

**Koor Industries Ltd.
Directors' Report**

For First Quarter of 2008

We are pleased to submit the condensed unaudited financial statements of Koor Industries Ltd. for the first quarter of 2008.

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 sectors. The Company, together with its wholly owned subsidiaries ("Koor") focuses on large-scale international investments. Koor has large cash balances as well as financing and leverage capacity, allowing it to expand its investment portfolio. Koor is examining financial and real investments abroad, inter alia, in view of the market situation and the opportunities that are opening up in the markets.

1 Results of operations

The Company's net earnings attributable to the Company's equity holders for the first quarter of 2008, amounted to NIS 4.2 million, with basic earnings per share of NIS 0.4, compared with earnings of NIS 121.9 million and a basic earnings per share of NIS 7.6 for the first quarter of 2007.

Breakdown of Koor's financial results:

	<u>Q1 2008</u>	<u>Q2 2007</u>	<u>2007</u>
	<u>NIS Millions</u>		
Koor's equity in the operating results of investee companies, net	84	107	173
Gain from sale of investments, net of impairment	44	26	682
Administrative, financing and other expenses, net	(124)	(11)	(241)
Net earnings (loss)	4	122	614
Basic earnings (losses) per share (in NIS)	0.4	7.6	36.8

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

	<u>Koor's equity in earnings (losses) for the year</u>			<u>Change</u>
	<u>Q1 2008</u>	<u>Q1 2007</u>	<u>2007</u>	<u>Q1 2008 compared with Q1 2007</u>
	<u>NIS Millions</u>			
Makhteshim Agan Industries Ltd.	132	121	265	7%
ECI Telecom Ltd.	-	26	56	n/a
Telrad Networks Ltd.	(9)	(1)	(7)	n/a
ECTel Ltd.	(1)	(3)	(7)	n/a
Koor Venture Capital partnership	(10)	-	(12)	n/a
Other companies	(17)	(7)	(49)	n/a
Excess cost and other adjustments	(11)	(29)	(73)	n/a
Total	84	107	173	(25%)

1.2 Gain from sale of investments, net of impairment

	<u>Q1 2008</u>	<u>Q1 2007</u>	<u>2007</u>
	<u>NIS Millions</u>		
Gain from sale of investments, net of impairment	44	26	682

In the first quarter 2008, this item included in particular capital gain of NIS 46 million from anticipated additional consideration from Elbit Systems Ltd. for sale of Elisra Electronic Systems Ltd. ("Elisra"), due to receipt of insurance receipts for relating to the fire that occurred at Elisra's subsidiaries' plants in 2001.

In the first quarter 2007, this item included in particular capital gain of NIS 26 million from the sale of our holdings in Scopus Video Networks Ltd. ("Scopus").

1.3 Administrative, financing and other expenses, net

	<u>Q1 2008</u>	<u>Q1 2007</u>	<u>2007</u>
	<u>NIS Millions</u>		
Administrative, taxes and other expenses, net	(2)	(5)	(26)
Financing expenses, net	(122)	(6)	(215)
Total administrative, financing and other expenses, net	(124)	(11)	(241)

The main change in the first quarter of 2008 compared with the same period in 2007 was due to an increase in financing expenses, net, following the sharp decrease in the shekel-dollar exchange rate, which led to the erosion of dollar financial assets. The financing expenses deriving from the erosion of the dollar exchange rate in this quarter amounted to NIS 128 million. The increase in financing expenses was in part offset against revenues deriving from the changes in the fair value of Option Warrants series 2, which were issued to institutional investors together with the issue of Debentures Series G.

2 Segments of operation

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

	<u>Q1 2008</u>	<u>Q1 2007</u>	<u>2007</u>
	<u>NIS Millions</u>		
<u>Segment</u>			
Agrochemicals	121	93	195
Telecommunications equipment	(15)	16	612
Venture capital investments	(10)	26	14
Other holdings	45	2	17
Total	141	137	838

2.1.1 Agrochemicals

<u>Q1 2008</u>	<u>Q1 2007</u>	<u>2007</u>
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	<u>NIS Millions</u>		
Contribution of business segment	121	93	195

The main change in the results of the segment in the first quarter of 2008 compared with the same period of the previous year was due to the improvement in the financial results of Makhteshim Agan Industries Ltd. (Makhteshim Agan).

