

Translated from the Hebrew Original

Koor Industries Limited

Condensed Consolidated Interim
Financial Statements
As at September 30, 2010
(unaudited)

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

Condensed Interim Financial Statements as at September 30, 2010 (Unaudited)

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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 September 30, 2010 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine 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 constitute 1% of the total consolidated assets as at September 30, 2010, and whose revenues constitute 15% and 18% from the consolidated revenues from sales and services, from the share of the Group in net results of affiliated companies (in absolute values), from gains on available-for-sale securities and from other income for the nine 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 325,820 thousand as at September 30, 2010, and the Group’s share in their profits amounted to NIS 93,684 thousand and NIS 9,877 thousand for the nine 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.)

November 23, 2010

Condensed Consolidated Interim Statements of Financial Position as at

	September 30, 2010 (Unaudited)	September 30, 2009 (Unaudited)	December 31, 2009 (Audited)
	NIS thousands (Unaudited)	NIS thousands (Unaudited)	NIS thousands (Audited)
Assets			
Current assets			
Cash and cash equivalents	525,793	3,208,250	1,612,343
Short-term deposits and investments, including financial derivatives	226,931	69,695	63,945
Trade receivables	16,363	16,976	19,513
Other receivables	88,243	121,416	11,880
Inventories	27,904	39,845	34,670
Assets held for sale	-	-	16,655
	885,234	3,456,182	1,759,006
Long-term investments			
Investments in investees	3,142,240	2,553,452	2,945,939
Financial assets available for sale	97,588	2,328,236	2,888,648
Pledged financial assets available for sale	5,998,754	2,769,909	2,412,527
Other investments and pledged deposits	477,522	70,038	73,816
	9,716,104	7,721,635	8,320,930
Investment property	95,300	94,900	95,300
Fixed assets	1,969	2,516	2,305
Intangible assets	1,640	2,727	2,476
Total assets	10,700,247	11,277,960	10,180,017

Condensed Consolidated Interim Statements of Financial Position as at

	September 30, 2010 (Unaudited) <u>NIS thousands</u> (Unaudited)	September 30, 2009 (Unaudited) <u>NIS thousands</u> (Unaudited)	December 31, 2009 (Audited) <u>NIS thousands</u> (Audited)
Liabilities			
Current liabilities			
Credit from banks	29,320	2,004,893	266,514
Current maturities of debentures	153,094	453,997	456,438
Trade payables	12,713	19,640	16,671
Other payables including financial derivatives	299,052	174,381	266,892
Provisions	9,531	9,914	9,735
Customer advances	2,480	2,611	2,134
	<u>506,190</u>	<u>2,665,436</u>	<u>1,018,384</u>
Long-term liabilities			
Long term bank loans	4,418,508	219,150	1,757,365
Debentures	1,834,447	1,962,892	1,965,267
Deferred tax liabilities	31,209	163,065	80,100
Other liabilities including financial derivatives	2,934	5,678	5,273
Employee benefits	1,318	1,060	1,081
Liability for options to investors	-	3,079	4
	<u>6,288,416</u>	<u>2,354,924</u>	<u>3,809,090</u>
Equity			
Share capital	564,546	564,546	564,546
Premium on shares	3,904,575	3,904,575	3,904,575
Treasury shares	(6,071)	(6,071)	(6,071)
Reserves	(1,212,769)	419,123	(156,803)
Retained earnings	655,360	1,375,427	1,046,296
Total equity attributed to holders of the Company's equity rights	<u>3,905,641</u>	<u>6,257,600</u>	<u>5,352,543</u>
Total liabilities and equity	<u>10,700,247</u>	<u>11,277,960</u>	<u>10,180,017</u>

Ami Erel

Chairman of the Board of
Directors

Raanan Cohen

Chief Executive Officer

Oren Hillinger

Chief Financial Officer

Approval date of financial statements: November 23, 2010

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

Condensed Consolidated Interim Statements of Income

	For nine-month period ended		For three-month period ended		For year ended
	September 30		September 30		December 31
	2010	2009	2010	2009	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Revenues					
Sales and services	73,604	94,293	28,869	27,945	122,253
Koor Group's equity in results of affiliates, net	70,222	66,456	-	(*)-	126
Income from sale of and dividends from financial assets available for sale	304,415	2,332,857	5,661	691,585	2,682,802
Other income	109	17,650	-	1,489	26,092
Financing income	88,881	26,186	48,164	4,198	29,608
	<u>537,231</u>	<u>2,537,442</u>	<u>82,694</u>	<u>725,217</u>	<u>2,860,881</u>
Expenses					
Cost of sales and services	54,590	70,338	22,019	21,615	92,410
Selling and marketing expenses	9,286	15,764	2,835	4,674	20,069
General and administrative expenses	28,675	45,388	9,212	22,188	68,330
Koor Group's equity in results of affiliates, net	-	-	112,770	(*)45,347	-
Other expenses	18,375	14,825	9,042	4,397	18,448
Financing expenses	475,648	312,908	293,996	141,427	373,310
	<u>586,574</u>	<u>459,223</u>	<u>449,874</u>	<u>239,648</u>	<u>572,567</u>
Income (loss) before income taxes	(49,343)	2,078,219	(367,180)	485,569	2,288,314
Income taxes	<u>(67,203)</u>	55,029	<u>7,814</u>	26,427	<u>(122,611)</u>
Income (loss) for the period attributed to holders of the Company's capital	<u>(116,546)</u>	<u>2,133,248</u>	<u>(359,366)</u>	<u>511,996</u>	<u>2,165,703</u>
	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
Earnings (loss) per share:					
Basic earnings (loss) per ordinary share	<u>(2.45)</u>	44.967	<u>(7.58)</u>	10.792	45.648
Diluted earnings (loss) per ordinary share	<u>(2.47)</u>	44.964	<u>(7.58)</u>	10.789	45.633

* Reclassified, see Note 2.C(1)

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

Condensed Consolidated Interim Statements of Comprehensive Income

	For nine-month period ended		For three-month period ended		For year ended
	September 30		September 30		December 31
	2010	2009	2009	2009	2009
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Income (loss) for the period	(116,546)	2,133,248	(359,366)	511,996	2,165,703
Other elements of comprehensive income (loss):					
Foreign currency translation differences from foreign operations	(83,744)	(36,042)	(175,150)	(110,177)	(16,901)
Foreign currency translation differences from foreign operations recognized in gain/loss	4,347	1,078	-	-	1,078
Net change in fair value of financial assets classified as available for sale, net of tax	(947,155)	2,643,598	391,464	749,905	2,290,301
Net change in fair value of financial assets classified as available for sale recognized in gain/loss, net of tax	(19,619)	(1,719,440)	-	(511,773)	(1,978,016)
Impairment loss on financial assets classified as available for sale transferred to statement of operations, net of tax	10,402	-	7,684	-	-
Actuarial gains from defined benefits plan	-	-	-	-	533
Koor's equity in comprehensive income (loss) of affiliates	(24,630)	11,743	(10,038)	13,417	26,530
Total comprehensive income (loss) for the period – attributed to holders of the Company's capital	<u>(1,176,945)</u>	<u>3,034,185</u>	<u>(145,406)</u>	<u>653,368</u>	<u>2,489,228</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							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 nine-month period ended September 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
Loss for the period	-	-	-	-	-	-	(116,546)	(116,546)
Total comprehensive loss for the period	-	-	(80,624)	(18,971)	(956,371)	-	(4,433)	(1,060,399)
Dividend to holders of equity	-	-	-	-	-	-	(269,957)	(269,957)
Balance as at September 30, 2010 (unaudited)	564,546	3,904,575	(324,346)	(1,510)	(886,913)	(6,071)	655,360	3,905,641

	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 nine-month period ended September 30, 2009 (unaudited)								
Balance as at January 1, 2009 (audited)	564,546	3,904,575	(247,674)	10,022	(243,127)	(6,071)	(326,641)	3,655,630
Income for the period	-	-	-	-	-	-	2,133,248	2,133,248
Total comprehensive income (loss) for the period	-	-	(12,693)	(11,862)	924,457	-	1,035	900,937
Dividend to holders of equity	-	-	-	-	-	-	(432,215)	(432,215)
Balance as at September 30, 2009 (unaudited)	564,546	3,904,575	(260,367)	(1,840)	681,330	(6,071)	1,375,427	6,257,600

