

**Koor Industries Ltd.  
Directors' Report**

**For First Quarter of 2009**

We are pleased to submit the condensed unaudited financial statements of Koor Industries Ltd. for the first quarter of 2009.

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

Subsequent to the Company's board of directors' decision of 2008 to invest in negotiable shares of European banking institutions, during the quarter and thereafter the Company continues to buy and sell shares in Credit Suisse Group AG (Credit Suisse) for which Koor recorded in Q1 2009, a profit of NIS 33 million, and in Q2 until the reporting date, a pretax profit of NIS 973 million (after deducting the relative portion from the tax asset recorded as income during Q1 2009, net profit of NIS 904 million). On March 31, 2009 Koor held approximately 35.76 million Credit Suisse shares, constituting some 3.02% of Credit Suisse shares, at a cost of NIS 4.04 billion. As of the date of this report, Koor holds 17.82 million shares of Credit Suisse, which constitutes 1.50% of Credit Suisse share capital, at an overall cost of NIS 2.04 billion.

**1. Results of operations**

The net earnings attributed to the Company's shareholder equity in Q1 2009, totaled approximately NIS 251 million, with basic earnings per share of NIS 5.3, compared with earnings of about NIS 4 million and basic earnings per share of about NIS 0.2 for Q1 2008.

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

	<u>Q1 2009</u>	<u>Q1 2008</u>	<u>2008</u>
	<u>NIS Millions</u>		
Koor's equity in the operating results of investee companies, net	122	84	167
Gain from sale of investments, net of impairment	33	44	599
Administrative, financing and other expenses, net	(34)	(124)	(528)
Tax income	130	-	-
<b>Net income</b>	<b>251</b>	<b>4</b>	<b>238</b>
Basic earnings (losses) per share (in NIS)	5.3	0.2	8.5

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

	Koor's share in earnings (losses)			Change Q1 2009 compared with Q1 2008
	Q1 2009	Q1 2008	2008	
Makhteshim Agan Industries Ltd.	133	132	311	0%
Telrad Networks Ltd. ("Telrad")	-	(9)	(43)	n/a
ECTel Ltd.	(1)	(1)	(6)	n/a
Koor Venture Capital Partnerships	6	(10)	(23)	n/a
Harriet Investments (2001) Ltd. assets (previously Dekolink Wireless Ltd.) ("Harriet")	(3)	(11)	(67)	n/a
Microwave Networks Inc ("MNI")	1	(2)	13	n/a
Other companies	5	(4)	6	n/a
Excess cost and other adjustments	(19)	(11)	(24)	n/a
<b>Total</b>	<b>122</b>	<b>84</b>	<b>167</b>	<b>45%</b>

**1.2 Gain from sale of investments, net of impairment**

	<u>Q1 2009</u>	<u>Q1 2008</u>	<u>2008</u>
	NIS Millions		
Gain from sale of investments, net of impairment	33	44	599

In Q1 2009 this item included in particular: Capital earnings from the sale of Credit Suisse shares in the amount of NIS 33 million.

In Q1 2008 this item included in particular: capital earnings of NIS 48 million due to additional estimated income from Elbit Systems Ltd ("Elbit") for the sale of Elisra Electronic Systems Ltd. ("Elisra"), resulting from the receipt of an insurance payment for the fire that occurred at Elisra's consolidated plant in 2001.

**1.3 Administrative, financing and other expenses, net**

	<u>Q1 2009</u>	<u>Q1 2008</u>	<u>2008</u>
	NIS Millions		
Administrative, financing and other expenses, net	(3)	(2)	(32)
Financing expenses, net	(31)	(122)	(496)
<b>Total administrative, financing and other expenses, net</b>	<b>(34)</b>	<b>(124)</b>	<b>(528)</b>

The primary change during Q1 2009 as compared with the same period in 2008 derives from the decrease in the net financing expenses attributable to the decline in the Israeli CPI during this quarter. In the corresponding quarter of 2008, the financing expenses including expenses deriving from the sharp drop in the dollar exchange rate. The financing expenses that derived from the changes in the Swiss Franc exchange rate in Q1 2009 were NIS 13 million.

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**2. Segments of operation**

**2.1 Analysis of Koor's financial results before income tax, by segment and main items:**

	<u>Q1 2009</u>	<u>Q1 2008</u>	<u>2008</u>
	NIS millions		
Agrochemicals	117	121	289
Financial	33		575
Telecommunications equipment	(5)	(13)	(54)
Other holdings	10	24	(42)
Finance, Management and other	(35)	(127)	(531)
<b>Total</b>	<b>120</b>	<b>5</b>	<b>237</b>

**2.1.1 Agrochemical segment**

	<u>Q1 2009</u>	<u>Q1 2008</u>	<u>2008</u>
	NIS millions		
Contribution of business segment	117	121	289

The main change in the results of the segment in Q1 2009 compared with the corresponding period in the previous year were due to the business results of Makhteshim Agan Industries Ltd. (Makhteshim Agan).

