

Koor Industries Limited

**Condensed Consolidated Interim
Financial Statements
As at September 30, 2009
(unaudited)**

Condensed Interim Financial Statements as at September 30, 2009 (Unaudited)

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Review Report to the Shareholders of Koor Industries Ltd.

Introduction

We have reviewed the accompanying financial information of Koor Industries Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as at September 30, 2009 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine-month and three-month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries whose assets constitute 1% of the total consolidated assets as at September 30, 2009, and whose revenues constitute 4% and 5% of the total consolidated revenues for the nine month and three month periods then ended, respectively. Furthermore, we did not review the condensed interim financial information of equity accounted investees, the investment in which amounted to NIS 173,396 thousand as at September 30, 2009, and the Group’s share in their profits amounted to NIS 22,194 thousand and NIS 5,668 thousand for the nine month and three month period then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

November 15, 2009

Condensed Consolidated Interim Statements of Financial Position as at

	September 30, 2009	September 30, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Current assets			
Cash and cash equivalents	3,208,250	3,476,420	277,265
Short-term deposits and investments, including financial derivatives	69,695	397,569	36,188
Trade receivables	16,976	45,596	40,869
Other receivables	121,416	101,821	8,486
Inventories	39,845	57,385	48,190
Assets held for sale	-	-	16,306
	<u>3,456,182</u>	<u>4,078,791</u>	<u>427,304</u>
Long-term investments			
Investments in investees	2,553,452	2,499,159	2,704,020
Financial assets available for sale	2,328,236	34,900	1,620,544
Pledged financial assets available for sale	2,769,909	66,404	2,517,210
Other investments	70,038	84,506	71,889
	<u>7,721,635</u>	<u>2,684,969</u>	<u>6,913,663</u>
Investment property	<u>94,900</u>	<u>111,880</u>	<u>114,900</u>
Fixed assets	<u>2,516</u>	<u>6,562</u>	<u>2,330</u>
Intangible assets	<u>2,727</u>	<u>10,140</u>	<u>3,168</u>
Total assets	<u>11,277,960</u>	<u>6,892,342</u>	<u>7,461,365</u>

	September 30, 2009	September 30, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Liabilities			
Current liabilities			
Credit from banks	2,004,893	658,010	1,119,958
Current maturity of debentures	453,997	-	-
Trade payables	19,640	49,840	47,403
Other payables including financial derivatives	174,381	235,570	135,456
Provisions	9,914	28,078	24,813
Customer advances	2,611	4,023	3,057
	<u>2,665,436</u>	<u>975,521</u>	<u>1,330,687</u>
Long-term liabilities			
Liabilities to banks	219,150	1,055,322	990,982
Debentures	1,962,892	1,716,900	1,477,625
Deferred tax liabilities	163,065	-	-
Other liabilities	5,678	5,132	4,943
Employee benefits	1,060	352	1,112
Liability for options to investors	3,079	(*)5,405	386
	<u>2,354,924</u>	<u>2,783,111</u>	<u>2,475,048</u>
Equity Capital			
Share capital	564,546	564,522	564,546
Premium on shares	3,904,575	3,305,637	3,904,575
Treasury shares	(6,071)	(6,071)	(6,071)
Reserves	419,123	(478,337)	(480,779)
Retained earnings (accumulated loss)	1,375,427	(252,660)	(326,641)
	<u>6,257,600</u>	<u>3,133,091</u>	<u>3,655,630</u>
Total equity attributed to holders of Company's capital rights	6,257,600	3,133,091	3,655,630
Minority interest	-	619	-
	<u>-</u>	<u>619</u>	<u>-</u>
Total equity capital	6,257,600	3,133,710	3,655,630
	<u>6,257,600</u>	<u>3,133,710</u>	<u>3,655,630</u>
Total liabilities and equity capital	11,277,960	6,892,342	7,461,365
	<u>11,277,960</u>	<u>6,892,342</u>	<u>7,461,365</u>

(*) Reclassified – see Note 2(C).

Ami Erel
Chairman of the Board of
Directors

Raanan Cohen
Chief Executive Officer

Oren Hillinger
Chief Financial Officer

Approval date of financial statements: November 15, 2009

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

Condensed Consolidated Interim Statements of Income

	For nine-month period ended September 30		For three-month period ended September 30		For year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Revenues					
Sales and services	94,293	166,443	27,945	53,499	216,690
Koor Group's equity in results of affiliates, net	66,456	236,323	(45,347)	46,584	217,290
Gains from sale of and dividends from securities available for sale	2,332,857	535,116	691,585	535,116	574,523
Other income	17,650	50,311	1,489	2,448	55,718
Financing income	26,186	110,399	4,198	51,181	200,171
	<u>2,537,442</u>	<u>1,098,592</u>	<u>679,870</u>	<u>688,828</u>	<u>1,264,392</u>
Expenses					
Cost of sales and services	70,338	155,857	21,615	66,425	205,204
Selling and marketing expenses	15,764	25,797	4,674	7,917	33,704
General and administrative expenses	45,388	33,266	22,188	10,400	58,514
Other expenses	14,825	21,543	4,397	633	29,551
Financing expenses	312,908	549,644	141,427	175,844	699,956
	<u>459,223</u>	<u>786,107</u>	<u>194,301</u>	<u>261,219</u>	<u>1,026,929</u>
Earnings before income taxes	2,078,219	312,485	485,569	427,609	237,463
Income taxes	55,029	(12)	26,427	80	16
Net income for the period	2,133,248	312,473	511,996	427,689	237,479
Attributed to:					
Holders of the Company's capital rights	2,133,248	312,040	511,996	427,689	237,596
Minority interest	-	433	-	-	(117)
Income for the period	2,133,248	312,473	511,996	427,689	237,479
	NIS	NIS	NIS	NIS	NIS
Earnings per share					
Basic earnings per share	44.967	11.773	10.792	14.578	8.534
Diluted earnings per share	44.964	11.773	10.789	14.578	8.486

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

Condensed Consolidated Interim Statements of Comprehensive Income

	For nine-month period ended September 30		For three-month period ended September 30		For year ended December 31
	2009 (Unaudited) NIS thousands	2008 (Unaudited) NIS thousands	2009 (Unaudited) NIS thousands	2008 (Unaudited) NIS thousands	2008 (Audited) NIS thousands
Income for the period	2,133,248	312,473	511,996	427,689	237,479
Other elements of comprehensive income (comprehensive loss):					
Foreign currency translation differences from foreign operations	(36,042)	(271,942)	(110,177)	43,329	(21,427)
Foreign currency translation differences from foreign operations recognized in gain/loss	1,078	800	-	-	643
Net after-tax change in fair value of financial assets classified as available for sale	2,643,598	(*)398,291	749,905	(*)395,508	(*)182,321
Net change in fair value of financial assets classified as available for sale transferred to statement of income	(1,719,440)	(*)395,896	(511,773)	(*)395,896	(*)425,147
Actuarial losses from defined benefits plan	-	-	-	-	(680)
Koor's equity in comprehensive income (comprehensive loss) of affiliates	11,743	399	13,417	(18,563)	(6,106)
Total comprehensive income (comprehensive loss) for the period	3,034,185	44,125	653,368	452,067	(32,917)
Attributed to:					
Holders of equity rights in the Company	3,034,185	43,623	653,368	452,033	(32,800)
Minority interest	-	502	-	34	(117)
Total comprehensive income (comprehensive loss) for the period	3,034,185	44,125	653,368	452,067	(32,917)

Due to the first-time application of IAS 1, Amended, changed the presentation format of the Statement of Comprehensive Revenues. Also see Note 3(1)(A) regarding first-time application of the new standards.

(*) Reclassified – see Note 2(C).