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 (accumulated loss)	
	NIS thousands							
For three-month period ended September 30, 2010 (unaudited)								
Balance as at July 1, 2010 (unaudited)	564,546	3,904,575	(169,381)	22,855	(1,286,062)	(6,071)	1,020,585	4,051,047
Loss for the period	-	-	-	-	-	-	(359,366)	(359,366)
Total comprehensive income (loss) for the period	-	-	(154,965)	(24,365)	399,149	-	(5,859)	213,960
Balance as at September 30, 2010 (unaudited)	564,546	3,904,575	(324,346)	(1,510)	(886,913)	(6,071)	655,360	3,905,641
	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 three-month period ended September 30, 2009 (unaudited)								
Balance as at July 1, 2009 (unaudited)	564,546	3,904,575	(161,835)	(2,584)	443,198	(6,071)	862,403	5,604,232
Income for the period	-	-	-	-	-	-	511,996	511,996
Total comprehensive income (loss) for the period	-	-	(98,532)	744	238,132	-	1,028	141,372
Balance as at September 30, 2009 (unaudited)	564,546	3,904,575	(260,367)	(1,840)	681,330	(6,071)	1,375,427	6,257,600

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						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 the year ended December 31, 2009 (audited)								
Balance as at January 1, 2009 (audited)	564,546	3,904,575	(247,674)	10,022	(243,127)	(6,071)	(326,641)	3,655,630
Income for the period	-	-	-	-	-	-	2,165,703	2,165,703
Comprehensive income (loss) for the period	-	-	3,952	7,439	312,585	-	(451)	323,525
Dividend to holders of equity	-	-	-	-	-	-	(792,315)	(792,315)
Balance as at December 31, 2009 (audited)	<u>564,546</u>	<u>3,904,575</u>	<u>(243,722)</u>	<u>17,461</u>	<u>69,458</u>	<u>(6,071)</u>	<u>1,046,296</u>	<u>5,352,543</u>

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

Condensed Consolidated Interim Statement of Cash Flows

	For nine-month period ended		For three-month period ended		For year ended
	September 30		September 30		December 31
	2010	2009	2010	2009	2009
	(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	(116,546)	2,133,248	(359,366)	511,996	2,165,703
Adjustments:					
Financing costs, net	163,131	207,543	50,944	87,766	217,235
Income tax expenses (savings)	67,203	(55,029)	(7,814)	(26,427)	122,611
Koor's equity in results of affiliates, net	(70,222)	(66,456)	112,770	45,347	(126)
Dividend received from affiliates	10,150	2,700	1,150	2,700	112,718
Depreciation and amortization	1,352	1,211	411	386	1,738
Increase (decrease) in employee benefits	237	(52)	61	112	502
Revaluation of investment property	-	(1,639)	-	-	(2,039)
Capital gains, net, from realization of:					
Fixed assets	-	(7)	-	-	(7)
Investments in investees and financial assets available for sale	(21,334)	(2,319,836)	-	(691,955)	(2,669,264)
Gain from early redemption of debentures	-	(278)	-	-	(278)
Linkage and amortization of debenture discounts and revaluation of liability from options	16,810	60,381	15,348	24,448	52,010
Linkage of loan principals and other long-term liabilities	198,553	41,160	148,090	28,107	85,358
Erosion (revaluation) of investments, deposits and loans receivable	7,640	(22,925)	30,958	(3,397)	(10,061)
Impairment of assets and investments	11,939	858	7,625	1,213	4,940
Decrease (increase) in trade and other receivables	1,631	17,156	(2,132)	5,285	17,909
Decrease in inventories and customer advances	6,289	7,911	3,246	2,791	12,774
Increase (decrease) in trade and other payables	(36,774)	(40,416)	(10,863)	7,510	(58,127)
Income tax paid	(114,462)	(216)	(4,406)	(24)	(219)
Net cash inflows (outflows) generated by operating activities	125,597	(34,686)	(13,978)	(4,142)	53,377
Cash flows generated by investing activities					
Purchase of fixed assets	(264)	(1,095)	(213)	(15)	(1,142)
Amounts recognized as intangible assets	(946)	(316)	-	(316)	(1,270)
Proceeds from realization of financial assets available for sale, investments in investees and other	283,928	9,359,757	-	3,904,535	11,181,471
Proceeds from sale of fixed assets, investment property and intangible assets	-	22,075	-	-	22,075
Proceeds from realization of assets held for sale	16,178	16,306	-	-	16,306
Investment in securities available for sale, affiliates and other	(2,375,248)	(6,737,080)	(5,983)	(5,324,069)	(9,639,405)
Increase in pledged deposits, net	(388,767)	-	(191,347)	-	-
Increase in short-term deposits and investments, net	(92,511)	(28,770)	(85,681)	(28,770)	(24,230)
Cash flows from settlement (to settlement) of derivatives	37,031	*2,813	(12)	*2,813	*(22,489)
Interest received	3,784	3,069	848	1,650	6,337
Net cash inflows (outflows) generated by continuing investing activities	(2,516,815)	2,636,759	(282,388)	(1,444,172)	1,537,653

* 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 nine-month period ended		For three-month period ended		For year ended
	September 30		September 30		December 31
	2010	2009	2010	2009	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands		NIS thousands		NIS thousands
Cash flows generated by financing activities					
Net proceeds from issuance of debentures	-	-	-	-	819,438
Dividend distributed to shareholders of the Company	(269,957)	(432,215)	-	-	(792,315)
Interest paid	(207,848)	(145,125)	(110,423)	(96,013)	(184,567)
Proceeds from the reissuance of debentures that were held by subsidiary	-	79,862	-	-	79,862
Long-term loans received, net	2,536,852	819,438	655,544	819,438	738,347
Long-term loans and debentures repaid	(761,783)	(71,354)	-	-	(1,111,807)
Cash flows from settlement (to settlement) of derivatives	(207)	*10,838	(207)	*1,019	*10,839
Increase in credit from banks and others, net	740	67,807	-	831,414	145,170
Net cash inflows (outflows) generated by financing activities	1,297,797	329,251	544,914	1,555,858	(295,033)
Change in cash and cash equivalents	(1,093,421)	2,931,324	248,548	107,544	1,295,997
Cash and cash equivalents – beginning of period	1,612,343	277,265	**272,624	3,094,607	277,265
Effect of fluctuations in exchange rate on balances of cash and cash equivalents	6,871	(339)	4,621	6,099	39,081
Cash and cash equivalents – end of period	525,793	3,208,250	525,793	3,208,250	1,612,343

* Reclassified, see Note 2.C(2)

** Reclassified, see Note 2.C(3)

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

Notes to the Interim Financial Statements

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 condensed consolidated financial statements as at September 30, 2010 include the financial statements of the Company and the financial statements of its subsidiaries, as well as the Group's rights in affiliates (together – "the Group"). The Company is a holding company that invests mainly in the fields of agrochemicals, finance, telecommunications equipment and others, through subsidiaries, affiliates 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 September 30, 2010, directly and indirectly through Discount Investment Company 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 Statements* – 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, 2009 ("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 November 23, 2010.

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.

In connection with the determination of whether impairment of the Credit Suisse shares will be deemed significant or continuous, see Note 5.A.

C. Reclassification

Comparative figures were classified for the purpose of consistency. These reclassifications did not have an effect on equity or on income in the said periods.

Presented below are details on the reclassifications made:

- (1) In the statement of income for the three-month period ended September 30, 2009, the Group's equity in the losses of affiliates, net, totaling NIS 45,347 thousand was reclassified from the Group's earnings to the Group's expenses.

Notes to the Interim Financial Statements

Note 2 – Basis for preparation of financial statements (Cont.)

C. Reclassification (Cont.)

- (2) In the statement of cash flows for the nine-month and three-month periods ended September 30, 2010, the Company presents the cash flows from the settlement of derivatives that hedge exposure to the exchange rate of the Swiss franc in respect of the investment in Credit Suisse within cash flows for investing activities. Comparative figures in the statement of cash flows for the year ended December 31, 2009 and for the nine-month and three-month periods ended September 30, 2009 were reclassified, in order to include the flows from the settlement of these derivatives within cash flows for investing activities and not in cash flows for financing activities.
- (3) In the statement of financial position as at September 30, 2010, pledged deposits totaling NIS 197,421 thousand as at June 30, 2010 were reclassified from cash and cash equivalents to other investments and pledged deposits. Consequently, the balance cash and cash equivalents as at the beginning of the period was updated in the statement of cash flows for the three-month ended September 30, 2010. For additional details, see Note 5.B.

Note 3 – Significant Accounting Policies

Except as provided in Par. A. below, the Group's accounting policies in these condensed consolidated interim financial statements are the policies that it 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) Business combinations and transactions with minority interest

Commencing January 1, 2010, the Group applies IFRS 3 (2008), *Business Combinations* and IAS 27 (2008) *Consolidated and Company Only financial statements* (hereinafter – "IFRS 3" and "IAS 27"), respectively.