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

	<u>Q1 2009</u>	<u>Q1 2008</u>	<u>Change</u>	<u>2008</u>
	Million USD		%	Million USD
Revenue	722	722	0%	2,536
Gross profit	217	260	(17%)	848
Operating profit	106	134	(21%)	367
Financing expenses, net	10	32	(69%)	97
Net earnings attributable to the shareholders	78	91	(14%)	219
EBITDA	128	155	(17%)	457

The crop protection products market in which Makhteshim Agan operates was impacted during Q1 2009 by the following trends:

1. Maintaining the stability of the demand for Makhteshim Agan's products, especially in Europe. an insignificant decline in the extent of growing areas, mainly in Brazil.
2. The prices of agricultural produce remain slightly below the record prices recorded in 2008 and in a multi-year comparison, their prices remain relatively high.
3. The cold and long winter in Europe, compared with previous years, led to a late start of the agricultural season, but did not harm the volume of sales.

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4. The credit squeeze experienced by farmers reduced the demand for crop protection products, mainly in emerging markets such as South America, Asia, Eastern Europe and Africa, which led them to switch to purchasing products close to the time they need to use them.
5. The average sale prices are higher than the corresponding quarter of the previous year. There has been a slight drop in the sale price of some of Makhteshim Agan's products in part of its sales regions, compared with the price of the products in the fourth quarter of 2008.
6. Makhteshim Agan reports its results in US dollars and therefore strengthening of the US dollar against the other currencies in which Makhteshim Agan operates leads to impairment of the dollar value of Makhteshim Agan's sales and erosion of its gross margins. On the other hand, strengthening of the US dollar compared with the other currencies in which Makhteshim Agan operates (mainly the NIS, Euro and Brazilian Real) reduced its operating expenses in dollar terms.
7. The surplus supply of raw materials and low oil and energy prices caused raw material prices to fall and is expected to generate cost savings which Makhteshim Agan estimates will begin to be felt at the beginning of the second half of the year with the use of existing stocks.

Makhteshim Agan estimates that the trends, all or in part, that began in the latter third of 2008 and were also discernable in the first quarter of 2009, as described above, will continue in the short term. Makhteshim Agan, opposed to other companies in the industry, continued presenting growth in its crop protection products segment, also during Q4 2008 and Q1 2009. At the same time, due to the early sales in 2008 because of surplus demand, Makhteshim Agan estimates that due to the credit squeeze and just in time purchasing trends, there may be quarters during 2009 which will record lower sales compared to corresponding quarters in the previous year. There is no change in Makhteshim Agan's long term estimates as reported in Makhteshim Agan's previous reports.

**2.1.2 Financial Segment**

	<u>Q1</u> <u>2009</u>	<u>Q1</u> <u>2008</u>	<u>2008</u>
	N I S   m i l l i o n s		
Contribution of business segment	33	-	575

Pursuant to the decision of the Company's board of directors to invest in the negotiable shares of European banking institutions, in Q1 2009 and throughout 2008, the Company bought and sold Credit Suisse shares while exploiting the opportunities created due to the market volatility. These buy and sell activities generated for the Company profits of NIS 33 million in the first quarter 2009 and NIS 575 in 2008. For further information pertaining to profits in the amount of NIS 973 million from Koor's buy and sell operations, subsequent to the balance sheet date, see section 4.1 below.

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**2.1.3 Telecommunications equipment**

	<u>Q1</u> <u>2009</u>	<u>Q1</u> <u>2008</u>	<u>2008</u>
	N I S   m i l l i o n s		
Contribution of business segment	(5)	(13)	(54)

The primary changes in the results of this segment in the first quarter of 2009 compared with the corresponding quarter of the previous year derive from an improvement in MNI's results and from the minimization of losses contributed by Harriet due to the sale of the majority of its assets during the quarter as set forth in section 3.2 below.

**2.1.4 Other holdings**

	<u>Q1</u> <u>2009</u>	<u>Q1</u> <u>2008</u>	<u>2008</u>
	N I S   m i l l i o n s		
Contribution of business segment	10	24	(42)

The primary changes in the results of this segment in the first quarter of 2009 as compared with the corresponding period of the previous year originates in the gains recorded for Q1 2008 with respect to the additional income received from Elbit for the sale of Elisra, in the amount of NIS 48 million, as set forth section 1.2 above.

In addition, there has been an improvement in the results of Epsilon, which have presented profits in the amount of NIS 9 million (the Company's share of these profits being NIS 4 million), primarily due to securities held by it, compared with a loss of NIS 2 million for the corresponding period of the previous year.

Koor Corporate Venture Capital recorded profits in Q1 2009 of approximately NIS 6 million due to the rise in the USD-NIS exchange rate compared with a loss of NIS 10 million for the corresponding period of the previous year.