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

	<u>Q1 2008</u>	<u>Q1 2007</u>	<u>Increase (decrease)</u>	<u>2007</u>
	<u>Million USD</u>		<u>%</u>	<u>Million USD</u>
Revenues	722	553	30%	2,066
Gross profit	260	192	35%	689
Operating income	134	85	58%	268
Financing expenses, net	32	3	967%	80
Net profit	91	72	26%	168

The results of Makhteshim Agan in the first quarter of 2008 compared with the same period in 2007 were affected by the following trends in the crop protection products market and in Makhteshim Agan: (a) the reported period saw an increase in the demand for Makhteshim Agan's products due to an increase in the prices of agricultural produce. The increase in the price of agricultural produce was primarily due to the continued increase in the standard of living worldwide, especially in developing areas such as China and India subsequent to changes in the nutritional habits of the populations in these areas. In addition, the rise in the global demand for biofuels produced from sugarcane and corn crops; (b) for the first time in many years, a rise in the average sales price was recorded for Makhteshim Agan's products. This trend had a positive impact (together with the other trends mentioned above and below), both on the increase in Makhteshim Agan's revenues from sales of its products and from the gross earnings of Makhteshim Agan; (c) during the first quarter favorable weather conditions prevailed in most geographic areas in which Makhteshim Agan operates, which created a greater demand than expected for crop protection products; (d) Makhteshim Agan reports its results in dollars, and thus the strengthening of various currencies (mainly the euro) against the dollar led to an increase in Makhteshim Agan's revenues in dollar terms, and this notwithstanding the strengthening of the shekel, which increased local expenses in Israel (e) contrary to this, the high fuel prices resulted in continued increase in raw material prices (which are distant derivatives of fuel), and an increase in energy prices which together eroded Makhteshim Agan's gross profit.

2.1.2 Telecommunications equipment

	<u>Q1 2008</u>	<u>Q1 2007</u>	<u>2007</u>
	<u>NIS Millions</u>		
Contribution of business segment	(15)	16	612

The main changes in the results of this business segment in the first quarter of 2008 compared with the same period in 2007 were due to the results of the activities of ECI Telcom Ltd., which was sold in the third quarter of 2007 and in deterioration in the results of Dekolink Wireless Ltd. and Telrad Networks Ltd.

2.1.3 Venture capital investments

	<u>Q1 2008</u>	<u>Q1 2007</u>	<u>2007</u>
	<u>NIS Millions</u>		
Contribution of business segment	(10)	26	14

The main change in the segment's financial results in the first quarter of 2008 compared with the same period in 2007 are due to the operating results of Koor Corporate Venture Capital, which constitutes the segment in the reporting period.

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

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

	<u>Q1 2008</u>	<u>Q1 2007</u>	<u>Increase (decrease)</u>	<u>2007</u>
	<u>NIS Millions</u>		<u>%</u>	<u>NIS Millions</u>
Revenues	-	24	n/a	12
Operating income	(10)	23	n/a	11
Net profit	(10)	23	n/a	11

The main contribution of Koor Corporate Venture Capital in the first quarter of 2008 is due to a decline in the fair value of the venture capital investments, mainly as a result of the sharp drop in the dollar-shekel exchange rate.

The main contribution of Koor Corporate Venture Capital in 2007 was due to the partnership from the sale of its holdings in Scopus.

2.1.4 Other holdings

	<u>Q1 2008</u>	<u>Q1 2007</u>	<u>2007</u>
	<u>NIS Millions</u>		
Contribution of business segment	45	2	17

The main change in the financial results of this business segment in the first quarter of 2008 compared with the same period in 2007 originates from the gains recorded in this quarter with respect to the anticipated additional consideration from Elbit for the sale of Elisra, as set forth above.

3 Main changes in the holdings of the Company and its investees in 2007

- 3.1** In January 2008, Koor acquired shares in Makhteshim Agan to the extent of NIS 126 million. For further information, see Note 5 (A) to the Financial Statements.
- 3.2** In January 2008, Koor notified that it is examining the option of issuing by way of rights to the Company's shareholders, under a prospectus that will be based on the Companies financial statements as at December 31, 2007. Nonetheless, at this stage the issue amount, terms and conditions, and date have not yet been fixed and it is yet uncertain whether it will be implemented.

