

Koor Industries Limited

**Condensed Consolidated Interim
Financial Statements
As at March 31, 2009
(unaudited)**

Condensed Interim Financial Statements as at March 31, 2009 (Unaudited)

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Review Report to the Shareholders of Koor Industries Ltd.

Introduction

We have reviewed the accompanying financial information of Koor Industries Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of March 31, 2009 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries whose assets constitute 2 % of the total consolidated assets as at March 31, 2009, and whose revenues constitute 20 % of the total consolidated revenues for the three month period then ended. Furthermore, we did not review the condensed interim financial information of equity accounted investees the investment in which amounted to NIS 149,981 thousand as at March 31, 2009, and the Group’s share in their profits amounted to NIS 7,621 thousand for the three month period then ended. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

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

Conclusion

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

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

Somekh Chaikin
Certified Public Accountants (Isr.)

May 20, 2009

Condensed Consolidated Interim Statements of Financial Position as of

	<u>March 31, 2009</u> (Unaudited) NIS thousands	<u>March 31, 2008</u> (Unaudited) NIS thousands	<u>December 31, 2008</u> (Audited) NIS thousands
Assets			
Current assets			
Cash and cash equivalents	693,652	1,660,472	277,265
Short-term deposits and investments, including financial derivatives	38,188	445,171	36,188
Trade receivables	26,787	40,050	40,869
Other receivables	24,239	242,501	8,486
Inventories	50,894	57,040	48,190
Assets held for sale	64,784	-	16,306
	<u>898,544</u>	<u>2,445,234</u>	<u>427,304</u>
Long-term investments			
Investments in investees	3,008,327	2,453,079	2,704,020
Financial assets available for sale	1,638,137	27,719	1,620,544
Pledged financial assets available for sale	2,970,804	-	2,517,210
Other investments	76,507	98,251	71,889
	<u>7,693,775</u>	<u>2,579,049</u>	<u>6,913,663</u>
Investment property	<u>94,900</u>	<u>111,880</u>	<u>114,900</u>
Fixed assets	<u>2,878</u>	<u>7,172</u>	<u>2,330</u>
Intangible assets	<u>3,228</u>	<u>16,489</u>	<u>3,168</u>
Total assets	<u>8,693,325</u>	<u>5,159,824</u>	<u>7,461,365</u>

	<u>March 31, 2009</u> <u>(Unaudited)</u> <u>NIS thousands</u>	<u>March 31, 2008</u> <u>(Unaudited)</u> <u>NIS thousands</u>	<u>December 31, 2008</u> <u>(Audited)</u> <u>NIS thousands</u>
Liabilities			
Current liabilities			
Credit from banks and others	1,230,368	331,709	1,119,958
Trade payables	26,247	57,399	47,403
Other payables including financial derivatives	150,567	140,840	135,456
Provisions	19,497	23,504	24,813
Customer advances	1,880	6,328	3,057
	<u>1,428,559</u>	<u>559,780</u>	<u>1,330,687</u>
Long-term liabilities			
Liabilities from banks	980,688	1,077,492	990,982
Debentures	1,467,197	1,640,001	1,477,625
Liabilities from others	4,397	13,196	4,943
Post employment benefits	959	196	1,112
Liability for options to investors	1,827	(*)10,802	386
	<u>2,455,068</u>	<u>2,741,687</u>	<u>2,475,048</u>
Equity			
Share capital	564,546	564,515	564,546
Premium on shares	3,904,575	2,245,022	3,904,575
Treasury shares	(6,071)	(6,071)	(6,071)
Reserves	429,932	(386,668)	(480,779)
Accumulated loss	(83,284)	(558,992)	(326,641)
Total equity attributed to holders of Company's equity rights	<u>4,809,698</u>	<u>1,857,806</u>	<u>3,655,630</u>
Minority interest	<u>-</u>	<u>551</u>	<u>-</u>
Total equity	<u>4,809,698</u>	<u>1,858,357</u>	<u>3,655,630</u>
Total liabilities and equity	<u>8,693,325</u>	<u>5,159,824</u>	<u>7,461,365</u>

(*) Reclassified – see Note 2(C).