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**3. Main changes in the holdings of the Company and its investees during Q1 2009**

- 3.1** In January 2009, a wholly owned subsidiary of the Company acquired 745,816 par value debentures (Series H) of Koor in a TASE transaction. Subsequent to this acquisition and the previous acquisition carried out in 2008, as at March 31, 2009, the subsidiary holds 218,050,186 nominal value debentures (Series H) of Koor. Subsequent to the balance sheet date, the subsidiary sold part of the debentures it held. For details see section 4.7 below.
- 3.2** In January 2009, Harriet concluded a transaction to sell the majority of its assets to an unrelated third party. As part of the asset transaction, the buyer purchased from Harriet intellectual property, inventory and equipment. In addition, Harriet assigned to the buyer certain agreements and the undertakings included in those agreements. The total consideration of the acquisition amounted to USD 4.1 million, in cash. In addition, the buyer undertook to transfer to Harriet receipts for receivable invoices assigned to the buyer by Harriet, up to a total amount of USD 250 thousand.
- 3.3** In January 2009, Nortel, the principal customer of Telrad, entered an automatic stay of creditors' proceedings, subsequent to which, inter alia, Nortel's past debt to Telrad was frozen and as at same date sales of certain Telrad inventories to Nortel were cancelled, in an amount of approximately USD 11 million. In addition, in January 2009, Telrad entered a new agreement with Nortel with respect to sales and terms of payment for 2009. Due to Nortel entering an automatic stay Telrad has encountered a severe cash crunch and it is conducting negotiations with its creditors in an attempt to reach settlements with respect to its debts. Nortel's automatic stay had a material negative impact on the financial status of Telrad and on its business results, and there are concerns about it continuing as a going concern.
- In March 2009 Koor signed agreements with Telrad and Fortissimo Fund according to which Koor transferred to Fortissimo part of its shares in Telrad and part of its rights to repayment of the loans it provided to Telrad, free of charge, so that its holdings in Telrad decreased to 10% and its share in the total shareholders loans extended to Telrad decreased to 10%. In addition, Koor undertook to put up an overall amount of USD 1 million as part of a comprehensive round of capital raising under the terms as set forth in the agreements. As of the date of the signing of the agreement, Koor has the right to participate in the sale of Telrad shares by Fortissimo and it has no representation on Telrad's board of directors. Subsequent to the sale, the investment in Telrad is handled as of March 31, 2009 as an available for sale asset and its value in the financial statements is recorded as zero.
- 3.4** In February 2009, Koor engaged in a deal to sell two floors of an office building in Tel Aviv, representing a single unit, with an overall area of 1,617 sq. m (plus parking spaces) for consideration of NIS 22.4 million. As a result of the transaction, the Company recorded a profit in Q1 2009 of NIS 2 million.
- 3.5** In March 2009 Koor engaged in an agreement with Morgan Stanley according to which the non-recourse line of credit extended to it by Morgan Stanley would be doubled, so that the maximum available amount of credit would be CHF 330 million, by way of an additional credit line of CHF 165 million being added to the original credit line of CHF 165 million. The maximum limit of the original credit line was set for June 2009 and the maximum limit of the additional credit line was set for September 2009, according to the maximum amounts that the Company may actually draw up to those dates. As at the report date the maximum amount of credit used is CHF 77 million.

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**4. Main events subsequent to the balance sheet date**

- 4.1** In April and May 2009, Koor sold part of its shares in Credit Suisse. For these sales, Koor will record pretax profits for Q2 2009 of NIS 973 million, and after deducting the relative share from the tax asset (which is registered as income for Q1 2009), net profit of NIS 904 million.
- 4.2** Shortly prior to the date of this report, subsequent to the acquisition of Credit Suisse shares (less sales), Koor holds approximately 17.82 million shares in Credit Suisse, which constitutes 1.50% of Credit Suisse share capital, in an overall investment of NIS 2.04 billion. The Company's embodied profit, proximate the reporting date, for the balance of its investment in Credit Suisse (which reflects the difference between the value of the Credit Suisse shares that it holds, according to the TASE price, which is NIS 3.1 billion, and the original cost of these shares) is NIS 1.06 billion.
- 4.3** In April 2009, the Credit Suisse general meeting convened and approved distribution of dividend of CHF 0.10 per share. On April 30, 2009, Koor received its share of said dividend in the amount of CHF 3 million. Of this amount, tax in the amount of CHF 0.5 million was withheld.
- 4.4** In April 2009, Koor gave notice to Goldman Sacks that, by May 15, 2009, it intended repaying the recourse credit extended to it by Goldman Sachs, that as at the date of the notice amounted to CHF 214 million. On May 15, 2009, Koor settled this debt.
- 4.5** In April 2009, Koor Assets Ltd. ("Koor Assets"), a wholly owned subsidiary of the Company, signed an agreement to sell its share (33% of the issued and paid-up share capital) in A.C.A. Development Corporation Ltd. ("ACA") to the other shareholders in ACA ("the Buyers"). The total proceeds that Koor is expected to receive as at the completion date from its holdings in ACA amounts to NIS 81.2 million and consists of consideration for the sale of shares in the amount of NIS 30.6 million, consideration for repayment of shareholders' loans extended by Koor Assets, in the amount of NIS 33.9 million, and presale dividend of which Koor Asset's share is NIS 16.7 million. The final proceeds is subject to certain adjustments as stipulated in the agreement, if the Buyers will sell the shares within a period of one year from the date of the closing of the transaction.
- 4.6** In April 2009, the Company signed an agreement whereby it undertook to invest USD 20 million in the private investment fund, Mezzanine Mustang Limited Partnership, which focuses on mezzanine financing for mature companies in Israel and abroad operating in various sectors, including industry, commerce, telecommunications, services and real estate. Koor's total undertaking to invest in the Fund is USD 20 million. At of the report date, Koor's total investments in the fund amounted to USD 1.4 million. The balance of Koor's commitment to invest in the fund on the report date is USD 18.6 million.
- 4.7** In May 2009, a wholly owned subsidiary of the Company sold 75,830,000 par value debentures (Series H) of Koor, for a total amount of NIS 80 million. Subsequent to this sale, the subsidiary holds a total of 142,220,186 par value debentures.