Likewise, as from January 1, 2010, the Group applies, in early adoption, the following amendments to IFRS 3 (2008), *Business Combinations*, which were issued as part of the IFRSs Improvements Project for 2010: amendment to the transitional provisions relating to contingent proceeds in a business combination occurring before the effective date of IFRS 3 (2008), amendment on the subject of measurement of non-controlling interest and amendment on share-based payment transactions that are not exchanged, or are exchanged voluntarily.

The amendments' principal changes are as follows:

- The definition of a business has been broadened, so that more acquisitions will be treated as business combinations.
- When a parent company loses control over a subsidiary, the residual holdings after discontinuing the consolidation are revalued on the date of deconsolidation, at fair value, to the statement of income.
- When a business combination is achieved in stages, the difference between the fair value on the initial date of consolidation and the original book value of the investment on that date is recognized in the statement of income.

Notes to the Interim Financial Statements

Note 3 – Significant Accounting Policies (Cont.)**A. First-time application of new standards (Cont.)****(1) Business combinations and transactions with minority interest (Cont.)**

- A minority interest, which is comprised of instruments that confer an ownership right in the present and grant its holder a share in the net assets in the event of liquidation (for example: ordinary shares) is 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 transaction-by-transaction basis. The election of this accounting policy is not allowed for other instruments meeting the definition of rights that do not confer control (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.
- Transactions with the minority interest, while retaining control, are treated as equity transactions, such that the difference between the consideration paid or received and the change in the minority interest is attributed to the equity holders of the Company.
- Transaction costs incurred by the buyers in a business combination are treated as an expense in the period in which they occur and services are received.
- Contingent proceeds are measured on the date of the business combination at fair value. Subsequent to the acquisition date, changes in the fair value of contingent proceeds classified as a financial liability are recognized in the statement of income. The cost of a business combination occurring before January 1, 2010 was adjusted for the contingent proceeds not yet discharged or settled, if and when the payment of the contingent proceeds is probable and the amount may be reliably estimated.
- Goodwill will not be updated for utilization of carryforward tax losses that existed on the date of the business combination.
- A gain or loss or any element of other comprehensive income is attributed to the holders of the Company and to the minority interest even if as a result, the minority interest will be negative.
- The exercise price capitalized for a put option issued by the group to the minority interest will be recognized as a financial liability. In subsequent periods, changes in the value of the liability are recognized in the statement of income.
- On the acquisition date, the buyer recognizes a contingent liability assumed in a business combination if it is not recorded in the financial statements of the acquiree company only if there is a current obligation deriving from past events and fair value may be reliably measured.
- The definition of minority interest was broadened to include additional elements, such as: equity element of convertible debentures of subsidiaries, share-based payments that will settle the equity instruments of subsidiaries and options for shares of subsidiaries.

The said changes will have an effect on the Company's future business combinations and on transactions with minority interests.

Notes to the Interim Financial Statements

Note 3 – Significant Accounting Policies (Cont.)**A. First-time application of new standards (Cont.)****(2) Contracts for business combinations**

Commencing January 1, 2010, the Group applies Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* is no longer applicable to contracts for business combinations. This amendment clarifies that only forwards between the buyer and the seller regarding the purchase or sale of a controlled entity within the scope of a business combination on a future acquisition date, is not subject to IAS 39 when the period of the forward contract does not exceed the normal period required to obtain the requisite approvals for the transaction. The Amendment also clarifies that the exemption does not apply when acquisitions of equity-accounted investees are involved.

(3) Amendment to International Financial Reporting Standard IAS 1, Financial Statement Presentation ("Standard 1")

Commencing January 1, 2010, the Group applies, in early adoption, Standard 1, which was issued as part of the Improvements to IFRSs Project for 2010, pursuant to which the statement of changes in equity is to include, for every element of equity, an adjustment between the book value at the beginning of the period and at its end, while providing separate disclosure for each change resulting from profit or loss, other comprehensive income and transactions with holders in their functions as owners. The Group includes separate disclosure of the adjustment for each change resulting from every element of other comprehensive income within the scope of the notes to the annual financial statements.

B. New standards and interpretations not yet adopted

- (1) Within the scope of the Improvements to IFRSs Project for 2010, in May 2010, the IASB published 11 amendments to the IFRSs and one interpretation on a range of accounting issues. Most of the amendments will apply to periods commencing on or after January 1, 2011, with the possibility for early adoption, subject to the conditions provided in each amendment.

Described below is the amendment that could be relevant to the Group and which could have an effect on the financial statements, and was not adopted early:

- Amendment to IAS 34, *Interim Financial Reporting, Material Events and Transactions* (hereinafter – the Amendment), which expanded the list of events and transactions requiring disclosure in the interim financial statements, such as recognition of an impairment loss on financial assets and the reclassification of financial assets as a result of a change in their designation or usage. Likewise, the materiality limit of the minimum disclosure requirement existing in the current standard, before the Amendment, was eliminated. The Amendment will apply to annual periods commencing on or after January 1, 2011. Early application is possible, if disclosure is provided.

Notes to the Interim Financial Statements

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

- (2) International Financial Reporting Standard IFRS 9 (2010), *Financial Instruments* ("the Standard") – This Standard is one of the stages in the comprehensive project to replace International Accounting Standard IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"), which replaces the requirements appearing in IAS 39 related to the classification and measurement of financial assets and financial liabilities. According to the Standard, there are two main categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being based on the entity's business model for management of financial assets and the characteristics of the contractual cash flows of the financial asset. According to the Standard, an investment in a debt instrument will be measured at amortized cost, if the objective of the entity's business model is to hold the assets, in order to collect contractual cash flows and the contract terms create, on specific dates, entitlement to cash flows that are solely payments of principal and interest. All other debt instruments will be measured at fair value through gain/loss. Moreover, embedded derivatives are no longer separated from the hybrid contracts that include a financial asset host. Instead, the entire hybrid contract is evaluated for classification purposes based on the above criteria. Likewise, an investment in equity instruments will be measured at fair value while the changes in fair value are recognized in gain/loss. Nonetheless, the Standard allows, upon initial recognition of an equity instrument that is not held for trading, to elect irrevocably to present the changes in fair value of the equity instrument in other comprehensive income, with the amounts recognized in other comprehensive income never being reclassified to gain/loss. Dividends on equity instruments, the revaluation of which is recognized in other comprehensive income, will be recognized in gain/loss unless they clearly constitute a return on an initial investment.

The Standard retains, as a whole, the provisions related to the classification and measurement of financial liabilities, as included in IAS 39. However, differing from IAS 39, IFRS 9 (2010) requires, as a rule, that the amount of the fair value change in financial liabilities designated for fair value through gain/loss, except for obligations to grant a loan and financial guarantee contracts, attributable to changes in the credit risk of the liability, will be recognized in other comprehensive income, with the balance being recognized in gain/loss. However, if such separation leads to a worsening in the accounting mismatch of gain/loss, then the entire change in fair value will be recognized in gain/loss. Amounts recognized in other comprehensive income will never be reclassified to gain/loss. The new Standard also cancels the exception that allowed the measurement at cost of derivatives that are liabilities related to an unquoted equity instrument, the fair value of which cannot be measured reliably, and that must be settled by submitted such an instrument. These derivatives will be measured at fair value.

The Standard will be applied for annual period commencing on or after January 1, 2013. Early adoption is allowed, subject to providing disclosure, and subject to the corresponding adoption of all the amendments to the other IFRS provided in the appendix to the Standard. Application of the Standard will be retrospective, aside from certain exceptions, in accordance with the transitional provisions prescribed in the Standard. In particular, if the entity elects to apply the Standard before January 1, 2012, it is not required to restate comparative figures.

The Group is examining the effect of IFRS 9's application on the financial statements.

Notes to the Interim Financial Statements

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 September 30, 2010 is 47.03%. The book value of the investment as at September 30, 2010 amounted to NIS 2,717 million. The market value as at the said date amounted to NIS 2,733 million.
 2. Seasonal factors

Sales of agrochemicals 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 May 11, 2010, the board of directors of Makhteshim-Agan resolved to allot, through a trustee, 6,500,000 options to officers and a manager in Makhteshim-Agan, whereby each option is exercisable for one ordinary shares, NIS 1 par value, of Makhteshim-Agan. The exercise price of the option is NIS 20.22 per option. The cost of the benefit embedded in the option to be allotted, based on the fair value on grant date, totals NIS 7.7 million.
 4. On May 11, 2010, the board of directors of Makhteshim-Agan resolved to not issue shares through rights to the shareholders of Makhteshim-Agan, about which a resolution in principle was adopted previously by the board of directors of Makhteshim-Agan on March 9, 2010.
 5. On June 27, 2010, the board of directors of Makhteshim-Agan approved an undertaking of Makhteshim-Agan in a memorandum of understanding dated June 13, 2010, whereby subject to a due diligence process, agreement and signing of a binding agreement between the parties and the fulfillment of suspending conditions, as stipulated in the binding agreement, Makhteshim-Agan will acquire all of the issued and paid-up share capital of Albaugh Inc., a private company associated in the United States, from shareholders holding all of the issued and paid-up share capital of the acquired company. On September 2, 2010, Makhteshim-Agan announced the cessation of negotiations it had conducted with Albaugh Inc.
 6. During the third quarter of 2010, the Company was approached by China National Chemical Corporation ("ChemChina"), a large Chinese company controlled by the government of China engaged in chemicals and agrochemicals, regarding a strategic measure proposed with respect to Makhteshim-Agan, the principles of which are converting Makhteshim-Agan into a private company controlled by ChemChina, owned jointly by ChemChina and the Company. For additional details, see Note 5(J).

