

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

## Board of Directors Report For the year ended December 31, 2009

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We are pleased to present the audited financial statements of Koor Industries Ltd. for the year ended December 31, 2009.

Koor Industries Ltd. ("the Company") is a member of the IDB Group and is one of the most prominent holding companies in Israel, investing in companies operating in a variety of business segments. The Company, together with its headquarters companies ("Koor") generally invests in companies which operate in the global market and/or international companies and focuses on large-scale investments. Koor examines and makes investments in which it holds a position of influence after its investment and investments in which it does not, inter alia, both as a reflection of market conditions and opportunities and following a decline in the market value of large international companies as a result of market crises.

Subsequent to a resolution of the Company's Board of Directors in 2008 to invest in negotiable shares in European banking institutions, during 2009 the Company bought and sold shares in Credit Suisse Group AG ("Credit Suisse"). At the date of this report, Koor has recorded profits of NIS 3.1 billion\* in respect of its investment in Credit Suisse, of which NIS 2.5 billion of after-tax profit, and in the first quarter of 2010 Koor expects to record a profit after tax of NIS 14 million from the sale of Credit Suisse shares to date. On December 31, 2009 the Company, together with a wholly-owned subsidiary, held approximately 27.54 million shares of Credit Suisse, accounting for 2.36% of Credit Suisse's shares (net of treasury shares), at a cost of NIS 5.05 billion and a value of NIS 5.11 billion. At the date of this report, the Company holds approximately 36.96 million shares of Credit Suisse, accounting for 3.12% of its share, at a cost of NIS 6.67 billion and a value of NIS 6.85 billion. The implied profit to Koor at the date of this report in respect of its investment in Credit Suisse (the difference between the value of the Credit Suisse shares it holds, at their list price, and the cost of those shares as aforesaid) is NIS 174 million.

In October 2009, a special tender offer published by the Company was accepted, for the purchase of 22 million shares of NIS 1 par value each of Makhteshim Agan Industries Ltd. ("Makhteshim Agan"), comprising 5.06% of the issued and paid up capital and 5.11% of the voting rights in Makhteshim Agan, for NIS 18.00 per share and a total cost of NIS 396 million. Following the tender offer, the rate of Koor's holding in the voting rights of Makhteshim Agan rose to 47.04%.

Also in October 2009, the Board of Directors of the Company approved a joint investment with Property and Building Ltd. ("Property and Building") for purchase of the HSBC headquarters building on Fifth Avenue in New York, for USD 330 million. In the transaction, each of Koor and Property and Building will purchase half of the rights in the building through an American corporation under their indirect joint ownership (in equal parts), and will bear half of the expenses involved in making the transaction. For financing the transaction, the American corporation signed a non-binding document of principles with Bank Leumi USA and Bank Leumi le'Israel Ltd., whereby Bank Leumi USA will provide a loan of USD 210 million for a period of 10 years.

### **1. The Board's explanations for the state of the corporation's affairs**

Net profit attributed to the Company's equity-holders in 2009 totaled approximately NIS 2,166 million and basic earnings per share of NIS 45.6, compared with profit of NIS 238 million and basic earnings per share of NIS 8.5 in 2008.

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\* In this translation of the Directors' Report, all amounts should be understood by the reader to be rounded to the nearest million or thousand, as the case may be.

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### 1.1 Breakdown of Koor's business results

	2009	2008	2007
	NIS Millions		
Koor's equity in the results of investees, net	25	167	174
Profit from realization of investments, less impairment, net	2,691	599	682
Financing, administrative and other expenses, net	(375)	(528)	(242)
Taxes	(125)	-	-
<b>Net profit</b>	<b>2,166</b>	<b>238</b>	<b>614</b>
Basic earnings per share (NIS)	45.6	8.5	24.3

#### 1.1.1 Koor's equity in the results of investees, net

	Koor's equity in profit (loss) for the year			Change %
	2009	2008	2007	2009 compared with 2008
	NIS millions			
Makhteshim Agan	57	311	266	(82%)
ECI Telecom Ltd.	-	-	56	n/a
Telrad Networks Ltd.	(2)	(43)	(7)	n/a
ECTel Ltd.	(7)	(6)	(7)	n/a
Koor Venture Capital Partnership	(5)	(23)	(12)	n/a
Harriet Investments (2001) Ltd. (formerly Dekolink Wireless Ltd.)	(6)	(67)	(41)	n/a
Microwave Networks Inc.	(10)	13	(13)	n/a
Other companies	10	6	5	67%
Excess cost and other adjustments	(62)	(24)	(73)	n/a
<b>Total</b>	<b>(25)</b>	<b>167</b>	<b>174</b>	<b>n/a</b>

#### 1.1.2 Profit from realization of investments less impairment, net

	2009	2008	2007
	NIS Millions		
Profit from sale of investments less impairment, net	2,691	599	682

In 2009, this item included in particular a capital gain of NIS 2,641 million from the sale of Credit Suisse shares as well as a dividend of NIS 10 million from Credit Suisse which was received in the second quarter of 2009, and a capital gain of NIS 32 million from the sale of shares of Carrefour SA ("Carrefour") which was recorded in the fourth quarter of 2009.

In 2008, this item included in particular a capital gain of NIS 575 million from the sale of holdings in Credit Suisse shares and a capital gain of NIS 48 million following an additional receipt from Elbit Systems Ltd. in respect of the sale of Elisra Electronic Systems Ltd. ("Elisra"), as a result of receipt of insurance payments in respect of a fire at the plants of Elisra subsidiaries in 2001. However, an impairment of NIS 23 million was recorded in respect of Koor's holdings in Epsilon Investment House Ltd. ("Epsilon").

In 2007, this item included in particular a capital gain of NIS 615 million from the sale of holdings in ECI Telecom Ltd. ("ECI") and a capital gain of NIS 29 million from the sale of holdings in Sheraton Moriah (Israel) Ltd. ("Sheraton"), a capital gain of NIS 26 million from the sale of holdings in Scopus Video Networks Ltd., and a capital gain of NIS 10 million from the sale of holdings in Knafaim Holdings Ltd. ("Knafaim").

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### 1.1.3 Financing, administrative and other expenses, net

	2009	2008	2007
	NIS Millions		
Administrative and other expenses, net	(34)	(32)	(27)
Financing expenses, net	(341)	(496)	(215)
<b>Total financing administrative, and other expenses, net</b>	<b>(375)</b>	<b>(528)</b>	<b>(242)</b>

Most of the decrease in financing expenses in 2009 compared with 2008 stemmed from an increase in the financing expenses in 2008 following a sharp fall in the shekel/dollar exchange rate (when the Company held large dollar balances), and following a loss in respect of revaluation of short-term investments.

The financing expenses stemming from changes in the exchange rate of the Swiss franc in 2009 amounted to NIS 20 million.

The increase in financing expenses in 2008 compared with 2007 stemmed from a sharp fall in the shekel/dollar exchange rate in 2008 (when, as mentioned, the Company held large dollar balances).

The increase in administrative and other expenses in 2009 compared with 2008 stemmed mainly from an increase in contribution expenses, which amounted in 2009 to NIS 25 million, compared to NIS 9 million in 2008. The increase was offset by cancellation of a provision of NIS 13 million recorded in the past following an appeal against the decision in a claim of a wholly-owned subsidiary, which was denied in a ruling of the Supreme Court.

In 2007, contribution expenses amounted to NIS 11 million.

## 1.2 Segment data

### 1.2.1 The Company's assets, by segment

The Company's assets at December 31, 2009 and 2008 consist of the following business segments:

	<u>Assets, by segment</u>	
	NIS millions	
<u>Segment</u>	<u>2009</u>	<u>2008</u>
Makhteshim Agan	2,821	2,528
Credit Suisse	5,111	4,100
Communications equipment	59	115
Other holdings	498	410
Adjustments (Koor HQ assets)	1,691	308
<b>Total</b>	<b>10,180</b>	<b>7,461</b>

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### 1.2.2 Breakdown of Koor's business results, by business segment (per Note 26 to the financial statements)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	N I S	M i l l i o n s	
Makhteshim Agan	(3)	289	195
Credit Suisse	2,524	575	-
ECI	-	-	670
Communications equipment	(17)	(54)	(54)
Other holdings	38	(42)	53
Adjustments (mainly financing and management)	(376)	(530)	(250)
<b>Total</b>	<b>2,166</b>	<b>238</b>	<b>614</b>

#### 1.2.2.1 Makhteshim Agan segment

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	N I S	M i l l i o n s	
Segment contribution	(3)	289	195

Most of the change in the segment's results in 2009 compared with 2008 stems from the business results of Makhteshim Agan.

#### Makhteshim Agan (47% holding at December 31, 2009) reported the following business results:

	<u>2009</u>	<u>2008</u>	<u>2009-2008</u> <u>increase</u> <u>(decrease)</u>	<u>2007</u>	<u>2008-2007</u> <u>increase</u> <u>(decrease)</u>
	U S D		%	U S D	%
Income	2,215	2,536	(13%)	2,066	23%
Gross profit	582	848	(31%)	689	23%
Operating income	120	367	(67%)	268	37%
Financing expenses, net	94	97	(3%)	80	21%
Net profit attributed to equity holders	33	219	(85%)	156	41%
EBITDA	218	457	(52%)	357	28%

The cumulative effects of a number of factors, some of them one-time events, typified 2009 in the difference between the quarters in the activities of Makhteshim Agan. Below is a brief review of the trends that characterized Makhteshim Agan's business environment in 2009 as a whole and in the fourth quarter in particular.

- A. 2009 was characterized by high stock levels in marketing pipelines for all companies in the industry (especially in Brazil), the cause of which was stockpiling in 2008 by the distributors of agrochemical products. Due to a combination of the global financial crisis and the weather conditions, the first three quarters of the year saw a trend of falling demand (for most products). During the fourth quarter, distributors' stock levels started to fall, which led to the stabilization of demand. This trend was reflected in the sales of Makhteshim Agan, which in the fourth quarter recorded, for the first time in the year, an increase in sales compared to the fourth quarter of 2008, after the second and third quarters had ended with a sharp drop in sales compared with the corresponding quarters of the prior year.
- B. The slowdown in the pace of sales of agrochemical products during 2009 and high stock levels of the distributors and of the competitors (manufacturers) in the industry, resulted in a trend of falling selling price for most of the products, which harmed the sales and profitability of Makhteshim Agan's products. Most price decreases occurred in Brazil and in the worldwide sales of the non-selective

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herbicide (Glyphosate). Makhteshim Agan estimates that even though a quarter-to-quarter comparison recorded a decrease in its prices, in the fourth quarter selling prices levels stabilized in most regions.

