition of the pro rata share of the impairment loss that was recognized in income and loss in the second quarter of 2011.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 5 – Significant Events in the Report Period (cont.)**

1. (cont.)

According to the balance of shares held by the Group as at the date of the financial statements, in such a case, recognition of the impairment loss recognized in the second quarter of 2011 totaling NIS 1.22 billion will be reversed. Consequently, and as long as the Company acts in this manner, the comparative figures for 2011 in the Company's income statement will not express recognition of the impairment loss for the balance of Credit Suisse shares to be held by the Company on January 1, 2012, and the balance of the Company's retained earnings will reflect this correction.

However, it should be emphasized that if and as long as the Company elects to adopt early application of the Standard's provisions without the designation as fair value through other comprehensive income, the Company will present the change in fair value of the investment in Credit Suisse shares in the statement of income. In the event the Company will adopt the Standard in this manner, in early adoption in the financial statements of the third quarter or with respect to the annual financial statements for 2011, the full negative difference in the amount of NIS 1.82 billion will not be recognized in the income statement in the second quarter, but rather the amount of NIS 1.4 billion thereof will be charged to retained earnings as at January 1, 2011 and will reduce the retained earnings as at the beginning of 2011, whereas the balance of the negative difference in the amount of NIS 0.4 billion will be recognized in the income and loss of the first and second quarter of 2011 (profit of NIS 0.2 billion and loss of NIS 0.6 billion, respectively).

2. In connection with the credit agreements detailed in Note 17(C)(2) and 17(C)(3) to the annual financial statements, with respect to the undertaking with a corporation in the Morgan Stanley Group ("Morgan Stanley") in the framework of the non recourse credit agreement secured by Credit Suisse shares ("Morgan Stanley credit"): the Morgan Stanley credit was carried out through a transaction comprised of two equity derivatives – a prepaid forward and a swap, equivalent from Koor's viewpoint, economically and accounting to a variable interest loan, and similar in substance to a non recourse loan secured by the shares which was provided by a corporation from the Citigroup Group ("Citi" and "Citi credit", respectively) (as described in Note 17(C)(3) to the annual financial statements).

According to the terms of the Morgan Stanley credit and the Citi credit, the lending corporations are allowed, during the credit period, to use the Credit Suisse shares furnished as collateral, including a pledge of the shares, lending them or executing additional dispositions of the pledged shares, provided that upon partial (including in the event of a sale of shares by the Company) or full repayment of the credit, the lending corporation will ensure the return of the identical number (as applicable) of the Credit Suisse shares to the Company as were furnished as collateral, as stated.

In July and August 2011, the Company reached agreements with Morgan Stanley and Citi, which provided the Company with non recourse credit secured by the Credit Suisse shares ("the Lending Corporations"), regarding the following changes in the said credit arrangements: (a) in connection with the provision requiring the furnishing of a cash deposit as additional security in the event that the ratio of the net debt (after deducting pledged deposits) ("net debt balance") to the value of the pledged shares ("debt to collateral ratio") (according to the closing price on the Swiss stock exchange) exceeds the prescribed ceiling, it was agreed to raise the said ceiling from 60% to 68% (subject to changes in certain circumstances, related to a decrease in the average daily trading volume in the share on the Swiss stock exchange) ("the fixed ratio"), in the event that the debt to collateral ratio exceeds the fixed ratio, the Company could be required to furnish a cash deposit as additional collateral, in a significant amount, that will lead to compliance with the debt to collateral ratio of 55% (subject to changes in certain circumstances); (b) regarding the provision regarding the right of the

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)

Note 5 – Significant Events in the Report Period (cont.)

2. (cont.)

