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Koor Industries Ltd.

Part 1

**Material changes and new items
that have taken place in the Corporation's
commercial operations**

Draft **Koor Industries Ltd.**

(“Koor”)

**Changes and new items that have taken place in Koor’s business
in the three months ended June 30, 2008¹**

**In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate
Reports), 5730 - 1970**

In this section:

“the Financial Statements” – the financial statements of Koor for the six and three month periods ending June 30, 2008, attached herewith.

“Periodic report” – the periodic report of Koor for the year ending December 31, 2007, which was published on March 17, 2008.

1. Investments in Koor’s equity and share transactions

Rights offering to Koor's shareholders

1.1 On May 29, 2007 Koor published a prospectus for the purpose of executing an issue by way of rights offering to its shareholders (the "Prospectus"). Under the Prospectus, Koor shareholders were offered up to 2,377,311 ordinary shares, nominally registered, of NIS 0.001 par value each in the Company ("The offered shares"). The offered shares were offered by way of rights to the holders of ordinary shares in Koor as registered in its Register of Shareholders (with the exclusion of Koor's US shareholders (as defined in Section 2.1.15 of the Prospectus)), so that a shareholder (with the exclusion of the US shareholders as aforesaid) who hold 7 ordinary NIS 0.001 par value shares in Koor at the end of the day June 4, 2008, would be entitled to purchase one rights unit at NIS 162.

Of the rights units offered under the Prospectus as aforesaid, 2,371,158 rights units were exercised for the purchase of 2,371,158 ordinary NIS 0.001 nominal value shares in Koor, which is the equivalent to 99.7% of all the rights units offered under the Prospectus and about 14.25% of the Company's issued capital (prior to the issue).

Pursuant to the Securities Regulations (Manner of Offering Securities to the Public) (Amendment), 5768-2008, the rights offering to the holders of ordinary shares in Koor under the Prospectus was not executed in the United States, and the said rights were not offered to the US shareholders as they are defined in Section 2.1.15 of the Prospectus.

Compensation in the amount of NIS 10.1 million was paid to the excluded shareholders, according to a formula for calculating the uniform and fair compensation determined by the external evaluator, which was attached to the Prospectus (see Sections 2.1.15.4 to 2.1.15.6 (inclusive) of the Prospectus). Most of the aforesaid compensation was derived from the

¹ Including material changes and innovations that took place in Koor's businesses and which should be described in the periodic reports and which do not include updates which were already included in the description of Koor's businesses in the periodic report (as defined above) and in Koor's quarterly report for the period of three months ended on March 31, 2008. Also see Koor's Prospectus dated May 29, 2008 (Ref. No. 154167-01-2008, 154176-01-2008, 154206-01-2008 and 154233-01-2008) and Koor's shelf Offering Memorandum dated July 28, 2008 (Ref. No. 217722-01-2008).

proceeds of the sale of rights (total 118,603 rights) for the holdings of the excluded shareholders, which were sold on the rights trading day by the Issue Coordinator in accordance with Section 2.1.15.6 [C] of the Prospectus.

IDB Development Corporation Ltd., ("IDB Development") the controlling shareholder of Discount Investment Corporation Ltd. ("DIC") (and indirectly also of Koor), and a shareholder in Koor, as part of the issue under the Prospectus, by means of preliminary notice (see Section 2.1.14 of the Prospectus), exercised its full rights under the Prospectus, i.e. 237,671 rights units to purchase 237,671 ordinary NIS 0.001 par value shares in Koor. In addition, IDB Development exercised 602,240 additional rights, which it acquired on the Trading Day, to purchase 602,240 ordinary NIS 0.001 par value shares of Koor. As of the date of this report, IDB Development holds shares in Koor that constitute 13.33% of Koor's issued ordinary share capital.

DIC, Koor's controlling shareholder, exercised 65% of the rights offered to it under the Prospectus, by way of preliminary notice (see Section 2.1.15 of the Prospectus), i.e. 760,171 rights units to purchase 760,171 ordinary NIS 0.001 par value ordinary shares of Koor. Furthermore, DIC sold 35% of the rights offered to DIC under the Prospectus, to Altshuler Shacham Management Underwriters & Investments Ltd. ("Altshuler"), on the Trading Day, (in an ex-TASE transaction) (at nominal price of NIS 0.01 per share), i.e. 416,561 rights to acquire 416,561 ordinary NIS 0.001 par value shares of Koor. On June 30, 2008, shortly after listing of the ordinary shares created from the exercise of rights as aforesaid, for trade on the TASE, DIC acquired from Altshuler (in an ex-TASE transaction), 413,793 additional ordinary shares of Koor, so that immediately following the aforesaid acquisition, (and as of the date of this report) DIC holds 49.5% of Koor's issued ordinary shares.

In return for the total number of rights units exercised as aforesaid, Koor received proceeds in the total amount of NIS 384 million (gross).

Also see Koor's Prospectus of May 29, 2008 (Ref. No. 154167-01-2008, 154176-01-2008, 154206-01-2008 and 154233-01-2008).

- 1.2 On July 28, 2008 Koor published a shelf Offering Memorandum, under the Prospectus, for an additional issue of Koor shares in the overall scope of NIS 679 million, by way of rights to its shareholders ("the Shelf Offering Memorandum"). Under the shelf Offering Memorandum, Koor shareholders were offered 4,753,084 of 4,953,939 ordinary shares nominally registered, of NIS 0.001 par value each, of Koor. The offered shares, under the aforesaid shelf Offering Memorandum, were offered by way of rights to the holders of ordinary shares in Koor as registered in its Register of Shareholders, with the exclusion of Koor's US shareholders (as defined in Section 2.3.2.13 of the shelf Offering Memorandum), who hold 4 ordinary NIS 0.001 par value shares in Koor at the end of the day August 3, 2008, would be entitled to purchase one rights unit at NIS 143 per share. DIC and IDB Development notified Koor of their intention to exercise the rights offered to them under the shelf Offering Memorandum in full. The Trading Day of the rights is August 24, 2008 and the deadline for exercising the rights is August 26, 2008.

Pursuant to the Securities Regulations (Manner of Offering Securities to the Public) (Amendment), 5768-2008, the rights offering to the holders of ordinary shares in Koor under the shelf Offering Memorandum was not executed in the United States, and the said rights were not offered to the US shareholders as they are defined in Section 2.3.2.13 of the

shelf Offering Memorandum. On the Trading Day, the Issue Coordinator shall sell the rights for the registered eligible US shareholders as well as the rights that will be transferred to it by the TASE members for the unregistered eligible US shareholders. The proceeds received from the sale of aforesaid sale shall be held by the Issue Coordinator and used to pay the uniform compensation to the US shareholders. On the second trading day following the Trading Day, Koor will pay to the US shareholders the uniform compensation in accordance with a formula for calculating the uniform and fair compensation determined by the external evaluator, which was attached to the shelf Offering Memorandum (see Section 2.3.2.17 of the shelf Offering Memorandum).

Also see Koor's shelf Offering Memorandum of July 28, 2008 (Ref. No. 217722-01-2008).

It is noted that on May 13, 2008, Koor's general meeting approved (pursuant to the Securities Regulations (Manner of Offering Securities to the Public) (Amendment), 5768-2008 which came into effect on May 21, 2008), that at any time that Koor will offer securities by way of rights to holders of its securities, and that as a result of which the laws of a foreign country shall be applicable to Koor, it shall be entitled not to offer such rights to holders of Koor securities on whom the laws of the foreign country are applicable ("the Foreign Shareholders"), and this if the exclusion of the foreign holders is not in violation of the law of the foreign country, and provided that the exclusion of the foreign holders will be conducted in accordance with the provisions of the Securities Law, 5728-1968 and its regulations, as shall be applicable at such time. The rights offering under the Prospectus and the shelf Offering Memorandum was carried out with the exclusion of the foreign shareholders (the US shareholders) in accordance with the resolution adopted by the said general meeting. For further information relating to the exclusion of the foreign shareholders from the rights offering under the shelf Offering Memorandum, also see Koor's Immediate Report dated July 28, 2008 (Ref. No. 217731-01-2008).

2. Dividend Distribution

On June 30, 2008, Koor reported that its shareholders general meeting approved (in accordance with the provisions of Koor's previous Articles of Association as were applicable on the date of the general meeting) the distribution of interim dividends as recommended and announced by Koor's Board of Directors, in the amount of NIS 150 million (which was paid in September 2007), and in the amount of NIS 380 million (which was paid in December 2007).

3. Financial information concerning Koor's operations

For financial information relating to financial figures of Koor's segments of operations for the six and three month periods ended June 30, 2008, see Note 10 to the financial statements.

4. General Environment and Influence of External Factors on Koor's Operations

For further information regarding the impact on Koor of changes in exchange rates see Sections 1.3, 3 and 7 of the Board of Directors report included in this report, and Note 6.1 to the financial statements..

5. Koor's operations by business segment

5.1 Agrochemicals business segment

Makhteshim Agan Industries Ltd ("Makhteshim Agan")

- 5.1.1 On May 27, 2008 Makhteshim Agan published a prospectus for listing three debenture series (Series B-D) for trade on the TASE and for the purpose of offering securities under a shelf prospectus.
- 5.1.2 Further to section 9.2.6[B] of Part A of the Periodic Report, as of August 6, 2008, Makhteshim Agan acquired 1,374,689 shares of Makhteshim Agan at a cost of NIS 39.5 million, in accordance with Makhteshim Agan's self acquisition program, which was approved by Makhteshim Agan's Board of Directors on March 11, 2008.
- 5.1.3 Subsequent to the provisions of Section 9.2.21 [B] of Part A of the Periodic Report and Chapter 6 of the Prospectus: On June 11, 2008, Makhteshim Agan announced that a third party claim was filed against Makhteshim Chemical Plants Ltd. ("Makhteshim"), a wholly owned subsidiary of Makhteshim Agan, by the Ramat Hovav Industrial Council as part of three lawsuits which were filed against the State of Israel and the Ramat Hovav Industrial Council in the Beer Sheva Regional Court, claiming health damages to the claimants, which were caused, apparently, by pollution originating from the Ramat Hovav Industrial zone. In their Statements of Claim, the claimants claim an amount of NIS 242 million. To the best of Makhteshim Agan's knowledge, the foregoing third party claims were filed against 36 corporations and individuals, including Makhteshim.
- 5.1.4 On July 22, 2008, Knesset Israel passed the Israel Clean Air Law, 5768-2008. The objective of the said law is to regulate the quality of the air in Israel and to prevent air pollution, *inter alia*, by establishing a national monitoring system for assessing air pollution and setting air quality standards. As of the reporting date, Makhteshim Agan does not have the ability to estimate the impact of the said law on its operations.

5.2 Others

5.2.21 Financial investments in tradable shares in European financial institutes:

For key information relating to Credit Suisse Group AG ("Credit Suisse") and for particulars relating to the financing arrangements with the Goldman Sachs Investment Bank, see Sections 12.1.2 and 12.1.4 of Chapter 6 of the Prospectus, respectively (Also see Note 6.5 to the financial statements)..

5.2.2.1 On July 21, 2008, Koor announced in an Immediate Report (Ref. No. 208872-01-2008) that further to Koor's resolution of March 24, 2008 to invest in negotiable shares of European financial institutions in an overall investment of up to NIS 1.5 billion, Koor's Board of Directors resolved to increase the amount of the investment in Credit Suisse shares to an overall amount of NIS 3 billion. Koor announced that this investment will be carried out by exploiting buy and sell opportunities while paying attention to the situation of the markets and in accordance with its assessments from time to time. Koor also stressed that the execution of the aforesaid actions is not certain.

On July 27, 2008, Koor announced in an Immediate Report (Ref No. 215943-01-2008) that it will record profits in the amount of NIS 108 million in Q3 2008 for the sale of part of its holdings in Credit Suisse,

and on August 10, 2008, Koor announced in an Immediate Report (Ref No. 230346-01-2008) that for further exercise of its Credit Suisse shares, Koor will record in Q3 2008 an additional profit in the amount of NIS 100 million, and in total Koor will record in Q3 2008 a profit in the amount of NIS 208 million with respect to the exercise of the said Credit Suisse shares.

As of the date of this report, subsequent to the acquisition of Credit Suisse shares (less sales), Koor holds 3.62 million shares in Credit Suisse, which constitutes 0.35% of Credit Suisse share capital (less treasury shares), in the overall investment scope of NIS 531 million. It also noted that as at the date of this report, Koor does not hold shares in Barclays PLC.

5.2.2.2 As at the date of this report, the lowest closing price for Credit Suisse shares on the SWX Swiss Exchange during the course of 2008, was CHF 39.72 per share on July 15, 2008 (as was published by Reuters Trader). As of August 11, 2008, the closing price of Credit Suisse shares on the SWX Swiss Exchange was CHF 55.50 per share.

5.2.2.3 On July 24, 2008 Koor announced in an Immediate Report (Ref. No. 215043-01-2008) that on the same day, Credit Suisse published Q2 financial statements for 2008. The said financial statements and the wording of Credit Suisse media announcement relating to the Q2 2008 results are attached to the said Immediate Report. (For Credit Suisse quarterly financial statements for Q2 2008 also see website: http://www.credit-suisse.com/investors/doc/csg_financialreport_2q08.pdf).

On July 27, 2008 Koor published an Immediate Report (Ref. No. 217008-01-2008), a translation of the said media announcement into Hebrew and Koor attached to the said report a copy of the report in English which Credit Suisse published on July 25, 2008, dealing with Credit Suisse results for the first six months of 2008 as compared with its results for the first six months of 2007. The translation to Hebrew of the said report relating to Credit Suisse results, was published by Koor on July 28, 2008 in an Immediate Report (Ref. No. 217551-01-2008).

Also see Koor's Immediate Reports dated May 17, 2008 (Ref. No. 135336-01-2008), July 1, 2008 (Ref. No. 187566-01-2008 and Ref. No. 187566-01-2008) and July 13, 2008 (Ref. No. 200136-01-2008).

5.1.2 Further to Section 12.3 [B] of the Periodic Report, during the course of July 2008, Elbit Systems Ltd. ("Elbit") transferred to Koor additional consideration in the amount of US\$ 13.5 million for insurance income that Elbit received as part of the compromise agreement that was verified by the Tel Aviv District Court on March 17, 2008) as part of the agreement signed between Koor and Elbit in 2005 to sell 70% of Koor's holdings in Elisra Electronic Systems Ltd to Elbit,. Also see Note 6.2 to the financial statements.

5.1.3 Subsequent to section 12.3{E} of Part A of the Periodic Report, with respect to an additional Koor investment in May 2008 in the Indivision India Partners investment fund, see Note 6.4 to the financial statements.

6. Description of the Corporation's operations – further information

- 6.1 **Subsequent to the provisions of Section 15 of Part A of the Periodic Report (Financing and Collateral section):** Koor acts to extend the periods of loans that Koor took from banks and to adjust their terms.
- 6.2 **Subsequent to the provisions of Section 15.10 of Part A of the Periodic Report:** The rating published by Standard & Poor's Maalot Rating Ltd. ("Maalot") in May 2007 is based on various criteria, including the ratio of the value of the holdings adjusted with the addition of liquid portfolio to gross bedt that will not fall below 2.5 in the short term. As of August 11, 2009, the said ratio stands at 2.56. Among other things, if Koor undertakes another significant financial debt, it is liable, under certain circumstances, to lead to a decline in the aforesaid ratio and on the other hand a rise in the value of the assets is liable to lead to an increase in the said ratio.
- 6.3 **Subsequent to the provisions of Sections 8, 10 and 15 of Part A of the Periodic Report:** In July 2008, Standard & Poor's Maalot Ltd. ("Maalot") notified in a public announcement, that due to the anticipated changes in Koor's portfolio subsequent to its notification with respect to its Credit Suisse investment, Maalot will continue monitoring the developments with respect to this matter and will examine the impact of the portfolio changes on Koor's financial risks and its security rating. Maalot's announcement notes that Koor raised capital by way of a rights issue in June 2008 and the publication of the shelf Prospectus which will enable Koor to raise further capital.
- 6.4 **Information relating to an extraordinary change in Koor's operations:** See Note 12 to the Financial Statements.
- 6.5 **Subsequent to the provisions of Sections 20.1 [A] and 20.1 [B] of the Periodic Report and Chapter 6 of the Prospectus (Risk Factor section – Financial Risks):** As of the date of this report, Koor has a non material cash balance of US dollars and material cash balances and/or assets in Swiss Franc and/or is exposed to fluctuation in the Swiss Franc exchange rate against the shekel. Changes in the foregoing exchange rates will impact Koor's financial results. As of the date of this report, Koor does not take steps to hedge against the foreign currency exposure. In Koor's estimate, the extent of the impact of the "financial risks" risk factor on Koor, is great.
- 6.6 **Subsequent to and in addition to the statements in Section 20.2 of Part A of the Periodic Report (the Risk Factors section – Changes in the Capital Markets in Israel and Worldwide):** Koor is exposed to fluctuations in Credit Suisse share price, including for changes in the capital markets and the financial institution sector. A downturn in the capital market in general and in the financial institution sector in particular may adversely impact the prices of Credit Suisse shares held by Koor and materially affect its financial results. In Koor's estimate, the extent of the impact of the "changes in capital markets in Israel and worldwide" risk factor on Koor, is great.

Also see the Chapter dealing with Risk Factors in Credit Suisse annual report for 2007 – Form 20 F), attached to Chapter 6 of the Prospectus, in the form of generalization and the Hebrew translation of the said chapter in Section 12.1.2 [g] of Chapter 6 of the Prospectus.

- 6.7 In July 2008, Koor reported in an Immediate Report (Ref. No. 214098-01-2008) that its Board of Directors resolved to update the annual remuneration and participation remuneration for Koor's external directors, so that they will be entitled to the maximum amounts under Regulations 4 and 5 (respectively) of the Companies Regulations (Rules concerning Remuneration and Reimbursement of Expenses of External Directors) 5760-2000 (the "Remuneration Regulations"), as they were updated in the amendment to the Remuneration Regulations. The update of the remuneration paid to Koor's directors (including external directors) will take effect as of the date of the amendment to the Remuneration Regulations, i.e. as of March 6, 2008.

Part I of this report should be read in conjunction with its other parts, including the notes to the financial statements.

Date: August 12, 2008

Koor Industries Ltd.

Signatories and positions:

Mr. Raanan Cohen, Chief Executive Officer

Mr. Oren Hillinger, Chief Financial Officer

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

Board of Directors Report Second Quarter and Half Year 2008

We are pleased to submit the condensed unaudited financial statements of Koor Industries Ltd. for the first half year and second quarter of 2008, ended June 30, 2007.

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's large cash balances and financial and leverage abilities, enable it to increase its investment portfolio. Koor examines and executes financial investments and real investments abroad, among others things, according to market conditions and the opportunities opening in these markets.

1. Results of operations

The Company's net earnings for the first half of 2008 amounted to NIS 116 million, with basic losses per share of about NIS 6.4, compared with earnings of about NIS 280 million and basic earnings per share of about NIS 15.2 for the first half of 2007.

The Company's net losses for Q2 2008 amounted to NIS 120 million, with basic losses per share of about NIS 6.7, compared with earnings of about NIS 158 million and basic earnings per share of about NIS 8.7 for Q2 2007.