**5. Dividend**

- 5.1** At the date the financial statements were approved, the Company's Board of Directors decided to distribute a cash distribution of NIS 432 million, representing NIS 9.11 per share. Distribution of the dividend shall take place on June 10, 2009, the record date will be May 26, 2009 and the ex-dividend date May 27, 2009.

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**6. The financial situation and sources of finance**

**6.1**

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
	NIS Millions	
Total assets in the consolidated balance sheet	8,693	7,461
Investments in investees in the consolidated balance sheet	3,008	2,704
Available-for-sale financial assets in the consolidated balance sheet	1,638	1,621
Attached available-for-sale financial assets in the consolidated balance sheet	2,971	2,517
Total equity attributed to the Company's shareholders	4,810	3,656
Surplus of current liabilities over current assets in the consolidated balance sheet	530	903
Koor's financial liabilities	3,697	3,570
Surplus of financial liabilities over Koor's cash and cash equivalents*	2,990	3,284

\* Does not include Credit Suisse shares which are classified as available-for-sale financial assets recorded, as at March 31, 2009, at a value of NIS 4,566 million.

**6.2** As at May 19, 2009 and subsequent to the sale of part of the Company's holdings in Credit Suisse shares, as set forth in section 4.1 above, Koor's cash balance was NIS 2.8 billion and its surplus financial liabilities over assets were NIS 60 million.

**6.3**

	<u>Q1 2009</u>	<u>2008</u>
	NIS millions	
Proceeds from divestments in Koor	509	4,576
Dividends received from investees	-	250
Investment in affiliates and other Koor companies *	162	8,539

\* The net investment in Credit Suisse as at March 31, 2009 subsequent to buy and sell transactions totals NIS 4.04 billion. (NIS 4.35 billion as at December 31, 2008).

**6.4** In the first quarter of 2009, Koor repaid short term loans to banks in the amount of NIS 127 million. In addition, Koor took short term bank loans in the amount of NIS 218 million.

**6.5** As at March 31, 2009, the Company has negative cash flows from ongoing operations and working capital deficit. At December 31, 2008, the Company had positive cash flows from ongoing operations. The Company's board of directors examined the Company's financial status and decided that there is no reasonable concern that the Company will not meet its existing and expected financial liabilities during the two year period following the publication date of the financial statements, when the time comes to meet them. This conclusion is based, inter alia, on the Company's cash balances at the reporting date, its unused credit facilities, the Company's ability to revolve and/or receive loans, on the strong position of the Company's assets, the majority of which are highly tradable negotiable shares (Credit Suisse and Makhteshim Agan shares) at an overall market value as at the report date of NIS 7.1 billion (in

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addition to the cash derived from exercising its Credit Suisse shares in the amount of NIS 3 billion subsequent to the balance sheet date), and the potential dividend from investees<sup>1</sup>

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

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**6.6 Summary of data relating to debentures as of March 31, 2009 (in NIS millions):**

Series	Original date of issue	Par value at date of issue (millions)	Par value balance in circulation (millions)	Par value balance in circulation linked (millions)	Accrued interest in books	Value of debenture balance as at Dec 31, 09 in books	Market value	Average interest rates (fixed)	Principal repayment date		Linkage terms	Trust company Name of contact Address and Telephone <sup>(6)</sup>
									From	To		
<b>G</b>	Apr 10, 05	400	400	438.1	6.8	431.8	Non-negotiable	3.75%	Apr 30, 10	Apr 30, 10	CPI	Ubank Trust Co. 83 Rothschild Blvd. Tel Aviv Tel:03-5645205 Ifat Bachar
<b>H<sup>(3)</sup></b>	Aug 20, 06	1,194.6	1,194.6	1,252.1	37.2	1,266.6 <sup>(4)</sup>	1,107	5.10%	Sep 1, 12	Sep 1, 16	CPI	Reznick Paz, Nevo Trusts Ltd. 14 YadHarutzim St. Tel Aviv Tel: 03-6389200 Liat Bachar-Segal

**Comments:**

- (1) The Company complies with all the debenture terms and conditions. Furthermore, the Company complies with all the liability conditions as set in the deed of trust.
- (2) Annual payments.
- (3) The series was expanded on May 10, 2007. The data in the table refers to the entire series.
- (4) The consolidated statements represent the debenture (Series H) balance as at March 31, 2009 less the debentures acquired by a wholly owned subsidiary and is NIS 1,035.4 million.
- (5) Due to concerns of conflict of interest, the Company switched the trustees for debenture Series H and is acting to switch the trustees for Series G.