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

Condensed Consolidated Interim Statement of Changes in Equity

	Attributed to Company's equity holders							Minority Interest	Total equity	
	Share capital	Premium on shares	Translation reserve for foreign activities	Hedge reserve	Reserve for assets available for sale	Treasury shares	Retained earnings			Total
	NIS thousands									
For nine-month period ended September 30, 2009 (unaudited)										
Balance as at January 1, 2009 (audited)	564,546	3,904,575	(247,674)	10,022	(243,127)	(6,071)	(326,641)	3,655,630	-	3,655,630
Comprehensive income (comprehensive loss) for the period	-	-	(12,693)	(11,862)	924,457	-	2,134,283	3,034,185	-	3,034,185
Dividend	-	-	-	-	-	-	(432,215)	(432,215)	-	(432,215)
Balance as at September 30, 2009 (unaudited)	564,546	3,904,575	(260,367)	(1,840)	681,330	(6,071)	1,375,427	6,257,600	-	6,257,600
	NIS thousands									
	Share capital	Premium on shares	Translation reserve for foreign activities	Hedge reserve	Reserve for assets available for sale	Treasury shares	Accumulated loss	Total	Minority Interest	Total equity
For nine-month period ended September 30, 2008 (unaudited)										
Balance as at January 1, 2008 (audited)	564,515	2,245,022	(210,751)	-	(644)	(6,071)	(563,225)	2,028,846	117	2,028,963
Issuance of shares	7	1,060,615	-	-	-	-	-	1,060,622	-	1,060,622
Exercise of options granted to employees	(*)-	-	-	-	-	-	-	-	-	-
Exercise of options granted to investors	(*)-	-	-	-	-	-	-	-	-	-
Comprehensive income (comprehensive loss) for the period	-	-	(276,886)	7,493	2,451	-	310,565	43,623	502	44,125
Balance as at September 30, 2008 (unaudited)	564,522	3,305,637	(487,637)	7,493	1,807	(6,071)	(252,660)	3,133,091	619	3,133,710

(*) Represents a sum below NIS 1 thousand.

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

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

	Attributed to Company's equity holders							Minority Interest	Total equity	
	Share capital	Premium on shares	Translation reserve for foreign activities	Hedge reserve	Reserve for assets available for sale	Treasury shares	Retained earnings			Total
	NIS thousands									
For three-month period ended September 30, 2009 (unaudited)										
Balance as at July 1, 2009 (unaudited)	564,546	3,904,575	(161,835)	(2,584)	443,198	(6,071)	862,403	5,604,232	-	5,604,232
Comprehensive income (comprehensive loss) for the period	-	-	(98,532)	744	238,132	-	513,024	653,368	-	653,368
Balance as at September 30, 2009 (unaudited)	564,546	3,904,575	(260,367)	(1,840)	681,330	(6,071)	1,375,427	6,257,600	-	6,257,600
	Attributed to Company's equity holders							Minority Interest	Total equity	
	Share capital	Premium on shares	Translation reserve for foreign activities	Hedge reserve	Reserve for assets available for sale	Treasury shares	Accumulated loss			Total
	NIS thousands									
For three-month period ended September 30, 2008 (unaudited)										
Balance as at July 1, 2008 (unaudited)	564,517	2,628,017	(515,823)	10,448	2,650	(6,071)	(680,305)	2,003,433	585	2,004,018
Issuance of shares	5	677,620	-	-	-	-	-	677,625	-	677,625
Comprehensive income (comprehensive loss) for the period	-	-	28,186	(2,955)	(843)	-	427,645	452,033	34	452,067
Balance as at September 30, 2008 (unaudited)	564,522	3,305,637	(487,637)	7,493	1,807	(6,071)	(252,660)	3,133,091	619	3,133,710

(*) Represents a sum below NIS 1 thousand.

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

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

	Attributed to Company's equity holders							Minority Interest	Total equity	
	Share capital	Premium on shares	Translation reserve for foreign activities	Hedge reserve	Reserve for assets available for sale	Treasury shares	Accumulated loss			Total
	NIS thousands									
For the year ended December 31, 2008 (audited)										
Balance as at January 1, 2008 (audited)	564,515	2,245,022	(210,751)	-	(644)	(6,071)	(563,225)	2,028,846	117	2,028,963
Issuance of shares	31	1,659,553	-	-	-	-	-	1,659,584	-	1,659,584
Exercise of options granted to employees	(*)	-	-	-	-	-	-	-	-	-
Exercise of options granted to investors	(*)	-	-	-	-	-	-	-	-	-
Comprehensive income (comprehensive loss) for the period	-	-	(36,923)	10,022	(242,483)	-	236,584	(32,800)	(117)	(32,917)
Balance as at December 31, 2008 (audited)	564,546	3,904,575	(247,674)	10,022	(243,127)	(6,071)	(326,641)	3,655,630	-	3,655,630

(*) Represents a sum below NIS 1 thousand.

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

Condensed Consolidated Interim Statement of Cash Flows

	For nine-month period ended		For three-month period ended		For year ended
	September 30		September 30		December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows generated by operating activities					
Income for the period	2,133,248	312,040	511,996	427,689	237,596
Adjustments:					
Minority interest in results of subsidiaries, net	-	433	-	-	(117)
Financing costs, net	207,543	326,621	87,766	71,763	445,691
Income tax expenses (savings)	(55,029)	12	(26,427)	(80)	(16)
Devaluation of securities available for sale	-	4,462	-	(462)	4,460
Koor's equity in results of affiliates, net	(66,456)	(236,323)	45,347	(46,584)	(217,290)
Dividend received from affiliates	2,700	167,317	2,700	-	249,690
Depreciation and amortization	1,211	11,554	386	8,634	10,504
Increase (decrease) in employee benefits, net	(52)	85	112	(74)	165
Revaluation of investment property	-	-	-	-	(3,020)
Capital losses (gains), net, from realization of:					
Fixed assets and investment property	(1,646)	(51)	-	3	(180)
Investments in investees and securities available for sale	(2,319,836)	(582,971)	(691,955)	(536,782)	(623,230)
Gain from early redemption of debentures	(178)	-	-	-	(78,348)
Linkage and amortization of debenture discounts and revaluation of liability from options	60,281	27,140	24,448	23,172	15,965
Linkage of loan principals and other long-term liabilities	41,160	66,315	28,107	28,860	64,494
Erosion (revaluation) of investments, deposits and loans receivable	(22,925)	41,496	(3,397)	21,741	44,695
Impairment of assets and investments (mainly change in value of venture capital investments)	858	16,546	1,213	1,033	24,349
Decrease (increase) in trade and other receivables	17,156	(27,123)	5,285	(12,143)	4,203
Decrease (increase) in inventories and customer advances	7,911	(8,474)	2,791	2,737	(3,429)
Increase (decrease) in trade and other payables	(40,416)	(8,572)	7,510	2,274	(9,593)
Income tax paid	(216)	(195)	(24)	(176)	(150)
Net cash inflows (outflows) generated by operating activities	(34,686)	110,312	(4,142)	(8,395)	166,439
Cash flows generated by investing activities					
Purchase of fixed assets	(1,095)	(1,267)	(15)	(477)	(1,566)
Amounts recognized as intangible assets	(316)	(5,612)	(316)	-	(5,708)
Proceeds from realization of securities available for sale, investments in investees and other	9,359,757	4,295,215	3,904,535	4,293,768	4,541,802
Proceeds from sale of fixed assets, investment property and intangible assets	38,381	277	-	173	538
Investment in securities available for sale, affiliates and other	(6,737,080)	(3,863,855)	(5,324,069)	(3,601,066)	(8,462,097)
Investment in venture capital companies	-	(4,182)	-	-	(5,625)
Decrease (increase) in short-term deposits and investments, net	(28,770)	24,468	(28,770)	26,026	382,685
Interest received	3,069	51,949	1,650	14,987	60,953
Net cash inflows (outflows) generated by continuing investing activities	2,633,946	496,993	(1,446,985)	733,411	(3,489,018)
Net cash inflows generated by discontinued investing activities	-	35,560	-	-	35,560
Net cash inflows generated by investing activities	2,633,946	532,553	(1,446,985)	733,411	(3,453,458)

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

Condensed Consolidated Interim Statement of Cash Flows (cont.)