Breakdown of Koor's financial results:

| | <u>First Half</u> | | <u>Second Quarter</u> | | <u>Year</u> |
|---|------------------------------|-------------|-----------------------|-------------|----------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2007</u> |
| | <u>(Unaudited)</u> | | <u>(Unaudited)</u> | | <u>Audited</u> |
| | <u>N I S M i l l i o n s</u> | | | | |
| Koor's equity in the operating results of investee companies, net | 153 | 239 | 69 | 132 | 173 |
| Gain from sale of investments, net of impairment | 42 | 65 | (2) | 39 | 682 |
| Administrative, financing and other expenses, | (311) | (24) | (187) | (13) | (241) |
| Net earnings (losses) attributed to equity holders of the Company | (116) | 280 | (120) | 158 | 614 |
| Basic earnings (losses) per share (in NIS) | (6.4) | 15.2 | (6.7) | 8.7 | 33.3 |

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

| | <u>Koor's equity in the operating results (loss) for Q2</u> | | | <u>Koor's equity in the operating results (loss) for Q2</u> | | |
|-----------------------------------|---|-------------|---------------|---|-------------|---------------|
| | <u>2008</u> | <u>2007</u> | <u>Change</u> | <u>2008</u> | <u>2007</u> | <u>Change</u> |
| | <u>N I S M i l l i o n s</u> | | | | | |
| Makhteshim Agan Industries Ltd. | 226 | 210 | 8% | 94 | 89 | 6% |
| ECI Telecom Ltd. | - | 74 | n/a | - | 48 | n/a |
| Telrad Networks Ltd. | (20) | 1 | n/a | (11) | 2 | n/a |
| ECTel Ltd. | (2) | (5) | n/a | (1) | (1) | n/a |
| Koor Venture Capital Partnerships | (16) | 1 | n/a | (6) | - | n/a |
| Other companies | (19) | 1 | n/a | (2) | 9 | n/a |
| Excess cost and other adjustments | (16) | (43) | n/a | (5) | (15) | n/a |
| Total | 153 | 239 | (36%) | 69 | 132 | (48%) |

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

Board of Directors Report Second Quarter and Half Year 2008

1.2. Gain from sale of investments, net of impairment

| | <u>First Half</u> | | <u>Second Quarter</u> | |
|--|-------------------|-------------|-----------------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| | N I S | | | |
| | M i l l i o n s | | | |
| Gain from sale of investments, net of impairment | <u>42</u> | <u>65</u> | <u>(2)</u> | <u>39</u> |

In Q2 2008 this item included, in particular: Decrease in investment in the private investment fund, Indivision, primarily due to the drop in the exchange rate of the dollar against the shekel, during the quarter. In Q1 2008, this section included mainly capital earnings of NIS 46 million due to an estimated additional income from Elbit Systems Ltd ("Elbit") for the sale of Elisra Electronic Systems Ltd ("Elisra"), resulting from the receipt of an insurance payment for the fire that occurred at Elisra's consolidated plant in 2001.

In Q2 2007 this item included, in particular: Capital gains of NIS 30 million from the sale of our holdings in Sheraton Moriah (Israel) Ltd., and capital gains of NIS 10 million from the sale of our holdings in Knafaim Holdings Ltd. In Q1 2007, capital gains of NIS 26 million were recorded from the sale of our holdings in Scopus Video Networks Ltd. ("Scopus").

1.3. Administrative, financing and other expenses, net

| | <u>First Half</u> | | <u>Second Quarter</u> | |
|--|-------------------|-------------|-----------------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| | N I S | | | |
| | M i l l i o n s | | | |
| Administrative, taxes and other expenses, net | (11) | (9) | (9) | (3) |
| Financing expenses, net | (300) | (15) | (178) | (10) |
| Total administrative, financing and other expenses, net | (311) | (24) | (187) | (13) |

The primary change during Q1 and Q2 of 2008 as compared with the same period in 2007 relate to the rise in net financing expenses attributable to the sharp drop in the exchange rates of the shekel against the dollar causing erosion of the dollar financial assets and the CPI increase which caused revaluation of the CPI linked loans and debentures. The financing expenses caused by the erosion of the dollar exchange rate during Q1 2008 totaled NIS 218 million. The increase in financing expenses was partially offset by the income from the changes in the fair value of the Option Warrants Series 2 which were issued to institutional investors together with the issue of Debentures Series G.

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

Board of Directors Report Second Quarter and Half Year 2008

2. Segments of operation

2.1. Earnings before financing expenses and income tax, by operating segment (“Contribution of business segment ”)

| | <u>First Half</u> | | <u>Second Quarter</u> | | <u>Year</u> |
|------------------------------|-------------------|-------------|-----------------------|-------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2007</u> |
| | N I S | | M i l l i o n s | | |
| Agrochemicals | 211 | 168 | 90 | 75 | 195 |
| Telecommunications equipment | (28) | 66 | (13) | 51 | 612 |
| Venture capital investments | (16) | 27 | (6) | 1 | 14 |
| Other holdings | 49 | 14 | 4 | 11 | 17 |
| Total | 216 | 275 | 75 | 138 | 838 |

2.1.1. Agrochemicals

| | <u>First Half</u> | | <u>Second Quarter</u> | |
|----------------------------------|-------------------|-------------|-----------------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| | N I S | | M i l l i o n s | |
| Contribution of business segment | 211 | 168 | 90 | 75 |

The main change in the results of the sector in Q1 and Q2 2008 compared with the corresponding periods in the previous year were due to the improvement in Makhteshim Agan’s business results (“Makhteshim Agan”).

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Makhteshim Agan (held 40%), reported the following business results:

| | <u>First Half</u> | | | <u>Second Quarter</u> | | |
|---|-------------------|-------------|---------------|-----------------------|-------------|---------------|
| | <u>2008</u> | <u>2007</u> | <u>Growth</u> | <u>2008</u> | <u>2007</u> | <u>Growth</u> |
| | Million USD | | | Million USD | | |
| | | | % | | | % |
| Revenues | 1,404 | 1,096 | 28% | 682 | 543 | 26% |
| Gross profit | 499 | 381 | 31% | 239 | 189 | 26% |
| Operating income | 247 | 168 | 47% | 113 | 83 | 36% |
| Financing expenses, net | (65) | (15) | 333% | (33) | (12) | 175% |
| Net earnings attributable to the shareholders | 160 | 125 | 28% | 69 | 54 | 28% |

The results of Makhteshim Agan in the first half and Q2 2008 compared with the corresponding period in 2007 were affected by the following trends in the crop protection products market and in the company: (A) During the reported period, the demand for Makhteshim Agan products increased due to the rise in price of agricultural produce. The agricultural produce price rise is mainly due to the continuous rise in the standard of living worldwide, especially in developing regions such as China and India and the changes in the nutritional habits of the population in these regions. As well as the increase in the global demand for fuel substitutes, produced from sugar cane and corn; (B) The increase in the average sales price of Makhteshim Agan's products. This trend had a positive impact (together with the other trends above and below), on the increase in Makhteshim Agan's revenues from the sale of its products and on Makhteshim Agan's profitability; (C) The relatively moderate climatic conditions in most of the geographic regions in which Makhteshim Agan operates; (D) Makhteshim Agan reports its results in US dollars and thus the strengthening of various currencies (mainly in Euro) against the dollar, leading to an increase in Makhteshim Agan's revenues in dollar terms, notwithstanding the strengthening of the shekel which increase the local expenses in Israel; (E) On the other hand, the high fuel prices continued to cause an increase in the prices of raw materials (which are distant derivatives of fuel), and an increase in energy prices which together eroded part Makhteshim Agan's improved profitability, which was achieved from the average price increases of Makhteshim Agan's products, as set forth above.

2.1.2. Telecommunications equipment

| | <u>First Half</u> | | <u>Second Quarter</u> | |
|----------------------------------|-----------------------|-------------|-----------------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| | N I S M i l l i o n s | | | |
| Contribution of business segment | (28) | 66 | (13) | 51 |

The main change in the results of the sector in the first half and Q2 2008 compared with the corresponding periods in 2007 were due to the non-inclusion of the results of ECI Telecom Ltd. operations, which was sold during Q3 2007 and a deterioration in the business results of Dekolink Wireless Ltd and Telrad Networks Ltd.

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

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2.1.3. Venture capital investments

| | <u>First Half</u> | | <u>Second Quarter</u> | |
|----------------------------------|-----------------------|-------------|-----------------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| | N I S M i l l i o n s | | | |
| Contribution of business segment | (16) | 27 | (6) | 1 |

The changes in the results of the segment in the first half and Q2 2008 as compared with the corresponding period in 2007, stems from the results of the operations of Koor Corporate Venture Capital, which constitutes the segment for the reporting period.

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

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

| | <u>First Half</u> | | <u>Second Quarter</u> | |
|------------------|-----------------------|-------------|-----------------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| | N I S M i l l i o n s | | | |
| Revenues | - | 24 | - | - |
| Operating income | (16) | 25 | (6) | 1 |
| Net profit | (16) | 24 | (6) | 1 |

The primary contribution of Koor Corporate Venture Capital for the first half and Q2 of 2008 is the result of the decline in the fair value of venture capital investments, including the sharp drop in the dollar exchange rate against the shekel.

The primary contribution of Koor Corporate Venture Capital for the first half of 2007 was mainly due to the capital gain attributable to the partnership from the sale of its total holdings in Scopus during Q1 2007.

2.1.4. Other holdings

| | <u>First Half</u> | | <u>Second Quarter</u> | |
|----------------------------------|-----------------------|-------------|-----------------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| | N I S M i l l i o n s | | | |
| Contribution of business segment | 49 | 14 | 4 | 11 |

The primary changes in the results of this segment for the first half 2008 as compared with the corresponding period in 2007 is due to the gains recorded for Q1 2008 with respect to the additional expected income from Elbit for the sale of Elisra, as set forth above.

The primary changes in the results of this segment for Q2 2008 as compared with the corresponding period in 2007 is due to capital gains in the amount of NIS 10 million recorded in 2007 with respect to the sale of Koor's holdings in Knafaim Holdings Ltd.

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3. Main changes in the holdings of the Company and its investees for Q2 2008

- 3.1.** In March, April and May 2008, the Company gave notice that due to the status of the global markets and the business opportunities that are opening and which are likely to open in these markets, the Company's Board of Directors gave its approval for the management to enter financial investments in negotiable shares in Bank Credit Suisse AG ("Credit Suisse") and in Barclays Bank. The shares will be acquired from time to time, at the discretion of the Company's management, up to the overall amount of NIS 1.5 billion (for further information relating to the approval of the Company's Board of Directors, defining the investment limit to the overall amount of NIS 3 billion, see Section 4.1 hereunder): The Company's Board of Directors may resolve in the future to increase the amount of the investment and to approve investment in shares of other European financial institutions.
- 3.2.** With respect to the acquisition of Credit Suisse shares, the Company entered a recourse credit line agreement with Goldman Sachs Investment Bank ("Goldman Sachs"), and a foreign limited partnership, wholly owned and controlled by the Company, entered a non-recourse type of credit agreement with Goldman Sachs which, pursuant to Goldman Sachs request, was drawn up by way of a financial derivatives transaction and which complements the arrangement of the initial recourse credit line. For a description of the credit agreements see Note 6.5 to the financial statements.
- 3.3.** In April 2008, the Company announced that it is conducting initial negotiations with Clal Finance Ltd. ("Clal Finance") with respect to the option of selling the Company's share (50%) in Epsilon Investment House Ltd. ("Epsilon"). To the best of the Company's knowledge, Clal Finance is concurrently examining the option to purchase the balance of the shares in Epsilon, which are held by third parties. To the best of the Company's knowledge, Clal Financing is indirectly controlled by IDB Development Corporation Ltd., which is the indirect controlling shareholder of the Company. The terms and conditions of the transaction have not yet been formulated and it is uncertain that the foregoing will actually take place. If these negotiations will mature at all, the transaction will be subject to approvals in accordance with all laws.
- 3.4.** In April 2008, the Company's general meeting approved amendments to the Company's Articles of Association and its adaptation to comply with the new Companies Law of 1999. For further information see the Company's immediate report of April 13, 2008 (Ref. No. 2008-01-107313).
- 3.5.** Pursuant to the Securities Regulations (Manner of Offering Securities to the Public) (Amendment), 5768-2008 (the "Regulations Amendment"), in May 2008 the company's general meeting approved that in the event of an offering of securities by way of rights, the Company shall be entitled not to offer such rights to holders of its securities for whom the law of a foreign country shall be applicable and this, if the exclusion of the foreign holders is not in violation of the law of the foreign country, and provided that the exclusion of the foreign holders will be conducted in accordance with the provisions of the Securities Law, 5728-1968 and its regulations, as shall be applicable at such time For further information see the Company's Immediate Reports of April 14, 2008, May 5, 2008 and May 13, 2008.
- 3.6.** As part of its overall undertaking to invest US\$ 15 million in Indivision Private Investment Fund, which invests in the retail sector in India, the Company invested US\$ 2.55 million in May 2008. As of the reporting date, the Company's total investments in the fund amounted to USD 10.8 million. The balance of the Company's commitment to invest in the fund as of the reporting date is USD 4.2 million.
- 3.7.** In May 2008, the Company published a Prospectus for issue by way of rights, whereby Koor shareholders were offered up to 2,377,311 ordinary shares (of NIS 0.001 par value each) in the Company by way of rights to the holders of the Company's ordinary shares (with the exclusion

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of the US shareholders who were excluded in accordance with the Regulations Amendment). In June 2008, the Company announced the results of the rights issue for shares under the shelf Prospectus including details of the exercise of the units of rights for shares offered to the Company's shareholders under the shelf Prospectus and relating to the exercise of rights under said offering by IDB Development Corporation Ltd., the controlling shareholder in Discount Investment Corporation Ltd (and indirectly, also of the Company) and a shareholder in the Company, and by Discount Investment Corporation Ltd. Of the rights units offered under the shelf Prospectus, 2,371,158 rights units were exercised for the purchase of 2,371,158 ordinary NIS 0.001 nominal value shares in the Company, which is the equivalent to 99.7% of all the rights units offered under the shelf Prospectus and about 14.25% of the Company's issued capital (prior to the issue), and in return for the rights units which were exercised as aforesaid, the Company received an overall amount of NIS 384.16 million (gross). Pursuant to the provisions of the Regulation Amendments, the Company compensated its US shareholders with fair and uniform compensation which was determined by an external evaluator and which was approved by the Company's Audit Committee and Board of Directors, in an overall amount of NIS 10.1 million, which primarily derived from the income from the sale of the rights which were not offered to the US shareholders by the Company, on the trading day of the rights.

- 3.8.** In June 2008, the Company's general meeting approved (in accordance with the provisions of the Company's previous Articles of Association which were applicable on the date of the general meeting) the distribution of interim dividends as recommended and announced by the Company's Board of Directors, in the amount of NIS 150 million (which was paid in September 2007, and in the amount of NIS 380 million (which was paid in December 2007).
- 3.9.** Subsequent to the balance sheet date, the Company converted most of its liquid dollar balances to Swiss Franc. As of the reporting date, the Company has a Swiss Franc balance in the amount of NIS 1,083 million and a dollar balance of NIS 113 million. As a result of the changes in the dollar exchange rate against the shekel until the conversion of most of the dollar balance, and due to the changes in the Swiss Franc exchange rate against the shekel, as of the date of conversion, the Company has incurred an accrued loss at this stage, which is estimated by the Company, to be NIS 26 million. The foregoing information includes an initial assessment and the partial information in Koor's possession to date. This data has not yet been processed, has not yet been finally examined and has not been reviewed by Koor's accountants, and is subject to additional changes in the exchange rates of the Swiss Franc and the dollar. For this reason, it is possible that their impact on the Companies results for Q3 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 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.

4. Main events subsequent to the balance sheet date

- 4.1.** In July 2008, the Company announced that further to its resolution in March 2008 to invest in negotiable shares of European financial institutions in an overall investment of up to NIS 1.5 billion, the Company's Board of Directors resolved to increase the amount of the investment in Credit Suisse shares to an overall amount of NIS 3 billion. This investment will be carried out by exploiting buy and sell opportunities while paying attention to the situation of the markets and in accordance with its assessments from time to time. The Company stresses that the execution of the aforesaid actions is not certain.

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- 4.2. In July 2008, Standard & Poor's Maalot Ltd. ("Maalot") notified in a public announcement, that due to the anticipated changes in the Company's portfolio components subsequent to its notification with respect to the Credit Suisse investment, Maalot will continue monitoring the developments with respect to this matter and will examine the impact of the portfolio changes on the company's financial risks and its security rating. Maalot's announcement notes the Company's raising capital by means of a rights issue in June 2008 and the publication of the shelf Prospectus which will enable to Company to raise further capital.
- 4.3. In July 2008, the Company reported that its Board of Directors resolved to update the annual remuneration and participation remuneration for Koor's external directors, so that they will be entitled to the maximum amounts under Regulations 4 and 5 (respectively) of the Companies Regulations (Rules concerning Remuneration and Reimbursement of Expenses of External Directors) 5760-2000 (the "Remuneration Regulations"), as they were updated in the amendment to the Remuneration Regulations. The update of the remuneration paid to Koor's directors (including external directors) will take effect as of the date of the amendment to the Remuneration Regulations, i.e. as of March 6, 2008.
- 4.4. In July 2008 the company issued a shelf Offering Memorandum for an issue by way of rights under the shelf Prospectus published in May 2008, as part of which between 4,753,084 and 4,953,939 ordinary shares (of NIS 0.001 par value each) were offered to Koor's shareholders, by way of rights to the holders of the Company's ordinary shares (with the exclusion of the US shareholders), so that a shareholder holding 4 ordinary shares would be entitled to purchase a rights unit for 1 ordinary share at NIS 143, which will be registered in his or her name on the trading day, on August 3, 2008. The US shareholders were excluded pursuant to the provisions of the Regulations as described in Section 3.5 above. For the non-allocation of rights, the Company compensated its US shareholders with uniform and fair compensation, whereby the compensation formula and its fairness were determined by an external evaluator and approved by the Company's Audit Committee and Board of Directors.
- 4.5. In July and August 2008, Koor announced that it would record profits in the amount of NIS 208 million for Q3 2008 for the sale of part of its holdings in Credit Suisse during July 2008. Shortly prior to the date of this report, subsequent to the purchase of Credit Suisse shares (less sales), Koor holds 3.62 million shares in Credit Suisse, which constitutes 0.35% of Credit Suisse share capital (less treasury shares), at an overall investment of NIS 531 million.

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5. The financial situation and sources of finance

5.1.

| | <u>June 30, 2008</u> | <u>December 31, 2007</u> |
|--|----------------------|--------------------------|
| | <u>NIS Millions</u> | |
| Total assets in the consolidated balance sheet | 5,519 | 5,371 |
| Investments in associated companies in the consolidated balance sheet | 2,419 | 2,566 |
| Total equity attributed to the Company's shareholders | 2,003 | 2,029 |
| Surplus of current assets over liabilities in the consolidated balance sheet | 1,716 | 1,923 |
| Koor's financial liabilities | 3,067 | 3,020 |
| Surplus of financial liabilities over Koor's financial assets | *739 | 650 |

* This balance does not include income in the amount of NIS 46 million received from Elbit subsequent to the balance sheet date, for the sale of Elisra Electronic Systems Ltd. resulting from the receipt of insurance payment for a fire that occurred at the plant of Elisra's consolidated companies in 2001, as well as a payment in the amount of NIS 210 million for Credit Suisse shares which were purchased prior to the balance sheet date.

