

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

Board of Directors Report Half Year and Second Quarter 2010

We are pleased to submit the condensed unaudited financial statements of Koor Industries Ltd. for the half year and second quarter ended June 30, 2010.

Koor Industries Ltd (the "Company") is a member of the IDB Group and is one of the most prominent holding companies in Israel, investing in companies operating in a range of business segments. The Company, together with its wholly owned subsidiaries ("Koor") generally invests in companies which operate in the global market and/or international companies, primarily focusing on large-scale investments. Koor examines and invests in companies in which it has a position of control following the investment, as well as financial investments (also in substantially large-scale investments) in which Koor does not have a position of control following its investment. Furthermore, Koor from time to time invests in ongoing financial investments. This, inter alia, in view of the conditions and opportunities available in the markets due to the decline in the market value of large international companies, among others, as a result of the economic crisis in the markets.

1. Board of Directors explanations on the state of the Company's affairs

The net earnings attributed to the Company's shareholders in Q2 2010, totaled approximately NIS 243 million, with basic earnings per share of NIS 5.1, compared with earnings of about NIS 1,621 million and basic earnings per share of about NIS 34.2 for Q1 2009.

The Company's net earnings for Q2 2010 amounted to approximately NIS 35 million, with basic earnings per share of about NIS 0.8, compared with earnings of about NIS 1,371 million and basic earnings per share of about NIS 28.9 for Q2 2009.

1.1 Breakdown of Koor's financial results:

	First Half		Second Quarter		Year
	2010	2009	2010	2009	2009
	Unaudited		Unaudited		Audited
	N I S m i l l i o n s				
Koor's equity in the operating results of investees, net	142	100	35	(20)	(25)
Gain from sale of investments and dividends, net of impairment	296	1,642	281	1,608	2,691
Administrative, financing and other expenses, net	(150)	(150)	(171)	(115)	(375)
Tax income (expenses)	(45)	29	(110)	(102)	(125)
Net profit	243	1,621	35	1,371	2,166
Basic earnings per share (in NIS)	5.1	34.2	0.8	28.9	45.6

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

	Koor's share in the profit for the first half of			Koor's share in the profit for Q2			Year
	2010	2009	Change	2010	2009	Change	2009
NIS millions							
Makhteshim Agan	147	136	8.1%	22	3	633%	57
452 Fifth Owners LLC	37	-	n/a	37	-	n/a	-
ECtel Ltd. ("ECtel")	(5)	(2)	n/a	-	-	n/a	(7)
Koor Corporate Venture Capital	(2)	1	n/a	-	(5)	n/a	(5)
Microwave Networks Inc ("MNI")	(4)	(3)	n/a	(2)	(4)	n/a	(10)
Other companies	-	3	n/a	(4)	2	n/a	2
Excess cost and other adjustments	(31)	(35)	n/a	(18)	(16)	n/a	(62)
Total	142	100	n/a	35	(20)	n/a	(25)

1.1.2 Gain from sale of investments, net of impairment

	Koor's share in the profit for the first half of		Koor's share in the profit for Q2		Year
	2010	2009	2010	2009	2009
N I S m i l l i o n s					
Gain from sale of investments and dividends, net of impairment	296	1,642	281	1,608	2,691

In the first half of 2010 this item included in particular: Gross dividend from Credit Suisse in the amount of NIS 262 million which was received during the second quarter of 2010, capital gains in the amount of NIS 12 million from the sale of Carrefour and profit of NIS 7 million for receipts from the Indivision investment fund. The first quarter included a capital gains amount from the sale of Credit Suisse shares of NIS 15 million.

In the first half of 2009 this item included in particular: Capital gain from the sale of Credit Suisse shares in the amount of NIS 1,632 million, of which the amount of NIS 1,599 million was recorded in Q2 2009, and gross dividend from Credit Suisse in the amount of NIS 9 million received in Q2 2009.

1.1.3 Administrative, financing and other expenses, net

	First Half		Second Quarter		Year
	2010	2009	2010	2009	2009
N I S m i l l i o n s					
Administrative and other income (expenses), net	(9)	(1)	(5)	3	(34)
Financing expenses, net	(141)	(149)	(166)	(118)	(341)
Total administrative, financing and other expenses, net	(150)	(150)	(171)	(115)	(375)

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The primary change in financing expenses in the first half of 2010 compared with the first half of 2009 started in the second quarter and derives from expenses due to the increase in the Swiss franc exchange rate which increased Koor's loans denominated in this currency and generated a loss in respect of the NIS/CHF hedging transactions. Another factor in the financing expenses was the increase in the Israeli CPI, which increased Koor's financial liabilities linked to the Israeli CPI in the current quarter, as it did in the corresponding quarter of the previous year.

The financing expenses that derived from the changes in the Swiss Franc exchange rate and from the NIS/CHF hedging transactions the first half of 2010 amounted to NIS 39 million and in the second quarter of 2010 to NIS 121 million.

The net increase in administrative and other expenses during the first half of 2010 compared with the first half of 2009, is due to the cancellation of provisions in the amount NIS 12 million recorded in 2009 with respect to an appeal against the court ruling pertaining to a wholly owned subsidiary which was rejected in the Supreme Court's ruling.

1.2 Segments of operation

1.2.1 Company assets by segment

The company's assets as at June 30, 2010 and December 31, 2009, include the following business segments:

<u>Segment</u>	Investments by segment	
	NIS millions	
	June 30, 2010	December 31, 2009
Makhteshim Agan	3,002	2,821
Credit Suisse	5,578	5,111
Telecommunications equipment	52	59
Other holdings	675	498
Adjustments (Koor head office assets)	696	1,691
Total	10,003	10,180

1.2.2 Analysis of Koor's business results by business segment (according to Note 7 to the financial statements):

	First Half		Second Quarter		Year
	2010	2009	2010	2009	2009
	N I S m i l l i o n s				
Makhteshim Agan	116	105	4	(12)	(3)
Credit Suisse	235	1,670	153	1,507	2,524
Telecommunications equipment	(4)	(9)	(2)	(4)	(17)
Other holdings	52	9	56	(1)	38
Adjustments (particularly financing and administrative)	(156)	(154)	(176)	(119)	(376)
Total	243	1,621	35	1,371	2,166

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1.2.2.1 Makhteshim Agan

	First Half		Second Quarter		Year
	2010	2009	2010	2009	2009
N I S m i l l i o n s					
Contribution of business segment	116	105	4	(12)	(3)

The main change in the segment's financial results in the first half of 2010 compared with the first half of 2009 derives from Makhteshim Agan's business results.