	For nine-month period ended		For three-month period ended		For year ended
	September 30		September 30		December 31
	2009	2008	2009	2008	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	
Cash flows generated by financing activities					
Dividend distributed to shareholders	(432,215)	-	-	-	-
Net proceeds from issuance of shares	-	1,060,622	-	677,625	1,659,584
Interest paid	(173,228)	(121,863)	(111,668)	(80,883)	(154,908)
Proceeds from the re-issuance of debentures held by subsidiary	79,862	-	-	-	-
Long-term loans, debentures and other liabilities received	819,438	50,000	819,438	-	158,000
Long-term loans, debentures and other liabilities repaid	(71,354)	(129,201)	-	-	(571,430)
Cash flows from settlement of derivatives	13,651	3,748	3,832	-	13,571
Increase in credit from banks and others, net	95,910	315,002	847,069	313,711	788,093
Net cash inflows generated by financing activities	332,064	1,178,308	1,558,671	910,453	1,892,910
Change in cash and cash equivalents from continuing operations	2,931,324	1,785,613	107,544	1,635,469	(1,429,669)
Change in cash from discontinued operations (*)	-	35,560	-	-	35,560
Change in cash and cash equivalents	2,931,324	1,821,173	107,544	1,635,469	(1,394,109)
Cash and cash equivalents – beginning of period	277,265	1,917,412	3,094,607	1,887,498	1,917,412
Effect of fluctuations in exchange rate on balances of cash and cash equivalents	(339)	(262,165)	6,099	(46,547)	(246,038)
Cash and cash equivalents – end of period	3,208,250	3,476,420	3,208,250	3,476,420	277,265

(*) Includes proceeds from sale of discontinued operations.

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

Note 1 – General

Koor Industries Ltd. ("the Company" or "Koor") is an Israel-domiciled company that was incorporated in Israel; its registered address is 3 Azrieli Center, Tel-Aviv 67023. The Company's condensed consolidated financial statements as at September 30, 2009 include the financial statements of the Company and the financial statements of its subsidiaries, as well as the Group's rights in affiliates (together – "the Group"). The Company is a holding company that invests mainly in the fields of agrochemicals, finance, telecommunications equipment and others, through subsidiaries, affiliates and financial investments. I.D.B. Development Corporation Ltd. ("IDB Development"), which is the controlling shareholder in the Company, holds 76% of the Company's shares as at September 30, 2009, directly and indirectly through Discount Investment Corporation Ltd ("DIC"). The controlling interest in IDB Development is comprised of Gandan Holdings Ltd., Manor Holdings B.A. Ltd. and Abraham Livnat Ltd., which are tied in a voting agreement. Its ultimate parent company is Gandan Holdings Ltd., and Mr. Nochi Dankner is the ultimate controlling shareholder. The Company's securities are listed for trading on the Tel Aviv Stock Exchange.

Note 2 – Basis for preparation of financial statements

- A. 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, 2008 ("the annual financial statements").

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

The condensed consolidated interim financial statements were approved for issuance by Koor's board of directors on November 15, 2008.

B. Use of estimates and judgment

When preparing condensed financial statements in conformity with IFRS, Company management is required to use judgment when making assessments, estimates and assumptions that affect the implementation of the policies and amounts of assets and liabilities, revenues and expenses. It is clarified that the actual results could differ from these estimates. Management's judgment, when applying the Group's accounting policies and main assumptions used in estimates involve uncertainty, are consistent with those used in the annual financial statements. Furthermore, the Company has unutilized tax loss carryforwards, which, in its opinion, it will be possible to utilize against taxable income. In order to determine the amount of loss carryforwards that it will be possible to utilize and the amount of deferred taxes to be created, management must use its judgment regarding the manner in which the losses will be offset, the taxable income expected in the future and its timing, see Note 5(C). Changes in these assumptions could lead to changes in the value of the deferred taxes, provisions for taxes and operating results.

Note 2 – Basis for preparation of financial statements (cont.)**C. Reclassification**

Commencing December 31, 2008, the Company reclassified the liability for options to investors to a long-term liability in accordance with IAS 1, since the options, if realized, will be realized through the issuance of capital and not in cash. The comparative figures as at September 30, 2008 were reclassified for the sake of consistency.

Commencing June 30, 2009, the Company classifies the tax effect of the revaluation and realization of securities available for sale in the statement of comprehensive income according to the gross approach. Comparative figures for year 2008 and for the nine-month and three-month periods ended September 30, 2008 were reclassified in the statement of comprehensive income, in order to include all of the said effects according to the gross approach, and not the net approach, for the purpose of consistency.

Note 3 – Significant Accounting Policies

Except as provided in Par. (1) below, the Group's accounting policies in these condensed consolidated interim financial statements are the policies that it applied in its annual financial statements.

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

(1) First-time application of new standards**A. Financial statement presentation**

Commencing January 1, 2009, the Group applies IAS 1, *Financial Statement Presentation*, Amended (the Standard). The Standard allows for the presentation of a single statement of comprehensive income (a statement that combines a statement of income and other comprehensive income), or alternatively, to present two separate statements (a separate statement of income and a separate statement of comprehensive income). The Group has elected to present income and expense items and other comprehensive income items in two separate statements – a statement of income followed by a statement of comprehensive income. Additionally, the Group presents a statement of changes in equity, instead of disclosure in a footnote, immediately after the statement of comprehensive income. The standard is applied retroactively.

B. Segment reporting

Commencing January 1, 2009, the Group applies IFRS 8, *Operating Segments* ("the Standard"). The Standard provides that segment reporting will conform to the "management approach", i.e. based on the internal reporting format for the Group's primary operational decision making. Reporting for prior periods has been restated, in order to reflect the change in the composition of the Group's reportable segments. For additional information, see Note 7 regarding operating segments.

An operating segment is an element of the Group that meets the following three conditions:

1. Engages in business activity from which it could generate revenues and for which it could incur expenses.
2. Its operating results are reviewed regularly by the Group's chief operational decision maker, in order to reach decisions on the resources to be allocated to it and in order to assess its performance.
3. There is separate, available financial information about it.

Note 3 – Significant Accounting Policies (cont.)**(2) New standards and interpretations not yet adopted**

Within the scope of the improvement project for international standards, from 2009, (Improvements to IFRS), in April 2009, the IASB published and approved 15 amendments to International Financial Reporting Standards on a wide range of accounting issues. These amendments will apply to periods commencing on or after January 1, 2010, with the possibility of early adoption, subject to the conditions provided for each amendment.

Provided below are the amendments that could be relevant for the Group and which could impact the financial statements:

- Amendment to IAS 36, *Impairment of Assets*, Allotment of Goodwill to Cash-Producing Units ("the Amendment") – According to the Amendment, for the purpose of examining for impairment, the cash-producing unit to which goodwill will be allotted will not be larger than the operating segment as defined in IFRS 8, before application of the grouping criteria in Section 12 of IFRS 8. The Amendment will apply to annual periods commencing on or after January 1, 2010. Early application is possible, upon providing disclosure. Application of the Standard is not expected to have a material effect on the Group's financial statements.
- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement*, is no longer applicable to contracts for business combinations ("the Amendment") – the Amendment clarifies that forward contracts between a buyer and seller regarding the sale or purchase of a controlled entity, within the scope of a business combination on a future purchase date, is not covered by IAS 39, when the forward contract's period does not exceed the normal period required to obtain the requisite approvals for the transaction. The Amendment will be applied prospectively to all contracts that have not yet lapsed, for annual periods commencing January 1, 2010. Early application is possible, upon providing disclosure. Application of the Standard is not expected to have a material effect on the Group's financial statements.
- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement*, deals with the penalty for early repayment of a loan as an embedded derivative ("the Amendment"). The Amendment provides that if the penalty for early repayment of a loan compensates the lender up to an amount that approximates the present value of the interest payments that would have been received for the remaining period of the host contract (the loan), then the economic characteristics and risks of the early repayment option are similar to the economic characteristics and risks of the host contract, and the embedded derivative is not to be separated. The Amendment will apply to annual periods commencing on or after January 1, 2010. The Group is evaluating the effect of application of the Standard on its financial statements.