Note 4 - Information Regarding Certain Investees (Cont.)

- A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (Cont.)**
7. During the third quarter of 2010, the sales turnover and the profit margins of Milenia, the subsidiary of Makhteshim-Agan in Brazil, were lower than that subsidiary's forecasts. Consequently, on October 11, 2010, the board of directors of Makhteshim-Agan approved in principle a comprehensive reorganization of Milenia ("the Plan"). Implementation of the Plan entails the significant adjustment of manpower levels, significant contraction of manufacturing activity and the transfer of products from independent manufacturing to outsourcing while reducing overhead. In the estimation of Makhteshim-Agan, the reorganization plan is expected to already improve the results of Makhteshim-Agan's subsidiary as from 2011. The Plan will entail the recognition of one-off provisions in the fourth quarter of 2010, which, in the estimation of Makhteshim-Agan, will total between \$20 and \$30 million. The Group's share of the expense will amount to between \$9 million and \$14 million. Moreover, the subsidiary of Makhteshim-Agan in Brazil has tax assets that were recognized since the Makhteshim-Agan assesses that there are expectations for future taxable income against which these tax assets may be utilized. During the third quarter of 2010, the sales turnover and profit margins of the subsidiary of Makhteshim-Agan fell below the forecasts of the subsidiary of Makhteshim-Agan. Accordingly, the subsidiary of Makhteshim-Agan updated its forecasts according to detailed data for the next eight years, based on factors including industry characteristics, the detailed sales forecast of Milenia and the expected results of the reorganization plan described previously. As a result, in the third quarter, Makhteshim-Agan recorded a reduction of tax assets of \$22 million, the Group's share in the impairment is NIS 39 million.
8. Makhteshim-Agan is obligated to certain banks for fulfillment of financial covenants, for details, see Note 9.A(7) to the annual financial statements of 2009. During the third quarter of 2010, Makhteshim-Agan received various letters of consent from its financing banks, whereby according to the financial statements of Makhteshim-Agan for the period ended September 30, 2010, the ratio between financial liabilities and EBITDA will not exceed 5 (with respect to one of the financing banks) or 4.5 (with respect to the other financing banks), or without any limit (with respect to another financing bank). As of the date of the statement of financial position, Makhteshim-Agan is in compliance with all the limitations to which it is subject in accordance with the various letter of consent. In the estimation of Makhteshim-Agan, during the fourth quarter, Makhteshim-Agan will be required to extend the effective periods of the various letters of consent, and it will be possible to obtain the consent of the financing banks for their extensions.

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

9. On October 31, 2010, Makhteshim-Agan announced that it had reached agreement with the New Histadrut Labor Federation and with the workers' councils of the subsidiaries Makhteshim Chemical Works Ltd. and Agan Chemical Manufacturers Ltd. ("the subsidiaries"), ending the labor disputes that had been declared with respect to the subsidiaries' facilities. The agreements achieved included, inter alia, the obligation of Makhteshim-Agan to continue, until June 2017, to engage in manufacturing activities in certain volumes and on certain production lines in the subsidiaries' plants if control in it is transferred by June 2012, and agreement on the voluntary retirement of certain employees in each of the subsidiaries. In the estimation of Makhteshim-Agan, in the fourth quarter of 2010, one-off provisions totaling between \$54 million and \$62 million will be recognized for the termination of approximately 150 employees from manufacturing sites in Israel, for whom there are specific agreements as at the approval date of the financial statements of Makhteshim-Agan, the Group's share in the expenses will be between \$25 million and \$29 million. This provision does not include a provision to an assistance fund that will be established in the event an agreement is executed to transfer control in Makhteshim-Agan.

B. 452 Fifth owners LLC – a jointly-controlled company

On October 3, 2009, Koor and Property and Building Corporation Ltd. ("Property and Building", a company held by Discount Investments Company Ltd.), signed an agreement ("the Agreement") through a joint corporation, with a corporation in the HSBC Group ("HSBC"), to purchase the HSBC headquarters building on Fifth Avenue in New York ("the Building"), for total consideration of \$330 million, the key terms of which will be provided below ("the transaction"). The transaction closed on April 13, 2010.

Under the terms of the transaction, Koor and Property and Building will each purchase, through an American corporation owned jointly by each of them in an indirect manner (in equal stakes) ("IDB Corporation"), one-half of the rights in the building (for consideration of \$165 million each), and bear one-half of the expenses involved in executing the transaction; Koor and Property and Building are equal partners in the rights and obligations of the transaction, in IDB Corporation and in the Building, and includes joint management of the building, its maintenance, rental and all that it involves, and allowed, according to resolutions of their boards of directors, as will be adopted from time to time, inter alia, to provide financing to IDB Corporation for any purpose related to the Building, maintenance and ownership of it, to sell rights in IDB Corporation and/or the Building (in full or in part), directly or indirectly, and to bring investors into the IDB Corporation and/or the Building, all on a pro rata bases according to their proportionate shares.

The Company states its investment in the joint corporation by the equity method.

Note 4 - Information Regarding Certain Investees (Cont.)**B. 452 Fifth owners LLC – a jointly-controlled company (Cont.)**

Pursuant to the agreement, IDB Corporation purchased the building, which serves as the headquarters for HSBC Bank and is located on Fifth Avenue in Manhattan. The building contains two structures known as 452 Fifth Avenue N.Y. and 1 West 39th Street, N.Y., containing 12 and 29 floors, respectively, encompassing total built area of 863,000 square feet (80,000 square meters). The closing was executed on April 13, 2010 ("the closing date"), and on such date, the agreements between HSBC (as lessee) and IDB Corporation (as lessor) ("rental agreements") took effect, for rental of most of the buildings space, as provided below. The cost of the property amounted to \$353 million (including, inter alia, brokerage fees and payments to consultants).

For the purpose of partial financing of the cost, IDB Corporation received a loan on the closing date from Bank Leumi USA ("Leumi USA") in the amount of \$210 million, for a 10-year period. The loan bears interest at the fixed rate of 5% for the first four years, and for the balance of the loan period, interest at the rate of Libor+2.75%. The principal will be repaid as from the fourth year, according to the 25-year loan amortization schedule (i.e. at the rate of 4% per annum), and the balance in a single payment at the end of the loan period. To secure the credit, IDB Corporation pledged the building and provided additional collateral, as is customary, and the Company and Property and Building each furnished a guarantee, severally and not jointly, totaling \$52.5 million, in favor of Leumi USA, and as is customary in these types of loans, an unlimited guarantee to secure special situations. Payment of the balance of the cost was financed from independent sources of IDB Corporation.

It should be noted that since under extraordinary circumstances, the guarantees could be deemed unlimited in amount, and for the sake of caution, attached to these financial statements are the financial statements of 452 Fifth owners, LLC for the third quarter of 2010.

Pursuant to the rental agreement, almost all of the space in the building was rented to HSBC: most of the space, 547,000 square feet (51,000 square meters) was rented to HSBC for a 10-year rental period; and part of the space, 289,000 square feet (27,000 square meters) located in the upper floors of the building, was rented to HSBC for a 12-month period. Under the terms of the rental agreements, HSBC was granted options to extend the rental periods, regarding space rented for 10 years (HSBC's option to extend the rental period for some of the rented space for a 12-month period was not exercised). The rental fees to be received for the said rented space in the first year total \$45 million, of which \$19 million is for the upper floors. The operating expenses to be borne by IDB Corporation are estimated at \$19 million for the first year. HSBC was given the right of first offer to rent vacant space (or space that will be vacant in the future) in the building.

In the event that during 24 months from the closing date of the transaction, IDB Corporation will sell the building, or more than 50% of the rights in IDB Corporation will be sold, HSBC will be entitled to one-half of the gain. The Company and Property and Building (severally and not jointly) are each guarantors for half of this obligation toward HSBC.

After HSBC will vacate some of the space in the building, IDB Corporation intends to rent the vacated space. IDB Corporation estimates that the investments that IDB Corporation will need to make in order to adapt and renovate the building will total \$19 million (excluding leasehold renovations according to tenant needs, if any). The timing and pace of the investments will conform to market conditions and the rental situation in the building.