- 5.2.** In Q2 2008, Koor received dividend from Makhteshim Agan in the amount of NIS 166 million. In the corresponding period in 2007, Koor received dividend from Epsilon in the amount of NIS 3 million.
- 5.3.** In Q2 2008, the net consideration from sales of investments amounted to NIS 1.5 million. In the corresponding period 2007 the net consideration from sales of investments amounted to NIS 70 million.
- 5.4.** In Q2 2008, Koor extended loans to and invested in investee companies in the net amount of NIS 129 million. In the corresponding period of 2007, Koor extended loans to and invested in investee companies in the amount of NIS 10 million.
- 5.5.** In Q2 2008, the Company paid debts to banks in the amount of NIS 120 million and to took long-term loans from banks in the amount of NIS 50 million.
- 5.6.** With respect to the rights issue conducted during Q2 2008, see Section 3.8 above.

6. Deregistration of Koor Shares at US Securities and Exchange Commission (SEC)

In June 2007, the Company delisted its ADRs from the NYSE and announced the termination of the ADR program and its intention to deregister when conditions permitted.

On February 11, 2008 Koor filed a Form 15F report to the US Securities and Exchange Commission (SEC) for deregistration of its shares and immediate suspension of its duties to report pursuant to the Securities Exchange Act of 1934. This deregistration became final and irreversible on May 11, 2008.

7. Report on exposure and management of market risks

7.1. Koor

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

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Koor's exposure to inflation in Israel stems from the fact that a major part of Koor's debt is a shekel denominated, CPI linked, fixed interest debt whose fair value is affected by changes in market interest rates.

7.1.1. Exposure to the impact of foreign currency fluctuations

As of the date of this report, Koor has cash balances of NIS 113 million in US dollars and cash balances (of NIS 1,083 million) and assets (of NIS 531 million) which are exposed to fluctuations in the Swiss Franc exchange rate against the shekel. The fair shekel value of the liquid assets is affected by changes in the exchange rates of the shekel against these currencies.

Furthermore, Koor is affected by the exchange rates of the shekel against the dollar on its shekel investment balances in investee companies operating abroad and/or whose primary operations are in foreign currency, and by the affects of the shekel exchange rates against the Swiss Franc on the shekel value of its investments in available-for-sale assets (Credit Suisse shares). These impacts are presented as part of the shareholders equity.

In Q2 and until shortly prior to the publication of this report, the Company converted most of its US dollar cash balances into Swiss Francs, subsequent to the acquisition of Credit Suisse shares and received proceeds in Swiss Francs subsequent to the sale of Credit Suisse shares.

As of the date of this report, Koor does not take steps to hedge exposure relating to the shekel value of foreign currency holdings and/or direct exposure that impacts the performance of investees. Nonetheless, Koor may take steps to hedge such exposures.

The Company's policies regarding investment of cash balances and protection against financial exposure are carried out by the Company's management and the board's investment committee, which is made up of the Chief Financial Officer and capital market consultants. In November 2007, the board of directors appointed the board's investment committee, which includes four directors of which two are external directors. The management reported to the Board of Director's Investment Committee regarding its investment policy for cash balances and protection against exposures, and the Board of Directors examined and approved this policy. Furthermore, at every Audit Committee meeting and at every Board of Directors meeting, the Company's management reports to the Audit Committee and to the Board of Directors regarding Koor's exposure to changes in the exchange rates and Koor's linkage balance is discussed.

7.1.2. Report of linkage bases

A. The Company does not manage the risks of its investee companies. Hereunder are the linkage terms of monetary balances and derivative positions of Koor and its wholly-owned subsidiaries, for which the Company manages currency exposure, as at June 30, 2008.

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B. Koor's linkage balances to June 30, 2008 (in NIS millions):

| | <u>CPI linked</u> | <u>Dollar or dollar linked</u> | <u>Swiss Franc or linked thereto</u> | <u>Unlinked</u> | <u>Non- monetary item</u> | <u>Tradable assets</u> | <u>Total</u> |
|---|-----------------------|--|--|-----------------|-----------------------------------|----------------------------|----------------|
| <u>Assets</u> | | | | | | | |
| Current assets | - | 1,379 | - | 620 | 1 | 408 | 2,408 |
| Investment in associate companies (including loans) | 116 | 66 | - | 17 | 2,246 | - | 2,445 |
| Long-term deposits and loans (incl. maturities) | - | 10 | - | - | 110 | 332 | 452 |
| Fixed assets, other assets and investment property | - | - | - | - | 81 | - | 81 |
| Total assets | 116 | 1,455 | - | 637 | 2,438 | 740 | 5,386 |
| <u>Liabilities</u> | | | | | | | |
| Current liabilities | (77) | (8) | (210) | (79) | - | - | (374) |
| Long-term liabilities (incl. current maturities) | (2,998) | (10) | - | - | - | - | (3,008) |
| Total liabilities | (3,075) | (18) | (210) | (79) | - | - | (3,382) |
| Assets less liabilities, net | (2,959) | 1,437 | (210) | 558 | 2,438 | 740 | 2,004 |

C. Koor derivative positions as at June 30, 2008 (in NIS millions):

| | <u>CPI / NIS</u> | | | |
|--|-----------------------|-----------------------|----------------|-------------------|
| | <u>Nominal</u> | <u>Fair value</u> | <u>Nominal</u> | <u>Fair value</u> |
| | <u>value</u> | <u>to receive</u> | <u>value</u> | <u>to receive</u> |
| | <u>Up to one year</u> | <u>Above one year</u> | <u>LONG</u> | <u>LONG</u> |
| Forward contracts for hedging – not recognized for accounting (1) | 500 | 20 | - | - |

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

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D. Consolidated linkage balance to June 30, 2008 (in NIS millions):

| | CPI linked | Dollar or dollar linked | Other currency or linked thereto* | Unlinked | Non- monetary item | Tradable assets | Total |
|---|----------------|-------------------------------|--|--------------|--------------------------|--------------------|----------------|
| Assets | | | | | | | |
| Current assets | - | 1,419 | 1 | 624 | 59 | 408 | 2,511 |
| Investment in associate companies (including loans) | 32 | 55 | - | - | 2,333 | - | 2,420 |
| Long-term deposits and loans (incl. maturities) | - | 10 | - | - | 110 | 332 | 452 |
| Fixed assets, other assets and investment property | - | - | - | - | 136 | - | 136 |
| Total assets | 32 | 1,484 | 1 | 624 | 2,638 | 740 | 5,519 |
| Liabilities | | | | | | | |
| Current liabilities | (92) | (91) | (210) | (102) | (3) | - | (498) |
| Long-term liabilities (incl. current maturities) | (2,998) | (17) | - | - | (2) | - | (3,017) |
| Total liabilities | (3,090) | (108) | (210) | (102) | (5) | - | (3,515) |
| Assets less liabilities, net | (3,058) | 1,376 | (209) | 522 | 2,633 | 740 | 2,004 |

* Particularly Swiss Franc (CHF)

E. Koor's linkage balances to June 30, 2007 (in NIS millions):

| | CPI linked | Dollar or dollar linked | Other currency or linked thereto | Unlinked | Non- monetary item | Tradable assets | Total |
|---|----------------|-------------------------------|---|-------------|--------------------------|--------------------|----------------|
| Assets | | | | | | | |
| Current assets | 185 | 671 | 19 | 915 | 2 | 101 | 1,893 |
| Investment in associate companies (including loans) | 28 | - | - | 24 | 3,484 | - | 3,536 |
| Long-term deposits and loans (incl. maturities) | - | 67 | - | - | 15 | - | 82 |
| Fixed assets, other assets and investment property | - | - | - | - | 78 | - | 78 |
| Total assets | 213 | 738 | 19 | 939 | 3,579 | 101 | 5,589 |
| Liabilities | | | | | | | |
| Current liabilities | (96) | (9) | (3) | (86) | (3) | - | (197) |
| Long-term liabilities (incl. current maturities) | (2,920) | (9) | - | - | - | - | (2,929) |
| Total liabilities | (3,016) | (18) | (3) | (86) | (3) | - | (3,126) |
| Assets less liabilities, net | (2,803) | 720 | 16 | 853 | 3,576 | 101 | 2,463 |

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F. Koor derivative positions as at June 30, 2007 (in NIS millions):

| | CPI / NIS | | | |
|---|----------------|----------------|----------------|----------------|
| | Nominal | Fair value | Nominal | Fair value |
| | value | to pay | value | to pay |
| | Up to one year | Up to one year | Above one year | Above one year |
| | LONG | LONG | LONG | LONG |
| Forward contracts for hedging – not recognizerd for accounting (1) | 700 | (10) | 400 | - |

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

G. Consolidated linkage balance to June 30, 2007 (in NIS millions):

| | CPI linked | Dollar or dollar linked | Other currency or linked thereto | Unlinked | Non- monetary item | Tradable assets | Total |
|--|---------------|-------------------------------|---|----------|--------------------------|--------------------|---------|
| <u>Assets</u> | | | | | | | |
| Current assets | 165 | 723 | 24 | 918 | 82 | 102 | 2,014 |
| Investment in associate companies (including loans) | 25 | 58 | - | - | 3,410 | - | 3,493 |
| Long-term deposits and loans (incl. maturities) | - | 14 | - | - | 113 | - | 127 |
| Fixed assets, other assets and investment property | - | - | - | - | 129 | - | 129 |
| Total assets | 190 | 795 | 24 | 918 | 3,734 | 102 | 5,763 |
| <u>Liabilities</u> | | | | | | | |
| Current liabilities | (97) | (102) | (3) | (108) | (7) | - | (317) |
| Long-term liabilities (incl. current maturities) | (2,926) | (36) | - | (17) | (4) | - | (2,983) |
| Total liabilities | (3,023) | (138) | (3) | (125) | (11) | - | (3,300) |
| Assets less liabilities, net | (2,833) | 657 | 21 | 793 | 3,723 | 102 | 2,463 |

7.2. Investees

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 2007, dated March 17, 2008.

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7.3. Sensitivity test tables for sensitive financial instruments included in the consolidated financial statements to June 30, 2008, in accordance with changes in market factors

Sensitivity analysis to changes in CPI linked interest rates

| Item | Fair value | Profit (Loss) from Changes in Interest Rate | | | |
|--|-----------------|---|-----------------|-----------------|------|
| | | R i s e o f | | F a l l o f | |
| | | 10% | 5% | 10% | 5% |
| N I S | M i l l i o n s | M i l l i o n s | M i l l i o n s | M i l l i o n s | |
| Long-term CPI linked deposits and loans (incl. current maturities) | 19 | (2) | (1) | 2 | 1 |
| Short-term bank credit | (13) | 1 | 1 | (1) | (1) |
| Index-linked debentures | (1,777) | 28 | 14 | (28) | (14) |
| Long-term index-linked loans | (1,371) | 6 | 3 | (6) | (3) |
| | (3,142) | 33 | 17 | (33) | (17) |

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

| Item | Fair value | Profit (Loss) from Changes to the Dollar Exchange Rate | | | |
|---|-----------------|--|-----------------|-----------------|------|
| | | R i s e o f | | F a l l o f | |
| | | 10% | 5% | 10% | 5% |
| N I S | M i l l i o n s | M i l l i o n s | M i l l i o n s | M i l l i o n s | |
| Long-term deposits and loans (incl. current maturities) | 55 | 5 | 3 | (5) | (3) |
| Debtors and short-term debit balances | 51 | 5 | 3 | (5) | (3) |
| Trade receivables | 38 | 4 | 2 | (4) | (2) |
| Short-term deposits and loans | 5 | 1 | - | (1) | - |
| Tradable securities | 7 | 1 | - | (1) | - |
| Cash and cash equivalents | 1,325 | 132 | 66 | (132) | (66) |
| Long-term loans from banks | (11) | (1) | - | 1 | - |
| Trade and other accounts payable and credit balances | (52) | (5) | (3) | 5 | 3 |
| Short-term bank credit | (42) | (4) | (2) | 4 | 2 |
| | 1,376 | 138 | 69 | (138) | (69) |

Sensitivity analysis on changes in the exchange rate of the Swiss Franc

| Item | Fair value | Profit (Loss) from Changes to the Swiss Franc Exchange Rate | | | |
|--|-----------------|---|-----------------|-----------------|----|
| | | R i s e o f | | F a l l o f | |
| | | 10% | 5% | 10% | 5% |
| N I S | M i l l i o n s | M i l l i o n s | M i l l i o n s | M i l l i o n s | |
| Trade and other accounts payable and credit balances | (210) | (21) | (11) | 21 | 11 |

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Sensitivity analysis on changes in tradable securities prices

| Item | Fair value | Profit (Loss) from Changes to the Prices of Tradable Securities | | | |
|--------------------------------|------------|---|----|-------------|------|
| | | R i s e o f | | F a l l o f | |
| | | 10% | 5% | 10% | 5% |
| N I S | M i l l | i o n | s | | |
| Short-term tradable securities | 408 | 41 | 20 | (41) | (20) |
| Long-term tradable investments | 332 | 33 | 17 | (33) | (17) |
| | 740 | 74 | 37 | (74) | (37) |

Sensitivity analysis to changes in the CPI – on derivative positions

| Forward contract | Fair value | Profit (Loss) from Changes in the CPI | | | |
|---|------------|---------------------------------------|------|-------------|------|
| | | R i s e o f | | F a l l o f | |
| | | 0.2% | 0.1% | 0.2% | 0.1% |
| N I S | M i l l | i o n | s | | |
| Not recognized as accounting protection | 20 | 1 | - | (1) | - |

7.4. Sensitivity test tables for sensitive financial instruments included in the consolidated financial statements to June 30, 2007, in accordance with changes in market factors

Sensitivity analysis to changes in CPI linked interest rates

| Item | Fair value | Profit (Loss) from Changes in Interest Rate | | | |
|--|------------|---|-----|-------------|------|
| | | R i s e o f | | F a l l o f | |
| | | 10% | 5% | 10% | 5% |
| N I S | M i l l | i o n | s | | |
| Long-term CPI linked deposits and loans (incl. current maturities) | 18 | (2) | (1) | 2 | 1 |
| Index-linked debentures | (1,647) | 32 | 16 | (32) | (16) |
| Long-term index-linked loans | (1,365) | 11 | 6 | (11) | (6) |
| | (2,995) | 41 | 21 | (41) | (21) |

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

Board of Directors Report Second Quarter and Half Year 2008

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

| Item | Fair value N I S | Profit (Loss) from Changes to the Dollar Exchange Rate | | | |
|--|---------------------|---|-----------|-------------|------|
| | | R i s e o f | | F a l l o f | |
| | | 10% | 5% | 10% | 5% |
| | | M i l l | l i o n s | | |
| Long-term deposits and loans (incl. current maturities) | 72 | 7 | 3 | (7) | (3) |
| Debtors and short-term debit balances | 194 | 19 | 10 | (19) | (10) |
| Trade receivables | 48 | 5 | 2 | (5) | (2) |
| Short-term deposits and loans | 11 | 1 | 1 | (1) | (1) |
| Cash and cash equivalents | 470 | 47 | 23 | (47) | (23) |
| Long-term loans from banks | (9) | (1) | - | 1 | - |
| Other long-term liabilities | (27) | (2) | (1) | 2 | 1 |
| Trade and other accounts payable and credit balances | (67) | (6) | (3) | 6 | 3 |
| Short-term bank credit | (35) | (4) | (2) | 4 | 2 |
| | 657 | 66 | 33 | (66) | (33) |

Sensitivity analysis on changes in tradable securities prices

| Item | Fair value N I S | Profit (Loss) from Changes to the Prices of Tradable Securities | | | |
|-----------------------------------|---------------------|--|-----------|-------------|------|
| | | R i s e o f | | F a l l o f | |
| | | 10% | 5% | 10% | 5% |
| | | M i l l | l i o n s | | |
| Investment in tradable securities | 411 | 41 | 21 | (41) | (21) |

Sensitivity analysis to changes in the CPI – on derivative positions

| Forward contract | Fair value N I S | Profit (Loss) from Changes in the CPI | | | |
|--|---------------------|---------------------------------------|-----------|-------------|------|
| | | R i s e o f | | F a l l o f | |
| | | 0.2% | 0.1% | 0.2% | 0.1% |
| | | M i l l | l i o n s | | |
| Not recognized as accounting protection | (10) | 2 | 1 | (2) | (1) |

8. IFRS

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 – Adoption of International Financial Reporting Standards (IFRS). The standard stipulates that entities subject to the provisions of the Securities Law, 5728-1968, and which are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008, whereby the transition date for initial adoption is January 1, 2007 ("Transition Date").

**Board of Directors Report
Second Quarter and Half Year 2008**

For transition purposes, the Company applied the provisions of the IFRS1 for its Q1 2008 Financial Statements and presented an opening balance as at January 1, 2007, balance as at December 31, 2007 and Statement of Income for the year ended on said date, which were prepared in accordance with the IFRS. In addition, the Company presented in its Financial Statements as at June 30, 2008, adjustments between the statements according to Israeli GAAP and according to IFRS for the transition data, as at December 31, 2007 and for the year ended on said date, applied in retrospect (historically) (subject to irregularities).

For further information relating to this matter, see Notes 2, 3 and 13 to the financial statements.

9. Disclosure concerning approval of the Company's financial statements

9.1. Identity of the Company's bodies that are responsible for supervision:
the Company's Board of Directors and Audit Committee.

9.2. Details of the steps taken by the bodies responsible for supervision of the Company, prior to approval of the Company's financial reports:

The Company's Board of Directors has appointed the Company's Audit Committee to act as a "Balance Sheet Committee", which presents it with the main points of the detailed discussion held on issues related to the financial statements and recommends that it approve them. 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 Chief Financial Officer, 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 fo matters of particularly significant implication.

In order to approve the financial statements, the Audit Committee holds a meeting prior to the date of the Board meeting for a fundamental and comprehensive discussion of the material issues reported and an in-depth discussion of the draft financial statements.

Raanan Cohen
CEO

Ami Erel
Chairman of the Board

Tel Aviv, August 12, 2008

Koor Industries Ltd.

**Condensed Consolidated Interim
Financial Statements
As at June 30, 2008
(unaudited)**

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The Board of Directors
Koor Industries Limited.

Auditors' review report of unaudited condensed consolidated interim financial statements for the six-month and three-month periods ended June 30, 2008

At your request, we have reviewed the condensed consolidated interim balance sheet of Koor Industries Ltd. and its subsidiaries as at June 30, 2008, and the related condensed consolidated interim statements of operations, the condensed consolidated interim statement of recognized income and expenses, and the condensed consolidated interim statements of cash flows for the six-month and three-month period then ended.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel and included, inter alia, reading the said financial statements, reading the minutes of shareholders' meetings and of the meetings of the Board of Directors and its committees, as well as making inquiries of persons responsible for financial and accounting matters.