- 3.3** In March 2008, Makhteshim Agan's Board of Directors resolved to distribute a dividend in the total amount of US\$ 120 million. Koor's share in said dividend, which was received in April 2008, amounted to NIS 166 million.
- 3.4** In March 2008, the Board of Directors of Makhteshim Agan resolved on a self acquisition of Makhteshim Agan shares to an extent that shall not exceed US\$ 100 million. As of the Report Date, the said self acquisition has not been made.
- 3.5** In March 2008, the final installment of NIS 36 million for a transaction concluded in April 2007 for the sale of Koor's holding (56.5%) in the Sheraton Moriah (Israel) Ltd. to Azorim Tourism Ltd, which is controlled by Azorim Investment in Development and Building Corporation Ltd. and Boymelgreen Capital Ltd. for total consideration of US\$ 24 million. For further details in this respect, see Note 5 (B) of the Financial Statements.

4 Main events subsequent to the balance sheet date

- 4.1** In March and April 2008, due to the status of the global markets and the business opportunities that are opening and which are likely to open in them, the Company's Board of Directors gave its approval for its management to enter financial investments in negotiable shares in Credit Suisse Bank and in Barclays Bank. The shares will be purchased from time to time, at the discretion of the Company's management, to a total amount of NIS 1.5 billion. The company's Board of Directors may in the future consider increasing the amount of the investment. With respect to the said purchases, the Company entered into an agreement with Goldman Sachs investment bank, which agreed to extend to the Company a designated credit line for the purpose of purchasing these shares. Initially, the credit line will be for an amount of US\$ 250 million. Subject to compliance with certain terms and conditions, the designated credit line may increase to a significant amount. In May 2008, the Company notified that it had signed an agreement with Goldman Sachs with respect to the extension of a recourse credit line and in the coming days it will sign an additional non-recourse agreement with Goldman Sachs. On signing of the two agreements, the credit line that will be available to the Company, will increase to US\$ 1.5 billion (of which US\$ 820 million non-recourse). Together with the equity amounts that the Company will be required to invest, if the full credit line is utilized, the investment in these shares may reach US\$ 2.7 billion. At this stage, shares have been purchased, in non-material amounts, in Barclays Bank only. The use of the credit lines and the Company's investments in these shares is contingent on several conditions, including the Company's forecasts regarding the developments in the markets. The Company clarifies that there is no certainty with regards to the investment and its scope.
- 4.2** In April 2008, the Company notified that it is conducting initial negotiations with Clal Finances Ltd. (Clal Finances) with respect to the option to sell Koor's entire holding in Epsilon. To the best of Koor's knowledge, Clal Finances is at the same time examining the option to purchase the remaining shares in Epsilon which are held by third parties as aforesaid. The terms and conditions of the transaction have not yet been formulated and it is not at all certain that the foregoing will take place. If and should the negotiations mature, the transaction will be subject to the approvals pursuant with any law.
- 4.3** In April 2008, the Company notified that it was approached by international concerns to purchase its holdings in Mackteshim Agan and that it rejected the offers and is currently negotiating with another party for joint controlling share of Mackteshim Agan, which shall not exceed half of the controlling share. In May 2008, the Company notified that it had decided to terminate the said negotiations.
- 4.4** In April 2008, the Company's general meeting approved amendments to the Company's Articles of Association and adjusted it 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).

- 4.5** Subsequent to the amendment of the Securities (Method of offering securities to the public) (Amendment) Regulations, 5768-2008, the final version of which was published on the Securities Authority website on May 5, 2008, in May 2008 the Company's General meeting approved that in the event of an offer of securities by way of letters of rights, the Company will be entitled not to offer the letters of rights to foreign holders the Company's securities on whom foreign law is applicable, and this whether the exclusion of the foreign holders shall not be in violation of the foreign law, and provided that the exclusion of the foreign holders will be in accordance with the provisions of the Security Law, 5728-1968 and its amendments as they may be applicable at that time. For details see the Company's Immediate Report of April 14, 2008 (Ref. No. 2008-01-108549), the Company's Immediate Report of May 5, 2008 (Ref. No. 2008-01-124602) and the Company's Immediate Report of May 13, 2008 (Ref. No. 2008-01-131790).
- 4.6** In May 2008, Koor invested US\$ 2.55 million in the private equity fund, Indivision, which invests in Indian retail businesses. Koor's total liabilities in the fund are US\$ 15 million. As at the Report Date, the scope of Koor's total investments in the fund are US\$ 10.8 million. The balance of Koor's obligation to invest in the fund, as at the date of this report, is US\$ 4.2 million.
- 4.7** As of March 31, 2008 and up until shortly prior to the issue of these reports, the dollar exchange rate dropped by 3.5% from NIS 3.553 to 3.428 per dollar. The Company estimates that this decline causes, at this stage, accumulated loss on account of net balances denominated in US dollars or linked thereto, as of the beginning of the second quarter of 2008 and to shortly prior to the issue of this report, to be NIS 60 million. The calculation is based on the assumption that there have not been material changes in the balances of assets and liabilities, including supplier and customer balances from how they appear in section 7.1 hereunder. The above information includes preliminary assessments and partial information available at Report Date to Koor. This information has not been processed, definitively checked nor reviewed by Koor's auditors, and is subject to further changes in the US dollar exchange rate until the end of the Quarter. Therefore, it is likely that there will be changes in respect of the foregoing. Furthermore, the said changes in the dollar exchange rate have a negative effect on the profitability of those investee companies operating or reporting in US dollars and the impact on Koor's profits for losses of investee companies from their dollar holdings and the impact of the exchange rate on Koor's shareholders' equity, including the cumulative foreign currency translation adjustments fund (in particular Makhteshim Agan).