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

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

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

**7. Changes in the economic environment, implications of the global economic crisis, and market risk exposure and management**

**7.1 The global economic crisis**

During the course of 2008, the global financial markets underwent significant upheavals which got worse during September-October 2008 and continued to intensify at the beginning of 2009 with the collapse of several very large financial organizations in the US and other countries. This economic and financial crisis followed a crisis in the sub-prime mortgage market<sup>2</sup> which was set off during the second half of 2007 and involved other financial segments. The global economic and financial crises led, inter alia, to a sharp decline in the prices of financial assets and serious drops in the capital markets, substantial declines and fluctuations in the stock markets around the world (and in Israel), including sharp drops in the prices of securities of certain Koor investees. The deterioration of the global financial crisis also led to the creation of a credit crisis, including a substantial decline in the availability of credit and to a credit crunch. Following these events, a number of countries, first and foremost the US, EU and UK, took steps to promote stabilization and prevent further deterioration of the financial markets, including by injecting cash into financial institutes and lowering interest, however so far there is no certainty that these steps will halt the crisis or prevent it from deteriorating.

The global financial crisis has deepened and so has the slowdown in the real economic activities which spread from the US throughout the entire world and which also reflected on the Israeli economy. The real economic crisis was expressed in the impairment of assets held by the public (including harm to pension funds and an increased withdrawals from provident funds and study funds), reduction in demand, substantial slowdown in economic and commercial operations, recession that accelerated towards the end of 2008 and that led to a slowdown of the growth rate of the private consumption and

<sup>2</sup> In general, a sub-prime loan is a loan granted to borrowers whose credit rating is relatively low and constitutes a higher risk for the lender. For this reason, a sub-prime loan is granted at higher interest rate than a prime loan.

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increase of financial uncertainty. Subsequent to the economic crisis, various economies around the world, including the USA and many countries in Europe, have entered a serious recession and a wave of shut downs and extensive lay offs have begun in the various sectors of the economy, including in real estate, industry, services and high-tech. Also in Israel, the clear indications of the economy deteriorating into a recession are rapidly multiplying. As of the report date, it is not possible to assess the scope of the direct and indirect financial implications of the economic crisis in Israel and other countries, nor its duration.

Together with the global economic crisis, several other developments took place on the Israeli market during the course of the past few months, including significant fluctuations in the exchange rates of the principal foreign currencies against the shekel, consistent substantial reductions of the Bank of Israel interest rates and fluctuations in the inflation rates on the local market. For details of Koor's financing expenses, see also section 1.3 to this report.

These developments and upheavals in the markets are liable to have significant and continuous adverse impacts on the business outcomes of Koor and its investees, their liquidity, value of equity, value of their assets and the ability to sell these assets, business situation (including the demand for products of Koor's investees), financial covenants, credit rating, ability to pay dividends, and even their ability to raise financing for their ongoing operating activities and long-term activities as well as on the financing terms.

As a result of the crisis, the rating companies are reassessing and adjusting the rating of the companies' debentures. The reassessment procedure is liable to also have negative impact on the rating of these investees' ability to repay debts. For further information relating to Standard & Poors Maalot Ltd. ("Maalot") notice pertaining to the credit watch negative reassessment of several investees, including Koor, see also section 6.6 to this report.

Declines and fluctuations in the prices of the securities of Koor holdings (and particularly Credit Suisse and Makhteshim Agan), on the one hand, and Koor's increased debt, on the other, may affect Koor's credit rating as well as its compliance with the ratios set for certain financial criteria. Additionally, they may, in certain cases, lead to a decline in value and recorded losses due to the reduced value of the holdings. The credit rating published by Maalot in May 2007 is based on various parameters, including the ratio of the adjusted value of holdings plus liquid portfolio to gross debt, which may not fall below 2.7 in the long term and 2.5 in the short term. As at May 19, 2009, this ratio was 3.5. A decrease in the value of the assets and further financial debt will result in a decline in this ratio. An increase in the value of the assets or a decrease in the financial debt will result in an increase in this ratio.

Furthermore, the fluctuations in the financial markets together with the large differences in the prices of Credit Suisse shares enabled Koor to acquire and sell Credit Suisse shares, subsequent to which, Koor recorded profits in Q2 as at the reporting date of NIS 973 million, profit in Q1 2009 of NIS 33 million and in 2008 profits of NIS 575 million. In total, Koor recorded, as at the reporting date, profits of NIS 1,581 million for exercising Credit Suisse shares.

## **7.2 Koor's market risks**

During the reporting period, no material changes occurred during the reporting period in the exposure of the Company's investee companies to exposure and management of market risk as compared with the Company's Directors' report for 2008, dated March 15, 2009.