Note 4 - Information Regarding Certain Investees

- A. Makhteshim Agan Industries Ltd. ("Makhteshim-Agan") – an affiliate**
1. Koor's holding percentage in the voting rights in Makhteshim-Agan as at September 30, 2009 is 41.9%. The book balance of the investment as at September 30, 2009 amounted to NIS 2,459 million. The market value as at the said date amounted to NIS 3,068 million. Subsequent to the balance sheet date, a special tender offer was received from the Company to purchase 22 million shares of Makhteshim-Agan, see Note 9(E).
 2. Seasonal factors

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

The worldwide operations of Makhteshim-Agan act to balance out the seasonal impacts, even though Makhteshim-Agan's sales are higher in the northern hemisphere.
 3. Claims
 - a. On January 18, 2009, a financial claim was lodged against Agan Chemical Manufacturers Ltd., a wholly-owned subsidiary of Makhteshim-Agan ("Agan") in Beer Sheba District Court, as well as a motion for recognition as a class action under the Class Action Law, by a resident of Ashdod, asserting that damages were allegedly sustained due to the suffering that the plaintiff asserted was caused as a result of a fire in the Ashdod plant on January 14, 2009. If recognized as a class action, the plaintiff estimates that the amount claimed from Agan is NIS 100 million. At this juncture, Agan is unable to estimate the prospects of the claim and the motion for its recognition as a class action. On November 11, 2009, Agan and the Plaintiff filed a motion in Beer Sheba District Court for approval of a compromise agreement, under the terms of which Agan has undertaken: (a) without admitting to any right and/or claim against it, and in consideration for final settlement of the claims of the Plaintiff and members of the class in the motion, that Agan will set up a closed-circuit television system that will allow it to view what is occurring in the production facilities and warehouses of Agan at any given moment, and facilitate the prevention of unexpected events; likewise, Agan will finance/build within the bounds of the city of Ashdod, a public garden also suited for people with special needs. In the estimation of Agan, the cost of the activity totaling NIS 1.2 million; (b) to pay the total sum of NIS 20,000 to the respondent in the motion ; (c) to pay the sum of NIS 180,000 to the representative of the represented plaintiff as fees. The motion is still pending before the court.
 - b. On July 1, 2009, a criminal complaint was filed in Beer Sheba Magistrate's Court against Agan , directors, officers and an executive in Agan, by a group of residents of the moshav Nir Galim ("the Complainants"). In the complaint, the Complainants assert that there were several instances during the years 2007-2009, in which the Ashdod plant of Agan produced strong and unreasonable odor nuisances in violation of the provisions of the Abatement of Nuisances Law, 1961. Likewise, the Complainants assert that during the fire that occurred in the Agan plant on January 14, 2009, strong and unreasonable air pollution was caused and hazardous materials were emitted into the air, contrary to the terms of Agan's business license and in violation the Poisons Permit, and contrary to the Businesses Licensing Law, 1968 and the Hazardous Materials Law, 1993. In the complaint, the Complainants

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

3. Claims (cont.)

b. (cont.)

are petitioning to convict the defendants and to impose penalties and/or imprisonment, based on the provisions of the relevant laws ("the Complaint"). Taking into consideration the preliminary stage of the claim, Makhteshim-Agan is unable to estimate the prospects of the complaint.

On July 14, 2009, a Civil lawsuit was filed in Beer Sheba District Court against Agan, directors, officers and an executive in Agan, by a group of residents of Nir Galim ("the Plaintiffs"), asserting damages they allegedly sustained due to the nuisances of bad odor, noise and air pollution originating supposedly in the Agan plant. In the statement of claim, the plaintiffs are petitioning the court to issue a restraining order and a mandatory injunction against Agan and to require Agan to pay damages totaling NIS 59 million. Taking into consideration the preliminary stage of the suit, Makhteshim-Agan is unable to assess the prospects of these proceedings.

c. On November 8, 2009, an appeal was lodged for issuance of an order nisi against the Ministry of Environmental Protection and Makhteshim-Agan in the High Court of Justice, by a company whose petition for exceptional use of a property it owned, located near Makhteshim-Agan subsidiary's plant in Beer Sheba, was dismissed by the planning and construction authorities and an administrative appeal of the case is pending in Beer Sheba District Court. In its appeal to the High Court of Justice, the court is asked to instruct the Ministry of Environmental Protection ("the Ministry") to fix a timetable for vacating and removing those facilities in Makhteshim-Agan subsidiary's plant that the Ministry claims constitute a source of exceptional danger from the boundaries of Makhteshim-Agan subsidiary's plants and that the ministry will refrain from renewing the poisons permit that had been issued to Makhteshim-Agan subsidiary, unless and subject to the timetables for vacating the facilities, as aforesaid. In view of the early stage of the appeal, Makhteshim-Agan is unable to estimate the prospects of the claim.

4. On March 25, 2009, Makhteshim-Agan issued debentures, through an expansion of Series C and D, by virtue of a shelf prospectus published on May 27, 2008, in the total amount of NIS 1,133 million par value of debentures, in consideration for 101.56% and 98.95% of their par value, respectively. The debentures are divided into two series, as follows:

a. Series C totaling NIS 661 million par value, debentures are linked to the CPI for October 2006, bears annual interest of 4.45%. The principal will be repaid in four equal installments in the years 2010 through 2013. The issue costs for this series totaled \$1,297 thousand.

b. Series D totaling NIS 472 million par value, debentures bear basic annual interest of 6.5% and are unlinked. The principal will be repaid in 6 equal installments in the years 2011 through 2016. The issue costs for this series totaled \$1,090 thousand.

5. In August 2009, the board of directors of Makhteshim-Agan resolved to distribute a dividend totaling \$70,000 thousand. The dividend amount, after deducting the dividend for shares held by a subsidiary, is \$69,289 thousand. Koor's share in the dividend totaled NIS 109 million. Makhteshim-Agan distributed the said dividend on October 14, 2009.

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

6. Following tests performed by the Brazilian health authorities in the company Mileania Agrociaenias S.A., a subsidiary of Makhteshim-Agan in Brazil ("Mileania"), relating to registration issues of several formulations that the subsidiary produces and/or markets in Brazil, it was ruled that Mileania must refrain, temporarily, from the production and sale of these formulations, and the ruling also applies to existing inventory held by some of the Mileania's customers.

Mileania's position, as presented to the authorities, is that the formulations it sells are similar to those sold in the Brazilian market by other companies, and that the changes made to the formulations are minor, intended to improve their quality, and if there is any difference, it is merely an administrative and procedural matter. This position was accepted, for the most part, by the authorities, and recently, most of the inventory of products which had been seized by the authorities in two states in Brazil were released for sale, distribution and production, without the need to make changes and/or adjustments.

Since a small part of the products has not yet been released for production by the authorities, Mileania estimates that most of the consequences of these events will end during the fourth quarter of 2009.

Makhteshim-Agan's financial statements at September 30, 2009 included a provision for inventories and goods sold in the past, as well as expenses related to dealing with the aforementioned events, was recognized in the amount of \$10 million.

7. Further to the aforesaid in the Periodic Report published by Makhteshim-Agan on March 11, 2009, with respect to the Temporary Order under the Amendment of Section 169 of the Income Tax Ordinance ("the Ordinance"), which enables Makhteshim-Agan, in the 2009 tax year alone, to pay tax at the reduced rate of 5%, instead of 25%, on dividends withdrawn from related companies overseas, and after Makhteshim-Agan evaluated how to implement the said Amendment to the Ordinance, Makhteshim-Agan's board of directors ratified a proposal for a one-off drawing of earnings from the Group's overseas companies in the amount of up to \$300 million. The transferred earnings will be used by Makhteshim-Agan for its current needs and as a reserve for the distribution of a dividend. The financial statements of Makhteshim-Agan include a deferred taxes payables for \$15 million in tax (5% of the dividend amount).