5 Financial Position and Sources of Finance

5.1

	March 31, 2008	December 31, 2007
	NIS millions	
Total assets in the consolidated balance sheet	5,160	5,371
Investments in investees in consolidated balance sheet	2,453	2,566
Total equity relating to holders of capital rights in the company	1,858	2,029
Surplus of current assets over current liabilities in the consolidated balance sheet	1,875	1,923
Surplus of financial liabilities over Koor's financial	*951	650

assets

* This balance does not include Koor's share in a dividend from Makhteshim Agan in the amount of NIS 166 million which was received in April 2008, and anticipated future consideration in the amount of NIS 46 million from Elbit for the sale of Elisra Electronic Systems Ltd., due to the receipt of insurance receipts for relating to the fire that occurred at Elisra's subsidiaries' plants in 2001.

5.2 In the first quarter of 2008, Koor received dividend from Epsilon in the amount of NIS 1 million. In the same period in 2007, Koor received dividend from Epsilon in the amount of NIS 4 million. In April 2008, Koor received dividend from Makhteshim Agan in the amount of NIS 166 million.

5.3 In the first quarter of 2008, the consideration for the sale of investments amounted to NIS 36 million. In the same period in 2007, the consideration for the sale of investments amounted to NIS 197 million.

5.4 In the first quarter of 2008, Koor extended loans and invested in investee companies in the net amount of NIS 155 million. In the same period in 2007, Koor extended loans and invested in investee companies in the net amount of NIS 10 million.

5.5 In April 2008, the Company settled debts to banks in the amount of NIS 116 million and took long-term loans from banks in the amount of NIS 50 million.

6 Delisting of Koor shares at the US SEC

In June 2007, the Company delisted its ADRs from trading on the New York Stock Exchange and gave notice of the termination of the ADR program and of its intention to delist its shares in the SEC when it complies with the requirements to do so.

On February 11, 2008, Koor filed Form 15-F with the SEC for deregistration of Koor shares in the SEC and to immediately suspend the reporting requirements imposed on it by the US Securities Law, 1934. The deregistration became irrevocable on May 11, 2008.

7 Report on market risks expose and management

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.

Koor's exposure to inflation rates in Israel are due to the fact that the majority of Koor's debt is an Israeli CPI linked shekel debt bearing fixed interest, which fair value is impacted by changes in the market interest rates.

7.1.1 Exposure to impact of foreign currency changes

Koor is exposed to changes in the shekel to dollar exchange rate due to financial assets fixed in USD, including large cash balances arising from the sale of holdings as set forth hereunder. The fair value of the liquid assets is impacted by the changes in the shekel to dollar exchange rate.

Koor, from time to time, sells or acquires holdings, the price of which is in foreign currency, usually in USD. For example, in 2006 Koor sold holdings in Elbit and in 2007 it sold holdings in ECI and in Elbit. The exposure of such transactions refers to the period prior to transaction closing, which often

includes uncertainty regarding realization thereof, and after closing if Koor continues holding the transaction consideration in USD.

In addition, Koor is liable to be affected by exchange rates on the shekel value of the investees whose operations are abroad and/or whose primary activities are in foreign currency.