- C. Disposal of the existing stocks purchased a high cost and sold at market prices that were lower than in the corresponding period, resulted in a sharp decrease in Makhteshim Agan's gross profit. During 2009, the prices of raw materials and of oil and energy declined, and Makhteshim Agan believes that this can be expected, as existing stocks are exhausted, to lead to savings in costs and to gradual improvement in profitability during 2010.
- D. Weather conditions in Makhteshim Agan's areas of operation, such as heavy rainfall in North America in the second quarter and drought in north Africa in the third quarter, led to slower demand for agrochemical products. This slowdown was particularly noticeable in view of the trend of demand anticipation due to the high demand levels in the market in 2008.
- E. The second half of 2009 saw an easing of the credit squeeze on farmers in developing regions such as South America, Asia, Eastern Europe and Africa, whereas in the first half of the year credit was difficult to obtain because of the effects of the global financial crisis, so that their purchases were of necessity more measured close to the time of use.
- F. Makhteshim Agan reports on its results in US dollars, and therefore the appreciation in the dollar exchange rate in the first three quarters of 2009 against other currencies in which Makhteshim Agan operates, resulted in a decrease in the dollar value of its sales and profitability, notably in Europe. Hedging transactions were able to offset part if the exchange rate effect, especially in the first quarter.
- G. Following inspections made by the Brazilian Health Ministry at a subsidiary of Makhteshim Agan, and as made subsequently at other companies in the industry, it was determined that the subsidiary must temporarily cease and sale of a number of products that were tested. The subsidiary's position – that the products it sold are similar to those sold in the Brazilian market by other companies, and that the formulation changes were designed to improve the products' quality – was largely accepted by the authorities and most of the products were released for sale and distribution. These events, among others, led to a decrease in sales in Brazil and to the erosion of profitability, mainly in the third quarter; however, their effects continued to be felt in Makhteshim Agan's profitability in the fourth quarter.
- H. The sale of existing stocks during 2009, which was reflected in a decrease of USD 135 million in stocks in the reporting period, along with more efficient collection from customers, resulted in improved cash flow from operating activities and an increase in the free cash flow of Makhteshim Agan.
- I. During 2009, the basic trends that influence agrochemical products remained stable. Population growth and rising standards of living (primarily in developing countries), alongside limited sowing areas which Makhteshim Agan believes can be expected to increase the need for the use of agrochemical products for enhancing yield per existing area unit, as well as the high price level (year on year) of agricultural commodities, are expected to continue to support the demand for these products.

Makhteshim Agan is of the opinion, assuming that no one-time significant and exceptional events occur, that the fact of Makhteshim Agan's expanded operations and investments, as well as a positive cash flow, the basic trends of the industry and the signs of improvement in the business environment as described above, will enable it to get back on track for growth and improved profitability during 2010.

However, if the pace of emergence from the global crisis slows or demonstrates volatility, then continuation of the lack of stability in the financial markets (and particularly in developing markets where a significant part of Makhteshim Agan's operations are concentrated), could have a material effect on those operations and result, inter alia, in a slowdown in its multi-year growth trend, as well as over-volatility of the other factors that impact its results.

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### 1.2.2.2 Credit Suisse segment

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>NIS Millions</u>		
Segment contribution	2,524	575	-

Subsequent to the decision of the Company's board of directors to invest in the negotiable shares of European banking institutions, the Company bought and sold Credit Suisse shares throughout the year and in the second half of 2008, while exploiting opportunities that arose due to the market volatility. Koor's total profit after tax in respect of its investment in Credit Suisse in 2009 is NIS 2,524 million (including a dividend of NIS 10 million), and in 2008 – NIS 575 million.

For details of the percentage of Koor's holding in Credit Suisse shares at the date of this report and of Koor's profits of NIS 14 million from buy and sell activities in the period after the balance sheet date, see Section 1.4.1 below.

### 1.2.2.3 ECI segment

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>NIS Millions</u>		
Segment contribution	-	-	670

In 2007 Koor sold its holding in ECI and recorded a profit of NIS 615 million. Koor's equity in the profits of ECI prior to the sale amounted to NIS 55 million.

### 1.2.2.4 Communications equipment segment

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>NIS Millions</u>		
Segment contribution	(17)	(54)	(54)

Most of the change in the results of the segment in 2009 compared to 2008 stems from the smaller losses contributed by Harriet Investments (2001) Ltd. ("Harriet") due to the sale of most of its assets during the first quarter of 2009, as described in Note 8(2) to the financial statements. Conversely, Microwave Networks Inc. ("MNI") posted weaker results.

Most of the change in the results of the segment in 2008 compared to 2007 stemmed from a significant worsening of Harriet's results in 2008, which was offset by an improvement in MNI's results in that year.

### 1.2.2.5 Other holdings segment

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>NIS Millions</u>		
Segment contribution	38	(42)	53

The source of most of the change in the results of the segment in 2009 compared to 2008 is after-tax profit of NIS 34 million recorded in 2009 from the sale of Carrefour shares, and the improved business results of Epsilon, which in 2009 posted a profit of NIS 23 million (the Company's equity in that profit is NIS 12 million), mainly in respect of profits from securities it holds, compared with a loss of NIS 7 million in 2008 and a profit of NIS 6 million in 2007.

Koor Venture Capital posted a loss of NIS 5 million in 2009, mainly due to a net decrease in the value of its investments, compared to a loss of NIS 24 million in 2008 and a profit of NIS 14 million in 2007.

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In addition, in 2009 the Company recorded equity losses of NIS 6 million in respect of its share in amortization of goodwill recorded at ECtel, compared with amortization of NIS 23 million in respect of its investment in Epsilon that was recorded in the corresponding of the prior year.

In 2008, the segment's results included the contribution of NIS 48 million of Elisra, as noted in Section 1.1.2 above, and Koor's equity in the losses of Telrad, which were NIS 43 million.

In 2007, the Company recorded a profit of NIS 29 million in respect of the sale of its holding in Sheraton, as well as a profit of NIS 10 million in respect of the sale of its holding in Knafaim.

### 1.3 Analysis of results by quarter

In the fourth quarter of 2009, Koor recorded a profit of NIS 32 million and earnings per share of NIS 0.7, compared with a loss of NIS 74 million and loss per share of NIS 1.8 in the fourth quarter of 2008, and a loss of NIS 158 million and loss per share of NIS 8.7 in the fourth quarter of 2007.

#### 1.3.1 Results of operations of the Company and the consolidated companies by quarter in 2009-2007 are presented in the main sections of the consolidated statement of income as follows (in NIS millions):

	<b>Total</b>	<b>2009</b>			
	<b>2009</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
		<b>NIS millions</b>			
Koor's equity in the results of investees, net	(25)	(72)	(55)	(20)	122
Profit from realization of investments, less impairment, net	2,691	358	692	1,608	33
Financing, administrative and other expenses, net	(375)	(75)	(151)	(115)	(34)
Tax revenue (expense)	(125)	(179)	26	(102)	130
<b>Net profit</b>	<b>2,166</b>	<b>32</b>	<b>512</b>	<b>1,371</b>	<b>251</b>
		<b>NIS millions</b>			
		<b>2008</b>			
		<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
		<b>NIS millions</b>			
Koor's equity in the results of investees, net	167	(12)	26	69	84
Profit from realization of investments, less impairment, net	599	28	529	(2)	44
Financing, administrative and other expenses, net	(528)	(90)	(127)	(187)	(124)
<b>Net profit (loss)</b>	<b>238</b>	<b>(74)</b>	<b>428</b>	<b>(120)</b>	<b>4</b>
		<b>NIS millions</b>			
		<b>2007</b>			
		<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
		<b>NIS millions</b>			
Koor's equity in the results of investees, net	174	(57)	(8)	132	107
Profit from realization of investments, less impairment, net	682	3	614	39	26
Financing, administrative and other expenses, net	(242)	(104)	(114)	(13)	(11)
<b>Net profit (loss)</b>	<b>614</b>	<b>(158)</b>	<b>492</b>	<b>158</b>	<b>122</b>

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### 1.3.2 Analysis of Koor's business results by segment of operation and principal items in the fourth quarter

	<u>Fourth quarter</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>N I S M i l l i o n s</u>		
Makhteshim Agan	(68)	16	(6)
Credit Suisse	137	40	-
Communications equipment	(3)	(5)	(37)
Other holdings	32	(37)	(9)
Adjustments (mainly financing and management)	(66)	(88)	(106)
<b>Net profit (loss)</b>	<b>32</b>	<b>(74)</b>	<b>(158)</b>

Comparison of results by segment between the fourth quarter of 2009 and the fourth quarter of 2008 shows that –

In the Makhteshim Agan segment, Koor recorded a loss in Q4 2009 compared with a profit in the same quarter of the prior year, due to poorer business results at Makhteshim Agan as a result of a decline in sales and in gross profit percentage attributable to decreased demand and lower selling prices of most of its products and to the factors as described in Section 1.2.2.1 above.

In the fourth quarter of 2008, Makhteshim Agan's business results improved compared to the fourth quarter of 2007.

In the Credit Suisse segment, Koor recorded a higher profit in Q4 2009 following sale of some of its Credit Suisse shares. In Q4 2008, Koor's profit from the sale of Credit Suisse shares was lower. In Q4 2007 Koor was not yet active in this segment.

In the Communications Equipment segment Koor recorded a loss in Q4 2009 as a result of the poorer business results of MNI, whereas the loss it recorded in Q4 2008 was due mainly to the poorer business results of Harriet, which was partially offset by improved business results at MNI. In Q4 2007, the main cause of the loss was the decline in the business results of Harriet.

In the Other Holdings segment, Koor recorded a profit in Q4 2009 compared to a loss in Q4 2008, following the sale of a shareholding in Carrefour and as a result of an increase in the profits of Epsilon, compared to an impairment of NIS 15 million made in Q4 2008 in respect of its holdings in Epsilon and a decline in the results of Telrad. In Q4 2007, the loss stemmed from the business results of Telrad and Koor Venture Capital, and was partially offset by revaluation of investment real estate assets.