Ami Erel
Chairman of the Board of
Directors

Raanan Cohen
Chief Executive Officer

Oren Hillinger
Chief Financial Officer

Approval date of financial statements: May 20, 2009

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

Condensed Consolidated Interim Statements of Income

	For the three-month period ended March 31, 2009	March 31, 2008	For the year ended December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Revenues			
Revenues from sales and services	31,477	53,355	216,690
Koor Group's equity in the operating results of affiliates, net	121,104	110,262	217,290
Gains from sale of financial assets available for sale	32,957	-	574,523
Other income	8,943	47,426	55,718
Financing income	4,514	52,452	200,171
	198,995	263,495	1,264,392
Expenses			
Cost of sales and services	22,173	43,679	205,204
Selling and marketing expenses	5,312	9,555	33,704
General and administrative expenses	7,219	8,006	58,514
Other expenses	10,381	13,670	29,551
Financing expenses	33,538	183,915	699,956
	78,623	258,825	1,026,929
Earnings before income taxes	120,372	4,670	237,463
Income taxes	130,376	(66)	16
Net income for the period	250,748	4,604	237,479
Attributed to:			
Holders of the Company's capital rights	250,748	4,233	237,596
Minority interest	-	371	(117)
Net income for the period	250,748	4,604	237,479
	NIS	NIS	NIS
Earnings per share			
Basic earnings per ordinary share	5.289	0.245	8.534
Diluted earnings per ordinary share	5.289	0.245	8.486

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

Condensed Consolidated Interim Statements of Comprehensive Income

	For the three-month period ended		For the year ended
	March 31, 2009	March 31, 2008	December 31, 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Net income for the period	250,748	4,604	237,479
Other elements of comprehensive income:			
Foreign currency translation differences from foreign operations	260,026	(186,624)	(21,427)
Foreign currency translation differences from foreign operations recognized in gain/loss	1,078	-	643
Net change in fair value of financial assets classified as available for sale	674,076	-	331,697
Net change in fair value of financial assets classified as available for sale recognized in gain/loss	(32,957)	-	(574,523)
Actuarial loss from defined benefits plan	-	-	(680)
Koor's equity in comprehensive income (loss) recognized directly to equity in affiliates	1,097	11,351	(6,106)
Other comprehensive earnings for the period, net of tax	-	63	-
Total comprehensive income (loss) for the period	1,154,068	(170,606)	(32,917)
Attributed to:			
Holders of equity rights in the Company	1,154,068	(171,040)	(32,800)
Minority interest	-	434	(117)
Total comprehensive income (loss) for the period	1,154,068	(170,606)	(32,917)

Due to the first-time application of IAS 1, Amended, changed the presentation format of the Statement of Comprehensive Revenues in those financial statement. Also see Note 13(1)(A) regarding first-time application of the new standards.

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

Condensed Consolidated Interim Statement of Changes in Equity

	Attributed to Company's equity holders							Minority Interest	Total equity	
	Share capital	Premium on shares	Translation reserve for foreign activities	Hedge reserve	Reserve for assets available for sale	Treasury shares	Accumulated loss			Total
	NIS thousands									
For three-month period ended March 31, 2009 (unaudited)										
Balance as of January 1, 2009 (audited)	564,546	3,904,575	(247,674)	10,022	(243,127)	(6,071)	(326,641)	3,655,630	-	3,655,630
Comprehensive income for the period	-	-	253,254	16,040	641,417	-	243,357	1,154,068	-	1,154,068
Balance as of March 31, 2009 (unaudited)	564,546	3,904,575	5,580	26,062	398,290	(6,071)	(83,284)	4,809,698	-	4,809,698
	NIS thousands									
	Share capital	Premium on shares	Translation reserve for foreign activities	Hedge reserve	Reserve for assets available for sale	Treasury shares	Accumulated loss	Total	Minority Interest	Total equity
For three-month period ended March 31, 2008 (unaudited)										
Balance as of January 1, 2008 (audited)	564,515	2,245,022	(210,751)	-	(644)	(6,071)	(563,225)	2,028,846	117	2,028,963
Exercise of options granted to employees (*)	-	-	-	-	-	-	-	-	-	-
Comprehensive income (loss) for the period	-	-	(178,027)	2,260	494	-	4,233	(171,040)	434	(170,606)
Exercise of options granted to investors (*)	-	-	-	-	-	-	-	-	-	-
Balance as of March 31, 2008 (unaudited)	564,515	2,245,022	(388,778)	2,260	(150)	(6,071)	(558,992)	1,857,806	551	1,858,357