Lending Corporations to bring about forced immediate repayment of the credit in the event of a decline in the price of the Credit Suisse share, it was agreed to reduce the floor price of the share that exercises this right from CHF 24.75 per share (according to the credit arrangements before their update) to CHF 18 per share; and (c) adding an interest level up to the new ceiling of the debt to collateral ratio, and the margin was amended so that the interest rate paid on the utilized part of the credit will be the relevant Libor rate (on the Swiss franc) plus a margin ranging between 1.80% and 3.25%, based on the debt to collateral ratio (instead of a margin ranging between 1.70% and 2.60% according to the terms of the credit arrangements prior to their update).

Note that in the event the debt to collateral ratio exceeds 80% during a trading day, the Company could be required to immediately furnish a cash deposit as additional collateral, as aforesaid.

The said updates will be in effect until the beginning of the extension period, except with respect to the additional margin, which will range between 1.80% and 2.90% in the extension period (as long as the Company will exercise its right to extend the period) of each of the credit arrangements (December 2011 with respect to the credit arrangement with Morgan Stanley and January 2012 with respect to the credit arrangement with Citi).

According to the credit arrangements, Koor has the right to reduce the debt to collateral ratio by increasing the balance of the pledged deposits and by selling part of its holdings in Credit Suisse shares. In such a sale, the proceeds will be used to repay part of the debt, according to the credit arrangements, and the balance, if any, will be used to increase the pledged deposits. Withdrawal of the balance of the said deposits is limited (these deposits bear daily Swiss franc interest that changes from time to time ("TOIS interest"). According to the TOIS interest rate, as at the report date, which approximates zero, the interest on the said deposits is trivial). According to the credit arrangements, in the event that the debt to collateral ratio falls below 50% (subject to changes in certain circumstances, as aforesaid), the Company will be allowed to release monies from the pledged deposits, such that after the said withdrawal of monies, the debt to collateral ratio will be 55% (subject to changes in certain circumstances, as aforesaid).

As at June 30, 2011, the balance of the Morgan Stanley credit and the Citi credit stood at CHF 495 million (NIS 2.03 billion) and CHF 460 million (NIS 1.88 billion), respectively. Likewise pledged deposits were deposited to Morgan Stanley and Citi totaling CHF 250 million (NIS 1.02 billion). The net debt balance (after deducting pledged deposits) to Morgan Stanley and Citi stood at CHF 705 million (NIS 2.89 billion). To secure the credit, all of the Credit Suisse shares were pledged, having a value as at such date of CHF 1.26 billion (NIS 5.14 billion).

As at August 24, 2011, *inter alia*, subsequent to the sale of shares, as described above, the balance of the Morgan Stanley credit and the Citi credit were CHF 315 million (NIS 1.44 billion) and CHF 321 million (NIS 1.47 billion), respectively, and the balance of the pledged deposits was CHF 327 million (NIS 1.49 billion). The balance of the net debt (after deducting pledged deposits) to Morgan Stanley and to Citi was CHF 309 million (NIS 1.41 billion). To secure the credit, all of the Credit Suisse shares were pledged, with a value (according to the closing price on the Swiss stock exchange) as at such date of CHF 558 million (NIS 2.55 billion). As at the date of the financial statements, the debt to collateral ratio was 55%.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 5 – Significant Events in the Report Period (cont.)**

3. As at June 30, 2011, the total open CHF-NIS collar transactions amounted to CHF 700 million, with fair value estimated as a liability totaling NIS 249 million. In the six-month and three-month periods ended June 30, 2011, the Company posted financing expenses for revaluation of the CHF-NIS collar transactions totaling NIS 82 million and NIS 177 million, respectively.

As at August 24, 2011, there are open CHF-NIS collar transactions totaling CHF 690 million, with fair value, according to a preliminary estimate prepared by the Company, of a liability totaling NIS 578 million.

In the event that the liability balance of collar transactions executed through banking corporations exceeds the credit facilities provided to the Company by the banking corporations in connection with those transactions (subsequent to an increase in the exchange rate of the Swiss franc), the Company is required to deposit the full amount of the difference as pledged collateral (in the event that the difference decreases, the Company is allowed to reduce the pledged balances accordingly). As at June 30, 2011 and as at August 24, 2011, the deposits pledged for the collar transactions totaled NIS 18 million and NIS 43 million, respectively.