Makhteshim Agan (as at June 30, 2010, holding of 47% of voting rights), reported the following business results:

	First Half			Second Quarter		Year	
	2010	2009	Increase (decrease)	2010	2009	Increase (decrease)	
	Million USD		%	Million USD		%	
Revenues	1,324	1,283	3.2%	601	560	7.3%	2,215
Gross profit	408	372	9.6%	175	155	13.1%	582
Operating profit	151	143	5.2%	44	38	17.3%	120
Financing expenses, net	(60)	(42)	43.2%	(29)	(31)	(6.9%)	94
Net earnings attributed to shareholders	83	80	4.2%	12	2	621.4%	33
EBITDA:	204	189	7.8%	71	61	17.2%	218

In the second quarter of 2010 Makhteshim Agan presented growth greater than that of the other major companies in the industry, and particularly the increase in selling quantities. Nonetheless, Makhteshim Agan has been and is dealing with challenges typical of the crop protection market during the reporting period and the quarter, such as

- (a) The cold winter in the northern hemisphere (especially in Europe and North America) which caused a delay in the opening of the agricultural season and delayed the timing of sales. Commencing from the end of the first quarter and during the second quarter, weather conditions in some of the regions improved as did the sales of crop protection products.
- (b) The trend of decreasing inventory levels in the distribution channels continued among most companies in the industry, in contrast to the high inventory level that were typical of the market in 2009.
- (c) Decrease in the average sales prices in the industry in general, and of Makhteshim Agan's products in particular (including Glyphosate) compared with the corresponding quarter of the previous year. It is noted that this downward trend in price was for the most part recorded during the course of 2009 (and in particular during the second and third quarters of 2009). As of fourth quarter of 2009 and during the reporting period, the prices of most of Makhteshim Agan's products stabilized.
- (d) Based on the trends reported by Makhteshim Agan in the past, the cost of raw materials began to decrease, leading to sales costs savings compared with the corresponding quarter last year. It is noted that this trend, which was for the most part recorded during the course of 2009, slowed down and was halted during the course of 2010 so that, compared with the previous quarter, the prices recorded for raw materials stabilized.

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- (e) Stability in the basic trends affecting the crop protection product segment, including stabilizing of the scale of planted areas and the high prices (in a multi-annual comparison) of agricultural produce, which is expected to continue and to support the demand for crop protection products.

In June 2010, Makhteshim Agan announced that it had signed a Memorandum of Understanding according to which, subject to a due diligence, the signing of a binding contract between the parties and the fulfillment of contingent conditions as will be determined, the Company will acquire Albaugh Inc., which to the best of Makhteshim Agan's knowledge is the largest manufacturer of generic crop protection products in North and South America, for consideration in the amount of USD 340 million in cash upon completing the transaction, and an amount of USD 455 million will be paid in seven equal annual interest bearing installments. Furthermore, the Seller will be allocated 59 million shares in Makhteshim Agan, which will comprise 12% of the issued and paid-up shares in Makhteshim Agan, fully diluted. For further information, see Note 4 [A](5) to the financial statements.

1.2.2.2 Credit Suisse

	First Half		Second Quarter		Year
	2010	2009	2010	2009	2009
	N I S m i l l i o n s				
Contribution of business segment	235	1,670	153	1,507	2,524

Pursuant to the decision of Koor's board of directors to invest in the negotiable shares of European banking institutions, during the first half of 2010 and throughout 2008 and 2009, the Company bought and sold Credit Suisse shares while exploiting the opportunities created due to the market volatility. Koor's total after tax profit from dividend and the sale of Credit Suisse shares during the first half of 2010 was NIS 277 million (NIS 262 million in Q2 2010), compared with a profit of NIS 1,641 million in the corresponding period last year (NIS 1,608 million in Q2 2009). The tax expenses incurred by the Company for its investment in Credit Suisse shares during the first half of 2010 amounted to NIS 42 million (NIS 109 million in Q2 2010), compared with an income of NIS 29 million in the corresponding half year period in 2009 (and expense of NIS 101 million in Q2 2010).

For further information pertaining to Koor's holdings in Credit Suisse shares as at the reporting date see section 1.3.1 hereunder.

As at June 30, 2010 the value of the investment in Credit Suisse shares, based on their stock exchange price, was NIS 5,578 million. This amount reflects a negative gap of NIS 1,371 million compared with their original cost which was NIS 6,949 million. This gap constitutes 19.7% of their original cost. The standard deviation for the share price (in shekel terms) in the six month period ended June 30, 2010 was 16.9, while the average share price for this period was NIS 171.0, and for the three month period ended June 30, 2010 the standard deviation was 17.1 while the average share price during this period was NIS 163.9 (compared with the cost of NIS 180.7 per share) The accumulated period during which the share price (converted to NIS) was lower than its original cost (in NIS) since the asset was first recognized on October 13, 2009 through to June 30, 2010 was 161 trading days, which constitute 38% of the entire holding period of the asset. The accumulated period during which the share price (converted to NIS) was lower than its original cost (in NIS), since the price was last higher or equal to cost, and through to June 30, 2010 was 48 trading days. Since as at June 30, 2010, and considering the foregoing, the decline in the fair value of Credit Suisse shares is not a material or consistent decline, the impairment of the fair value

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of the available-for-sale financial asset was not recognized in the statement of income, but in the statement of shareholders' equity only (for further information see Note 5(1) of the financial statements. For further information relating to Credit Suisse, including with respect to Credit Suisse shareholders equity ratio (Tier 1 ratio of 16.3%), which is higher than other financial institutes in Europe, see section 4.2 of the chapter on the description of company's operations).

As at the reporting date, the value of the investment in Credit Suisse shares, based on their price on the stock exchange, was NIS 6,815 million. This amount reflects a negative gap of NIS 134 million compared with their original cost which was NIS 6,949 million. This gap constitutes 1.9% of their original cost. The positive gap between the market value and the cost less dividend (which is attributed to revenue and not to capital reserve) is NIS 128 million.

1.2.2.3 Telecommunications equipment

	First Half		Second Quarter		Year
	2010	2009	2010	2009	2009
N I S m i l l i o n s					
Contribution of business segment	(4)	(9)	(2)	(4)	(17)

The primary changes in the results of this segment in the first half of 2010 compared with the second half of 2009 derive from minimization of losses contributed by Harriet Investments (2001) Ltd. assets (previously Dekolink Wireless Ltd.) due to the sale of its assets during the first quarter of 2009. In the second quarter of 2010 MNI presented losses lower than presented in the corresponding quarter of the previous year.

1.2.2.4 Other holdings

	First Half		Second Quarter		Year
	2010	2009	2010	2009	2009
N I S m i l l i o n s					
Contribution of business segment	52	10	56	(1)	38

The primary changes in the results of this segment in the first half of 2010 as compared with the first half of 2009 originates in the profit from our holdings in 452 Fifth Owners LLC, which included estimated profit of NIS 35 million recorded in the second quarter of 2010, as set forth in section 1.3.2 below.

In addition, during the course of the second quarter 2010 a profit of NIS 12 million was recorded from the sale of Carrefour shares and a loss of NIS 2 million recorded by Koor Venture Capital compared with a profit of NIS 1 million recorded by Koor Venture Capital in the first half of 2009.