As at May 19, 2009, the Company has a net Swiss franc liquid asset balance in the amount of NIS 2.2 billion and a dollar liquid asset balance of NIS 25 million. As a result of changes in the Swiss franc to shekel exchange rate and the dollar to shekel exchange rate from the second quarter of 2009, the Company at that time has accrued an accumulated profit estimated by the Company as NIS 22 million. It should be noted that in addition, Koor holds an asset fixed in Swiss francs (Credit Suisse shares), the value of which, subsequent to the increase in the Swiss franc exchange rate, has been assigned directly

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to capital reserve and not to the profit and loss statement (with the exception of the case of a significant and/or consistent devaluation). The foregoing information includes an initial assessment and the partial information in Koor's possession to date. This data has not yet been processed, has not yet been finally examined and has not been reviewed by Koor's accountants, and is subject to additional changes in the exchange rates of the Swiss Franc and the dollar. For this reason, it is possible that its impact on the Companies results for Q2 of 2009 will be different as compared with the foregoing. In addition, the dollar exchange rate changes have impact on the profitability of the investees which operate or report in dollars, as well as an impact on Koor's profits from the results of investees which hold dollar assets, and an impact on Koor's equity due to the principle adjusted capital derived from translating the financial statements of investees from foreign currency (in particular Makhteshim Agan). Furthermore, changes in the Swiss Franc exchange rate impact the shekel value of Credit Swiss shares presented in the balance sheet as available-for-sale assets and on Koor's equity because of the available-for-sale assets.

**7.3 Report of linkage bases**

- A. The Company does not manage the risks of its investees. Hereunder are the linkage terms of monetary balances and derivative positions of Koor and its wholly-owned subsidiaries, as of March 31, 2009.
- B. Koor's linkage terms of monetary balances as of March 31, 2009 (in NIS millions):

	<u>Israeli CPI linked</u>	<u>USD or USD- linked</u>	<u>Swiss Franc or linked to</u>	<u>Unlinked</u>	<u>Non- monetary item</u>	<u>Total</u>
<b><u>Assets</u></b>						
Current assets	9	48	546	151	67	821
Investment in affiliates (including loans)	-	-	-	-	3,031	3,031
Other investments	-	119	4,566	-	-	4,685
Fixed, intangible and real estate assets	-	-	-	-	63	63
<b>Total assets</b>	<b>9</b>	<b>167</b>	<b>5,112</b>	<b>151</b>	<b>3,161</b>	<b>8,600</b>
<b><u>Liabilities</u></b>						
Current liabilities (including maturities)	(263)	(16)	(1,007)	(31)	(19)	(1,336)
Long term liabilities	(2,450)	(3)	-	-	(1)	(2,454)
<b>Total liabilities</b>	<b>(2,713)</b>	<b>(19)</b>	<b>(1,007)</b>	<b>(31)</b>	<b>(20)</b>	<b>(3,790)</b>
<b>Assets less liabilities, net</b>	<b>(2,704)</b>	<b>148</b>	<b>4,105</b>	<b>120</b>	<b>3,141</b>	<b>4,810</b>

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C. Koor's derivative positions as at March 31, 2009 (in NIS millions):

	<b>Israeli CPI / NIS</b>			
	<u>par value</u>	<u>Fair value</u>	<u>par</u>	<u>Fair</u>
	<u>Up to 1 year</u>	<u>to pay</u>	<u>value</u>	<u>value to</u>
	<u>LONG</u>	<u>LONG</u>	<u>More than one year</u>	<u>pay</u>
	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>
Forward contracts for hedging – not acknowledged in accounting (1)	650	(1)	100	(1)

(1) These contracts are intended to hedge Koor's index-linked liabilities, so that in the event that the actual Israeli CPI rises above the index level stipulated in the contract, Koor will receive the difference, and if the opposite occurs Koor will pay the difference.

D. Consolidated linkage terms of monetary balances as at March 31, 2009 (in NIS millions):

	<u>Israeli CPI linked</u>	<u>USD or USD- linked</u>	<u>Swiss Franc or linked to</u>	<u>Unlinked</u>	<u>Non- monetary item</u>	<u>Total</u>
<b><u>Assets</u></b>						
Current assets	9	75	546	151	118	899
Investment in affiliates (including loans)	-	-	-	-	3,008	3,008
Other investments	-	119	4,566	-	-	4,685
Fixed, intangible and real estate assets	-	-	-	-	101	101
<b>Total assets</b>	<b>9</b>	<b>194</b>	<b>5,112</b>	<b>151</b>	<b>3,227</b>	<b>8,693</b>
<b><u>Liabilities</u></b>						
Current liabilities (including maturities)	(277)	(92)	(1,007)	(31)	(21)	(1,428)
Long term liabilities	(2,450)	(4)	-	-	(1)	(2,455)
<b>Total liabilities</b>	<b>(2,727)</b>	<b>(96)</b>	<b>(1,007)</b>	<b>(31)</b>	<b>(22)</b>	<b>(3,883)</b>
<b>Assets less liabilities, net</b>	<b>(2,718)</b>	<b>98</b>	<b>4,105</b>	<b>120</b>	<b>3,205</b>	<b>4,810</b>