It should be clarified that the withdrawal of earnings, as noted, does not change the dividend distribution policy of Makhteshim-Agan and/or its timing.

B. Telrad Networks Ltd. ("Telrad") – a former affiliate

On March 31, 2009, Koor signed an agreement with Telrad and with the Fortissimo Fund, whereby Koor transferred a part of its shares in Telrad to Fortissimo, as well as part of its right to repayment of the loans it had furnished to Telrad, for no consideration, so that its holdings in Telrad fell to 10% and its share in shareholder loans fell to 10%. Furthermore, Koor has undertaken to inject a total of \$1,000 thousand as part of a round of financing to be effected, at the terms provided in the agreements. As from the signing date of the agreement, Koor has the right to join the sale of Telrad shares by Fortissimo, and has no representation in Telrad's board of directors. The sale has no effect on the Company's net income.

As a result of the sale, commencing March 31, 2009, the investment in Telrad is treated as an asset available for sale.

Note 4 - Information Regarding Certain Investees (cont.)**C. Harriet Investments (2001) Ltd. (formerly Dekolink Wireless Ltd.) ("Harriet")**

In January 2009, Harriet closed on the sale of most of its assets to an unrelated third party. Under the terms of the assets sale, the Buyer acquired the intellectual property of Harriet, inventory and equipment. Moreover, Harriet assigned to the Buyer several agreements and obligations included in those agreements. The sale's proceeds totaled \$4.1 million in cash. Furthermore, the Buyer has undertaken to transfer receipts to Harriet from invoices receivable that were assigned to the Buyer by Harriet, up to a sum of \$250 thousand.

Koor has also undertaken to indemnify the Buyer for a breach of ownership representations in the assets sold, given to it by Harriet, if Harriet does not meet its obligation to indemnify the Buyer. Koor's indemnification obligation was made contingent on conditions, period and amount (which will not exceed the sales proceeds amount).

As at December 31, 2008, the assets included in the transaction, as above, are stated in the financial statements as assets held for sale.

D. A.K.A. Development Ltd. ("AKA") - affiliate

On April 16, 2009, Koor Properties Ltd. ("Koor Properties"), a wholly-owned subsidiary of Koor, signed an agreement for the sale of its stake (33% of the issued and paid-up share capital) in AKA, to the remaining shareholders in AKA ("the Buyers"). On July 20, 2009, the sale was closed. The total receipts from the sale of Koor's Properties in AKA amounted to NIS 81.2 million, comprised of proceeds from the sale of shares totaling NIS 30.6 million, proceeds from the repayment of loans given by Koor Properties totaling NIS 33.9 million and from a dividend – pre-sale – in which Koor Properties share is of NIS 16.7 million. The final proceeds are subject to certain adjustments if and to the extent the Buyers will sell the shares within a 12-month period from the closing date of the sale. This transaction had no effect on the Company's net income.

Commencing March 31, 2009, the investment in AKA was classified as assets held for sale. Consequently, the Company stopped treating the investment on the basis of the equity method.

E. ECTel Ltd. ("ECTel") – affiliate

Subsequent to the balance sheet date, ECTel signed a merger agreement pursuant to which ECTel will be acquired by an unrelated party (see Note 9(F)). In view of the value of ECTel reflected by this transaction, as at September 30, 2009, ECTel Wrote-down the goodwill carried in its books. Koor's share in the write-down, as reflected in the item "Koor Group's equity in results of affiliates" is NIS 6 million.

Note 5 – Significant Events in the Report Period

- A. In January 2009, a wholly-owned subsidiary of the Company acquired 745,816 par value of Koor debentures (Series H) during stock exchange trading. As a result of the said acquisition, the Company recorded a gain on early redemption of NIS 178 thousand in the first quarter of 2009.

On May 3, 2009, the subsidiary sold 75,830,000 par value of debentures (Series H) for total consideration of NIS 80 million.

Following the aforementioned and in addition to the acquisitions made during 2008, as at September 30, 2009, the subsidiary holds 142,220,086 par value of debentures (Series H).

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

- B. In February 2009, Koor undertook to sell two floors of an office building in Tel-Aviv, comprising a single unit, having total area of 1,617 square meters (and parking spaces) in consideration for NIS 22.4 million. As a result of the said sale, the Company posted a capital gain of NIS 2 million in the first quarter of 2009.
- C. In the first nine months of 2009, the Company made several purchases and sales of shares of Credit Suisse Group AG ("Credit Suisse") – directly and through a wholly-owned subsidiary. As a result of the sale of Credit Suisse shares during the said period, the Company posted a pre-tax gain of NIS 2,324 million, NIS 692 million in the third quarter of 2009.

As provided in the notes to the financial statements for 2008, when the price of Credit Suisse shares exceed their investment cost, the Company must record a provision for tax for the increase in the fair value accrued in equity, against a capital reserve (so that the capital reserve represents the increase in fair value net of tax effects). Against the aforesaid provision, the Company recognizes a deferred tax asset up to the amount of the balance of carryforward losses that may be utilized, and based on the appreciation of the investment made directly by the Company. The subsidiary also recognizes a deferred tax asset for the investments it made, according to the said principles. The deferred tax asset is recognized through the statement of income. In this context, a decrease in the capital reserve in subsequent periods will lead to a decrease in the provision and, correspondingly, to a decrease in the deferred tax asset, and to the recognition of tax expenses through the statement of income. Utilization of the deferred tax asset included in the statements depends on the realization of the investment to which the capital reserve relates, in income.

As at September 30, 2009, the Company accrued material gains on its investment in Credit Suisse, which according to its assessment and based on a professional opinion, may be offset against loss carryforwards that accrued in prior years and in the nine-month period ended September 30, 2009. In these financial statements, management's judgment was needed with respect to the manner of offsetting the losses, the projected taxable income and its timing, since the tax laws and provisions of the law on this area are subject to different interpretations. Also see Note 2(B) above.

In the nine-month period ended September 30, 2009, the Group recognized tax savings of NIS 53 million, mainly due from the recognition of tax assets on the loss carryforwards against the appreciation of the Credit Suisse shares held by the subsidiary. In the third quarter of 2009, the Group recorded tax savings of NIS 25 million, deriving mainly from the recognition of tax assets on the loss carryforwards against the appreciation of the Credit Suisse shares held by the subsidiary.

As at September 30, 2009, the Group holds 22.51 million shares of Credit Suisse, representing 1.90% of Credit Suisse's shares, at a cumulative investment of NIS 3.79 billion, and having fair value at such date of NIS 4.71 billion. Thus the balance of the capital reserve, net of tax, as at September 30, 2009 is positive, at NIS 676 million. Regarding other purchases and sales subsequent to the balance sheet date and the Group's holdings at the report date, see Note 9(A).

In August 2009, the Company's board of directors resolved to increase the amount of the investment in shares of Credit Suisse to a total of NIS 6 billion. The investment will utilize buy and sell opportunities, noting the state of the markets and according to Company assessments from time to time.

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

- D. On April 24, 2009, a general meeting was held by Credit Suisse, in which a dividend distribution of CHF 10 cent per share was approved. On April 30, 2009, Koor received its share in the said dividend, totaling CHF 3 million. From this amount, tax of CHF 0.5 million was withheld.
- E. On June 22, 2009, Koor's board of directors authorized to invest in the shares of Carrefour SA ("Carrefour"). The purchases are effected through a wholly-owned subsidiary of the Company. The approved investment limit is up to a sum of NIS 3.5 billion. The investment will be made while utilizing buy and sell opportunities, noting the state of the markets and according to the Company's assessments from time to time. There is no certainty as to the amount of the investment.