In addition, in first half of 2010 Epsilon Investment House Ltd ("Epsilon") presented profits in the amount of NIS 5 million (the Company's share of these profits being NIS 3 million), compared with a profit of NIS 18 million for the first half of 2009, which derived primarily due to profits from securities held by it (the Company's share in the profit being NIS 9 million).

In addition, the Company recorded in the first quarter of 2010 a loss in the amount of NIS 5 million for realization of capital reserves from the sale of ECTel shares.

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1.3 Main changes in the holdings of the Company and its investees during Q2 2010

The main changes are noted in detail in Notes 4 and 5 to the financial statements of the Company, of which the following changes requiring special mention:

- 1.3.1** During the first half of 2010, the Company acquired and sold additional Credit Suisse shares. For the sale of Credit Suisse shares during this period, Koor recorded after tax profit amounting to NIS 14 million. At June 30, 2010 and as at the reporting date, the Company held, jointly with its wholly owned subsidiary, approximately 38.46 million Credit Suisse shares, constituting 3.24% of Credit Suisse listed shares (including treasury shares), at a cost of NIS 6.95 billion.

In January 2010 the Company's board of directors increased the frame amount for investing in Credit Suisse shares to a total of up to NIS 7 billion, the investment will be made by exploiting buy and sell opportunities while taking into account the status of the markets, and based on the Company's assessments from time to time.

In May 2010, Credit Suisse distributed a dividend in the amount of CHF 2 million per share. Koor's share of this dividend (pretax) amounted to NIS 262 million. For this dividend Koor recorded in the second quarter of 2010 after tax profit of NIS 223 million.

To date Koor has recorded for the sale of Credit Suisse shares and dividend received from Credit Suisse accrued after tax profit of NIS 3.4 million. As at the date of this report, the negative difference between the value of the Credit Suisse shares held by Koor, per their price on the stock exchange, and the cost of these shares as aforesaid, amounts to NIS 134 million and is allotted to capital reserve. The positive gap between the market value and the cost less dividend (which is attributed to revenue and not to capital reserve) is NIS 128 million.

- 1.3.2** In April 2010, Koor completed a transaction whereby Koor and Property & Building engaged in a contract, through an indirectly jointly owned (in equal parts) US company, 452 Fifth Owners LLC ("the Acquiring Company"), with companies belonging to the HSBC Group ("HSBC") for the acquisition of HSBC head offices in Fifth Avenue, New York ("the Building") for total consideration of USD 330 million. Under the transaction, Koor and Property & Building each acquired, through the Acquiring Company, half of the rights in the building (for total consideration of USD 165 million each). To finance the transaction, the Acquiring Company received credit from Bank Leumi USA in the amount of USD 210 million for a period of 10 years.

The fair value of the building was updated at June 30, 2010 to USD 390 million based on a valuation the Acquiring Company received from an independent assessor in the US. The increase in value derives from the fact that since the signing of the acquisition contract for the property in October 2009 the office real estate market in Manhattan has started to recover, which is reflected in the prices of recent transactions and in the improvements to the building initiated by the Acquiring Company (for further information see Appendices B and C to the Board of Directors Report and Note 4 to the financial statements). As a result of which, Koor recorded income net of tax from the increase in the fair value of the investment real estate in the amount of NIS 35 million during the second quarter of 2010.

- 1.3.3** In April 2010, Koor sold the balance of its holdings in Carrefour shares for a net profit, after tax, of NIS 10 million. Koor's total after tax profit to date pertaining to its investment in Carrefour is NIS 44 million. The investment frame in Carrefour, which was approved by the Company's board of directors is up to the overall amount of NIS 3.5 billion. The investment in Carrefour shares was made by utilizing buy and sell opportunities while paying attention to the market conditions and based on the Company's assessments, from time to time, and there is no certainty concerning the scope of the investment. See also Note 5.5 to the financial statements.

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1.3.4 With respect to the credit agreement that was extended to a subsidiary of the Company by one of the banks, and further to the provisions of Note 17 D 1 to Company's financial statements for 2009 pertaining to the financial covenants to which the Company is obligated to under the foregoing agreement, in June 2010, at the Company's request, the bank agreed to adjustments in the manner of calculating market value to debt ratio, whereby in principle, the Credit Suisse and Carrefour shares, in which non recourse financing was invested, were also added to the market value item, and accordingly, the non recourse financing for the foregoing shares was also added to the net financial debt item. It was also clarified that a decline to a market value to debt ratio below 1.4 (as long as it is not lower than 1.3) will be considered a breach of obligation by the Company only if the said decline will continue for 14 continuous working days and the Company will not give notice by the end of said period of its intention to take any action to correct the ratio to the satisfaction of the bank and/or takes such action on the preset dates.

In addition, the parties reached a principle understanding concerning the update of its shareholders' equity financial covenants, according to which the equity attributed to the Company's shareholders will not be less than NIS 1.8 million (subject to possible adjustments).

The Company is in compliance with all the financial covenants to which it is obligated under the foregoing credit agreement.

1.4 Distribution of a dividend

In April, the Company distributed a cash dividend in the amount of NIS 270 million, which was NIS 5.69 per share.

1.5 The financial status and sources of finance

1.5.1

	June 30, 2010	December 31, 2009
	NIS Millions	
Total assets in the consolidated balance sheet	10,003	10,180
Investments in investees in the consolidated balance sheet	3,445	2,946
Available-for-sale financial assets in the consolidated balance sheet	1,171	2,889
Attached available-for-sale financial assets in the consolidated balance sheet	4,511	2,413
Total equity attributed to the Company's shareholders	4,051	5,353
Surplus of current assets over liabilities in the consolidated balance sheet	216	741
Koor's financial liabilities	5,677	4,495
Surplus of financial liabilities over Koor's cash, deposits and short term investments*	5,135	2,851

* Does not include Credit Suisse shares which are classified as available-for-sale financial assets recorded, as at June 30, 2010, at a value of NIS 5,578 million.

As at August 10, 2010, as set forth in section 1.3.1 above, Koor's cash balance including deposits and short term investments, amounted to NIS 938 million and Koor's excess financial liabilities over financial assets (while the financial assets do not include Credit Suisse shares

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valued at NIS 6.82 billion classified as available for sale assets) amounted to approximately NIS 5.15 billion.

In addition, Koor has unused lines of credit from Morgan Stanley and Citigroup that amount to NIS 385 million.

1.5.2

	First Half		Second Quarter		Year
	2010	2009	2010	2009	2009
	N I S m i l l i o n s				
Proceeds from sale of investments in Koor	300	5,455	103	4,968	11,203
Dividends received from investees and others	281	10	272	10	123
Investment in affiliates and other Koor companies	2,373	1,423	497	1,260	9,653

As aforesaid, the majority of the proceeds from exercise of investments, and the majority of the investments in affiliates and other companies derive from buy and sell transactions of Credit Suisse shares.

In the first half of 2010, Koor took long term loans from banks in the amount of NIS 1,881 million repaid long term loans in the amount of NIS 308 million.