We were provided with the reports of other auditors, regarding the review of the interim financial statements of subsidiaries, whose assets included in the consolidation constitute 5% of the total assets included in the condensed consolidated interim balance sheet as at June 30, 2008 and whose revenues included in the consolidation constitute 28% and 41% of the total revenues included in the condensed consolidated interim statement of operations for the six-month and three-month periods then ended, respectively. We were also provided with the reports of other auditors of affiliates, the investment in which totaled NIS 194,400 thousand as at June 30, 2008, and the Company's share in their earnings were NIS 9,308 thousand and NIS 4,547 thousand for the six-month and three-month periods then ended, respectively.

Since the review performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said condensed consolidated interim financial statements.

In the course of our review, including reading the review reports of other auditors, as stated above, nothing came to our attention which would indicate the necessity of making material modifications to the said interim financial statements, in order for them to be in conformity with International Financial Reporting Standard IAS 34, *Financial Reporting for Interim Periods*, and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

We draw attention to Note 5(a)7 to the financial statements regarding a claim and motion for its recognition as a class action that was served against one of the Company's affiliates.

Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International

August 12, 2008
Tel Aviv, Israel

Condensed Consolidated Interim Balance Sheets

| | June 30 2008 | June 30 2007 | December 31 2007 |
|--|-------------------------|-------------------------|-----------------------------|
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 1,887,498 | 1,206,289 | 1,917,412 |
| Short-term deposits and investments | 447,967 | 433,581 | 457,590 |
| Trade receivables | 41,410 | 52,854 | 40,236 |
| Other receivables | 76,992 | 244,462 | 67,887 |
| Inventories | 57,565 | 76,592 | 57,628 |
| | 2,511,432 | 2,013,778 | 2,540,753 |
| Investments and long-term receivables | | | |
| Investments in investees | 2,419,227 | 3,493,009 | 2,566,151 |
| Other investments and receivables | 451,910 | 126,869 | 128,654 |
| | 2,871,137 | 3,619,878 | 2,694,805 |
| Investment property | 111,880 | 108,280 | 111,880 |
| Fixed assets, net | 6,614 | 8,708 | 7,851 |
| Intangible assets | 17,740 | 12,297 | 16,126 |
| Total assets | 5,518,803 | 5,762,941 | 5,371,415 |

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

| | June 30 2008 | June 30 2007 | December 31 2007 |
|--|------------------|------------------|---------------------|
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities | | | |
| Credit from banks and others | 337,199 | 154,301 | 330,460 |
| Trade payables | 49,797 | 62,612 | 54,515 |
| Other payables | 360,228 | 151,097 | 140,977 |
| Provisions | 27,745 | 26,385 | 23,534 |
| Customer advances | 2,652 | 3,646 | 6,015 |
| Liability for options to investors | 18,279 | 38,385 | 62,324 |
| | <u>795,900</u> | <u>436,426</u> | <u>617,825</u> |
| Long-term liabilities | | | |
| Liabilities from banks | 1,032,577 | 1,218,347 | 1,076,901 |
| Liabilities from others | 5,028 | 32,955 | 14,618 |
| Debentures | 1,680,854 | 1,608,538 | 1,632,841 |
| Deferred taxes | - | 1,156 | - |
| Liability for employee termination benefits, net | 426 | 2,438 | 267 |
| | <u>2,718,885</u> | <u>2,863,434</u> | <u>2,724,627</u> |
| Shareholders' Equity | | | |
| Share capital | 566,886 | 564,515 | 564,515 |
| Premium on shares net of treasury shares | 2,619,577 | 2,238,778 | 2,238,951 |
| Reserves | (502,725) | 30,475 | (211,395) |
| Accumulated loss | (680,305) | (373,799) | (563,225) |
| | <u>2,003,433</u> | <u>2,459,969</u> | <u>2,028,846</u> |
| Total equity attributed to holders of capital rights in the Company | | | 2,028,846 |
| Minority interest | <u>585</u> | <u>3,112</u> | <u>117</u> |
| Total equity capital | <u>2,004,018</u> | <u>2,463,081</u> | <u>2,028,963</u> |
| Total liabilities and equity capital | <u>5,518,803</u> | <u>5,762,941</u> | <u>5,371,415</u> |

Approval date of financial statements: August 12, 2008

Ami Erel
Chairman of the Board of Directors

Raanan Cohen
Chief Executive Officer

Oren Hillinger
Chief Financial Officer

Condensed Consolidated Interim Statements of Operations

| | For the six-month period ended | | For the three-month period ended | | For the year ended |
|---|--------------------------------|----------------|----------------------------------|----------------|--------------------|
| | June 30 | June 30 | June 30 | June 30 | December 31 |
| | 2008 | 2007 | 2008 | 2007 | 2007 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| Revenues | | | | | |
| Revenues from sales and projects | 112,944 | 118,289 | 59,589 | 64,636 | 218,702 |
| Koor Group's equity in results of affiliates, net | 189,739 | 242,207 | 79,477 | 125,289 | 246,877 |
| Other income, net | 47,863 | 37,893 | 437 | 11,277 | 655,583 |
| Financing income | 59,218 | 74,502 | 6,766 | 32,595 | 71,695 |
| | <u>409,764</u> | <u>472,891</u> | <u>146,269</u> | <u>233,797</u> | <u>1,192,857</u> |
| Expenses | | | | | |
| Cost of sales and projects | 89,432 | 86,869 | 45,753 | 45,844 | 192,302 |
| Selling and marketing expenses | 17,880 | 22,896 | 8,325 | 11,213 | 44,481 |
| General and administrative expenses | 22,866 | 21,484 | 14,860 | 8,522 | 53,882 |
| Other expenses | 20,910 | - | 7,240 | - | 15,305 |
| Financing expenses | 373,800 | 88,831 | 189,885 | 39,778 | 301,311 |
| | <u>524,888</u> | <u>220,080</u> | <u>266,063</u> | <u>105,357</u> | <u>607,281</u> |
| Earnings (loss) before income taxes | (115,124) | 252,811 | (119,794) | 128,440 | 585,576 |
| Income taxes | (92) | 917 | (26) | 432 | 109 |
| Earnings (loss) from continuing operations | (115,216) | 253,728 | (119,820) | 128,872 | 585,685 |
| Earnings (loss) from discontinued operations, net | - | 24,099 | - | 29,945 | 24,099 |
| Net earnings (loss) for the period | (115,216) | <u>277,827</u> | (119,820) | <u>158,817</u> | <u>609,784</u> |
| Attributed to: | (115,649) | 279,942 | (119,882) | 158,073 | 614,323 |
| Holders of the Company's capital rights | 433 | (2,115) | 62 | 744 | (4,539) |
| Minority shareholders | - | - | - | - | - |
| Net earnings (loss) for the period | (115,216) | <u>277,827</u> | (119,820) | <u>158,817</u> | <u>609,784</u> |
| | <u>NIS</u> | <u>NIS</u> | <u>NIS</u> | <u>NIS</u> | <u>NIS</u> |
| Earnings per share | | | | | |
| Basic earnings (loss) per share | (6.362) | 15.175 | (6.699) | 8.746 | 33.318 |
| Diluted earnings (loss) per share | (6.362) | 15.062 | (6.699) | 8.656 | 33.184 |
| From continuing operations | | | | | |
| Basic earnings (loss) per share | (6.362) | 13.839 | (6.699) | 7.088 | 31.985 |
| Diluted earnings (loss) per share | (6.362) | 13.731 | (6.699) | 7.002 | 31.835 |
| From discontinued operations | | | | | |
| Basic earnings per share | - | 1.336 | - | 1.658 | 1.333 |
| Diluted earnings per share | - | 1.331 | - | 1.654 | 1.331 |

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

 Condensed Consolidated Interim Statements of Recognized Earnings and Expenses

| | For the six-month period ended | | For the three-month period ended | | For the year |
|---|--------------------------------|----------------|----------------------------------|----------------|----------------|
| | June 30 | June 30 | June 30 | June 30 | ended |
| | 2008 | 2007 | 2008 | 2007 | December 31 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| Foreign currency translation differences from foreign operations | (315,270) | 23,487 | (128,709) | 74,422 | (222,203) |
| Foreign currency translation differences from foreign operations recognized in gain/loss | 800 | - | 800 | - | - |
| Net change in fair value of financial assets classified as available for sale | 2,783 | 4,980 | 2,783 | (2,236) | 3,411 |
| Net change in fair value of financial assets classified as available for sale recognized in gain/loss | - | - | - | - | 752 |
| Actuarial gains from defined benefits plan | - | - | - | - | 305 |
| Koor's equity in revenues/expenses recognized directly to equity in affiliates | 18,961 | 4,449 | 7,610 | 2,449 | 14,555 |
| Earnings (loss) for the period | (115,216) | 277,827 | (119,820) | 158,817 | 609,784 |
| Total revenues (expenses) for the period | (407,942) | 310,743 | (237,336) | 233,452 | 406,604 |
| Attributed to: | | | | | |
| Holders of equity rights in the Company | (408,410) | 313,138 | (237,370) | 232,708 | 411,680 |
| Minority interest | 468 | (2,395) | 34 | 744 | (5,076) |
| Total revenues (expenses) for the period | (407,942) | 310,743 | (237,336) | 233,452 | 406,604 |

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

Condensed Consolidated Interim Statements of Cash Flows

| | For the six-month period ended | | For the three-month period ended | | For the year ended |
|---|--------------------------------|---------------|----------------------------------|---------------|--------------------|
| | June 30 | June 30 | June 30 | June 30 | December 31 |
| | 2008 | 2007 | 2008 | 2007 | 2007 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| Cash flows generated by operating activities | | | | | |
| Earnings (loss) for the period | (115,649) | 279,942 | (119,882) | 158,073 | 614,323 |
| Adjustments: | | | | | |
| Minority interest in results of subsidiaries, net | 433 | (2,115) | 62 | 744 | (4,539) |
| Financing costs, net | 254,858 | 44,043 | 107,425 | 7,819 | 211,254 |
| Income tax | 92 | (917) | 26 | (432) | (109) |
| Securities available for sale | 4,924 | - | 2,061 | - | 3,464 |
| Koor's equity in results of affiliates, net | (189,739) | (242,207) | (79,477) | (125,289) | (246,877) |
| Dividend received from affiliates | 167,317 | 6,600 | 166,280 | 2,951 | 9,160 |
| Depreciation and amortization | 2,920 | 2,852 | 1,575 | 1,731 | 7,076 |
| Increase (decrease) in employee termination benefits, net | 159 | (597) | 159 | (667) | (2,476) |
| Reduction of salary expenses for employee options | - | 512 | - | 285 | 245 |
| Earnings from discontinued operations | - | (24,099) | - | (29,945) | (24,099) |
| Revaluation of investment property | - | - | - | - | (3,600) |
| Capital losses (gains) from realization, net of: | | | | | |
| Fixed assets and other assets | (54) | (34) | (43) | (34) | (74) |
| Investments in investees | - | (27,677) | - | 58 | (636,285) |
| Investment in other companies | (46,189) | (12,427) | - | (12,427) | (13,809) |
| Linkage and amortization of debenture discounts and liability from options | 3,968 | 21,833 | 50,264 | 18,669 | 70,075 |
| Erosion (linkage) of loan principals and other long-term liabilities | 37,455 | 1,345 | 30,088 | 5,079 | 33,935 |
| Erosion (linkage) of investments, deposits and loans receivable | 19,755 | (55,296) | 10,251 | (59,315) | (13,357) |
| Impairment of assets and investments (mainly in value of venture capital investments) | 15,513 | (1,190) | 5,763 | (1,190) | 11,715 |
| Increase in trade and other receivables | (14,980) | (38,805) | (14,786) | (19,071) | (33,801) |
| Decrease (increase) in inventories and customer advances | (11,211) | (11,931) | (7,215) | (6,358) | 5,769 |
| Increase in trade and other payables | (10,846) | 36,444 | (14,648) | 16,405 | 34,357 |
| Income tax paid | (19) | (41) | (13) | (66) | 64 |
| Net cash inflows (outflows) generated by continuing operating activities | 118,707 | (23,765) | 137,890 | (42,980) | 22,411 |
| Net cash inflows generated by discontinued operations | - | 9,006 | - | - | 9,006 |
| Net cash inflows (outflows) generated by operating activities | 118,707 | (14,759) | 137,890 | (42,980) | 31,417 |

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

Condensed Consolidated Interim Statements of Cash Flows

| | For the six-month period ended | | For the three-month period ended | | For the year ended |
|---|--------------------------------|------------------|----------------------------------|------------------|--------------------|
| | June 30 | June 30 | June 30 | June 30 | December 31 |
| | 2008 | 2007 | 2008 | 2007 | 2007 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS thousands | NIS thousands | NIS thousands | NIS thousands | NIS thousands |
| Cash flows generated by investing activities | | | | | |
| Purchase of fixed assets | (790) | (811) | (344) | (353) | (2,220) |
| Amounts recognized as intangible assets | (5,612) | (12,633) | (3,296) | (9,269) | (20,815) |
| Proceeds from realization of investments in investees and other | 1,447 | 256,296 | 1,447 | 69,703 | 1,761,363 |
| Proceeds from sale of fixed assets | 104 | - | 104 | - | 270 |
| Investment in affiliates and other | (262,789) | (10,193) | (129,092) | (9,673) | (53,451) |
| Investment in venture capital companies | (4,182) | (3,562) | - | - | (4,635) |
| Decrease (increase) in short-term deposits and investments, net | (1,558) | 105,506 | (795) | 26,062 | 42,832 |
| Interest received | 36,962 | 27,181 | 16,084 | 22,791 | 62,476 |
| Net cash inflows (outflows) generated by continuing investing activities | (236,418) | 361,784 | (115,892) | 99,261 | 1,785,820 |
| Net cash inflows (outflows) generated by discontinued investing activities | 35,560 | (5,541) | - | (2,671) | (5,541) |
| Net cash inflows (outflows) generated by investing activities | (200,858) | 356,243 | (115,892) | 96,590 | 1,780,279 |
| Cash flows generated by financing activities | | | | | |
| Proceeds from issuance of debentures | - | 640,789 | - | 640,789 | 640,789 |
| Net proceeds from issuance of shares | 382,997 | - | 382,997 | - | - |
| Dividend distribution | - | - | - | - | (529,884) |
| Interest paid | (40,980) | (40,997) | (25,047) | (19,135) | (150,076) |
| Proceeds from exercise of options granted to investors | - | - | - | - | 159 |
| Long-term loans and other liabilities received | 50,000 | 3,187 | 50,000 | 3,187 | 3,187 |
| Long-term loans, debentures and other liabilities repaid | (129,201) | (1,870) | (119,749) | (1,870) | (28,891) |
| Cash flows from settlement of derivatives | 3,748 | (8,901) | 3,748 | (3,126) | (7,671) |
| Increase (decrease) in credit from banks and others, net | 1,291 | 4,887 | 983 | 4,963 | 13,824 |
| Net cash outflows generated by continuing financing activities | 267,855 | 597,095 | 292,932 | 624,808 | (58,563) |
| Net cash outflows generated by discontinued financing activities | - | (5,647) | - | - | (5,647) |
| Net cash outflows generated by financing activities | 267,855 | 591,448 | 292,932 | 624,808 | (64,210) |
| Change in cash and cash equivalents | 185,704 | 932,932 | 314,930 | 678,418 | 1,747,486 |
| Change in cash and cash equivalents from discontinued operations | - | 35,611 | - | 36,100 | 35,612 |
| Change in cash and cash equivalents from continuing operations | 185,704 | 968,543 | 314,930 | 714,518 | 1,783,098 |
| Cash and cash equivalents – beginning of period | 1,917,412 | 241,586 | 1,660,472 | 488,086 | 241,586 |
| Effect of fluctuations in exchange rate on balances of cash and cash equivalents | (215,618) | (3,840) | (87,904) | 3,685 | (107,272) |
| Cash and cash equivalents – end of period | 1,887,498 | 1,206,289 | 1,887,498 | 1,206,289 | 1,917,412 |

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

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 1 - General

Koor Industries Ltd. ("the Company") is an Israel-domiciled company. The Company's consolidated financial statements as at June 30, 2008 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 engaged mainly in the fields of agrochemicals, telecommunications equipment and venture capital investments, through its subsidiaries and affiliates. I.D.B. Development Ltd., which is the controlling shareholder in the Company, and its ultimate parent company, holds 62.83% of the Company's shares as at June 30, 2008, directly and indirectly through Discount Investment Corporation Ltd. 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 were prepared in accordance with International Financial Reporting Standards (IFRS). These are the first condensed consolidated interim financial statements prepared by the Group for part of the period included in the first annual IFRS financial statements, and in them, it applied IFRS 1, First-time Adoption of IFRS Standards.

The condensed consolidated interim financial statements were 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 for the year ended December 31, 2007.

The effect of the transition to IFRS on the Company's financial position and its operating results are provided in the notes.

The condensed consolidated interim financial statements were approved for issuance by the Koor's board of directors on August 12, 2008.

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

B. Functional currency and presentation currency

The condensed financial statements are presented in NIS, which is the Company's functional currency, and are rounded to the nearest thousand.

The NIS is the currency that represents the main economic environment in which the Company operates.

C. Measurement basis

The financial statements were prepared on the basis of historical cost, except for the following assets and liabilities that are stated at fair value: derivative financial instruments, financial instruments at fair value through gain/loss, financial instruments classified as available for sale, the liability for options to investors, where the exercise price is linked to the CPI and investment property.

Non-current assets that are designated for sale are stated at the lower of carrying amount and fair value net of sale costs.

The value of non-monetary assets and shareholders' equity items that were measured based on historical cost was adjusted for changes in the CPI until December 31, 2003, since until such date, the Israeli economy was considered a hyperinflationary economy.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 2 – Basis for preparation of financial statements (cont.)**D. Use of estimates and judgment**

Preparation of the financial statements in conformity with IFRS requires management to use judgment, assessments, estimates and assumptions, which influence the implementation of policy and the amounts of assets, liabilities, revenues, expenses. It should be clarified that actual results may differ from such estimates.

The estimates and assumptions are reviewed regularly. Changes in accounting estimates are recognized during the period in which the estimates were corrected and in all future affected periods.

During formulation of the accounting estimates used in the preparation of the Company's financial statements, management is required to make assumptions regarding circumstances and events that involve significant uncertainty. The Company's management bases its judgment in determining estimates on past experience, various facts, external factors and reasonable assumptions corresponding with the circumstances appropriate for each estimate.

Note 3 - Significant Accounting Policies

The condensed consolidated interim financial statements were prepared on the basis of International Financial Reporting Standards and their interpretations ("IFRS"), which were published and took effect, or may be adopted early, on the Group's first annual IFRS reporting date, December 31, 2008, on the basis of which the Company's accounting policies were prescribed.

IFRS that will be in effect or that can be adopted early in the annual financial statements for the year ended December 31, 2008 could be subject to changes and the publication of additional interpretations, and therefore, it is not possible to prescribe them with certainty. Accordingly, the accounting policies for this year, which are relevant to this interim information, will be prescribed conclusively only upon preparation of the first IFRS financial statements as at December 31, 2008.

Preparation of the condensed consolidated interim financial statements according to IAS 34 has led to changes in accounting policy compared with the last annual financial statements, which were prepared according to generally accepted accounting principles in Israel ("Israeli GAAP"). The accounting principles provided below were applied consistently throughout the periods presented in these condensed consolidated interim financial statements. They were also applied in the preparation of the opening balance sheet according to IFRS as at January 1, 2007, for the purpose of the transition to IFRS, as is required in IFRS 1. The effect of the transition from Israel GAAP to IFRS is explained in Note 13.