### 1.4 Main changes in the holdings of the Company and its investees in 2009

The principal changes are described in Notes 9, 10(f), 17(c) and 30 to the Company's financial statements, the most noteworthy of which are these:

- 1.4.1** During 2009, Koor bought and sold shares of Credit Suisse, and in respect of those transactions the profit it recorded from sales amounted to NIS 2.64 billion, and a comprehensive profit (after tax and including dividends received) of NIS 2.52 billion. Of the comprehensive profit, profit from sales in the fourth quarter were NIS 317 million, and after tax – NIS 137 million (as a result of write-off of a tax asset in respect of losses carry forward which was recorded in the third quarter of 2009, and due to recording a reserve for tax in respect of the difference between the cost of Credit Suisse shares for tax purposes and their book cost). On December 31, 2009, the Company, together with a wholly-owned subsidiary, held approximately 27.54 million shares of Credit Suisse, comprising 2.36% of Credit Suisse's listed shares (excluding treasury shares), at a cost of NIS 5.05 billion.

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In April 2009 the general meeting of Credit Suisse approved the distribution of a dividend of 10 Swiss franc cents per share. On April 30, 2009 Koor received its share of that dividend, which amounted to CHF 2.7 million (NIS 9.8 million) (net of withholding tax).

In August 2009, the Board of Directors of the Company resolved to increase the framework for investment in Credit Suisse shares to NIS 6 billion. In January 2010 the Board of Directors revised its resolution and increased the framework to NIS 7 billion. The investment will be made taking buy and sell opportunities, with due attention to the market situation and in accordance with the Company's assessments from time to time.

On the date of approval of its 2009 financial statements, the management of Credit Suisse announced the distribution of a dividend of CHF 2 per share, subject to the approval of its general meeting. Total income expected to accrue to Koor in the second quarter of 2010 will be determined according to Koor's holding on the record date, which will be updated by the general meeting.

In the first quarter of 2010 Koor recorded a net profit of NIS 14 million from sales of Credit Suisse shares. At the date of this report, the Company, together with a wholly-owned subsidiary, holds 39.96 million shares of Credit Suisse, comprising 3.12% of Credit Suisse's listed share capital, at a cost of NIS 6.67 billion. The implied profit to Koor at the date of this report in respect of the balance of its investment in Credit Suisse (the difference between the value of the Credit Suisse shares it holds at their list price, which is NIS 6.85 billion, and the cost of those shares as noted above), is NIS 174 million.

**1.4.2** In January 2009, a wholly-owned subsidiary of the Company purchased 745,816 par value of debentures (series 8) of Koor on the stock exchange, in addition to purchases made during 2008. In May 2009 the Company sold 75,830,000 par value of debentures (series 8) of Koor in consideration of NIS 80 million. At December 31, 2009, the subsidiary holds 142,220,086 par value of debentures.

**1.4.3** In April 2009 Koor Properties Ltd. ("Koor Properties"), a wholly-owned subsidiary of the Company, signed an agreement for the sale of its equity (33% of the issued and paid up capital) in A.C.A Development Ltd. ("ACA") to the other ACA shareholders ("the Buyers"). The transaction was closed in July 2009. Total proceeds from the sale of Koor Properties' holding in ACA was NIS 81.2 million, consisting of consideration of NIS 30.6 million from sale of the shares, repayment of a shareholder loan of NIS 33.9 provided by Koor Properties, and a pre-sale dividend in which Koor Properties' share was NIS 16.7 million. The final consideration is subject to certain adjustments as provided in the agreement, if the Buyers sell the shares within a period of one year from the date of closing the transaction.

**1.4.4** In June 2009 the Board of Directors of the Company approved an investment transaction to be made by its management in shares of Carrefour SA ("Carrefour"), a French company that is the largest retailer in Europe and the second largest in the world. Its shares are traded on Euronext, in Paris. The approved investment framework is up to NIS 3.5 billion. The investment will be made utilizing buy and sell opportunities, with due attention to the market situation and in accordance with Company assessments from time to time, and there is no certainty as to the amount of the investment. See Section 1.4.12 below concerning a credit facility agreement with HSBC corporation against the Carrefour shares.

During the fourth quarter of 2009, the subsidiary recorded a profit after tax of NIS 32 million in respect of the sale of Carrefour shares.

At December 31, 2009 and at the date of this report, the Company holds, through a wholly-owned subsidiary, 0.08% of the Carrefour share capital (approximately 0.55 million shares) for a total investment of NIS 90 million, the market value of which is NIS 101 million.

**1.4.5** In July 2009, Koor and M.A.G.M. Chemical Holdings Ltd. (a wholly-owned subsidiary of the Company) ("MAGM") entered into an agreement with a Citigroup corporation for a non-recourse credit facility against Credit Suisse shares. The utilized credit is made available in Swiss francs and is collateralized with Credit Suisse shares, and is provided for a period of up to three years subject to terms and dates

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prescribed in the agreement. The credit can be utilized by the Company or by MAGM. In January 2010, the terms of the facility were revised, inter alia by way of increasing the facility to CHF 495 million, lowering the interest rate paid on it, and the addition of Telrad Holdings (a wholly-owned subsidiary of the Company) as an additional borrower. At the date of this report, the balance of credit taken by Koor is CHF 182 million (net of deposits - CHF 169 million). For more details about this credit facility, see Note 17(c)5 to the Company's financial statements, and for more details about the revision of the credit terms after the balance sheet date, see Note 33(2) to the Company's financial statements.

- 1.4.6** In August 2009 the Company issued to the public 634,117,000 par value of a new series of debentures (series 9), and listed it for trading on the Tel Aviv Stock Exchange Ltd. Total gross proceeds received by the Company in respect of the debentures (series 9) was NIS 634 million.

In September 2009 the Company issued to the public 131,533,000 par value of debentures (series 9) by way of expansion of the series, at NIS 1.008 per unit. The gross proceeds received by the Company amounted to NIS 132 million.

For the terms of the debentures (series 9), see the appendix to the Directors Report.

- 1.4.7** In September 2009 the Company issued to the public 58,133,000 par value of a new series of debentures (series 10), and listed it for trading on the Tel Aviv Stock Exchange Ltd. Total gross proceeds received by the Company in respect of the debentures (series 10) was NIS 58 million.

For the terms of the debentures (series 10), see the appendix to the Directors Report.

- 1.4.8** In October 2009 the Board of Directors of Koor approved (in accordance with the Companies (Reliefs in transactions with interested parties) Regulations, 5760—2000 ("the Reliefs Regulations")), a transaction in which Koor and Property and Building will engage, through a joint corporation, with corporations from HSBC Group ("HSBC") for the purchase of HSBC's headquarters building on Fifth Avenue in New York ("the Building") in consideration of USD 330 million. In the transaction, each of Koor and Property and Building will purchase, through an American corporation under their joint (and equal) ownership ("IDB Corporation"), half of the rights in the Building (for USD 165 million each) and will bear half of the expenses involved in making the transaction; Koor and Property and Building will be equal partners in the rights and obligations of the transaction, in the IDB Corporation and in the Building, which includes joint management of the Building, its maintenance, its leasing and everything concerning it, and they may, subsequent to resolutions of their boards of directors as may be adopted from time to time, inter alia, provide financing for IDB Corporation for all matters relating to the Building, its maintenance and its ownership, sell rights in IDB Corporation and/or in all or part of the Building, directly or indirectly, and bring investors to IDB Corporation and/or the Building, all pro rata to their holding.

After the approval of the Board of Directors, the aforementioned agreement was signed. Upon execution, IDB Corporation made a deposit of USD 20 million in trust in favor of HSBC, as an advance on the purchase of the Building. The share of each of Koor and Property and Building in the deposit is USD 10 million. The deposit will serve as agreed compensation, and will be rendered forfeit by HSBC if IDB Corporation does not meet its obligations under the agreement.

In February 2010, the Company and Property and Building signed a non-binding document of principles with Bank Leumi USA and Bank Leumi le'Israel, whereby Bank Leumi USA will provide a loan of USD 210 million to IDB Corporation for a period of 10 years.

The Company expects the transaction to be closed in the first half of April 2010.

- 1.4.9** In October 2009 a special tender offer published by the Company was received, for the purchase of 22 million ordinary shares of NIS 1 par value of Makhteshim Agan, which are 5.06% of the issued and paid up capital and 5.11% of the voting rights of Makhteshim Agan, for NIS 18.00 per share and a total cost of NIS 396 million. The surplus cost generated in respect of the tender offer is NIS 155 million. Subsequent to the tender offer, Koor's holding in the voting rights of Makhteshim Agan is 47.04%.

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**1.4.10** In October 2009, ECTel signed a merger agreement whereby ECTel will be acquired by Cvidya Networks Ltd. for a cash consideration of USD 21 million (net of transaction costs in excess of a sum named in the agreement). In January 2010 the transaction was closed and Koor received USD 4.4 million in consideration of its shares.

**1.4.11** In November 2009 the Audit Committee and the Board of Directors of the Company approved the Company's engagement in an agreement with Rock Real Estate Partners Limited ("Rock Real "), in which Rock Real will initiate and offer the Company, from time to time, the purchase (itself and/or through private corporations in its control) of rights in real estate assets outside Israel, whether directly or by means of acquiring corporations that hold rights in such real estate ("the Real Estate Assets"); will assist in negotiations in connection with purchase of the Real Estate Assets and obtaining financing for their purchase; will accompany and coordinate the purchase until its completion; will provide strategic advice services on management of the Real Estate Assets and their enhancement, and will assist in identifying and closing transactions for the sale of the Real Estate Assets, all in accordance with the Company's needs ("the Agreement"). In consideration of each of the transactions made by the Company to purchase Real Estate Assets, the Company (or the private corporation in its control, as the case may be) will pay Rock Real 12% of the profits devolving to the Company (or to the private corporation in its control) in respect of the Real Estate Assets (i.e. the total income after deduction of all investments and expenses in respect of the asset). The payment will be made only on the date of sale of the Real Estate Asset or in a case where, prior to sale of the Real Estate Asset, the Company has recouped its full investment and expenses in respect of purchase of the Real Estate Asset and its management in real terms, and all on the terms and according to the manner of accounting prescribed in the Agreement.

Under the Agreement, the Company is not obliged to purchase real estate assets offered by Rock Real, and Rock Real is not obliged to offer the Company transactions for the purchase of real estate assets.

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

The Agreement was approved by the general meeting of the shareholders of the Company in December 2009, and its term will end five years after that date. The Agreement will continue to apply even after its term, in relation to Real Estate Assets actually purchased during those five years.

The matters agreed under the Agreement will apply also to the transaction for the purchase of the HSBC headquarters building described in Section 1.4.8 above, since that transaction was proposed by Rock Real in relation to the Company's part in it.

**1.4.12** In December 2009 a wholly-owned subsidiary of the Company entered into a recourse credit agreement with a corporation from HSBC Group ("the HSBC Credit"). If the HSBC Credit is utilized, it will be provided in euro and collateralized with Carrefour shares and the Company's guarantee. In a decision of the Company, the ceiling of the HSBC Credit was limited to EUR 100 million. The credit will be made available for a period of two years from the date of the first withdrawal (which the subsidiary can make no later than the end of June 2010), and can be repaid early by the subsidiary, subject to payment of a commission. At the date of this report, no withdrawal has been made from this facility.