The Company's policy for the investment of cash balances and for hedging against financial exposure is executed by the Company's management and by the Company's investment committee, including the Finance Director and capital market advisors. In November 2007, the Board of Directors appointed an Investment Committee which consists of four board members, of which two are external directors. The management reported to the Board of Directors Investment Committee regarding the investment policy for the cash balances and hedging against exposure and the investment committee assessed and approved this policy. In addition, at every audit committee and board meeting, the Company's management reports to the audit committee and to the Board of Directors with respect to Koor's exposure to the changes in the exchange rates and discusses Koor's linkage balance.

As of the date of this report, Koor does not take steps to hedge against exposure relating to the shekel equivalent of foreign currency assets and/or against indirect exposure impacted by the performance of the investees. Nonetheless, it is possible that Koor will take such steps against these exposures.

7.1.2 Report of linkage bases

A. The Company does not manage the risks of its investees. Hereunder are the linkage terms of monetary balances and derivative positions of Koor and its wholly-owned subsidiaries, as of March 31, 2008.

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

	<u>CPI linked</u>	<u>In USD or dollar linked</u>	<u>Unlinked</u>	<u>Non- monetary item</u>	<u>Negotiable assets</u>	<u>Total</u>
<u>Assets</u>						
Current assets	235	1,726	333	1	80	2,375
Investment in affiliates (including loans)	30	51	-	2,343	-	2,424
Deposits and long-term loans (including maturities)	7	7	-	108	-	122
Fixed and other assets and real estate for investment	-	-	-	82	-	82
Total assets	<u>272</u>	<u>1,784</u>	<u>333</u>	<u>2,534</u>	<u>80</u>	<u>5,003</u>
<u>Liabilities</u>						
Current liabilities	(347)	(5)	(81)	(2)	-	(435)
Long-term liabilities	(2,703)	(7)	-	-	-	(2,710)
Total Liabilities	<u>(3,050)</u>	<u>(12)</u>	<u>(81)</u>	<u>(2)</u>	<u>-</u>	<u>(3,145)</u>
Assets less liabilities, net	<u>(2,778)</u>	<u>1,772</u>	<u>252</u>	<u>2,532</u>	<u>80</u>	<u>1,858</u>

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

	CPI / NIS			
	Fair value		Fair value	
	Nominal value	to receive	Nominal value	to receive
	Up to one year		More than one year	
LONG	LONG	LONG	LONG	
Forward contracts for hedging (1)	300	6	200	6

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

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

	CPI linked	In USD or dollar linked	Other currency or linked thereto	Unlinked	Non-monetary item	Negotiable assets	Total
<u>Assets</u>							
Current assets	198	1,769	1	337	60	80	2,445
Investment in affiliates (including loans)	30	51	-	-	2,372	-	2,453
Deposits and long-term loans (including maturities)	7	11	-	-	108	-	126
Fixed and other assets and real estate for investment	-	-	-	-	136	-	136
Total assets	235	1,831	1	337	2,676	80	5,160
<u>Liabilities</u>							
Current liabilities	(347)	(101)	-	(115)	(8)	-	(571)
Long-Term Liabilities	(2,711)	(18)	-	-	(2)	-	(2,731)
Total Liabilities	(3,058)	(119)	-	(115)	(10)	-	(3,302)
<u>Assets less liabilities, net</u>	(2,823)	1,712	1	222	2,666	80	1,858

E. Koor's linkage terms of monetary balances as of March 31, 2007 (in NIS millions):

	<u>CPI linked</u>	<u>In USD or dollar linked</u>	<u>Unlinked</u>	<u>Non- monetary item</u>	<u>Negotiable assets</u>	<u>Total</u>
<u>Assets</u>						
Current assets	178	612	229	2	99	1,120
Investment in affiliates (including loans)	27	56	-	3,338	-	3,421
Deposits and long-term loans (including maturities)	-	9	-	103	50	162
Fixed and other assets and real estate for investment	-	-	-	78	-	78
Total assets	205	677	229	3,521	149	4,781
<u>Liabilities</u>						
Current liabilities	(53)	(9)	(122)	(2)	-	(186)
Long-Term Liabilities	(2,289)	(9)	-	(3)	-	(2,301)
Total Liabilities	(2,342)	(18)	(122)	(5)	-	(2,487)
<u>Assets less liabilities, net</u>	<u>(2,137)</u>	<u>659</u>	<u>107</u>	<u>3,516</u>	<u>149</u>	<u>2,294</u>