In accordance with the Company's policy for examining the materiality of the valuations (see Note 2(I) to the annual financial statements), the Company is attaching to these financial statements the valuation used by the Company to determine the fair value of the liabilities in respect of the Swiss franc – NIS options held by the Company in connection with its investment in Credit Suisse and the Swiss franc-denominated financing. Although the effects on financial results of the said options did not exceed the quantitative limit requiring the attachment of the valuation, in view of the circumstances of the position in the said options, the fluctuations in the exchange rates and the amounts of the transactions (note that the amounts of the transactions change frequently), and considering the financing expenses for the six month period ended June 30, 2011 as a percentage of representative income and the amount of this loss, the Company elected to attach the valuation to the periodic reports as at June 30, 2011 on the basis of qualitative considerations.

4. During the first half of 2011, the Group bought and sold shares of Carrefour. Due to the sale of the shares of Carrefour in the six-month and three-month periods ended June 30, 2011, the Group recognized a loss of NIS 4 million and NIS 7 million, respectively. As at June 30, 2011, the Group does not hold shares of Carrefour.

In total, the Group recognized cumulative gains on its investment in Carrefour from June 2009 to the present totaling NIS 39 million. As at the report date, the investment framework in Carrefour was cancelled.

5. On March 15, 2011, the Company repaid debenture principal (Series I) of NIS 153 million.
6. As at June 30, 2011, the Company was provided with short-term bank loans totaling NIS 350 million at an average interest rate of 4.8%. As at the report date, additional short-term bank loans totaling NIS 165 million were provided. Regarding the loans provided by DIC and IDB Development as at the report date, see Note 8(1)(C).

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 6 – Contingent Liabilities**

During the ordinary course of business, legal claims were filed against the Company, including motions for class action recognition. The Company's management, based, *inter alia*, on the opinions of legal counsel regarding the prospects of the claims, including the motions for class action recognition, believes that proper provisions were included, where required, to cover the exposure resulting from the above claims.

A detailed description of the contingent liabilities pending against the Company and its investees appears in Note 28 to the annual financial statements.

Presented below are details of the material changes that occurred in the legal proceedings to which the Company is a party:

1. Further to that stated in Note 28(C) to the annual financial statements regarding the motion filed with Tel-Aviv District Court against the Company and against Makhteshim-Agan for removal and prevention of discrimination, and a motion for class action recognition under the Class Action Law, 2006, in connection with merger of Makhteshim-Agan with ChemChina, on May 15, 2011, an interim ruling was issued by the Court, whereby the Company is not entitled to surplus consideration for the benefit in the non recourse loan that the Company is supposed to receive as part of the transaction, and that the value of this consideration is to be distributed among all the shareholders of Makhteshim-Agan – shareholders from the public and the Company – in respect of its entire holdings. In June 2011, after Koor filed a motion for leave to appeal with the Supreme Court on the interim ruling of the Court, a compromise agreement was signed between the parties (that was filed for approval of the Court, under the Class Action Law), in the framework of which:
 - Without constituting recognition of the allegations on which the Action is based, Koor will pay to the shareholders of Makhteshim-Agan entitled to consideration under the terms of the merger transaction (which are not among the Koor and its subsidiary holds Makhteshim-Agan's shares) ("the Group Members"), the total sum of \$45 million (which will be reduced correspondingly, in the event of the submitting of withdrawal notices, or in the event that Koor's shareholding percentage in the Company increases until the closing of the merger transaction) ("the Payment"). Making such payment is subject to the closing of the merger transaction, Koor's receipt into an account it owns of a non recourse loan totaling \$960 million under the terms of the merger agreement, and to approval of the Compromise Agreement (without changes being made to it that will not gain the consent of the parties) by the Court in a peremptory ruling that cannot be appealed.
 - The recommendation of Koor and the Plaintiff is that Koor will pay the Plaintiff compensation of \$1.35 million (plus VAT, as applicable) as well as fees to the Plaintiff's representatives of \$2.25 million (plus VAT, as applicable).