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

	<u>Israeli CPI linked</u>	<u>USD or USD- linked (* )</u>	<u>Unlinked</u>	<u>Non- monetary item</u>	<u>Total</u>
<b><u>Assets</u></b>					
Current assets	235	1,747	392	1	2,375
Investment in affiliates (including loans)	-	-		2,424	2,424
Other investments	7	115		-	122
Fixed, intangible and real estate assets	-	-		82	82
<b>Total assets</b>	<b>242</b>	<b>1,862</b>	<b>392</b>	<b>2,507</b>	<b>5,003</b>
<b><u>Liabilities</u></b>					
Current liabilities (including maturities)	(337)	(1)	(62)	(25)	(425)
Long term liabilities	(2,713)	(7)		-	(2,720)
<b>Total liabilities</b>	<b>(3,050)</b>	<b>(8)</b>	<b>(62)</b>	<b>(25)</b>	<b>(3,145)</b>
<b>Assets less liabilities, net</b>	<b>(2,808)</b>	<b>1,854</b>	<b>330</b>	<b>2,482</b>	<b>1,858</b>

\* Including a balance of NIS 4 million denominated in pound sterling.

F. Koor's derivative positions as at March 31, 2008 (in NIS millions):

	<u>Israeli CPI / NIS</u>			
	<u>par value</u>	<u>Fair value to receive</u>	<u>par value</u>	<u>Fair value to receive</u>
	<u>Up to 1 year</u>		<u>More than one year</u>	
	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>
Forward contracts for hedging – not acknowledged in accounting (1)	300	6	200	6

(1) These contracts are intended to hedge Koor's index-linked liabilities, so that in the event that the actual Israeli CPI rises above the index level stipulated in the contract, Koor will receive the difference, and if the opposite occurs Koor will pay the difference.

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G. Consolidated linkage terms of monetary balances as at March 31, 2008 (in NIS millions):

	<b>Israeli CPI linked</b>	<b>USD or USD- linked (* )</b>	<b>Unlinked</b>	<b>Non- monetary item</b>	<b>Total</b>
<b><u>Assets</u></b>					
Current assets	198	1,790	397	60	2,445
Investment in affiliates (including loans)	-	-		2,453	2,453
Other investments	7	119		-	126
Fixed, intangible and real estate assets	-	-		136	136
<b>Total assets</b>	<b>205</b>	<b>1,909</b>	<b>397</b>	<b>2,649</b>	<b>5,160</b>
<b><u>Liabilities</u></b>					
Current liabilities (including maturities)	(336)	(98)	(94)	(32)	(560)
Long term liabilities	(2,722)	(18)		(2)	(2,742)
<b>Total liabilities</b>	<b>(3,058)</b>	<b>(116)</b>	<b>(94)</b>	<b>(34)</b>	<b>(3,302)</b>
<b>Assets less liabilities, net</b>	<b>(2,853)</b>	<b>1,793</b>	<b>303</b>	<b>2,615</b>	<b>1,858</b>

\* Including a balance of NIS 4 million denominated in pound sterling.

#### 7.4 Investees

No material changes occurred during the reporting period in the exposure of the Company's investees to market and management risks as compared with the Company's Directors' report for 2008, dated March 15, 2009.

#### 7.5 Sensitivity analysis tables for sensitive financial instruments included in the consolidated financial statements as at March 31, 2009, in accordance with changes in market factors.

Hereunder are tables demonstrating sensitivity tests of the market value of financial instruments. The following tables (as well as the tables in section 7.6) should be referred to in view of the comments below:

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

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

Item	Fair value N I S	Profit (loss) from changes in interest rate			
		I n c r e a s e		D e c r e a s e	
		10%	5%	10%	5%
		m i l l i o n s			
Debentures	(1,346)	34	17	(34)	(17)
Bank loans	(1,224)	6	3	(6)	(3)
	(2,570)	40	20	(40)	(20)

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

Item	Fair value N I S	Profit (loss) from changes in US dollar exchange rate			
		I n c r e a s e		D e c r e a s e	
		10%	5%	10%	5%
		m i l l i o n s			
Cash and cash equivalents	29	3	1	(3)	(1)
Short term deposits and investments	14	1	-	(1)	-
Trade and accounts receivable and debit balances	31	3	2	(3)	(2)
Available-for-sale financial assets	43	4	2	(4)	(2)
Other investments	75	8	4	(8)	(4)
Credit from banks and others	(29)	(3)	(1)	3	1
Trade and other accounts payable and credit balances	(45)	(4)	(2)	4	2
Long term liabilities to banking institutions	(17)	(2)	(1)	2	1
Other long-term liabilities	(4)	-	-	-	-
	97	10	5	(10)	(5)

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

Item	Fair value N I S	Profit (loss) from changes in Swiss franc exchange rate			
		I n c r e a s e		D e c r e a s e	
		10%	5%	10%	5%
		m i l l i o n s			
Cash and cash equivalents	546	55	28	(55)	(28)
Available-for-sale financial assets (pledged and unpledged)	4,566	457	228	(457)	(228)
Credit from banking corporations and others	(1,007)	(102)	(51)	102	51
	4,105	410	205	(410)	(205)

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

Forward index	Profit (loss) from changes in the CPI				
	Fair value	I n c r e a s e		D e c r e a s e	
		2%	1%	2%	1%
N I S	m i l l i o n s				
Not recognized as accounting hedging	(2)	13	7	(13)	(7)