(*) Represents a sum below NIS 1 thousand.

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

Koor Industries Ltd.

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

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

(*) Represents a sum below NIS 1 thousand.

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

Condensed Consolidated Interim Statement of Cash Flows

	<u>March 31, 2009</u>	<u>March 31, 2008</u>	<u>December 31, 2008</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Cash flows generated by operating activities			
Income for the period	250,748	4,233	237,596
Adjustments:			
Minority interest in results of subsidiaries, net	-	371	(117)
Financing costs, net	49,055	147,433	445,691
Income tax expenses (benefits)	(130,376)	66	(16)
Devaluation of financial assets available for sale	-	2,863	4,460
Koor Group's equity in results of affiliates, net	(121,104)	(110,262)	(217,290)
Dividend received from affiliates	-	1,037	249,690
Depreciation and amortization	454	1,345	10,504
Increase (decrease) in post employment benefits, net	(157)	(71)	165
Salary expenses for employee options	-	71	-
Revaluation of investment property	-	-	(3,020)
Capital losses (gains), net, from realization of:			
Fixed assets and investment property	(1,646)	(11)	(180)
Investments in investees	-	-	(48,707)
Investment in other companies and financial assets available for sale	(28,855)	-	(574,523)
Gain from early redemption of debentures	(178)	-	(78,348)
(Erosion) linkage and amortization of debenture discounts and revaluation of liability from options	(8,300)	(46,296)	15,965
(Erosion) linkage of loan principals and other long-term liabilities	(6,542)	7,367	64,494
Erosion (revaluation) of investments, deposits and loans receivable	(6,938)	9,504	44,695
Impairment of assets and investments (mainly in value of venture capital investments)	(5,190)	9,750	24,349
Decrease (increase) in trade and other receivables	18,658	(46,383)	4,203
Decrease (increase) in inventories and customer advances	944	(3,996)	(3,429)
Increase (decrease) in trade and other payables	(35,905)	3,802	(9,593)
Income tax received (paid)	(126)	(6)	(150)
Net cash inflows (outflows) generated by operating activities	(25,458)	(19,183)	166,439

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

Condensed Consolidated Interim Statement of Cash Flows (cont.)