On August 3, 2011, the Court approved the compromise agreement (including the amounts of compensation and fees to be paid to the plaintiff and his representatives), giving it the validity of a ruling.

If the compromise is not carried out for any reason, the legal proceedings related to the motion will continue, and their outcome is uncertain. It is clarified that in such an event, the Company will continue to have all of its allegations within the framework of the Action and the Motion, as though the Compromise Agreement had not been signed.

If and as long as the merger transaction is closed, the payment to the Group members and the payments to the plaintiff and his representatives will be recognized as an expense that will offset part of the gain due to the characteristics of the loan that will be recognized by the Company, which will be deduced from the economic value of the benefit to Koor from the characteristics of the loan, as described in Note 4(A)(3).

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)**Note 6 – Contingent Liabilities (cont.)**

2. Provided below are details on the significant changes that occurred in the legal proceedings to which Makhteshim-Agan is a party:
 - a. On March 8, 2011, a subsidiary of Makhteshim-Agan in England was served with an action and a motion for a restraining order filed by BASF, claiming that a specific product marketed by Makhteshim-Agan's subsidiary allegedly infringes on a patent registered to BASF. On March 14, 2011, Makhteshim-Agan's subsidiary was served with a motion for a restraining order filed by BASF with a similar claim relating to that product for sales in Denmark. Makhteshim-Agan's legal counsel assesses that Makhteshim-Agan has worthy arguments against the validity of the patent, although the process is still in the preliminary stages.
 - b. On July 24, 2011, a statement of claim was received in the offices of Agan Chemical Manufacturers Ltd., a wholly-owned subsidiary of Makhteshim-Agan ("Agan"), regarding a monetary claim and a motion for class action recognition, by two residents of the moshav Nir Galim and a resident of Ashdod, asserting damages that were caused, allegedly, due to odor and noise nuisances. To the extent it will be approved as a class action, the plaintiffs estimate that the amount claimed from Agan is NIS 642 million. As at the publication date of the financial statements, due to the preliminary stage of these proceedings, Makhteshim-Agan is unable to assess the prospects of the claim and of the motion for class action recognition.

Note 7 – Operating segments

The Group has five reportable operating segments, as below:

Makhteshim-Agan segment (affiliated company). Makhteshim-Agan is considered the world's leading crop protection products producer (agrochemicals).

Credit Suisse segment. This activity is carried out through the investment in the shares of the Credit Suisse group.

Telecom equipment segment (subsidiary). This activity is carried out by Microwave Networks Inc., which develops and markets point-to-point telecom systems.

Epsilon segment (subsidiary as from January 2011). This activity is carried out by Epsilon, which is engaged in providing financial services, including investment portfolio management, mutual fund management, provident fund management, underwriting and distribution of securities and investment banking.

452 Owners segment (affiliated company). Koor has holdings (50%) in HSBC Building, an income-producing property, together with Property and Building and through 452 Owners, which is jointly owned. HSBC Building includes two buildings with built-up area of 80,000 square meters.

The segment separation and profit and loss measurement basis is the same as that presented in Note 24, regarding operating segments, to the annual financial statements.

The accounting policy of the operating segments is the same as was presented in Note 3, regarding accounting policy, in the annual financial statements.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)

Note 7 – Operating segments (Cont.)