**1.4.13** In December 2009 Koor, MAGM and Telrad Holdings entered into an amendment agreement with Morgan Stanley for Morgan Stanley credit, so that the Morgan Stanley credit can be utilized by Koor, by MAGM and by Telrad Holdings. The amendment included, inter alia, an increase of the credit facility to CHF 495 million and lowering the interest rate paid in respect of the facility. Under the amended agreement, the Morgan Stanley credit is repayable in December 2010, and the borrowing companies are entitled to extend the facility period for another one year, subject to payment of a commission on certain terms. At the date of this report, the balance of the credit taken by Koor is CHF 351 million (and net of deposits – CHF 305 million). For more details about this credit facility, see Note4 17(c)4 to the Company's financial statements.

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### 1.5 Distribution of a dividend

During 2009 and at the date of approval of the 2009 financial statements, the Company announced the distribution of cash dividends in a total amount of NIS 1,062 million, constituting NIS 22.39 per share, divided as follows:

- 1.5.1** In May 2009 the Board of Directors of the Company resolved to distribute a dividend of NIS 432 million, constituting NIS 9.11 per share. The dividend was distributed on June 10, 2009.
- 1.5.2** In November 2009 the Board of Directors of the Company resolved to distribute a dividend of NIS 360 million, constituting NIS 7.59 per share. The dividend was distributed on December 7, 2009.
- 1.5.3** On the date of approval of the financial statements, the Board of Directors of the Company resolved to distribute a dividend of NIS 270 million, constituting NIS 5.69 per share. The dividend will be distributed on April 13, 2010, and the record date is March 25, 2010 and the ex-dividend date is March 28, 2010.

### 1.6 Financial situation and sources of financing

	December 31	
	2009	2008
	NIS Millions	
Total assets in the consolidated balance sheet	10,180	7,461
Investments in investees in the consolidated balance sheet	2,946	2,704
Available-for-sale financial assets in the consolidated balance sheet	2,889	1,621
Pledged available-for-sale financial assets in the consolidated balance sheet	2,413	2,517
Total equity attributed to the Company's shareholders	5,353	3,656
Current asset surplus (deficit) over current liabilities in the consolidated balance sheet	741	(903)
Koor's financial liabilities	4,495	3,570
Surplus financial liabilities over Koor's cash and cash equivalents*	2,851	3,284

\* Does not include Credit Suisse shares, which are classified as available-for-sale financial assets recorded, at December 31, 2009, at a value of NIS 5,111 million.

At March 12, 2010, and after increasing its holding in Credit Suisse shares as described in Section 1.4.1 above, Koor has a cash balance of NIS 731 million and its surplus of financial liabilities over financial assets (where those financial assets do not include Credit Suisse shares valued at NIS 6.85 billion, which are classified as available for sale) amounts to NIS 4.49 billion.

In addition, Koor has unutilized credit facilities from Morgan Stanley, Citi and HSBC, as described in Sections 1.4.5, 1.4.12 and 1.2.13 above, in a total amount of NIS 1.9 billion.

	2009	2008	2007
	NIS millions		
Proceeds from realization of investments in Koor	11,203	4,576	1,761
Dividends received from investees	113	250	9
Investment in affiliates and other Koor companies	9,653	8,539	78

As mentioned above, most of the proceeds from realization of investments and most of the investments in affiliates and others during 2009 and 2008 stem from acquisitions and the sale of Credit Suisse shares.

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In 2009, Koor took long-term bank loans and issued NIS 1,649 million of debentures, and repaid NIS 1,097 million of loans. In addition, Koor took short-term bank loans amounting to NIS 182 million.

## **2. Market risk exposure and management**

### **2.1 Report on changes in the economic environment, implications of the crisis in capital markets, market risk exposure and its management**

The report in Sections 2.1.2 – 2.1.5 below refers to Koor. Section 2.1.6 refers to the market risks to which a principal subsidiary of Koor (Makhteshim Agan) is exposed, and which are liable to have a significant impact on Koor. Additionally, Koor has a financial investment in Credit Suisse shares. For a description of the risk factors that affect the operations of Credit Suisse, see section 10.3[E] to Part A of Koor's Periodic Report.

#### **2.1.1 The crisis in financial markets (following the description in Section 8 of Part A in Koor's Periodic Report)**

The global financial crisis and slowdown in non-financial economic activity that developed during 2008 resulted, inter alia, in severe damage to global capital markets, very substantial falls and fluctuations in stock markets in Israel and worldwide, including in the prices of securities of certain Koor investees, exacerbation of the credit crisis, a decline in the value of assets held by the public, falling demand, and significant slowdown and uncertainty in economic activity. Following these events, various countries, including the U.S. and many European countries, entered into recession that is reflected, inter alia, in a wave of cutbacks to the extent of shutdown and extensive layoffs in various sectors of the economy, including real estate, industry, services and high-tech.

These developments have also affected the Israeli economy, in which indications of recession can be identified and fluctuations in principal exchange rates against the shekel have occurred, as well as ongoing and substantial lowering of Bank of Israel interest rates and a rise in inflation. However, in recent months a measure of recovery in the capital market is apparent and the prices of negotiable securities have risen considerably. The debt market has started to recover and the business sector has renewed the raising of funds on the capital market. Various markets around the world are experiencing similar developments.

At the date of this report, neither the extent nor the duration of the direct and indirect economic consequences of the economic crisis worldwide and in Israel can be assessed.

The developments in markets noted above could have a serious and ongoing impact on the business results of Koor and its investees, on their liquidity, on the value of their equity, on the value of their assets and the ability to sell them, on the condition of their business (which includes demand for the products of Koor's investees), on their financial covenants, on their credit rating, and on the terms of financing.

Falling and fluctuating prices of the securities of Koor's investees (and particularly Credit Suisse and Makhteshim Agan), on the one hand, and Koor's increased debt, on the other, could affect Koor's financial condition and its credit rating, as well as its compliance with the ratios set for certain financial covenants. In addition, they could, in certain situations, lead to a decline in value and recorded losses due to impairment of the value of the holdings. The Maalot rating published in July 2009 and the Midroog rating published in August 2009 are based on various criteria, among them the ratio of net debt to the adjusted value of holdings. In order to maintain the present rating, Maalot expects the net debt to adjusted holdings value in IDB Group not to exceed 60% except for deviations for short periods. A decrease in the value of the assets and an increase in the net financial debt of Koor and/or other companies in IDB Group will result in a rise in the ratio. Conversely, an increase in the value of the assets or a decrease in the net financial debt will result in a fall in the ratio. At March 12, 2010, Koor's net debt to adjusted holdings value ratio is 41%.

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The volatility in the financial markets together with the large differences in the prices of Credit Suisse shares, have enabled Koor to buy and sell Credit Suisse shares, as a result of which Koor has recorded profits of NIS 3.1 billion to date, of which a net profit of NIS 2.524 billion in 2009 and expects to record a net profit on NIS 14 million in the first quarter of 2010.

In May 2009 the Commissioner of Capital Markets, Insurance and Savings at the Ministry of Finance ("the Commissioner") appointed a committee to set parameters for the consideration of institutional bodies that make credit available by means of purchasing non-government bonds ("the Committee"). In September 2009 the Committee published an interim report for the public's reaction. The interim report contains recommendations for the regulatory involvement of the Commissioner in the consolidation of internal processes in the institutional body before the investment in bonds, recommendations relating to contractual stipulations whose existence institutional bodies will be required to ascertain in the terms of the debentures before making the investments in the primary market, and recommendations concerning the information required by an institutional body in order to examine an investment in debentures and for its regular monitoring.

In September 2009 the Commissioner published a draft circular on the adoption of the recommendations of the Committee's interim report on the matter of investment by institutional bodies in non-government bonds.

The final recommendations of the Committee are not yet known for certain, nor which of them will be adopted. If the Committee's recommendations are adopted, this could impact the possibility of raising capital from institutional bodies by means of debentures.

**2.1.2 Koor's market risks**

Mr. Oren Hillinger, the Company's CFO, is responsible for managing the market risks to which Koor is exposed.

Market risks – Koor is exposed directly to market risks as a result of changes in currency exchange rates and 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.

During 2009, most of Koor's debt was shekel denominated, linked to the Israeli CPI and bearing fixed interest, and part was debt denominated in Swiss francs at variable interest, and its fair value was affected by changes in shekel/Swiss franc exchange rates. On the other hand, Koor held a cash balance denominated primarily in shekels at variable interest and available-for-sale financial assets denominated in Swiss francs.

**2.1.3 Detailed description of the market risks and Koor's policy for managing such exposure**

Direct exposure to the rise in the Israeli CPI

At December 31, 2009 and at the date of this report, Koor's Israeli CPI-linked shekel liabilities are NIS 1.75 billion with an average duration of 3.3 years.

Koor partially hedges this exposure by purchasing forward contracts for the Israeli CPI. In the majority of cases, the contracts are purchased for one or two years. At the date of the report, the overall volume of such contracts held is NIS 500 million, with an average time to maturity of 19 months. In addition, in December 2009 Koor repaid linked debt of NIS 1 billion and took an unlinked loan of NIS 750 million.

Exposure to the impact of changes in exchange rates

During 2009, most of the Company's cash balances were denominated in shekels or Swiss francs following buys and sells of Credit Suisse shares. At the date of this report, Koor has a net debt balance of NIS 1.66 billion exposed to fluctuations in the Swiss franc/shekel exchange rate, and a cash balance of NIS 248 million denominated in U.S. dollars. The fair value in shekels of the liquid

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assets and debt balance is affected by changes in the exchange rate of the shekel against these currencies.

Additionally, Koor is subject to the effects of the shekel exchange rate against the Swiss franc on the shekel value of its investment in available-for-sale assets (Credit Suisse shares at a cost, at the report date, of NIS 6.67 billion), and to the effects the shekel exchange rate against the U.S. dollar on its shekel investment balance in investees that operate abroad and/or most of whose operations are in foreign currency. These impacts are stated as part of equity (except in the event of sharp and/or continuous impairment, as described in Note 3(d)1 to the financial statements).

Koor partially hedges its exposures to the Swiss franc/shekel exchange rate by the purchase CHF/NIS put options and the sale of CHF/NIS call options (collar transactions), in most cases on three-month contracts. At the date of the report, Koor has CHF 500 million of CHF/NIS collar transactions.