F. Koor derivative positions as of March 31, 2007 (in NIS millions):

	<u>CPI / NIS</u>			
	<u>Nominal</u>	<u>Fair</u>	<u>Nominal</u>	<u>Fair</u>
	<u>value</u>	<u>value</u>	<u>value</u>	<u>value</u>
	<u>to pay</u>	<u>to pay</u>	<u>to pay</u>	<u>to pay</u>
	<u>Up to one year</u>		<u>More than one year</u>	
	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>
Forward contracts for hedging (1)	700	(15)	200	(1)

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

H. Consolidated linkage terms of monetary balances as of March 31, 2007 (in NIS millions):

	<u>CPI linked</u>	<u>In USD or dollar linked</u>	<u>Unlinked</u>	<u>Non- monetary item</u>	<u>Negotiable assets</u>	<u>Terminated Operation</u>	<u>Total</u>
<u>Assets</u>							
Current assets	157	659	231	74	100	-	1,221
Investment in affiliates (including loans)	27	56	-	3,207	-	-	3,290
Deposits and long-term loans (including maturities)	-	15	-	103	50	-	168
Fixed and other assets and real estate for investment	-	-	-	121	-	-	121
Total assets	184	730	231	3,505	150	796	5,596
<u>Liabilities</u>							
Current liabilities	(53)	(86)	(143)	(7)	-	-	(289)
Long-Term Liabilities	(2,297)	(31)	-	(3)	-	-	(2,331)
Liabilities relating to terminated operations	-	-	-	-	-	(682)	(682)
Total Liabilities	(2,350)	(117)	(143)	(10)	-	(682)	(3,302)
<u>Assets less liabilities, net</u>	<u>(2,166)</u>	<u>613</u>	<u>88</u>	<u>3,495</u>	<u>150</u>	<u>114</u>	<u>2,294</u>

7.2 Investees

No significant changes have taken place during the reporting period relating to the exposure of the Company's significant investees regarding market risks and procedures with respect to the Company's reports on this matter in the Company's Board of Directors report for 2007, dated March 17, 2008.

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

Sensitivity analysis for changes in Israeli CPI linked interest rates

<u>Section</u>	<u>Fair value</u>	<u>Profit (Loss) from Changes in Interest Rate</u>			
		<u>Rise of</u>		<u>Fall of</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
<u>In NIS millions</u>					
Israeli CPI linked long-term deposits and loans (including current maturities)	19	(2)	(1)	2	1
Debentures linked to the Israeli CPI	(1,673)	34	17	(34)	(17)
Bank loans linked to the Israeli CPI	(1,406)	7	3	(7)	(3)
	<u>(3,065)</u>	<u>39</u>	<u>19</u>	<u>(39)</u>	<u>(19)</u>

Sensitivity analysis of changes in the US dollar exchange rate

Section	Profit (Loss) from Changes in US dollar exchange rate				
	Fair value	Rise of		Fall of	
		10%	5%	10%	5%
		In NIS millions			
Long-term deposits and loans (including current maturities)	54	5	3	(5)	(3)
Debtors and short-term debit balances	5	1	-	(1)	-
Customers	37	4	2	(4)	(2)
Short-term deposits and loans	6	1	-	(1)	-
Cash and cash equivalents	1,544	154	77	(154)	(77)
Long-term loans from banks	(21)	(2)	(1)	2	1
Suppliers, creditors and credit balances	(51)	(5)	(3)	5	3
Short-term bank credit	(37)	(4)	(2)	4	2
	<u>1,537</u>	<u>154</u>	<u>76</u>	<u>(154)</u>	<u>(76)</u>

Sensitivity analysis on changes in negotiable securities prices

Section	Profit (Loss) from Changes in negotiable securities price				
	Fair value	Rise of		Fall of	
		10%	5%	10%	5%
		In NIS millions			
Investment in negotiable securities	<u>431</u>	<u>43</u>	<u>22</u>	<u>(43)</u>	<u>(22)</u>

Sensitivity analysis on CPI changes – derivatives

	Fair value	Profit (Loss) from Changes in the consumer price index			
		Rise of		Fall of	
		0.2%	0.1%	0.2%	0.1%
In NIS millions					
CPI forward contract					
Hedging – not recognized for accounting	13	1	-	(1)	-

7.4 Sensitivity analysis tables for sensitive financial instruments included in the consolidated financial statements as of March 31, 2007, in accordance with changes in market factors.