A. Information related to the Koor Group's operating segments – consolidated

	Six-months ended June 30, 2011							Consolidated
	Makhteshim Agan	Credit Suisse	Telecom equipment	Epsilon	452 Owner	Others	Adjustments	
	(Unaudited)							
	NIS thousands							
Total revenues	<u>5,419,972</u>	<u>196,591</u>	<u>28,924</u>	<u>32,612</u>	<u>359,895</u>	<u>16,410</u>	<u>(5,467,318)</u>	<u>587,086</u>
Segment results - attributable to Company's owners	<u>170,391</u>	<u>(1,554,219)</u>	<u>(4,193)</u>	<u>1,380</u>	<u>71,362</u>	<u>6,130</u>	<u>(486,280)</u>	<u>(1,795,429)</u>
Segment's assets	<u>13,586,280</u>	<u>5,143,616</u>	<u>35,312</u>	<u>63,828</u>	<u>1,708,904</u>	<u>323,131</u>	<u>(10,791,448)</u>	<u>10,069,623</u>
	Six-months ended June 30, 2010 (*)							
	Makhteshim Agan	Credit Suisse	Telecom equipment	Epsilon	452 Owner	Others	Adjustments	Consolidated
	(Unaudited)							
	NIS thousands							
Total revenues	<u>5,075,568</u>	<u>276,913</u>	<u>40,250</u>	<u>27,652</u>	<u>181,043</u>	<u>23,500</u>	<u>(5,060,336)</u>	<u>564,590</u>
Segment results - attributable to Company's owners	<u>116,260</u>	<u>234,532</u>	<u>(4,348)</u>	<u>1,995</u>	<u>36,369</u>	<u>13,534</u>	<u>(155,522)</u>	<u>242,820</u>
Segment's assets	<u>14,992,367</u>	<u>5,577,980</u>	<u>52,025</u>	<u>64,310</u>	<u>1,572,564</u>	<u>260,697</u>	<u>(12,517,163)</u>	<u>10,002,780</u>

(*) Restated in order to present separately the Epsilon segment and the 452 Owners segment, based on the separation made in the annual financial statements.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2011 (unaudited)

Note 7 – Operating segments (Cont.)

A. Information related to the Koor Group's operating segments – consolidated (cont.)

	Three-months ended June 30, 2011							
	<u>Makhteshim</u>	<u>Credit Suisse</u>	<u>Telecom</u>	<u>Epsilon</u>	<u>452 Owner</u>	<u>Others</u>	<u>Adjustments</u>	<u>Consolidated</u>
	<u>Agan</u>		<u>equipment</u>					
	(Unaudited)							
	NIS thousands							
Total revenues	<u>2,556,489</u>	<u>196,591</u>	<u>13,401</u>	<u>15,525</u>	<u>313,854</u>	<u>5,875</u>	<u>(2,680,203)</u>	<u>421,532</u>
Segment results - attributable to Company's owners	<u>60,435</u>	<u>(1,563,373)</u>	<u>(2,106)</u>	<u>424</u>	<u>68,500</u>	<u>(3,125)</u>	<u>(486,931)</u>	<u>(1,926,176)</u>
	Three-months ended June 30, 2010 (*)							
	<u>Makhteshim</u>	<u>Credit Suisse</u>	<u>Telecom</u>	<u>Epsilon</u>	<u>452 Owner</u>	<u>Others</u>	<u>Adjustments</u>	<u>Consolidated</u>
	<u>Agan</u>		<u>equipment</u>					
	(Unaudited)							
	NIS thousands							
Total revenues	<u>2,278,579</u>	<u>262,328</u>	<u>23,067</u>	<u>13,047</u>	<u>181,003</u>	<u>21,099</u>	<u>(2,372,314)</u>	<u>406,809</u>
Segment results - attributable to Company's owners	<u>4,458</u>	<u>153,422</u>	<u>(1,668)</u>	<u>824</u>	<u>36,369</u>	<u>18,769</u>	<u>(176,791)</u>	<u>35,383</u>
	Year ended December 31, 2010							
	<u>Makhteshim</u>	<u>Credit Suisse</u>	<u>Telecom</u>	<u>Epsilon</u>	<u>452 Owner</u>	<u>Others</u>	<u>Adjustments</u>	<u>Consolidated</u>
	<u>Agan</u>		<u>equipment</u>					
	(Audited)							
	NIS thousands							
Total revenues	<u>9,082,788</u>	<u>276,913</u>	<u>93,285</u>	<u>63,357</u>	<u>268,898</u>	<u>50,563</u>	<u>(9,229,754)</u>	<u>606,050</u>
Segment results - attributable to Company's owners	<u>(287,449)</u>	<u>216,441</u>	<u>(5,476)</u>	<u>7,511</u>	<u>41,547</u>	<u>23,494</u>	<u>(532,352)</u>	<u>(536,284)</u>
Segment's assets	<u>13,197,837</u>	<u>5,535,864</u>	<u>44,213</u>	<u>63,202</u>	<u>1,467,039</u>	<u>278,718</u>	<u>(10,753,763)</u>	<u>9,833,110</u>