	<u>March 31, 2009</u>	<u>March 31, 2008</u>	<u>December 31, 2008</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Cash flows generated by investing activities			
Purchase of fixed assets	(978)	(446)	(1,566)
Amounts recognized as intangible assets	-	(2,316)	(5,708)
Proceeds from realization of financial assets available for sale, investments in investees and other	487,176	-	4,541,802
Proceeds from sale of fixed assets, investment property and intangible assets	38,381	-	538
Investment in financial assets available for sale, affiliates and other	(152,888)	(133,697)	(8,462,097)
Investment in venture capital companies	-	(4,182)	(5,625)
Decrease (increase) in short-term deposits and investments, net	-	(763)	382,685
Interest received	419	20,878	60,953
Net cash inflows (outflows) generated by continuing investing activities	372,110	(120,526)	(3,489,018)
Net cash inflows generated by discontinued investing activities	-	35,560	35,560
Net cash inflows (outflows) generated by investing activities	372,110	(84,966)	(3,453,458)
Cash flows generated by financing activities			
Net proceeds from issuance of shares	-	-	1,659,584
Interest paid	(34,616)	(15,933)	(154,908)
Long-term loans and other liabilities received	-	-	158,000
Long-term loans, debentures and other liabilities repaid	(526)	(9,452)	(571,430)
Cash flows from settlement of derivatives	-	-	13,571
Increase in credit from banks and others, net	78,652	308	788,093
Net cash inflows (outflows) generated by financing activities	43,510	(25,077)	1,892,910
Change in cash and cash equivalents from continuing operations	390,162	(129,226)	(1,429,669)
Change in cash from discontinued operations (*)	-	-	35,560
Change in cash and cash equivalents	390,162	(129,226)	(1,394,109)
Cash and cash equivalents – beginning of period	277,265	1,917,412	1,917,412
Effect of fluctuations in exchange rate on balances of cash and cash equivalents	26,225	(127,714)	(246,038)
Cash and cash equivalents – end of period	693,652	1,660,472	277,265

(*) Includes proceeds from sale of discontinued operations.

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

Note 1 - General

Koor Industries Ltd. ("the Company" or "Koor") is an Israel-domiciled company that was incorporated in Israel; its registered address is 3 Azrieli Center, Tel-Aviv 67023. The Company's condensed consolidated financial statements as at March 31, 2009 include the financial statements of the Company and the financial statements of its subsidiaries, as well as the Group's rights in affiliates (together – "the Group"). The Company is a holding company that invest mainly in the fields of agrochemicals, finance, telecommunications equipment and others, through subsidiaries, affiliates and financial investments. I.D.B. Development Corporation Ltd. ("IDB Development"), which is the controlling shareholder in the Company, holds 76% of the Company's shares as at March 31, 2009, directly and indirectly through Discount Investment Corporation Ltd ("DIC"). The controlling interest in IDB Development is comprised of Gandan Holdings Ltd., Manor Holdings B.A. Ltd. and Abraham Livnat Ltd., which are tied in a voting agreement. Its ultimate parent company is Gandan Holdings Ltd., and Mr. Nochi Dankner is the ultimate controlling shareholder. The Company's securities are listed for trading on the Tel Aviv Stock Exchange.

Note 2 – Basis for preparation of financial statements

- A.** The condensed consolidated interim financial statements were prepared in accordance with IAS 34 – *Interim Financial Statements* – and do not include all the information required in the full annual financial statements. The condensed interim financial statements should be read together with the financial statements for the year ended December 31, 2008 ("the annual financial statements").

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

The condensed consolidated interim financial statements were approved for issuance by Koor's board of directors on May 20, 2009.

B. Use of estimates and judgment

When preparing condensed financial statements in conformity with IFRS, Company management is required to use judgment when making assessments, estimates and assumptions that affect the implementation of the policies and amounts of assets and liabilities, revenues and expenses. It is clarified that the actual results could differ from these estimates. Management's judgment, when applying the Group's accounting policies and main assumptions used in estimates involve uncertainty, are consistent with those used in the annual financial statements.

C. Reclassification

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

Note 3 – Significant Accounting Policies

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

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

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

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

B. Segment reporting

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

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

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

Note 3 – Significant Accounting Policies (cont.)**(2) First-time application of new standards**

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

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

- Amendment to IAS 36, *Impairment of Assets*, Allocation of Goodwill to Cash-Producing Units ("the Amendment") – According to the Amendment, for the purpose of examining for impairment, the cash-producing unit to which goodwill will be allocated will not be larger than the operating segment as defined in IFRS 8, before application of the grouping criteria in Section 12 of IFRS 8. The Amendment will apply to annual periods commencing on or after January 1, 2010. Early application is possible, upon providing disclosure.
- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement*, is no longer applicable to contracts for business combinations ("the Amendment") – the Amendment clarifies that only forward contracts between a buyer and seller regarding the sale or purchase of a controlled entity, within the scope of a business combination on a future purchase date, is not covered by IAS 39, when the forward contract's period does not exceed the normal period required to obtain the requisite approvals for the transaction. The Amendment will be applied prospectively to all contracts that have not yet lapsed, for annual periods commencing January 1, 2010. Early application is possible, upon providing disclosure.