On April 30, 2010 the Company repaid Debentures (Series G) in full, in the amount of NIS 454 million.

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2. Exposure to Market Risks and Means for their Management

2.1 Changes in the economic environment, implications of the crisis in capital markets, and market risk exposure and management

2.1.1 Crisis in the financial markets

The global financial crisis and slowdown in real financial activities that began in 2008 and increased at the beginning of 2009, and which led to a recession in many countries in the west, abated during the course of 2009 with gradual stabilization of the financial and real markets. As of the latter half of 2009, gradual recovery was evident globally in various real activities and real economies, including the US economy, stabilized and economic growth returned. The global recovery stemmed in large part from the combination of plans for fiscal expansion and continuation of monetary expansion policies led by economic policy makers in the United States, and it contributed, inter alia, also to a rise in the capital markets and improved performance of the international financial institutions.

In the first half of 2010, the economic recovery continued in most financial and real markets, but nonetheless the signs of the financial crisis and its consequences can still be seen, particularly in the Euro bloc which still experiences lack of economic stability. The signs of the crisis and its consequences caused, inter alia, significant volatility of the financial markets, including in the prices of securities, prices of debentures and currency exchange rates, continuation of the credit crunch among certain firms and among certain countries, and much uncertainty in economic activities.

The Israeli economy and the Israeli capital market recorded throughout the foregoing period trends similar to those apparent in the global markets, nonetheless the signs of recovery in the Israeli market are more significant. As at the second quarter of 2009, the recovery seen in most branches of the Israeli economy increased. The Israeli capital market recorded discernable increases in the prices of negotiable securities, the corporate debt market began to recover and gradually the raising of capital by the business sector renewed.

As of the report date, it is not possible to assess the scope of the direct and indirect financial implications of the financial crisis in Israel and other countries, nor the duration of these implications, if any.

The volatility of the financial markets together with the great variance in the prices of Credit Suisse shares allowed Koor to carry out buy and sell transactions of Credit Suisse shares, subsequent to which Koor has recorded to date a total net profit of NIS 3.4 billion, of which Koor recorded in Q1 2010 a net profit of NIS 14 million and profit from dividend net taxes in the amount of NIS 223 million. Furthermore, the crisis caused much volatility in the prices of Credit Suisse shares and the value of Credit Suisse shares held by Koor.

Further to the foregoing developments, the rating companies are reassessing and adjusting the ratings for the bonds of various countries and the debentures of various companies (including the Company).

These signs of crisis, including the recent developments in the Euro bloc as aforesaid, as well as the volatility of the Euro and CHF exchange rates, have impacted and are liable to have continuous adverse impacts on the business outcomes of the Company and its investees, their liquidity, value of equity, value of their assets and their ability to sell these assets, their business positions (including the demand for products of Koor's investees), financial covenants, credit rating, ability to pay dividends, and also on their ability to raise financing for their ongoing operating activities and long-term operations, as well as on the financing terms.

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2.1.2 Koor's market risks

During the reporting period, no material changes occurred in the exposure of the Company's investee companies to market risks and management of risk exposure as compared with the report of the Company's board of directors' for 2009, dated March 14, 2010. From time to time the Company carries out currency conversions, especially between the NIS and CHF, and hedges against changes in the NIS-CHF exchange rate.

As at August 10, 2010 Koor has a net liabilities balance (liabilities less cash in hand) in CHF amounting to NIS 2.18 billion (not including its holdings in Credit Suisse shares). Furthermore, Koor holds CHF denominated assets (Credit Suisse shares amounting to, as at the date of this report, NIS 6.95 billion) the revaluation of which, following the changes in the CHF exchange rate, is attributed directly to capital reserves and not to profit and loss (with the exception of severe and/or continued impairment). In addition, the dollar exchange rate changes have impact on the profitability of investees operating or report in US dollars, as well as an impact on Koor's profits from the results of investees which hold US dollar assets, and an impact on Koor's equity due to the adjusted capital reserve resulting from the translation of the investees' financial statements in foreign currency (in particular Makhteshim Agan).

2.1.3 Report of linkage bases

A. Koor does not manage the risks of its investees. Hereunder are the linkage terms of monetary balances and derivative positions of Koor(together with its wholly-owned subsidiaries), as of June 30, 2010.

B. Koor's linkage balances to June 30, 2010 (in NIS millions):

	Israeli CPI linked	USD or USD- linked	Euro or Euro linked	CHF or CHF linked	Unlinked	Non- monetary item	Total
Assets							
Current assets	7	17	1	232	244	156	657
Investments in affiliates* (including loans)	-	204	-	-	-	3,258	3,462
Other investments	7	10	-	-(*)	-	5,736	5,753
Fixed assets and real estate for investment	-	-	-	-	-	63	63
Total assets	14	231	1	232	244	9,213	9,935
Liabilities							
Current liabilities (including maturities)	(50)	(16)	(2)	(56)	(35)	(111)	(270)
Long term liabilities	(1,280)	(3)	-	(2,742)	(1,557)	(32)	(5,614)
Total liabilities	(1,330)	(19)	(2)	(2,798)	(1,592)	(143)	(5,884)
Assets less liabilities, net	(1,316)	212	(1)	(2,566)	(1,348)	9,070	4,051

(*) In addition to the particulars in the above table, it is noted that based on the management's opinion, also exposed to changes in the Swiss franc are Credit Suisse shares which, as at June 30, 2010, were traded on the Swiss stock exchange at a value of NIS 5,578 million, which based on the accounting rules are classified as a non-monetary item.

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C. Koor derivative positions as at June 30, 2010 (in NIS millions):

	Israeli CPI / NIS Forward			
	<u>Par value</u>	<u>Fair value</u>	<u>Par value</u>	<u>Fair value to</u>
	<u>Up to one year</u>		<u>More than one year</u>	
	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>
Forward contracts for hedging – not recognized in accounting (1)	120	1	380	4

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

	NIS / CHF Cylinder			
	<u>Par value</u>	<u>Fair value</u>	<u>Par value</u>	<u>Fair value to</u>
	<u>CHF</u>	<u>NIS</u>	<u>CHF</u>	<u>NIS millions</u>
	<u>Up to one year</u>		<u>More than one year</u>	
<u>LONG</u>	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>	
Forward contracts for hedging – not recognized in accounting (2)	500	(41)	-	-

(2) These contracts are meant to hedge the value of CHF denominated assets.

Subsequent to the balance sheet date, Koor increased the scope of its NIS/CHF cylinder type future transactions. As at the reporting date, the par value of the open transactions is CHF 950 million.