(*) Restated in order to present separately the Epsilon segment and the 452 Owners segment, based on the separation made in the annual financial statements.

Notes to the Interim Financial Statements as at June 30, 2011 (unaudited)**Note 7 – Operating segments (Cont.)****B. Profit and loss adjustments for reportable segments**

	Six-month period ended		Three-month period ended		Year ended
	2011	June 30 2010	2011	June 30 2010	December 31 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands				
Total earnings or loss from reportable segments	(1,315,279)	384,808	(1,436,120)	193,405	(27,426)
Earnings or loss from operations classified in the other operating segment	6,130	13,534	(3,125)	18,769	23,494
Amounts not attributed – mainly financing income (expenses) and general and administrative expenses for Koor headquarters and financing income (expenses) not included in expenses of reportable segments (*)	(486,280)	(155,522)	(486,931)	(176,791)	(532,352)
Income (loss) for the period	(1,795,429)	242,820	(1,926,176)	35,383	(536,284)

(*) This item includes, inter alia, the effect of options on exchange rates of the Swiss franc (which commencing January 2011, is part of the internal reporting format, in the Credit Suisse segment, which is provided regularly to the Group's head operational decision makers, but separate from the results of the segment). The effects of these transactions for the six-month and three-month periods ended June 30, 2011 are expenses of NIS 82 million and NIS 177 million, respectively (2010: expenses of NIS 9 million and NIS 37 million, respectively) and for the year ended December 31, 2010 is expenses of NIS 95 million.

This item also includes the effect of Swiss franc-denominated loans from foreign banks for the six-month and three-month periods ended June 30, 2011, which are expenses of NIS 343 million and NIS 304 million, respectively (2010: expenses of NIS 86 million and NIS 121 million, respectively), and for the year ended December 31, 2010, expenses of NIS 321 million. These financing costs were not presented as part of the information related to the Credit Suisse segment since they do not constitute part of the internal reporting format provided regularly to the Group's head operational decision Makers.

(**) Restated, in order to present separately the Epsilon segment and the 452 Owners segment, based on the separation in the annual financial statements.

Note 8 – Subsequent events

1. Following the high volatility and sharp price declines in the world's stock exchanges, and the significant decrease posted in the price of Credit Suisse shares recently, and in order to enable Koor, *inter alia*, at its discretion, to use the right conferred on it under its non recourse credit framework arrangements with the lending corporations, secured by Credit Suisse shares, to increase the pledged deposits in favor of the lending corporations, thereby reducing the debt to collateral ratio, Koor has taken the following actions:
 - a. Regarding the sales of Credit Suisse shares and the Group's holdings as at the report date, see Note 5(1).
 - b. Regarding updated consents pertaining to the credit agreements with a corporation from the Morgan Stanley Group and a corporation from the Citigroup Group, see Note 5(2).

Note 8 – Subsequent events (cont.)

1. (cont.)