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

1. Koor's holding percentage in the voting rights in Makhteshim-Agan as at March 31, 2009 is 41.93%. The book value of the investment as at March 31, 2009 amounted to NIS 2,907 million. The market value as at the said date amounted to NIS 3,190 million.
2. Seasonal factors

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

The worldwide operations of Makhteshim-Agan act to balance out the seasonal impacts, even though Makhteshim-Agan's sales are higher in the northern hemisphere.

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

3. On January 14, 2009, a fire broke out in the materials warehouse of the Agan plant (a subsidiary of Makhteshim Agan) in Ashdod ("fire in Ashdod plant"). The event did not have a material effect on the operations of the company and/or its profitability.

On January 18, 2009, a financial claim was lodged against Agan in Beer Sheva District Court, as well as a motion for recognition as a class action under the Class Action Law, by a resident of Ashdod, asserting that damages were allegedly sustained due to the suffering that the plaintiff asserted was caused as a result of the fire in the Ashdod plant. If recognized as a class action, the plaintiff estimates that the amount claimed from Agan is NIS 100 million. At this juncture, Agan is unable to estimate the prospects of the claim and the motion for class action recognition.

4. On March 25, 2009, Makhteshim Agan issued debentures, through the expansion of Series C and D, by virtue of a shelf prospectus published on May 27, 2008, in the total amount of NIS 1,133 million par value of debentures, in consideration for 101.56% and 98.95% of their par value, respectively. The debentures are divided into two series, as follows:
1. Series C totaling NIS 661 million par value, debentures are linked to the CPI for October 2006, bears annual interest of 4.45%. The principal will be repaid in four equal installments in the years 2010 through 2013. The issue costs for this series totaled \$1,297 thousand.
 2. Series D totaling NIS 472 million par value, debentures bear basic annual interest of 6.5% and are unlinked. The principal will be repaid in 6 equal installments in the years 2011 through 2016. The issue costs for this series totaled \$1,090 thousand.

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

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

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

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

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

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

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

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

On April 16, 2009, Koor Properties Ltd. ("Koor Properties"), a wholly-owned subsidiary of Koor, signed an agreement for the sale of its stake (33% of the issued and paid-up share capital) in AKA, to the remaining shareholders in AKA ("the Buyers"). The total receipts anticipated by Koor until the closing date, from its holdings in AKA, amount to NIS 81.2 million, comprised of proceeds from the sale of shares totaling NIS 30.6 million, proceeds from the repayment of loans given by Koor Properties totaling NIS 33.9 million and from a dividend – pre-sale – in which Koor Properties share's is NIS 16.7 million. The final proceeds are subject to certain adjustments if and to the extent the Buyers will sell the shares within a 12-month period from the closing date of the sale.

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

Note 5 – Significant Events in the Report Period

1. In January 2009, a wholly-owned subsidiary of the Company acquired 745,816 par value of debentures (Series H) of Koor during stock exchange trading. Following this acquisition and other acquisitions during 2008, as at March 31, 2009, the subsidiary holds 218,050,186 par value of debentures (Series H) of Koor. As a result of the said acquisition, the Company recorded a gain on early redemption of NIS 178 thousand in the first quarter of 2009.
Regarding the sale of debentures subsequent to the date of the financial statements, see Note 8(3).
2. In February 2009, Koor undertook to sell two floors of an office building in Tel-Aviv, comprising a single unit, having total area of 1,617 square meters (and parking spaces) in consideration for NIS 22.4 million. As a result of the said sale, the Company recorded a capital gain of NIS 2 million in the first quarter of 2009.