The accounting policy according to IFRS is applied consistently by the Group companies.

A. Basis of consolidation**(1) Subsidiaries**

Subsidiaries are entities in which the Group holds more than 50% and are controlled by the Group. Control exists when the Group has the power to govern the entity's financial and operating policies so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements commencing from the date control is achieved until the date control ceases.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies**A. Basis of consolidation (cont.)****(2) Affiliates and jointly-controlled entities ventures (accounted for by the equity method)**

Affiliates are entities in which the Group has significant influence, but not control, over the financial and operating policies. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement that requires joint consent for strategic financial and operating decisions. Affiliates and jointly-controlled entities are accounted for by the equity method. The consolidated financial statements include the Group's equity in the revenues and expenses of the held entities, which are accounted for by the equity method, from the date significant influence or joint control commences, until the date significant influence or joint control ceases. When the Group's equity in losses exceeds the value of the Group's rights in the equity-accounted entity, the carrying value of those rights (including any long-term investment) is written-down to zero, and the Group does not recognize additional losses, unless the Group has an obligation to support the held entity or has made payments on behalf of the entity.

(3) Transactions eliminated in consolidation

The Group's reciprocal balances and unrealized revenues and expenses deriving from reciprocal transactions were eliminated in preparation of the condensed consolidated financial statements. Unrealized income deriving from transactions with affiliates and jointly-controlled entities were eliminated against the investment based on the Group's rights in these investments.

B. Foreign currency**(1) Foreign currency transactions**

Transactions in foreign currency are translated to the Group's functional currency at the exchange rate prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency on the reporting date are re-translated to the functional currency at the exchange rate prevailing on that date. Exchange rate differences from monetary items are the differences between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are re-translated to the functional currency at the exchange rate prevailing on the date fair value was determined. Exchange rate differences deriving from the re-translation are recognized in gain/loss, except for differences deriving from the re-translation of non-monetary capital instruments that are classified as available for sale.

(2) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments created upon acquisition, are translated to NIS at the exchange rate prevailing on the balance sheet date. The revenues and expenses of foreign operations were translated to NIS at the exchange rates prevailing on the transaction dates.

Exchange rate differences on translation were recognized directly in equity as from January 1, 2007, the transition date to IFRS. According to the provisions of IFRS 1, the Group elected to zero-out the accrued translation differences for all the foreign operations on the transition date to IFRS.

When the foreign operations are realized, in part or full – the appropriate amount in the foreign currency translation reserve is transferred to the statement of operations.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies (cont.)**C. Financial instruments****(1) Non-derivative financial instruments**

Non-derivative financial instruments include investments in shares and debt instruments, trade and other receivables, cash and cash equivalents, loans and credit received and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through gain/loss, any directly attributable transactions costs. Following initial recognition, non-derivative financial instruments are measured as provided below.

A financial instrument is recognized when the Group assumes the contractual terms of the instrument. Financial assets are deducted when the Group's contractual rights to cash flows deriving from the financial assets are expiring, or when the Group transfers the financial assets to other parties, without retaining control in the asset, or essentially transfers all the risks and rewards deriving from the asset. Purchases and sales of financial assets which are effected in the regular manner are recognized on the transaction date. Financial liabilities are deducted when the Group's obligations, as provided in the agreement, expire or when settled or cancelled.

Cash and cash equivalents

Cash include balances of cash for immediate use and demand deposits. Cash equivalents include highly liquid short-term investments that may be converted easily to known amounts of cash, and which are exposed to an insignificant risk of changes in value.

Investments held to redemption

When the Group has the explicit intention and ability to hold the debt instruments until their redemption, the debt instruments are classified as held to redemption. Investments held to redemption are measured at amortized cost by the effective interest method, net of impairment losses.

Financial assets available for sale

The Group's investments in shares are classified as financial assets available for sale. After the initial recognition, these investments are measured at fair value, with the changes in them, aside from impairment losses and gains or losses from changes in the exchange rate and the accrual of effective interest in monetary items classified as available for sale, are recognized directly in equity. When the investment is disposed of, the gains or losses accrued in equity are transferred to the statement of operations.

Investments stated at fair value through gain/loss

A financial instrument is classified as measured at fair value through gain/loss if it is held for trading or if it is designated as such upon initial recognition. Financial instruments are designated as measured at fair value through gain/loss, if the Group manages this type of investment and makes buy and sell decisions based on their fair value, according to the manner in which the Company documented the management of the risks or the investment strategy. Upon initial recognition, attributable transaction costs are charged to the statement of operations when incurred. These financial instruments are measured at fair value and the changes in them are recorded to gain/loss.

Loans and other receivables

Loans and other receivables are non-derivative financial instruments with fixed payments, or for which it is possible to determine that they are not traded in an active market. After initial recognition, the loans and other receivables are measured at amortized cost by the effective interest method, while considering transaction costs and net of impairment provisions.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies (cont.)

C. Financial instruments (cont.)

(2) Derivative financial instruments

The Group holds derivative financial instruments for the purpose of hedging foreign currency risks, interest risks and/or indexation risks. The hedge is a cash flows hedge. Embedded derivatives are separated from the hosting contract and accounted for separately if: (a) there is no close connection between the economic characteristics and risks of the hosting contract and of the embedded derivative, (b) a separate instrument having the same terms as the embedded derivative would fulfill the definition of a derivative and (c) the hybrid instrument is not measured at fair value against gain/loss.

Derivatives are recognized initially at fair value; attributable transaction costs are expensed when incurred. After the initial recognition, changes in fair value of derivatives used to hedge cash flows for the part that is the effective hedge are recognized directly in shareholders' equity. For the part that is not effective, the changes in fair value are recognized in the statement of operations. If the hedging instrument does not meet all the criteria for an accounting hedge, or expires or is sold, is terminated or realized, then hedge accounting discontinues. The gain or loss accrued previously in equity remains in equity, until the expected transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset, when recognized. In other cases, the amount recognized in equity is transferred to gain/loss in the period in which the hedged item affects gain/loss.

Hedge not meeting criteria for accounting hedge

The changes in fair value of derivatives not qualifying as accounting hedges are recognized immediately in gain/loss.

In this rule, the Group applies accounting treatment, as noted, for changes in the fair value of options for which the exercise price is not fixed.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(3) CPI-linked assets and liabilities that are not measured at fair value

The Company has balances of CPI-linked financial assets and liabilities that are not measured at fair value, which are revalued in every period, according to the actual rate of increase in the CPI.

(4) Share capital

Ordinary shares

Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity.

(5) Issuance of security unit

(a) When issuing security units, the issue proceeds are attributed first to the financial liabilities that are measured periodically at fair value through gain/loss, later to financial liabilities measured at fair value only on the initial recognition date, and the value attributed to the equity element is calculated as residual value.

(b) Direct issue costs are attributed specifically to the securities with which they are identified. Joint issue costs are allocated to the security on a pro rata basis, on the same basis as the proceeds from the issuance of the unit were attributed, as described in Par. (a) above.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)**Note 3 - Significant Accounting Policies (cont.)****D. Fixed assets****(1) Recognition and measurement**

Fixed asset items are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of purchased software, which constitutes an integral part of the functionality of the related equipment, is recognized as part of the cost of that equipment. When significant parts of fixed assets (including major periodic tests costs) have different useful lives, they are accounted for as separate items (major components) of fixed assets.

(2) Subsequent costs

The cost of replacing part of a fixed asset item is recognized as part of the carrying amount of that item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. Day-to-day maintenance costs are expensed as incurred.

(3) Depreciation

Depreciation is expensed on a straight-line basis over the estimated useful lives of each part of fixed asset items. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

| | <u>Year</u> | |
|-----------------------------------|-------------|-------------------|
| Machinery, equipment and fixtures | 5-20 | (Mainly 10) |
| Vehicles | 5-10 | (Mainly 7) |
| Furniture and office equipment | 3-17 | (Mainly 17 and 4) |
| Computers and ancillary equipment | 3-5 | |
| Leasehold improvements | * | |

* Leasehold improvements are depreciated over the rental period, which does not exceed the asset's economic life.

Estimates in respect of depreciation methods, useful lives and residual values are assessed at the end of each reporting period.

E. Intangible assets**(1) Goodwill**

Goodwill arises from the acquisition of affiliates (including the purchases of additional rights in affiliates).

Acquisitions prior to January 1, 2007

As part of its transition to IFRS, the Group elected to restate only those business combinations that occurred on or after January 1, 2007. In respect of acquisitions prior to January 1, 2007, goodwill represents the amount recognized under Israeli GAAP. Regarding these acquisitions, the classification and accounting treatment were not adjusted to IFRS for the purpose of preparing the Group's opening balance sheet.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies (cont.)**E. Intangible assets (cont'd)****(1) Goodwill (cont'd)***Acquisitions after January 1, 2007*

For acquisitions on or after January 1, 2007, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Subsequent measurement

Goodwill in respect of equity accounted investees is included in the carrying amount of the investment.

(2) Research and development

Expenditures related to research activities, undertaken to gain new scientific or technical know-how and understanding are expensed when incurred.

Development activities related to a plan for design of new products or processes or for the significant improvement of existing products and processes - expenses for development activities are recognized as an intangible asset only if: development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits from the product is probable, and the Group has the intention and sufficient resources to complete development and to use or sell the asset. The costs recognized as an intangible asset include the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Other development costs are expensed as incurred.

Capitalized development costs are measured at cost less accumulated amortization and accumulated impairment losses.

(3) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(4) Subsequent costs

Subsequent costs are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other costs, including costs related to goodwill, are expensed as incurred.

(5) Amortization

Amortization is expensed on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and assets that have indefinite lives, from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---------|
| Patents | 5 years |
| Development costs that were recognized as intangible assets | 3 years |

Estimates in respect of depreciation methods and useful lives values are assessed at the end of each reporting year.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies (cont.)**F. Investment property**

Investment property is property (land or building – or part of a building – or both) held either to earn rental income or for capital appreciation or for both, but not for:

1. use in the production or supply of goods or services or for administrative purposes; or
2. sale in the ordinary course of business.

Likewise, rented investment property, leased by the Company in operating leases are classified and accounted for as investment property.

Investment property is measured initially at cost plus transaction costs. In subsequent periods, the investment property is measured at fair value, with changes in fair value recognized as gain/loss.

G. Leased property

Leases are classified as operating leases, aside from those classified as investment property, and the leased properties are not recognized on the Group's balance sheet. Investment property held under an operating lease classified by the Group as investment property is recognized in the Group's balance sheet at fair value, and the lease is accounted for as a financing lease.

Land leased from the Israel Lands Administration ("ILA"), which is not accounted for as investment property, is an operating lease. Prepaid lease fees to the ILA are included in the balance sheet, and are amortized over the lease period.

The Group applies the provisions of IFRIC 4, *Determining Whether the Arrangement Contains a Lease*, which prescribes criteria for determining, at the beginning of the arrangement, whether the usage right to the asset constitutes a lease arrangement.

H. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined by the "moving average" or "first-in first-out" (FIFO) method, and includes costs incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. In the case of work in progress and finished goods inventories, cost includes an attributed share of production overhead, based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated closing costs and selling costs.

I. Impairment**(1) Financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

All impairment losses are recognized in the statement of operations. Any cumulative loss on an available-for-sale financial asset recognized previously in equity is transferred to statement of operations when impairment has occurred.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies (cont.)**I. Impairment (cont'd)****(2) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is calculated. On January 1, 2007, the transition date to IFRS, the Group examined for the impairment of investments in affiliates for which goodwill was recognized in the investment account.

The recoverable amount of an asset or cash-generating unit is the greater of its usage value and its net selling price (fair value less selling expenses). In assessing usage value, the Group's estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use, which are largely independent of other assets or groups of assets (the "cash-generating unit").

Impairment losses recognized in prior periods are re-assessed on every reporting date for any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount only, and to the extent that the asset's carrying amount does not exceed the carrying amount after reversal of the impairment loss, net of depreciation or amortization, that would have been determined if no impairment loss had been recognized.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies (cont.)**J. Employee benefits**

The Group has several post-employment benefit plans. The plans are generally funded by deposits with insurance companies or in funds managed by a trustee, and they are classified as defined contribution plans and defined benefit plans.

(1) Defined contribution plan

The Group's obligation to deposit fixed contributions into a defined benefit plan is expensed on the date the obligation arises.

(2) Defined benefit plan

The Group's net obligation in respect of a defined benefit pension plan for post-retirement benefits, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. This benefit is stated at present value net of the fair value of the plan's assets. The discount rate is the yield at the reporting date on government bonds, having maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Regarding the use of the discount rate derived from government bonds as known to the Company, the issue of the discount rate for the purpose of actuarial calculations is being examined, and it is possible that a decision will eventually be reached that the appropriate discount rate is based on corporate bonds. The data included in the financial statements will change, the actuarial liability will decrease and the current financial expenses on these liabilities will increase.

When the calculation results in an asset to the Group, the recognized asset is limited to the present value of the economic benefits available in the form of refunds or reductions in future contributions to the plan. The economic benefit in the form of refunds or reductions in future contributions will be deemed available when it can be realized during the life of the plan or after the liability is discharged.

When there is an obligation for a minimum contribution, for the payment of additional benefits relating to past service, the Company recognizes the additional obligation (increase in the net liability or a decrease in the net asset) if the amounts will not be available as an economic benefit in the form of a refund from the plan or a reduction in future contributions.

The Group recognizes all actuarial gains and losses arising from defined benefit plans directly in retained earnings immediately.

Insurance policies for employee termination benefits, which were issued by a related party, do not constitute plan assets and are stated as a separate asset in the balance sheet.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies (cont.)**J. Employee benefits (cont.)****(3) Other long-term employee benefits**

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is based on the yield at the reporting date on government bonds that are denominated in a currency and have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognized in the period in which they arise.

Regarding the use of the discount rate derived from government bonds as known to the Company, the issue of the discount rate for the purpose of actuarial calculations is being examined, and it is possible that a decision will eventually be reached that the appropriate discount rate is based on corporate bonds. In this case, the data included in the financial statements will change, the actuarial liability will decrease and the current financial expenses on these liabilities will increase.

(4) Termination benefits

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of cancellation, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary retirement are recognized as an expense if the Group has made an offer encouraging voluntary retirement, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(5) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognized for the amount expected to be paid for short-term cash bonus when the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(6) Share-based payment transactions

The grant date fair value of options granted to employees is recognized as salary expense, with a corresponding increase in retained earnings over the period that the employees become entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

K. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Lawsuits:

The provision for lawsuits is recognized when the Group has a current legal or constructive obligation as a result of an event that occurred in the past, and it is more likely than not that the Group will require financial resources to settle the obligation, which can be reliably estimated. When the time-value effect is material, the provision is measured based on its present value.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies (cont.)**L. Revenues****(1) Sale of goods**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. When the credit period is short-term and constitutes the credit terms customary in the market, the future consideration is not discounted. The Group recognizes revenue when the significant risks and rewards of ownership of the goods have been transferred to the buyer, collection of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the sales contract.

(2) Services

Revenue from services rendered is recognized in the statement of operations in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(3) Rental income

Rental income from investment property is recognized in the statement of operations on a straight-line basis over the term of the lease.

(4) Government grants

Grants from the Chief Scientist for research and development projects are accounted for as forgivable loans, in accordance with the provisions of IAS 20. Accordingly, Chief Scientist grants received are recognized at fair value on the grant date, unless on that date, it is reasonably certain that the received amount will not be repaid. The liability amount is assessed in each period, and any changes in the present value of the discounted cash flows at the original interest of the grant are recognized in the statement of operations.

M. Financing income and expenses

Finance income includes interest income on amounts invested (including available-for-sale financial assets), dividend income, gains on the sale of available-for-sale financial assets, changes in the fair value of financial assets at fair value through gain or loss, net foreign currency gains and gains on hedging instruments that are recognized through gain or loss. Interest income is recognized as it accrues, using the effective interest method. Dividend income is recognized on the date that the Group's right to receive payment is granted, which in the case of quoted securities is the ex-dividend date.

Finance expenses include interest expenses on borrowings, changes in the time value of provisions, changes in the fair value of financial assets at fair value through gain or loss, losses on hedging instruments that are recognized in statement of operations, and net foreign currency losses. Undiscounted borrowing costs are expensed using the effective interest method.

Gains and losses from foreign currency translation differences are reported net.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies (cont.)**N. Income tax expense**

Income tax expense includes current and deferred tax. Income tax expense is recognized in the statement of operations unless it relates to a transaction or event recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable relating to prior years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income, and differences relating to investments in subsidiaries, jointly controlled entities and affiliates to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted as at the balance sheet date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized when it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

O. Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business that has been realized. Classification as a discontinued operation occurs upon realization or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the earliest comparative period.

P. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the income or loss attributable to the Group's ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the income or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which include share options.

The calculations of basic and diluted EPS are calculated retroactively for all the periods presented, for the benefit element in the issuance of rights to the shareholders.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies (cont.)

Q. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services that could be interrelated (business segment), or in providing products or services within a defined economic environment (geographical segment), which is subject to risks and rewards that differ from those of other segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are comprised mainly of investments and revenue attributed to them, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and general and administrative costs, and income tax assets and liabilities and tax expenses.

Segment capital expenditures are the total costs incurred during the period to acquire fixed assets and intangible assets other than goodwill.

R. New Standards and Interpretations not yet adopted

- IFRS 8 *Operating Segments* ("the Standard") introduces the "management approach" to segment reporting, in other words, according to the format of internal reports for the entity's decision makers. Currently the entity presents segment information based on business segments, which is the "management approach"

The Standard will apply to annual periods commencing on or after January 1, 2009.

The first-time application of Standard 8 is not expected to have a significant effect on the operating results and financial position of the Company.

- IAS 1, *Financial Statement Presentation*, ("Amended") ("the Standard"). The Standard requires the grouping of financial statement information on the basis of common characteristics and the presentation of a statement of total income. The Standard allows the presentation of income and expense items and other total income items in a single statement of total income, which includes subtotals or alternatively, to present two separate statements (statement of income and then a statement of total income). The names of some of the statements have been changed, in order to clarify their purpose (for example, the balance sheet will be called the statement of financial position). The Standard will apply to annual periods commencing on or after January 1, 2009. Early adoption is possible.

The first-time application of Standard 1 is not expected to have a significant effect on the operating results and financial position of the Company.

- IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (Amended) ("the Standards") – The main changes in the new Standards are: inclusion of business combinations involving only mutual entities or executed solely through a contract, a certain change in the definitions of a business and of a business combination, a change in the way items transferred in a business combination are measured, the providing of two alternatives for the measurement of rights that do not grant control, a change in the accounting for transaction costs, the accounting for a staged acquisition, the attribution of total income among all the shareholders, the accounting treatment as a capital transaction in acquisitions or sales of rights while retaining control, accounting treatment at full fair value in transactions leading to a loss of, or establishment of control, so that the remaining holdings after loss of control will be revalued through gain/loss, whereas the original investment in establishing control is also revalued at fair value through gain/loss and a broadening of the disclosure requirements.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies (cont.)