- c. Regarding the financial covenants prescribed in the agreement of the Company (and a wholly-owned subsidiary of Koor) with one of the banks, as detailed in Note 17(D)(1) to the annual financial statements, presented below are the updates regarding the financing arrangement with the bank:

The Company's commitment that the market value to debt ratio will at no time fall below 1.4 was updated to 1.32. A decrease in the said ratio below 1.32 (as long as it is not lower than 1.3) does not constitute a breach of the financing arrangements with the bank, unless it will continue for 14 consecutive business days, and the Company did not give notice by the end of the period of its intention to take certain actions that were specified in order to correct the ratio to the satisfaction of the bank and/or did not take any of the actions it gave notice about, as noted, to the bank, on the dates so prescribed. It was also agreed that regarding calculation of the "market value to debt ratio", as provided below, the bridge loan amounts provided to the Company by DIC and IDB Development will be deducted from the "net financial debt", as provided below. No change occurred in the remaining provisions of the financing arrangement, nor were there changes to the provisions regarding the "market value to debt ratio" of 1.3. As at June 30, 2011 and as at the report date, the "market value to debt ratio" is 1.59 and 1.58, respectively.

The "market value to debt ratio" constitutes the quotient obtained from dividing the "assets value" as defined in the financing arrangement with the bank by "net financial debt", based on the financial data of Koor that consolidates only MAGM, as long as MAGM is wholly-owned by Koor, when:

The "assets value" is the market value (*) of: Makhteshim-Agan shares held by Koor and by a wholly-owned subsidiary of Koor; plus the Credit Suisse shares (**), the investment in which is derived from the debt to finance Credit Suisse as well as the Credit Suisse shares free of any lien, which are not deposited with any lender whatsoever that financed their purchase, held by Koor and/or the subsidiary of Koor (as long as the subsidiary is wholly-owned by Koor); plus the shares of Carrefour (***), the investment in which is derived from the debt to finance the Carrefour purchase and the shares of Carrefour free of any lien that are not deposited with any lender whatsoever that financed their purchase, held by Koor and/or the subsidiary of Koor (as long as the subsidiary is wholly-owned by Koor); and plus 50% (30% subject to certain conditions) of the value of Koor's holdings in EMCO.

(*) "Fair value" is the closing rate of the security trading on the relevant stock exchange, published on the last trading date before the relevant examination date.

(**) As at June 30, 2011 and as at the publication date of this report, all of the Credit Suisse shares are pledged in favor of the lending corporations.

(***) As at June 30, 2011 and as at the publication date of this report, the Company does not hold any Carrefour shares.

As at June 30, 2011 and as at the publication date of this report, the "assets value" totaled NIS 9.03 billion and NIS 6.51 billion, respectively.

Net financial debt (*) means the total of: debts and liabilities to banking corporations and other financial entities, interest-bearing liabilities (**); debentures and capital notes; guarantees and obligations of Koor to secure the credit that any third party did and/or will

Note 8 – Subsequent events (cont.)

1. (cont.)

c. (cont.)

receive from banking corporations and/or any other financial entity, except for a guarantee limited in amount given by Koor in favor of Bank Leumi USA, to secure repayment of 50% of the loan received by 452 Owners according to the guarantee deed signed on April 13, 2010 (see Note 9(B) to the annual financial statements); net of cash and cash equivalents (including that received in the bridge loans, as provided below) and net of short-term deposits and investments and net of deposits in banking corporations of the Morgan Stanley Group and the Citigroup Group that secure credit given by the banking corporations to Koor and/or the subsidiary (as long as the subsidiary is wholly-owned by Koor) to purchase the Credit Suisse shares; and net of NIS 700 million provided to Koor as bridge loans by DIC and IDB Development during August 2011 (deduction of this amount will apply until the earlier of the following dates: (a) the date of receipt of the loan monies that will be provided to Koor under the terms of the closing of the merger transaction between Makhteshim-Agan and ChemChina, or (b) on January 1, 2013 (but not before the repayment of Koor's debt to the bank), or (c) the date on which Koor repaid the bridge loans – in full or in part).