Notes to the Interim Financial Statements**Note 4 - Information Regarding Certain Investees (Cont.)****B. 452 Fifth owners LLC – a jointly-controlled company (Cont.)**

The fair value of the building was updated as at June 30, 2010 to \$390 million, based on a valuation obtained by IDB Corporation from an independent appraiser in the U.S. As a result IDB Corporation recognized a gain in the second quarter of 2010 from the increase in the fair value of the investment property of \$36.9 million. The transaction is subject to the agreement with Rock Real described in Note 32(C)(2)(4) of the Company's annual financial statements. In connection with this agreement, IDB Corporation recorded a provision of \$4.4 million in the second quarter of 2010. Koor's share in the said revaluation and provision amounts to NIS 63 million, which are included in Koor's equity in results of affiliates, net, in the second quarter of 2010. Furthermore, and as a result of the revaluation, the consolidated financial statements included deferred tax charges of NIS 28.3 million in the second quarter of 2010. As at September 30, 2010, there was no change in the fair value of the building.

On May 23, 2010, the audit committee and board of directors of the Company resolved to approve the payment of bonuses by IDB Corporation totaling NIS 2,950 thousand (Company share of 50% - NIS 1,475 thousand) in connection with dealing with the HSBC transaction and its closing, including a bonus to a director of the Company totaling NIS 900 thousand. The bonuses were paid in June 2010, after obtaining approval from the relevant organs of the Company and of Property and Building.

C. Epsilon Investment House Ltd. ("Epsilon") – an affiliate

1. On February 17, 2010, the board of directors of Epsilon resolved to distribute a dividend of NIS 15 million. Koor's share in this distribution is NIS 7.5 million. The dividend was received on that date.
2. On May 2, 2010, the board of directors of Epsilon resolved to distribute a dividend of NIS 3 million. Koor's share in this distribution is NIS 1.5 million. The dividend was received on the next day.
3. On July 28, 2010, the board of directors of Epsilon resolved to distribute a dividend of NIS 2.3 million. Koor's share in this distribution is NIS 1.15 million. The dividend was received on that date.
4. On October 27, 2010, the board of directors of Epsilon resolved to distribute a dividend totaling NIS 3.4 million. Koor's share in this distribution is NIS 1.7 million. The dividend was received on the same date.
5. On March 24, 2010, the Company entered into an agreement with Mr. Ron Levkovitz and a wholly-owned company of his to acquire all of their holdings (18.75%) in Epsilon, in consideration for NIS 29 million, so that after the said acquisition, the Company will hold 68.75% of the issued and paid-up share capital of Epsilon. The closing of the transaction is subject to several suspending conditions, including the consent of the Anti-Trust Commissioner (which was received on May 7, 2010) and a permit by the Superintendent of the Capital Market, Insurance and Savings in the Ministry of Finance (which as at the report date, has not yet been received).

Concurrent with the signing of the said agreement, the Company signed an agreement with Mr. Shmuel Frenkel and a wholly-owned company of his, which arranges the relations between the parties as the remaining shareholders in Epsilon, and which will take effect on the closing date of the sale.

The Company will consolidate the results of Epsilon from the date control is transferred (the closing date of the transaction).

Notes to the Interim Financial Statements

Note 4 - Information Regarding Certain Investees (Cont.)**D. ECTel Ltd. ("ECTel") – affiliate**

On October 22, 2009, ECTel signed a merger agreement pursuant to which ECTel was acquired by cVidya Networks Ltd. in consideration for \$21 million in cash (net of transaction costs exceeding the amount prescribed in the agreement). Under the terms of the agreement, every ECTel shareholder received, upon the transaction's closing, \$1.26 per share held. The proceeds received by Koor from the sale of its shares in ECTel are \$4.4 million (NIS 16.7 million). On December 11, 2009, a general meeting of ECTel's shareholders approved the transaction. The transaction was closed in January 2010.

In the financial statements as of December 31, 2009, the investment in ECTel was presented as an asset held for sale.

Note 5 – Significant Events in the Report Period

- A. In January 2010, the Company's board of directors resolved to increase the investment limit to NIS 7 billion. The investment will be made while utilizing buy and sell opportunities, noting the state of the markets and according to the Company's assessments from time to time.

In the first nine months of 2010, the Company, through a wholly-owned subsidiary, effected additional purchases and sales of shares of Credit Suisse Group AG ("Credit Suisse"). The Group recognized a pre-tax gain on the sales of Credit Suisse shares during this period of NIS 15 million.

On May 7, 2010, Credit Suisse distributed a dividend of CHF 2 per share. The Group's share in the dividend is NIS 262 million. In the second quarter of 2010, the Company recognized net earnings from the said dividend, net of withholding tax in Switzerland, and based on expectations for tax effects in Israel (based on Israeli tax law), totaling NIS 223 million.

In the nine-month and three-month periods ended September 30, 2010, the Group recognized tax savings of NIS 3 million and NIS 6 million, respectively, excluding the tax effect of the aforementioned dividend, due, inter alia, to the increase in deferred tax assets recognized for the difference between the cost of the Credit Suisse shares for tax purposes and their accounting cost.

As at September 30, 2010 and at the date of the financial statements, the Group holds 38.46 million shares of Credit Suisse that constitute 3.24% of the share capital of Credit Suisse (net of treasury shares), at a total investment of NIS 6.95 billion, the fair value of which, at September 30, 2010, amounted to NIS 5.99 billion. Thus, at such date, the balance of the negative balance of the capital reserve, net of tax, totaled NIS 898 million

As at the date of these financial statements, the negative difference between the value of the Credit Suisse shares held by the Group, at its stock exchange price, and its cost, stands at NIS 1,310 million, and is included in a capital reserve. The negative difference between the market value and cost, after deducting the dividends described previously (recognized in income and not in a capital reserve), is NIS 1,048 million.

Notes to the Interim Financial Statements

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

A. (cont.)

Further to the aforesaid in Note 10(F) to the Company's annual financial statements, the investment in Credit Suisse is treated in the balance sheet as an asset available for sale and is measured at its fair value. Changes in the fair value of the investment are recognized (as long as they do not constitute a significant and/or prolonged decline in value) directly in equity, in the capital reserve for assets available for sale.

In evaluating the investment in Credit Suisse for impairment, the Group examines the percentage of the difference between the fair value of the asset and its original cost, while considering changes in the fair value of the asset, the length of time in which the fair value of the asset is lower than its original cost and changes in the technological, economic or legal environment, or in the market environment in which Credit Suisse operates.

In view of the conditions prevailing in the business environment in which Credit Suisse operates and its shares are traded, noting the unique characteristics of this investment, the impairment will be deemed significant if the impairment (on the cut-off date) is 30% of the original cost or, if the impairment (on the cut-off date) is more than 25% of the original cost for a period of three consecutive months ending on the cut-off date. The impairment will be deemed prolonged if the decline in fair value (on the cut-off date) relative to the original cost is over a period of twelve consecutive months. This policy will be applied as long as there is no change in the circumstances that require a re-evaluation, except for exceptional cases. It should be noted that this policy is being fine-tuned opposite the Securities Authority, and the discussions have not yet ended.

- B. In January 2010, the terms of the credit taken from a corporation in Citigroup ("Citi credit") were updated, inter alia, by increasing the credit facility to a total of CHF 495 million, a reduction in the interest rates paid on the credit, cancellation of the requirement to pay commissions on withdrawals from the facility and the addition of Telrad Holdings Ltd., a wholly-owned subsidiary of Koor, as an additional borrower, so that the Citi credit can be utilized by Koor and by M.A.G.M. Chemistry Holdings Ltd. ("MAGM"), a wholly-owned subsidiary of Koor, and by Telrad Holdings Ltd. (together in this paragraph – "the borrower companies"). At September 30, 2010, the net balance of the loan withdrawn from the Citi credit (net of deposits) amounts to CHF 406 million.

The Citi credit will come due in January 2011, with the borrower companies having the right to extend the credit period by two additional periods, the first one of one year and the second period of half a year, subject to the payment of an extension commission which will be paid at some conditions detailed in the agreement. The borrower companies have the right to early repayment of the credit, subject to payment of commission. After the said update of the interest term, the interest rate paid on the utilized part of the Citi credit, on a monthly basis, is the relevant Libor rate plus a margin at an annual rate ranging between 2.05% and 3.10%, based on the ratio between the value of the collateral and the net loan balance (the actual balance from time to time), and with the addition of the grossing up of withholding tax. Likewise, after the update of the interest term, a commission is paid on the unutilized part of the Citi credit, on a monthly basis, at an annual rate ranging between 1.2% and 1.4%, based on the percentage of the credit facility utilized, plus the grossing up of withholding tax (if applicable).