D. Consolidated linkage balance to June 30, 2010 (in NIS millions):

	<u>Israeli</u>	<u>USD or</u>	<u>Euro or</u>	<u>CHF or</u>	<u>Unlinked</u>	<u>Non-</u>	<u>Total</u>
	<u>CPI</u>	<u>USD-</u>	<u>Euro</u>	<u>CHF</u>		<u>monetary</u>	
	<u>linked</u>	<u>linked</u>	<u>linked</u>	<u>linked</u>		<u>item</u>	
Assets							
Current assets	7	32	1	232	245	189	706
Investment in affiliates (including loans)	-	204	-	-	-	3,241	3,445
Other investments	7	10	-	-(*)	-	5,735	5,752
Fixed, intangible and other investment real estate assets	-	-	-	-	-	99	99
Total assets	14	246	1	232	245	9,264	10,002
Liabilities							
Current liabilities (including maturities)	(65)	(66)	(2)	(56)	(188)	(113)	(490)
Long term liabilities	(1,280)	(3)	-	(2,741)	(1,405)	(32)	(5,461)
Total liabilities	(1,345)	(69)	(2)	(2,797)	(1,593)	(145)	(5,951)
Assets less liabilities, net	(1,331)	177	(1)	(2,565)	(1,348)	9,119	4,051

* In addition to the particulars in the above table, it is noted that based on the management's opinion, also exposed to changes in the Swiss franc are Credit Suisse shares which, as at June 30, 2010, were traded on the Swiss stock exchange at a value of NIS 5,578 million, which based on the accounting rules are classified as a non-monetary item.

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E. Koor's linkage balances to June 30, 2009 (in NIS millions):

	Israeli CPI linked	USD or USD- linked	Euro or Euro linked	CHF or CHF linked	Unlinked	Non- monetary item	Total
Assets							
Current assets	5	31	263	2,146	693	84	3,222
Investment in affiliates (including loans)	-	-	-	-	-	2,829	2,829
Other investments	-	3	-	-(*)	-	2,857	2,860
Fixed, intangible and other investment real estate assets	-	-	-	-	-	63	63
Total assets	5	34	263	2,146	693	5,833	8,974
Liabilities							
Current liabilities (including maturities)	(182)	(15)	(42)	(350)	(5)	(69)	(663)
Long term liabilities	(2,594)	(3)	(4)	-	-	(106)	(2,707)
Total liabilities	(2,776)	(18)	(46)	(350)	(5)	(175)	(3,370)
Assets less liabilities, net	(2,771)	16	217	1,796	688	5,658	5,604

* In addition to the particulars in the above table, it is noted that based on the management's opinion, also exposed to changes in the Swiss franc are Credit Suisse shares which, as at June 30, 2009, were traded on the Swiss stock exchange at a value of NIS 2,405 million, which based on the accounting rules are classified as a non-monetary item.

F. Consolidated linkage balance to June 30, 2009 (in NIS millions):

	Israeli CPI linked	USD or USD- linked	Euro or Euro linked	CHF or CHF linked	Unlinked	Non- monetary item	Total
Assets							
Current assets	5	55	263	2,146	693	129	3,291
Investment in affiliates (including loans)	-	-	-	-	-	2,808	2,808
Other investments	-	3	-	-(*)	-	2,857	2,860
Fixed, intangible and other investment real estate assets	-	-	-	-	-	100	100
Total assets	5	58	263	2,146	693	5,894	9,059
Liabilities							
Current liabilities (including maturities)	(632)	(83)	(42)	(350)	(10)	(71)	(1,188)
Long term liabilities	(2,153)	(4)	(4)	-	-	(106)	(2,267)
Total liabilities	(2,785)	(87)	(46)	(350)	(10)	(177)	(3,455)
Assets less liabilities, net	(2,780)	(29)	217	1,796	683	5,717	5,604

* In addition to the particulars in the above table, it is noted that based on the management's opinion, also exposed to changes in the Swiss franc are Credit Suisse shares which, as at June 30, 2009, were traded on the Swiss stock exchange at a value of NIS 2,405 million, which based on the accounting rules are classified as a non-monetary item.

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G. Koor's derivative positions as at June 30, 2009 (in NIS millions):

	Israeli CPI / NIS Forward			
	<u>Par value</u>	<u>Fair value</u>	<u>Par value</u>	<u>Fair value to</u>
		<u>to pay</u>		<u>receive</u>
	<u>Up to one year</u>		<u>More than one year</u>	
	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>	<u>LONG</u>
Forward contracts for hedging – not recognized in accounting (1)	350	(2)	300	3

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

2.1.4 Investees

No material changes occurred during the reporting period in the exposure of the Company's investee companies to exposure and management of market risk as compared with the Company's Directors' report for 2009, dated March 14, 2010.

2.1.5 Sensitivity test tables for sensitive financial instruments included in the consolidated financial statements to June 30, 2010, based changes in market factors

Hereunder are tables demonstrating sensitivity tests of the market value of financial instruments. The following tables (as well as the tables in section 2.1.6) should be referred to in view of the comments below:

1. The recorded instruments are not necessarily represented in the financial statements according to fair value. The foregoing refers mainly to liabilities.
2. The changes in fair value of instruments which are represented according to fair value impact the Company's reported results and its equity, due to recording of capital reserves for available for sale financial instruments.
3. Changes in currency exchange rates impact the Company's reported results and its equity due to assigning of the conversion differentials derived from the translation of financial statements of investees prepared in foreign currencies.

Sensitivity analysis to changes in interest rates

Section	Profit (loss) from changes in NIS interest rate						
	<u>Fair value</u>	<u>I n c r e a s e</u>			<u>D e c r e a s e</u>		
		<u>Increase of</u>			<u>Decrease of</u>		
		<u>200 base</u>	<u>10%</u>	<u>5%</u>	<u>200 base</u>	<u>10%</u>	<u>5%</u>
	<u>points (**)</u>	<u>10%</u>	<u>5%</u>	<u>points (**)</u>	<u>10%</u>	<u>5%</u>	
	<u>N I S</u>	<u>m</u>	<u>i l</u>	<u>l i o</u>	<u>n s</u>		
Short term deposits and investments	14	(1)	-*	-*	1	-*	-*
Current maturities of debentures	(163)	7	2	1	(8)	(2)	(1)
Debentures	(2,020)	124	22	11	(137)	(23)	(11)
Bank loans							
Sensitivity to changes in interest rates	(908)	44	8	4	(48)	(8)	(4)
	(3,077)	174	32	16	(192)	(33)	(16)

(*) Amounts smaller than NIS 1 million Shekel.

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(**) The Company has chosen to present the change in the interest rate, which will be used to carry out stress tests for financial instruments sensitive to changes in the interest rate, to the amount of 200 basis points (2%). This after having checked and not found any higher absolute daily change in the interest rate in the ten years preceding the date of the report, and after estimating that a change of 200 base points could occur under in an extreme but plausible scenario.