Exposure to market value fluctuations of Koor assets

In view of the current crisis, Koor has great exposure to fluctuations in the market value of its assets, primarily the shares of Credit Suisse and Makhteshim Agan. At the date of this report, Koor does not hedge against this exposure. However, it is possible that in specific cases, such steps will be taken in the future.

Exposure to changes in interest rates

In the past, Koor hedged interest rate risks by swap transactions of variable to fixed interest in respect of exposure to LIBOR interest. This type of hedging may also be applied in the future. However, at the date of this report, there is no hedge against this exposure.

Koor uses derivative financial instrument transactions only through banks and entities committed to maintain security levels according to scenarios.

**2.1.4 Means of supervision and implementation of policy**

The Company's policies for investment of cash balances and hedging against financial exposures are carried out by the Company's management and by Management's investment committee, whose members are the CFO and capital market consultants. In November 2007, the Board of Directors appointed an investment committee whose members are four directors, of whom two are external directors. Management reported to the Board's investment committee on policy for investment of cash balances and hedging against exposures, and that investment committee reviewed and approved the policy. Additionally, at all meetings of the Audit Committee and of the Board of Directors, Management reported on Koor's exposure to changes in exchange rates and Koor's linkage balance was discussed.

**2.1.5 Report on linkage bases**

- A. The Company does not manage the risks of its investees.
- B. For the consolidated linkage balance at December 31, 2009 and 2008, see Note 28(c)1 to the financial statements.

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C. Koor's linkage balance at December 31, 2009 (in NIS millions):

	<b>Linked to the Israeli CPI</b>	<b>USD or USD- linked</b>	<b>Euro or euro- linked</b>	<b>CHF or CHF- linked*</b>	<b>Unlinked</b>	<b>Non- monetary item</b>	<b>Total</b>
<b>Assets</b>							
Current assets	8	219	-	565	853	59	1,704
Investment in affiliates (including loans)	-	-	-	-	-	2,964	2,964
Other investments	8	3	-	-	-	5,364*	5,375
Fixed assets and investment real estate	-	-	-	-	-	62	62
<b>Total assets</b>	<b>16</b>	<b>222</b>	<b>-</b>	<b>565</b>	<b>853</b>	<b>8,449</b>	<b>10,105</b>
<b>Liabilities</b>							
Current liabilities (including maturities)	(479)	(9)	(9)	(287)	(53)	(107)	(944)
Long-term liabilities	(1,274)	(3)	-	(896)	(1,554)	(81)	(3,808)
<b>Total liabilities</b>	<b>(1,753)</b>	<b>(12)</b>	<b>(9)</b>	<b>(1,183)</b>	<b>(1,607)</b>	<b>(188)</b>	<b>(4,752)</b>
<b>Assets less liabilities, net</b>	<b>(1,737)</b>	<b>210</b>	<b>(9)</b>	<b>(618)</b>	<b>(754)</b>	<b>8,261</b>	<b>5,353</b>

\* In addition to the above, it is noted that in Management's view, Credit Suisse shares are also exposed to changes in the Swiss franc, which at December 31, 2009 were trading in Switzerland at a value of NIS 5,111 million, which is a non-monetary item.

D. Koor's derivative positions at December 31, 2009 (in NIS millions):

	<b>Israeli CPI / NIS</b>			
	<b>Par value</b>	<b>Fair value to receive</b>	<b>Par value</b>	<b>Fair value to receive</b>
	<b>Up to one year</b>		<b>More than one year</b>	
	<b>LONG</b>	<b>LONG</b>	<b>LONG</b>	<b>LONG</b>
Forward contracts for hedging – not recognized for accounting <sup>(1)</sup>	120	1	380	7

(1) These contracts are intended to hedge Koor's Israeli CPI-linked liabilities, so that if 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.

	<b>Collar NIS / CHF</b>			
	<b>Par value (CHF millions)</b>	<b>Fair value to receive (NIS millions)</b>	<b>Par value (CHF millions)</b>	<b>Fair value to receive (NIS millions)</b>
	<b>Up to one year</b>		<b>More than one year</b>	
	<b>LONG</b>	<b>LONG</b>	<b>LONG</b>	<b>LONG</b>
Forward contracts for hedging – not recognized for accounting <sup>(2)</sup>	500	5	-	-

(2) These contacts are intended to hedge against the shekel value of assets denominated in Swiss francs, so that of the exchange rate of the Swiss franc falls below a minimum stipulated in the contract, Koor will receive the difference, and if the exchange rate of the Swiss franc rises above a maximum stipulated in the contract, Koor will pay the difference.

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E. Koor's linkage balance at December 31, 2008 (in NIS millions):

	Israeli CPI	USD or USD- linked	CHF or CHF- linked*	Unlinked	Non- monetary item	Total
<b>Assets</b>						
Current assets	10	45	-	257	5	317
Investment in affiliates (including loans)	-	-	-	-	2,721	2,721
Other investments	-	3	-	-	4,207*	4,210
Fixed assets and investment real estate	-	-	-	-	83	83
<b>Total assets</b>	<b>10</b>	<b>48</b>	<b>-</b>	<b>257</b>	<b>7,016</b>	<b>7,331</b>
<b>Liabilities</b>						
Current liabilities (including maturities)	(214)	(15)	(888)	(25)	(60)	(1,202)
Long-term liabilities	(2,469)	(3)	-	-	(1)	(2,473)
<b>Total liabilities</b>	<b>(2,683)</b>	<b>(18)</b>	<b>(888)</b>	<b>(25)</b>	<b>(61)</b>	<b>(3,675)</b>
<b>Assets less liabilities, net</b>	<b>(2,673)</b>	<b>30</b>	<b>(888)</b>	<b>232</b>	<b>6,955</b>	<b>3,656</b>

\* In addition to the above, it is noted that in Management's view, Credit Suisse shares are also exposed to changes in the Swiss franc, which at December 31, 2008 were trading in Switzerland at a value of NIS 4,100 million, which is a non-monetary item.

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

	ISRAELI CPI / NIS			
	Par value	Fair value to pay	Par value	Fair value to receive
	Up to one year		More than one year	
	LONG	LONG	LONG	LONG
Forward contracts for hedging <sup>(1)</sup>	650	(2)	-	-

(1) These contracts are intended to hedge Koor's Israeli CPI-linked liabilities, so that if 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.

### 2.1.6 Investees

#### Market risks to which Koor's significant investees are exposed, where such exposure is likely to have a material impact upon Koor

Koor's policy for risk management is implemented only for Koor itself. Koor does not set this policy for its investees, and for the reporting period, did not take steps to hedge market risks arising from the operations of its investees. However, Koor's exposure to market risks from the operations of its affiliates is material, and how it should be managed is periodically reviewed and might change from time to time. Exposure to market risks arising from consolidated companies is not material for Koor.

Hereunder is a summary of information according to the reports of a significant affiliate whose exposure to market risks could have material impact on Koor:

#### Makhteshim Agan (holding at the date of this report: 47%)

Makhteshim Agan operates in the agrochemical sector and is therefore exposed to sectoral risks from changes in external factors such as competition, agricultural policy, and weather conditions, as well as factors that affect the demand for its products. Makhteshim Agan runs its business in differing environments that operate in various currencies, and as a result is exposed to market risks. These

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risks are mainly changes in exchange rates (mainly the euro, shekel and Brazilian real against the dollar, which is the Company's functional currency); partial adjustment of product prices to the prices of raw materials in order to reduce the exposure (Makhteshim Agan customarily makes long-term purchase contracts where possible); change in the rate of rise in the Israeli CPI, and changes in the LIBOR rate in respect of short- and long-term liabilities. Makhteshim Agan's board of directors approved a policy of using accepted financial instruments (such as options, forward contracts and swaps) to reduce exposure to changes in exchange rates and rises in the Israeli CPI. Makhteshim Agan's transactions are made only through banks and stock exchanges committed to compliance with requirements of capital adequacy or maintaining a level of collateral according to various scenarios. For details, see Section 9.2 in Part A – Description of the Corporation's Business.

### Credit Suisse (holding at the date of this report: 3.12%)

In addition, Koor has a financial investment in Credit Suisse. For a description of the risk factors applicable to Credit Suisse's activities, see Section 10.3[E] in Part A – Description of the Corporation's Business.

### 2.1.7 Sensitivity analysis tables for sensitive financial instruments included in the consolidated financial statements at December 31, 2009, based on changes in market factors

The tables below describe sensitivity tests of the market value of financial instruments. These tables (as well as those appearing in Section 2.1.8) should be read in light of the following:

1. The instruments referred to are not necessarily stated in the financial statements at their fair value. This relates mainly to liabilities.
2. Changes in the fair value of those instruments that are stated at fair value affect both the reported results and the equity of the Company, as a result of recording capital funds in respect of financial instruments available for sale.
3. Changes in exchange rates affect both the reported results and the equity of the Company as a result of charging translation differences stemming from translation of the financial statements of an investee which are prepared in foreign currency.

### Sensitivity test of changes in the interest rate

Item	<u>Profit (loss) from changes in the interest rate</u>						
	<u>Fair value</u>	<u>Rise of 200 base points (**)</u>	<u>R i s e</u>		<u>F a l l</u>		<u>5%</u>
			<u>10%</u>	<u>5%</u>	<u>200 base points (**)</u>	<u>10%</u>	
			<u>N I S m i l l i o n s</u>				
Current maturities of debentures	(466)	4	_*	_*	(5)	_*	_*
Debentures	(2,102)	139	34	17	(151)	(34)	(17)
Obligations to banks	(883)	49	12	6	(54)	(12)	(6)
	(3,441)	192	46	23	(240)	(46)	(23)

\* Less than NIS 1 million.

\*\* The Company chose to show the size of the change in the interest for which the extreme tests would be run for financial instruments sensitive to a change in the interest rate, at 200 base points (2%), after checking and not findings a higher absolute daily change in the interest rate in the 10 years prior to the date of the report and in view of its assessment that a change of 200 base points is one that can occur in an extreme but logical scenario at the same interest.