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

B. (Cont.)

As at September 30, 2010, the Company classified the Citi credit as a long-term liability, since it intends to extend the credit for a period of at least 12 months.

As at September 30, 2010, the Group has a debt balance to Citi and Morgan Stanley, denominated in Swiss francs, totaling NIS 3.6 billion. The balance of the deposits of Koor and MAGM deposited against this debt is NIS 86 million and NIS 311 million, respectively (as at June 30, 2010: NIS 6 million and NIS 191 million, respectively). At this report date and as at June 30 and September 30, 2010, the withdrawal of the balance of the said deposits is limited. The possibility of future withdrawals is conditioned upon achieving the status of compliance with the covenants of the Citi and Morgan Stanley credit, which is influenced by the decline in the value of the investment in Credit Suisse.

At the date of these financial statements, the Group has a debt balance (net of deposits) to Citi and Morgan Stanley, denominated in Swiss francs, totaling NIS 3.11 billion.

C. According to the Company's examination of February 8, 2010, the Company was not required to be supplemental interest (according to the description in Note 17(C)(7) to the Company's annual financial statements) to the holders of the Company's debentures (Series I), since the average closing rate of the Credit Suisse shares on the date of the examination was lower than the base price of the Credit Suisse shares on the issue date of the said debentures.

D. On March 14, 2010, the Company's board of directors resolved to distribute a cash dividend totaling NIS 270 million (representing NIS 5.69 per share). The dividend was distributed on April 13, 2010.

E. In April 2010, the Group sold the balance of its shares in Carrefour while recognizing an after-tax gain of NIS 10 million. The investment framework in Carrefour approved by the Company's board of directors is up to NIS 3.5 billion. The investment in the shares of Carrefour will be executed while utilizing buy and sell opportunities, noting the state of the markets and according to Company assessments from time to time. It should be emphasized that there is no certainty that such transactions will be effected.

Further to the aforesaid in Note 17(C)(6) to the annual financial statements regarding the agreement for the facility secured by the shares of Carrefour, between MAGM and a corporation in the HSBC Group, MAGM elected not to utilize the credit facility, and in early July 2010, this credit facility was cancelled.

F. On April 30, 2010, the Company repaid the Series F debentures in full, in the amount of NIS 454 million.

Notes to the Interim Financial Statements

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

- G. In June 2010, the financial covenants in the agreement for the credit provided to the Company and a wholly-owned subsidiary of Koor, detailed in Note 17(D)(1) to the Company's annual financial statements, were updated. According to the update, it was agreed with the bank on adjustments to the manner of calculation of the market value to debt ratio, mainly the addition to the fair value element of the market value of Credit Suisse and Carrefour shares, to the extent they will be held by the Company, the investment in which is derived from non recourse debt, with a corresponding addition to the net financial debt element of the non recourse debt in respect of the said shares. It was also clarified that a decline in the fair value to debt ratio below 1.4 (as long as it is not below 1.3) is not a breach of liability by the Company, unless such decline will last for 14 consecutive business days and the Company did not notify, by the end of such period, its intention to take certain actions to correct the ratio to the satisfaction of the bank and/or did not take such action, as noted, on the dates so stipulated.

Moreover, the parties reached agreement in principle relating to the update of the financial covenant of the equity ratio, whereby the equity attributed to holders of the Company will not be less than NIS 1.8 billion (subject to certain adjustments).

The Company is in compliance with all the financial covenants to which it is bound by virtue of the said credit agreement, before and after such adjustments.

- H. In resolutions from August 10, 11 and 12, 2010, the audit committee and board of directors of Koor approved Koor's undertaking a transaction, which was executed on November 22, 2010, under the terms of which Koor, Clal Insurance Company Ltd. ("Clal Insurance") and Clal Pension and Gemel Ltd. (together with Clal Insurance – "Clal Insurance Group") (Clal Insurance Group together with Koor – "IDB Group") have undertaken to invest a total of \$250 million - \$125 million by the Company and \$125 million by the Clal Insurance Group – in the Credit Suisse Emerging Markets Credit Opportunity Fund L.P. ("the Fund"), a private investment fund managed by corporations in the Credit Suisse Group, the objective of which is to invest in emerging markets, mainly through debt products. The joint venture was approved by the audit committee and board of directors of Koor under Regulation 1(4) of the Companies Regulations (Exceptions in Interested Party Transactions), 2000.

The total amount of the investment commitment in the Fund is \$1 - \$1.1 billion. The general partner in the Fund will be a corporation from the Credit Suisse Group. The IDB Group has undertaken, as noted, to invest \$250 million in the Fund. Each limited partner in the Fund that has committed, by itself or together with other related entities, to invest at least \$250 million in the Fund (except for the general partner or any other limited partner related to Credit Suisse), were granted special rights in the Fund's documents, as long as that limited partner ("significant investor"), or any other limited partner related to it, is not in breach.

In the event a partner will breach its obligations to inject cash, its rights in the Fund will be transferred, in certain circumstances, to the other limited partner at a price that is the lower of 50% of the value or cost of the transferred interest.

Notes to the Interim Financial Statements

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

H. (Cont.)

The life of the Fund is five years commencing November 22, 2010, and may be extended, under certain conditions, by two additional periods of one-year each.

Proposals for making investments (acquisitions, sales and/or related activities) of the Fund are presented before the significant investors, which have been granted veto rights and rights to approve certain transactions or actions of the Fund, under the conditions prescribed in the Fund's documents. Koor and the Clal Insurance Group have agreed that the representative of IDB Group for giving consent to the Fund shall be Mr. Nochi Dankner (a director in Koor and in Clal Insurance) or whoever is appointed as his substitute or whoever will be agreed upon, from time to time, by Koor and Clal Insurance, and that the representative shall act at his discretion in certain matters (including, with respect to investment-making decisions, as aforesaid).

Subject to the law imposed from time to time on institutional bodies in the Clal Insurance Group, the following rights apply between Koor and the Clal Insurance Group, provided that their applicability is reciprocal: (a) giving one party the possibility of stepping into the shoes of the other party with respect to certain rights that have been conferred on significant investors and with respect to the injection of monies into the Fund, and (b) the right of first refusal in the transfer of an interest to an unrelated third party.

The Fund will make distributions to the partners out of the current earnings (such as dividends or interest) and from monies received in connection with the realization of the Fund's investments, all subject to retaining amounts to cover expenses, obligations and withholding taxes.

Based on the conditions prescribed in the Fund agreement, Koor will account for the investment by the equity method.

- I. In August 2010, the Company's board of directors approved a financial investment framework of up to \$120 million in the shares of Sanofi Aventis ("Sanofi"), a company engaged in the research, development, manufacturing and marketing of pharmaceuticals and healthcare products, the shares of which are listed for trading on the Euronext Paris Stock Exchange and on the New York Stock Exchange in the U.S. As at September 30, 2010, the amount of the investment (in terms of cost) in shares of Sanofi was \$37 million. In October 2010, the Group sold the balance of its shares in Sanofi. During the nine-month and three-month periods ended September 30, 2010, the Group recognized a capital gain on its investment in the shares of Sanofi of NIS 35 million and NIS 26 million, respectively, and in the fourth quarter of 2010 is expected to recognize a gain of NIS 5 million on this investment.

Notes to the Interim Financial Statements

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

- J. During the third quarter of 2010, the Company received an inquiry from China National Chemical Corporation, a large Chinese company controlled by the government of China engaged in chemicals and agrochemicals ("the Chinese company"), regarding a proposed strategic process related to Makhteshim-Agan, principally to transform Makhteshim-Agan into a private company controlled by the Chinese company and jointly owned by the Chinese company and the Group. Following this inquiry, the Company and the Chinese company reached preliminary agreement in principle to execute the transaction, under the terms of which the Chinese company will acquire all of the public's holdings in Makhteshim-Agan, and Makhteshim-Agan will become a private company. Additionally, 17% of the shares of Makhteshim-Agan will be acquired from the Group at a value for Makhteshim-Agan of \$2.72 billion (computed according to effective holdings, which do not include shares held by Makhteshim-Agan and its subsidiaries), so that after the transaction, Makhteshim-Agan will be 70%-held by the Chinese company and 30% by the Group. Moreover, according to the principles of the understandings, a shareholder agreement will be executed between the Group and the Chinese company, whereby the rights of the parties in Makhteshim-Agan will be arranged, including the granting of certain minority rights to the Group, which will include a PUT option for the Group to sell to the Chinese company the balance of the Group's holdings in Makhteshim-Agan.