Sensitivity analysis of changes in the US dollar exchange rate

Section	Profit (loss) from changes in US dollar exchange rate							
	<u>Fair value</u>	<u>I n c r e a s e</u>		<u>D e c r e a s e</u>				
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>			
N I S	m	i	l	l	i	o	n	s
Cash and cash equivalents	8	1	-	(1)	-			
Short term deposits and investments	5	1	-	(1)	-			
Trade and accounts receivable and debit balances	19	2	1	(2)	(1)			
Other investments	214	21	11	(21)	(11)			
Credit from banks and others	(31)	(3)	(1)	3	1			
Trade and other accounts payable and credit balances	(35)	(4)	(2)	4	2			
Other long-term liabilities	(3)	-	-	-	-			
	177	18	9	(18)	(9)			

Sensitivity analysis of changes in the CHF exchange rate (not including financial derivatives)

Section	Profit (loss) from changes in Swiss franc exchange rate							
	<u>Fair value</u>	<u>I n c r e a s e</u>		<u>D e c r e a s e</u>				
		<u>10%</u>	<u>5%</u>	<u>10%</u>	<u>5%</u>			
N I S	m	i	l	l	i	o	n	s
Cash and cash equivalents	232	23	12	(23)	(12)			
Trade and other accounts payable and credit balances	(15)	(2)	(1)	2	1			
Long term liabilities to banking institutions	(2,741)	(274)	(137)	274	137			
	(2,524)	(253)	(126)	253	126			

In addition to the particulars in the above table, it is noted that based on the management's opinion, also exposed to changes in the Swiss franc are Credit Suisse shares which, as at June 30, 2010, were traded on the Swiss stock exchange at a value of NIS 5,578 million, which based on the accounting rules are classified as a non-monetary item.

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Sensitivity test on changes in the Stock Exchange prices in Israel and abroad, of the negotiable securities

Section	Profit (loss) from changes in prices of negotiable securities				
	Fair value		Increase		Decrease
			10%	5%	10%
N I	S	m i l l	l i o n s		
Short term deposits and investments	86		9	4	(9) (4)
Other investments	2		-	-	- -
Available-for-sale financial assets	1,067		107	53	(107) (53)
Available-for-sale attached financial assets	4,511		451	226	(451) (226)
	5,666		567	283	(567) (283)

Sensitivity analysis to changes in the Israeli CPI – on derivative positions

Forward index	Profit (loss) from changes in the Israeli CPI				
	Fair value		Increase		Decrease
			2%	1%	2%
N I	S	m i l l	l i o n s		
Not recognized as accounting hedging	5		10	5	(10) (5)

Sensitivity analysis of changes in the Swiss franc exchange rate – on derivative positions

Not recognized as accounting hedging Section	Profit (loss) from changes in Swiss franc exchange rate				
	Fair value		Increase		Decrease
			10%	5%	10%
N I	S	m i l l	l i o n s		
Acquisition of CHF/NIS put option	8		(7)	(5)	55 13
Sale of CHF/NIS call option	(49)		(109)	(46)	36 24
	(41)		(116)	(51)	91 37

Sensitivity analysis to standard deviation changes – on derivative positions

Not recognized as accounting hedging Section	Profit (loss) from changes in standard deviation of CHF exchange rate				
	Fair value		Increase		Decrease
			10%	5%	10%
N I	S	m i l l	l i o n s		
Acquisition of CHF/NIS put option	8		2	1	(2) (1)
Sale of CHF/NIS call option	(49)		(5)	(3)	5 3
	(41)		(3)	(2)	3 2

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The results of the sensitivity tests for changes in the CHF interest and NIS interest on an acquisition of CHF/NIS put option type of derivative position and a sale of CHF/NIS call option type of derivative position is below NIS 1 million and therefore is not presented.

2.1.6 Sensitivity test tables for sensitive financial instruments included in the consolidated financial statements to June 30, 2009, in accordance with changes in market factors

Sensitivity analysis to changes in interest rates

Section	Fair value N I S	Profit (loss) from changes in NIS interest rate			
		I n c r e a s e		D e c r e a s e	
		10%	5%	10%	5%
Current maturities of debentures	(458)	_(*)	_(*)	_(*)	_(*)
Index-linked debentures	(1,155)	24	12	(24)	(12)
Index-linked bank loans	(1,181)	3	1	(3)	(1)
	<u>(2,794)</u>	<u>27</u>	<u>13</u>	<u>(27)</u>	<u>(13)</u>

(*) Amounts smaller than NIS 1 million Shekel.

Sensitivity analysis of changes in the US dollar exchange rate

Section	Fair value N I S	Profit (loss) from changes in US dollar exchange rate			
		I n c r e a s e		D e c r e a s e	
		10%	5%	10%	5%
Cash and cash equivalents	18	2	1	(2)	(1)
Short term deposits and investments	14	1	-	(1)	-
Trade and accounts receivable and debit balances	23	2	1	(2)	(1)
Other investments	3	-	-	-	-
Credit from banks and others	(43)	(4)	(2)	4	2
Trade and other accounts payable and credit balances	(40)	(4)	(2)	4	2
Liabilities to banking institutions and other long term liabilities	(4)	-	-	-	-
	<u>(29)</u>	<u>(3)</u>	<u>(2)</u>	<u>3</u>	<u>2</u>

Sensitivity analysis of changes in the Swiss franc exchange rate

Section	Fair value N I S	Profit (loss) from changes in Swiss franc exchange rate			
		I n c r e a s e		D e c r e a s e	
		10%	5%	10%	5%
Cash and cash equivalents	2,146	215	107	(215)	(107)
Credit from banking corporations and others	(181)	(18)	(9)	18	9
Trade and other accounts payable and credit balances	(169)	(17)	(8)	17	8
	<u>1,796</u>	<u>180</u>	<u>90</u>	<u>(180)</u>	<u>(90)</u>

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In addition to the particulars in the above table, it is noted that based on the management's opinion, also exposed to changes in the Swiss franc are Credit Suisse shares which, as at June 30, 2009, were traded on the Swiss stock exchange at a value of NIS 2,405 million, which based on the accounting rules are classified as a non-monetary item.

Sensitivity analysis on changes in the exchange rate of the Euro

Section	Fair value N I S	Profit (Loss) from Changes in the euro exchange rate			
		I n c r e a s e		D e c r e a s e	
		10%	5%	10%	5%
		m i l l i o n s			
Cash and cash equivalents	263	26	13	(26)	(13)
Other payables	(42)	(4)	(2)	4	2
Other long-term liabilities	(4)	-	-	-	-
	217	22	11	(22)	(11)

In addition to the figures in the above table, it is noted that, with respect to the investment in Carrefour shares, the fair value at June 30, 2009 was NIS 330 million because the said shares are traded on the stock exchange in France and their value in NIS was affected by the changes in the Euro to NIS exchange rate.