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### Sensitivity test of changes in the dollar exchange rate

<b>Item</b>	<b>Fair value</b>	<b>Profit (loss) from changes in the dollar exchange rate</b>			
		<b>Increase</b>		<b>Decrease</b>	
		<b>10%</b>	<b>5%</b>	<b>10%</b>	<b>5%</b>
<b>NIS millions</b>					
Cash and cash equivalents	214	21	11	(21)	(11)
Short-term deposits and investments	5	-	-	-	-
Trade receivables, receivables and debit balances	20	2	1	(2)	(1)
Other investments	3	-	-	-	-
Credit from banks and others	(32)	(3)	(2)	3	2
Trade payables, payables and credit balances	(32)	(3)	(2)	3	2
Other long-term financial liabilities	(4)	-	-	-	-
	<u>174</u>	<u>17</u>	<u>8</u>	<u>(17)</u>	<u>(8)</u>

### Sensitivity test of changes in the Swiss franc exchange rate (excluding financial derivatives)

<b>Item</b>	<b>Fair value</b>	<b>Profit (loss) from changes in the Swiss franc exchange rate</b>			
		<b>Increase</b>		<b>Decrease</b>	
		<b>10%</b>	<b>5%</b>	<b>10%</b>	<b>5%</b>
<b>NIS millions</b>					
Cash and cash equivalents	560	56	28	(56)	(28)
Credit from banks and others	(235)	(23)	(12)	23	12
Trade payables, payables and credit balances	(52)	(5)	(2)	5	2
Long-term obligations to banks	(896)	(90)	(45)	90	45
	<u>(623)</u>	<u>(62)</u>	<u>(31)</u>	<u>62</u>	<u>31</u>

In addition to the above, it is noted that in Management's view, Credit Suisse shares are also exposed to changes in the Swiss franc, which at December 31, 2009 were trading on the Swiss stock exchange at a value of NIS 5,111 million, which is a non-monetary item.

### Sensitivity test of changes in the euro exchange rate

<b>Item</b>	<b>Fair value</b>	<b>Profit (loss) from changes in the euro exchange rate</b>			
		<b>Increase</b>		<b>Decrease</b>	
		<b>10%</b>	<b>5%</b>	<b>10%</b>	<b>5%</b>
<b>NIS millions</b>					
Payables and credit balances	(9)	(1)	-	1	-

In addition to the above, it is noted that in Management's view, Carrefour shares are also exposed to changes in the euro, which at December 31, 2009 were trading on the French stock exchange at a value of NIS 101 million, which is a non-monetary item.

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### Sensitivity test of changes in Israeli and foreign stock exchange prices of negotiable securities

Item	Fair value	Profit (loss) from changes in prices of negotiable securities			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Short-term deposits and investments	44	4	2	(4)	(2)
Other investments	3	-	-	-	-
Financial assets available for sale	2,800	280	140	(280)	(140)
Pledged financial instruments available for sale	2,412	242	121	(242)	(121)
	5,259	526	263	(526)	(263)

### Sensitivity test of changes in Israeli CPI – on derivative positions

CPI forward contract	Fair value	Profit (loss) from changes in the Israeli CPI			
		Rise		Fall	
		2%	1%	2%	1%
NIS millions					
Not recognized as accounting hedging	8	10	5	(10)	(5)

### Sensitivity test of changes in Swiss franc exchange rate – on derivative positions

Item	Fair value	Profit (loss) from changes in the Swiss franc exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Not recognized as accounting hedging					
Purchase of CHF/NIS put options	12	(12)	(12)	160	69
Sale of CHF/NIS call options	(7)	(123)	(40)	4	4
	5	(135)	(52)	164	73

### Sensitivity test of changes in the standard deviation – on derivative positions

Item	Fair value	Profit (loss) from changes in the standard deviation of the CHF exchange rate			
		Increase		Decrease	
		10%	5%	10%	5%
NIS millions					
Not recognized as accounting hedging					
Purchase of CHF/NIS put options	12	2	1	(2)	(1)
Sale of CHF/NIS call options	(7)	(1)	-	1	-
	5	1	1	(1)	(1)

The results of the tests for sensitivity to changes in Swiss franc interest and shekel interest on the derivative positions of the purchase CHF/NIS put option type and the selling CHF/NIS call option type are less than NIS 1 million, and therefore are not shown.

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### 2.1.8 Sensitivity analysis tables for sensitive financial instruments included in the consolidated financial statements at December 31, 2008, based on changes in market factors

#### Sensitivity test of changes in the interest rate

<u>Item</u>	<u>Fair value</u>	<u>Profit (loss) from changes in the interest rate</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
		<u>NIS millions</u>			
CPI-linked deposits made and long-term loans provided (including current maturities)	28	(2)	(1)	2	1
CPI-linked debentures	(994)	91	46	(91)	(46)
CPI-linked bank loans	(1,161)	12	6	(12)	(6)
	(2,127)	101	61	(101)	(51)

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

<u>Item</u>	<u>Fair value</u>	<u>Profit (loss) from changes in the dollar exchange rate</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
		<u>NIS millions</u>			
Cash and cash equivalents	30	3	1	(3)	(1)
Short-term deposits and investments	14	1	1	(1)	(1)
Trade receivables, receivables and debit balances	44	4	2	(4)	(2)
Other investments	3	-	-	-	-
Credit from banks and others	(39)	(3)	(2)	3	2
Trade payables, payables and credit balances	(62)	(6)	(3)	6	3
Obligations to banks and other financial liabilities long-term financial liabilities	(20)	(2)	(1)	2	1
	(30)	(3)	(2)	3	2

#### Sensitivity test of changes in the Swiss franc exchange rate

<u>Item</u>	<u>Fair value</u>	<u>Profit (loss) from changes in the Swiss franc exchange rate</u>			
		<u>Increase</u>		<u>Decrease</u>	
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>
		<u>NIS millions</u>			
Credit from banks and others	(888)	(88)	(44)	88	44

In addition to the above, it is noted that in Management's view, Credit Suisse shares are also exposed to changes in the Swiss franc, which at December 31, 2008 were trading on the Swiss stock exchange at a value of NIS 4,100 million, which is a non-monetary item.

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**Sensitivity test of changes in Israeli and foreign stock exchange prices of negotiable securities**

<b>Item</b>	<b>Fair value</b>	<b>Profit (loss) from changes in prices of negotiable securities</b>			
		<b>Increase</b>		<b>Decrease</b>	
		<b>10%</b>	<b>5%</b>	<b>10%</b>	<b>5%</b>
		<b>NIS millions</b>			
Short-term deposits and investments	4	-	-	-	-
Other investments	1	-	-	-	-
Financial assets available for sale	1,583	158	79	(158)	(79)
Pledged financial instruments available for sale	2,517	252	126	(252)	(126)
	<u>4,105</u>	<u>410</u>	<u>205</u>	<u>(410)</u>	<u>(205)</u>

**Sensitivity test of changes in Israeli CPI – on derivative positions**

	<b>Fair value</b>	<b>Profit (loss) from changes in the Israeli CPI</b>			
		<b>Rise</b>		<b>Fall</b>	
		<b>2%</b>	<b>1%</b>	<b>2%</b>	<b>1%</b>
		<b>NIS millions</b>			
CPI forward contract					
Not recognized as accounting hedging	(2)	13	7	(13)	(7)

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### **3. Aspects of corporate governance**

#### **3.1 Contribution and aid to the community**

Koor sees contributing to and supporting the community in Israel as an integral and extremely worthy element of its activities. The Company, as an IDB Group company, views its contribution to the community as a central tier in its business vision and believes that it bears a responsibility towards Israeli society, out of a recognition that business leadership co-exists with social leadership.

Out of an ongoing commitment to contribute to the development of the country and to strengthen its resilience, and out of its social and moral obligation to work for society in Israel, the Company contributes to various projects which it is interested in promoting. As part of this, priority is given to contributions in areas of education, health, welfare, culture and sport.

Against the background of the crisis in the northern settlements during the Second Lebanon War, and in light of the continuous reality of the Gaza Periphery settlements, the Company resolved, as part of the IDB Group, to continue its extensive support of the confrontation line settlements in the north and in the south and the resilience of their residents, out of a sense of solidarity, involvement and unity.

During 2009, the Company approved donations of NIS 30 million, of which NIS 20.5 million were recorded in the 2009 financial statements under Administrative and general expenses, to various projects and organizations, mainly in education, health, sport and community welfare. This sum includes donations of NIS 18.5 million to residents of periphery settlements and the confrontation line in the north and the south. In addition, the 2009 financial statements include NIS 4.5 of administrative and general expenses in respect of donations approved and made in 2008.

**The main projects to which the donations were approved are these:**

- Student scholarships: 3,600 scholarships were awarded to outstanding students and doctoral candidates in 14 local authorities in confrontation line settlements in the north and south, in a total amount of NIS 10.5 million.
- Additional projects at a cost of NIS 10 million include support for educational, health, welfare, culture and sports activities all over the country, with emphasis on confrontation line areas in the north, Sderot and the Gaza periphery settlements.

Below are details of donations approved and/or made in the reporting period, when the controlling shareholder in the Company had an interest in the recipient of the donation.

<u>Recipient of the donation</u>	<u>Amount of donation</u>	<u>Controlling shareholder / Director</u>	<u>Nature of the interest (as declared by the controlling shareholder)</u>
Sourasky Medical Center, Tel Aviv	NIS 2,850,000	Nochi Dankner Avi Fisher Ami Erel	Mr. Dankner is a member of the executive committee of the Friends of Sourasky Medical Center, Mr. Fisher is a member of the Friends of Sourasky Medical Center, and Mr. Erel's wife is employed at the Medical Center.

Donations to organizations in which the Company's controlling shareholders or their relatives, as well as the Company's directors or officers, serve on the executive committee (or similar organ, as opposed to being members of the board of trustees or members in an association or organization) are brought to the Company's Audit Committee and Board of Directors for approval, after the relevant controlling shareholders, director or officer confirms that it/he has no personal interest in the donation other than the interest in the entity receiving the donation by virtue of its/his office.

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**3.2 Directors**

**3.2.1 Directors with accounting and financial expertise**

Pursuant to Section 92(A)(12) of the Companies Law, 5759-1999, the minimum number of directors with accounting and financial expertise appropriate for the Company is set at two directors (including external directors with such expertise). This takes into account the statutory duties and function of the Board of Directors, which includes its responsibility for preparing and approving the financial statements, the nature of the accounting and financial issues arising while preparing the Company's financial statements in view of its areas of operation, the size and complexity of the Company, and the composition of the Company's Board of Directors as a whole, including directors with business, managerial and professional experience that allows them to deal with the tasks of managing the Company, including its reporting duties.