As at the date of these financial statements, the contacts between the Company and the Chinese company are continuing, with the joint objective of reaching a binding agreement, and they are expected to continue for additional weeks. It arises from conversations with the parties that changes are expected to occur in the structure and terms of the transaction and that, inter alia, the parties have discussed the following matters: (1) a reduction in the value of Makhteshim-Agan for purposes of the transaction, from \$2.72 billion (as in the preliminary understandings) to a lower value, with the Chinese company requesting to place the value at \$2.4 billion (in a calculation according to the effective holdings, which do not include the shares held by Makhteshim-Agan and its subsidiaries, and before the dilution that could result from the exercise of employee options); (2) the Chinese company requests not to give a PUT option to the Group, which was included in the preliminary understandings; (3) the parties are evaluating the possibility that within the framework of the transaction, the Group will sell a smaller number of shares of Makhteshim-Agan than in the preliminary understandings, and in a manner whereby the Group's holding percentage in Makhteshim-Agan following the transaction will be higher than the rate it should have had according to the preliminary understandings; and (4) the possibility is being evaluated of arranging a non-recourse loan for the Group from a foreign bank against its shares in Makhteshim-Agan, as it will hold after the transaction is closed, backed by the Chinese company.

Notes to the Interim Financial Statements

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

J. (Cont.)

The parties are in the throes of negotiations, although at this stage, there is no certainty as to the occurrence and signing of any binding agreement between the parties regarding the transactions and as to the outline and terms to be prescribed in it. Internal approvals have not yet been received by the parties to the transaction, including the approvals of the boards of directors of the companies. Moreover, execution of the transaction is subject, inter alia, to the signing of a binding agreement between the parties and the approvals required by law, including approval by the shareholders of Makhteshim-Agan. At this stage, it is not possible to know the accounting effect of the transaction on the Company. The accounting effect will be determined based on the final terms of the transactions which, as noted, have not yet been prescribed.

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 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 31 to the annual financial statements.

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

A. On December 17, 2009, E.C.I. Telecom Ltd. ("ECI") filed a claim in Tel Aviv District Court against Tadiran, Koor and the former liquidator of Tadiran ("the claim"). ECI alleges that Tadiran breached an array of agreements practiced between it and Tadiran Communications Ltd. (which was later merged into ECI), which arranged the mechanism for the internal accounting between them with respect to tax advances and loss carryforwards. ECI requested that the court enforce the array of agreements between the parties and require the defendants to pay it the sum of NIS 20 million, comprised of two subtotals – one relates to allegations regarding the accounting for tax advances and the other relates to the accounting for loss carryforwards among companies in the Tadiran Group.

The claim against Koor and the former liquidator of Tadiran was dismissed, whereas Tadiran reached a compromise agreement with ECI in July 2010, pursuant to which Tadiran will pay NIS 4.4 million to ECI and the claim will be settled. In September 2010, Tadiran paid the said amount to ECI and the claim was settled.

Notes to the Interim Financial Statements

Note 6 – Contingent Liabilities (Cont.)

- B. Provided below are details on material changes that occurred in contingent liabilities to which Makhteshim-Agan is a party:
- (1) On March 24, 2010, a subsidiary of Makhteshim-Agan, Milenia, received a decision by the Ministry of Health in Brazil, whereby in administrative proceedings opened against it, administrative penalties were imposed on the subsidiary in an immaterial amount. The financial statements of Makhteshim-Agan include an appropriate provision for these penalties. As a result of the decision in the administrative proceedings, a criminal investigation was opened against Milenia and its managers by the Londrina police and by the Takvari police. During October 2010, Milenia managers were called to a hearing, the date of which has not yet been set, after which it will be decided whether to open legal proceedings against Milenia and its managers.
 - (2) In October 2007, a monetary suit against a subsidiary of Makhteshim-Agan, with a motion for a class action recognition totaling NIS 1 billion (hereafter – "the claim" and "the motion"), was filed in Beer Sheba District Court by three residents of the village Wadi El-Naim claiming that damage to their health has apparently been caused by the Makhteshim factories in the Ramat Hovav Industrial Area, for various causes related to air pollution. On August 17, 2010, the motion for class action recognition was stricken and the plaintiffs' claim was dismissed without an order for expenses.
 - (3) In 2003, a criminal complaint was filed against Makhteshim and one of its directors by the foundation *Adam, Teva VeDin*. In the complaint, Makhteshim is accused that on several occasions during the years 1999 through 2003, emissions of materials at prohibited concentrations were measured in the chimneys of its Ramat Hovav plant, creating severe pollution. Hence, according to the complainant, Makhteshim created strong or unreasonable pollution, disturbing the people near the site, which, according to the complaint, constituted a crime under the Law to Prevent Hazards, 1961 (this crime is a serious liability crime that does not require proof of criminal intent). On May 26, 2010, the Court ordered dismissal of the criminal proceedings in accordance with the compromise agreement signed by the parties, whereby Makhteshim will contribute \$250 thousand to an environmental project to be run by the Foundation *Adam, Teva VeDin*.
 - (4) On November 11, 2010, the State of Israel (Ministry of Environmental Protection) indicted a subsidiary of Makhteshim-Agan, Agan Chemical Manufacturers Ltd., and five executives of different rankings ("the defendants") in Magistrate's Court in Kiryat Gat. The indictment alleges that the defendants breached the terms of the poisons permit issued to the Agan plant in Ashdod ("the plant") and caused serious or unreasonable air and water pollution as a result of a fire incident that occurred in the plant on January 14, 2009. The indictment was submitted to Makhteshim-Agan on November 11, 2010, and it is unable as at the issue date of the financial statements to assess its outcome.

Notes to the Interim Financial Statements

Note 7 – Operating segments

The Group has three reportable operating segments, as below:

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

Credit Suisse segment. These activities are carried out through the investment in the shares of the Credit Suisse group.

Telecom equipment segment. These activities are carried out by Microwave Networks Inc., a subsidiary, which develops and markets point-to-point telecom systems.

The segment separation and profit and loss measurement basis is the same as that presented in Note 26, Significant Accounting Policies, to the annual financial statements.

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

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

	Nine-months ended September 30, 2010					Consolidated
	Makhteshim Agan	Credit Suisse	Telecom equipment	Others	Adjust- ments	
(Unaudited)						
NIS thousands						
Total revenues	<u>7,222,126</u>	<u>276,913</u>	<u>66,641</u>	<u>349,005</u>	<u>(7,377,454)</u>	<u>537,231</u>
Segment results	<u>(13)</u>	<u>240,666</u>	<u>(4,491)</u>	<u>119,603</u>	<u>(472,311)</u>	<u>(116,546)</u>
Segment's assets	<u>14,097,771</u>	<u>5,998,754</u>	<u>49,038</u>	<u>1,961,837</u>	<u>(11,407,153)</u>	<u>10,700,247</u>

Notes to the Interim Financial Statements

Note 7 – Operating segments (cont.)

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

	Nine-months ended September 30, 2009					
	Makhteshim	Credit	Telecom	Others	Adjust-	Consolidated
	Agan	Suisse	equipment		ments	
	(Unaudited)					
NIS thousands						
Total revenues	<u>7,300,884</u>	<u>2,332,857</u>	<u>87,783</u>	<u>108,057</u>	<u>(7,292,139)</u>	<u>2,537,442</u>
Segment results	<u>65,002</u>	<u>(*)2,386,286</u>	<u>(*)(13,495)</u>	<u>(*)5,966</u>	<u>(310,511)</u>	<u>2,133,248</u>
Segment's assets	<u>13,613,973</u>	<u>4,707,655</u>	<u>63,228</u>	<u>763,410</u>	<u>(7,870,306)</u>	<u>11,277,960</u>

	Three-months ended September 30, 2010					
	Makhteshim	Credit	Telecom	Others	Adjust-	Consolidated
	Agan	Suisse	equipment		ments	
	(Unaudited)					
NIS thousands						
Total revenues	<u>2,146,558</u>	<u>-</u>	<u>26,391</u>	<u>105,065</u>	<u>(2,195,320)</u>	<u>82,694</u>
Segment results	<u>(116,273)</u>	<u>6,134</u>	<u>(143)</u>	<u>41,444</u>	<u>(290,528)</u>	<u>(359,366)</u>

	Three-months ended September 30, 2009					
	Makhteshim	Credit	Telecom	Others	Adjust-	Consolidated
	Agan	Suisse	equipment		ments	
	(Unaudited)					
NIS thousands						
Total revenues	<u>1,985,475</u>	<u>691,585</u>	<u>25,601</u>	<u>30,519</u>	<u>(2,007,963)</u>	<u>725,217</u>
Segment results	<u>(39,867)</u>	<u>(*)716,280</u>	<u>(*)(4,000)</u>	<u>(*)(3,648)</u>	<u>(156,769)</u>	<u>511,996</u>

(*) Comparative figures for the nine-month and three-month periods ended September 30, 2009 were reclassified in order to adjust to the annual segment reporting, so that the segment's results include the tax savings presented before the chief operational decision maker of the Group.