R. New Standards and Interpretations not yet adopted (cont.)

The new Standards will apply to annual periods commencing on or after July 1, 2009. They may be applied early (only together). IFRS 3 will apply to business combinations that occur as from its effective date. IAS 27 will be applied retroactively, except for the allocation of total income to shareholders, the accounting for changes in the interest in a subsidiary after establishing control, and the accounting for the loss of control in a subsidiary, which will be applied as from its effective date.

The said changes will have an effect on the operating results and financial position of the Company, from the date of their application.

- IFRS 2, *Share-based Payment*, Amended ("the Standards"). The Standard provides that the vesting terms are the terms that determine whether the Company receives the services which entitle the other party to share-based payments, and they are limited to the terms of the service and performance. Terms that are not vesting terms will be expressed at the fair value of the grant on the grant date, while after the grant date, the Company will not update the fair value for these terms. Likewise, the Standard provides the accounting for non-compliance with terms that are not vesting terms. The Standard will be applied retroactively for annual periods commencing on or after January 1, 2009. Early adoption is possible, upon providing disclosure.

The first-time application of Standard 2 is not expected to have a significant effect on the operating results and financial position of the Company.

- IAS 32, *Financial Instruments: Presentation* and IAS 1, *Financial Statement Presentation*, Amended ("the Standards"). According to the Standards, certain financial instruments that are puttable and liabilities created incidental to liquidation are to be classified as equity, to the extent that several criteria are met. Likewise, appropriate disclosure is required regarding the puttable instruments classified as equity. The new Standards will apply to the annual periods commencing on or after January 1, 2009. Early adoption is allowed.

The first-time application of Standard 32 is not expected to have a significant effect on the operating results and financial position of the Company.

- IAS 27, *Consolidated and Separate Financial Statements* and IFRS 1, *First-time Adoption of International Financial Reporting Standards* (Amended) ("the Standards"). Pursuant to the Standards after their amendment, a company that elects the cost method for the measurement of its investments in subsidiaries, jointly-controlled companies and affiliated companies, within the framework of the separate financial statements (solo financial statements), may measure the said investments on the transition date to IFRS according to fair value, in accordance with IAS 39 or at their carrying value according to the previous GAAP. Likewise, a dividend received from subsidiaries, jointly-controlled companies and affiliated companies will be recognized as income in the separate financial statements of the holding company. It was further stipulated that, in certain instances, the receipt of a dividend constitutes a decline in the value of the held investment.

These new standards will apply to annual periods commencing on or after January 1, 2009. Early application is possible for each standard separately, while providing disclosure. The changes attributed to IAS 27 were applied prospectively.

- Within the scope of the project for amending the international standards, Improvements to IFRS, the IASB published and approved, in May 2008, 35 different international standards in a wide range of accounting issues. The standards are divided in two: (1) standards on presentation, recognition and measurement, which have accounting implications; and (2) amendments relating to the terms and preparation of the international standards, which are expected to have minimal effect, if any, on the accounting aspect.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 3 - Significant Accounting Policies (cont.)

R. New Standards and Interpretations not yet adopted (cont.)

Most of the amendments will apply to periods commencing on or after January 1, 2009, with the possibility of early adoption, subject to the conditions provided for each amendment and subject to the transitional provisions related to the first-time adoption of IFRS1.

- IFRIC 15, *Agreements regarding Construction of Real Estate Properties* ("the Interpretation"). The Interpretation provides guidelines for assessing whether transactions for the construction of real estate properties fall within the purview of IAS 18, *Revenues*, whereby revenues from the construction of real estate properties will be recognized in timing and manner similar to revenue from the sale of a product or service, or the applicability of IAS 11, *construction contract*, whereby the revenue will be recognized corresponding with the stage of completion of the real estate property.

The Interpretation is to be applied for the annual periods commencing on or after January 1, 2009, retroactively. Early application is possible, upon providing disclosure.

The first-time application of the Interpretation is not expected to have a significant effect on the operating results and financial position of the Company.
- IFRIC 16, *Net Investment Hedge in Foreign Operations* ("the Interpretation"). The Interpretation refers to cases in which there is an investment in foreign operations, and provides guidelines regarding the hedge of the said investment. The Interpretation refers, inter alia, to the nature of the hedged risk and the amount of the hedged item for which the hedge relationship is intended, to the location of the hedged item in the group of companies and to the accounting for the capital reserve on the disposition date of the foreign operations.

The Interpretation will apply to annual periods commencing on or after October 1, 2008. Early application is possible, upon providing disclosure.

The first-time application of the Interpretation is not expected to have a significant effect on the operating results and financial position of the Company.

Note 4 – Rates of Change in the CPI and Dollar Exchange Rates

Presented below are the rates of change that occurred in the Consumer Price Index (CPI) and the US dollar in the report periods:

| | <u>Israeli CPI*</u> | <u>Exchange rate</u> |
|--|---------------------|----------------------|
| | <u>Points</u> | <u>of one Dollar</u> |
| | | <u>NIS</u> |
| As at June 30, 2008 | 195.62 | 3.352 |
| As at June 30, 2007 | 186.67 | 4.249 |
| As at December 31, 2007 | 191.15 | 3.846 |
| | <u>%</u> | <u>%</u> |
| For the six months ended June 30, 2008 | 2.34 | (12.84) |
| For the six months ended June 30, 2007 | 0.97 | 0.57 |
| For the three months ended June 30, 2008 | 2.24 | (5.65) |
| For the three months ended June 30, 2007 | 1.21 | (2.26) |
| For the year ended December 31, 2007 | 3.40 | (8.97) |

(*) According to the CPI for the month of the balance sheet date (1993 average basis = 100).

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 5 - Information Regarding Certain Investees

- A. Makhteshim Agan Industries Ltd. ("Makhetshim-Agan") – an affiliate**
1. On March 11, 2008, the board of directors of Makhteshim-Agan approved a dividend distribution of \$120 million. The dividend amount, net of the dividend on shares held by a subsidiary of Makhteshim-Agan, is \$119 million. Koor's share totaled NIS166 million. On April 10, 2008, Makhteshim-Agan paid this dividend.
 2. During the first half of 2008, 4,401 thousand employee options were exercised for 909 thousand ordinary shares, NIS 1 par value, of Makhteshim-Agan. As a result, the Company recognized a gain in the said period of NIS 4.6 million, which is included in the Koor Group's equity in the operating results of affiliates, net".
 3. During the first quarter of 2008, the Company acquired 4,119,093 ordinary shares, NIS 1 par value of Makhteshim-Agan (0.9% of shares) for an aggregate amount of NIS 126 million. The acquisition created excess cost of NIS 80 million, which was attributed based on management's assessment.
 4. In March 2008, the board of directors of Makhteshim-Agan resolved to buy-back its shares in an aggregate not to exceed \$100 million. As at the date of the financial statements, 1,374,689 shares were purchased by the Company at a cost of NIS 39.5 million.
 5. Koor's holding percentage in the voting rights in Makhteshim-Agan as at June 30, 2008 is 39.89%.
 6. In March 2007, two claims were filed in Beer Sheba District Court against the Ramat Hovav Local Industrial Council and against the State of Israel. One claim was filed by 54 Bedouins dispersed in the northern Negev and the second claim was filed by 9 residents of Omer and Beer Sheba, and in early June 2007, another claim was filed by 19 Bedouins dispersed in the northern Negev (together, for this paragraph – "**the Plaintiffs**"). The Plaintiffs allege that they suffered from various diseases and defects, and claim a causal relationship between their diseases and the toxic materials emitted by or seeped from the Ramat Hovav industrial area.
The Plaintiffs allege that two main sources of contamination were identified: the sewage treatment plant and the evaporation pools (owned by the Ramat Hovav Local Industrial Council, which operates it) and the plants located at the Ramat Hovav Industrial Site, including the Makhteshim-Agan facility, which the Plaintiffs allege significantly exceeded the allowed contamination levels.
The Plaintiffs further alleged that the Ramat Hovav Industrial Council and the State of Israel were negligent, inter alia, in the supervision, enforcement and initiation of measures to prevent the Plaintiffs' exposure to contamination that originated in the Ramat Hovav Industrial Site. The Plaintiffs stipulated the claim amounts at NIS 242 million. On June 1, 2008, third party notice was filed against Makhteshim Chemical Enterprises Lt. ("Makhteshim"), a wholly-owned subsidiary of M-A Industries, and against thirty-five corporations and other people for the purpose of adding them as a party to the proceedings by the Ramat Hovav Industrial Council, within the scope of the above claims. In the estimation of Makhteshim's legal counsel, in view of the early stages of the proceedings, the prospects of the claim cannot be assessed.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 5 - Information Regarding Certain Investees (cont.)**A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate (cont.)**

7. In October 2007, a monetary claim and motion for recognition as a class action under the Class Action Law, 2006, was filed against a subsidiary of Makhteshim-Agan in Beer Sheba District Court by three residents of the town of Wadi-el-Naim, alleging that their health was damaged, allegedly caused by the subsidiary's plant in Ramat Hovav, due to various causes of action related to air pollution. To the extent the claim is recognized as a class action, the Plaintiffs estimate the amount being claimed from the subsidiary is NIS 1 billion. As at the report date, based on the opinion of its legal counsel, after examining the Plaintiffs' allegations as presented in the claim and in the motion for class action approval, and the substance of the claim, in view of the early stage of the claim, the information and data that Makhteshim-Agan has, and noting that there are no precedents of this kind regarding the level of damages, the subsidiary's legal counsel believes that there is great difficulty in assessing the prospects for approval of the claim as a class action, and there is great difficulty in assessing the outcome of the claim, if approved, in particular.

8. Seasonal factors

Sales of agrochemicals depend directly on the agricultural seasons and the crop cycles. Therefore, the revenues of Makhteshim-Agan are not divided equally over the year. The countries of the northern hemisphere are characterized by similar timing of agricultural seasons, and therefore, these countries generally have the highest sales in the first half of the year. In the southern hemisphere, the seasons are opposite, and most of the domestic sales are effected in the second half of the year, except in Australia, where most of the sales are effected in April to July.

The global operations of Makhteshim-Agan facilitate the balancing of seasonal factors, although Makhteshim-Agan has more sales in the northern hemisphere.

B. Sheraton-Moriah (Israel) Ltd. ("Sheraton-Moriah") – former subsidiary

Further to the closing of the sale of the Company's entire holdings in Sheraton-Moriah on April 26, 2007, on May 27, 2008, the Company received NIS 35,560 thousand, representing the final payment pursuant to the sales agreement.

C. Koor Venture Capital – consolidated partnership

In the report period, the fair value of the investments of Koor Venture Capital fell NIS 15.5 million, due mainly to the exchange rate of the dollar during the period.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 6 – Significant Events in the Report Period

1. During the first half of 2008, the exchange rate of the dollar fell by 12.8%, from NIS 3.846 to NIS 3.352 to the dollar. The decline in this period caused a cumulative loss, for the net balances of the Company's financial assets and liabilities denominated in or linked to the U.S. dollar, of NIS 218 million. During the second quarter and until proximate to the publication date of these statements, the Company converted most of its cash balances denominated in the U.S. dollar into Swiss Francs, following the purchase of shares of Credit Suisse, and also received the proceeds from the sale of Credit Suisse shares in Swiss Francs.
2. Pursuant to the agreement signed in 2005 between Elbit Systems Ltd. ("Elbit") for the sale of 70% of Koor's holdings in Elisra Electronic Systems Ltd. ("Elisra") to Elbit, Elbit committed to pay additional proceeds to Koor, in the event Elisra would collect insurance for a fire that occurred in the plants of subsidiaries of Elisra in 2001. In connection with the aforesaid, in March 2008, Tel Aviv District Court approved a compromise arrangement, whereby Elisra will receive insurance proceeds of \$37.75 million for the said fire. In March 2008, Elbit informed Koor that it will pay to Koor additional consideration in respect of the agreement amounting to no less than \$13 million. The said amount was recorded as other income in the first quarter of 2008, because of the certainty of its receipt. As to receipt of the consideration in July 2008, see Note 12(3) regarding subsequent events.
3. In the framework of a private placement to Israeli institutional investors, 800,000 option warrants were issued on April 10, 2005. Each option warrant is exercisable until April 30, 2010 for 1.0893 share of the Company of a par value of NIS 0.001 (after adjustment for benefit components embedded in the issuance of the rights), at an exercise price of NIS 300 linked to the CPI, and adjustable for the distribution of a stock dividend and rights (as at June 30, 2008 – NIS 299.3 after the adjustment for a dividend distribution). Since the exercise price is linked to the CPI, the options are classified as a financial liability, measured each period at fair value through gain/loss. As a result of the decline in the market value of the Company's shares during the first quarter of 2008, the fair value of the said options (calculated using the Black & Scholes model) fell by NIS 44.0 million, and this amount is recorded as financing income in the current period.
4. In May 2008, the Company invested \$2.55 million in a private investment fund, Indivision, which invests in the retail sector in India. The Company's investment commitment in the fund is \$15 million. After the said investment, the Company's cumulative investments in the Fund totaled \$10.8 million, and the balance of the Company's investment commitment in the Fund is \$4.2 million.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 6 – Significant Events in the Report Period (cont'd)

5. In March, April and May 2008, the Company announced that due to the situation in the international markets and the considerable business opportunities that could arise in them, the Company's board of directors had authorized its management to make financial investments in the marketable shares of the Credit Suisse Group AG ("Credit Suisse") and Barclays Bank. The shares will be purchased from time to time, at the discretion of the Company's management, up to a total of NIS 1.5 billion. On July 21, 2008, the Company's board of directors approved an increase in the amount of the investment in the shares of Credit Suisse, up to a total of NIS 3 billion, while utilizing buy and sell opportunities, noting the condition of the markets, and based on the Company's assessments from time to time. The Company's board of directors could, in the future, consider increasing the investment amount, and regarding investment in the shares of other European financial institutions. In connection with the said purchases, the Company entered into a recourse credit agreement with Goldman Sachs Investment Bank ("Goldman Sachs"), and a foreign limited partnership wholly-owned and controlled by the Company entered into a non-recourse credit facility agreement, which at the request of Goldman Sachs was carried out through a transaction in financial derivatives, which complements the first, recourse credit facility agreement. The terms in each of the arrangements are different. Goldman Sachs has the right to bring in other parties in the framework of a non-recourse credit syndication. The overall framework of the two credit arrangements is up to \$1.5 billion, which will be divided between the two credit arrangements, at a ratio of 5/11 to the recourse credit, at monthly interest at the rate of LIBOR plus a 1.25% margin (plus grossing up of withheld tax, if any) and 6/11 to the non-recourse credit, at monthly interest at the rate of LIBOR plus a 3.25% margin (plus grossing up of withheld tax, if any). The provisions regarding the ratio will take effect only on the date credit exceeding a total of \$250 million will be drawn from the recourse credit facility. The drawing of the credit in an amount exceeding \$250 million is subject to the fulfillment of certain suspending conditions. The line of credit may be exercised within a limited period of time. Beginning from August 13, 2008 (as to the Non-recourse loan) and as of August 16, 2008 (as to the Recourse loan) Goldman Sachs may cancel its commitment to put up the unused balance of the line of credit. The loan shall be secured by a pledge on the relevant purchased shares. Together with the equity amounts that the Company will be required to invest, if the credit facilities are utilized in full, the investment in these shares could reach \$2.7 billion. The Company's use of the credit facility and its investments in the shares are contingent on certain conditions, including the Company's assessments about developments in the markets.

The recourse credit arrangement includes a commitment by Koor to maintain, during the loan period, a minimum net asset value of \$450 million, if the loan balance does not exceed \$600 million, and if the loan balance exceeds \$600 million, the minimum net asset value will stand at 75% of the loan balance. The net asset value will be calculated according to the value of the cash and marketable holdings (excluding the holdings in the financial institutions), net of debts and estimated taxes that will apply if certain holdings are realized, according to the stipulations in the agreement. Non-compliance with the said commitments during five business days will be deemed a breach event and will give Goldman Sachs the right to demand immediate repayment of the debt. Koor has committed not to distribute dividends, if such distribution will cause a decrease below the minimum net asset value prescribed. In addition, Koor undertook to maintain, during the credit period, minimum securities debt ratio of 1.67 while this ratio may change based on the traded volume of the shares.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 6 – Significant Events in the Report Period (cont'd)

5. (cont.)

During June 2008, the Company acquired shares of Credit Suisse totaling NIS 329 million (of which, according to the settlement process on the foreign stock exchange, NIS 210 million was paid only in early July 2008). The investment is accounted for in the balance sheet as an available for sale asset, and is included in investments and other receivables. As at June 30, 2008, the investment balance stands at NIS 332 million.

Also see Note 12(2) regarding subsequent events.

6. On May 29, 2008, the Company published a prospectus for an issuance through rights, pursuant to which Koor's shareholders were offered up to 2,377,311 ordinary shares (NIS 0.001 par value each) of the Company through ordinary shareholder rights of the Company (except for the American shareholders, which were excluded pursuant to the Securities Regulations (Manner of Presentation of Securities to the Public (Amendment), 2008 ("Amendment to Regulations")), whereby a shareholder holding 7 ordinary shares was entitled to purchase one right unit containing 1 ordinary share, at a price of NIS 162 at the close of June 4, 2008. Of the rights units offered pursuant to the prospectus, 2,371,158 right units were utilized for the purchase of 2,371,158 ordinary shares. Koor's issued capital as at June 30, 2008 stands at 19,012,335 ordinary shares. In consideration for the rights units utilized, the Company received a total of NIS 384.16 million. The issue costs totaled NIS 1,047 thousand.

As a result of the exclusion of the American shareholders, and pursuant to the wording stipulated in the opinion of the independent appraiser, the Company was required to pay compensation to the American shareholders for their exception the amount of NIS 10,144 thousand. Most of the amount was paid out of the proceeds from the sale of the rights allotted in respect of the American shareholders of NIS 10,036 thousand, and the difference of NIS 109 thousand was paid by the Company.

7. On June 30, 2008, a general meeting of the Company (in accordance with the provisions of the Company's previous by-laws, as were in effect at the time of the meeting) approved the distribution of an interim dividend, which had been recommended and declared by the Company's board of directors, in the amount of NIS 150 million (which was paid in September 2007) and the sum of NIS 380 million (which was paid in December 2007).

Note 7 – Income Taxes

On February 26, 2008, the Knesset passed the Income Tax (Inflationary Adjustments) Law (Amendment No. 20) (Limitation of Effective Period), 2008 ("the Amendment"). Pursuant to the Amendment, the effective period of the Adjustments Law will end in the 2007 tax year, and commencing in the 2008 tax year, the provisions of the law will no longer be in effect, except for the transitional provisions, the purpose of which is to prevent distortions in the tax calculations.