After assessing the education, experience, qualifications and knowledge of the Board members on business-accounting topics and financial reporting, the Company's directors whom the Board deems to have accounting and financial expertise and the facts by virtue of which they are deemed as such are:

- Nochi Dankner – LL.B. and B.A. (Political Science). Chairman of the Board and CEO of IDB Holdings Corporation Ltd., chairman of the boards of directors of IDB Development Corporation Ltd., Clal Industries & Investments Ltd. and Discount Investment Corporation Ltd. He also serves and /or has served as chairman and member of the boards of directors of public and private companies in IDB Group and in Ganden Group. Served as a director in Bank Hapoalim Ltd. and as chairman of the bank's credit committee.
- Yitzhak Manor – MBA. Director in public and private companies in IDB Group and chairman of companies in David Lubinski Group Ltd., co-chairman of IDB Holdings Ltd., director and member of the balance sheet committee of Israel Union Bank Ltd.
- Ami Erel – B.Sc. (Electrical Engineering). President and CEO of Discount Investment Co. Ltd., and of Netvision Ltd. Chairman of the Board of Cellcom Israel Ltd. and director in Property and Building Ltd., Supersol Ltd., Makhteshim Agan Industries Ltd. and other IDB Group companies. Former chairman, president and CEO of Elron Electronic Industries Ltd., and former CEO of Bezeq, The Israel Telecommunication Corp. Ltd.
- Gideon Lahav – B.A. (Economics). Director in Paz Oil Ltd. and First International Bank of Israel Ltd. Chairman of the Company's audit committee, director in Discount Investments and chairman of its audit committee. Former director in other public companies, former CEO of Barclays Discount Bank and former CEO and subsequently chairman of Israel Discount Bank Ltd.
- Avraham Asheri – B.A. (Economics and Political Science). Former director of the Investments Center, Director General at the Ministry of Trade and Industry, Senior VP at Discount Bank in charge of the business sector, chief loan officer at Discount Bank and eventually CEO of Discount Bank. Currently a director in Discount Mortgage Bank Ltd., Redwood Ltd., Elron Electronic Industries Ltd. (chairman of the audit committee), Elbit Systems Ltd., and Micronet Ltd.

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Shlomo Rizman – B.A. (Economics and Political Science) from the Tel Aviv Law and Economics Academy. Managing Director of the Farmers Association, member of management at Amir Ltd. and at Accounting for Farmers Ltd., member of the CEOs committee of the Liaison Bureau of the Economic Organizations. Member of the board of directors of The Technion in Haifa, member of the council, finance committee and chairman of the buildings committee of Israel's National Insurance Institute, and member of public associations.

**3.2.2 Independent directors**

The Company has not adopted in its articles the directive concerning the percentage of independent directors as defined in section 219(E) of the Companies Law 5759-1999.

**3.2.3 Appointment of a director**

The Board of Directors of the Company resolved to appoint Mr. Lior Hannes as a director in the Company.

**3.3 The corporation's internal auditor**

**3.3.1 Internal auditor and compliance with terms**

Name of auditor: Ezra Yehuda, CPA

Started service: July 22, 1998

Qualifications for the position: CPA, B.A. in accounting and economics, and MBA (cum laude) majoring in finance and management, both from Tel Aviv University. He has thirty-five years of experience in the field. Mr. Yehuda's accounting firm was established in 1988, and specializes in internal auditing from the aspects of finances, operations and computer control.

The internal auditor is not an interested party or officer in the Company, or a relative of any of those, nor is he the auditing accountant of the Company or acting on its behalf. The internal auditor does not hold any position in the Company in addition his position as internal auditor. To the best of the Company's knowledge, the internal auditor does not hold another position outside of the Company that creates or is liable to create a conflict of interest with his position as internal auditor.

To the best of the Company's knowledge, the internal auditor does not hold any securities of the Company or of entities affiliated with it. The internal auditor has no material business relations or other material connections with the Company or with any entity affiliated with it, other than his being employed as the internal auditor of several of the Company's subsidiaries.

Employment status: Mr. Yehuda provides services through his firm.

**3.3.2 Appointment of the internal auditor**

The appointment of the internal auditor was approved by the Audit Committee at its meeting on July 1, 1998 and by the Board of Directors at its meeting on July 22, 1998, after considering the auditor's education, qualifications and experience in internal auditing, and the type, scope and complexity of the Company's operations.

**3.3.3 Organizational superior of the internal auditor**

Chairman of the Board.

**3.3.4 The work plan of the internal auditor**

The work plan is in an annual format. The considerations in determining the work plan are the nature of the Company's operations and the fact that it is a holding company, the need for monitoring to maintain a proper auditing process in the Company's subsidiaries and investees, the probability of the

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existence of flaws and exposures in the Company's operations, and the aspiration to audit material matters in the Company's operations at least once every four years and all based on risk assessment survey which is conducted by the internal auditor in the organization once every few years. The entities involved in determining the work plan are the internal auditor, the Company's Management and the Audit Committee, which approves the plan. The internal auditor has discretion to deviate from the work plan, subject to a report to the Audit Committee and its approval of the proposed change.

**3.3.5 Auditing abroad or of investees**

The Company and its wholly owned subsidiaries have no activities abroad, with the exception of a holding in certain corporations outside Israel. The Company's material investees have their own internal auditors who prepare all the internal audits for the corporations they audit, and the Company's internal auditor is not involved in those audits. However, while the annual internal audit plan does include reference to the actual performance of the internal audit by other auditors in some of the Companies investees, it does not refer to their operations in Israel or other countries.

**3.3.6 Scope of employment**

About 350 work hours in 2009 and 270 work hours in 2008. In the opinion of the Audit Committee, the internal audit work plan and the scope of employment defined for its implementation are appropriate to the Company's needs. If necessary, the internal auditor and the Company have the option to expand this scope of employment.

**3.3.7 Conducting the audit**

The audit is conducted in accordance with accepted professional standards and the Internal Audit Law.

**3.3.8 Access to information**

The internal auditor and his staff have access to information as stipulated in Section 9 of the Internal Audit Law, which includes constant and direct access to the information systems of the Company and its wholly-owned subsidiaries.

**3.3.9 Material transactions**

The internal auditor receives an invitation, including background material, to meetings of the Company's Audit Committee and attends committee meetings at which materials transactions are reviewed and discussed, as mandated by Section 270 of the Companies law, 5759-1099. The internal auditor also received, at his request, minutes of Board meetings at which such transactions are approved.

**3.3.10 Internal auditor's reports**

The internal auditor's reports are submitted in writing. In 2009, six reports were submitted on six topics, and in 2008, five reports were submitted on five topics. The internal audit reports are distributed to the Chairman of the Board, the chairman and members of the Audit Committee, and the Company's Management. The reports in respect of 2009 were distributed prior to Audit Committee meetings which discussed them on May 18, 2009, August 20, 2009, November 12, 2009, March 11, 2010.

**3.3.11 Board of Directors' assessment**

In the opinion of the Board of Directors, the scope, nature and continuity of the internal auditor's activities and his work plan are reasonable in the circumstances, and they fulfill the Company's internal audit goals.

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**3.3.12 Remuneration**

The remuneration paid to the internal auditor is based on actual hours worked. In 2009, the internal auditor was paid NIS 98,000 and in 2008 he was paid NIS 76,000.

**3.4 The corporation's external auditor**

	Name of auditor	2009				2008			
		Fees (NIS thousands)		Work hours		Fees (NIS thousands)		Work hours	
		Audit and tax services	Other services	Audit and tax services	Other services	Audit and tax services	Other services	Audit and tax services	Other services
<b>The Company and its wholly-owned subsidiaries</b>	KPMG								
	Somekh Chaikin	953	331	3,979	811	889	254	3,736	443
	Joseph Shimoni	85	106	350	606	97	94	384	544

The fees of the auditors were set on the basis of the actual scope of work, and were approved by the Audit Committee and the Board of Directors.

**3.5 Disclosure concerning the procedure for approval of the financial statements**

**3.5.1 Identity of the organs in the corporation charged with overall control**

The Board of Directors of the Company and its Audit Committee.

**3.5.2 Procedures undertaken by the entities charged with overall control in the corporation, prior to approval of its financial statements**

The Company's Board of Directors appointed the Audit Committee to serve as a "balance sheet committee", which presents the Board with the main issues of the detailed discussion concerning the financial statements and makes recommendations concerning their approval. The financial statements are approved by the Board of Directors. The members of the balance sheet committee are Mr. Gidon Lahav, Mr. Avraham Asheri, Mrs. Ayelet Ben-Ezer and Mr. Shlomo Rizman. Three members of the Audit Committee have financial expertise. The Company's internal auditor is invited to and attends the balance sheet committee meetings. The Company's auditor is invited to and attends the balance sheet committee and Board of Directors meetings at which the financial statements are discussed and approved, and 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. Raanan Cohen, CFO, Mr. Oren Hillinger and Comptroller, Mrs. Avishag Peretz, 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 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 reviews various aspects of control and risk management, both those 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 significant influence.

For approval of the financial statements, the Audit Committee meets prior to the date of the Board meeting for a comprehensive discussion of the material reporting issues and detailed discussion of the draft financial statements.

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**3.6 Compensation to interested parties and senior officers**

Except for the CEO of the Company, Mr. Raanan Cohen, who is not a Company employee but an employee of the Company's parent, Discount Investments Ltd. and for the cost of whose employment at Discount Investments the Company participates 80%, the Company has three senior officers whose salaries it pays. The considerations that guided the Board of Directors in setting the salaries and bonuses of these officers were based mainly on the status and function of each of them, and their contribution to the activities and advancement of the Company. Their salaries, taking into account the character of the Company, its size and the complexity of its business, as well as the salaries paid to officers with similar functions in comparable companies in Israel, are deemed fair and reasonable compensation.

**4. Disclosure directives relating to the corporation's financial reporting**

**4.1 Principal events after the balance sheet date**

For information about principal events after the balance sheet date, see Note 33 to the financial statements.

**4.2 Disclosure concerning critical estimates**

For information about critical estimates, see Note 2(d) t the financial statements.

**4.3 Disclosure of significant differences in the estimates and projections behind the valuations**

A test for impairment of investment in Makhteshim Agan was annexed to the Company's financial statements at December 31, 2008. The valuation was based on a financial forecast for 2009 – 2013. The table shows the results of Makhteshim Agan's operations for 2009 compared with its results for the year as projected in 2008.