The investment is treated in the balance sheet as an asset available for sale, and is measured at its fair value. The change in fair value of the investment, net of tax, is recognized (as long as there is no sharp and/or ongoing decline) directly in equity, within the capital reserve for assets available for sale.

As at September 30, 2009, the Company held 1.96 million shares of Carrefour, representing 0.28% of Carrefour's shares, at a cumulative investment amount of NIS 318 million, and having fair value at this date of NIS 335 million. This difference, net of commissions related to the purchase of Carrefour shares, was recognized in the capital reserve, securities available for sale. Regarding acquisitions and the Company's holdings subsequent to the balance sheet date, see Note 9(B).

- F. During 2009, the Company reached agreement with Morgan Stanley, whereby the non recourse credit facility provided to it by Morgan Stanley would be increased, to a maximum amount of CHF 440 million. The credit facility is to be repaid in December 2009, with Koor having the right to extend the credit period by two additional one-year periods, subject to the payment of extension fees.

As at September 30, 2009, the utilized credit facility is CHF 291 million (and net of deposits of CHF 271 million). At this report date, the balance of the credit from Morgan Stanley, net of deposits is CHF 214 million.

- G. On May 20, 2009, the Company's board of directors resolved to distribute a cash dividend totaling NIS 432 million (representing NIS 9.11 per share). The dividend was paid on June 10, 2009.
- H. On May 11, 2009, a special general meeting of the shareholders of Koor resolved, in the majority required by Section 275 of the Companies Law, resolved to approve a payment to I.D.B. Development of management fees constituting participation in the cost of the employment by IDB Development in year 2008 of Messrs Haim Gavrieli (a director in Koor and an officer in IDB Development) and Lior Hannes (an officer in IDB Development and a director in IDB Holding Corporation Ltd.), in the amount of NIS 1.2 million for each of them, in view of their substantial contribution to the operations and profitability of Koor in 2008.
- I. On May 15, 2009, the Company repaid all of the recourse credit provided to it by Goldman Sachs totaling CHF 214 million.

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

- J. On July 13, 2009, the Company and M.A.G.M. Chemistry Holdings Ltd. (a subsidiary) ("MAGM") entered into a non-recourse credit facility agreement with a corporation in Citigroup, for the purchase of shares of Credit Suisse ("Citi Credit"). The Citi Credit may be utilized by the Company and/or MAGM (at whatever ratio exists between the two companies). The maximum amount that may be drawn from the Citi Credit facility is CHF 330 million, and this amount will be updated in January 2010 to the maximum amount actually drawn until such date. As at September 30, 2009, the net loan balance drawn from the Citi Credit facility stands at CHF 77 million (which also constitutes the maximum amount drawn until the report date). The balance of Citi credit as at the date of this report stands at CHF 55 million.

The Citi credit will be repaid in July 2010, with the Company and MAGM having the right to extend the credit period by two additional one-year periods, subject to the payment of extension fees. The Company and MAGM are allowed to repay the Citi Credit in early repayment, subject to the payment of a fee. The interest on the Citi Credit is monthly interest at the relevant LIBOR rate (on the Swiss franc), plus a margin ranging between 2.75% and 4%, based on the ratio of the collateral to the net loan balance, as it will actually be from time to time (plus an increment for grossing up withholding tax, if applicable). To secure the Citi Credit, the Company and MAGM will pledge and/or loan shares of Credit Suisse in favor of Citi, while it is agreed that in the event of a deviation from a certain ratio between the value of the collateral and the value of the debt balance (subject to changes under certain circumstances), the Company and MAGM will be required to furnish a cash deposit as additional collateral, at an amount that will result in compliance with the agreed upon collateral to debt ratio.

Under the terms of the Citi Credit, the Company and MAGM have undertaken to maintain available cash balances at an amount equal to the lower of 5% of the initial value of the collateral or 5% of the value of the collateral as it will be from time to time. Citi has undertaken to make maximum effort to enable the Company and MAGM to vote these shares that will be furnished as collateral, as noted, in general meetings of Credit Suisse. The Company and MAGM will be allowed to withdraw the current dividends to be distributed in respect of the shares that will be furnished as collateral, subject to compliance with the required collateral/debt ratio. Special dividends of Credit Suisse, if distributed, in respect of the shares to be furnished as collateral, will be held by Citi together with the collateral. Likewise, the Citi Credit includes provisions regarding forced immediate repayment events, including incidents of a change in control in the Company, in MAGM or in Credit Suisse, a significant downgrading in Credit Suisse's credit rating, extremely low trading volumes in the shares of Credit Suisse, or a drastic drop in the share price. Under the terms of the Citi credit, the Company has guaranteed certain liabilities of MAGM. Furthermore, it was agreed that collateral furnished by the Company will also secure the liabilities of MAGM and vice versa.

Incidental to the undertaking in Citi Credit, a coordinating agreement was executed between Morgan Stanley and Citi (as lenders) and between the Company and MAGM (as borrowers), whereby, inter alia, in the event that a material condition in the credit agreement with one lender will be amended, the other lender will be offered the possibility of making a similar amendment. Moreover, the coordinating agreement refers to a transfer of information between the lenders, in connection with certain matters related to the credit, as well as to the coordinating mechanism between the lenders in all that relates to realization of the collateral or the sale of shares furnished as collateral in certain instances of early termination of the credit provided by one of the lenders.

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

- K. On August 9, 2009, the Company issued to the public 634,117,000 NIS 1 par value of a new series of debentures (Series I) and listed it for trading on the Tel Aviv Stock Exchange Ltd. The total gross proceeds received by the Company from the debentures (Series I) total NIS 634 million.

The debentures are in shekels (unlinked). The debentures will be repaid in 5 equal annual installments, with the first principal payment due on March 15, 2011. The interest rate borne by the debentures was fixed at 6.7%. The fixed annual interest will be paid in semi-annual payments – on March 15 of each of the years 2010 through 2015 (inclusive) and on September 15 of each of the years 2010 through 2014 (inclusive). Moreover, the debentures bear one-off incremental interest of 10% of the increase in the share price of Credit Suisse on the New York Stock Exchange during the 6 months from August 9, 2009, payable whenever there will be an increase in the share price of Credit Suisse during this period, in addition to a semi-annual payment of fixed interest payable on March 15, 2010.

The said incremental interest is treated separately from the debenture as a derivative, which is measured at fair value against gain/loss in each period. Considering the value of the derivative on the issue date of the debentures and the issue costs, the effective interest rate on the debentures is 7.77%.

On September 9, 2009, the Company issued to the public 131,353,000 NIS 1 par value debentures (Series I) through an expansion of the series, at a price of NIS 1.008 per unit. The total gross proceeds received by the Company total NIS 132 million. The effective interest rate of these debentures is 7.62%.

- L. On September 9, 2009, the Company issued to the public 58,133,000 NIS 1 par value of a new series of debentures (Series J) and listed it for trading on the Tel Aviv Stock Exchange Ltd. The total gross proceeds received by the Company from the debentures (Series J) amount to NIS 58 million.

The debentures are in shekels (unlinked). The debentures will be repaid in 6 equal annual installments on September 16 of each of the years 2012 through 2017 (inclusive). The interest rate borne by the debentures was fixed at 7.20%. The annual fixed interest will be paid in semi-annual installments, on March 16 of each of the years 2010 through 2017 (inclusive). The effective interest rate of these debentures is 7.51%.

Note 6 – Contingent Liabilities

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

A detailed description of the contingent liabilities pending against the Company appears in Note 31 to the annual financial statements.

Provided below are details on material changes that occurred in contingent liabilities since December 31, 2008:

- A. In March 2009, a claim and motion for class action recognition (together – "the claim") were filed in Jerusalem District Court against DIC and against directors and the CEO of Koor, by a plaintiff claiming that he is a shareholder in Koor.