Pursuant to the Amendment, in the 2008 tax year and henceforth, taxable income will no longer be adjusted to a real measurement basis. Likewise, the linkage to the CPI of depreciation of fixed assets and of carryforward tax losses, in a manner that these amounts will be adjusted to the CPI of the end of 2007, and their linkage to the CPI, will cease from this date henceforth.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 8 – Contingent Liabilities

- A. On September 21, 2004 a suit was filed with the Tel Aviv District Court against the Company, Bezeq - the Israel Telecommunications Company Ltd. ("Bezeq"), Tadiran Ltd. (a subsidiary of Koor – "Tadiran"), Tadiran Telecommunications Ltd. (a former subsidiary of Koor which was merged with ECI Telecom – "Telecommunications"), Tadiran Public Switching Ltd., (a former subsidiary of Telecommunications), and Telrad Networks Ltd. (an affiliate of Koor – "Telrad Networks") in connection with the public switches. A motion for recognition of the suit as a class action was filed together with the suit in accordance with the Anti-Trust Law, 1988 ("the Anti-Trust Law"), and according to Civil Procedure regulations. In the Statement of Claim, the plaintiff alleges that during the 1980's and 1990's, the defendants had engaged in activities in violation of the Anti-Trust Law, which resulted in damages to Bezeq's customers. In respect of the actions alleged by the Plaintiff, the Plaintiff is asking for damages for the group that he is seeking to represent in the amount of NIS 1.7 billion. On March 10, 2005, the Company and the other defendants submitted to the District Court their clarified objection to the plaintiff's motion to recognize the claim as a class action. On December 6, 2005, the Plaintiff filed his response to the said objection.
- On February 16, 2006, the Plaintiff filed a motion in court to order the defendants to provide discovery of certain documents. The defendants filed their response on March 27, 2006, in which they rejected the Plaintiff's demand arguing that first the legal allegations should be heard, the acceptance of which means an outright dismissal. In early February 2007, the Tel-Aviv District Court Registrar accepted the Company's position and dismissed the defendants' motion for discovery of documents.
- On February 25, 2007, the Plaintiff filed an appeal of the Registrar's ruling. After each of the parties filed the essentials of the claim and the summarized essentials of the claim, the matter was sent to the court for its review.
- In the estimation of the Company's management which is based on the opinion of its legal counsel, the chances of the claim and of the certification of the claim as a class action are remote and therefore, no provision was recorded for the claim.
- Under the terms of the agreement for the sale of shares of Telrad Networks (from 2004), Koor committed to indemnify the share purchasers in the event that a court ruling will increase the amount of expenses to be paid by Telrad Networks to an amount exceeding that stated in the share purchase agreement.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 8 – Contingent Liabilities (cont.)

- B. In February, 2007, a suit was filed with the Tel Aviv District Court against the Company and several directors and officers of the Company and of United Steel Mills Ltd. (in liquidation) ("Steel Mills") and various other parties. A motion for recognition of the suit as a class action was filed together with the suit.

Steel Mills issued a series of convertible bonds by means of a prospectus to the public in February 1993. The bonds were to be repaid in three installments on January 31, 1999, 2000 and 2001. The first installment was repaid by Steel Mills, but the other two installments have not been repaid. In March 2000 Steel Mills began to be managed under a stay of proceedings supervised by the court, which was later altered to a liquidation order. Since the convertible bonds were unsecured and the assets of the company were insufficient, the last two installments of the bonds were not repaid.

The plaintiff alleges that the defendants are responsible for false representations made by them and for which they are responsible, and upon which he acted.

In the event that the suit will be recognized as a class action, the Plaintiff is asking for damages for the class that he is seeking to represent in the amount of NIS 25 million.

On June 25, 2007, the Company's attorneys filed a response to the motion for class action recognition on behalf of the Company, directors and officers and Steel Mills. At the same time, a response was also filed on behalf of the accountants of Steel Mills. These responses raised serious arguments against recognition of the suit as a class action.

The Plaintiff filed his response on December 2, 2007.

In the estimation of the Company's management, based on the opinion of its legal counsel, the prospects that the motion for approval as a class action will be recognized is remote. Therefore, no provision was recorded in the financial statements.

- C. See Note 5(A) 6 and Note 5(A) 7 in connection with contingent claims against an affiliate.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 9 – Capital and Reserves

Information and additional changes in shareholders' equity

| | Attributed to holders of Company's capital | | | | | | | | | Minority interest | Total capital |
|---|--|----------------|-------------------|---|---------------|---------------------------------------|-----------------|--------------------------------------|------------------|-------------------|------------------|
| | Number of ordinary shares | Share capital | Premium on shares | Translation reserve from foreign activity | Hedge reserve | Reserve for available-for-sale assets | Treasury shares | Retained earnings (accumulated loss) | Total | | |
| | | | | | | | | | | | |
| For the six-month period ended June 30, 2008 (unaudited) | | | | | | | | | | | |
| Balance as at January 1, 2008 (audited) | 16,624,669 | 564,515 | 2,245,022 | (210,751) | - | (644) | (6,071) | (563,225) | 2,028,846 | 117 | 2,028,963 |
| Issuance of shares | 2,371,158 | 2,371 | 380,626 | - | - | - | - | - | 382,997 | - | 382,997 |
| Exercise of employee options | 678 | *- | - | - | - | - | - | - | - | - | - |
| Total income (expense) for the period | - | - | - | (305,072) | 10,448 | 3,294 | - | 117,080 | (408,410) | 468 | (407,942) |
| Exercise of options granted to investors | 31 | *- | - | -- | - | - | - | - | - | - | - |
| Balance as at June 30, 2008 (unaudited) | 18,996,536 | 566,886 | 2,625,648 | (515,823) | 10,448 | 2,650 | (6,071) | (680,305) | 2,003,433 | 585 | 2,004,018 |
| For the six-month period ended June 30, 2007 (unaudited) | | | | | | | | | | | |
| Balance as at January 1, 2007 (audited) | 16,567,070 | 564,515 | 2,244,849 | - | 734 | (4,275) | (6,071) | (653,023) | 2,146,729 | 69,648 | 2,216,377 |
| Benefit expenses for employee options | - | - | - | - | - | - | - | 102 | 102 | - | 102 |
| Exercise of employee options | 22,034 | *- | - | - | - | - | - | - | - | - | - |
| Sale of subsidiary | - | - | - | - | - | - | - | - | - | (64,141) | (64,141) |
| Total income (expense) for the period | - | - | - | 29,773 | (944) | 5,187 | - | 279,122 | 313,138 | (2,395) | 310,743 |
| Balance as at June 30, 2007 (unaudited) | 16,589,104 | 564,515 | 2,244,849 | 29,773 | (210) | 912 | (6,071) | (373,799) | 2,459,969 | 3,112 | 2,463,081 |

* Represents a sum of less than NIS 1 thousand.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 9 – Capital and Reserves (con't)

Information and additional changes in shareholders' equity

| | Attributed to holders of Company's capital | | | | | | | | Minority interest | Total capital | |
|---|--|-----------------------|-------------------------|---|----------------------|---------------------------------------|-----------------------|--------------------------------------|-------------------------|---------------------|-------------------------|
| | Number of ordinary shares | Share capital | Premium on shares | Translation reserve from foreign activity | Hedge reserve | Reserve for available-for-sale assets | Treasury shares | Retained earnings (accumulated loss) | | | Total |
| | NIS thousands | | | | | | | | | | |
| For the three-month period ended June 30, 2008 (unaudited) | | | | | | | | | | | |
| Balance as at April 1, 2008 (unaudited) | 16,625,378 | 564,515 | 2,245,022 | (388,778) | 2,260 | (150) | (6,071) | (558,992) | 1,857,806 | 551 | 1,858,357 |
| Issuance of shares | 2,371,158 | 2,371 | 380,626 | - | - | - | - | - | 382,997 | - | (382,997) |
| Total income (expense) for the period | - | - | - | (127,045) | 8,188 | 2,800 | - | (121,313) | (237,370) | 34 | (237,336) |
| Balance as at June 30, 2008 (unaudited) | <u>18,996,536</u> | <u>566,886</u> | <u>2,625,648</u> | <u>(515,823)</u> | <u>10,448</u> | <u>2,650</u> | <u>(6,071)</u> | <u>(680,305)</u> | <u>2,003,433</u> | <u>585</u> | <u>2,004,018</u> |
| For the three-month period ended June 30, 2007 (unaudited) | | | | | | | | | | | |
| Balance as at April 1, 2007 (unaudited) | 16,570,625 | 564,515 | 2,244,849 | (49,293) | - | 3,403 | (6,071) | (530,192) | 2,227,211 | 66,509 | 2,293,720 |
| Benefit expenses for employee options | - | - | - | - | - | - | - | 50 | 50 | - | 50 |
| Exercise of employee options | 18,479 | *- | - | - | - | - | - | - | - | - | - |
| Sale of subsidiary | - | - | - | - | - | - | - | - | - | (61,141) | (61,141) |
| Total income (expense) for the period | - | - | - | 79,066 | (210) | (2,491) | - | 156,343 | 232,708 | 744 | 233,452 |
| Balance as at June 30, 2007 (unaudited) | <u>16,570,625</u> | <u>564,515</u> | <u>2,244,849</u> | <u>(29,773)</u> | <u>(210)</u> | <u>912</u> | <u>(6,071)</u> | <u>(373,799)</u> | <u>2,459,969</u> | <u>3,112</u> | <u>2,463,081</u> |

* Represents a sum of less than NIS 1 thousand.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 9 – Capital and Reserves (cont.)

Information and additional changes in shareholders' equity

| | Attributed to holders of Company's capital | | | | | | | | Minority interest | Total capital | |
|--|--|----------------|-------------------|---|---------------|---------------------------------------|-----------------|--------------------------------------|-------------------|---------------|------------------|
| | Number of ordinary shares | Share capital | Premium on shares | Translation reserve from foreign activity | Hedge reserve | Reserve for available-for-sale assets | Treasury shares | Retained earnings (accumulated loss) | | | Total |
| | | | | | | | | | | | |
| For the year ended December 31, 2007 | | | | | | | | | | | |
| Balance as at January 1, 2007 (audited) | 16,567,070 | 564,515 | 2,244,849 | - | 734 | (4,275) | (6,071) | (653,023) | 2,146,729 | 69,648 | 2,216,377 |
| Benefit expenses for employee options | - | - | - | - | - | - | - | 148 | 148 | - | 148 |
| Exercise of employee options | 547 | *- | 173 | - | - | - | - | - | 173 | - | 173 |
| Exercise of options granted to investors | 57,052 | *- | - | - | - | - | - | - | - | - | - |
| Total income (expense) for the period | - | - | - | (210,751) | (734) | 3,631 | - | 619,534 | 411,680 | (5,076) | 406,604 |
| Dividend to holders of capital | - | - | - | - | - | - | - | (529,884) | (529,884) | - | (529,884) |
| Sale of subsidiary | - | - | - | - | - | - | - | - | - | (64,455) | (64,455) |
| Balance as at December 31, 2007 (audited) | 16,624,669 | 564,515 | 2,245,022 | (210,751) | - | (644) | (6,071) | (563,225) | 2,028,846 | 117 | 2,028,963 |

* Represents a sum of less than NIS 1 thousand.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)
Note 10 – Business segments

The segment information is presented according to the Group's business segments.

The Group operates in the following business segments:

- Agrochemicals: to produce and market agrochemicals such as herbicides and fungicides through an affiliate.
- Telecommunications equipment: mainly the production and marketing of telecom equipment.
- Venture capital investments – investments in venture capital funds and companies with growth potential.

Information related to the business segments of the Koor Group – consolidated:

| | For the three-month period ended | | For the three-month period ended | | For the year ended December 31 2007 (Audited) NIS thousands |
|---|--|--|--|--|---|
| | June 30 2008 (Unaudited) NIS thousands | June 30 2007 (Unaudited) NIS thousands | June 30 2008 (Unaudited) NIS thousands | June 30 2007 (Unaudited) NIS thousands | |
| From sales and services | | | | | |
| Telecommunications equipment | 108,331 | 114,474 | 57,237 | 63,135 | 209,198 |
| Other | 4,613 | 3,815 | 2,352 | 1,501 | 9,504 |
| | 112,944 | 118,289 | 59,589 | 64,636 | 218,702 |
| Koor Group's equity in results of affiliates, net: | | | | | |
| Telecommunications equipment | (22,422) | 69,516 | (12,416) | 48,281 | 40,282 |
| Agrochemicals | 211,111 | 168,106 | 89,834 | 75,232 | 195,311 |
| Other | 1,050 | 4,585 | 2,059 | 1,776 | 11,284 |
| | 189,739 | 242,207 | 79,477 | 125,289 | 246,877 |
| Earnings before income tax | | | | | |
| Telecommunications equipment | (27,983) | 66,312 | (12,873) | 50,701 | 611,689 |
| Agrochemicals | 211,111 | 168,106 | 89,834 | 75,232 | 195,311 |
| Venture capital investments | (15,567) | 27,249 | (5,810) | 919 | 14,300 |
| Other | 48,129 | 13,587 | 3,523 | 11,234 | 16,756 |
| | 215,690 | 275,254 | 74,674 | 138,086 | 838,056 |
| Joint general expenses | (16,232) | (8,114) | (11,349) | (2,463) | (22,864) |
| Financing expenses (income), net | 314,582 | (14,329) | (183,119) | (7,183) | (229,616) |
| | (115,124) | 252,811 | (119,794) | 128,440 | 585,576 |

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 11 – Discontinued operations
Sheraton-Moriah (Israel) Ltd.

On April 26, 2007 the Company completed the sale of its entire 56.5% shareholding in Sheraton-Moriah to Azorim Tourism Ltd.

Following are the results of operations of the discontinued operation, as included in the financial statements for the:

| | Six months ended June 30 2007 (Unaudited) NIS thousands | Three months ended June 30 2007 (Unaudited) NIS thousands | Year ended December 31 2007 (Audited) NIS thousands |
|--|--|--|--|
| Revenues | | | |
| Revenue from sales and services | 69,690 | - | 69,690 |
| Company's equity in the results of investees, net | 360 | - | 360 |
| Other income | 29,945 | 29,945 | 29,945 |
| | <u>99,995</u> | <u>29,945</u> | <u>99,995</u> |
| Expenses | | | |
| Cost of sales and services | 56,373 | - | 56,373 |
| Selling and marketing expenses | 3,553 | - | 3,553 |
| General and administrative expenses | 10,112 | - | 10,112 |
| Other expenses | 102 | - | 102 |
| Finance expenses, net | 5,188 | - | 5,188 |
| | <u>75,328</u> | <u>-</u> | <u>75,328</u> |
| Earnings before income taxes | 24,667 | 29,945 | 24,667 |
| Income taxes | (568) | - | (568) |
| Net earnings for the period | <u>24,099</u> | <u>29,945</u> | <u>24,099</u> |

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 12 – Subsequent events

1. Pursuant to a shelf prospectus published on May 29, 2008, on July 28, 2008, the Company published a shelf offering report for an issuance, through rights, within the framework of which the shareholders of Koor were offered between 4,753,084 and 4,953,939 ordinary shares (NIS 0.001 par value each) of the Company through rights to the ordinary shareholders of the Company (except for American shareholders which were excluded in accordance with the amendment to the by-laws), in a manner whereby a shareholder holding 4 ordinary shares will be entitled to purchase a right unit containing 1 ordinary share, at a price of NIS 143, which will be registered to bearer at the end of trading on August 3, 2008.

2. Based on the Company's Board of Director's resolution dated July 21, 2008, the investment in the shares of Credit Suisse shall be done while utilizing purchase and sale opportunities, taking into consideration the condition of the markets, and based on the Company's assessments from time to time. In July and August 2008 the Company continued to purchase and sell shares of Credit Suisse. The Company will record in the third quarter profit of NIS 208 million due to sale of Credit Suisse shares until the financial statement date.
 As of the date of the financial statements, the Company holds 3.6 million shares of Credit Suisse, representing 0.35% of the shares of Credit Suisse (net of treasury shares), at a cumulative investment of NIS 531 million. Also see Note 6(5).

3. On July 21, 2008, the Company received a total of \$13,553 thousand from Elisra, as additional consideration from the sale of its holdings in Elisra. Also see Note 6(2).

4. On July 23, 2008, the Company reported that its board of directors had resolved to update the annual participation remuneration to the outside directors of Koor, so they will be entitled to the maximum sums under Regulations 4 and 5 (respectively) of the Companies Regulations (Rules Regarding Remuneration and Expenses to Outside Director), 2000 ("Remuneration Regulations"), as updated in the Amendment to the Remuneration Regulations. The update of the remuneration amounts paid to directors in Koor (including outside directors) commences on the amendment date of the remuneration regulations, i.e. March 6, 2008.

Note 13 – Explanation Regarding the Effect of the Change to IFRS**A. General**

As stated in Note 2(A), the condensed consolidated interim financial statements prepared by the Group constitute part of the first consolidated annual financial statements according to IFRS.

The accounting policy provided in Note 3 was applied in preparation of the condensed consolidated interim financial statements for the six-month and three-months periods ended June 30, 2008, the comparative figures for the six-month and three-month periods ended June 30, 2007, the comparative figures for the year ended December 31, 2007 and the opening IFRS balance sheet as at January 1, 2007 ("the transition date").

This Note was prepared on the basis of the IFRS presently known, which were published and will take effect, or may be adopted early, on the Group's first annual IFRS reporting date, December 31, 2008, on the basis of which the Company's accounting policy was prescribed. The IFRS that were in effect or which may be adopted in the annual financial statements for the year ended December 31, 2008 are subject to changes and the publication of additional interpretations, and therefore, cannot be prescribed with certainty.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)**A. General (cont.)**

Accordingly, the accounting policy prescribed for application for the presented periods will be final only when the first IFRS financial statements are prepared, as at December 31, 2008.

The explanation about the effect of the change from generally accepted accounting principles in Israel ("Israeli GAAP") to IFRS on the financial position of the Company, its operating results and cash flows, are presented in the tables and notes below.

B. Details of exceptions elected

Presented below are the exceptions elected by the Company according to IFRS 1, for which the Company does not retroactively apply the change to IFRS reporting:

(1) Business combinations

The Company applies the provisions of IFRS 3 only for business combinations that occurred after January 1, 2007.

Therefore, goodwill and excess cost created in business combinations (including jointly controlled business combinations) that occurred prior to such date, with respect to the acquisition of subsidiaries, affiliates and proportionately consolidated subsidiaries and the purchase of minority interest, were not accounted for according to IFRS 3, but were presented as through accounted for under Israeli GAAP.

(2) Accumulated translation differences

The Company recognized in retained earnings, on the transition date to IFRS, a capital reserve for accumulated translation differences for foreign operations.

(3) Compound financial instruments

The Company elected not to separate compound financial instruments into the equity element and the liability element in the event that the liability does not exist as at the transition date.

(4) Designation of financial instruments recognized in the past

The Company designated financial assets to the category of financial assets measured at fair value through gain or loss on the transition date to IFRS, January 1, 2007, since no such designation was made on their initial recognition date.