Notes to the Interim Financial Statements

Note 7 – Operating segments (cont.)

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

	Year ended December 31, 2009					Consolidated
	Makhteshim	Credit	Telecom	Adjust-		
	Agan	Suisse(**)	equipment	ments		
	(Audited)					
NIS thousands						
Total revenues	8,862,248	2,650,592	113,464	158,397	(8,923,820)	2,860,881
Segment results	(2,864)	2,523,648	(16,531)	37,928	(376,478)	2,165,703
Segment's assets	14,193,422	5,110,948	59,389	602,021	(9,785,763)	10,180,017

(**)Liabilities of the Credit Suisse segment as at December 31, 2009 and 2008 included loans from foreign banks (totaling NIS 1,131 million and NIS 891 million, respectively), for which financing expenses in the years ended December 31, 2009 and 2008 are NIS 125 million and NIS 103 million, respectively. These financing expenses were not presented as part of the information related to the segment, since they do not constitute part of the internal reporting format, within the framework of the Credit Suisse segment, provided on a regular basis before the Group's chief operational decision maker.

B. Profit and loss adjustments for reportable segments

	Nine-month period ended		Three-month period ended		Year ended
	September 30		September 30		December 31
	2010	2009	2010	2009	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
NIS thousands					
Total earnings or loss from reportable segments	236,162	2,437,793	(110,282)	672,413	2,504,253
Earnings or loss from operations classified in the other operating segment	119,603	5,966	41,444	(3,648)	37,928
Amounts not attributed – mainly financing income (expenses) and general and administrative expenses for Koor headquarters	(472,311)	(310,511)	(290,528)	(156,769)	(376,478)
Net income (loss) for the period	(116,546)	2,133,248	(359,366)	511,996	2,165,703

Notes to the Interim Financial Statements

Note 8 – Related parties

- A. On May 23, 2010 the Company's Board decided to update the guidelines and rules for the classification of a transaction of the Company or its consolidated companies with an interested party as a negligible transaction as determined in regulation 41(A)(6)(A) of the Securities Regulations (Annual Financial Statements), 2010. These rules and guidelines will also be used to examine the scope of disclosure in the Company's periodic reports and in prospectuses (including shelf offering reports), regarding a transaction of the Company, a company under its control and an associated company with a controlling shareholder or in which the controlling shareholder has a personal interest as set out in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports) 1970 ("Periodic Reports Regulations") and in Regulation 54 of the Securities Regulations (Prospectus Details and Draft Prospectus – Structure and Form), 1969 ("Prospectus Detail Regulations"), as well as for the examination of the need to submit an Immediate Report for the said transaction of the Company, as determined in Regulation 37A(6) of the Periodic Reports Regulations (types of transactions determined in the Financial Statements Regulations, the Periodic Reports Regulations and the Prospectus Details Regulations, referred to above, hereinafter "Transactions with Interested Parties").
- B. During the regular course of business, the Company and its consolidated and associated companies carry out or are likely to carry out Transactions with Interested Parties, and they have or are likely to have obligations to carry out such transactions, including transactions of types and natures as detailed below: transactions to obtain banking and financial services from banks and financial institutions (including the management of monies paid by employers and employees to provident and education funds), purchase or sales transactions of products or services (e.g. communications products and services, food products, paper products, tourism services, basic insurances, vehicle leasing services, legal services); transactions to lease real estate.
- C. In the absence of special, qualitative considerations in the circumstances, a Transaction with an Interested Party, which is not an extraordinary transaction (in the meaning of the term in the Companies Law and detailed in par 4), the transaction shall be deemed negligible for the purpose of both immediate and periodic reporting, of the financial statements and prospectus (including shelf offering reports) – if the applicable criterion for the transaction is less than 0.5%, as detailed below and if the size of the transaction is not greater than NIS 8 million (linked to the increase in the CPI from the known index for the beginning of 2010).

In any Transaction with an Interested Party that is classified as a negligible transaction, one or more of the applicable criteria will be considered on the basis of the Company's last reviewed or audited consolidated financial statements: (1) in the acquisition of a fixed asset ("non-current asset") – the size of the transaction as compared with all assets (namely, the total balance sheet); (2) sale of a fixed asset ("non-current asset") – the profit/loss from the transaction – in the acquisition/sale of products or services – the size of the transaction – compared with annual income (namely for four quarters) averaged from the last 12 quarters for which reviewed or audited financial statements have been published. In this connection, profit/loss from the transaction and the profit/loss in each quarter shall be calculated at their absolute value; (3) taking on of a financial liability – size of the transaction as compared with the balance sheet liabilities.

Notes to the Interim Financial Statements

Note 8 – Related parties (Cont.)

C. (Cont.)

In respect of multi-year transactions, the size of the transaction shall be calculated for test of negligibility on an annual basis. For example, in an insurance transaction over several years, the annual insurance premiums shall be used to calculate the size of the transaction.

On those occasions when at the Company's discretion, all the quantitative criteria noted above are not applicable to determine negligibility of a Transaction with an Interested Party, the transaction shall be deemed negligible, in accordance with other applicable criteria, that the Company shall decide upon (on condition that the applicable criterion considered for the transaction be less than 0.5% and that the size of the transaction not exceeds NIS 8 million - linked to the CPI as aforementioned).

- D. It is clarified that a transaction not in the Company's normal course of business, or not a market terms, or that is likely to impact materially on the Company's profitability, assets or liabilities, shall not be classified as a negligible transaction. It should be noted that the Company is working on formulating criteria of types of transaction as extraordinary or not extraordinary transactions. When such criteria shall be adopted, the Company will publicize them in its reporting.
- E. Examination of qualitative considerations of a Transaction with an Interested Party may lead to a contradiction with the negligibility of the said transaction as mention in par 3 above. For example, and purely for illustrative purposes, a Transaction with an Interested Party will not generally be deemed negligible if it is considered a material event by the Company's management and serves as the basis for taking managerial decisions, or if as part of a Transaction with an Interested Party, the interested parties are expected to obtain benefits that are important to report to the public.
- F. Related transactions that are interconnected, so that they are effectively part and parcel of the same transaction (for example, centralized negotiations for a group of transactions) shall be considered a single transaction.
- G. A transaction classified as negligible by one of the Company's investees shall also be deemed negligible at the Company level. The said transaction that was classified by an investee company as not being negligible shall be examined against the applicable criteria at Company level.
- H. Each year the Audit Committee shall review the manner in which the provisions of this procedure have been implemented by the Company, and will carry out sampling of transactions in which the Company was directly involved that were classified as negligible according to the procedure. As part of the said sampling of transactions, the Audit Committee will test inter alia the manner in which prices and other transaction terms were set, and will examine the impact of the transaction on the Company's commercial situation and operating results. The activities of the Audit Committee under this section, including the said sample testing, the manner carried out and a summary of its results and conclusions shall be disclosed in the Company's periodic report.

Notes to the Interim Financial Statements

Note 8 – Related parties (Cont.)

- I. The Company's Board of Directors will examine the need to update this procedure from time to time, paying attention to Transactions with Interested Parties with which the Company is connected and changes to procedures that are sufficiently applicable.
- J. Determining the classification of a Transaction with an Interested Party as a negligible transaction shall be made by the Company's Comptroller's office and Secretariat together with the Legal Counsel, as shall be required. The Company's Secretariat shall be responsible for documenting the examination and classification process.
- K. On July 12, 2010, in a special general meeting, in a special majority required under Section 275 of the Companies Law, the shareholders gave prior approval to the Company's undertaking in an insurance policy joint to the Company and its subsidiaries, for officers' liability insurance, including officers that are controlling shareholders in the Company or their relatives ("the insurance policy"). The insurance policy will be for several insurance periods not to exceed five (5) years cumulatively (i.e., for insurance periods, the last of which is until the end of 2015), and may also be carried out through extensions of the existing insurance policy in which the Company has undertaken, as approved by the general meeting of the Company's shareholders on December 28, 2006, with a change in its terms, provided that the significant terms of the undertaking in the insurance policies will be within the parameters prescribed in Section A of the Immediate Report published by the Company on June 6, 2010.

Note 9 – Subsequent events

- A. For details on the comprehensive reorganization in the subsidiary of Makhteshim-Agan, see Note 4.A(7).
- B. For details on Makhteshim-Agan's reaching agreement in connection with the end of labor disputes, see Note 4.A(9).
- C. For details on a claim against a subsidiary of Makhteshim-Agan and its executives, see Note 6.B(4).
- D. For details on contacts between the Company and China National Chemical Corporation regarding a proposed strategic process with respect to Makhteshim-Agan, see Note 5.J.
- E. For details on an investment transaction in Credit Suisse Emerging Market Credit Opportunity Fund L.P., see Note 5.H.