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

3. During the first quarter of 2009, the Company made several additional purchases and sales of shares of Credit Suisse. As a result of the sale of Credit Suisse shares during the said quarter, the Company recorded a gain of NIS 33 million.

As provided in the notes to the financial statements for 2008, when the price of Credit Suisse shares exceeds the investment cost, the Company will be required to record a provision for tax for the increase in the fair value accrued in equity, against a capital reserve (so that the capital reserve represents the increase in fair value net of tax effects). Against the provision and at the same amount, the Company recognizes a deferred tax asset (up to the amount of the balance of carryforward losses), through the statement of income. In this context, a decrease in the capital reserve in subsequent periods will lead to a decrease in the provision and, correspondingly, to a decrease in the deferred tax asset, and to the recognition of tax expenses through the statement of income. Utilization of the deferred tax asset included in the statements depends on the realization of the investment to which the capital reserve relates, in income. In the first quarter of 2009, following the revaluation of the investment in Credit Suisse shares, income tax of NIS 130 million was recognized.

As at March 31, 2009, the Company holds 35.76 million shares of Credit Suisse, representing 3.02% of Credit Suisse's shares, at a cumulative investment of NIS 4.04 billion, with a fair value of NIS 4.57 billion. On its investment in the Credit Suisse shares, the Company recorded a positive change in the balance of the reserve for assets available for sale, net of tax, totaling NIS 637 million. Thus the balance of the capital reserve, net of tax, as at March 31, 2009 is positive, at NIS 391 million.

Regarding other purchases and sales subsequent to the balance sheet date and the holdings as at this date, see Note 8(1).

4. In March 2009, the Company reached an agreement with Morgan Stanley, whereby the non recourse credit facility provided to it by Morgan Stanley would be doubled, so that the maximum amount will be CHF 330 million ("facility limit"), and the original credit facility of CHF 165 million, will be added to the credit facility of CHF 165 million.

The limit of the original facility will be determined in June 2009, and the limit of the additional facility will be determined in September 2009, according to the maximum amount that will actually be drawn by the Company until such dates.

As at March 31, 2009, the utilized credit facility is CHF 64 million.

Note 6 – Contingent Liabilities

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

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

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

Note 6 – Contingent Liabilities (cont.)

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

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

The claim alleges that by issuing the rights the defendants violated their obligation under the Companies Law, 1999, the Securities Law, 1968 and the regulations promulgated thereunder, and the Unlawful Enrichment Law, 1979; and that they acted without good faith and with negligence.

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

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

Koor gave its directors and officers a letter of indemnification, pursuant to which Koor has undertaken to indemnify the said officers for any obligation or expense to be imposed on them and/or that they will sustain as a result of their activities in performing their function. Moreover, the directors and officers of Koor are insured in directors and officers insurance. The Company received, for its review, the opinion of the legal counsel of the Company's directors and CEO, pursuant to which at this stage, it is not more likely that the claim will be accepted, than that it will be dismissed. Therefore, in addition to the aforementioned insurance coverage, it did not include any provision for this claim in its financial statements.

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

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

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

The Group is engaged in the following main operating segments:

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

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

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

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

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

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

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

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

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

Information relating to prior periods has been restated.

Notes to the Interim Financial Statements as at March 31, 2009 (unaudited)

Note 7 – Operating segments (cont.)