Sensitivity test on changes in the Stock Exchange prices in Israel and abroad, of the negotiable securities

Section	Fair value N I S	Profit (loss) from changes in prices of negotiable securities			
		I n c r e a s e		D e c r e a s e	
		10%	5%	10%	5%
		m i l l i o n s			
Short term deposits and investments	9	1	-	(1)	-
Other investments	2	-	-	-	-
Available-for-sale financial assets	1,991	199	100	(199)	(100)
Available-for-sale attached financial assets	744	75	37	(75)	(37)
	2,746	275	137	(275)	(137)

Sensitivity analysis to changes in the Israeli CPI – on derivative positions

Forward index	Fair value N I S	Profit (loss) from changes in the Israeli CPI			
		I n c r e a s e		D e c r e a s e	
		2%	1%	2%	1%
		m i l l i o n s			
Not recognized as accounting hedging	1	13	7	(13)	(7)

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3. Corporate governance

3.1 Disclosure of the process for approving the financial statements

3.1.1 The organs within the corporation in charge of overall control:

Company board of directors and audit committee.

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

The Company's board of directors appointed the audit committee to serve as a balance sheet committee, which 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 board members: Mr. Gidon Lahav, Mr. Avraham Asheri, Mrs. Ayelet Ben Ezer and Mr. Shlomo Risman. Three members of the audit committee have financial expertise. The Company's internal auditor is invited to and attends the balance sheet committee meetings. The Company's auditing accountant is invited to and attends the balance sheet committee and to the board of directors meetings at which the financial statements are discussed and approved, and he is required to explain the principal findings, if any, which arose during the audit or the review.

The balance sheet committee carries out its verifications based upon detailed presentations made by the Company's officeholders and others, including the Company's Chief Executive Officer, Mr. Raanan Cohen, and the Company's CFO, Mr. Oren Hillinger, and the Company's Comptroller, Mrs. Avishag Peretz, concerning material issues in the financial statements, including transactions not in the normal course of business, if such exist, the main assessments and critical estimations implemented in the financial statements, the reasonableness of the data, the accounting principles employed and changes that have occurred therein, and the implementation of the principle of due diligence in respect of the financial statements and the accompanying information. The balance sheet committee also examines various aspects of control and risk management, both those which are reflected in the financial statements (such as the reporting on financial risks) and those that affect the reliability of the financial statements. Where necessary, the balance sheet committee requests a comprehensive review of matters of particularly significant implication.

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

3.2 Directors.

On May 23, 2010 Mr. Ami Erel, chairman of the board of directors, of his intention to resign his position as chairman. The Company's board of directors resolved to recommend to the Company's general meeting to appoint Mr. Lior Hannes to serve as acting chairman of the board of directors of the Company. The terms of employment of Mr. Hannes will be brought for approval of the authorized organs of the Company.

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4. Disclosure provisions in respect of the Company's financial reporting

4.1 Critical accounting estimates

At the report date no material changes occurred during the first half of 2010 with regard to critical accounting estimates that the Company uses for its financial statements.

4.2 Disclosure Pertaining to the Company's Preparations Concerning the Effectiveness of Internal Control on the Financial Statements and Proper Disclosure

On November 24, 2009, the Finance Committee of the Knesset approved the Securities Authority's bill to adopt regulations dealing with the internal control of a company's financial reporting and proper disclosure, so as to provide reasonable security of the propriety of the statements and their compliance with the provisions of the law (Securities Regulations (Periodic and Immediate Reports) (Amendment 3).

The objective of the Amendment is to improve the quality of the financial reporting and proper disclosure in reporting companies through three main elements:

1. A report by the company's board of directors and management pertaining to the effectiveness of the internal control on the financial reporting and disclosure, in order to reinforce the company's internal control.
2. A personal declaration by the Company's CEO and CFO stating, inter alia, that to the best of their knowledge, the financial statements and other financial information included in these statements do not include any inaccurate representation of material information and do not omit representation of any material information required so that the represented information included therein will not be misleading and that to the best of their knowledge the financial statements and other financial information included in the statements properly reflect, from every material aspect, the financial state of affairs, results of operations and cash flows of the company, and that they assessed the effectiveness of the internal control on the financial reporting and proper disclosure, in as far as it relates to the financial statements and other financial information included in the statements.
3. Attachment of the company's auditor's opinion to the periodic report concerning the effectiveness of the internal control on the company's financial statements and pertaining to the material weaknesses that they identified in this audit.

The inclusion of the foregoing provisions will commence as of the periodic report at December 31, 2010. As of the date of publication of the Amendment until the effective date, the board of directors report should include details concerning the company's preparation and progress in assimilating the provisions of the Amendment.

Stages in the preparation and progress and actions taken by the Company as at the reporting date:

- A. The person responsible for applying the project within the Company is Avisag Peretz, the Company's accountant. In addition, a steering committee was set up, headed by the Company's CFO, Oren Hillinger, whose role is to supervise the application of the project in the Company, including its compliance with the milestones set by the Securities Authority and adherence with the project's time schedules, and to receive reports of the gaps found in the audit and plans made for correcting them.

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The steering committee established the methodology and working plan for assimilating the project, based on the following basic stages:

1. Mapping of procedures most essential to financial reporting and proper disclosure, and documenting of the existing audits and related procedures.
 2. Identifying risks to financial reporting and proper disclosure by identifying essential control procedures that address these risks
 3. Mapping the gaps between the existing control and the desired control.
 4. Examining the effectiveness of the control, identifying flaws and correcting them.
 5. A report by the auditing accountant concerning these controls.
- B. As at the reporting date, the Company carried out risk assessment of the internal control and documented the existing business and internal control procedures for its financial reporting and proper disclosure. In addition, the Company analyzed the gaps found in the internal control design for its financial reporting and proper disclosure.

Ami Erel

Chairman of the Board of Directors

Raanan Cohen

CEO

Tel Aviv, 11 August 2010

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Appendix A – Disclosure designated for holders of debentures

Summary of data relating to debentures as of June 30, 2010 (in NIS millions):

Series	Original date of issue	Par value at date of issue (millions)	Par value balance in circulation (millions)	Par value balance in circulation, at linkage terms (millions)	Accrued interest in books	Value of debenture balance as at June 30, 2010 in books	Market value	Interest rates (fixed)	Principal repayment date ⁽²⁾		Interest payment date	Linkage terms	Trust company Name of contact Address: Telephone
									From	To			
H ⁽³⁾	20.8.06	1,194.6	1,194.6	1,314.7	55.9	1,325.8 ⁽⁵⁾	1,479.7	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	Israeli CPI	Reznick Paz, Nevo Trusts Ltd. 14 Yad Harutzim St. Tel Aviv Tel: 03-6389200 Liat Bachar-Segal
I ⁽⁴⁾	9.8.09	765.5	765.5	765.5	15.1	749.4	815.5	6.7%	15.3.11	15.3.15	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 Services (1975) Ltd. 113 Hayarkon Street, Tel Aviv, Israel; Tel: 03-5274867 Meirav Ofer Oren
J	9.9.09	58.1	58.1	58.1	1.2	57.7	64.3	7.2%	16.9.12	16.9.17	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 Services (1975) Ltd. 113 Hayarkon Street, Tel Aviv, Israel; Tel: 03-5274867 Meirav Ofer Oren

Comments:

- (1) The Company is in compliance with all the terms and conditions of the debentures. Furthermore, the Company is in compliance with all the liability conditions as set out in the deed of trust.
- (2) Annual payments.
- (3) The series was expanded on May 10, 2007. The data in the table refers to the entire series.
- (4) The series was expanded on September 9, 2009. The data in the table refers to the entire series.
- (5) The consolidated statements represent the Debenture (Series H) balance as at June 30, 2010 less the debentures acquired by a wholly owned subsidiary and amounts to NIS 1,165.6 million.