The claim alleges, mainly, that the issuance of rights by Koor in November 2008 ("issuance of rights") discriminated against Koor's shareholders from the general public, and was done for the benefit of the controlling shareholders in Koor, including DIC, and that in reaching the decision to issue the rights, the directors of Koor acted in a conflict of interest. The claim further alleges that the number of shares issued from the issuance of rights, pursuant to the shelf offering, exceeded the number of shares provided in the shelf prospectus of Koor from May 2008 on which it was based.

The claim alleges that the issuance of rights violated the rights of the plaintiffs under the Companies Law, 1999, the Securities Law, 1968 and the regulations promulgated thereunder, and the Unlawful Enrichment Law, 1979; and that they acted without good faith and with negligence.

The class that the plaintiff is requesting to represent ("the represented class") is all the Koor shareholders immediately before the issuance of rights that are not part of the controlling shareholders in Koor (DIC, its parent company, and any of the interested parties that hold shares personally in Koor), which did not realize their right to acquire shares in the issuance of the rights; as well as the American shareholders who were unable to realize rights to acquire Koor shares in the issuance of rights.

If recognized as a class action, the relief requested by the plaintiff is that DIC will provide to the represented class 3,988,377 shares of Koor that DIC acquired in the issuance of rights beyond its pro rata share in that rights issuance, so that each of the members of the represented class could acquire a pro rata share of the said shares for NIS 37.29 per share. If this is not possible – to require the defendants to compensate the members of the represented group in the amount of NIS 68.24 per share for each said share; alternatively, to require the defendants to compensate the member of the represented group at a total amount estimated by the plaintiff (according to a financial opinion attached to the claim) of NIS 73 million, or another amount to be determined by the court. The court is also asked to issue orders to prevent future discrimination against Koor's shareholders from the general public, including an order for Koor to convene a general meeting of shareholders and to elect new directors, for whom a condition of their election will be their declaration that they have no connection with the controlling shareholders, as well as to prescribe certain procedures in Koor before it issues rights in the future.

Note 6 – Contingent Liabilities (cont.)

A. (cont.)

Koor gave its directors and officers a letter of indemnification, pursuant to which Koor has undertaken to indemnify the said officers for any obligation or expense to be imposed on them and/or that they will sustain as a result of their activities in performing their function. Moreover, the directors and officers of Koor are insured in directors and officers insurance.

The Company received, for its review, the opinion of the legal counsel of the Company's directors and CEO, pursuant to which at this stage, it is not more likely that the claim will be accepted, than that it will be dismissed. Therefore, in addition to the aforementioned insurance coverage, it did not include any provision for this claim in its financial statements.

B. See Note 4(A)3 in connection with contingent claims against an affiliate.

Note 7 – Operating segments**A. General**

The information is presented for the Group's operating segments.

The Group is engaged in the following main operating segments:

The agrochemical activity is carried out by Makhteshim-Agan (an affiliate), which is considered the world's leading generic agrochemicals producer. Makhteshim-Agan provides a wide range of solutions and products, including herbicides, pesticides and fungicides, as well as aroma products and different kinds of chemicals.

The finance activity is carried out through an investment in the shares of Credit Suisse, whose shares are traded on two main exchanges: the SIX Exchange in Switzerland and the NYSE in New York, and provides financial services worldwide, including commercial banking, private banking, investment banking and asset management services.

The Group's telecommunications equipment activity is carried out by Microwave Networks Inc. ("MNI"), a subsidiary that develops and markets point-to-point telecom systems. In 2008 and the first quarter of 2009, this activity also included Harriet, which developed and marketed cellular communications equipment, and whose assets were sold in January 2009.

The accounting policy for operating segments is the same as that presented in Note 3, regarding accounting policies.

The segment revenues include revenues from sales and services, the gain (loss) generated to Koor by the sale or write-down of investments in companies in the segment, from the amortization of excess cost allocated to the segment companies and the income generated to Koor from the negative goodwill created in the acquisition of the segment companies, gains from the sale of securities available for sale, other income and financing income.

The results of the segments include Koor's equity in the net income (loss) of the segment's companies, the gain (loss) generated to Koor from the sale or write-down of investments in companies in the segment, from the write-down of excess cost allocated to companies in the segment and the income to Koor from the negative goodwill created in the acquisition of companies in the segment.

Notes to the Interim Financial Statements as at June 30, 2009 (unaudited)**Note 7 – Operating segments (cont.)****A. General (cont.)**

The assets of the segment companies include the segment's asset amount according to their financial statements, and with respect to investments classified in the Company's books as available for sale, the segment assets are the Company's investment at fair value.

Regarding certain affiliates, their turnover and assets were included in full, based on the reporting format to the Group's main operational decision makers. These revenues and assets are eliminated in the adjustments column, and instead, the adjustments column includes the Company's equity in the results of the segment companies and the Company's investment in these companies, respectively.

The activities of the headquarter companies, including Koor, are included in the adjustments.

Information relating to prior periods has been restated.

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

	For the nine-month period ended September 30, 2009					
	Agro- Chemicals	Finance	Telecom Equipment	Other	Adjustments	Consolidated
	(unaudited)					
	NIS thousands					
Total revenues	<u>7,300,884</u>	<u>2,332,857</u>	<u>87,783</u>	<u>108,057</u>	<u>(7,292,139)</u>	<u>2,537,442</u>
Segment's results	<u>65,002</u>	<u>2,332,857</u>	<u>(13,339)</u>	<u>4,210</u>	<u>(310,511)</u>	<u>2,078,219</u>
Segment's assets	<u>13,613,973</u>	<u>4,707,655</u>	<u>63,228</u>	<u>763,410</u>	<u>(7,870,306)</u>	<u>11,277,960</u>
	For the nine-month period ended September 30, 2008					
	Agro- Chemicals	Finance	Telecom Equipment	Other	Adjustments	Consolidated
	(unaudited)					
	NIS thousands					
Total revenues	<u>7,518,121</u>	<u>535,116</u>	<u>159,809</u>	<u>286,335</u>	<u>(7,400,789)</u>	<u>1,098,592</u>
Segment's results	<u>273,540</u>	<u>535,116</u>	<u>(49,024)</u>	<u>(5,096)</u>	<u>(442,051)</u>	<u>312,485</u>
Segment's assets	<u>11,366,551</u>	<u>66,404</u>	<u>121,933</u>	<u>759,689</u>	<u>(5,422,235)</u>	<u>6,892,342</u>
	For the three-month period ended September 30, 2009					
	Agro- Chemicals	Finance	Telecom Equipment	Other	Adjustments	Consolidated
	(unaudited)					
	NIS thousands					
Total revenues	<u>1,985,475</u>	<u>691,585</u>	<u>25,601</u>	<u>30,519</u>	<u>(2,053,310)</u>	<u>679,870</u>
Segment's results	<u>(39,867)</u>	<u>691,585</u>	<u>(3,977)</u>	<u>(5,405)</u>	<u>(156,767)</u>	<u>485,569</u>

Notes to the Interim Financial Statements as at June 30, 2009 (unaudited)

Note 7 – Operating segments (cont.)

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

	For the three-month period ended September 30, 2008					
	Agro-Chemicals	Finance	Telecom Equipment	Other	Adjustments	Consolidated
	(unaudited)					
	NIS thousands					
Total revenues	2,290,124	535,116	51,404	76,652	(2,264,468)	688,828
Segment's results	62,429	535,116	(27,566)	(13,488)	(128,882)	427,609

	For the year ended December 31, 2008					
	Agro-Chemicals	Finance	Telecom Equipment	Other	Adjustments	Consolidated
	(audited)					
	NIS thousands					
Total revenues	9,345,210	574,523	208,580	360,292	(9,224,213)	1,264,392
Segment's results	289,486	574,523	(54,119)	(41,652)	(530,775)	237,463
Segment's assets	12,825,709	4,099,752	114,786	759,561	(10,338,443)	7,461,365

Note 8 – Taxes on income

On July 25, 2005, the Knesset passed the Law to Amend the Income Tax Ordinance (No. 147), 2005, which provided, inter alia, a gradual reduction in the corporate tax rate, reaching 25% in the 2010 tax year and henceforth.