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

	For the three-month period ended March 31, 2009					
	Agro-Chemicals	Finance	Telecom Equipment	Other	Adjustments	Consolidated
	NIS thousands					
Total revenues	<u>3,146,847</u>	<u>32,957</u>	<u>29,497</u>	<u>41,756</u>	<u>(3,052,062)</u>	<u>198,995</u>
Segment's results	<u>117,664</u>	<u>32,957</u>	<u>(5,219)</u>	<u>10,199</u>	<u>(35,229)</u>	<u>120,372</u>
Segment's assets	<u>15,117,808</u>	<u>4,566,023</u>	<u>83,663</u>	<u>562,865</u>	<u>(11,637,034)</u>	<u>8,693,325</u>
	For the three-month period ended March 31, 2008					
	Agro-Chemicals	Finance	Telecom Equipment	Other	Adjustments	Consolidated
	NIS thousands					
Total revenues	<u>2,757,580</u>	<u>-</u>	<u>51,435</u>	<u>134,468</u>	<u>(2,679,988)</u>	<u>263,495</u>
Segment's results	<u>121,277</u>	<u>-</u>	<u>(12,998)</u>	<u>23,799</u>	<u>(127,408)</u>	<u>4,670</u>
Segment's assets	<u>11,708,272</u>	<u>-</u>	<u>125,656</u>	<u>803,321</u>	<u>(7,477,425)</u>	<u>5,159,824</u>
	For the year ended December 31, 2008					
	Agro-Chemicals	Finance	Telecom Equipment	Other	Adjustments	Consolidated
	NIS thousands					
Total revenues	<u>9,345,210</u>	<u>574,523</u>	<u>208,580</u>	<u>360,292</u>	<u>(9,224,213)</u>	<u>1,264,392</u>
Segment's results	<u>289,486</u>	<u>574,523</u>	<u>(54,119)</u>	<u>(41,652)</u>	<u>(530,775)</u>	<u>237,463</u>
Segment's assets	<u>12,825,709</u>	<u>4,099,752</u>	<u>114,786</u>	<u>759,561</u>	<u>(10,338,443)</u>	<u>7,461,365</u>

Note 8 – Subsequent events

1. In April 2009, the Company executed additional purchases and sales of shares of Credit Suisse. In respect of the sale of Credit Suisse shares until the publication date of the financial statements, the Company will record a pre-tax gain of NIS 973 million in the second quarter of 2009 (after deducting the pro rata share of the tax asset that was recognized as income in the first quarter of 2009, net income of NIS 904 million).

Proximate to the date of these financial statements, following purchases of Credit Suisse shares (net of sales), Koor holds 17.82 million shares of Credit Suisse, representing 1.50% of the share capital of Credit Suisse, at a total investment of NIS 2.04 billion.

As at the publication date of these financial statements, the difference between the value of the Credit Suisse shares that it holds, at its stock exchange price of NIS 3.1 billion and the original cost of these shares (embodied gains) stands at NIS 1.06 billion. At the date of these financial statements, the Company has a debt balance (net of deposits) to financial institutions in respect of this investment, of a total of NIS 52 million.

2. On April 24, 2009, a general meeting of Credit Suisse was held, ratifying the distribution of a dividend of CHF 10 cent per share. On April 30, 2009, Koor received its share in the same dividend of CHF 3 million. Of this amount, tax of CHF 0.5 million was withheld.

3. On May 3, 2009, a wholly-owned subsidiary of the Company sold 75,830,000 par value of debentures (Series H) of Koor, in consideration for a total of NIS 80 million.

Following this sale, the subsidiary holds 142,220,186 par value of debentures.

4. On the approval date of the financial statements, the Company's board of directors resolved to distribute a cash dividend totaling NIS 432 million (representing NIS 9.11 per share). The dividend will be distributed on June 10, 2009, with the record date on May 26, 2009 and the ex-dividend date on May 27, 2009.

5. On May 11, 2009, a special general meeting of Koor's shareholders resolved, in the majority required by Section 275 of the Companies Law, to approve the payment to I.D.B. Development Corporation Ltd. ("IDB Development"), of management fees that constitute participation in the cost of their employment by IDB Development in year 2008 of Messrs Haim Gavrieli (a director in Koor and an officer in IDB Development) and Lior Hannes (an officer in IDB Development and a director in IDB Holding Corporation Ltd.), in the amount of NIS 1.2 million for each of them, in view of their substantial contribution to the operations and profitability of Koor in 2008.

6. On May 15, 2009, the Company repaid all of the recourse credit provided to it by Goldman Sachs totaling CHF 214 million.

7. See Note 4(3) regarding the signing of an agreement for the sale of an investee.