**7.6 Sensitivity analysis tables for sensitive financial instruments included in the consolidated financial statements as at March 31, 2008, in accordance with changes in market factors.**

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

Item	Profit (loss) from changes in interest rate				
	Fair value	I n c r e a s e		D e c r e a s e	
		10%	5%	10%	5%
N I S	m i l l i o n s				
Long-term loans	19	(2)	(1)	2	1
Debentures	(1,673)	34	17	(34)	(17)
Bank loans	(1,406)	7	3	(7)	(3)
	(3,065)	39	19	(39)	(19)

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

Item	Profit (loss) from changes in US dollar exchange rate				
	Fair value	I n c r e a s e		D e c r e a s e	
		10%	5%	10%	5%
N I S	m i l l i o n s				
Cash and cash equivalents	1,544	154	77	(154)	(77)
Short term deposits and investments	34	4	1	(4)	(1)
Trade and accounts receivable and debit balances	212	21	11	(21)	(11)
Available-for-sale financial assets	28	3	2	(3)	(2)
Other investments	87	9	4	(9)	(4)
Credit from banks and others	(40)	(4)	(2)	4	2
Trade and other accounts payable and credit balances	(58)	(6)	(3)	6	3
Long term liabilities to banking institutions	(18)	(2)	(1)	2	1
	1,789	179	89	(179)	(89)

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

Item	Profit (loss) from changes in prices of negotiable securities				
	Fair value	I n c r e a s e		D e c r e a s e	
		10%	5%	10%	5%
N I S	m i l l i o n s				
Investment in negotiable securities	431	43	22	(43)	(22)

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

Forward index	Profit (loss) from changes in the CPI				
	Fair value	I n c r e a s e		D e c r e a s e	
		2%	1%	2%	1%
N I S	m i l l i o n s				
Not recognized as accounting hedging	13	7	3	(7)	(3)

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**8. Fair value of financial assets and liabilities used to finance acquisition of the assets and stated according to different measurement methods**

	Disclosure of fair value and book value		Disclosure of changes in fair value and book value		
		Mar 31, 09	Dec 31, 08	Q1 2009	2008
		NIS millions		NIS millions	
<b>Asset – Credit Suisse shares pledged in favor of banks</b>	Value at first recognition	2,631	2,668		
	Recognized in statement of profit and loss	-	-	33	-
	Recognized directly in other equity groups	340	(151)	491	(151)
	<b>Total book value</b>	<b>2,971</b>	<b>2,517</b>	<b>524</b>	<b>(151)</b>
	<b>Total fair value</b>	<b>2,971</b>	<b>2,517</b>	<b>524</b>	<b>(151)</b>
<b>Liabilities – bank loan</b>	Value at first recognition	(899)	(811)		
	Recognized in statement of profit and loss	(108)	(77)	(40)	(77)
	<b>Total book value</b>	<b>(1,007)</b>	<b>(888)</b>	<b>(40)</b>	<b>(77)</b>
	<b>Total fair value</b>	<b>(1,007)</b>	<b>(888)</b>	<b>(40)</b>	<b>(77)</b>
				<b>Total recognized in profit or loss</b>	<b>Total changes in fair value</b>

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**9. Disclosure concerning the procedure for approval of the financial statements in a reporting corporation**

**9.1** The entities within the corporation in charge of overall control:

Company board of directors and audit committee.

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

The Company's board of directors appointed the audit committee to serve as a balance sheet committee, which presents the board with the main issues of the detailed discussion concerning the financial statements and makes recommendations concerning their approval. The financial statements are approved by the Board of Directors. The members of the "Balance Sheet Committee" are Mr. Gidon Lahav, Mr. Avraham Asheri, Mrs. Ayelet Ben Ezer and Mr. Shlomo Risman. Three members of the Audit Committee have financial expertise. The Company's internal auditor is invited to and attends the balance sheet committee meetings. The Company's auditing accountant is invited to and attends the balance sheet committee and to the board of directors meetings at which the financial statements are discussed and approved, and he is required to explain the principal findings, if any, which arose during the audit or the review.

The "Balance Sheet Committee" carries out its verifications based upon detailed presentations made by the Company's officeholders and others, including the Company's Chief Executive Officer, Mr. Raanan Cohen, and the Company's CFO, Mr. Oren Hillinger, and the Company's Comptroller, Mrs. Avishag Peretz, concerning material issues in the financial statements, including transactions not in the normal course of business, if such exist, the main assessments and critical estimations implemented in the financial statements, the reasonableness of the data, the accounting principles employed and changes that have occurred therein, and the implementation of the principle of due diligence in respect of the financial statements and the accompanying information. The balance sheet committee also examines various aspects of control and risk management, both those which are reflected in the financial statements (such as the reporting on financial risks) and those that affect the reliability of the financial statements. Where necessary, the balance sheet committee requests a comprehensive review of matters of particularly significant implication.

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

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Ami Erel  
Chairman of the Board

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Raanan Cohen  
CEO

Tel Aviv, 20 May 2009