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislative Amendments for Implementation of the Economic Plan for the Years 2009 and 2010), 2009, which provided, inter alia, a further gradual reduction in the corporate tax rate, to 18% in 2016 and henceforth. According to the said amendments, the corporate tax rates in effect in the tax year 2009 and henceforth are as follows: in 2009 tax year – 26%; in 2010 tax year – 25%; in 2011 tax year – 24%; in 2012 tax year – 23%; in 2013 tax year – 22%; in 2014 tax year – 21%, in 2015 tax year – 20% and in the tax year 2016 and henceforth, a corporate tax rate of 18% will be in effect.

The implication of the change in tax rates expressed in the financial statements for the third quarter of 2009, by increasing the investment in investees and increasing the Koor Group's equity in results of affiliates, net in the amount of NIS 11 million.

Note 9 – Subsequent events

- A. In October and November 2009, the Group effected additional purchases and sales of Credit Suisse shares. In respect of sales of Credit Suisse shares until the issue date of the financial statements, the Company will recognize net income of NIS 251 million in the fourth quarter of 2009.

Proximate to the date of this report, following purchases of Credit Suisse shares (net of sales), the Group holds 23.81 million shares of Credit Suisse that constitute 2.01% of the share capital of Credit Suisse, at a total investment of NIS 4.32 billion.

At the issue date of this report, the difference between the value of the Credit Suisse shares held by the Koor Group, based on its stock exchange price of NIS 5.03 billion, and the original cost of these shares (the unrealized gain) stands at NIS 712 million. As at the date of this report, the Company has a debt balance (net of deposits) to financial institutions for this investment totaling CHF 269 million.

- B. In October 2009, the Company effected an additional purchase of shares of Carrefour proximate to the date of this report. Following this acquisition, the Group holds 2.16 million shares of Carrefour, constituting 0.31% of its share capital, at a total of NIS 351 million.

- C. On October 1, 2009, Koor's board of directors approved (in accordance with the Company's bylaws (Exceptions in Transactions with Interested Parties), 2000 ("Exceptional Regulations")) a transaction, pursuant to which Koor and Property and Building Corp Ltd. ("Property and Building") will undertake, through a joint corporation, with corporations in the HSBC Group ("HSBC"), to purchase the HSBC headquarters building on Fifth Avenue in New York ("the Building"), for total consideration of \$330 million, to be paid from self-resources. Under the terms of the transaction, Koor and Property and Building will each purchase, through an American corporation owned jointly by each of them in an indirect manner (in equal stakes) ("IDB Corporation"), one-half of the rights in the building (for consideration of \$165 million each), and will bear one-half of the expenses involved in executing the transaction; Koor and Property and Building will be equal partners in the rights and obligations of the transaction, in IDB Corporation and in the Building, and includes joint management of the building, its maintenance, rental and all that it involves, and will be allowed, according to resolutions of their boards of directors, as will be adopted from time to time, inter alia, to provide financing to IDB Corporation for any purpose related to the Building, maintenance and ownership of it, to sell rights in IDB Corporation and/or the Building (in full or in part), directly or indirectly, and to bring investors into the IDB Corporation and/or the Building, all on a pro rata bases according to their proportionate shares.

On October 3, the said agreement was signed. Upon signing the said agreement, IDB Corporation deposited the sum of \$20 million in trust, in favor of HSBC, as an advance on account of the purchase of the Building. The shares of Koor and Building and Property in the deposit is \$10 million each. The deposit will serve as agreed upon damages and will be realized by HSBC in the event the IDB Corporation does not meet its obligations pursuant to the agreement.

In the event that during 24 months from the closing date of the transaction, IDB Corporation will sell the Building, or more than 50% of the rights in IDB Corporation will be sold, HSBC will be entitled to one-half of the gain.

The transaction is expected to close in the first quarter of 2010.

Note 9 – Subsequent events (cont.)

- D. On November 12, 2009, the audit committee of Koor, and on November 15, 2009 the board of directors of Koor, approved the Company's undertaking in an agreement with Rock Real Estate Partners Limited ("Rock Real"), pursuant to which Rock Real will initiate and propose to the Company, from time to time, to purchase rights in real estate outside of Israel, from unrelated parties, according to the Company's characterizations and instructions, whether directly or through the purchase of corporations holding rights in real estate ("real estate"), will assist in negotiations relating to the purchase of real estate and obtaining financing for their purchase, will guide and coordinate the purchase until the closing, will provide strategic consulting services regarding the management of real estate and its improvement, and will assist in identifying and executing sales of real estate, all according to the Company's needs ("the Agreement"). In consideration for each real estate purchase transaction that the Company will undertake (by itself and/or through private corporations it controls), which are proposed by Rock Real, and will be guided by it, as noted, the Company (or a private company under its control, as applicable) will pay consideration to Rock Real at the rate of 12% of the earnings that will be generated to the Company (or the private corporation it controls) from the said real estate (i.e. all revenues net of all investments and expenses in respect of the property). The payment will be made only on the real estate's date of sale, or in a case in which prior to the sale of the real estate, the Company recovers its entire investment and expenses in respect of the purchase of the real estate, in real values, all at the terms and in the manner of accounting provided in the Agreement.

Pursuant to the Agreement, the Company will not be obligated to purchase real estate proposed to it by Rock Real and Rock Real will not be obligated to propose transactions for the purchase of real estate to the Company.

To the best of the Company's knowledge, Rock Real is a company controlled by a trust, one of the beneficiaries of which is Mr. Jacob Shimmel, whose brother, Mr. Mark Shimmel, serves as a director in the Company.

The Agreement is subject to the approval of a general meeting of the Company's shareholders ("the General Meeting"), and will be in effect for a five-year period, to commence on the date of the General Meeting's approval. The Agreement will continue to be in effect at the end of this period with respect to real estate for which the purchase was closed during the said five-year period.

The consents pursuant to the Agreement, if and when approved by the General Meeting, will also apply to the transaction to purchase the HSBC headquarters, since the said transaction was proposed by Rock Real, with respect to the Company's share in it.

- E. On October 22, 2009, a special tender offer published by the Company was accepted, to purchase up to 22 million ordinary shares, NIS 1 par value each, of Makhteshim-Agan, constituting 5.06% of its issued and paid-up share capital of Makhteshim-Agan and 5.11% of the voting rights in Makhteshim-Agan, at a share price of NIS 18.00 and a total cost of NIS 396 million. The excess cost created by the said tender offer is NIS 155 million. Following the tender offer, the Company's holding percentage in voting rights of Makhteshim-Agan is 47.04%.

Note 9 – Subsequent events (cont.)

- F. On October 22, 2009, ECtel signed a merger agreement, whereby ECtel will be acquired by cVidya Networks Ltd., in consideration for \$21 million in cash (net of transaction costs exceeding the sum provided in the agreement). Under the terms of the agreement, every shareholder of ECtel will receive in the future, upon the transaction's closing, \$1.26 per share held. The proceeds expected by Koor from the sale of its shares in ECtel are estimated at \$4.4 million. The closing of the transaction requires, inter alia, approval of the shareholders of ECtel. The Company, as a shareholder in ECtel, has undertaken toward cVidya Networks Ltd., that subject to certain acceptable conditions, it will vote in the general meeting of ECtel shareholders in favor of approving the transaction. To the best of the Company's knowledge, the transaction is expected to close toward the beginning of 2010.
- G. On the approval date of the financial statements, the Company's board of directors resolved to distribute a cash dividend totaling NIS 360 million (constituting NIS 7.59 per share). The dividend will be distributed on December 7, 2009, with the record date fixed as November 22, 2009 and the ex-date as November 23, 2009.