Sensitivity analysis for changes in Israeli CPI linked interest rates

Section	Fair value	Profit (Loss) from Changes in Interest Rate			
		Rise of		Fall of	
		10%	5%	10%	5%
In NIS millions					
Israeli CPI linked long-term deposits and loans (including current maturities)	17	(2)	(1)	2	1
Debentures linked to the Israeli CPI	(1,035)	21	11	(21)	(11)
Bank loans linked to the Israeli CPI	(1,342)	15	7	(15)	(7)
	(2,360)	34	17	(34)	(179)

Sensitivity analysis of changes in the US dollar exchange rate

Section	Profit (Loss) from Changes in US dollar exchange rate				
	Fair value	Rise of		Fall of	
		10%	5%	10%	5%
		In NIS millions			
Long-term deposits and loans (including current maturities)	62	6	3	(6)	(3)
Debtors and short-term debit balances	16	2	1	(2)	(1)
Customers	42	4	2	(4)	(2)
Short-term deposits and loans	10	1	-	(1)	-
Cash and cash equivalents	406	41	20	(41)	(20)
Long-term loans from banks	(21)	(2)	(1)	2	1
Suppliers, creditors and credit balances	(42)	(4)	(2)	4	2
Short-term bank credit	(29)	(3)	(1)	3	1
	<u>444</u>	<u>44</u>	<u>22</u>	<u>(44)</u>	<u>(22)</u>

Sensitivity analysis on changes in negotiable securities prices

Section	Profit (Loss) from Changes in negotiable securities price				
	Fair value	Rise of		Fall of	
		10%	5%	10%	5%
		In NIS millions			
Investment in negotiable securities	<u>393</u>	<u>39</u>	<u>20</u>	<u>(39)</u>	<u>(20)</u>

Sensitivity analysis on CPI changes – derivatives

	Profit (Loss) from Changes in the consumer price index				
	Fair value	Rise of		Fall of	
		0.2%	0.1%	0.2%	0.1%
	In NIS millions				
CPI forward contract					
Hedging – not recognized for accounting	16	1	1	(1)	

8 IFRS

In July 2006, the Israeli Accounting Standards Board published Accounting Standard No. 29 – Adoption of International Financial Reporting Standards (IFRS). The standard stipulates that companies 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, and whereby the transition date for the initial application is January 1, 2007 ("Transition Date").

For the purpose of transition, the Company applied the provisions of the IFRS1 to the Financial Statements for the first Quarter of 2008, and exhibited an opening balance sheet as of December 31, 2007, balance sheet as of December 31, 2007 and a statement of income for the year ended on same date, following implementation of the IFRS. Similarly, the Company exhibited in the Financial Statements as of March 31, 2008, adjustments between reporting in accordance with the Israeli GAAP and reporting in accordance with IFRS as of the transition date, December 31, 2007 and for the year ended on same date, in retrospect,(historically) (subject to irregularities).

For further details in this respect, see Note 2, 3 and 13 to our financial statements.

9 Disclosure of the approval proceeding for the financial statements in a reporting corporation

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

Company board of directors and audit committee.

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

The Company's board of directors appointed the audit committee to serve as a "balance sheet committee", which presented it with the main issues of the detailed discussion concerning the financial statements and makes recommendations to the board concerning their approval. The financial statements are approved by the board of directors. The members of the balance sheet committee are Mr. Gideon Lahav, Mr. Avraham Asheri, Ms. Ayelet Ben-Ezer and Mr. Shlomo Rizman, who is an external director with 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 examines, with the aid of detailed presentations made by officers and others in the Company, including the CEO, Mr. Oren Hillinger, the Finance Director and Company comptroller, Ms. Michal Yageel, the significant issues in the financial report, including transactions outside of the ordinary course of the Company's business, if any, the material assessments and critical estimates applied in the financial statements, the

reasonableness of the data, the accounting policy applied and the changes that have occurred in it, and the application of the principle of proper disclosure in the financial statements and accompanying information. The balance sheet committee also examines various aspects of control and risk management, both those which are reflected in the financial statements (such as the reporting on financial risks) and those that affect the reliability of the financial statements. Where necessary, the balance sheet committee requests a comprehensive review of matters of particularly significant implication.

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

Ami Erel

Chairman of Board of Directors

Raanan Cohen

CEO

Tel Aviv, May 15, 2008