(5) Share-based payment transactions

Share-based payments granted before November 7, 2002 or that vested by January 1, 2007, are not accounted for retroactively, according to IFRS 2. Additionally, in the absence of specific provisions in IFRS, the Company elected to recognize the increase in equity from recognition of share-based payment expenses to retained earnings.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)

C. Effects of change to IFRS (cont.)

Balance sheet adjustment (cont.)

| | Note* | Israeli | Effect of change to IFRS | | IFRS | Israeli | Effect of | IFRS | Israeli | Effect of | IFRS |
|---|-------|--------------------|--------------------------|-----------------|--------------------|--------------------|-------------------|--------------------|--------------------|---------------|--------------------|
| | | GAAP | Effects | Other effects | expressed | GAAP | change to | | GAAP | change to | |
| | | | expressed | | | | IFRS | | | IFRS | |
| | | | in adoption | | | | | | | | |
| | | | of new | | | | | | | | |
| | | | accounting | | | | | | | | |
| | | | standards | | | | | | | | |
| | | | in Israel | | | | | | | | |
| | | | in 2007 | | | | | | | | |
| | | | | | | | | | | | |
| | | | January 1, 2007 | | | | December 31, 2007 | | | | June 30, 2007 |
| | | | (audited) | | | | (audited) | | | | (unaudited) |
| | | | NIS thousands | | | | | | | | |
| Equity | | | | | | | | | | | |
| Share capital | | (564,515) | - | - | (564,515) | (564,515) | - | (564,515) | (564,515) | - | (564,515) |
| Premium on shares | | (2,254,701) | - | 15,923 | (2,238,778) | (2,254,860) | 15,909 | (2,238,951) | (2,254,803) | 16,025 | (2,238,778) |
| Translation differences reserve | (c) | 233,851 | - | (233,851) | - | 437,866 | (227,115) | 210,751 | 204,653 | (234,426) | (29,773) |
| Hedge reserves | | - | - | (734) | (734) | - | - | - | - | 210 | 210 |
| Capital reserve for share-based payment | (i) | (2,625) | - | 2,625 | - | (2,773) | 2,773 | - | (2,625) | 2,625 | - |
| Capital reserve for available-for-sale assets | | - | - | 4,275 | 4,275 | - | 644 | 644 | - | (912) | (912) |
| Other reserves | (c) | (325,042) | - | 325,042 | - | (325,042) | 325,042 | - | (325,042) | 325,042 | - |
| Accumulated loss | | 723,844 | (53,974) | (16,847) | 653,023 | 579,461 | (16,236) | 563,225 | 394,639 | (20,840) | 373,799 |
| Total equity allocated to equity rights holders of Company | | (2,189,188) | (53,974) | 96,433 | (2,146,729) | (2,129,863) | 101,017 | (2,028,846) | (2,547,693) | 87,724 | (2,459,969) |
| Minority interest | | (2,348) | (7,650) | (59,650) | (69,648) | (117) | - | (117) | (3,112) | - | (3,112) |
| Total equity | | (2,191,536) | (61,624) | 36,783 | (2,216,377) | (2,129,980) | 101,017 | (2,028,963) | (2,550,805) | 87,724 | (2,463,081) |
| Total liabilities and equity | | (5,503,831) | (61,624) | 70,903 | (5,494,552) | (5,413,908) | 42,493 | (5,371,415) | (5,816,512) | 53,571 | (5,762,941) |

* Refer to main explanations.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

| | Note* | For the year ended December 31, 2007 | | | For the three-month period ended June 30, 2007 | | | For the six-month period ended June 30, 2007 | | |
|--|-------|--------------------------------------|------------------------------------|------------------|--|--------------------------------------|----------------|--|--------------------------------------|----------------|
| | | Israeli GAAP | Effect of change To IFRS (audited) | IFRS | Israeli GAAP | Effect of change To IFRS (unaudited) | IFRS | Israeli GAAP | Effect of change To IFRS (unaudited) | IFRS |
| | | NIS thousands | | | NIS thousands | | | NIS thousands | | |
| Revenues | | | | | | | | | | |
| Revenues from sales and projects | | 218,535 | 167 | 218,702 | 64,595 | 41 | 64,636 | 118,213 | 76 | 118,289 |
| Koor Group's equity in results of affiliates, nets | | 295,159 | (48,282) | 246,877 | 121,109 | 4,180 | 125,289 | 233,989 | 8,218 | 242,207 |
| Other income | (m) | 592,268 | 63,315 | 655,583 | 16,352 | (5,075) | 11,277 | 49,962 | (12,069) | 37,893 |
| Financing income | (h) | 64,982 | 6,713 | 71,695 | 26,765 | 5,830 | 32,595 | 62,754 | 11,748 | 74,502 |
| Revenues | | 1,170,944 | 21,913 | 1,192,857 | 228,821 | 4,976 | 233,797 | 464,918 | 7,973 | 472,891 |
| Expenses | | | | | | | | | | |
| Cost of sales and projects | | 192,302 | - | 192,302 | 45,844 | - | 45,844 | 86,869 | - | 86,869 |
| Selling and marketing expenses | | 44,481 | - | 44,481 | 11,213 | - | 11,213 | 22,896 | - | 22,896 |
| General and administrative expenses | | 53,708 | 174 | 53,882 | 8,522 | - | 8,522 | 21,505 | (21) | 21,484 |
| Other expenses | | 15,305 | - | 15,305 | - | - | - | - | - | - |
| Financing expenses | (h) | 257,335 | 43,976 | 301,311 | 25,156 | 14,622 | 39,778 | 69,281 | 19,550 | 88,831 |
| | | 563,131 | 44,150 | 607,281 | 90,735 | 14,622 | 105,357 | 200,551 | 19,529 | 220,080 |
| Earnings (loss) before income taxes | | 607,813 | (22,237) | 585,576 | 138,086 | (9,646) | 128,440 | 264,367 | (11,556) | 252,811 |
| Income taxes | | 109 | - | 109 | 432 | - | 432 | 917 | - | 917 |
| Earnings (loss) from continuing operations | | 607,922 | (22,237) | 585,685 | 138,518 | (9,646) | 128,872 | 265,284 | (11,556) | 253,728 |
| Earnings from discontinued operations, after tax | | 10,355 | 13,744 | 24,099 | 13,678 | 16,267 | 29,945 | 10,355 | 13,744 | 24,099 |
| Earnings for the period | | 618,277 | (8,493) | 609,784 | 152,196 | 6,621 | 158,817 | 275,639 | 2,188 | 277,827 |
| Attributed to: | | | | | | | | | | |
| Holders of the Company's capital rights | | 620,293 | (5,970) | 614,323 | 151,452 | 6,621 | 158,073 | 275,231 | 4,711 | 279,942 |
| Minority shareholders | | (2,016) | (2,523) | (4,539) | 744 | - | 744 | 408 | (2,523) | (2,115) |
| Earnings for the period | | 618,277 | (8,493) | 609,784 | 152,196 | 6,621 | 158,817 | 275,639 | 2,188 | 277,827 |

* Refer to main explanations.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)

C. Effects of change to IFRS (cont.)

Accounting effects expressed in adoption of new accounting standards in Israel commencing January 1, 2007:

- (a) **Investment property** – According to Israeli GAAP, until December 31, 2006, investment property was stated at its depreciated cost, as part of fixed assets. According to IFRS, investment property is stated separately in the balance sheet – at its fair value – according to the Company's election. Fair value changes in any reporting period are recognized in gain/loss in that period. The effect of this item is expressed in the adoption of Accounting Standard No. 16 in Israel, commencing January 1, 2007. Therefore, with the change to IFRS, the carrying value as at January 1, 2007 of NIS 80 million was reclassified from fixed assets to investment property and recorded were an increase for the revaluation of investment property of NIS 28.2 million, an increase in investments in equity-accounted affiliates of NIS 31.6 million, and an increase in retained earnings of NIS 52.2 million and an increase in minority interest of NIS 7.6 million.
- (b) **Recognition at fair value of research and development projects acquired within the framework of a business combination**– According to Israeli GAAP, until December 31, 2006, the Group recognized as an expense, the costs of research and development projects acquired within the framework of a business combination. According to IFRS, these projects meet the definition of an intangible asset and are amortized over their useful lives. This effect was expressed in the adoption of Standard No. 30, regarding intangible assets, commencing January 1, 2007.

Additional accounting effects:

- (c) **Capital reserves from translation differences and other capital reserves** – As discussed in Par. B.2, according to the exception of IFRS 1, the Company elected the possibility of recognizing in retained earnings the balance of the reserves, positive and negative, from the translation of financial statements of investees at the transition date, and other capital reserves that are not required according to IFRS. Therefore, with the change to IFRS, the Company recognized the balance of the capital reserve for foreign currency translation at January 1, 2007 totaling NIS 233.8 million in retained earnings. Measurement differences between Israeli GAAP and IFRS in foreign operations are also affected by the accumulations in the capital reserves and on their realization when the holding percentage in these operations decreases.
- According to Israeli GAAP, until the end of 1994, the Company was required to capitalize earnings to its capital reserves, if such capitalization was effected in the books of the investee. According to IFRS, the Company is not required to such capitalization in the said case. Therefore, with the change to IFRS, the Company recognized earnings of NIS 325 million to retained earnings.
- (d) **Employee benefits** – According to Israeli GAAP, liabilities for employee termination benefits are recognized by the full liability method, assuming that all the employees will be terminated at terms that entitled them to full termination benefits, without considering discount rates, future salary increase percentages and future retirements. Likewise, the liabilities for vacation and sick pay were calculated based on estimated utilization and redemption, respectively. According to IFRS, all the net liabilities for post-retirement employee benefits and other long-term benefit plans are measured according to IAS 19 regarding employee benefits. Post-retirement benefits in defined benefit plans are measured, inter alia, based on actuarial estimates and discounted amounts. The liability is measured at discounted value based on the yields on government bonds.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)

C. Effects of change to IFRS (cont.)

(d) Employee benefits (cont.)

As far as the Company knows, the issue of discounted interest is being examined, and a decision may eventually be reached, that the appropriate discount rate in Israel is based on corporate bonds. In this case, the data included in the above note will change, the actuarial liabilities will decrease and current financing expenses for these liabilities will increase.

Additionally, the funded termination benefits deposited with a related party are stated according to Israeli GAAP as a deduction from the liability. According to IFRS, these funded provisions do not constitute assets of the plan and are stated as a separate asset.

The Company elected to recognize the actuarial gains and losses directly in equity, according to the alternative in IAS 19. The Company elected to apply the alternative, whereby the actuarial gains or losses will be recognized in retained earnings, since according to this alternative, the balance sheet reflects the proper fair value of the net liabilities to employees at the cut off date. Moreover, according to this alternative the statement of operations better reflects the Company's operating results, so that fluctuations from actuarial gains and losses are prevented.

- (e) Financial instruments available for sale** – According to Israeli GAAP, the Company classified its investments in non-marketable shares as non-current investments measured at cost, net of declines in value that are not temporary. According to IFRS, the Company classifies these investments as available-for-sale financial assets, and they will be measured at their fair value on every balance sheet date. Fair value changes will be recognized in a capital reserve, except for ongoing or significant declines in value that will be recognized in the statement of operations.

(f) Derivative financial instruments and hedge accounting –

According to the accepted practice in Israel, the terms for application of hedge accounting are based mainly on economic criteria. Likewise, financial instruments are not necessarily measured at fair value. Under IFRS, in order for a transaction in financial instruments to be deemed an accounting hedge, it must meet several criteria, including with respect to the instrument's purpose, meeting stringent designation requirements and a high degree of effectiveness from the beginning and throughout the hedge.

Some of the transactions executed by the Group in financial instruments, to reduce exposures to currency risks or interest risks, do not meet the criteria for in hedge accounting, and therefore, are measured under IFRS at fair value, with changes in fair value recognized immediately in gain/loss.

Regarding financial instruments that meet the requirements for hedge accounting, these instruments are stated at fair value, and the change in fair value is recognized in equity "hedge reserve".

According to Israeli GAAP, separation of embedded derivatives out of hybrid contracts is not required. Under IFRS, in certain cases, embedded derivatives are to be separated from hybrid instruments, and are to be presented at fair value on every balance sheet date, with the changes in fair value each reporting period recognized in gain/loss in that period.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)

C. Effects of change to IFRS (cont.)

(g) **Deferred tax from intercompany sales** – According to Israeli GAAP, intercompany transactions are eliminated in the consolidated statements and deferred tax is recorded at the corporate tax rate of the seller company for the temporary differences in recognition of the earnings, between the financial statements and the tax payments. According to IFRS, deferred tax on intercompany transactions in the consolidated statements will be recorded at the corporate tax rate of the buyer.

(h) **Dividing issued units containing equity instruments and measurement of options with CPI-linked exercise price at fair value** – According to Israeli GAAP, options issued to investors with a CPI-linked exercise price are classified as equity. Such options that were issued in a unit comprised of options and debentures were separated from the debentures proportionate to the fair value of the unit's components. According to IFRS, this kind of option is classified as a liability and measured at fair value on each balance sheet date, with the changes in fair value recognized to gain/loss each period. Additionally, according to IFRS, the proceeds from the issuance of a unit including a liability component measured by the effective interest rate (debentures) and a liability measured at fair value are attributed first to the fair-value measured liability and the remainder of the proceeds is attributed to the liability component measured by the effective interest method.

Therefore, with the change to IFRS, the carrying value as at January 1, 2007, June 30, 2007 and December 31, 2007 totaling NIS 22 million, was reclassified from "premium" to liability for options to investors. An increase/(decrease) was recorded in the said liabilities due to the change in fair value of the options totaling NIS (1.4) million, NIS 2 million and NIS 41 million as at January 1, 2007, June 30, 2007 and December 31, 2007, respectively.

(i) **Share-based payment transactions** – According to Israeli GAAP, the Company recognized as share-based payment transactions commencing January 1, 2006, grants made after March 15, 2005, provided that they did not vest by January 1, 2006. According to an exception of IFRS 1, share-based payment transactions granted after November 7, 2002, which did not vest by January 1, 2007 are accounted for retroactively, according to the provisions of IFRS 2. Additionally, under IFRS, in the absence of a specific provision, the Company elected to present the benefit in retained earnings instead of in a reserve.

(j) **Land leased from the Israel Lands Administration ("ILA")** – According to Israeli GAAP, they were classified as fixed assets and therefore, accounted for as land that is not depreciated. According to IFRS, in cases in which this land is not deemed freehold land, the Group classifies the land leased from the ILA as operating leases. Therefore, lease fees paid in advance to the ILA are presented as deferred expenses and are amortized over the lease term including the option for extending the lease period to the extent that on the lease date, it was reasonably certain that the option would be exercised.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)

C. Effects of change to IFRS (cont.)

(k) **Minority interest** – According to Israeli GAAP, minority interest is classified in a separate item between long-term liabilities and equity. According to IFRS, minority interest in subsidiaries is classified as a separate item in the Company's equity.

(l) **Liability to Chief Scientist for government grants** – According to Israeli GAAP, grants from the Chief Scientist for research and development projects were recognized upon receipt as revenues presented as a deduction from the related research and development expenses. The expectation for repayment of the grant is not assessed regularly, and when the grant is repaid, the expense is recognized as a cost of sales within royalty payments to the Chief Scientist.

Under IFRS, these grants are accounted for as forgivable loans, under the provisions of IAS 20. Accordingly, the Chief Scientist grants are recognized as a liability at its fair value on the grant receipt date, unless on that date, it is reasonably certain that the amount received will not be repaid. The liability amount is assessed in every period, and the changes in fair value of the grant – if any – are recognized as gain/loss.

(m) **Timing of the recognition of gain from sale of shares** – According to Israeli GAAP, the sale of financial assets will occur when control in the financial assets is transferred. Under IFRS, a decision regarding the disposition of financial assets is based on the transfer of the risks and rewards of ownership of the assets. According to Israeli GAAP, control of all the shares had not been transferred to the buyer in 2006, and therefore, only in 2007 did the Company dispose of the investment in these shares and recognize the gain generated by the sale. Consequently, according to IFRS, since all of the risks and rewards were transferred to the buyer, the Company disposed of the entire balance of its investment in the shares of Elbit, totaling NIS 201 million and NIS 151 million, as at January 1, 2007 and June 30, 2007, respectively. The Company recorded an increase in other receivables of NIS 239 million and NIS 179 million as at January 1, 2007 and June 30, 2007, respectively, and an increase in the balance of retained earnings of NIS 38 million as at January 1, 2007. In the three months ended June 30, 2007, the Company reversed a capital gain that had been recognized under Israeli GAAP of NIS 10 million. As at December 31, 2007, the entire investment in the shares of Elbit was sold.

(n) **Functional currency** - Israeli GAAP allowed companies to designate a functional currency other than the NIS, when most revenues are received and most assets are purchased in that currency, although companies were not required to report based on a foreign currency other than the NIS. Under IFRS, the Company must assess the functional currency and measure its operating result according to the designated functional currency.

An investee designated the NIS as its functional currency under Israeli GAAP, according to the aforesaid. Under IFRS, the functional currency of the investee is the U.S. dollar.

Moreover, the functional currency of a subsidiary of an affiliate, which according to Israeli GAAP was designated an "integrated unit" (and therefore its functional currency is the US dollar), was changed to the local currency under IFRS.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)**C. Effects of change to IFRS (cont.)**

- (o) **Deferred taxes for land purchased in a business combination** - According to Israeli GAAP, a deferred tax liability was not recognized for temporary differences related to land that was purchased in a business combination prior to January 1, 2005. Under IFRS, a deferred tax liability is to be created for temporary differences in respect of land that was purchased in a business combination.
- (p) **Fixed assets** – Under IFRS, the measurement of fixed asset items is a choice between the cost method and the revaluation method as accounting policy. Consistent with the Company's choice of the cost method as the accounting policy for the measurement of fixed assets according to Israeli GAAP as part of the application of Standard No. 27, the Company elected the same method under IFRS.
- (q) **Equity value of companies in which there is joint control** – According to Israeli GAAP, corporations in which the Company has joint control are presented by the proportionate consolidation method. Under IFRS, one may elect to present the investments in corporations by the proportionate consolidation method or the equity method. The Company elected to present its investments in jointly-held corporations by the equity method, since the proportionate consolidation method is expected to be cancelled in the future.
- (r) **Non-consolidation in the event of effective control** – On the IFRS transition date, the Company elected to account for the investees in which it has effective control by the equity method, since the consolidation of financial statements under circumstances of effective control that is not legal control does not contribute to the relevance of the financial statements of the holding company. Additionally, the Company chose this alternative in order to maintain consistency in the presentation it used under Israeli GAAP.

Notes to the Interim Financial Statements as at June 30, 2008 (unaudited)

Note 13 – Explanation Regarding the Effect of the Change to IFRS (cont.)**D. Explanation of material reconciliations to the statement of cash flows for the three-month period ended June 30, 2007 and for the year ended December 31, 2007****(1) Interest received**

According to Israeli GAAP, interest received was classified as cash flows from operating activities. According to IFRS, and based on the accounting policy adopted by the Company, the interest received was classified as cash flows from investing activities. According to the Group's policy, the Company continued to classify dividends received in operating activities.

(2) Interest paid

According to Israeli GAAP, interest paid was classified as cash flows from operating activities. According to IFRS, and based on the accounting policy adopted by the Company, the interest paid was classified as cash flows from financing activities. According to the Group's policy, the Company continued to classify dividends paid in operating activities.

(3) Exchange rate differences

According to Israeli GAAP, the effect of exchange rate fluctuations on cash balances was presented as cash flows from operating activities. According to IFRS, the effects of the exchange rate fluctuations on the cash balances were classified as a separate item.

Note 14 – Attachment of the Financial Statements of Affiliates

The financial statements of Telrad Networks Ltd. ("Telrad") were not attached as a material affiliated company, even though the Company's equity in the losses of Telrad in the six-month period ended June 30, 2008 constitute, in its absolute value more than 10% of the Company's loss in the said period ("income test"), because in the prior report year, the income test was not fulfilled and it is not expected to be fulfilled in the next report year.