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Information relating to the rating of the debentures:

Series	Name of rating company	Current rating	Rating fixed at the issue date
H	Maalot	A+/stable	A+
H	Midroog	A1/Watch List	-
I	Maalot	A+/stable	A+/stable
I	Midroog	A1/Watch List	-
J	Maalot	A+/stable	A+/stable
J	Midroog	A1/Watch List	A1

In May 2006 Maalot announced a rating of A+/stable for Debentures (Series H) In November 2008, Maalot announced a credit rating of A+/CW Negative for Koor's debentures. In July 2009 Maalot announced a rating of ilA+/stable for Koor's Debentures (Series H)

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

In September 2009 Maalot and Midroog announced the application of ilA+/stable and A1 rating respectively, on the expansion of Debentures (Series I) and on the issue of new Debentures (Series J).

In April 2010, Debentures (Series G) were paid up in full.

In July 2010 Midroog announced placing of Koor's Debentures (Series H – J) on its Watch List.

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Appendix B – Disclosure Concerning the Fair Value of the Company's Investment Real Estate

For the purpose of applying the foregoing Security Authority guidelines, the Company found it necessary to disclose information of the material changes in the fair value of the following property during the second quarter of 2010:

HSBC building, Manhattan, New York City

As at June 30, 2010 the Company's share (50%) in the fair value of the property amounts to NIS 756 million (USD 195 million).

Below are the details as required in section G of the guidelines:

1. The primary reason for the changes in the fair value of the property is:

The property was valued on June 30, 2010 following the completion of its acquisition on April 13, 2010. The acquisition contract for the property was signed at the beginning of October 2009 and the acquisition price was set in the negotiations conducted during the third quarter of 2009, at the height of the financial crisis in the United States. Since then, the US economy has begun to recover which is also expressed in the business real estate in Manhattan. According to the KORPACZ(*) survey, the discount rate for office buildings in Manhattan declined from an average rate of 8.36% in the second quarter of 2009 to 7.98% in the second quarter of 2010, and the average residual cap rate declined from 7.50% in the second quarter of 2009 to 7.13% in the second quarter of 2010. This was expressed in the prices of similar office block transactions in the area. The property was acquired at overall price of USD 409 per square foot (including purchase costs) while, according to the report of CB Richard Ellis Inc, the prices of similar properties recently sold (in March – May 2010) reflects the property's value at USD 550 – 575 per square foot.

2. The primary assumptions upon which the calculation of the representative NOI data was based are:

The representative NOI includes a forecast of income from rentals for available space, particularly commercial space of 22,000 square meters on Fifth Avenue, which can be rented, following the evacuation of the tenant, at high rental.

3. The representative rate of return is different to the actual rate of return due to the difference between the representative NOI and the actual NOI as set forth in section 2 above.

(*) KORPACZ REAL ESTATE INVESTOR SURVEY – SECOND QUARTER 2010 issued by PRICE WATERHOUSE COOPERS

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

**Board of Directors Report
Half Year and Second Quarter 2010**

Table 1 – General information pertaining to the property

Property name and location	Company's share in property	Size and purpose of property	Acquisition date	Contractual rights in property	Cost of property (Koor's share)	Fair value at date of the financial statements (Koor's share)
HSBC building, Manhattan, New York City, USA	50% ⁽¹⁾	Approximately 863,000 square feet Primary purpose – offices ⁽²⁾	October 2009 ⁽³⁾	Ownership	NIS 684 million (USD 177 million)	NIS 756 million (USD 195 million)

(1) Through a US company, 50% of which is indirectly held by the Company and 50% by Property & Building. The financial statements of the foregoing company are included in the consolidated financial statements by the equity method. The financial figures pertaining to the property in this Appendix reflects Koor's share in the property – 50%.

(2) Approximately 89% of the property is office space and 11% is for commercial use.

(3) The acquisition contract was signed in October 2009. The acquisition was completed in April 2010.

Table 2 – Quantitative data pertaining to the property⁽⁴⁾ (evaluated by an external assessor)

	Fair value (Company's share) in NIS thousands	Occupancy rate	Actual annual NOI (Company's share)	Actual rate of return in percentage ⁽⁶⁾	Representative annual NOI (Company's share)			Representative rate of return in percentage ⁽⁶⁾	Discounting rate for valuation by external assessor – in percentages
	30.6.2010	30.6.2010	30.6.2010	30.6.2010	30.6.2010			30.6.2010	30.6.2010
					Per contract	Forecasts	Total		
In NIS thousands	755,625	97	51,956	7.1	51,956	1,926	53,882	7.4	8.25 ⁽⁵⁾
In USD thousands	195,000		13,816		13,816	512	14,328		

(4) The acquisition of the property was completed on April 13, 2010 and therefore the comparative data was not presented for the previous period.

(5) The assessor used this discount rate for capitalizing the projected NOI from the property over the first 10 years and capitalizing the expected return from sale of the property in the 11th year. The sale price was set by capitalization of the projected NOI in the 11th year by the terminal capitalization rate of 6.25% per annum (and discounting it by a discount rate of 8.25% per annum, as aforementioned).

(6) in USD terms. The US dollar is the valuation currency.

דוח הדירקטוריון
לרבעון השני של 2010

Appendix C – Material Evaluation

In the second quarter of 2010, the Company made a material evaluation.

Particulars relating to the evaluation:

1. The evaluation subject - the HSBC building, Manhattan, New York City, USA
2. Date of evaluation – June 30, 2008
3. The value of the evaluated property in the Company's books prior to the evaluation – USD 177 million.
4. The value of the evaluated property as determined by the evaluation (Company's share) – USD 195 million.
5. Identity and details of the assessor – CB Richard Ellis Inc. The assessor is not dependent upon the companies requesting the evaluation. The contract with the assessor does not include an undertaking to indemnify the assess, other than in the event that damages will be caused to the assessor as a result of erroneous, misleading or partial publication of the evaluation by the company requesting the evaluation.
6. The evaluation model according to which the assessor operated - DCF
7. The assumptions on which the evaluation was based:
 - A. Annual discount rate

For the projected NOI over the first 10 years and the projected rate of return from the sale of the property in the 11 th year (discount rate)	8.25%
For the projected NOI in the 11 th year, according to which the rate of return from the expected sale of the property (terminal capitalization rate)	6.25%
 - B. Growth rate – 2.5%
 - C. The terminal value out of the total value - 69%