(*) The position in the collar transactions is not included in financial assets/liabilities.

(**) Includes recourse debt to Koor and non recourse debt to purchase Credit Suisse and Carrefour shares.

As at June 30, 2011, and as at the publication date of this report, "net financial debt" totaled NIS 5.68 billion and NIS 4.11 billion, respectively.

- d. On August 4 and 9, 2011, the audit committee and board of directors of the Company, in accordance with Section 1(2) of the Companies Regulations (Relief in Interested Party Transactions), 2000 ("Relief Regulations"), approved the taking of bridge loans totaling NIS 700 million from DIC and IDB Development, pro rata to their direct holdings in the Company (NIS 578 million from DIC and NIS 122 million from IDB Development; "DIC Loan" and "IDB Loan", respectfully). The DIC Loan and the IDB Loan are at identical terms, linked to the CPI, interest-free and unsecured. The repayment date of the loans will be the earlier of the following dates: (a) the date on which the Company will actually receive into its bank account the loan monies that will be provided to it under the terms of the closing of the merger transaction between Makhteshim-Agan and ChemChina; or (b) January 1, 2013, but not before repayment of the Company's debt to the local banking corporation, unless with the consent of that banking corporation.

All amounts to be received by the Company from the DIC Loan and the IDB Loan, and all amounts that the Company will pay to DIC and to IDB Development for repayment of the linkage differences and loan principal will be divided between DIC and IDB Development pro rata to their direct holdings in the Company.

The DIC Loan and the IDB Loan were provided to Koor in full. As the Company was informed, the providing of the loan to the Company by DIC was approved by the audit committee and board of directors of DIC in accordance with Section 1(4) of the Relief Regulations.

According to the Relief Regulations, approval of the transaction was required by a general meeting of the shareholders of the Company and of DIC, if oppositions had been submitted to any one of them, as required in these Regulations, to use the Relief

Note 8 – Subsequent events (cont.)

1. (cont.)

d. (cont.)

Regulations with respect to the transaction. As at the approval date of the financial statements, no such oppositions were submitted as is required under the Relief Regulations, and the date for their submission has passed.

On August 18, 2011, DIC was served with a claim and a motion for class action recognition, which were filed in District Court in Tel Aviv-Jaffa on August 14, 2011 by two plaintiffs, the first asserting that one is a shareholder of DIC and the other a debenture holder of DIC ("the plaintiffs"), in connection with the bridge loans provided to Koor by DIC.

Among the remedies, the plaintiffs are petitioning for a mandatory injunction that will order DIC to convene a general meeting of its shareholders for a discussion and vote on the loan, including its terms, and a refund of the loan proceeds, to the extent the general meeting does not approve its being provided at the terms that it was provided. DIC reported that it is studying the details of the claim and intends to defend them rigorously.

2. Regarding development of the transaction for the sale of the shares of Makhteshim-Agan to ChemChina, see Note 4(A)(3).
3. Regarding development of the motion filed with Tel-Aviv District Court against the Company and against Makhteshim-Agan in connection with the transaction for the sale of the shares of Makhteshim-Agan, see Note 6(1).
4. In July 2011, Epsilon's board of directors resolved to distribute a dividend totaling NIS 2.1 million. Koor's share in this distribution is NIS 1.4 million.
5. In August 2011, Midroog Ltd. ("Midroog") placed Koor's Series H, I and J debentures, which are rated by Midroog, on its watch list with a negative outlook.
6. In the period from June 30, 2011 through August 24, 2011, the exchange rate of the Swiss franc increased by 11.67% from NIS 4.0935 to NIS 4.5714 per Swiss franc. This increase caused financing expenses in the said period, deriving from Koor's balances of monetary assets (excluding shares of Credit Suisse, which are not classified as monetary assets, but as financial assets available for sale), net of monetary liabilities denominated in or linked to Swiss francs, including for Swiss franc-NIS cylinder trades, totaling NIS 691 million.