	<b>Actual in 2009</b>	<b>Projection for 2009 made in 2008 (realistic scenario)</b>	<b>Difference</b>
	<b>N I S t h o u s a n d s</b>		
Income	2,214,616	2,528,357	<b>(313,741)</b>
Cost of sales	1,632,752	1,711,197	<b>(78,445)</b>
Gross profit	581,864	817,160	<b>(235,296)</b>
Gross profit margin	26.3%	32.3%	
Expenses:			
R&D, net	21,816	22,311	<b>(495)</b>
Sales and marketing	358,400	374,142	<b>(15,742)</b>
Administrative and general	79,402	78,700	<b>702</b>
Total expenses	459,618	475,153	<b>(15,535)</b>
Operating income	122,246	342,007	<b>(219,761)</b>
<b>Operating income %</b>	<b>5.5%</b>	<b>13.5%</b>	

As can be seen in the table, the income, profits and profit margins of Makhteshim Agan in 2009 were lower than projected in the test for impairment at December 31, 2008. The company's non-compliance with the forecasts was a consequence of the effects of the economic crisis on the agrochemicals market, which were more severe than foreseen by Makhteshim Agan and by the market itself, and of the one-time events that occurred in 2009 and adversely affected Makhteshim Agan's operations, as described in Section 1.2.2.1 above.

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Retrospectively, these gaps result in a measure of impairment of the usage value of Makhteshim Agan at December 31, 2008. However, in view of the very large gap between the usage value of Makhteshim Agan according to the valuation, and the value of Makhteshim Agan in Koor's books, the Company estimates that even if the impairment of the usage value were applied, the usage value would still be significantly higher than the value of Makhteshim Agan in Koor's books. It is noted that whatever the case, the market value of Koor's holding in Makhteshim Agan at December 31, 2009 was NIS 3.66 billion, which is considerably higher than the value of the holding in Koor's books at that date, which was NIS 2.82 billion.

**4.4 Disclosure of the Company's preparation for effective internal auditing of the financial reporting and disclosure**

On November 24, 2009, the Knesset Finance Committee approved the proposal of the Securities Authority to adopt regulations dealing with internal control for financial reporting and disclosure in a corporation, so as to provide reasonable assurance of the propriety of the financial statements and their compliance with the law (Securities (Periodic and immediate reports) (Amendment No. 3) Regulations).

The purpose of the amendment is to improve the quality of financial reporting and disclosure in reporting corporations by means of three main elements:

1. A Board and Management report relating to the effectiveness of the internal control of financial reporting and disclosure, in order to strengthen the company's internal controls.
2. Personal declarations of the CEO and the most senior financial officer in the company, stating, inter alia, that to their knowledge, the financial statements and other financial information included in the reports do not contain any misstatement of a material fact and no statement is missing from them which is a material fact required for those presentations not to be misleading, and that to their knowledge, the financial statements and other financial information in the reports properly reflect, from all material aspect, the financial condition, the results of operations and the cash flows of the company, and that they have assessed the effectiveness of the internal control of the financial reporting and disclosure insofar as it relates to the financial statements and the other financial information included in the reports.
3. The attachment to the periodic report an opinion of the company's auditor concerning the effectiveness of the internal control of the company's financial reporting and concerning any material weakness it has identified in that control.

These directives will come into force commencing with the periodic report at December 31, 2010. From the date of publication of the amendment to that date, the directors' report will include details concerning the company's preparation and progress in the application of the provisions of the amendment.

**Stages of preparation and progress and the steps taken by the Company to the date of this report**

- A. Avishag Peretz, the Company's comptroller, is in charge of the project. In addition, a steering committee headed by the Company's CFO, Oren Hillinger, is charged with overseeing the project's implementation, including reaching the milestones designated by the Securities Authority and compliance with the timetable, as well as receiving reports on gaps in the control and plans for correcting them.

The steering committee has decided on a methodology and work plan for the project, based on the following stages:

1. Mapping the most significant processes for financial reporting and disclosure, documentation of existing controls and related procedures.
2. Identification of risks for financial reporting and disclosure, and identifying material control processes that provide a response to those risks.
3. Mapping of gaps in control versus desired controls.
4. Examination of the effectiveness of the controls, identification and correction of flaws.
5. The audit of the auditor concerning those controls.

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- B. As part of the stage of mapping the most significant processes for financial reporting and disclosure, the Company has made a preparation plan based on assessment of the risks relevant to financial reporting and disclosure as relate to the balances and disclosures in the financial statements, on the basis of quantity and quality criteria such as –
- the materiality of the balance from the quantity aspect;
  - the scope of the records and the information processing;
  - the level of homogeneity;
  - the level of complexity of the process in relation to the disclosure and reporting;
  - the qualifications of those involved in the process;
  - the extent of judgment in the process / existence of assessments and estimates;
  - the ability of the information systems infrastructure to process information according to the level of complexity of the process and the level of expertise required for processing the information;
  - the extent of the risk inherent in embezzlement and fraud and/or errors in the process;
  - have cases of fraud and embezzlement or other material misstatement occurred;
  - errors or misstatements in prior reporting periods;
  - level of risk / complexity in an accounting item;
  - additional considerations.

The Company's preparation plan, which was described in the project planning document, includes a list of the consolidated companies in which the preparation will be made, details of the considerations of Management in determining accounts and material processes, the conclusions, stages of preparation, including detailed timetables and the names of those in charge of various aspects of the project. The preparation plan was presented and discussed by the Audit Committee of the Company.

- C. As part of the preparation for application of the regulations in the Company, the following material processes for financial reporting and disclosure were identified:
- Entity level controls – controls that are likely to have an overall impact on the organization and which form the basis for the state of affairs and the character of the activities in the Company, which includes these:
    - Controls relating to the control environment.
    - Controls relating to management override.
    - Risk assessment process.
    - Process of assessment and control of the results of the organization's activities.
    - Follow-up and supervision by the Board of Directors and its committees of the control in the organization.
  - End-of-period process – defined as the last segment of the financial reporting process, which includes, among other things, the following actions:
    - Collecting the data for the trial balance sheet and conducting tests based on the propriety of the data obtained (e.g. by reasonability tests).
    - Setting and applying accounting policy.
    - Making adjustments for preparing the annual or quarterly financial statements.
    - Preparing and drawing up the financial statements, including relevant disclosures.
    - Discussion and approval of the financial statements by the relevant organs.
  - In the context of these processes, the following accounts were identified as very material with a high level of risk:
    - Cash and cash equivalents.
    - Short-term deposits and investments.
    - Investments in held companies.

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- Financial assets available for sale.
- Credit from banks.
- Koor's equity in the results of affiliates.
- Profit from realization and revaluation of investments

D. At the date of this report, the Company has assessed the risks of the internal control and has documented the business processes and internal controls relating to its financial reporting and disclosure.

## **5. Self-purchases**

In January 2009, a wholly-owned subsidiary of the Company purchased 746,000 par value of debentures (series 8) of Koor on the stock exchange. These purchases are additional to purchases of 217.3 million par value made during 2008. In May 2009 the subsidiary sold 75.8 million par value of debentures (series 8) of Koor, in consideration of NIS 80 million. At December 31, 2009, the subsidiary holds 142.2 million par value of debentures (series 8).

## **6. Dedicated disclosure for debenture-holders**

See Appendix.

## **7. Managers and employees of the Company and the investees**

We wish to thank the Company's Management and employees and the managements and employees of the investees, for their work, effort and contribution to the Company and the investees throughout the year.

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Ami Erel  
Chairman of the Board

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Raanan Cohen  
CEO

Tel Aviv, March 14, 2010

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

## Board of Directors Report For the year ended December 31, 2009

### Appendix – Dedicated disclosure for debenture-holders

Series	Original issue date	Par value on date of issue (in millions)	Balance of par value in circulation (in millions)	Balance of par value in circulation by linkage terms (in millions)	Amount of interest accrued in the books	Book value of balance of debentures at December 31, 2009	Stock exchange value	Interest rate (fixed)	Principal payment dates <sup>(2)</sup>		Interest payment dates	Linkage terms	Trust company – Name of contact, address and tel. no.
									From	To			
7	10.4.05	400	400	458.1	2.9	456.4	Non-negotiable	3.75%	30.4.10	30.4.10	30.4.10	CPI	U Bank Trust Company 83 Rothschild Blvd. Tel Aviv Tel.: 03-5645205 Yif'at Bachar
8 <sup>(3)</sup>	20.8.06	1,194.6	1,194.6	1,309.4	22.3	1,322 <sup>(5)</sup>	1,391	5.10%	1.9.12	1.9.16	1.9.10 1.9.11, 1.9.12 1.9.13, 1.9.14 1.9.15, 1.9.16	CPI	Reznik Paz Nevo Trusts Ltd. 14 Yad Harutzim Street Tel Aviv Tel.: 03-6389200 Liat Bachar-Segal
9 <sup>(4)</sup>	9.8.09	765.5	765.5	765.5	20.1	746.5	817.2	6.7%	15.3.11	15.3.15	15.3.10, 15.9.10 15.3.11, 15.9.11 15.3.12, 15.9.12 15.3.13, 15.9.13 15.3.14, 15.9.14 15.3.15	Unlinked	Hermetic Trust (1975) Ltd. 113 Hayarkon Street Tel Aviv Tel.: 03-5274867 Merav Ofer Oren
10	9.9.09	58.1	58.1	58.1	1.3	57.7	60.8	7.2%	16.9.12	16.9.17	16.3.10, 16.9.10 16.3.11, 16.9.11 16.3.12, 16.9.12 16.3.13, 16.9.13 16.3.14, 16.9.14 16.3.15, 16.9.15 16.3.16, 16.9.16 16.3.17, 16.9.17	Unlinked	Hermetic Trust (1975) Ltd. 113 Hayarkon Street Tel Aviv Tel.: 03-5274867 Merav Ofer Oren

#### Notes

- (1) The Company is in compliance with all the terms of the debentures and met all the terms of the liability in the deed of trust.
- (2) Annual payments.
- (3) The series was expanded on May 10, 2007. The data in the table relate to the entire series.
- (4) The series was expanded on September 9, 2009. The data in the table relate to the entire series.
- (5) The consolidated financial statements state the balance of debentures (series 8) at December 31, 2009 net of the debentures purchased by a wholly-owned subsidiary, and is NIS 1,161 million.

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### Debenture ratings

Series	Rating company	Present rating	Rating on issue date
7	Maalot	A+/stable	A+
7	Midroog	A1	-
8	Maalot	A+/stable	A+
8	Midroog	A1	-
9	Maalot	A+/stable	A+/stable
9	Midroog	A1	-
10	Maalot	A+/stable	A+/stable
10	Midroog	A1	A1

In May 2006 Maalot announced a rating of A+/stable for debentures (series 7 and 8). In November 2008 Maalot published a credit rating of A+/CW Negative for Koor's debentures.

In July 2009 Maalot published a credit rating of ilA+/stable for the debentures (series 7 and 8) of Koor.

In August 2009 Midroog announced a rating of A1 for the Company's debentures.

In September 2009 Maalot and Midroog announced a rating of ilA+/stable and A1 respectively, both for the debentures (series 9) and for the issue of the new debentures (series 10).